The Agenda

• The KPI Impact Cycle

• KPIs - Challenges and Best Practices
  - The Culturalization Roadblock
  - The Stakeholder Conundrum
  - The Alignment Albatross
  - The Balancing Quandary
  - The Causality Concordance
  - The Metrics Malaise
  - The Prioritization Perplexia
  - The Definitional Dyslexia
  - The Cascadation Cornucopia
  - The Visualization Vicissitudes
  - The Framework Quagmire

• Conclusions and Resources
Key Performance Indicators (KPIs) are the measurement tool for capturing and measuring business performance.

**Challenges in Developing Effective KPIs**

- How many KPIs should you have?
- How often should you measure the KPIs?
- Which KPI dimension format is appropriate?
- What KPI values should you use as targets/thresholds?
- How do you insure the KPIs reflect strategic drivers?
- Are the KPIs directly controllable and manageable?
- Do you need KPIs at all levels of the organization?
- How do you differentiate enterprise-wide from departmental KPIs?
- How should the KPIs be visually displayed?
- Do you have the data and infrastructure to support the KPIs?
Key Performance Indicators

Key Performance Indicators are the measurement tool for tracking and managing business performance

Key Performance Indicators

- are quantitative or qualitative measures which reflect the performance of an organization in achieving its goals and strategies
- reflect strategic value drivers rather than just measuring non-critical business activities and processes
- align all levels of an organization with clearly defined and cascaded targets to create accountability and track progress
- accelerate seamless and collaborative planning across the value chain and down through the organization

Key: - focus on critical business activities and processes – realize not all metrics are KPIs

Performance: - develop metrics that measure performance – avoid effectiveness vs. efficiency dichotomy

Indicator: - measure business activities and processes that are controllable – separate cause from outcome measures
The Alignment Albatross

Challenge – Create alignment between strategic value drivers and KPIs

Best Practice – Balanced Scorecard provides an effective alignment framework

Best Practice #3

What are our metric indicators of success

Key Performance Indicators

What must we complete to move forward

Critical Success Factors

What areas must we focus on to achieve our vision

Objectives

How we intend to accomplish our vision

Strategy

What we want to be in the future

Vision

Key Initiatives

What action programs will achieve our performance goals
The Alignment Albatross

Challenge – Create alignment between strategic value drivers and KPIs

Best Practice – Balanced Scorecard provides an effective alignment framework

Best Practice #3

- Financial Perspective
  - Productivity Strategy
    - Improve Cost Structure
    - Increase Asset Utilization
    - Shareholder Value
    - Expand Revenue Opportunities
    - Growth Strategy
    - Enhance Customer Value

- Customer Perspective
  - Product / Service Attributes
    - Price
    - Quality
    - Availability
    - Selection
    - Functionality
    - Service
    - Partnership
    - Brand
  - Relationship
  - Image

- Process Perspective
  - Operations Management Processes
    - Processes that produce and deliver products and services
  - Customer Management Processes
    - Processes that enhance customer value
  - Innovation Processes
    - Processes that create new products and services
  - Regulatory and Social Processes
    - Processes that improve communities and the environment

- Learning and Knowledge Perspective
  - Human Capital
    - Skills
    - Training
    - Knowledge
  - Information Capital
    - Systems
    - Data Repository
    - Networks
  - Organization Capital
    - Culture
    - Leadership
    - Teamwork

Source: Strategy Maps by Robert Kaplan and Avid Norton
The Alignment Albatross

Challenge – Create alignment between strategic value drivers and KPIs

Best Practice – Balanced Scorecard provides an effective alignment framework

Best Practice #3

- Implement preferred customer service program
- Reduce waiting time for most profitable customers to less than ten seconds
- Increase Customer Loyalty
- Wait time for preferred customers service response
- Reduce waiting time for most profitable customers to less than ten seconds
- Implement preferred customer service program

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<td>• Increase Customer Loyalty</td>
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Source: Strategy Maps by Robert Kaplan and Avid Norton

© 2005 The Performance Group
The Business User Dilemma

Challenge – Business users require tailored information and delivery solutions

Best Practice – Profile business needs of myriad user communities with “VOC”

Best Practice #4

- Enterprise data
- Consistent GUI
- Industry drivers
- Enterprise KPIs

- Enterprise and LOB data
- Scenario and simulation
- History and forecasts
- Domain specific KPIs

- LOB data
- Drill-down option
- Business trends
- LOB KPIs

- Process data
- Real time
- Feedback loops
- Operational metrics

Chart:

- Executives
- Functional Managers
- LOB Managers
- Operational Managers

Strategic Planning

Tactical Analysis

Operational Decisions

Summarized

Detailed

Data Granularity
The Reduction Malady

Challenge – Separate “critical few” KPIs from “trivial many” all purpose metrics
Best Practice – Detect congruent metrics using correlation analysis

Web Metrics vs. Financials Correlation Matrix

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<th>Visit Types</th>
<th>Click-through Count</th>
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Correlation Measures:
- level of magnitude
- directional impact

Page Views and Stickiness - high positive correlation
Revenue and Stickiness - high positive correlation
# The Definitional Dyslexia

**Challenge** – Eliminate inconsistent definitions for enterprise metrics

**Best Practice** – Utilize “KPI CRM Profiler” to create comprehensive definitions

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### KPI CRM Profiler

<table>
<thead>
<tr>
<th>Measure Name:</th>
<th>Customer Cross-sell Index</th>
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<td>Formula:</td>
<td>Customer Cross-sell Index: Divide number of products sold by the number of customers purchasing a product in the last two years</td>
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### Focus

- **Time Horizon**
  - Long Term
  - Short Term
- **Planning**
  - Strategic
  - Operational
- **Indicator**
  - Lead
  - Lag
- **Type**
  - Quantitative
  - Qualitative
- **View**
  - Internal
  - External
- **Level**
  - Process
  - Outcome
- **Purpose**
  - Planning
  - Control
  - Trending
  - Diagnostic
  - Baseline

### Data Profile

- **Data Owner:** Charles Sebring
- **Data Collector:** Jim Darcy
- **Data Source:** Data is provided from CAPTURE Marketing System which tracks products purchased by customers
- **Data Quality**
  - High
  - Medium
  - Low
- **Polarity**
  - High is Good
  - Low is Good
- **Frequency**
  - Real Time
  - Hourly
  - Daily
  - Weekly
  - Monthly
  - Quarterly

### Benchmarks and Targets

- **Baseline:**
  - Global company standard - Cross-sell Index = 2.20 (Q3 2005)
- **Target Rationale:**
  - Meeting our revenue growth goals is contingent on increasing customer share of wallet
- **Targets**
  - Q3 2005 – 2.20
  - Q2 2005 – 2.00
  - Q1 2005 – 1.85
  - Q4 2004 – 1.65
- **Initiatives**
  - 1) Target Promotion Campaign
  - 2) Portfolio Product Offerings
  - 3) Service Center Training

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Source: (see article: “The KPI Profiler: CRM Case Study” - DM Review Magazine - November, 2004 - Kent Bauer)
The Cascadation Cornucopia

Challenge – Create KPIs that can be cascaded throughout the organization

Best Practice – KPIs require normalization to be comparable organization-wide

<table>
<thead>
<tr>
<th>Strategic Themes</th>
<th>Measures</th>
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<tbody>
<tr>
<td>1. Customer Satisfaction</td>
<td>xxx</td>
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<tr>
<td>2. Revenue Growth</td>
<td>xxx</td>
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<tr>
<td>3. Profitability</td>
<td>xxx</td>
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<td>4. Market Share</td>
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<td>5. Brand Recognition</td>
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<td>6. Employee Retention</td>
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<td>7. Asset Utilization</td>
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<td>8. Employee Development</td>
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KPI Normalization
- by number of employees
- by number of transactions
- by number of units produced
- by square footage of facility
- by dollars in assets required
- by dollars of capital invested
- by number of sales reps
- by number of managers
The Visualization Vicissitudes

Challenge – The presentation of KPIs must be visually intuitive and succinct

Best Practice – Selection of appropriate graphics and context are essential

Best Practice #13

summary DESCRIPTION of Key Performance Indicator

1. latest STATUS captures recent progress

2. normalized INDEX built from weighted data

3. DATA filtered to eliminate anomalies

4. selected TIME HORIZON for analysis is variable

5. focused TARGET provides measurable goal

6. historic BASELINE anchors perspective

7. directional POLARITY INDICATOR provides compass

8. Challenge – The presentation of KPIs must be visually intuitive and succinct

Best Practice – Selection of appropriate graphics and context are essential

This measures the average number of complaints received from consumers concerning the quality or availability of our products.

Performance continues its decline. The US is setting a goal to be at or below our customer complaint target, by end of next quarter, by implementing some of the procedures used in the Canadian office, which have proven to be effective.
The Framework Quagmire

Challenge – Select appropriate KPI visualization and analysis framework
Best Practice – Match framework to functional business requirements

Performance Map Example

1. Metrics ALIGN and CASCADE throughout organization
2. Color THRESHOLDS indicate metric status
3. KEY PERFORMANCE INDEX (KPI) measures critical business activities and processes
4. Indicator FLAGS highlight status in cascaded metrics

Source: performancesoft
## Conclusions

### Challenges

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### Best Practices

- Briefings / Workshops
- Stakeholder Matrix
- Balanced Scorecard
- Voice of Customer
- Dimension Profiling
- Fishbone Diagram
- Econometric Models
- Correlation Analysis
- QFD Framework
- Metrics Paradigm
- KPI Profiler
- Normalization
- Graph Profiler
- Framework Alignments
- Infrastructure Integration