

The Search for a Holy Grail: Best Practices for Defining KPIs

(Selected Slides)

Kent Bauer
Partner and Managing Director
The Performance Group

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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

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

Challenge – Create alignment between strategic value drivers and KPIs

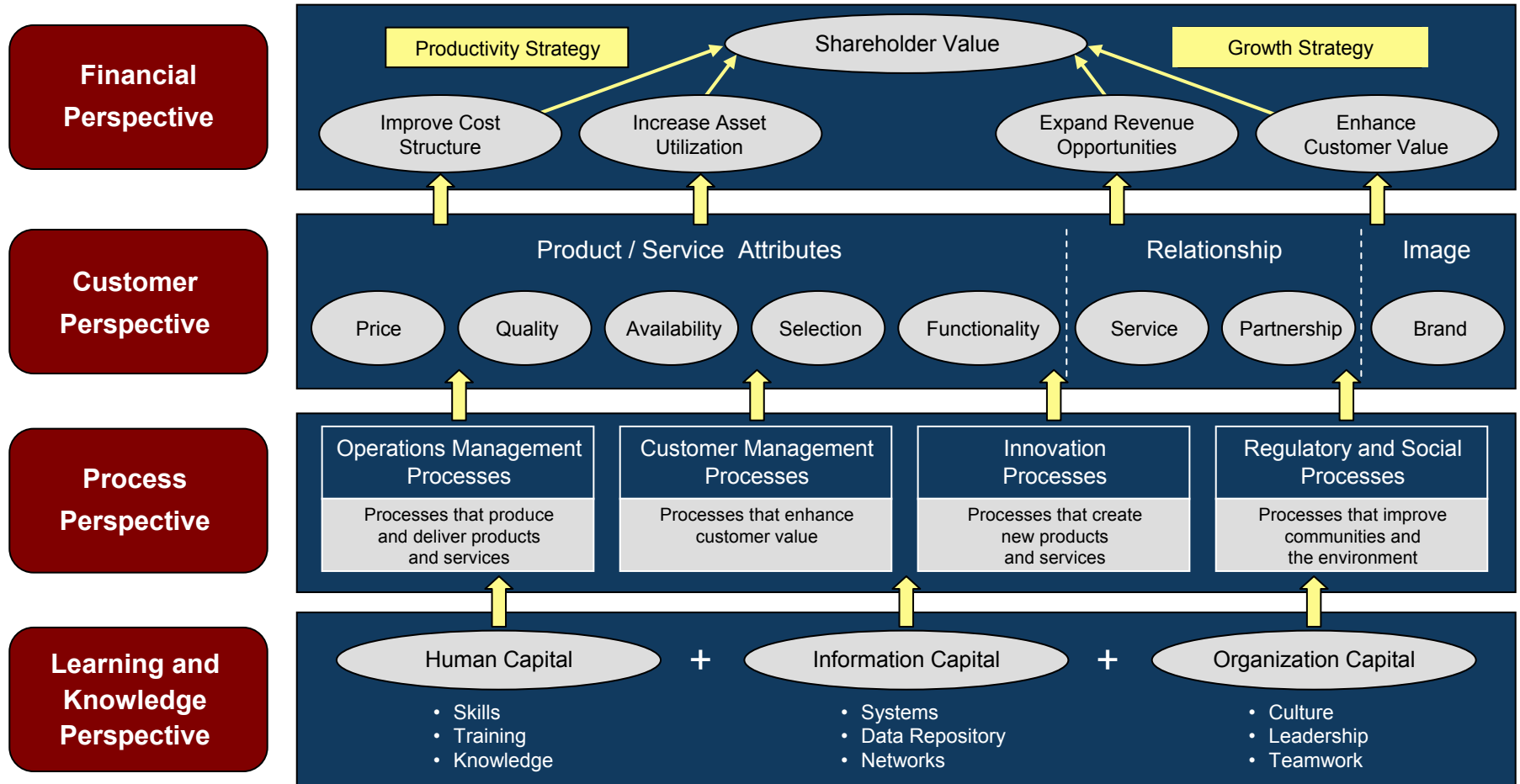
Best Practice – **Balanced Scorecard** provides an effective alignment framework



The Alignment Albatross

Challenge – Create alignment between strategic value drivers and KPIs

Best Practice – Balanced Scorecard provides an effective alignment framework



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

Statement of what strategy must achieve

How success in achieving the strategy will be measured

The level of performance or stretch goal required

Key action programs required to achieve targets



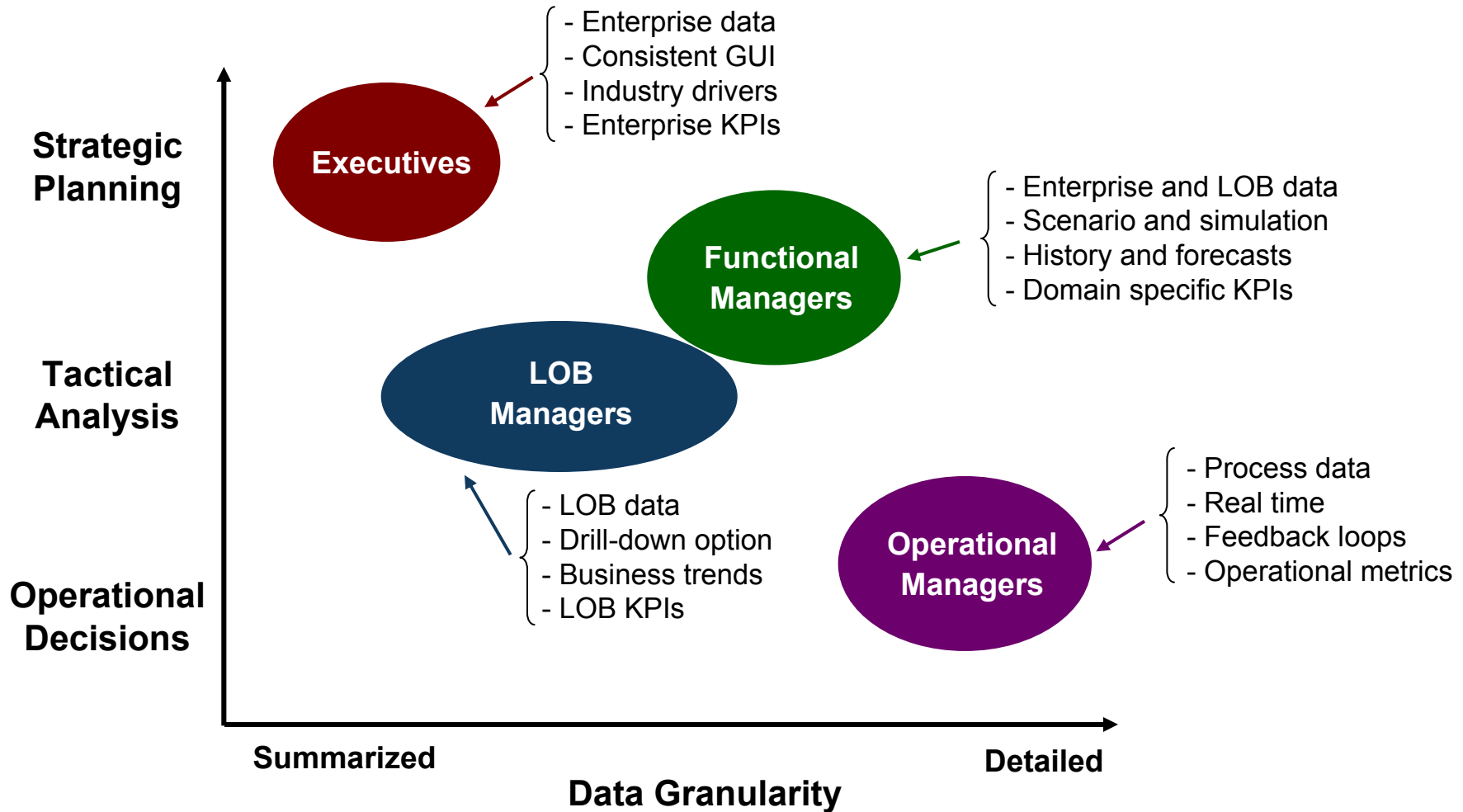
Objectives	KPI Metrics	KPI Targets	KPI Initiatives
<ul style="list-style-type: none">• Increase Customer Loyalty	<ul style="list-style-type: none">• Wait time for preferred customers service response	<ul style="list-style-type: none">• Reduce waiting time for most profitable customers to less than ten seconds	<ul style="list-style-type: none">• Implement preferred customer service program

Customer Perspective

The Business User Dilemma

Challenge – Business users require tailored information and delivery solutions

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



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

		Web Metrics								Finance				
		Session Count	Visit Types	Click-through Count	Frequency	Stickiness	Conversions	Page Views	Banners	Paths	Revenue	Operating Income	Capital Efficiency	
Web Metrics	Visitors	Session Count	1.0				.5							
		Visit Types		1.0	.7			.6			.5	.7		
		Click-through Count			1.0				.8			.6		
		Frequency				1.0	.9	.5				.5		
		Stickiness	.5			.9	1.0	.7	.5			.9	.5	
		Conversions		.6			.7	1.0				.8	.7	.6
		Page Views				.5	.8		1.0	.6		.6		
		Banners			.8			.6		1.0		.2		
		Paths		.5							1.0		.6	
Finance	Revenue		.7		.5	.9	.8	.6	.2		1.0			
	Operating Income			.6		.5	.7		.6			1.0		
	Capital Efficiency						.6						1.0	

Correlation Measures:

- level of magnitude
- directional impact

Revenue and Banners - no correlation

Page Views and Stickiness - high positive correlation

Revenue and Stickiness - high positive correlation

Challenge – Eliminate inconsistent definitions for enterprise metrics

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

KPI CRM Profiler			
Measure Name:	Customer Cross-sell Index	Perspective:	Customer
Measure Number:	C01	Strategy:	Revenue Growth
Measure Owner:	Kevin Atkins	Objective:	Increase Customer Cross-sell
Perspective	Family		Category
<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Customer <input type="checkbox"/> Internal Process <input type="checkbox"/> Learning & Growth	<input type="checkbox"/> Cost Savings <input type="checkbox"/> Cycle Time <input checked="" type="checkbox"/> Growth <input type="checkbox"/> Innovation <input type="checkbox"/> Process Efficiency <input type="checkbox"/> Productivity	<input type="checkbox"/> Profitability <input type="checkbox"/> Quality <input type="checkbox"/> Resource Utilization <input type="checkbox"/> Technology <input type="checkbox"/> Timeliness <input type="checkbox"/> Other	<input type="checkbox"/> Direct <input type="checkbox"/> Percent <input type="checkbox"/> Ratio <input checked="" type="checkbox"/> Index <input type="checkbox"/> Composite <input type="checkbox"/> Statistical
Formula Customer Cross-sell Index: Divide number of products sold by the number of customers purchasing a product in the last two years			
Focus			
• Time Horizon <input checked="" type="checkbox"/> Long Term <input type="checkbox"/> Short Term	• Indicator <input checked="" type="checkbox"/> Lead <input type="checkbox"/> Lag	• View <input checked="" type="checkbox"/> Internal <input type="checkbox"/> External	• Purpose <input checked="" type="checkbox"/> Planning <input type="checkbox"/> Control <input type="checkbox"/> Trending <input type="checkbox"/> Diagnostic <input type="checkbox"/> Baseline
• Planning <input checked="" type="checkbox"/> Strategic <input type="checkbox"/> Tactical <input type="checkbox"/> Operational	• Type <input type="checkbox"/> Qualitative <input checked="" type="checkbox"/> Quantitative	• Level <input type="checkbox"/> Process <input checked="" type="checkbox"/> Outcome	
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 <input checked="" type="checkbox"/> High <input type="checkbox"/> Medium <input type="checkbox"/> Low • Polarity <input checked="" type="checkbox"/> High is Good <input type="checkbox"/> Low is Good	• Frequency <input type="checkbox"/> Real Time <input type="checkbox"/> Hourly <input type="checkbox"/> Daily <input type="checkbox"/> Weekly <input checked="" type="checkbox"/> Monthly <input type="checkbox"/> 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	

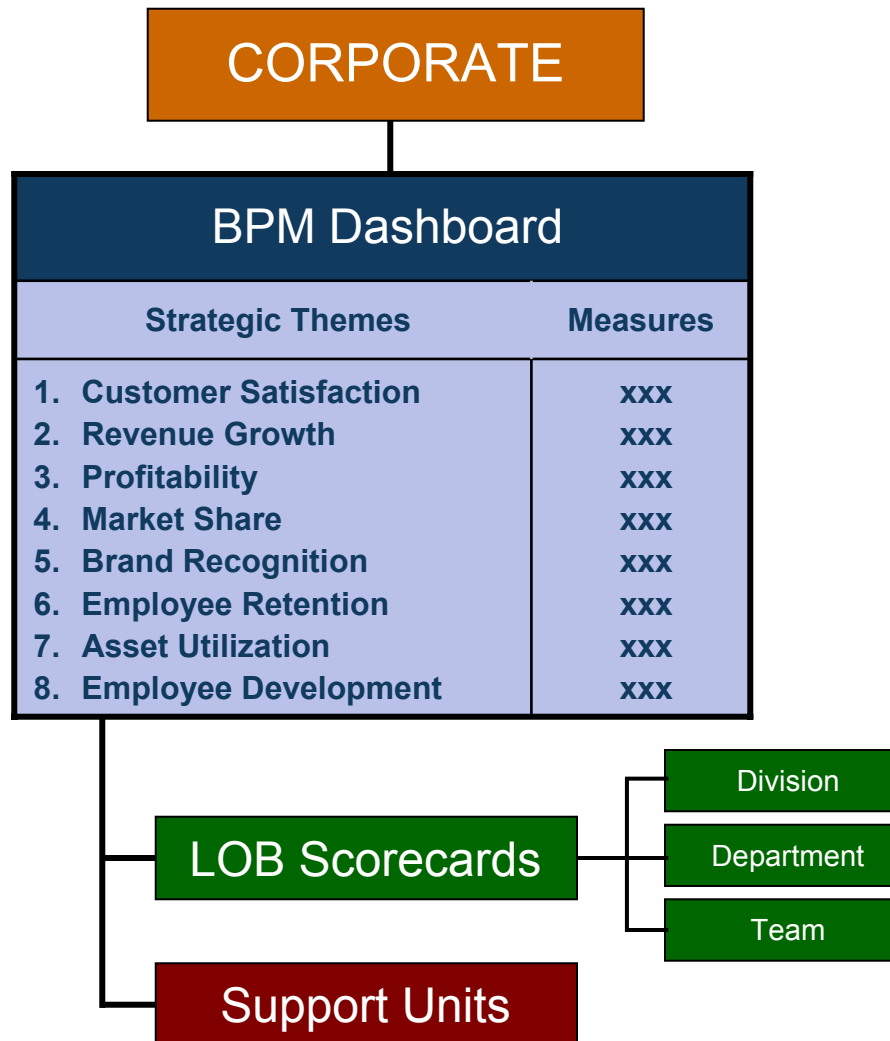
Source: (see article: “The KPI Profiler: CRM Case Study” - DM Review Magazine - November, 2004 - Kent Bauer)

The Cascadation Cornucopia

Best Practice #12

Challenge – Create KPIs that can be cascaded throughout the organization

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



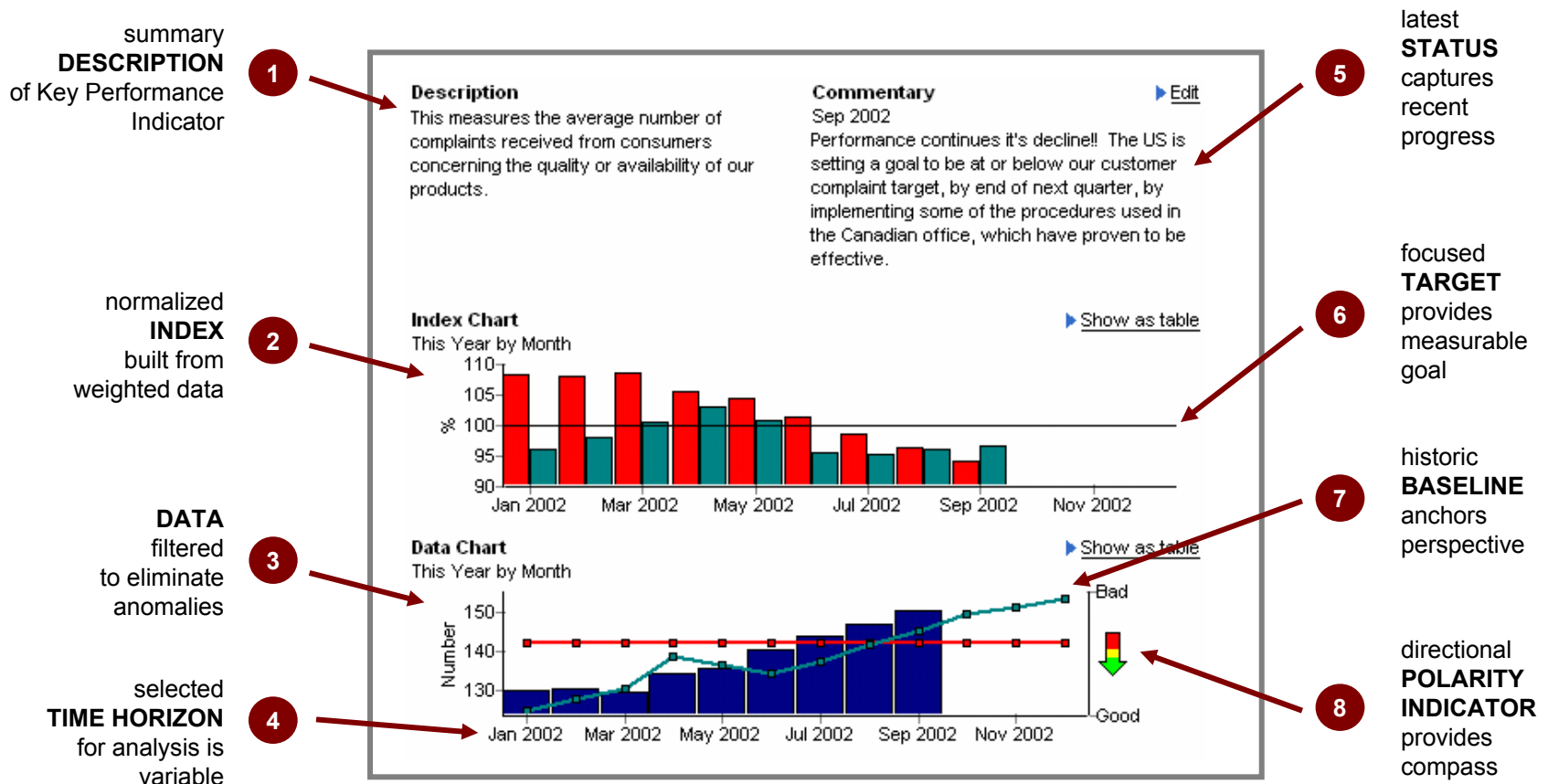
KPI Normalization

- 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

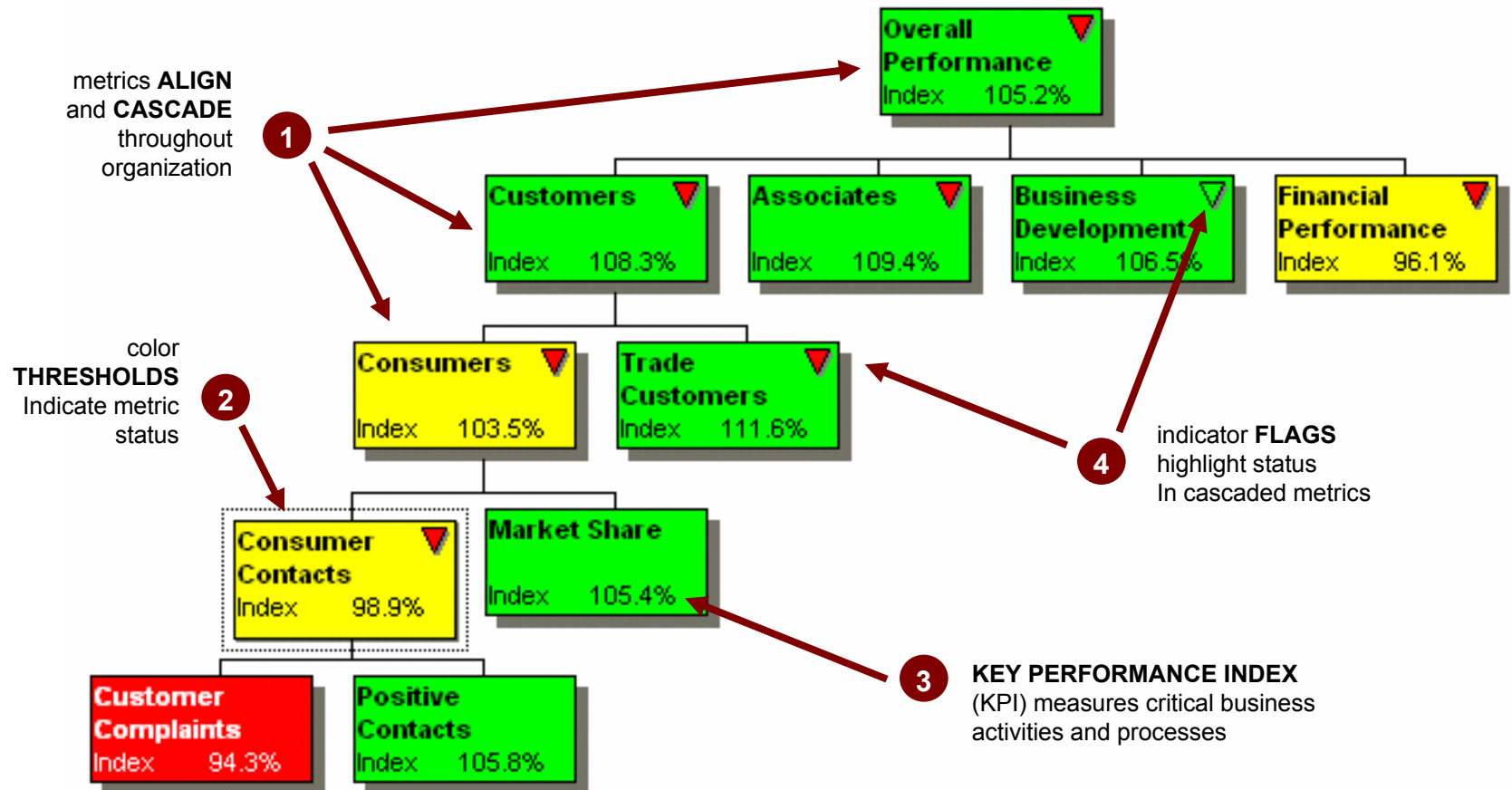


The Framework Quagmire

Challenge – Select appropriate KPI visualization and analysis framework

Best Practice – Match framework to functional business requirements

Performance Map Example



Conclusions

Challenges

- #1 - The Culturalization Roadblock
- #2 - The Stakeholder Conundrum
- #3 - The Alignment Albatross
- #4 - The Business User Dilemma
- #5 - The Balancing Quandary
- #6 - The Causality Concordance
- #7 - The Metrics Malaise
- #8 - The Reduction Malady
- #9 - The Prioritization Perplexia
- #10 - The Metrics Menagerie
- #11 - The Definitional Dyslexia
- #12 - The Cascadation Cornucopia
- #13 - The Visualization Vicissitudes
- #14 - The Framework Quagmire
- #15 - The Information Refinery Enigma

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