



## THE ALTERNATIVE BOARD®

*Change Perspective. Improve Business. Enjoy Life.*

### **KEY PERFORMANCE INDICATORS: Q & A**

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**Q: What are KPIs?**

A: Key Performance Indicators are metrics (that is, quantitative measurements) of how your company is doing. They should act as a "flash" report, giving you a quick check on how your business is progressing, or can be expected to perform in the near future.

**Q: Are there "standard" KPIs?**

A: Absolutely not! Each company has a different driving force, and each should have its own key indicators. KPIs should be "normalized", however. That means putting them in a format that is easily understood. For instance, your finance company allows you a certain line based upon 80% of the number and age of units in inventory. "My line is at \$347,000 on a current inventory value of \$458,000," is difficult to interpret. A "normalized" KPI is, "My credit line is 94.8% of the allowable limit."

**Q: Aren't sales and profits the two most important measurements?**

A: In one sense, but they only tell you the results of your efforts. A number is just data but ratios provide information. If you made \$20,000 last month, is that good or bad? If you made \$20,000 in the same month last year, was it on the same revenue? A KPI should be measured against something (e.g. Sales against same month last year and against budget).

**Q: Why are we doing this? I know my business without KPIs.**

A: The main idea is to have a few measurements that help you track critical components of your business. Financial statements just aren't enough. KPIs should be more "big picture", taking into consideration your Personal Vision and the company's goals. A secondary benefit is to help educate your Board members about critical processes and results in your company. The more they know about your business, the better advisors they can be to you.

**Q: Should a KPI always be in dollars?**

A: Because dollars are a universal method of measurement, it's tempting to use them for KPIs. Frequently, however, measuring something else will give you more relevant information.

**Q: What about leading indicators for my industry, such as oil prices?**

A: Preferably at least one KPI should be forward looking, but industry indicators don't measure your performance. Your metrics should illustrate how you are doing, not your industry.

**Here is some "KPI Logic" from various TAB members:**

"I want to bring on "x" partners in the next 3 years. Each partner must be supported by "\$y" revenue, and my average new account is "\$z" annually. My KPI is the number of new accounts opened in the last month and for the year to date."

"If we have over a "x" week backlog, we begin to miss deadlines due to over commitment but less than "y" weeks and we have underutilized personnel. My KPI is the number of weeks of backlog against the over/under optimum range."

"We are growing rapidly, and it is difficult to track new hires' productivity. My KPI is dollars revenue per field technician."

**Q: Once I choose my KPIs, are they defined forever?**

A: Nothing is forever! If you even suspect that your chosen KPIs are no longer giving you the information you need, or could be improved, it's time to change them!

*John F. Dini is a consultant and coach to business owners, and since 1998 has operated the most successful franchise of The Alternative Board® in the world. His business tips and thoughts can be found at [www.awakeat2oclock.com](http://www.awakeat2oclock.com). He can be reached at [jdini@mpninc.com](mailto:jdini@mpninc.com)*