Creating and Implementing KPIs

Measuring What Matters

> OnCenter

Today's Agenda

Time	Topic
1:00	**Welcome + Intros** Derek Kessen + Jen Giacchino
1:15	**How to Build KPIs That Last**
1:45	**Practical Application Activity**
2:15	**Q&A**

It is 2030, your business has been really successful, how do you know?

Areas to Evaluate

Decisions

People

Culture

Products

Finance

The Advantage of a Small Business.

Future Forecasting

What is happening

What are the major changes you are anticipating in your industry or market?

How you will respond

In what ways are you hoping your business will grow?

What shouldn't change

What are the things that you hope will stay the same?

KPIs vs Metrics

KPIs	Metrics
All KPIs are metrics	All metrics are not KPIs
KPIs give a holistic view of the performance of different functions in your organization	Metrics give you a picture of how different individual activities rolled out within the functions are progressing
KPIs tell you exactly where your teams stand with respect to the overall business goals/objectives	Individual metrics do not give any insights on their own

KPI Tips

We know KPIs can be a challenge. Here's a quick punch list you can use to pressure test your list of KPIs to make sure they're strategic.

01

Strategy Alignment

They provide a way to see if parts of your strategy are working.

02

Team Focus

They focus your staff's attention on what matters most for success.

03

Common Language

They provide a common understanding to communicate performance.

04

Realistic

They are valid and realistic, helping ensure we're measuring the right things.

05

Verifiable

They can be validated to ensure we are using accurate data to measure progress.

Best Practices

Ineffective KPIs can lead to wasted time, analysis paralysis, missed goals, and can directly affect the company's bottom line.

01

Company Objectives

Choose indicators that are directly related to your company objectives.

02

Leading + Trailing

Have a balance of trailing and leading indicators.
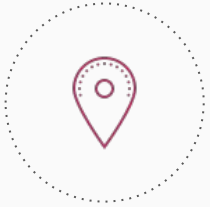
03

Attainable

Opt for realistic measurements that are attainable to establish a discipline of measurement.

04

Start Small

Pick a few, specific indicators that measure the majority of your performance instead of a long list of metrics.
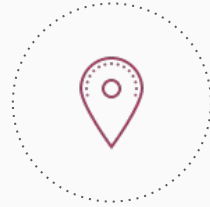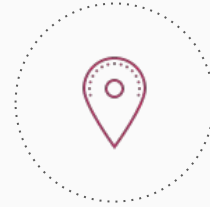
Areas to Evaluate

Decisions　　　People　　　Culture　　　Products　　　Finance

How will you measure it?

Who will own in?

What is the frequency of measurement?

Thank you.

OnCenter

Quarterly Planning Cycle Touchpoints

1:1s & Team Check-Ins

CASCADE GOAL ADHERENCE
Monthly check-ins with individuals and teams for KPI updates.

TRIAGE RECENT OUTCOMES
Highlight recent wins, address roadblocks, and discuss KPI changes or at-risk KPIs.

GROW LEADERS
Empower managers to own KPIs and hold them accountable to update progress before check-ins.

Quarterly Review

DIAGNOSE ISSUES
Assess KPI progress, identify success and areas needing support.

STAY ALIGNED
Review dependencies among teams' goals to avoid obstacles.

ESTABLISH DISCIPLINE
At the end of each cycle, KPI owners should close completed KPIs, continue relevant ones, and create new ones.

Long-Range Planning

REFLECT
Take a more full step back and reflect on individual, team, and company performance for the previous period.

COURSE CORRECT
Make adjustments to the projected effort for the next period.

REFRESH OR REAFFIRM GOALS
Materially inspect long-range goals and their relation to KPIs annually.

Quarterly Planning Cycle Review

KPIs are different from traditional planning frameworks in that they enable a regular "reconciliation" of bottom-up and top-down goals. We recommend setting a quarterly cadence for this process, which allows KPIs to be set, tracked, and re-evaluated regularly. This is especially useful if company, team, and individual goals are influenced materially by external market factors.

01
Determine if my KPIs are aligned with company and team KPIs.

02
Most of my KPIs should contribute to the company's KPIs, but some may not.

03
Check if I need to create shared KPIs with other teams.

04
Ensure each KPI is incentivizing the behavior I want to see.

05
Ensure I am able to measure my KPIs effectively. If not, I may need to adjust them.

06
Identify where I am stuck. Ask for help if needed.

07
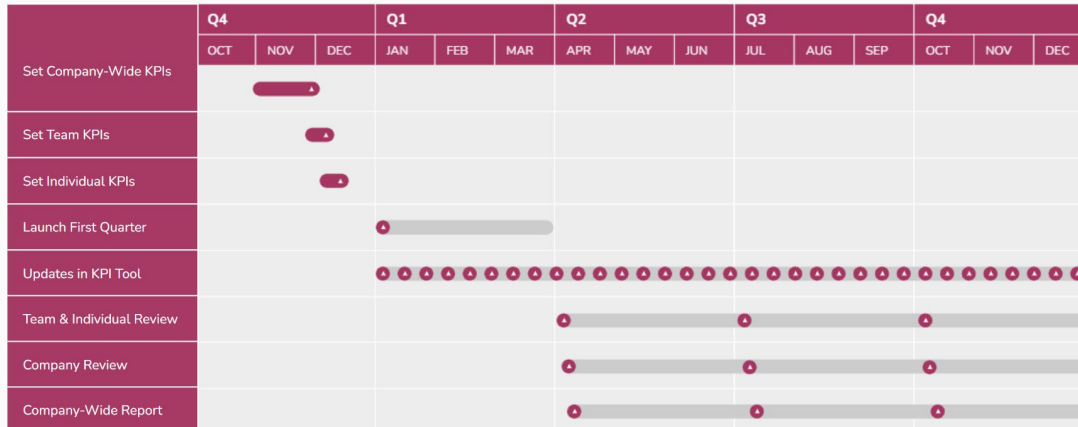Determine if any of my KPIs are dependent on others. We may need to compare notes.

08
Celebrate improvement and small wins when people have progressed

KPI Cycle Diagram

The first time KPIs are set, it may feel like a heavier lift. It may be the first time many people in the organization have even heard of KPIs. Start working on company level KPIs about two months before the beginning of the fiscal year (or desired starting quarter for KPIs). Finalize company-level KPIs at least one month before the beginning of the fiscal year in order to give teams and individuals time to align their goals with the company. This is how a two-way, bottom-up / top-down approach can really work.

Once you launch your first quarter, teams and individuals should be updating your KPI tracker regularly throughout the quarter. At least one central person should be responsible for checking in on how teams and individuals are doing. How are the KPIs looking? Are they having any trouble with the tool? And most importantly, are they coming back regularly to discuss KPIs in their 1:1s and regular team meetings? After the discipline is in place, the organization will settle into a quarterly review process that feels much lighter.

	Q4			Q1			Q2			Q3			Q4		
	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Set Company-Wide KPIs		●													
Set Team KPIs		●													
Set Individual KPIs		●													
Launch First Quarter				●											
Updates in KPI Tool				● ●											
Team & Individual Review							●			●			●		
Company Review							●			●			●		
Company-Wide Report							●			●			●		

Sample Agenda

Quarterly Review Agenda

Who: Executive Team (if company-level KPIs), Team Leader + Reports (if team-level KPIs)
What: Review performance of company-level KPIs and align on upcoming quarter
When: After quarter-end, when all priorities have been closed out, carried forward, or created

Agenda Item	Time
Welcome - Remind the team why we are here (inspiring vision or story from firm/client)	10 min
Review each KPI - Where are we on track? Where are we behind? Why? - Do these KPIs continue to reflect the future reality we want to see?	60 min
Strategic Discussion - Are any themes emerging that may cause us to adjust our strategy?	30 min
Close - Affirm any changes we will make to the plan. - Communicate material changes to other teams. - Document any next steps. - Select time for next quarterly meeting if not yet selected.	20 min

KPIs vs Metrics

KPIs	Metrics
All KPIs are metrics	All metrics are not KPIs
KPIs give a holistic view of the performance of different functions in your organization	Metrics give you a picture of how different individual activities rolled out within the functions are progressing
KPIs tell you exactly where your teams stand with respect to the overall business goals/objectives	Individual metrics do not give any insights on their own

Although they are both designed to measure performance, KPIs and metrics have different characteristics and are used by businesses in different ways. Metrics are measures used to track progress and evaluate success, while KPIs are metrics tied to specific goals during a certain period of time.

KPIs are designed to align with business goals and targets, while metrics evaluate the performance of particular processes. Metrics are usually specific to a particular person or team, and frequently align with industry standards or best practices.

While the terms are often used interchangeably, failure to understand KPIs vs. metrics might mean you're focused on the wrong measurement, creating confusion around your goals and impacting divisions the real data may not support.

Four Attributes of a KPI

01

Measure Description

KPIs require a clear description of what is being measured, such as activities, outcomes, projects, or structure. The more descriptive, the better.

02

Target Value

This is the desired value that indicates success. Targets and measures should be expressed the same numerically (e.g. raw value, percentage, etc).

03

Data Source

The data source is the system of record the data will be pulled from and what the calculations are. It is difficult to measure KPIs that are not stored in a system of record.

04

Tracking Frequency

A specific team member should be held accountable for pulling and documenting the measure's value on a defined cadence updating performance reporting.

Sample KPIs

Targets should be balanced across various business areas and aligned with the company's core principles and goals. First, identify the main business areas. Then identify three to five leading and/or trailing KPIs in each area that could have the greatest impact on the health and fruitfulness of the business.

OPERATIONS MANAGEMENT	FINANCIALS	SALES + MARKETING	ORGANIZATIONAL HEALTH
Quality (%)	Cash flow	Profit per unit sold	Employee Satisfaction
Inventory Turnover	Gross profit/day	Marketing leads	Training (% of sales)
Labor cost to sales	Debt/equity ratio	% of revenue / new clients	Employee Turnover
R&D (% of sales)	Line-of-credit status +/-	Customer satisfaction	

Sample KPIs

To ensure the fidelity of our KPIs, we comply with the four attributes of a strong KPI (description, target, source, frequency) at the time of selection of the KPI. We should also consider the reliability of the data and the "why" behind selecting specific KPIs and target values.

KPI	DESCRIPTION	DATA SOURCE	FREQUENCY	TARGET
Employee Turnover Ratio (%)	# Employee Attrition / Average # Employees	BambooHR	Quarterly (12mo Trailing)	<10%
Inventory Turnover Ratio (%)	COGS / Avg Value of Inventory	Oracle NetSuite	Quarterly (12mo Trailing)	>7.5%
Equipment Downtime (#)	Planned Production Time - Run Time	LineView	Monthly	<10 hours
Debt to Equity Ratio (x)	Total Debt / Total Equity	Quickbooks	Quarterly	1.0 - 1.5

Leading Indicators

01

What Are They

Leading indicators are forward looking and help you determine whether you're on pace to hit your goals.

02

What They Tell Us

A change in leading indicators can tell you something about what you can expect in the future, but their results are only indicative, not necessarily predictive.

03

Responsiveness

Leading indicators can change as the direct results of an individual or team's contribution and can influence day-to-day decisions.

04

Examples

Order backlog, unbilled revenue, number of qualified leads.

Trailing Indicators

01

What Are They

Trailing indicators track activity that has already happened. They are only visible in hindsight.

02

What They Tell Us

Regular monitoring of trailing indicators drives longer-term change and outcomes. Their answers are more definitive than leading indicators.

03

Responsiveness

Lagging indicators are hard to change and typically require the combined efforts of a broader team.

04

Examples

Profit per unit sold, customer satisfaction, return on investment.