Info Sheet –KPIs

## What are KPI’s?

**The Beachside Test**

Imagine that your business is running passively. You are on holidays for six months and still enjoy getting your monthly updates of the progress of your business. You don’t have time to waste and are only allowed to receive a one page fax.

What are the key numbers you would expect to see on that page, to know that the business is still running smoothly? In relation to finances, marketing, sales, production, service and delivery?

KPI’s are Key Performance Indicators. They are a way to monitor the success of your business in important areas.

## Why would I use KPI’s?

KPI’s are designed to do the following things:

1. Help you gather rapid and objective feedback on the performance of your team. Instead of just spot checking progress, you will be able to monitor performance on a regular basis. It will provide you with confidence and peace of mind that the business is working without your personal intervention.
2. Help you identify weak points and also to spot shifts in productivity before too much time has passed. You will be able to recognize challenges sooner and take actions to correct them quicker before the get out of hand.
3. Help you to monitor and review your teams performance in their current role making it clear to them what “good performance” looks like. It helps motivate your team and make it easier to let your team know if their performance is ahead of your expectations.

## How many KPI’s should I monitor?

KPI’s are there to help you in the key areas only. They cover the key areas you’re the business that account for the majority of the tangible results it achieves.

Keep the numbers down to 5 or less for each area of your business. This allows the team to focus on these. If you have 39 KPI’s its hard to focus on which is the most important.

## How often should I review the KPI’s?

At least monthly however depending on the KPI, even weekly.

## What are some examples of KPI’s?

These are some KPI’s that could be applicable to your business.

*Financial*

* Profit
* Costs as % of Sales
* % of debtors under 30 days. Days Sales Outstanding
* % variance from budget figures for expenses and sales.
* Margins – Profit & Gross
* Return on Capital
* Cash Flow
* Revenue
* Variable vs non-variable expenses
* Return on Investment
* Inventory Turns/Year
* Sales Per Square Foot
* R&D Expenditures
* Training Expenditures
* Marketing Expenditures

*Customers*

* Customer Satisfaction
* Customer Retention
* Market share

*Marketing*

* Current count of marketing strategies running.
* Leads generated.
* Cost per lead per strategy.
* Number of Customers
* Referrals
* Sales Mix
* Customer Profitability
* Number of Orders
* Lifetime Value of a customer

*Sales*

* Sales results.
* Conversion rates.
* $ in outstanding quotes.
* Average $ sale.
* Profit Per Customer.
* Sales by Product Line.

*Production/Service*

* Jobs in process.
* Avg work hour per job.
* Avg turnaround time.
* Number of products above quality standards.
* Timeliness
* Costs
* Capacity Utilization
* Safety - # Workers Comp Claims, Days lost
* Back orders
* Post Sales Service - Warranty Claims (#,%), Repairs, Returns & Defects
* Number & Value of Complaints
* # orders failed before delivery
* # Orders not delivered on time
* Work in Process
* Labour Hours
* Overtime
* Cycle Time
* Downtime
* Maintenance Costs
* Output per employee
* Sales per employee
* Productivity per employee
* Delivery on time.

*Learning & Growth*

* Employee Retention
* Employee Satisfaction
* Employee Knowledge
* Manager/employee ratio
* Absenteeism
* Hours or $ of training per employee
* Ratio direct to overhead employees
* Cost per new hire
* % employees fully trained

*Innovation*

* Revenue from new products
* Revenue from new market segments
* Revenue from new geography
* Number of new customers
* Time to market for new products/service
* R&D expense

*Satisfaction with Suppliers*

* Responsiveness
* Costs compared with competition
* On-time Delivery
* Overall Satisfaction/Value
* Defects (#,%)
* Credit terms
* Number of Suppliers

*Supplier Satisfaction*

* Overall Satisfaction: Opportunity for profits while providing quality
* Responsiveness
* Payment

You will need to judge what is important in your business, choose the KPI, determine a way of measuring it, make it part of your system, train your team in completing them and then monitor them regularly.

## The Top Ten Drivers of Business Performance

Source: Cranfield School of Management, UK

* Low levels of late deliveries to customers
* Higher employee training expenditure
* % of workforce trained
* Low absenteeism rate
* Higher Marketing Expenditures
* Higher Capital Expenditures
* Higher R&D Expenditure
* Higher Stock Turns
* Higher Cash Balances
* Lower Debt Levels (more short term than long term)

## A Great Delivery KPI.

A great KPI to use to measure your manufacturing or distribution activities is represented by IFOTIS. This stands for:

**In**

**Full**

**On**

**Time**

**In**

**Spec**

Where:

1. In Full is awarded 100% when a delivery is complete, and 0% if only part of the order arrived thus not meeting the customer’s expectations. For example, if 125 chocolate éclairs were ordered and 120 were delivered, the score is 0%.
2. On Time is awarded 100% when a delivery is made as agreed with the customer, otherwise the score is 0%. For example, if the customer wanted the delivery to be made in the morning and the product or service is delivered at 1.00pm, the score is 0%.
3. In Spec is a quality measure. If the product or service meets the quality requirement of the customer – score 100%, otherwise 0%.

For a single order or delivery to score 100%, then all 3 elements must score 100% each.

IFOTIS should be measured over a period of time, such as a week or month. If, for example, there were 60 orders delivered in a week of which only 40 met all three of the customer’s expectations, then the weekly score is 67%. Best Practice companies achieve 97% or better.

Note it is the customer’s expectations which are paramount. If the cause of non-performance for a delivery occurred further up the supply chain (not our fault!) this is still recorded as a 0% performance because it can be influenced by the producer or service provider.