Business Metrics

Measure what matters

Data as a valuable resource
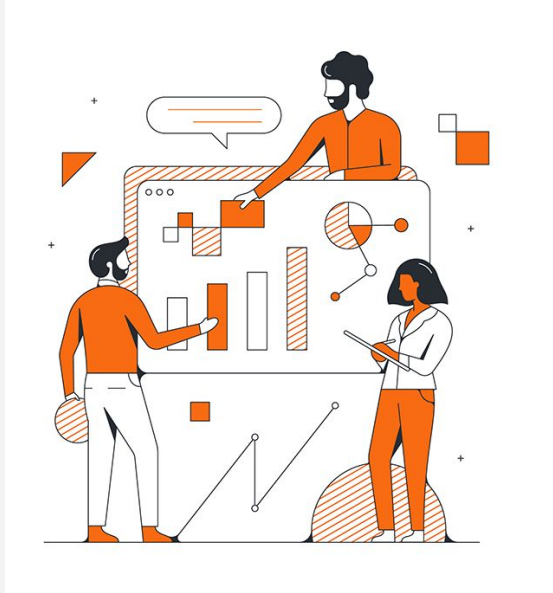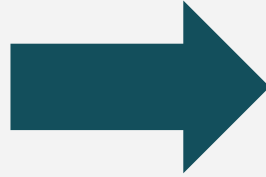
In 2006, Clive Humby - a british mathematician- coined the phrase "Data is the new oil"

Why we use Data?

Less intuition, more data driven

To deliver precise and accurate result

Why it's needed

Constant monitor

Ever changing environment → Agile adaptability

Fast and accurate response

How to measure business performance

1. Set Goals

2. Develop Key Performance Indicators

3. Define Suitable Metrics

4. Track and Measure

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Set Goals

What are your trying to **achieve**? Your goals might be acquiring new customers, improving customer satisfaction and generating high volumes of traffic to your website. Until you don't know what you want to measure, you can't measure what you have.

Develop Key Performance Indicators

The KPIs are standard ratios that provide insight about your business performance. Examples include revenue generated per employee or financial statements. These performance indicators help you measure performance against the goals you've identified.

Define Suitable Metrics

Business metrics are **quantifiable measures** that track and assess the status of a specific business process. Depending on your business and your goals, you may want to focus on certain metrics. These include user metrics, marketing metrics, sales metrics, accounting and financial metrics and so on.

Track and Measure

Narrow down on the information that you think is **crucial to track**. Choose a few major business goals, develop related KPIs and focus on tracking and collecting relevant data.

Metrics, KPIs and Key Results

Metrics

Metric

"a system or standard of measurement" Oxford Dictionary

Business metric

Specifically for businesses, they use the definition "a set of figures or statistics that measure results".

A business metric is a quantifiable measure businesses use to track, monitor and assess the success or failure of various business processes.

Business Metrics: Example

Let's say you want to measure the success of your product. There are different metrics you could look at to measure this, such as:

- Customer Renewal Rate (or Customer Churn Rate)
- Monthly Active Users
- Customer Satisfaction Score

If you want to measure the financial performance of your organization, you could use metrics such as:

- EBIT
- Cashflow
- Burn rate

User

Total Users : Total unique registered users in our services

New Users: Newly acquired users

Active Users: Users that used our service in certain period

Transacting Users: Users that do transaction in our platform

Tenure: How long users been using our product

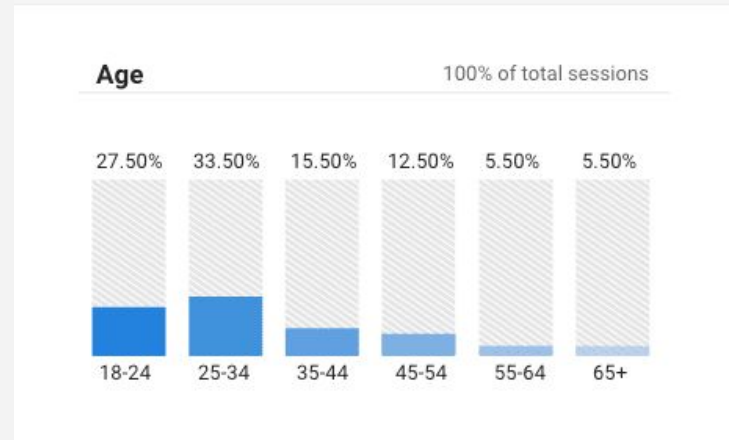**Churn Rate**: Number of users who doesn't use our product anymore
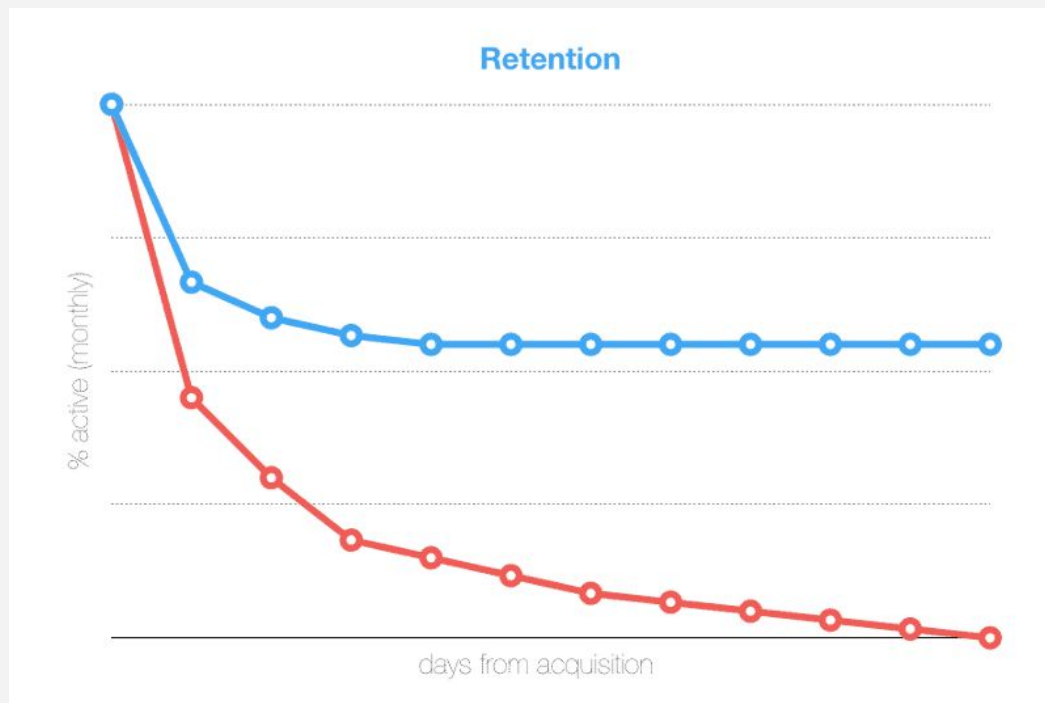
User

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Churn Formula

$$\frac{\text{No. of customers who left } 600}{\text{customers at the beginning of period } 30,000} \times 100 = 2.00\%$$

No. of customers who left

600

to get percentage

30,000

customers at the beginning of period

X 100

= 2.00 %

Age   100% of total sessions

27.50%	33.50%	15.50%	12.50%	5.50%	5.50%
18-24	25-34	35-44	45-54	55-64	65+

Users
12,995

New Users
11,260

Retention

Marketing

User Funnel: Steps a visitor takes from first finding out about our product until they convert

Conversion Rate: # of users who completed action / total users

Cost per Acquisition (CPA): How much we spend on a new customer

Click-through-rate (CTR): number of times an ad, link, or website is clicked on compared to the number of impressions

User funnel

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Retail Store Funnel	Ecommerce Funnel
Customer walks into the store	Customer visits the ecommerce website
Customer looks at products	Customer views a product page(s)
Customer grabs the item and puts it in her cart	Customer adds the item to her cart
Customer walks to checkout	Customer enters checkout process
Customer completes purchase with store clerk	Customer finishes checkout process and clicks "Purchase"

User funnel

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Ecommerce Conversion Funnel

1000 Visitors to the Site

100% Visitors → Total Visitors

70% Visitors → In Shopping Area

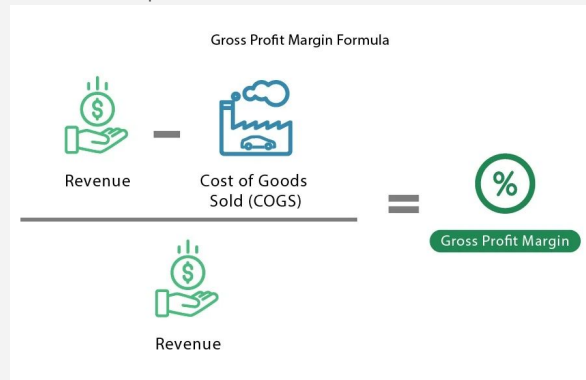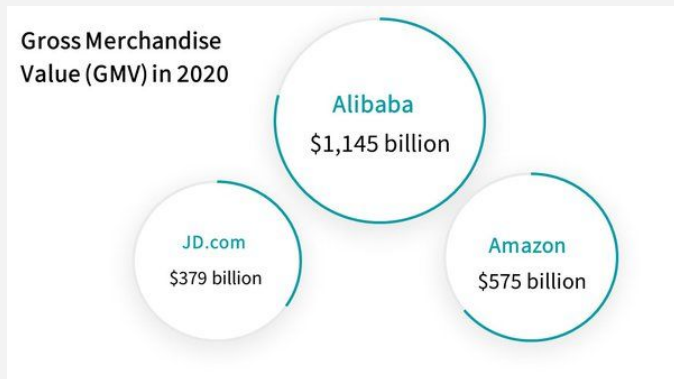35% Visitors → Placing Item in Cart

5% Visitors → Purchasing items

Finance

GMV: Gross Merchandise Value refers to the volume of goods sold via customer-to-customer or e-commerce platforms

ABS: Average Basket Size refers to the number of items getting sold in a single purchase

Revenue: the total amount of income generated by the sale of goods or services related to the company's primary operations.

Profit Margin: represents what percentage of sales/revenue has turned into profits

Gross Merchandise Value (GMV) in 2020

Alibaba
$1,145 billion

JD.com
$379 billion

Amazon
$575 billion

Gross Profit Margin Formula

Revenue − Cost of Goods Sold (COGS) = %

Revenue

Gross Profit Margin

Key Performance Indicators

KPIs are quantifiable measures of performance for the efforts and activities that are **key** to an organization or team. These are all the activities that you need to monitor and measure on an ongoing basis to keep the lights on — your business as usual.
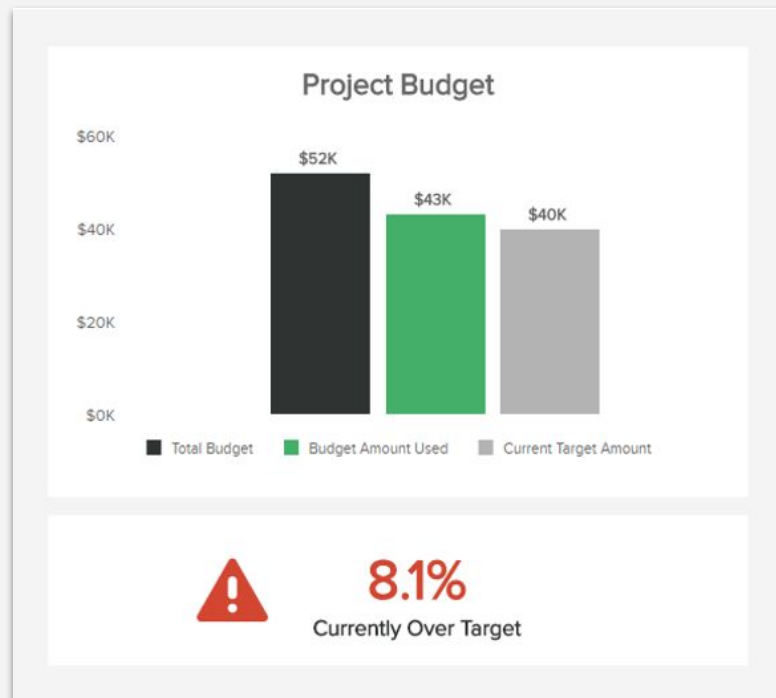
> When everything is a priority, nothing is a priority.
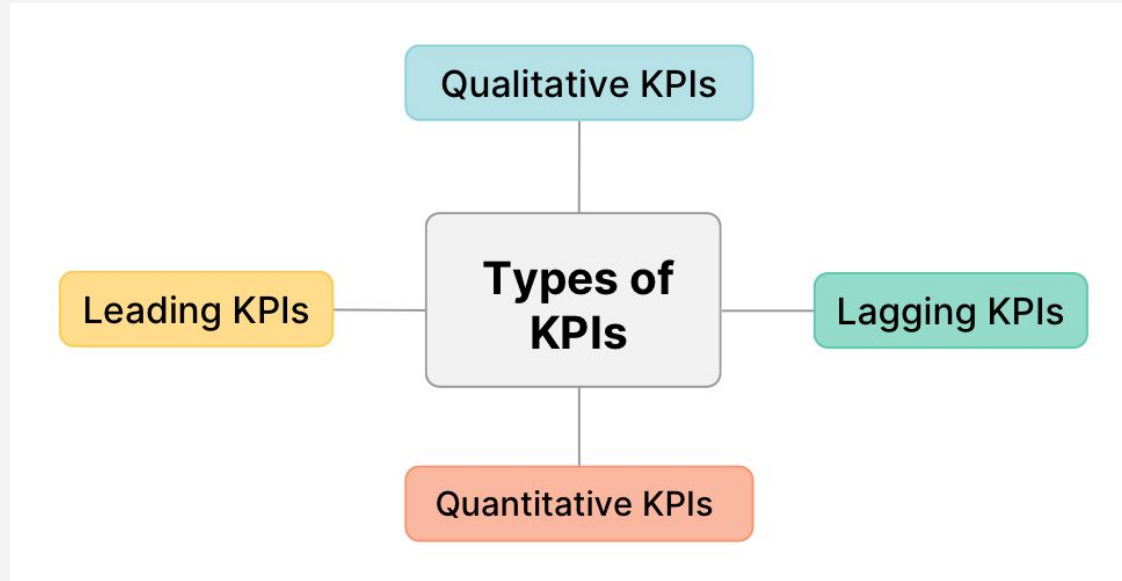>
> — Karen Martin

Structure of a KPI

A KPI consists of the following elements:

- Metric
- Current value
- Target value
- Title

Types of KPI

Types of KPI: Leading KPIs

Leading KPIs present results almost immediately. They can help gauge future trends, however, they often don't provide a clear picture of the long-term impact. Lagging KPIs (see below), on the other hand, present hard facts that better determine the longer-term impact.


Let's say you're selling software, and one of your Marketing team's KPIs is website traffic. That's a leading KPI — the amount of visitors to your website can be tracked in real-time and provides a good understanding of where your website stands. Is it telling you if these visitors are interested in your software? Probably not.

And, what's a website worth if it isn't spiking interest in your visitors? Here's where lagging KPIs come to the rescue.

Types of KPI: Lagging KPIs

Lagging KPIs are metrics that take some time before the impact can be measured. Such KPIs offer more accurate results when understanding the impact a certain area has on the bigger picture over time. It's important to note that lagging KPIs may not be the right gauge for teams that require instant feedback on the projects and activities they're working on.
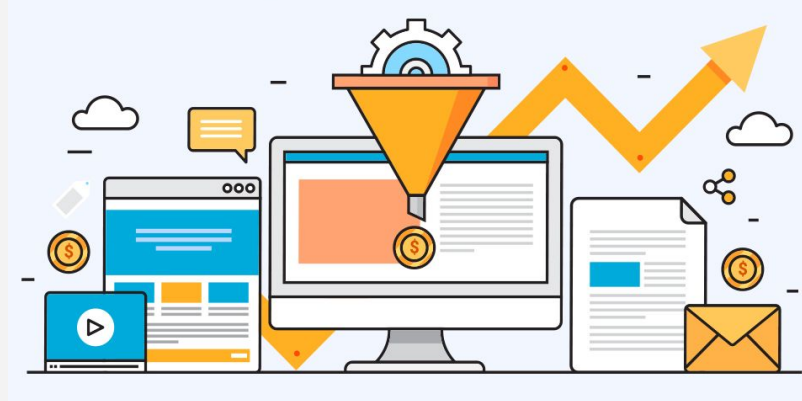
Coming back to the Marketing KPI example — in comparison to website traffic (leading), monitoring Unique Visitors to Lead conversion rate (lagging) can be a better indicator of a website's performance.

Types of KPI: Qualitative/Intangible KPIs

Qualitative KPIs are likely to be based on opinions, traits and properties of certain processes or business decisions. They tend to focus on the "why" and not so much on the "how"

Examples of which include Employee Net Promoter Score (eNPS) or Customer Satisfaction Score (CSAT). Such metrics may be given a number for the purpose of measurement, however, are purely based on qualitative/intangible judgements.

Types of KPI: Quantitative/Tangible KPIs

Quantitative KPIs are straight forward. They're measured solely by a number, and therefore, are in a way tangible — the truth is, numbers don't lie. Some examples of purely quantitative KPIs include revenue or profit.
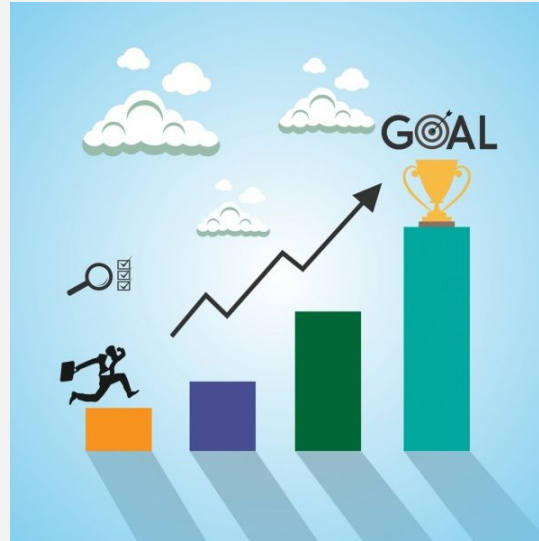
Objectives and Key Results

Objectives are qualitative goals and are what I want to have achieved or what I am working towards.

Key Results are quantitative goals that answer how I am achieving the qualitative Objectives.

So, in contrast to KPIs, OKRs are always associated with **a goal or desired change**.
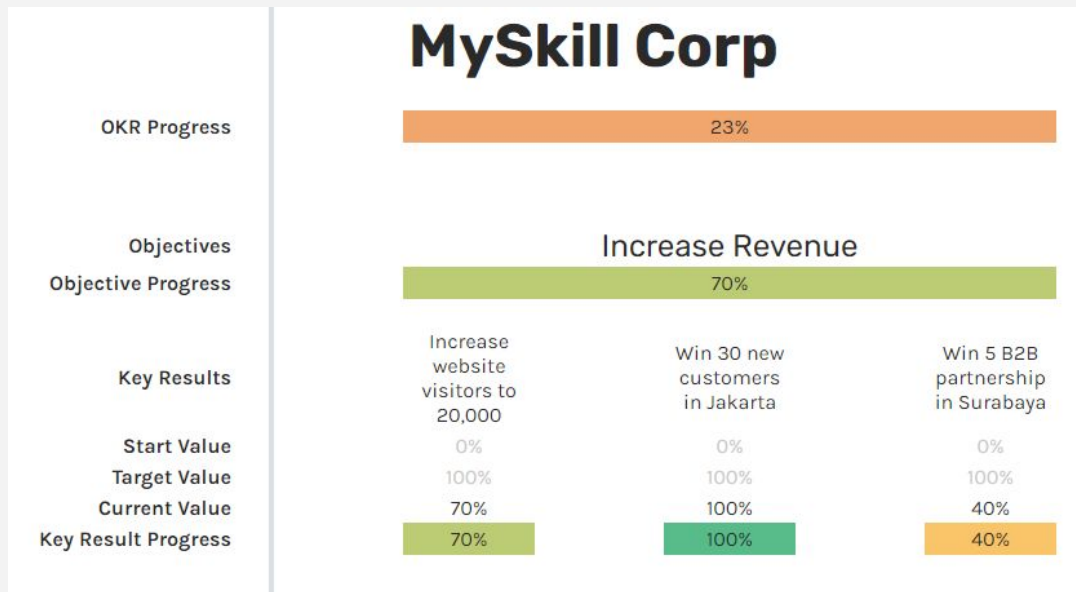
Objectives and Key Results

Objective	Key Result
What do I want to achieve?	**How** do I know that the goal is reached?
Characteristics • Qualitative • Simple and easy to understand • Inspiring and motivating	**Characteristics** • Quantitative • Clearly measurable • S.M.A.R.T.

Structure of a Key Result

A Key Result consists of the following components:

- Metric
- Current value
- Start value
- Target value
- Title

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OKR Progress	23%		
Objectives **Objective Progress**	Increase Revenue 70%		
Key Results	Increase website visitors to 20,000	Win 30 new customers in Jakarta	Win 5 B2B partnership in Surabaya
Start Value	0%	0%	0%
Target Value	100%	100%	100%
Current Value	70%	100%	40%
Key Result Progress	70%	100%	40%

Objectives and Key Results: example

Objective: We delight our customers

Key Results:

- Achieve an **NPS** of at least 42

- Increase **CSAT score** to at least 75%

- Decrease **Ø response time to customer service inquiries** to 30 minutes

Good and Bad Key Results

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BAD

GOOD

❌ Organize 5 great webinars and engage the audience

✅ 90% of attendees listen until the end of each session

❌ Create amazing content for blog

✅ Drive 10,000 uniques views

❌ Follow-up with participants of previous events

✅ Increase recurring participation rate from 20% to 60%

Example of an OKR

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OBJECTIVE

Increase revenue

KEY RESULT

Increase website visitors to 20.000

KEY RESULT

Win 30 new customers in Europe

KEY RESULT

Hire a VP of Sales for Europe

KPI

Website visitors

KPI

Customers

No KPI
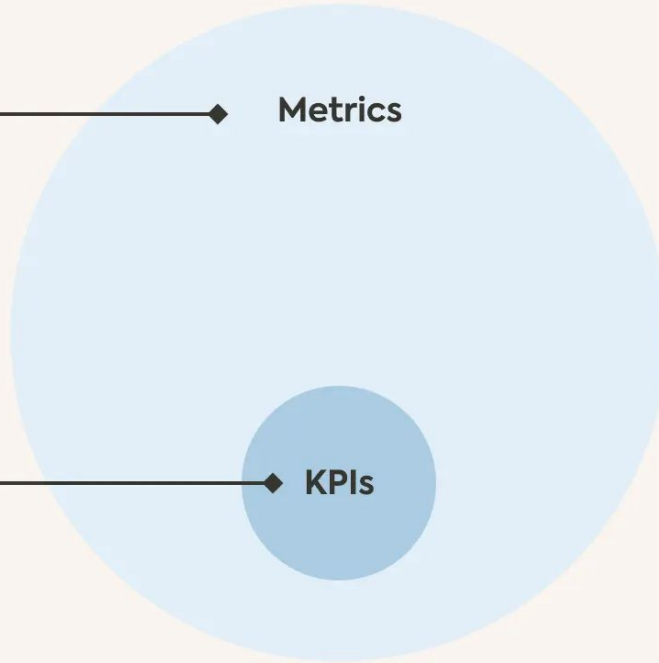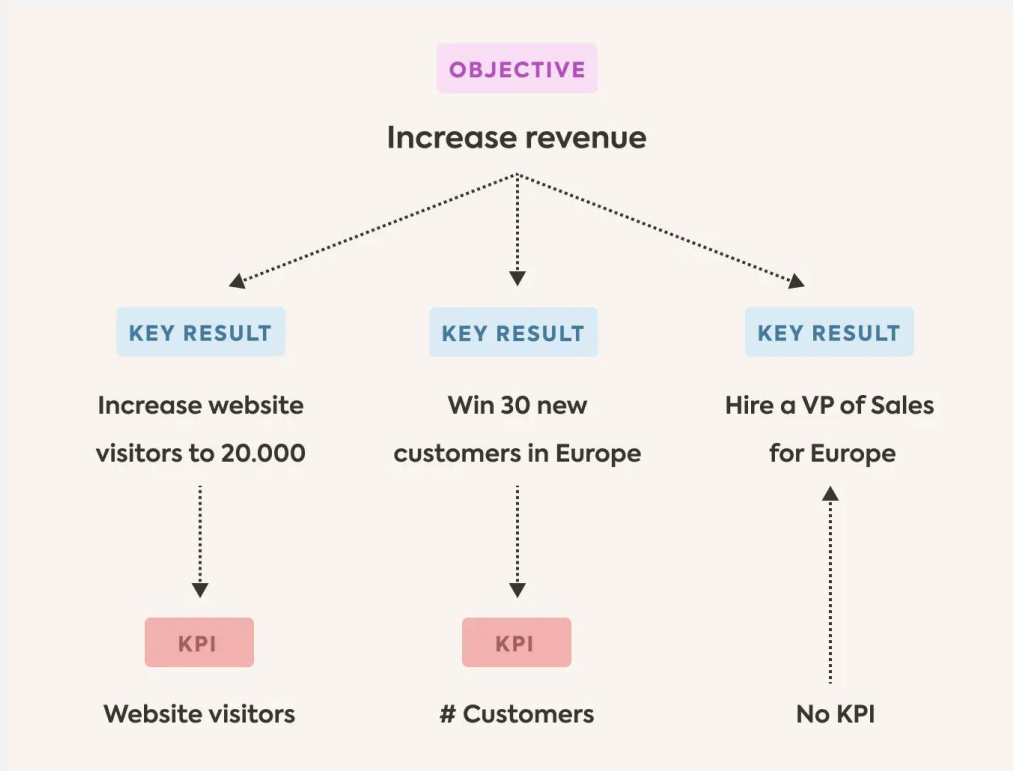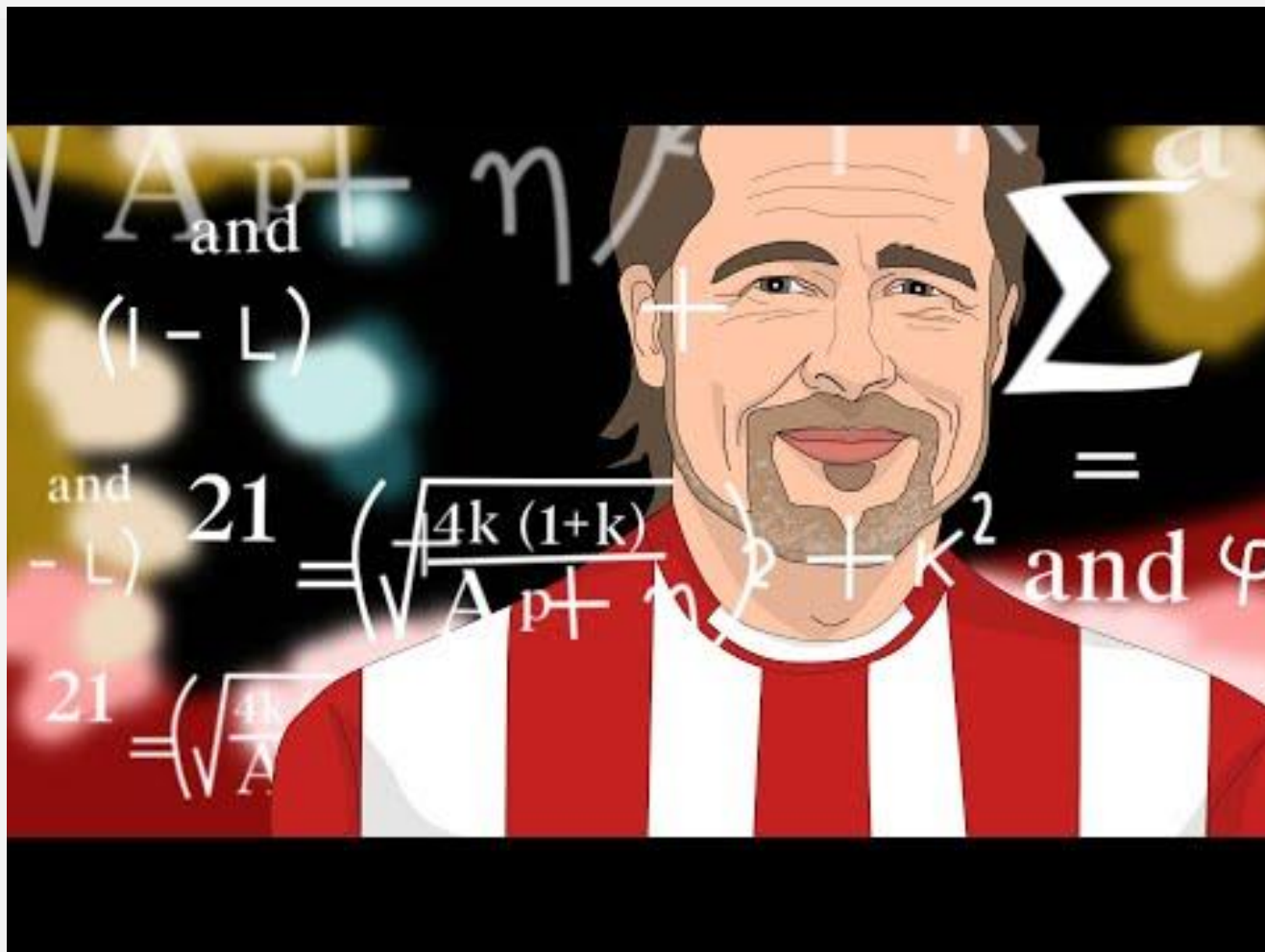
Practice

Kindly open this link and proceed to the Google Sheet prepared.

1. Go to <u>File</u> and click Make a Copy

2. Rename your copy

3. Update the tabs to match your company's OKR

References

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https://www.perdoo.com/resources/the-difference-between-metrics-kpis-key-results/

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