Key Performance Indicators (KPIs)

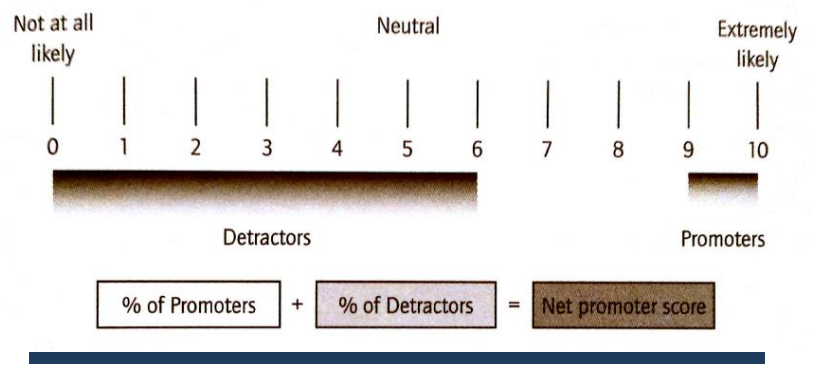
- Measuring and understanding your customers
- Measuring and understanding your financial performance
- Measuring and understanding your internal processes
- Measuring and understanding your employees

Measuring and understanding your customers

- **Net Promoter Score (NPS)**
- **Customer Profitability Score**
- **Customer Retention Rate**
- **Conversion Rate**
- **Relative Market Share**

Net Promoter Score (NPS)

- ✓ **Why:** To better understand customer satisfaction.
- ✓ **What:** To measure how satisfied your customers are.
- ✓ **When:** When customer satisfaction, repeat customers and positive recommendations matter.
- ✓ **The question this indicator helps you to answer:** To what extent would customers recommend our company to their friends?



What formula do I use?

Using a 0 to 10 scale, an organisation can calculate its NPS by taking the percentage of Promoters and subtracting the percentage of Detractors.

- Promoters (score 9-10) are loyal enthusiasts who will keep buying and refer others, fuelling growth.
- Passives (score 7-8) are satisfied but unenthusiastic customers who are vulnerable to competitive offerings.
- Detractors (score 6-7) are unhappy customers who can damage and impede growth through negative word-of-mouth,

To calculate the NPS, take the percentage of customers who are Promoters (those who scored between 9 and 10) and subtract the percentage who Detractors (those who scored between 0 and 6).

Customer Profitability Score (1/3)

- ✓ **Why:** To better understand customer profitability.
- ✓ **What:** To measure the levels of profits that different customers are generating.
- ✓ **When:** When profitability of customers is vital and when different customer groups are generating different levels of profits.
- ✓ **The question this indicator helps you to answer:** To what extent are we generating profits from our customers?

What formula do I use?

Customer profitability is the difference between the revenues earned from and the costs associated with the customer relationship in a specified period. Put another way, customer profitability is the net contribution made by individual customers to an organisation.

As customer profitability covers several time-frames, it is not in itself a single measure. There are four primary measurements of customer value:

- Historical value of a customer, which looks at the value earned from a customer relationship over an extended period of time, such as prior fiscal quarter, prior year or since the start of the relationship. It can be measured as a simple average of previous periods or can be time weighted, placing higher emphasis on recent periods. Averaging in this matter has the effect of smoothing reported results for a customer, lending consistency to the reported values.

Customer Profitability Score (2/3)

What formula do I use?

- Current value of a customer, which looks to a shorter time-frame, often a month (in order to coincide with reporting cycles). Current value is often volatile, since cyclical factors in the relationship are often not reflected within a single month. Current value has the advantage of highlighting the effects of changes in the customer relationship when compared to previous period current values. It is most useful for quantifying the benefit of campaigns, new offers and pricing changes on customer value.
- Present value of a customer, which is the future-oriented measurement that typically considers the future revenue and cost streams of customer's existing business. This measure is usually only extended to include the contractual lifetime of ongoing products or services. Present value is useful for ranking customers according to value and determining sales compensation rates, and is frequently used as a basis for modelling the impact of decisions concerning price and service before they are implemented.
- Customer lifetime value, which is another future-oriented measurement. What distinguishes it from present value is a modelling component: lifetime value takes into account projected revenue and cost streams not only from the existing relationship but also from business that is expected to be done with the customer in the future.

Customer Profitability Score (3/3)

What formula do I use?

As part of their assessment of customer profitability, organisations will often also use time-based, activity-based costing, which essentially measures the present total cost of providing services or products to a customer. This requires obtaining information on only two parameters: the cost per hour of each group of resources performing work, such as a customer support department, and the unit times spent on these resources by specific activities for products, services and customers. For example, if a customer support department has a cost of $70 per hour, and a particular transaction for a customer takes 24 minutes (0.4 hours), the cost of this transaction for this customer is $28. This can be readily scaled up to companies with hundreds of thousands of products and services and thousands of customers.

Customer Retention Rate

- ✓ **Why:** To better understand customer loyalty.
- ✓ **What:** To measure the extent to which customers are satisfied and loyal.
- ✓ **When:** When repeat customers and positive recommendations matter.
- ✓ **The question this indicator helps you to answer:** To what extent are we keeping the customers we have acquired?

What formula do I use?

Retention rate measure the percentage of customers a company is able to retain over a specified period. The formula that is often provided in textbooks just divides the number of active customers at the end of the time period by the number of active customers at the start of time period. The problem with this formula is that it not only measures retained customers but includes newly acquired customers and therefore is not really a measure of retention.

A better formula is:

$$\text{Customer Retention Rate (CRR)} = \frac{\text{Number of customers at the beginning of a period}}{\text{Number of those customers who remained at the end of a period}}$$

Conversion Rate

- ✓ **Why:** To better understand customer acquisition.
- ✓ **What:** To measure how well you are converting prospects into actual costumers.
- ✓ **When:** When customer acquisition is a key priority.
- ✓ **The question this indicator helps you to answer:** To what extent are we able to convert potential customers into actual customers.

What formula do I use?

In its simplest form, the conversion rate is calculated by dividing the number of goal achievements by the number of visitors:

$$\text{Conversion rate} = \left(\frac{\text{Number of goal achievements}}{\text{Visitors}} \right) \text{x } 100$$

The goal achievements can be broken down into the different steps of the conversion funnel: for example, conversion from page view or ad view to visit – also called click-through rate (CTR); from click through to filled shopping basket; from shopping basket to order, etc.

Relative Market Share

- ✓ **Why:** To better understand your market position.
- ✓ **What:** To measure how large your share of a market is compared to your competition.
- ✓ **When:** When a company wants to grow or maintain market share in specific markets.
- ✓ **The question this indicator helps you to answer:** How well are we developing our market share in comparison to our competitors?

What formula do I use?

Formula:

$$\text{Relative Market Share (\%)} = \frac{\text{Organisation's market share}}{\text{Largest competitor's market share}}$$

The exact measure is the brand's share relative to its largest competitor. Thus, if the brand had a share of 20%, and the largest competitor had the same, the ratio would be 1:1. If the largest competitor had a share of 60%, however, the ratio would be 1:3, implying that the organisation's brand was in a relatively weak position. If the largest competitor had a share of only 5%, the ratio would be 4:1, implying that the brand owned was in a relatively strong position, which might be reflected in profits and cash flows. If this technique is used in practice, this scale is logarithmic, not linear.

Measuring and understanding your financial performance

- **Revenue Growth Rate**
- **Net Profit**
- **Net Profit Margin**
- **Gross Profit Margin**
- **Operating Profit Margin**
- **Return on Investment (ROI)**
- **Cash Conversion Cycle (CCC)**

Revenue Growth Rate

- ✓ **Why:** To better understand your financial performance, particularly how well the business is growing.
- ✓ **What:** To measure the growth in income a company receives.
- ✓ **When:** When investors and managers want to understand to what extent the business is growing.
- ✓ **The question this indicator helps you to answer:** How well are we growing the business?

What formula do I use?

Revenue growth is simply this quarter's (or any other time period's) revenue compared to that of a previous quarter (or any other time period).

Net Profit

- ✓ **Why:** To better understand your financial bottom-line performance.
- ✓ **What:** To measure how much money is left after all costs have been deducted from overall sales revenues.
- ✓ **When:** When investors and managers want to understand how profitable a business is.
- ✓ **The question this indicator helps you to answer:** To what extent are we generating bottom-line results?

What formula do I use?

Net Profit($) = Sales Revenue($) – Total Costs($)

Here is how you reach Net Profit on a P&L (Profit and Loss) account:

1. Sales Revenue = Price(of product) x Quantity Sold
2. Gross Profit = Sales Revenue – Cost of Sales and other direct costs
3. Operating Profit (EBIT, Earnings Before Internet and Taxes) = Gross Profit – Overheads and other indirect costs
4. Pre-tax Profit (EBT, Earnings Before Taxes) = Operating Profit – One-off items and redundancy payments, staff restructuring – Internet Payable
5. Net Profit = Pre-tax Profit – Tax
6. Retained Earnings = Net Profit – Dividends

Net Profit Margin

- ✓ **Why:** To better understand your financial performance, especially how well a company is run and controls its costs.
- ✓ **What:** To measure the percentage of net profits from the overall sales revenues.
- ✓ **When:** When investors and managers want to understand and compare the profitability of business.
- ✓ **The question this indicator helps you to answer:** How much Net Profit are we generating for each dollar of revenue generated?

What formula do I use?

$$\text{Net Profit Margin} = \left(\frac{\text{Net Profit}}{\text{Revenues}} \right) \text{x } 100$$

Gross Profit Margin

- ✓ **Why:** To better understand your financial performance, especially how efficient a company is in producing its products or services.
- ✓ **What:** To measure production efficiency by looking at all production costs relative to all sales revenue.
- ✓ **When:** When investors and managers want to understand and compare the production efficiency of business.
- ✓ **The question this indicator helps you to answer:** How much gross profit are we generating for each dollar of revenue generated?

What formula do I use?

$$\text{Gross Profit Margin} = \left(\frac{\text{Revenue - Cost of goods sold}}{\text{Revenues}} \right) \text{ x } 100$$

Operating Profit Margin

- ✓ **Why:** To better understand your financial performance, especially its operating efficiency and pricing strategy.
- ✓ **What:** To measure the proportion of revenue that is left after removing all costs of operating the business.
- ✓ **When:** When investors and managers want to understand and compare how profitable a business is, purely based on regular sales activities.
- ✓ **The question this indicator helps you to answer:** To what extent are we operating our business efficiently?

What formula do I use?

$$\text{Operating Profit Margin} = \left(\frac{\text{Operating Profit}}{\text{Revenue}}\right) \text{ x } 100$$

where the Operating Profit = EBIT (Earnings Before Internet and Taxes).

Return on Investment (ROI)

- ✓ **Why:** To better understand your financial performance, especially the efficiency of investments.
- ✓ **What:** To measure the proportion of revenue that is left after removing all costs of operating the business.
- ✓ **When:** When you want to assess or compare the efficiency of investments.
- ✓ **The question this indicator helps you to answer:** To what extent are our investments generating a financial return?

What formula do I use?

Return on investment is calculated in several ways. For example:

$$\text{ROI} = \frac{(\text{Gain from investment} - \text{Cost of investment})}{\text{Cost of investment}}$$

In the above formula 'Gain from investment' refers to the proceeds obtained from selling the investment or income from the investment or the products/services resulting from the investment.

ROI can also be calculated as

Net Benefits / Net Costs or

Profit / Costs x Period

Cash Conversion Cycle (CCC)

- ✓ **Why:** To better understand your financial performance, especially the way cash flow is managed.
- ✓ **What:** Measure the time it takes from spending money on producing goods or services to money coming back into the business.
- ✓ **When:** When you want to assess how well a company manages its cash flow.
- ✓ **The question this indicator helps you to answer:** How well are we doing at maintaining a healthy cash position?

What formula do I use?
Measured in days, CCC is calculated as:

$$CCC = DIO + DSO – DPO$$

- DIO represents Days Inventory Outstanding
- DSO represents Days Sales Outstanding
- DPO represents Days Payable Outstanding.

Measuring and understanding your internal processes

- **Capacity Utilisation Rate (CUR)**
- **Project Schedule Variance (PSV)**
- **Project Cost Variance (PCV)**
- **Earned Value (EV) Metric**
- **Order Fulfilment Cycle Time (OFCT)**
- **Delivery In Full, On Time (DIFOT) Rate**
- **Quality Index**
- **Process Downtime Level**

Capacity Utilisation Rate (CUR)

- ✓ **Why:** To better understand how efficiently internal processes are run.
- ✓ **What:** To measure that rate to which full process potential is leveraged.
- ✓ **When:** When you want to understand the internal process efficiency.
- ✓ **The question this indicator helps you to answer:** To what extent are we working to our full work/production capacity?

What formula do I use?

$$\text{Capacity Utilisation Rate} = \left(\frac{\text{Actual Capacity in time period } t}{\text{Possible Capacity in time period } t} \right) \text{ x } 100$$

Project Schedule Variance (PSV)

- ✓ **Why:** To better understand whether your projects are on schedule.
- ✓ **What:** To measure the proportion of projects on or behind schedule.
- ✓ **When:** When project performance matters.
- ✓ **The question this indicator helps you to answer:** To what extent are our projects delivered on schedule?

What formula do I use?

PSV = SCT – ACT

Where:

ACT is the Actual Completion Time and

SCT is the Scheduled Completion Time.

ACT and SCT are measured in time intervals such as days or weeks.

For overall PSV (a number of different projects taken together), you can simply add the individual project variances together for an actual number or calculate a straight or weighted average variance score.

Project Cost Variance (PCV)

- ✓ **Why:** To better understand whether your projects are on budgets.
- ✓ **What:** To measure the proportion of projects that are delivered on budget.
- ✓ **When:** When project performance matters.
- ✓ **The question this indicator helps you to answer:** To what extent are our projects delivered on budget?

What formula do I use?

$$PCV = SPC - APC$$

Where:
SPC is the Scheduled Project Costs and
APC is the Actual Project Costs.

To obtain overall PCV (a number of different projects taken together), you can simply add the individual project variances together for an actual number or calculate a straight or weighted average variance score.

Earned Value (EV) Metric

- ✓ **Why:** To better understand whether your projects are delivering the value you expect.
- ✓ **What:** To measure the project progress to date.
- ✓ **When:** When project performance matters.
- ✓ **The question this indicator helps you to answer:** To what extent are our projects making the desired progress?

What formula do I use?

EV = % complete x BCWP

Where BCWP is the budgeted cost of work performed = the total budgeted costs for labour and resources for the project.

$$\text{Performance Level} = \frac{\text{ACWC}}{\text{EV}} \text{ x } 100$$

Where ACWC is the Actual Cost of Work Scheduled or the total amount in labour and resources that has been spent on the project to date.

Order Fulfilment Cycle Time (OFCT)

- ✓ **Why:** To better understand your end-to-end business process performance.
- ✓ **What:** To measure how long it takes from a customer order to product or service delivery.
- ✓ **When:** When end-to-end process efficiency matters.
- ✓ **The question this indicator helps you to answer:** How efficient are our internal business processes?

What formula do I use?

OFCT is the average actual cycle time consistently achieved to fulfil customer orders. For each individual order, this cycle time starts from order receipt and ends with customer acceptance of the order.

OFCT = Source Cycle Time + Make Cycle Time + Delivery Cycle Time

Delivery In Full, On Time (DIFOT) Rate

- ✓ **Why:** To better understand your supply performance.
- ✓ **What:** To measure how well you fulfil orders and meet customer expectations.
- ✓ **When:** When order fulfilment matters..
- ✓ **The question this indicator helps you to answer:** To what extent are our customers getting what they want at the time they want it?

What formula do I use?

$$\text{DIFOT} = \frac{\text{Units or orders delivered in full time, on time}}{\text{Total units or orders shipped}}$$

Quality Index

- ✓ **Why:** To better understand the quality of your products and services.
- ✓ **What:** To measure whether the product or service attributes meet customer expectations.
- ✓ **When:** When product and service quality matter to customers.
- ✓ **The question this indicator helps you to answer:** To what extent do our products or services meet the quality expectations of our customers?

What formula do I use?

A Quality Index will comprise a number of measures (perhaps between five and ten). Each measure will be weighted according to its importance (although some indexes will comprise KPIs of equal weighting). The final index score is the total points (expressed as a percentage), accounting for weightings. So if customer complaints due to quality of products or services has a 50% weighting score then its points account for half the overall score.

Process Downtime Level

- ✓ **Why:** To better understand your process performance.
- ✓ **What:** To measure the proportion of non-productive time
- ✓ **When:** When you want to understand the internal process efficiency.
- ✓ **The question this indicator helps you to answer:** To what extent are we operating our processes or machines effectively?

What formula do I use?

Machine or process downtime can be measured as a ratio:

Machine or Process Downtime Level = $\left(\frac{TA_t}{PPT_t}\right) \times 100$

Where:

PPT_t is the planned productive time that a process or machine should be available in a given time period t.

TA_t is the actual productive time that a process or machine has been available in a given time period t.

Or it can be measured as an actual time level:

Machine or Process Downtime Level = $PPT - TA_t$

Measuring and understanding your employees

- **Staff Advocacy Score**
- **Employee Engagement Level**
- **Absenteeism Bradford Factor**
- **Human Capital Value Added (HCVA)**
- **360-Degree Feedback Score**

Staff Advocacy Score

- ✓ **Why:** To better understand how employees feel about working here.
- ✓ **What:** To measure how satisfied your employees are.
- ✓ **When:** When employee satisfaction, loyalty and positive recommendations matter.
- ✓ **The question this indicator helps you to answer:** To what extent are our employees advocates of our business?

What formula do I use?

Using a 0 to 10 scale, an organisation can calculate its staff advocacy score by taking the percentage of advocates and subtracting the percentage of detractors.

- Advocates (score 9-10) are loyal and enthusiastic employees who will promote you as a potential employer.
- Passives (score 7-8) are satisfied but unenthusiastic employees who are vulnerable to competitive offerings.
- Detractors (score 0-6) are unhappy employees who can damage your brand and impede growth through negative word-of-mouth.

Staff Advocacy Score = (% of employees who are Advocates) – (% of employees who are Detractors)

Employee Engagement Level

- ✓ **Why:** To better understand how engaged your employees are.
- ✓ **What:** To measure the extent to which employees are engaged.
- ✓ **When:** When employee engagement and commitment matter.
- ✓ **The question this indicator helps you to answer:** To what extent are our employees committed to delivering to the vision and mission of the organisation?

What formula do I use?

The most famous Employee Engagement survey is probably the one devised and deployed by Gallup Organisation, although alternatives should be considered. Gallup's survey consists of just 12 questions. Gallup is interested in uncovering those behaviours or characteristics that will make a quantifiable difference to performance in the workplace.

Employees answer Gallup's questions, through straight yes/no responses, in order to generate a score (www.gallup.com).

Based on the responses, organisations can see the percentage of employees who are actively engaged, engaged, disengaged or actively disengaged and from the Gallup analysis can get insights into the likely financial consequences.

Absenteeism Bradford Factor

- ✓ **Why:** To better understand employee absenteeism.
- ✓ **What:** To measure the level of unauthorised absenteeism.
- ✓ **When:** When employee absenteeism is an issue.
- ✓ **The question this indicator helps you to answer:** To what extent is unauthorised employee absenteeism a problem in our business?

What formula do I use?

The Bradford Factor score can be calculated by looking at unplanned absence over a period (often a year, but it could be any time period) and counting the number of days absent and multiplying them by the squared number of absence episodes.

Bradford Factor = Dt x Et x Et

Where:

Dt = total number of days of unplanned absence and

Et = total number of individual spells or episodes of absence.

Human Capital Value Added (HCVA)

- ✓ **Why:** To better understand the financial value employees are generating.
- ✓ **What:** To measure the financial contribution each employee makes to the organisation.
- ✓ **When:** When companies and shareholders want to understand the financial contribution per employee.
- ✓ **The question this indicator helps you to answer:** To what extent our employees adding value to the bottom line?

What formula do I use?

The PWC Saratoga Institute suggests calculating HCVA by subtracting all corporate expenses except for pay and benefits from the revenue generated and dividing the adjusted profit by the average headcount.

$$\text{HCVA} = \text{Revenue} - \frac{(\text{Total Costs} - \text{Employment Cost})}{\text{FTE}}$$

Where Total Costs are the difference between revenue and profit before taxes, employee cost is pay and benefits, and FTE is the average number of full-time employees.

360-Degree Feedback Score (1/2)

- ✓ **Why:** To better understand how our employees are performing.
- ✓ **What:** To measure employee performance based on the views of multiple co-workers.
- ✓ **When:** When you want to assess relative performance of employees.
- ✓ **The question this indicator helps you to answer:** How well are our people performing in the eyes of those who have a stake in their performance?

What formula do I use?

There is no single formula used within a 360-degree assessment, as there are many consultants in the field. That said, a 360-degree appraisal template typically contains the following column headings or fields, also shown in the following template example

- Key skill/capability type (e.g. communications, planning, reporting, creativity and problem solving, etc. – whatever the relevant key skills and capacities are for the role in question).
- Skill component/element (e.g. ‘active listening and understanding’, within a ‘communications’ key skill, or ‘generates ideas/options’, within a ‘creativity/problem solving’ key skill). The number of elements per key skill varies - for some key skills there could be just one element; for others there could be five or six.

360-Degree Feedback Score (2/2)

What formula do I use?

- Question number (purely for reference and ease of analysis).
- Specific feedback question (relating to skill component, e.g. ‘does the person take care to listen and understand properly when you/others are speaking to him/her? – for the active listening skill).
- Tick-box or grade box (typically using a Likert-scale rating of, for example very poor to excellent and on a 1-5 or 1-10 scale. Note that providing clarification and respondents is crucial, especially if analysing or comparing results within a group, when consistency of interpretation of scoring is important).

Consider this as a sample of 360-degree feedback questionnaire.

Feedback from headings and instructions: appraise name, date feedback respondent name, position (if applicable) plus local instructions and guidelines for completion, etc.

Key Skill / Capacity Area	Skill / Capability element	Question number	Feedback question	Feedback score
		1 2 3 etc. etc.		