

## Measuring Performance

Businesses must measure performance. Whether it is profitability, productivity or customer satisfaction accurate metrics are crucial navigational tools. Unfortunately, many managers have difficulty designing and implementing meaningful metrics. Top-line numbers are often too broad to be actionable. Detailed customer and operational statistics tend to be interesting, but do not reveal the

**“We have hundreds of reports but they never help move the business forward.”**

underlying economic and behavioral drivers. Even when executives ask for the relevant measures, inflexible and expensive systems frustrate their efforts. Despite the challenges, many leading companies have demonstrated that managing with selected, data-driven metrics can dramatically improve performance in almost all areas of the business. Valuable opportunities exist, however they are often hidden.

## Designing Useful Metrics

Metrics should point to *actionable insights* and *quantifiable impacts*. Do not be afraid to ask “so what?” For example, most companies track several customer satisfaction metrics. The first “so what” is: “how does each measure drive share and revenue?” The next is: “how can I impact satisfaction and what are the costs?” Answering both of these will allow you to prioritize investments in satisfaction for the greatest results.

*Always ask “so what?”*

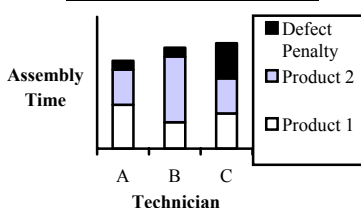
**Interesting:**

“Customer satisfaction decreased from 7.5 to 6.5 this year...”

**Actionable:**

“...which will mean \$3MM lost profit from lost revenue and lower production scale. A 15% reduction in lead times will increase customer satisfaction by 1.0 points and cost \$1MM to implement...”

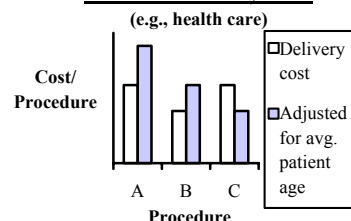
### Technician Effectiveness



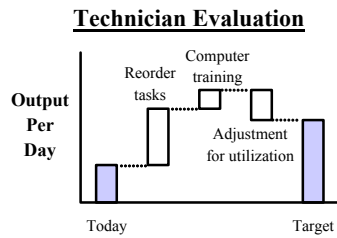
*Scope* and *depth* of metrics are also key. Measuring technician productivity, for example, can only save costs if a) downstream results are included, and b) the metrics are “deaveraged” to identify trouble spots. A “quick” performer may actually cause recurring defects somewhere else. Conversely, a poor performer may be outstanding at 90% of the work while struggling with only 10%. Tailored metrics usually highlight opportunities.

Getting accurate, actionable insights requires *adjusting for uncontrollables*. Mix of customers, products, procedures or geographies can mask variations in performance. That does not mean that poor mix profiles should be accepted. The most powerful metrics will identify and value opportunities within a focused comparison (e.g., varying costs to serve a given customer) as well as across broader, structural comparisons (e.g., mix of customers targeted).

### Product Delivery Cost



## Effective Implementation



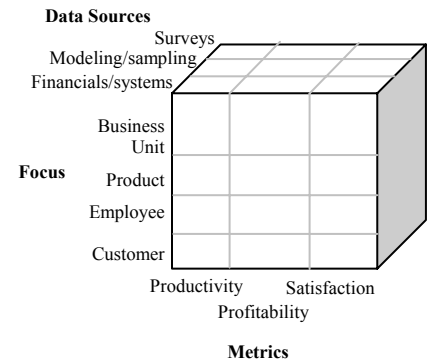
The best designed metrics can be rendered ineffective by poor implementation. Using bottom-up, locally gathered data can help build *consensus* around the value, accuracy and implications of the metrics. When individuals' evaluations (and compensations) are at stake it is critical to iterate with those being evaluated. A litany of exceptions and specifics will be highlighted, and good managers will patiently incorporate them into the metrics. If the data are agreed upon and the

metrics *specific* and *actionable* even unionized stakeholders will productively participate. In general, any tools that shed light on improvement opportunities are appreciated. This is true for factory workers, sales people, product managers and business unit heads alike.

## Using Metrics For Ongoing Management

The goal is to create both the *tools* and the *environment* for proactive management. This means prioritizing and relying on measurements like productivity and profitability in concert with “experience” and “gut feels.” It means a willingness to take a hard, honest look at individual workers, managers, products, units and even customers. It means a commitment to work around systems obstacles to search out and hone the data sources which give the metrics authority. Success occurs not through comprehensive management overhauls, but through focused, prioritized efforts.

### Managing With Metrics



Lake Partners uses topical expertise, industry experience, and data driven analysis to deliver bottom line results to our clients. The methodologies detailed here are not management textbook frameworks, but observations on what it has taken successful companies to build market moving strategies. We have found time and time again that when decisions are made with a clear picture of the underlying business drivers - supported by data - the impacts can be powerful.

Other Lake Partners strategy sheets include:

- Pricing Strategy • Segmented Profitability • Merger and Integration Strategy • New Market Entry •
- Cost Reduction • Electronic Commerce Strategy • Customer Bonding • Measuring Performance •
- Managing Product Portfolios • Fixing Processes • Market Share At All Costs?

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