



You Can't Manage What You Don't Measure

Measuring your progress
keeps you on track to
improve profitability and
achieve new levels of
success



Welcome



Cogent's eBook Series

We are glad you chose to learn more about Measurement in your business.

This eBook is one of a series of eBooks we are issuing to help bolster the knowledge base of business owners.

All subject matter in our eBooks are the elements in business that affect your profit.

Cogent's Profit Platform

Cogent uses a Profit Platform model that outlines four main pillars of business that directly affect profit: SALES, PEOPLE, OPERATIONS, and MEASUREMENT.

Our Discovery Process take a systemic approach to focus in on each of these areas to uncover profit opportunities in your business.

Cogent's Discovery Process

During Cogent's Discovery Process, an expert business analyst dives deep into each of the four pillars of your business, which are reflected on the Cogent Profit Platform. Over the course of 2 - 3 days, our analyst will find opportunities that can improve profitability in your business.

Introduction

You Can't Manage
What You Don't
Measure

A key to success and increased profitability is the constant monitoring and measuring of where you are to assess what's working and what's not; identifying the gaps, the weak areas, and where you are losing out. But, on the flip side, you can also identify where the strengths lie, and the wins that bring in the profit.

Do you know where to look and how to measure the progress that affects your profitability? The base of measurement for a business is through:

KPI's - Key Performance Indicators and

KPD's - Key Business Drivers.

Implementing these in your business and understanding the difference will propel you along the path to success.

Understanding the Difference

Most business owners would be inclined to say that they do understand the difference between KPI's and KPD's. However, there is a significant difference between knowing what they are versus how they are applied. Frequently, they are used interchangeably, but their application is relevant to the audience of people who are tasked with their management. In other words, executives have different responsibilities when it comes to improving either a KPI or a KPD as opposed to a production worker. In simpler terms, your seat in the auditorium dictates your perspective of these terms. Now, let's discuss how to apply both KPIs and KBDs effectively.





Key Business Drivers

Useful tools to measure the performance of an organization



A **Key Business Driver** (KBD) is a component, condition, process, resource, or rationale that is vital for a business to thrive. In other words, it is something that is identified in your organization that enables you to outperform your competition. Company leadership and executives would develop and use KBDs to assess performance for the organization.

KBD's should be communicated to the levels in the organization that will understand the relevance and will find them useful in measuring progress towards the goals or vision of the company.

For example, EBITDA (Earnings before Interest, Tax, Depreciation, and Amortization) can be a useful KBD for executives, but is not readily understood by a manufacturing associate. Employees may not understand what it is, and they cannot directly affect it; thus it has no real meaning and will be useless in measuring at that level.



Key Performance Indicators

Useful, effective tools essential for driving people to achieve goals



Key Performance Indicators (KPIs) are goals or targets established by an organization to improve performance in any given area or department. Additionally, they have a direct effect on KBDs. KPIs measure how well you are achieving operational objectives and critical success factors.

When useful KPIs are identified, established, and monitored, they have a significant impact on increasing performance and play a crucial role in boosting profitability.

There are several additional benefits for establishing or updating your KPIs. One of the most beneficial functions of KPIs is providing a means of communicating the company's strategy. KPIs can also highlight the critical successes of every member of an organization.

Furthermore, they also draw attention to meaningful targets for improvement because KPIs are usually long-term. KPIs can also be an excellent tool for benchmarking and conducting a gap analysis.

A KPD in Action

To illustrate what a KPD would be: A Safety Manager is responsible for the overall safety metric reporting in an organization. He/she will perform calculations to accurately report the overall safety performance according to governmental standards. In doing this task, he/she would first, multiply the total number of injuries/illnesses during the year by 200,000. Second, he/she would divide the product by the number of hours worked for each company employee during the year to find the recordable incident rate.

And thus, given the calculation above, do you think your hourly workers understand how their work positively or negatively affects the company's safety record? This, illustrates the essence of a Key Business Driver (KPD).





Developing KPI's

Useful KPIs should follow the S.M.A.R.T. rule:

- S: Specific
- M: Measurable
- A: Attainable
- R: Relevant
- T: Time Specific

Below, you can find an example of a good Safety KPI, and an example of how to communicate a KPI's performance to your workforce. This approach can be applied to any KPI you want to track within your organization. To illustrate a S.M.A.R.T. KPI, the table illustrates the number of safety meetings conducted by the Maintenance Department per month.

KPI	Indicator	Formula		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Desired Trend	Routine or Improvement	2018 Avg.
Safety	Recordable Incidents Per Month	Dr. Cases + Lost Time Accidents	Goal	0	0	0	0	0	0	0	0	0	0	0	0	↓	Routine	0.25
			Actual	0	1	0	0	0	0	0								

The KPI mentioned above is relevant to an individual. When KPIs are worded in a manner as to apply to individuals, they become connected to the company goals.

S.M.A.R.T. Rules





Outcomes and Drivers



In setting achievable performance measures, it will be important to understand the drivers of an activity vs the outcome. To reinforce the understanding of each; perform brainstorming exercises to help individuals understand the difference with actual examples. Additionally, remember that drivers influence outcomes, or, “outcomes are the result, and drivers are what makes things happen.”

When trying to reduce defects, for example, factors like human resources, machines, methods, and processes are considered drivers. The output from these drivers can be measured, ie, the Outcome. Variable factors that can affect the outcome or can be measured can include the mistakes made within these areas, the number of reworked items, or how long equipment is out of service due to repair.

Once the difference is understood, you will be able to establish KPIs that are meaningful, easy to understand and can be actively managed.



Implementing Your KPIs



To start, identify teams who can impact the KPI. These people are usually not leaders and strategists, but the ones who are executing and managing the front lines. Once you have defined the team(s), you must know and understand their needs, motivations, goals, constraints, and obstacles. From this point, you now need to consider the Domain of Control.

Thus, KPIs need to be selected that fall within the actionable domain of the key personnel. The KPI needs to be personally relevant, and the individual(s) must be able to contribute to the corporate goals. A good question to ask yourself when developing KPIs considers “is this a line of sight?” The definition resides in the eye of the front-line worker(s) who affect the outcome of the KPI.



Vision, Mission, and Values



If you are struggling to reach your company's goals or to take your business to the next level, consider if your KPDs and KPIs are in line to achieve your established Vision, Mission, and Values (VMV) for your company. If you have not established your VMV, then what are you measuring and where is it taking you?

If you do have clear VMVs, then your employees can tell you what they are. Before you begin defining your KPIs, you should consider your corporate goals and values, then align your facility KPIs with the overall company goals (VMV) and culture.



Summary



Implementing Key Performance Indicators are essential to measuring the success of any department in an organization; and collectively, they will feed into the Key Business Drivers overall.

Whether you are accomplishing your goals and targets over time or coming up just short, KPIs and KBDs give the leadership team the opportunity to plan ahead, identify gaps, make adjustments, or target key goals within the organization.

Furthermore, even if goals and targets change during a duration of time, KPIs and KBDs can be adjusted as a way to measure progress, and are excellent ways to establish benchmarks.

KPIs and KBDs directly affect profit and are extremely effective to both leadership and to teams throughout an organization that are striving to achieve goals.



Cogent Analytics is a business management consulting firm. Established in 2014, we focus solely on small to mid size privately held businesses. We deliver powerful solutions with integrity and transparency and consider it an honor to serve the American Entrepreneurs who are truly the backbone of our country.

To learn more about factors affecting profitability and Cogent's Discovery Process:

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