



Building Cash Cows™  
Improving Quality of Life™

## The Strategic Edge™

Insights for improving profits, cash-flow, and quality of life

Spring 2005

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### **The Power of Strategic Performance Measures**

"If you can't measure it, you can't manage it." The author of this quote is unknown, but it is quoted all the time - and is a very powerful truth! In order to improve performance or maintain performance objectives while you are growing, nothing is an adequate substitute for establishing Strategic Performance Measures (SPM's).

The primary objectives of SPM's are to improve financial performance, customer service, and quality control. SPM's will help you increase revenue, improve customer satisfaction, maintain quality control, increase profits, control costs, reduce inventory, get your team working together, and more. Let's look at some key considerations in establishing SPM's.

#### **Purpose of Measurement**

Many of the benefits of SPM's are set forth above. These measurements accomplish these benefits because they help you predict desired outcomes and prevent undesirable behavior. They assist you in correcting daily activity that is off track or unproductive, and focusing your staff on high payoff activities. Incentive plans can be more easily designed and you can reward people more effectively and regularly. SPM's send signals as to what is important!

#### **Strategic Focus**

Effective SPM's start with a strategic plan. Clarifying your Mission Statement, Core Competitive Strategies, Core Values, Strategies, Business Objectives, and Goals and Critical Success Factors is the starting point for determining your SPM's. By communicating these plans throughout the organization, employees are able to prioritize their daily activities, establish processes, and track progress to help meet these goals and objectives.

#### **Principles of Setting Measurements**

Your SPM's should be focused on areas of the company that have a substantial impact. They must be relevant and, therefore, focused on the priorities of the business today and in the immediate future. Good SPM's take into consideration what the customers value and help drive the company to deliver that value. They must be specific and measurable. The systems that produce the SPM's should be integrated with the natural flow of activity and must produce accurate and reliable measures in order for employees to take them seriously. Management information reporting them should be easily interpreted and simple to understand. Your measures must also be achievable, otherwise employees will become discouraged and stop trying to obtain them. The measures must be a reasonable number and achieved at a reasonable cost and effort - not all performance measures are worth the cost to obtain them. They should be consistent and adaptable to all areas of the company and you must have buy-in at all levels, including leadership. Remember, not all aspects of performance can be measured effectively, so "pick your battles."

## **Types of Measures**

Following are samples of SPM's you may consider and an example of each one.

### **AREA / EXAMPLE**

FINANCIAL / Gross Profit Margin

GROWTH / Number of requests for services / products

CUSTOMER SATISFACTION / A Customer Satisfaction Index

PRODUCTIVITY / Products/services per Equiv.Full-time Employee

EFFICIENCY / Inventory turns

RELIABILITY / On-time Deliveries

QUALITY / % of error free work

CYCLE TIME / Time to process an order

WASTE / % of jobs reworked

FLEXIBILITY/SERVICE / Speed of decisions

EFFECTIVE USE OF STAFF / People matched to skills and knowledge needed

EFFECTIVE USE OF INFORMATION / Critical information available to each person who needs it.

## **Benchmarking**

Once you have set your SPM's, create a benchmark. This benchmark can come from external sources or your internal history. For example, if you are going to track your inventory turns, you may be able to find a benchmark from industry standards and you can track your turn against the standard. If you are tracking sales leads from direct mail activity, you can track the response from each mailing and use a really good direct mail piece to establish your own standard for the performance you are looking for.

## **Reporting**

Once you have determined your Strategic Performance Measures, prepare an executive report that summarizes them and distribute it on a regular and consistent basis. This is sometimes referred to as a Balanced Scorecard. We like to refer to it as a Management Scoreboard.

## **Why SPM's Fail**

Attempts to establish performance measure systems often fail. The following ten reasons demonstrate what can cause breakdowns in implementing SPM's. Being aware of them will help you focus on methods to improve your odds.

1. Lack of buy-in from top management.
2. Poor quality data.
3. Inadequate infrastructure to support data collection and analysis.
4. Lack of an "owner" of each SPM.
5. Lack of participation in the development.
6. Lack of follow-through.
7. No clear linkage to a vision.
8. No accountability and incentive plan.
9. Too complex.
10. Trying to make "one size fit all."

Performance Measurement needs to become an integral part of the corporate culture in order to be a Top Performing Company. Good SPM's allow you to effectively track actual performance against targets, enhance observation, and take you from just using financial statements in managing your business to managing the behavior that produces the results reflected on those statements. Get started now in establishing your Strategic Performance Measures and watch your business grow and improve performance!

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