

Business Metric Development

Why is it important to measure a business's performance?

- Most businesses are run on a financial model whose metrics tend to provide lagging indicators
- There are other models and metrics that may reveal other telling facts on how the business is performing

What should you be measuring?

- Things that are important to your Customers
- The technical term is called “Critical Success Factors”

How do you find out what factors are critical?

- ❑ You need to segment your market

How do we do this?

Segregate your market by: -

- **Geographical regions**
- **Product groupings**
- **Financial data**
- **Industry types serviced**
- **Customer profiling**

These are just some examples – whatever makes sense to you, works

What do we do with the segments?

- You must find out what factors are critical to your customers
- There should not be any more than 6, so that you can keep control over them
- There are many metrics that can be taken in a business – Some may improve internal performance, but we are only concentrating on factors that are critical to your customers at the moment

Which customers do we select from each segment?

- Take samples from each market segment
- These must be representative of the segment as a whole

Examples of selection criteria

- Key account holders
- Industry brand leaders (M&S food)
- Customers who have good marketing intelligence themselves
- Customers who have won awards

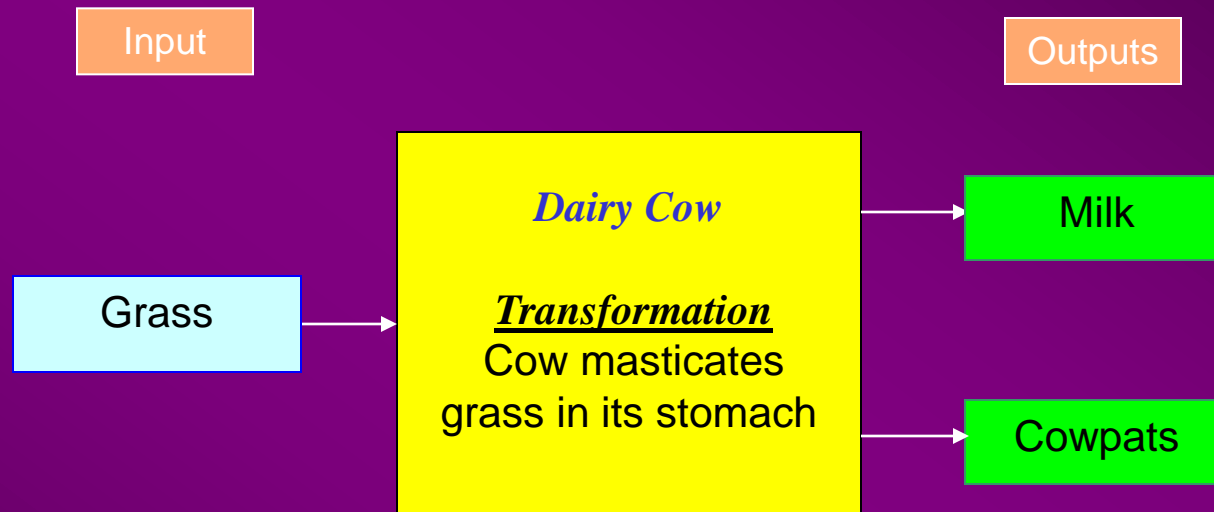
These are just some examples, you must decide the criteria yourself. If the segment is small enough you could interview all your customers

What format would you use to gather the information

There are several ways to do this each with pros & cons

- Postal survey
- Telephone survey
- Face-to-face interview

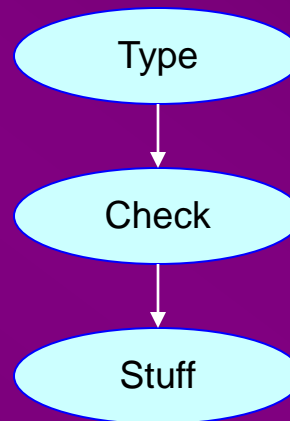
PROCESS MODEL EXAMPLE – Dairy Cow



Measure of cow's efficiency = amount of grass eaten/quantity & quality of milk produced

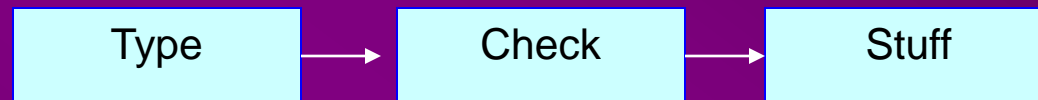
LINKING THE MODEL TO THE COMPANY'S PROCESSES

Flowchart - Invoicing Process



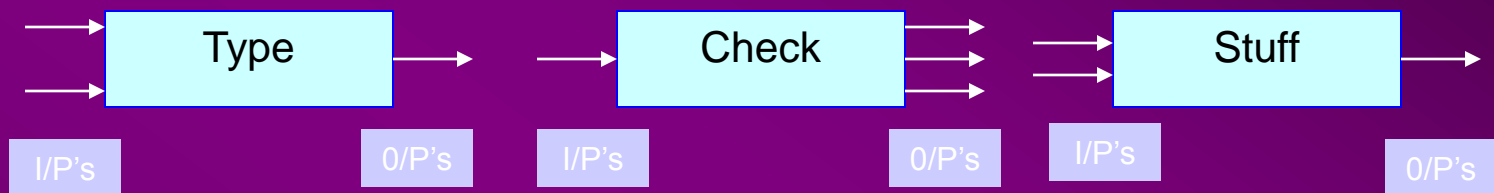
A Company has over 50 processes. This flow-chart shows part of one is for illustration purposes

Flowchart - Invoicing Process



This is the same flowchart, only the circles have been changed to squares and it is horizontal

Establishing Measurements For The Invoicing Process



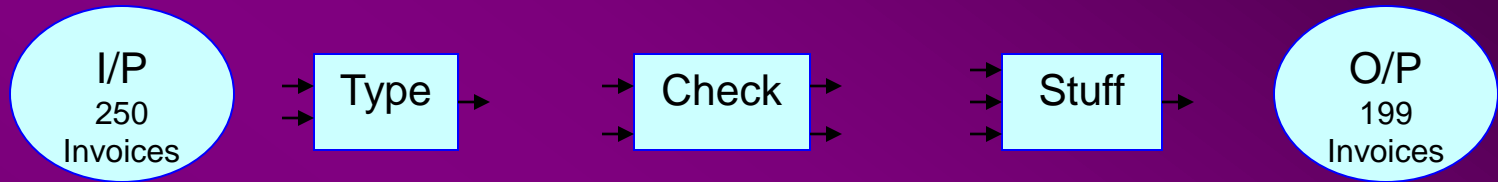
If we know the inputs and outputs of each operation we can measure the efficiency of them and determine where resource wastage occurs

Two examples: -

1. Cycles times: how long it is taking to process the invoices
2. Yields: we can measure the final & each operation's yields

Invoicing Process

Worked Example – 250 Invoices to process



17 Typing errors

- So - operation's Yield is $(1 - 0.07) = 0.93$

20 Checking errors

- So - operation's Yield is $(1 - 0.08) = 0.92$

14 Envelope stuffing errors

- So - operation's Yield is $= (1 - 0.06) = 0.94$

The overall process yield is

$$51/250 = 0.2$$

$$Y_f = (1 - 0.2) 0.79 \text{ or } 79\%$$

Another way of looking at it is the opportunity is there to find the 21% waste within the process

Conclusion!!!!!!!

- This process has produced 51 errors
- Most processes have more than 3 steps in them
- Every company has at least 40 processes

Final Conclusions - !!!!!

- If each process operation produces on average of 6 errors and the average process has 12 steps in it
- Then – $(12 \times 6) \times 40 = \underline{2880 \text{ errors}}$ are being made each time the Company's processes run!!!
- This is just one cycle - the processes run for at least 8 Hours a day

Final Conclusions - !!!!!

- If e.g. 2 man-hours are spent each time rectifying the defects, then $2 \times 2880 = \underline{5760 \text{ man-hours}}$ are being lost each time the processes run !!!!!
- At an average of £10 per hour labour charges
- This equates to around £58K **each cycle** of the processes !!!!

Final Conclusions - !!!!!

- Key business indicators should be developed to eradicate the waste in each process to optimize their performance