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Management & Operations

Work with Updated KPIs to Improve Performance

Every manufacturing and distribution business owner uses some form of key performance indicators (KPIs) to assess how the business is doing. In the past, many owners "went with their gut" to get a sense of performance. Now, most have technology and data analysis in place to precisely measure how the company is performing in various areas.

If you haven't assessed your KPIs lately, now is a good time to do so. You may find that some of the metrics you're using are not particularly informative or relevant —and you may be missing some KPIs that could be useful to you and your team.

Why KPIs?

KPIs come in many flavors, and different measurements are relevant to different businesses. What all KPIs have in common that they are indicators of direction and trends. KPIs can help you compare performance from one period to another and benchmark your performance against that of your competitors or industry standards.

KPIs promote informed, data-based decision making up and down the org chart and help your entire team learn and grow.

Framework First

With so much data available, it can be difficult to determine what's important and relevant. What data should you collect, and what should you do with it?

KPIs should be directly aligned with the company's strategic objectives relative to operations and building value. Consider building your KPI framework using these four steps:

1. **Identify** key operational processes and financial indicators that support your company's core ideology, business strategy, and important value drivers.
2. **Select** metrics that meet these criteria and will assist in tracking performance.
3. **Build** KPIs by identifying where data will come from and how it will be analyzed to produce the metrics you want.
4. **Forecast and track** KPIs against your company's historic performance, current expectations, and peer performance.

What to Watch

Among the common KPIs measured by manufacturing and distribution companies are those involving cycle times, inventory turns, quality factors, on-time delivery, safety, and of course costs. But given the availability of data and sophisticated analytics, you can expand specific metrics to show different angles of performance. You can also factor in both leading and lagging indicators.

For example, knowing your working capital ratio is certainly helpful, but knowing your operating income margin would likely illuminate financial stress. Sales conversion rate is a meaningful indicator, but excess sales pipeline value and pipeline attrition will give you a different view.

Also note that executives will likely benefit from tracking KPIs in a different manner than managers and supervisors, so keep that in mind as you choose your metrics.

Design Your View

Remember that KPIs can be used for predictive measures to help you determine the direction of the company. But looking historically can also be useful in identifying business cycles and learning from past decisions.

Using a dashboard to visualize your KPIs is an easy way to get a quick view of your performance. ERP programs generally have a built-in dashboard feature that's easily customizable to your needs. If desired, you can also pull in external data such as economic information or industry benchmarking to give you a richer view of your data in context.

Follow Through

Updating your KPIs may sound like a major undertaking, but the results are worth your investment of time and resources. There's no doubt that having the latest and most meaningful information at your fingertips gives you the confidence to make better decisions.

Your financial advisors can help you develop a strategic execution framework and determine which KPIs can give you the best indicators of your company's performance.

Contact us to discuss how to identify and track the KPIs that will help your company thrive.

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