TOOLKIT 30 – CONTROL YOUR RECIPE FOR SUCCESS

- **Develop consistent performance throughout your business.**
- **Protect your strategy and your competitive edge.**
- **Sleep easy in your bed (knowing your business is under control).**

Successfully implementing plans and strategies consistently over time is a real challenge for many businesses. This toolkit will help you to monitor and manage the critical elements of your business on an ongoing basis by using key indicators.

The critical word is KEY. Clearly you need to monitor lots of details in your business. This toolkit helps you to establish and monitor the 7–10 strategic indicators that really matter if your business is to continue to be a success.

Here is an example:

STORY – COMPUADD COMPUTERS

CompuAdd are a computer manufacturer based in Bristol. By monitoring and managing their key indicators they made the following improvements over a six–month period:

	BEFORE		***AFTER***
Percentage of orders delivered on time	58%	Improved to	96%
Level of quality defects	8%	Reduced to	1%
Level of repeat business	80%	Improved to	92%
Average order size	£10k	Improved to	£15k
Gross margin	30%	Improved to	56%
Level of stock	£500k	Reduced to	£150k
Number of post–sale calls and other measures of customer satisfaction	3	Reduced to	1

STORY – KEEPMOAT PLC

Keepmoat decided that they had two key indicators, which they called drivers. These were cash and return on capital employed.

They established the indicators, communicated them to everyone, developed initiatives to drive them forward and monitored them on a weekly basis.

Over a two year period 1998–2000 cash at the bank went from £10m overdrawn to £10m positive. Return on capital improved from 18 to 35%.

'The key indicators made us focus on what at that time was important in our business,' said Financial Director, David Blunt. 'It reminded us that if you focus on clear objectives and monitor and manage them it is possible to make significant improvements to the business.'

HOW TO ESTABLISH KEY INDICATORS IN YOUR BUSINESS

STEP 1 It is helpful to have a broad range of key strategic indicators, not just financial ones. Answer these questions in order to help establish them. At this stage this is a brainstorming exercise, so go for quality as well as quantity.

Q1. What enables us to do business successfully?
E.g., we delight customers so we enjoy high levels of repeat business.

Therefore we need to monitor:
E.g., levels of customer delight weekly.

Q2. What are our strategic aspirations or priorities?

E.g., to build a valued business.

Therefore we need to monitor:

E.g., strength of the balance sheet monthly.

TIP: How are you doing so far? If you find it hard to think of the indicators remember it is the acid test of how well you know what really matters in your business. Tough but true so keep going …

Q3. What enables us to complete effectively?

E.g., low cost production.

Therefore we need to monitor:

E.g., costs very accurately monthly.

Q4. What financial targets are critical to meet?

E.g., net profit –10%.

Therefore we need to monitor:

E.g., net profit monthly.

Q5. Where are the bulk of our costs?
E.g., materials and direct labour make up 90% of all costs.

Therefore we need to monitor:
E.g., material purchases and utilisation and labour costs and productivity.

Q6. Do we have a key customer service target?
E.g., delivery within 24 hours.

Therefore we need to monitor:
E.g., delivery performance daily by making 100 random calls to customers to ensure we stay above our 98% on time target.

Q7. Where are we at risk?
E.g., contracts which are not planned properly in detail, so they end up going wrong and costing us a fortune.

Therefore we need to monitor:
E.g., the use of the pre-contract planning process on every contract.

Q8. What are the important lessons that we have learnt from the past that we need to manage well?

E.g., don't buy work i.e., tender below cost because we lose money whenever we do too much.

Therefore we need to monitor:

E.g., gross margin levels at every tender.

Q9. How important is our people's commitment and contribution?

E.g., critical, we are a people business.

Therefore we need to monitor:

E.g., our people's attitudes and motivation at least every six months by an independent survey.

Q10. What is critical to our customers that we need to control?

E.g., they say they want to see our directors regularly.

Therefore we need to monitor:

E.g., ensure director networking plans work effectively with key customers.

TIPS:

- Get your team to help you to identify your key indicators.
- Consider a customer perception survey to identify real customer expectations, which you can then monitor.

STEP 2 Prioritise the key indicators.

You may have identified 20–30 possible indicators in step 1.

By definition they cannot all be KEY. You can use some of the priority tools (x) to reduce them to 6–8.

1. Consider the strategic priorities tool i.e., our strategy/plan calls for …x therefore we need to monitor …y.

2. Search for the domino (see toolkit 6) i.e., which one will impact most on the rest?

> TIP: Make sure you choose indicators that monitor customers, operations and employees as well as the financial ones.

3. Get your team to use the priority tools toolkit 6 and debate and agree the six to eight key indicators.

4. Before you finalise your indicators you might contrast them with some less traditional ones:

   - Share of customers spend
   - Effectiveness of cross selling
   - % of business from recommendations
   - % of sales from new products (launched in last 12 months)

   Example

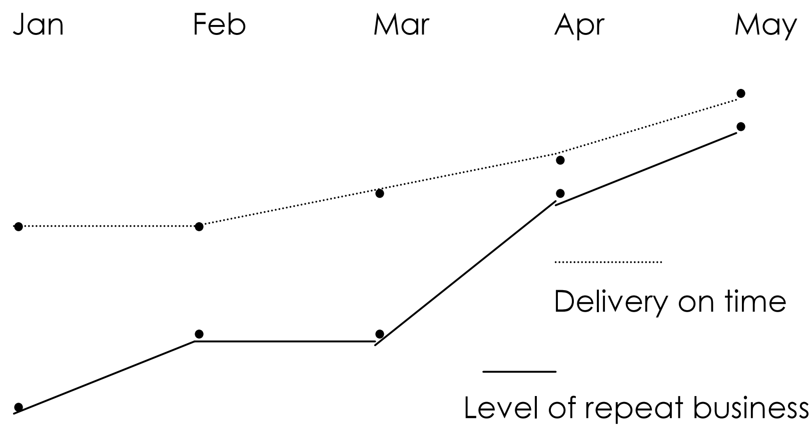
   3M Innovations has a key strategic indicator: 25% of all sales from products developed within the last four years.

5. Make sure you turn the indicators into measurable statistics e.g., not 'delighting customers' but 'customers who rate us at 95% plus on our satisfaction survey'.

Q. Do your indicators really monitor your recipe for success?
Q. Is there a balance of indicators i.e., customers, employees, costs, returns etc?

STEP 3 Set up a system to monitor and report your key indicators.

- Put the indicators into your management reporting process.
- Report on them regularly to all concerned.
- Track the trends in the indicators; are they going in the right direction?



Consider putting trend lines using linear regression through the indicators in order to smooth the trends.

This is how some of the best businesses really do control the key aspects of their business. Ask your accountant or IT specialist to help you.

STEP 4 Set targets for improvement.

- Agree with your team, targets for improving the indicators (see CompuAdd and Keepmoat stories).

- Be persistent; make the review of the indicators a regular (monthly) ritual in your business with everybody who needs to be involved.

TROUBLESHOOTER

POTENTIAL PROBLEMS	*SUGGESTED REMEDIES*
You measure what's easy (usually financial numbers) rather than what really matters, because they look difficult to measure e.g. delighting customers.	*Don't just let the accountants set up the system. Get your managers involved? Be creative and insistent e.g. you can measure customer delight by:* - *levels of repeat business* - *business from referrals*
Indicators not available in standard software package.	*Make somebody responsible for recording them properly possibly using a spreadsheet format.*
Some indicators turn out not to be critical over time and others emerge which are critical.	*This normally happens. Aim to reduce the indicators over twelve months to six or eight.*

Controlling your recipe for success

Key indicator management

Key indicators	What do we need to do?	What is our target?	What is our tracking mechanism?
(example) we delight our customers and get a high volume of repeat business	***We need to monitor levels of customer repeat business on a monthly basis and undertake questionnaires bi annually***	***A 5% improvement in customer retention***	***Sales invoices and questionnaire***
1			
2			
3			
4			
5			
6			
7			