Not All KPIs Are Created Equal

3 Tips on how to select the right
KPIs for your business

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Introduction

Key Performance Indicators (KPIs) are quantifiable business metrics used to measure and track an organization's performance and progress towards its set goals and objectives. When used correctly, KPIs can help organizations gauge the overall performance of their business, provide focus and direction to their teams, and foster strategic alignment across all business units.

There is no question that KPIs are useful. The challenge however is, how do you select the right KPIs for your organization? With so much data and metrics available, the task of selecting the right KPIs might seem daunting and complex. It doesn't have to be.

To select the right KPIs for your business, consider the tips below.

How to select the right KPIs for your business?

1. Choose KPIs that are relevant to meeting your business objectives

KPIs differ from organization to organization. They can vary based on your organization's industry, size, structure, business model, competitive landscape, etc. However, what all KPIs should have in common to be effective is relevance to your business objectives. Keeping track of random metrics for the sake of *measuring something* would be a waste of time.

To choose KPIs that are relevant to meeting your business objectives, you must first be clear about your business objectives. Know what they are, how you plan to reach them, and which metrics are key to measuring your progress.

To kickstart the KPI definition process, ask the following questions:

- *What are you trying to achieve?*

    – These are your objectives.

- *How do you plan to achieve it?*

    – These are your strategic initiatives.

- *How are you going to measure your progress?*

    – These are your KPIs.

Clarity eliminates ambiguity and inspires action.

When answering these questions, be specific in terms of target values and target dates. Clarity inspires action. Having clearly defined objectives, initiatives, and KPIs eliminates ambiguity and helps employees understand what they need to do and how their actions will contribute to your organization's overall strategy.

As an example, the answers may look as follows below.

KPI Definition

– THOUGHT–STARTER EXERCISE –

- *What are you trying to achieve?*

  – This is your objective:

  - Become one of the most profitable companies in our industry

- *How do you plan to achieve it?*

  – These are your strategic initiatives:

  - Open X new stores in region A by MM, YYYY
  - Introduce X new products in region B by MM, YYYY
  - Optimize supply chain spending in region C by MM, YYYY
  - Launch X marketing campaigns in region D by MM, YYYY
  - ++

- *How are you going to measure your progress?*

  – These are your KPIs:

Finance	Sales	Operations	Marketing	Support
• Current Ratio • Gross Profit Margin • EBITDA • Annual Recurring Revenue (ARR) • Customer Lifetime Value (CLV) • ++	• New inbound leads • Lead conversion • Total pipeline value • Average order value • Average sales cycle length • Upsell • ++	• Operating margins • Cash flow • Labor utilization • Employee training • ROI of outsourcing • Order fulfillment cycle time • ++	• Marketing Qualified Leads (MQLs) • Sales Qualified Leads (SQLs) • Form conversions • Cost Per Lead (CPL) • Return on Ad Spend (ROAS) • ++	• Number of Issues • Average Resolution Time • Customer Satisfaction Score (CSAT) • Customer Retention Rate • ++

Example KPIs by department

Pro Tip: *Different KPIs may carry different weight in terms of importance. For instance, using the example above, the "gross profit margin" KPI might be more important (contribute more) to reaching your objective than the "labor utilization" KPI. A good KPI software will let you assign an importance weight for each KPI.*

2. Get input from your stakeholders

Who better knows your organization than the people who work there? To select the right KPIs for your organization, get input from your stakeholders. Ensure to consult not only with top leadership but also with your department heads and their teams.

Introducing KPIs can often be met with resistance from employees who might feel like you are putting them under a microscope. You may circumvent this situation by getting your employees involved in the KPI selection process early on. Ask questions such as *"What do you think we should track?"* or *"Which KPIs would be helpful to your team / department/ business unit?"* Giving your employees the opportunity to provide input will make them feel valued, and, as a result, more open to using KPIs in their daily work.

Once you gain value from your KPIs, it is important to communicate it to the rest of your organization. By doing so, you will be able to highlight the benefits and importance of KPI tracking, and foster a culture of involvement, collaboration, and data-driven decision-making.

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3. Focus on a few key metrics

If you are new to KPIs, start your KPI journey by focusing on a few key metrics that can be measured consistently and that are easy to understand. Even if you have a lot of data available, remember that not everything needs to be measured; not all metrics need to become KPIs. If you try to track everything, you might end up inundated with data and waste time by optimizing metrics that are irrelevant to meeting your objectives.

Because every organization is different, it is difficult to set an ideal number of KPIs an organization should measure. In general, however, the guidelines for how many KPIs an organization should track are: *"quality over quantity"* and *"less is more."* The key is to identify a few key metrics that will enable you to assess the performance of business activities related to reaching your strategic objectives, focus on those, and optimize over time.

A good KPI software makes it easy to create KPIs at the individual, team, department, and company levels, and make updates and modifications as your needs evolve.

Identify a few key metrics relevant to your business objectives, focus on those, and optimize over time.

Final thoughts

Not all KPIs are created equal. To select the right KPIs for your business, start by defining your strategic objectives and how you plan to achieve them. Then select a few key metrics that will help you measure your progress towards reaching those objectives. To gain true insights and a KPI buy-in, involve stakeholders from all management levels in the KPI selection process. Ensure that your KPIs are clearly defined and easily understood. Clarity inspires action.

If you are new to KPIs, you may choose to start with a small number of KPIs and add more over time. Once you gain value from your KPIs, share it with the rest of your organization. By doing so, you highlight the benefits of KPI tracking and enable your teams to feel ownership for the results of their contributions to your organization's objectives.

A good KPI software makes it easy to measure business performance across different organizational levels, create and optimize KPIs over time, and keep everyone connected to the organization's strategy.
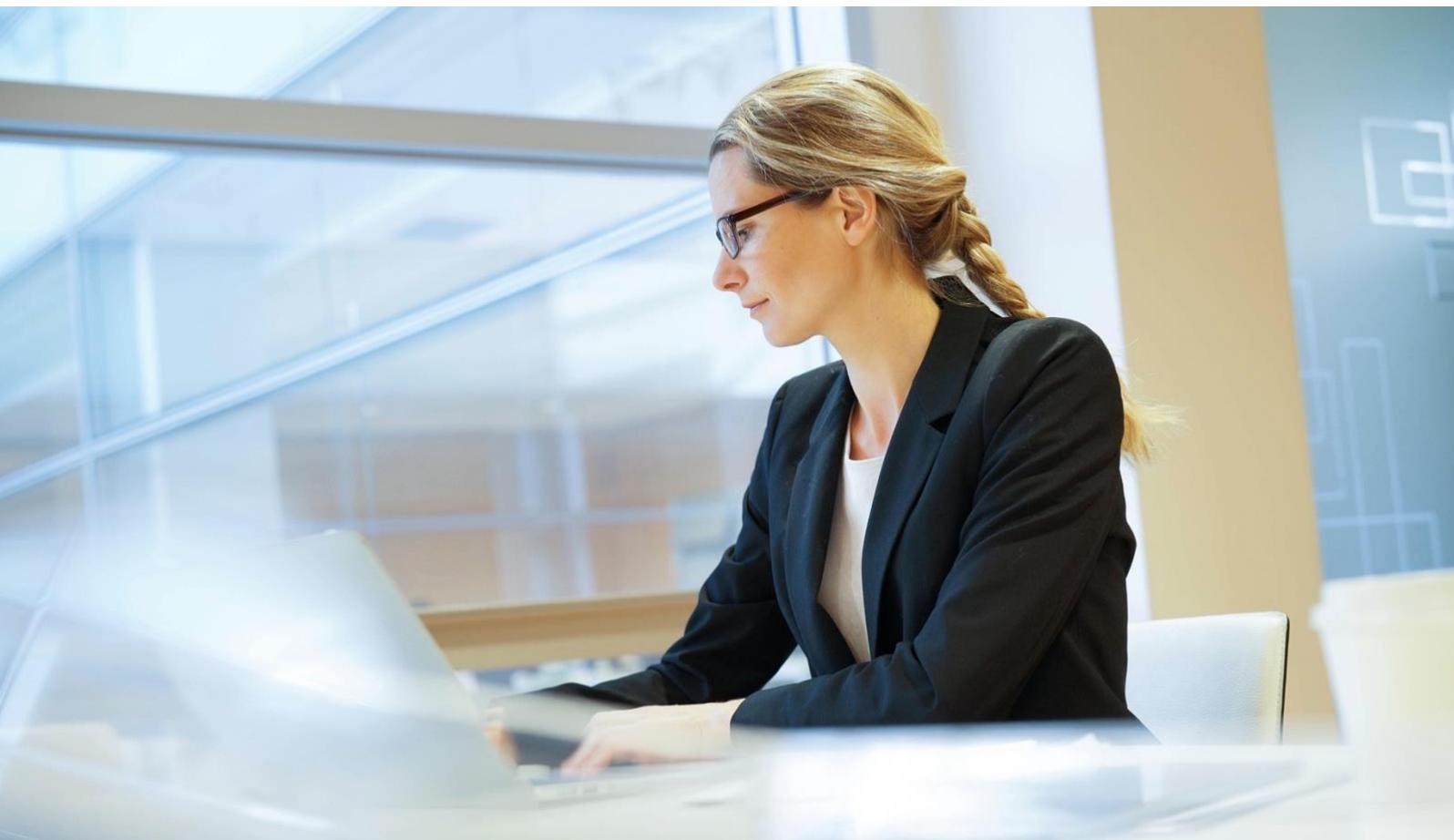
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