



## Business Intelligence: *What makes a good performance indicator?*

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Business intelligence refers to software applications and technologies that are used to gather, provide access to and analyze data about a company's business operations. Business intelligence systems can help companies make better, more informed decisions by offering a more comprehensive knowledge of the factors affecting their business, such as metrics on sales, production and internal operations.

Business intelligence often uses key performance indicators (KPIs) to assess the present state of business and to prescribe a course of action. KPIs can offer valuable information for decision-making purposes, so it's important to be sure the right things are being measured.

### Things to consider when determining KPIs

**Definition.** Defining the KPIs can be difficult. It's imperative to know what performance should be measured and how to measure it. When determining your company's KPIs, take into account these sins of measurement:

- *Using metrics designed to make your company look good.* Choose indicators that will help your company improve. For example, when measuring customer satisfaction, good KPIs would include on-time delivery performance (achieve 98% delivery on-time to the customer requested or promised delivery date), service call occurrences (reduction in

complaints associated with defective materials, shipping the wrong products, etc.) and order fulfillment rates (reduce the number of back-orders).

- *Being bogged by details.* Don't measure too many things. See the totality of what matters. Don't focus on the components of what matters. Consider items like sales margin analysis, order fulfillment rate, delivery performance and manufacturing efficiency.
- *Neglecting to consider the customer's point of view.* Don't assume you know what's important to the customers. Ask them. Pay attention to and measure call center complaints as noted above. Find out when the customers need the products. Track stock-outs to trace sales lost due to product unavailability.
- *Using the measures you've always used.* To make changes, you might need to change your measurements. Perhaps focusing on the "root cause" is more important. Like, reducing the number of suppliers. Quality suppliers provide quality products, and sourcing multiple products to one supplier will reduce freight costs and internal processing time. Both can provide significant cost savings to a company.

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- *Ignoring employees.* It is crucial to have acceptance from the people being evaluated or the KPI won't be used. Consider input from the employees whose roles are being measured. Sales reps could be measured on sales performance for quantity, price and profitability. Overtime reduction and lost time due to injuries are also common measurements.

**Collection.** Obtaining the necessary data can be a difficult task depending on the complexity of the organization and the number of operational systems that are in use. Indicators requiring manual intervention or supplemental information are often destined for failure. The same is true for indicators that are based on information derived from data entry that is not inherent/natural within a business process. Good, reliable data is best obtained when entry/creation of the data is made "easy" for the publisher. This information is ideally stored within a data warehouse or a shared database. For this reason, the creation of successful KPI's requires a close working relationship between the business leaders and information technology.

**Evaluation.** Analyzing the data and applying the business rule requires full comprehension of the KPI definition. If the person evaluating the data lacks a clear understanding, the calculations may be incorrect. Organizations can be bogged down

in arguing with the results instead of using the information to improve performance. For maximum effect, KPIs must be defined such that they are easily understood, easily generated and accurate.

**Action.** When designing KPIs, one must remember that the ultimate goal is to take action. The effort a company makes to collect and analyze critical business information is wasted if the data collected is "informational" or "trivial". KPIs must be based on key events early in the business process and not the end result.

In a dynamic, competitive business environment, management needs easy access to relevant information to make the best decisions for their company's progress. This can be achieved by defining KPIs that allow you to drive results instead of measuring them. A functionally rich software system can support the process by facilitating the definition, extraction of data, calculation and update of KPIs and other important metrics.

### **Sage ERP X3 Business Intelligence**

Sage ERP X3 software provides integrated business intelligence tools to promote effective management reporting and decision-making.

Most business systems force companies to pre-define their business metrics, store them in a

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separate database and update them as needed in batch mode. Such systems are inherently static, meaning they are difficult to change over time due to the complexities and inflexibility associated with performing sophisticated multi-dimensional analyses.

But Sage ERP X3's business intelligence tools allow companies to define their own unique performance metrics, as well as the triggering events, rules and conditions for capturing and updating statistical information. This approach allows users and managers to control business intelligence as their needs dictate, without the need for a software programmer.

Since the information is updated real time, management can extract key information and make decisions based on the most up-to-date data in the system. For example, companies can easily define and report on customer-centric performance metrics such as order delivery date reliability, order accuracy, revenues and profitability by customer, order cycle time, lost sales opportunities and fill rates.

Additionally, business metrics – and the triggering events, rules and conditions that define them – can easily be added, refined or discarded over time as business needs change. And, information can be presented in a variety of formats that suit the individual requirements of users or departments.

Sage ERP X3's business intelligence tools also provide the ability to store forecasts and compare them with actual performance data, permitting management to view or report on comparative analyses such as “sales by sales rep by month – forecasted vs. actual”.

Learn how Sage ERP X3 business intelligence tools can help your company get the most from its valuable business information. Contact us for a free assessment.



The Sage ERP X3 portal displays user-defined, actionable business indicators.