

# The Art and Science of Developing Effective KPI's

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# Disclosure

Bruce Merrifield is president of Merrifield Consulting Group. The conflict of interest was resolved by peer review of the slide content. He declares no other conflicts of interest or financial interest in any product or service mentioned in this program, including grants, employment, gifts, and stock holdings. He is receiving an honorarium.

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# Learning Objectives

Following this presentation, attendees should be able to:

- 1 Explain why the best KPIs are peculiar to each company's strategic context.
- 2 Explain why financial KPIs are least effective.
- 3 Describe how to focus on vital, upstream, causal KPIs.
- 4 Explain why KPIs won't improve without holistic, change-management support.
- 5 Describe how to interconnect your KPIs with your supply-chain partners.

# What's a "KPI" v a "Metric"?

- "Metrics": timeworn financial, industry terms
- KPI's are highly-focused on vital causes
  - Company unique
  - Compelling catalysts for sparking..
  - Fresh thinking, insights and experiments...
  - And, innovative action (proprietary knowledge)
  - Well chosen, designed and implemented KPIs don't cause the following common problems...

# KPI Choice Problems?

- Cool tech tools fade to dis-use (*Gotcha*)
- Financial KPIs are Final Effects (easy choices)
  - Find upstream, vital-few Cause(s) to improve the past:  
*quality #s revolution*
  - **And, Strategic Now** → anticipation → *KPIs for future*  
*“There’s an app for that”: ’08/500 → 25B downloads*
  - What’s the “**One Big Thing**” to **Compound**?
  - How to measure? Guesstimates → Action and Edge  
*Case: Target Woos Newly Pregnant to form new-family, shopping-habit lock-in*

# KPI Execution Problems?

- Too Many KPI's. 1 or 2 per team (?)
  - Rebuilding new habits one at a time. New neuronnic pathway so old one atrophies away.
  - **Line-of-sight** for “What’s in it for Me/We” (**WIIM**)\*
- Design and Execution Roll-Out Flaws
  - Test cheaply before going company wide: Relevant, simple, intuitive, compelling
  - Does everyone get it and get excited? (No!)
  - New Dimension and Metadata vocabulary education

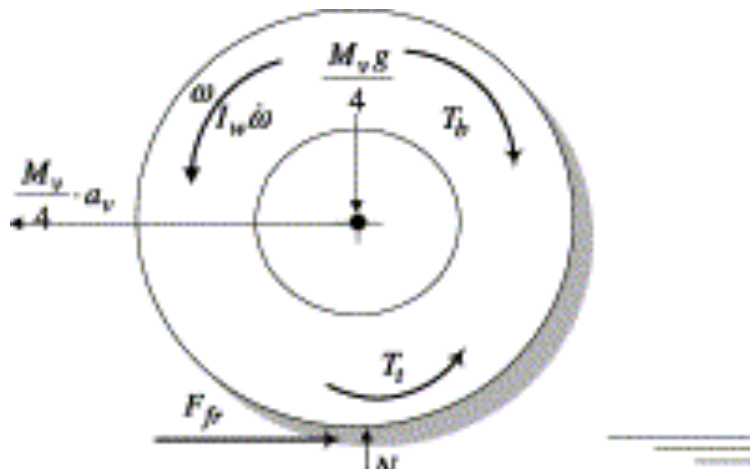
# A KPI Doesn't Innovate By Itself

- **Wheel of learning** → Theories/Ideas → “Fail forward” experiments.
    - Learning Value is greater than Tuitional Cost
    - Enabled by a “**Can-Do Culture**”
  - True-New resisted.
    - Most don't see: systems, logic and dynamic upside.
    - *Cognitive biases*: Old Maps; Hyper-Discounting; Confirmation; and Loss Aversion add to: “Status quo bias”
    - Inter-business process harmony up/down stream
    - **WMT 'quick response platform buy-in and coordination**
  - Need: holistic (**kinetic chain**)plan & champs?
- \* *Google anything in red + merrifield.com to find more*

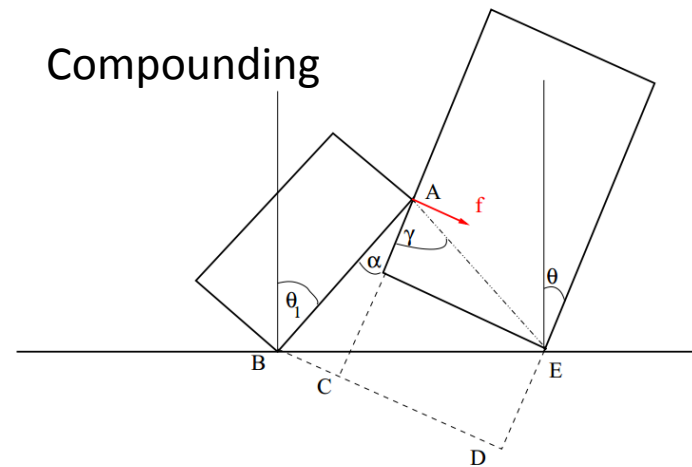
# Concepts → Cues



Strategic NO's?



Organizational Alignment/MO



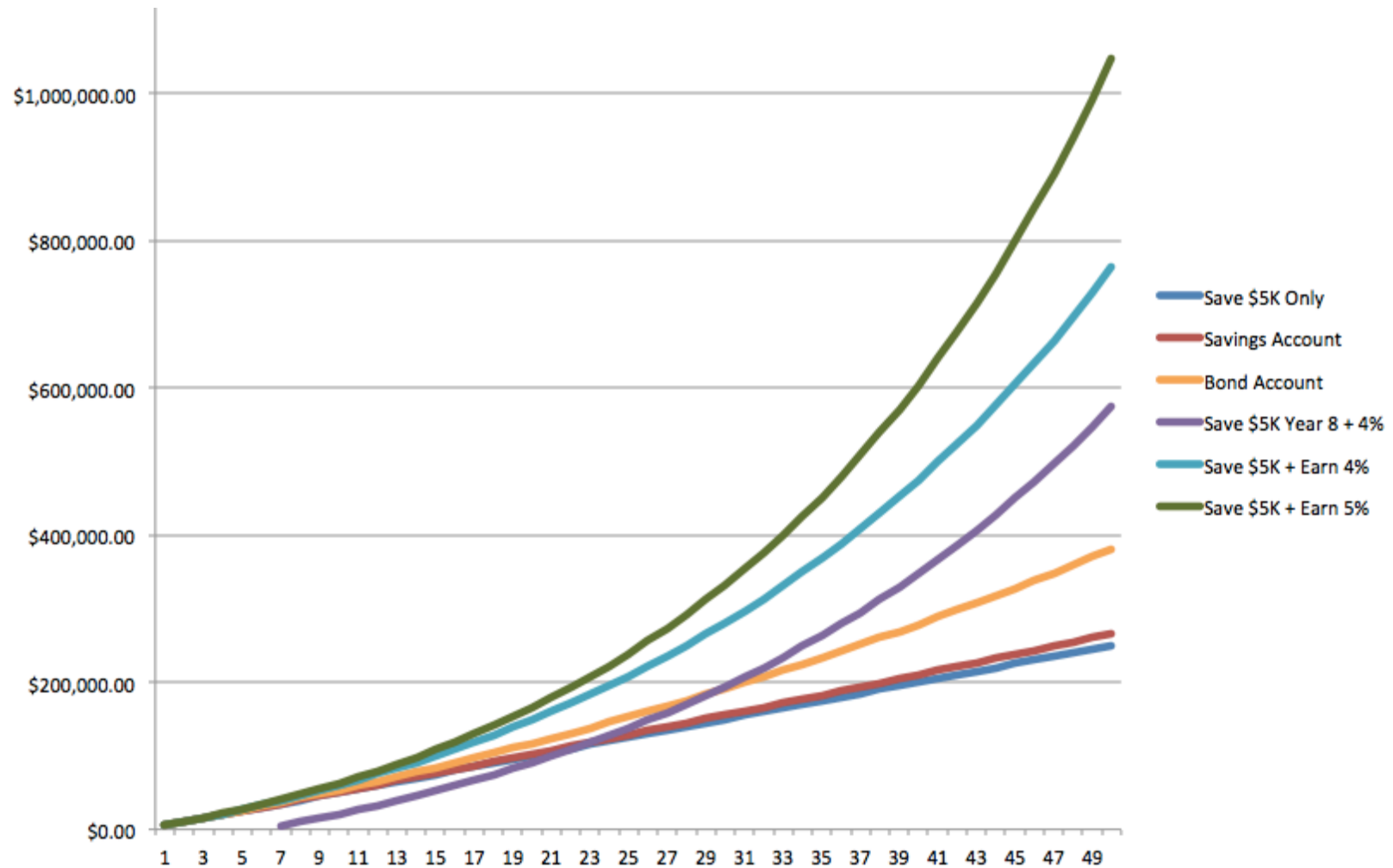
Compounding



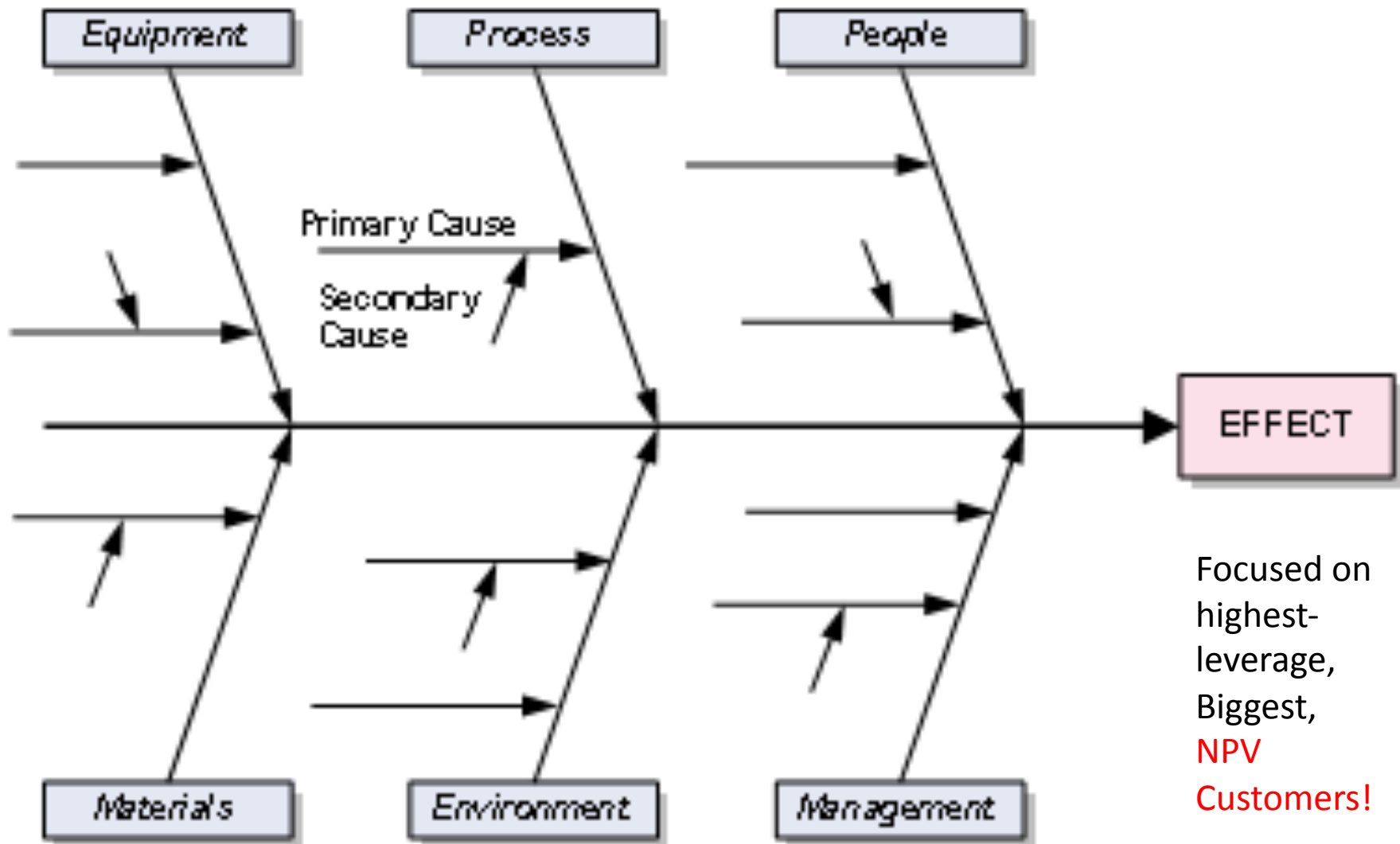
# Falling Domino Tips 50% Bigger One



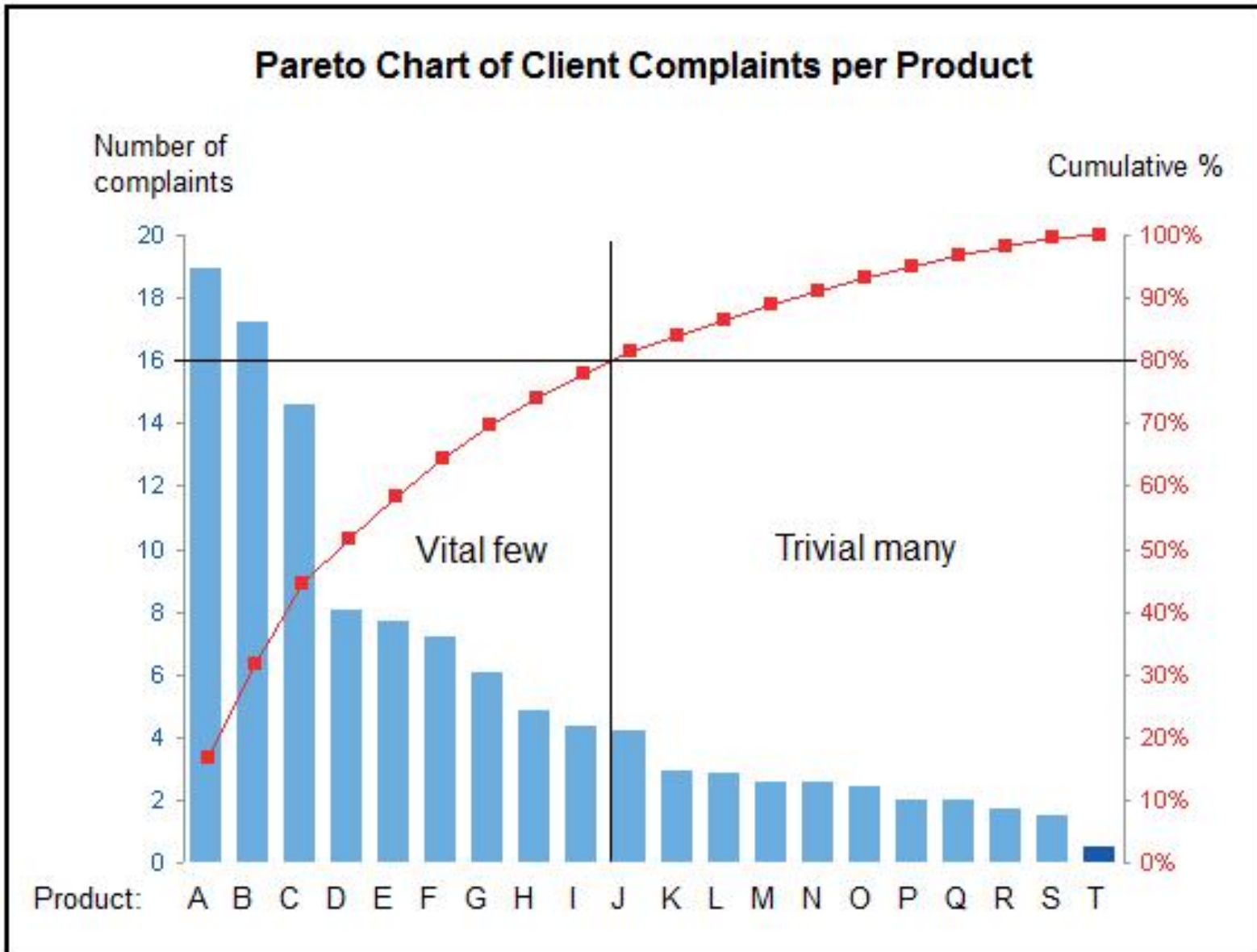
# Compound Our Improving KPI?



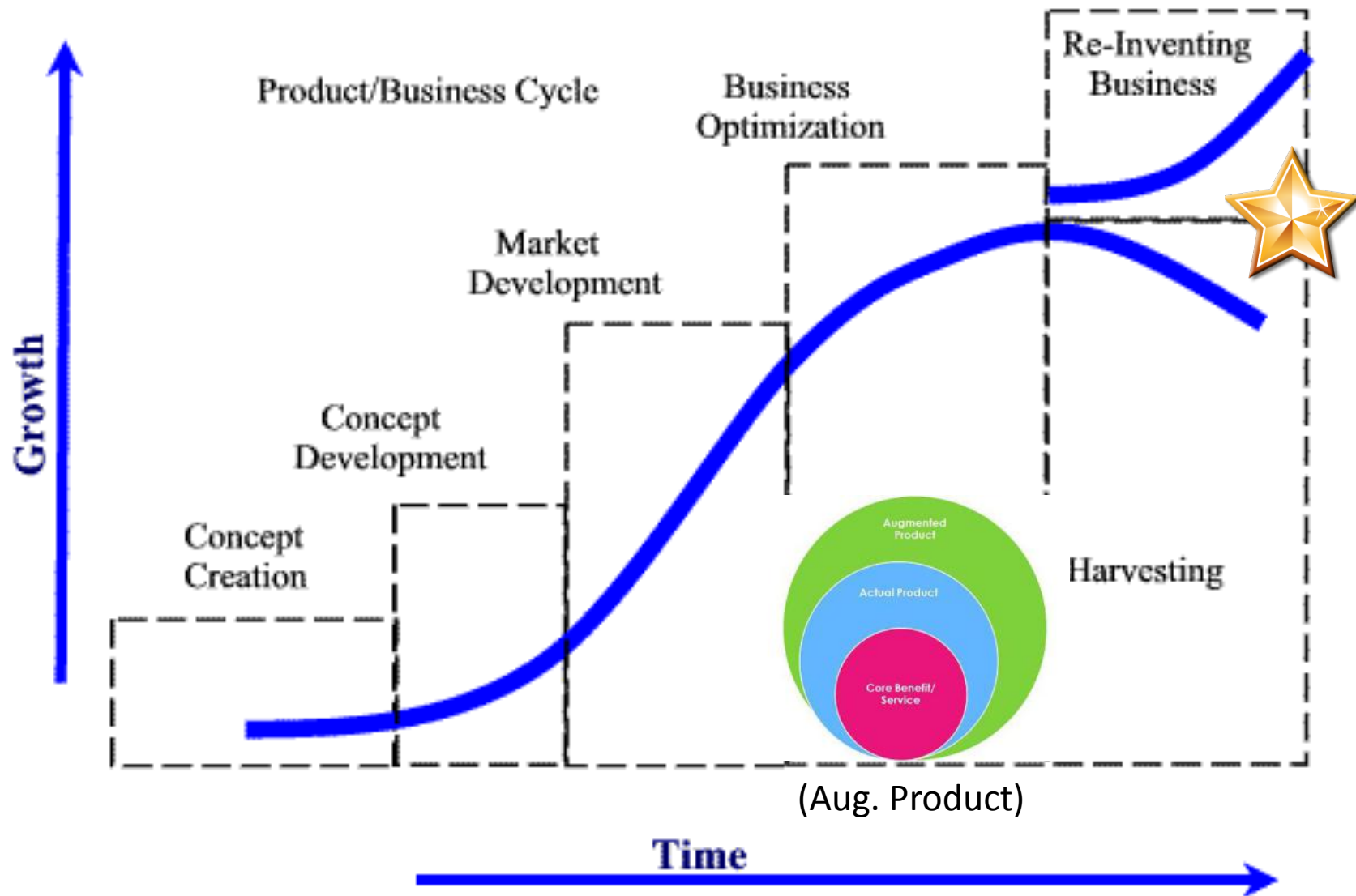
# Fishbone Diagram



# Vital Few & ROI (x) NPV Customer



# Strategic Now: Life-Cycle Challenges?



# Life-Cycle (x) KPI Choices

## DURING INDUSTRY GROWTH-STAGE:

- **Growth:** sales funnels; product/promo (*v. Maturity?*)
- **Profit** per what? Walgreens '85: profit/customer-visit

## MATURE MARKET: “Augmented Product Value”

- **Quality:** Product/Six Sigma. Service/guaranteed
- **Speed:** “Hot in 30 or less” (Dominos: '79 –'93)
- **Satisfaction:** 4.5+/5 is 10X harder than 4.0
- **FedEx Culture: People, Service, Profits** (Retention Econ)
  - Hire right, best folks for: growth-rate vision (SW Air)
  - **Safety:** Zero fatalities (“keystone habit” at Alcoa)

# Late Life-Cycle KPI's

## Consolidating Markets:

- **Extra Services (bundled, unbundled for fees)**
  - “Experiential” latent needs → Wow stories
  - Heroic, Extra Acts for Key Accounts
  - **Praising Statements** published per week for MO
- **ACROSS SUPPLY-CHAIN BOUNDARIES!**
  - Net-Profitable –Whale, Gazelle - Partnerships
  - **PQA's PDC x Diabetics, etc.?**
    - Pharmacists' internal KPI benefits: [www.medheretoday.com](http://www.medheretoday.com)
    - Connect Pharmacists' Cause to 3<sup>rd</sup> Parties Star \$s Effects?

# KPI Development Steps

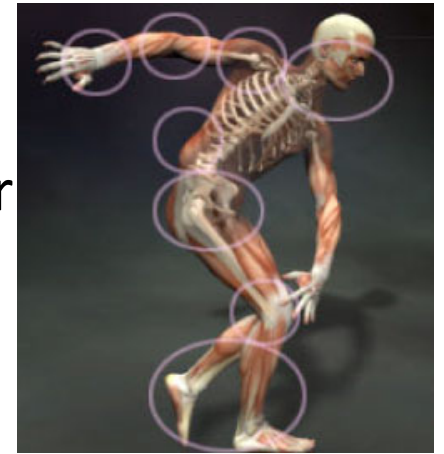
- Biggest Opportunity? (Starve Problems!)
- Focus it: Lifecycle Challenges, Core Strategy
- **Fishbone Diagram** → **Vital Few** → KPI catalyst
- **Wheel of Learning** → Fail Forward to Traction
- **Kinetic Chain** checklist to execute well
- *Sell upstream and downstream players on their KPIs that fit with yours + WIIM/We*
- When Gold is Exhausted → Habit/Maintenance
- Find the Next One like Jack Welch at GE '81 – '01
- Neutron Jack-1, 2 or out; Workout; Six Sigma and *Lease Uptime* (+ Stock Market Averages up 1300% '82-'00)



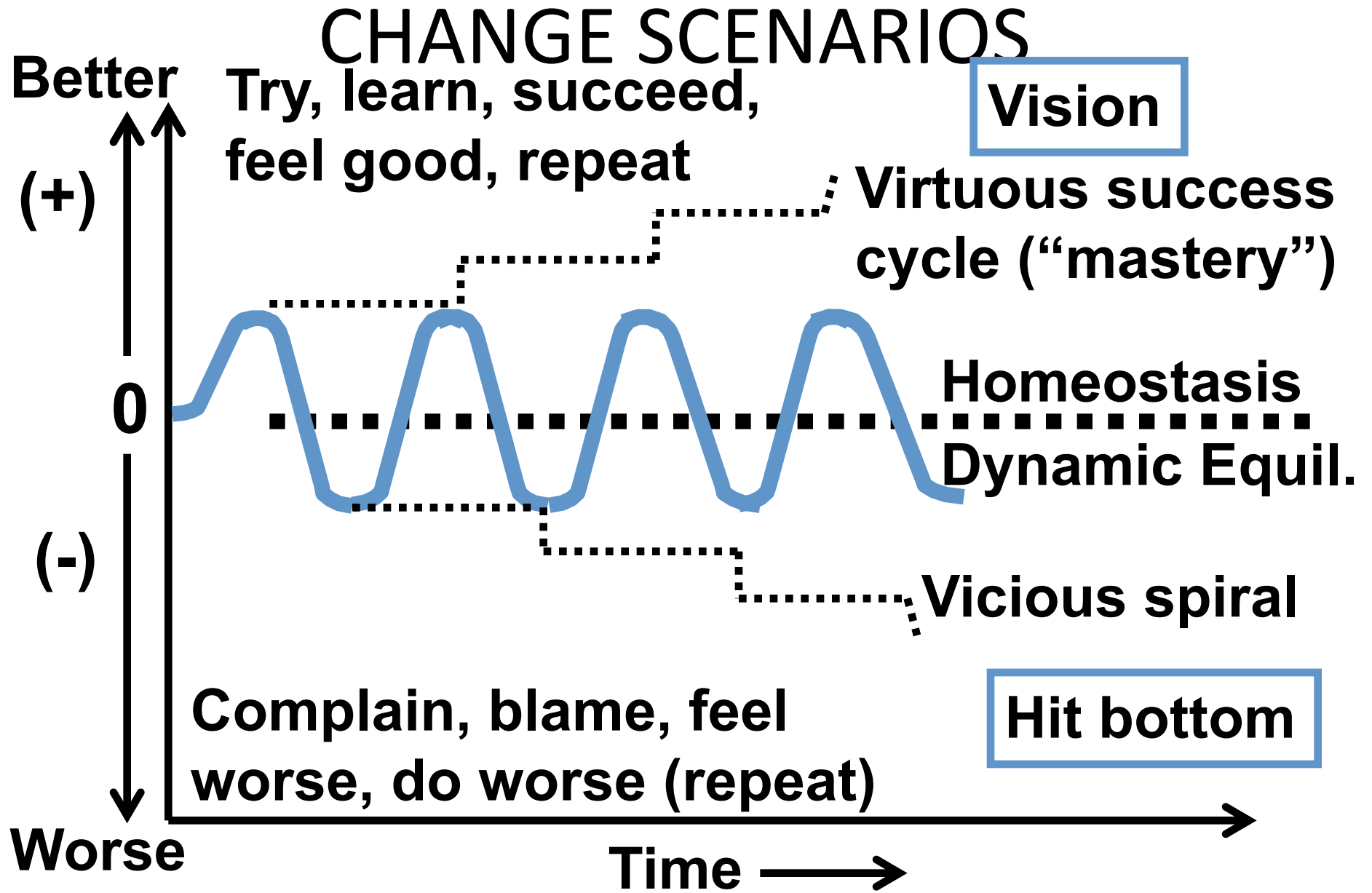
# Change Mgt Checklist: “Kinetic Chain”\*

## → Sustainable Profit Power

7. Incentives. All: line-of-sight/power
6. Tools.....mobile dashboards!
5. Education.....re-skills
4. Great People.....aptitude for “growing into”
3. Systems.....analyze, isolate, track
2. Strategy/**Culture**.....Best KPI?
1. Leadership.....“Change Champs” (or chumps)



\* Exhibit 16: [www.merrifield.com](http://www.merrifield.com); Article 2.1; **YT8:7**



# Summary Points

- KPI's vary for every company's context.
- One Downstream KPI → many upstream choices
- Metric for vital few is only a catalyst for:
  - Learning Experiments aimed at (?) (NPV Customer, Augmented Value/Experience)
  - Promote up and downstream alignment, cooperation both intra and inter-company
- Everyone's Line-of-sight to WIIM/We payoff
- Nail, scale, tune, system/habit lock in. Encore!