

Aligning to Different Metrics To Run The Business

Presented by: David McNutt, MS, MBA

Partner – Navigate Management Consulting

david.mcnutt@navigatemc.com

Aligning to Different Metrics to Run the Business

David McNutt, MS, MBA

Partner, Navigate Management Consulting

David McNutt is an experienced business, management, and consulting professional in the audiovisual and related industries. He has held management and ownership roles in small and large organizations, including systems integration. A life-long educator and former professor, David brings a disciplined administrative approach to business challenges and is a recognized authority on business management metrics. A widely published author, David has written about the AV business since 2000 and consulted with dozens of clients.



Aligning to Different Metrics to Run the Business

Today's Agenda

- * Effective Business Management
- * Using metrics to measure performance
- * How to align the company to the metrics

Business Management

Business Management

- * Organizing
- * Planning
- * Leading
- * Controlling
- * Monitoring

Business Management Systems

- * Strategies
- * Policies
- * Procedures
- * Processes
- * Technology
- * Execution

Management requires a set of activities aligned with a structure of people and systems that coordinate efforts to accomplish goals.

Measuring the Business

A Key Business Metric.....

- * Is a measurement of performance; an “indicator” (KPI)
- * Tells us how well the business is meeting goals
- * Provides information to management
- * Form the basis of management decisions
- * *Key Performance Indicators are the path to effective business management*

Effective Business Management

- * Management is only effective if you can determine how good your performance is.
- * To properly measure performance the organization must be aligned with your metrics. People must know the metrics and be able to see them.
- * Aligning the organization to the right set of metrics is an important component of effective business management.

***Do you manage with Metrics, Assumptions,
or Fabrications?***

Measuring the Business

Commonly used KPIs (Mostly financial data)

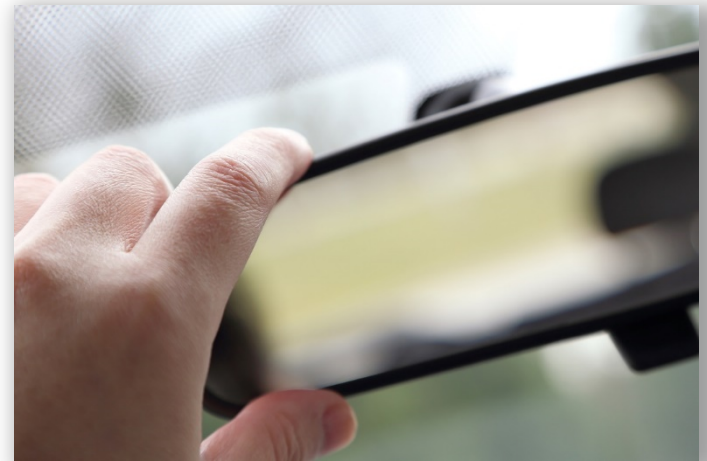
- * Annual Sales (revenue)
- * Annual Net Income
- * Annual Gross Profit
- * Monthly Income
- * Monthly Sales (revenue)
- * Annual Operating Expense (or Overhead)

*Financial data only
measures past
activity*

Measuring the Business

“...trying to manage a company with financial data is like trying to drive a car while looking in the rear view mirror.”

W. Edwards Deming



Aligning to Different Metrics to Run the Business

Measuring the Business

Lag Measure (Past)

- * Measures activity that has already happened
- * Measures what can't be changed



Lead Measure (Future)

- * Measures current and predictive activity
- * Impacts a larger lag measure
- * Management has influence (if not control)
- * Help managers work together to achieve strategic goals because their tactical measures are interdependent
- * Allows for managing by the numbers



Managing by the Numbers

Measure / Act On Predictive (Leading) Activities

- * Define clear, measurable goals and objectives
- * Measure activities aligned to achieve a strategic or tactical goal
- * Specific methods/tools for measurement of the activity
- * Measuring gives you data, but you can't manage on data. You need information.
- * Information is the intelligent organization, display, and interpretation of data
- * Effective Business Management by the numbers: *making decisions based on **information** from **aligned** Leading Measures (KPIs)*

*We can measure anything, but need not measure everything.
Measure only what is key to achieving the goals.*

Aligning to Different Metrics to Run the Business

Achieving Stated Goals

Hierarchical Model of Achievement



Importance of Alignment

- * Reduces inefficiency and waste
- * Places strong focus on what is important
- * Improves communication across the organization because of speaking the same language
- * Allows you to respond quickly to changes in measured activities
- * Improves effectiveness in all processes

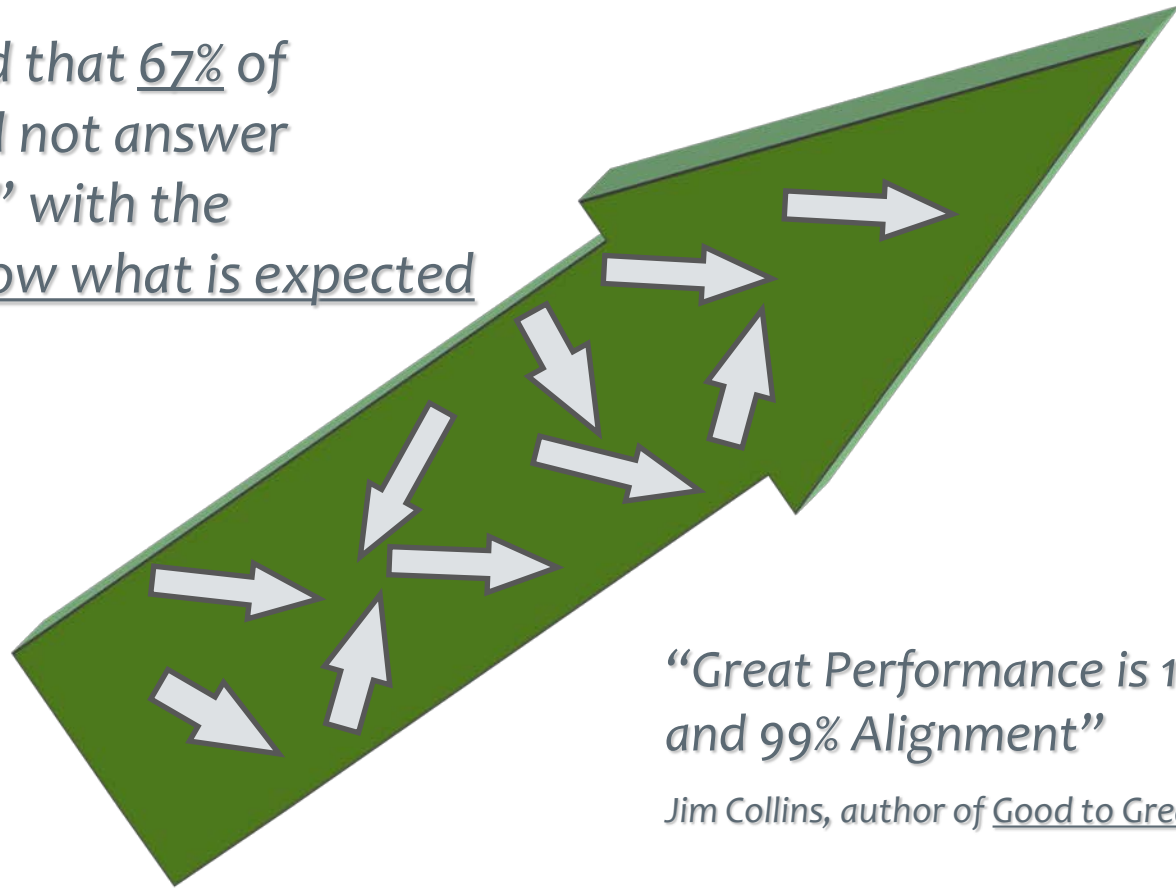
Reasons for Poor Alignment

- * Poor understanding of the Strategy
- * Belief that a Strong Focus on “Quality” will Automatically yield Financial Performance
- * Lack of published processes to support the client
- * Inability to Understand Process of Alignment
- * Lack of discipline to follow the processes
- * Poorly Selected/defined Metrics
- * Different “Languages” within the Company

Aligning to Different Metrics to Run the Business

Good Vision / Poor Alignment

Gallup Poll found that 67% of employees could not answer “Strongly agree” with the statement “I know what is expected of me at work”



“Great Performance is 1% vision and 99% Alignment”

Jim Collins, author of Good to Great

Aligning to Different Metrics to Run the Business

Two Types of Alignment

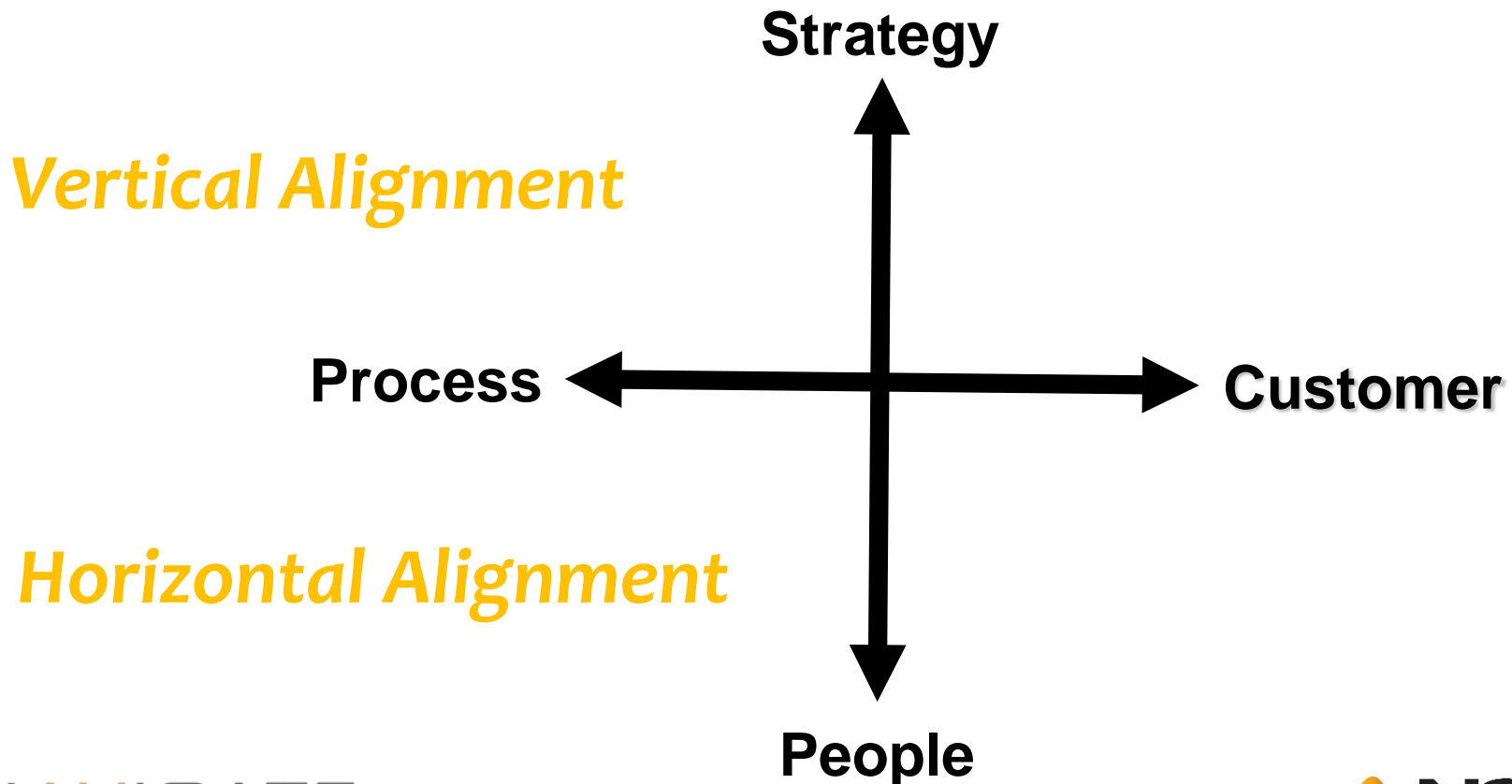
Vertical Alignment

Strategy



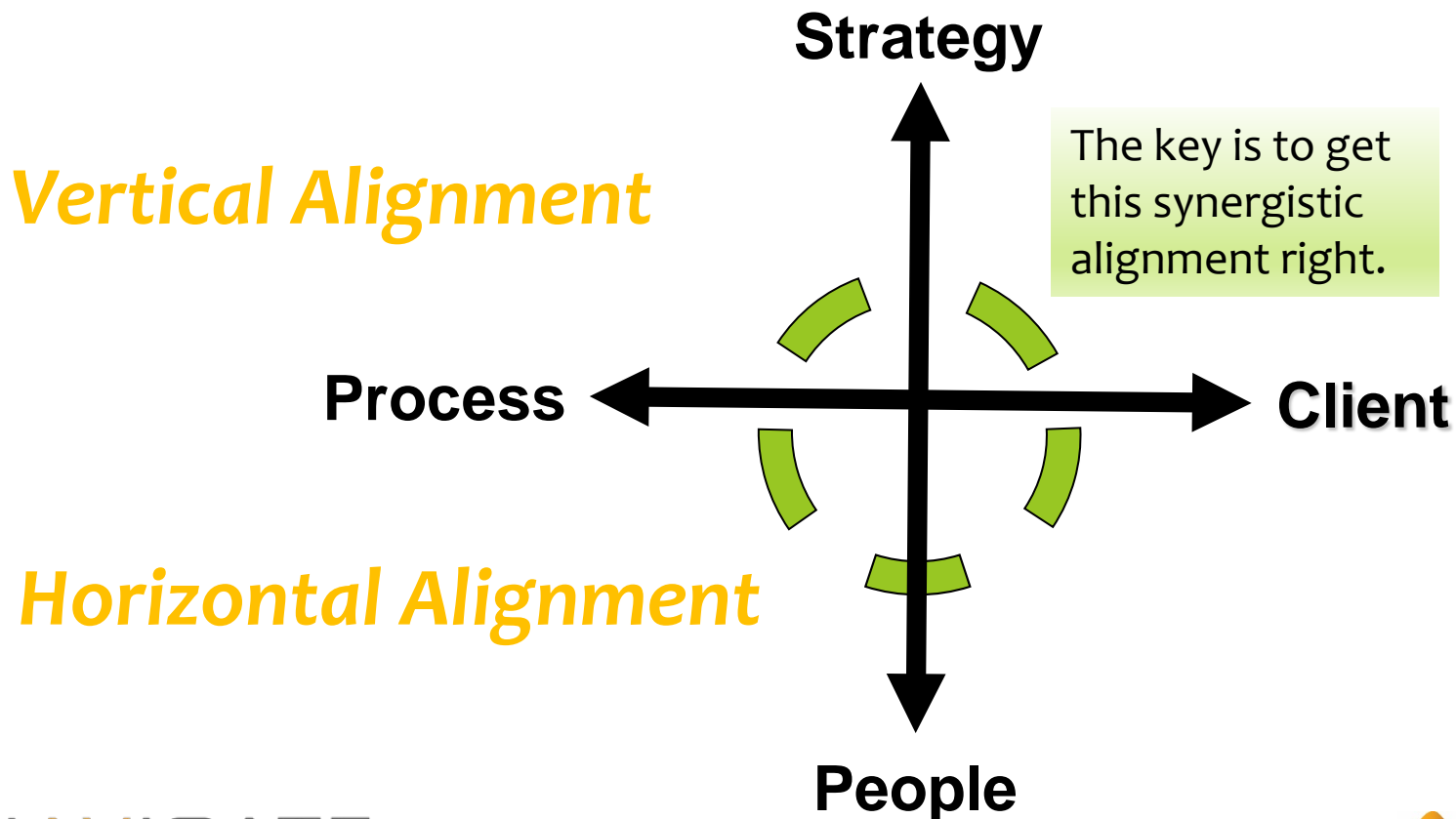
People

Two Types of Alignment



Aligning to Different Metrics to Run the Business

Two Types of Alignment



Aligning to Different Metrics to Run the Business

5 Step Process for Alignment

Strategy / Customer

- What market(s) does my company serve?
- What are the unique features of those markets?
- What products do we intend to offer
- Who are the key clients?
- What are their requirements and why?

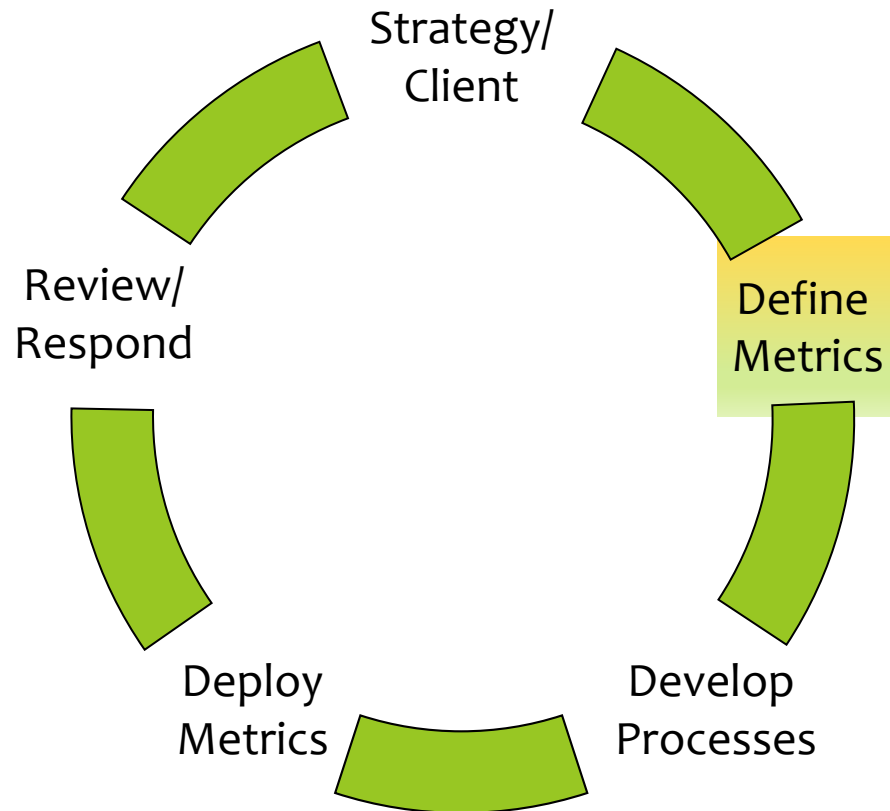


Aligning to Different Metrics to Run the Business

5 Step Process for Alignment

Define Metrics

- Do measures relate to the strategy?
- Do the metrics drive the financial performance?
- Is the measure simple to define & communicate?
- Will the measure provide a fast response?
- Will the measure register small changes?

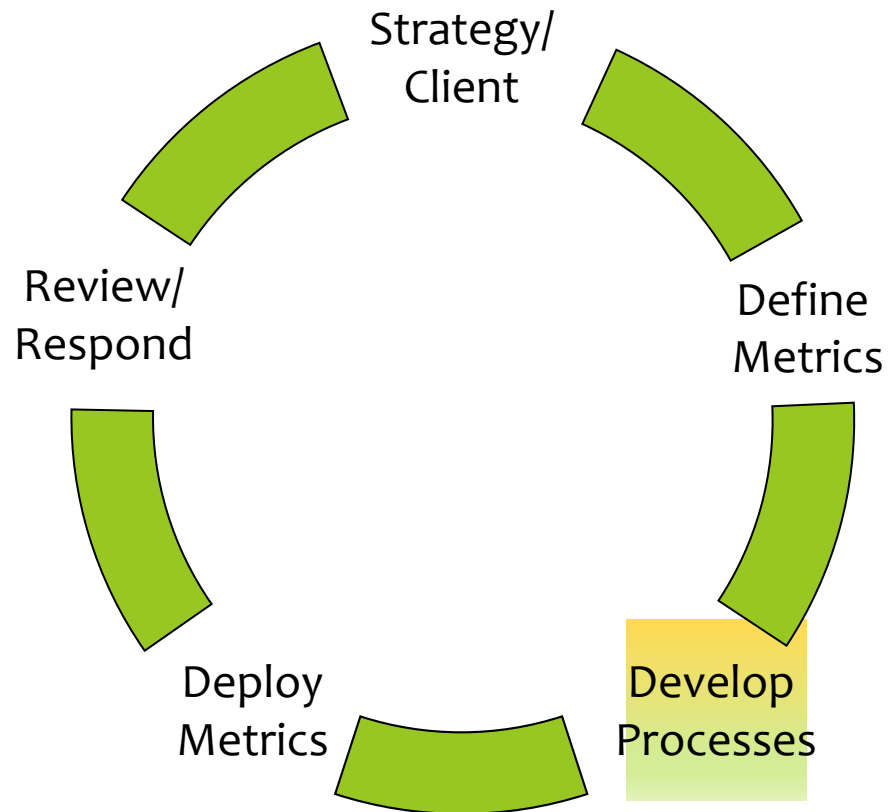


Aligning to Different Metrics to Run the Business

5 Step Process for Alignment

Develop Processes

- Identify critical client requirements
- Define & map processes
- Determine measures for key processes
- Measure, monitor results & recommend improvements

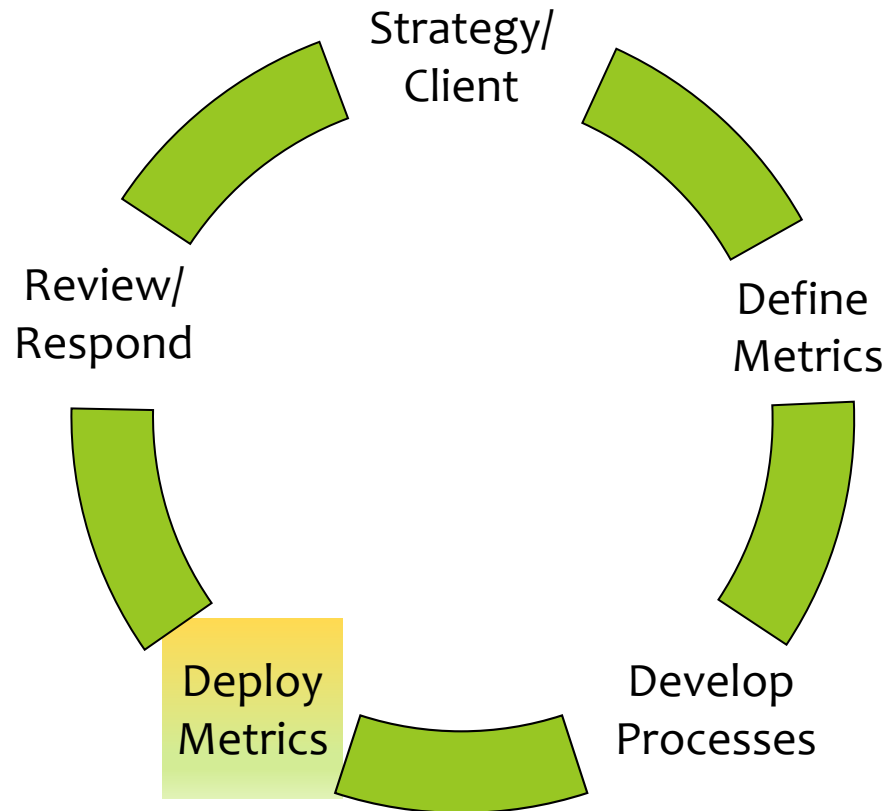


Aligning to Different Metrics to Run the Business

5 Step Process for Alignment

Deploy Metrics

- Review performance metrics selected
- Select metrics for each sub-process
- Select for each functional group
- Ensure everyone is close to a measure that relates to the job being performed

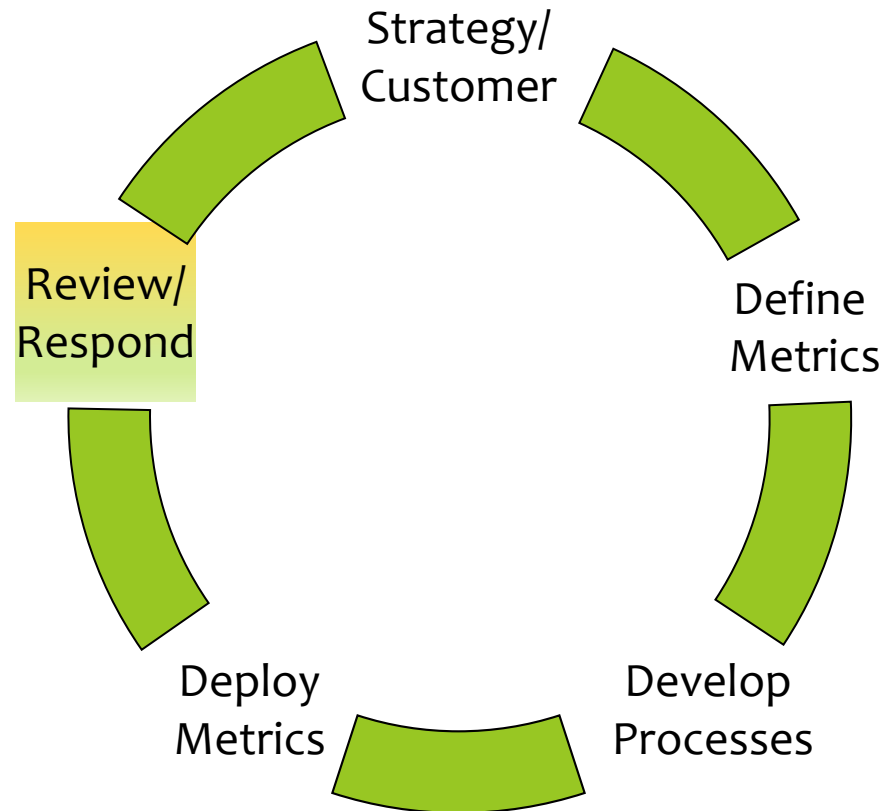


Aligning to Different Metrics to Run the Business

5 Step Process for Alignment

Review / Respond Performance

- Establish a review system at each level
- Ensure that people are held accountable for previous actions
- Identify corrective actions to address unfavorable performance



Aligning Activity to Metrics

- * Establish process standards / quality metrics
- * Determine competencies / skills / training
- * Determine aligned motivation / behaviors
- * Measure performance objectively against standards
- * Acknowledge and reward compliance
- * Correct when outside of acceptable tolerances

Aligning to Strategic Metrics

- * Given: Sales of \$9 million

Net Profit of \$315K

Net profit Margin 3.5%

- * Increase Net Profit from \$315K to **\$450K** by December 2017

Needed Sales = Net Profit goal \div current Net Profit Margin

$\$450,000 \div 3.5\% = \12.9M Sales

- * Increase Net Profit Margin from 3.5% to **4.25%** by December 2017

Needed Sales = Current Net Profit \div Net Profit Margin goal

$\$315,000 \div 4.25\% = \7.4M Sales

- * **Increase both:** Increase Sales from \$9M to **\$10.6M** by December 2017

Aligning to Strategic Metrics

Sales - Tactical Goal Set (Leading)

Increase Sales from \$9M to **\$10.6M** by December 2017

Typical factors that can predict an **increase in sales**

- More and better lead generation (marketing, website, referrals)
- More and better sales activity (calls, proposals, staff)
- Improved focus (product, service, market, etc.)
- Better account “mining”
- Additional Sales personnel
- Additional Sales Support (time selling vs time administrative)

Questions?



Thank You!

Contact Information: David McNutt, MS, MBA
Partner – Navigate Management Consulting
david.mcnutt@navigatemc.com



Next Webinar

7th Annual Integration Business Outlook

Presented by: Chuck Wilson

Tom Leblanc

Wednesday, January 25th, 1:00 PM Central