

# Operational KPIs and Performance Management

Are Your Daily Decisions Based on Fact?

August 2008

## Executive Summary

Businesses thrive or fail based on their ability to identify, define, track, and act upon Key Performance Indicators (KPIs). Executives and line-of-business management are increasingly feeling the pressure to enable timelier and more accurate decisions in order to improve operational efficiencies. The faster and more accurately KPIs can be accessed, reviewed, analyzed, and acted upon, the better an organization can manage day-to-day operations and customer interactions. Companies are focusing on obtaining solutions that address specific business pressures driving operational performance today. These include the need to:

- **Improve executive visibility to operational drivers.** Few companies have achieved greater than a beginning level of maturity when it comes to addressing operational data within a time frame that can affect performance improvement. In fact, 24% of respondents have not yet addressed operational data with any reporting or analytics capabilities.
- **Replace 'gut-feel' decisions with 'fact-based' decisions.** Interviews with respondents revealed that many operational decisions are based on gut-feel because information is not available soon enough after a business event occurs.
- **Gain an understanding of operational performance drivers.** There are many operational “moving parts” within the organization. Best-in-Class companies have identified the priorities when it comes to applying KPI-based management for performance optimization.

### Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations

## Best-in-Class Performance

Aberdeen used four performance metrics to determine Best-in-Class performance:

- **Customer satisfaction:** percent year-over-year change in customer satisfaction (past 24 months)
- **Customer issue resolution capability:** percent year-over-year change in the speed with which customer issues are resolved (past 24 months)
- **Conversion of inquiries to sales leads:** percent year-over-year change in the rate at which inquiries are converted to leads (past 24 months)
- **Sales forecast-to-plan performance:** percent year-over-year change in the accuracy of sales forecast-to-plan measurement (past 24 months)

## Competitive Maturity Assessment

Survey results show that the firms enjoying Best-in-Class performance shared several common characteristics:

- Eighty-two percent (82%) of Best-in-Class companies have at least one year of experience in managing operational KPIs, compared with 65% of all other respondents.
- Fifty-two percent (52%) of Best-in-Class companies utilize business intelligence capabilities that are embedded within ERP applications in order to define, track, and manage operational KPIs, as compared with only 35% of Industry Average companies, and 19% of Laggards.
- Best-in-Class companies have improved customer service program renewal rates by a mean average of 4.7% year-over year, versus a decline in renewal rates of -2.7% among all other respondents

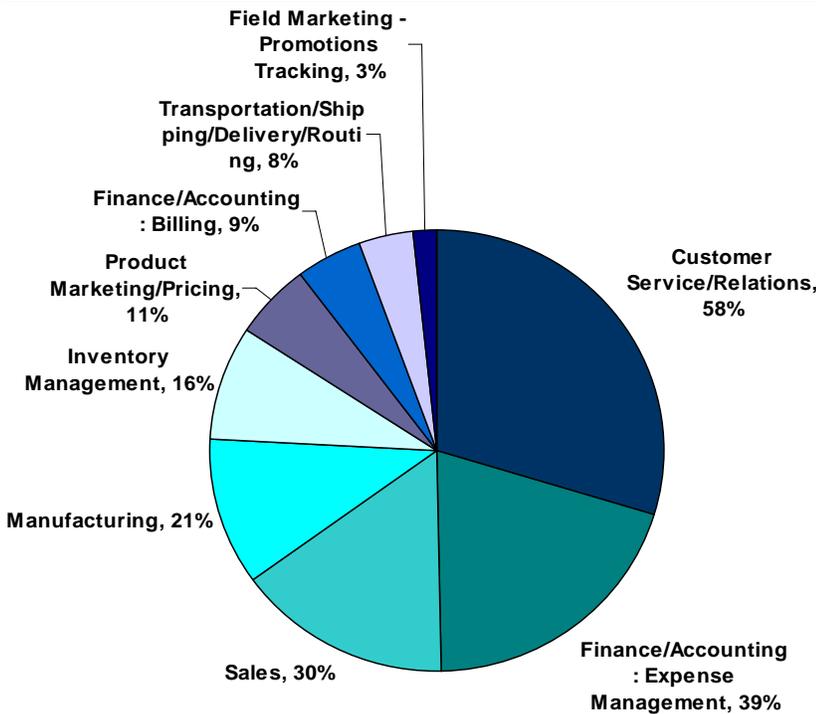
“The hardest part of delivering KPI information is making the underlying data available to decision makers in enough time to affect performance. It’s not just the KPI itself that drives performance; it is the detail behind it that provides the insight and understanding of how to take action.”

~IT Director,  
Large Hospital System

## Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance companies must prioritize the areas of the business that will benefit most from operational performance management initiatives. When asked to identify the areas of the business where operational performance management efforts will be directed next, respondents overwhelmingly agreed that customer service is the top priority (Figure 1).

**Figure 1: Next Department to be Addressed by Operational KPIs**



Source: Aberdeen Group, August 2008

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## Chapter One: Benchmarking the Best-in-Class

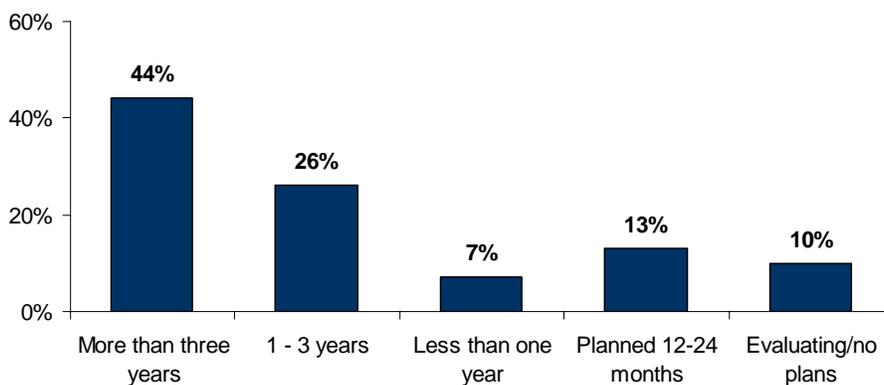
### Business Context

Performance management metrics have traditionally been accessed through simple means such as spreadsheets and static reports, as well as advanced methods involving Business Intelligence (BI) technologies such as scorecards, dashboards, operational reporting, analytics, and “automated alerting.” Operational managers are increasingly demanding visibility into day-to-day metrics in order to align operational business activity with corporate objectives. This requires gathering, tracking, analyzing, and acting upon KPIs that can change multiple times throughout the business day or week.

The creation, management, and continual review of KPIs can prove to be a difficult process, particularly when large, complex data volumes are combined with rapidly changing business dynamics. Projects also often involve the integration of data from a variety of disparate sources, complex formulas and calculations to derive accurate KPIs, and a host of infrastructure requirements to deliver the information in a meaningful format (reports / dashboards, scorecards, alerts) and via an effective medium (desktop, web, remote access, email, PDAs, mobile devices).

In June and July of 2008, Aberdeen Group investigated a wide spectrum of operational performance management capabilities through a primary survey research program. This study, based on responses from over 200 organizations, uncovers the strategies, actions, technology investments, and services that Best-in-Class companies are utilizing to improve operational performance. Almost half of all respondents have been focusing on operational performance management for three years or more, and 77% of respondents have implemented recently or budgeted projects within the next 12 to 24 months (Figure 2).

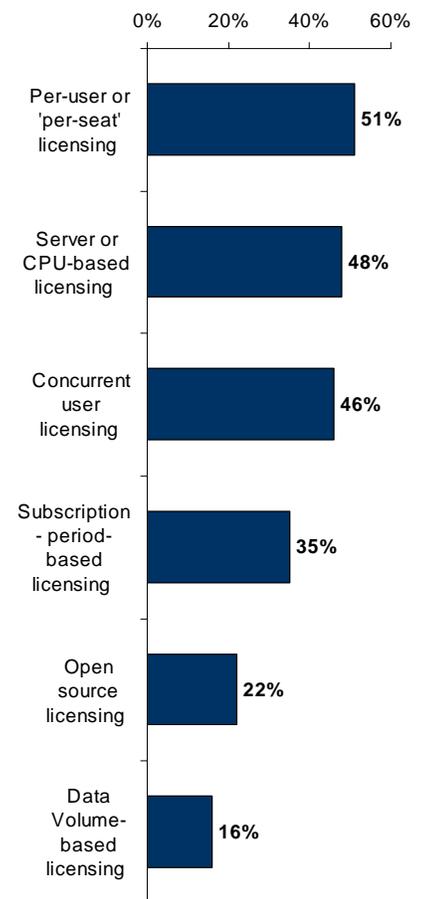
**Figure 2: Level of Maturity with Operational Performance Management – All Respondents**



Source: Aberdeen Group, August 2008

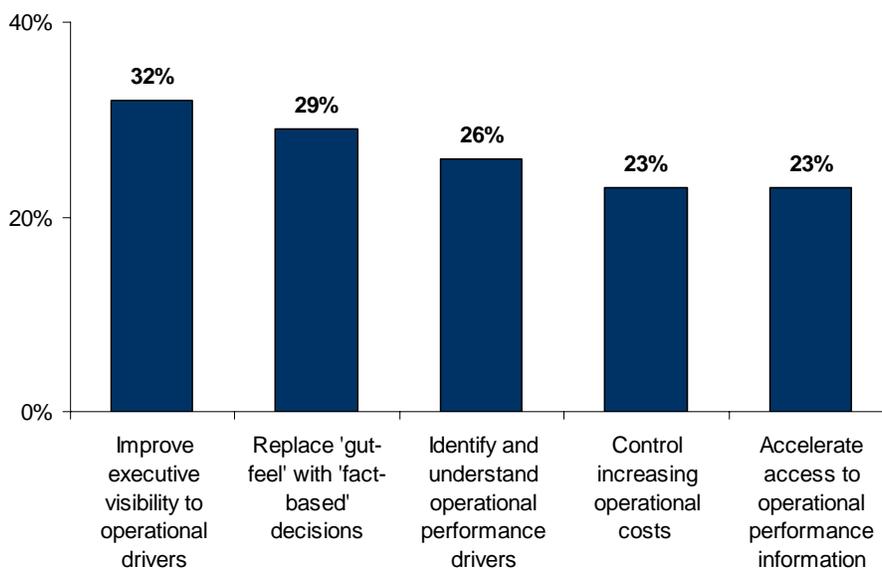
### Fast Facts

Respondents indicated that they are taking several approaches to licensing BI software to assist with the management of operational performance and tracking of KPIs:



Operational performance is rapidly becoming a top priority of business intelligence and performance management projects. Aberdeen research and respondent interviews revealed that activity and projects are focused on the desire to improve customer service, expense management, and sales operations performance. While this reflects the business areas most concerned, executives are struggling to gain visibility into the operational performance driving the business. The top pressures driving operational performance management are illustrated in Figure 3.

**Figure 3: Top Five Business Pressures Driving Operational Performance and KPI Management**



Source: Aberdeen Group, August 2008

As the old adage states, “you can’t manage what you don’t measure.” Nearly one-third of all companies are prioritizing executive management visibility to operational performance as the top pressure driving their focus and investment into identifying and managing operational KPIs. This drive toward improved visibility is an internally-focused pressure that directly addresses to the next most reported business concern – replacing “gut-level” decisions with “fact-based” decisions. But in order to accomplish this, companies clearly must have a firm grip on the actual operational performance drivers, and the definition and calculation of operational KPIs that will inevitably produce the desired visibility.

The following sections describe how organizations are addressing these business pressures, and provide a detailed analysis of the operational performance improvements that “Best-in-Class” companies have achieved through their strategic and tactical actions and organizational investments.

## The Maturity Class Framework

Aberdeen used four key performance criteria to distinguish Best-in-Class companies:

- **Customer satisfaction:** percent year-over-year change in customer satisfaction (past 24 months)
- **Customer issue resolution capability:** percent year-over-year change in the speed with which customer issues are resolved (past 24 months)
- **Conversion of inquiries to sales leads:** percent year-over-year change in the rate at which inquiries are converted to leads (past 24 months)
- **Sales forecast-to-plan performance:** percent year-over-year change in the accuracy of sales forecast-to-plan measurement (past 24 months)

**Table 1: Top Performers Earn Best-in-Class Status**

Definition of Maturity Class	Mean Class Performance
<p><b>Best in Class:</b> Top 20% of aggregate performance scorers</p>	<ul style="list-style-type: none"> <li>▪ Achieved a mean average of 7.8% year-over-year increase in customer satisfaction</li> <li>▪ 5.8% year-over-year mean average improvement of customer issue resolution speed</li> <li>▪ 4.7% year-over-year mean average improvement of inquiry-to-sales lead conversion rate</li> <li>▪ 3.2% mean average year-over-year improvement of forecast-to-plan accuracy</li> </ul>
<p><b>Industry Average:</b> Middle 50% of aggregate performance scorers</p>	<ul style="list-style-type: none"> <li>▪ Achieved a mean average of 1.7% year-over-year increase in customer satisfaction</li> <li>▪ 0.4% year-over-year mean average improvement of customer issue resolution speed</li> <li>▪ -0.1% year-over-year mean average decrease of inquiry-to-sales lead conversion rate</li> <li>▪ 0.3% mean average year-over-year improvement of forecast-to-plan accuracy</li> </ul>
<p><b>Laggard:</b> Bottom 30% of aggregate performance scorers</p>	<ul style="list-style-type: none"> <li>▪ Experienced a mean average of -2.1% year-over-year decrease in customer satisfaction</li> <li>▪ -2.7% year-over-year mean average decrease of customer issue resolution speed</li> <li>▪ -7.5% year-over-year mean average decrease of inquiry-to-sales lead conversion rate</li> <li>▪ -9.3% mean average year-over-year decrease of forecast-to-plan accuracy</li> </ul>

Source: Aberdeen Group, August 2008

## The Best-in-Class PACE Framework

Achieving predictive capabilities requires a combination of strategic actions, organizational capabilities, and enabling technologies. Best-in-Class companies - based on the performance measures defined in Table 1 - have identified the specific approaches they are taking (Table 2).

**Table 2: The Best-in-Class PACE Framework**

Pressure	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> <li>▪ Need to improve executive visibility to operational business drivers</li> </ul>	<ul style="list-style-type: none"> <li>▪ Align business goals to operational KPIs</li> <li>▪ Establish a corporate culture around understanding and use of operational KPIs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Regular internal communications to establish corporate KPI-driven culture</li> <li>▪ Formal process for identifying and incorporating operational KPIs into day-to-day operations</li> <li>▪ Measure and track KPI performance against corporate goals</li> <li>▪ Measure and track KPI performance against departmental goals</li> <li>▪ Continual internal and external review process for operational KPIs</li> <li>▪ Automate integration of operational data required to support KPIs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Executive dashboard (top-line summary KPIs)</li> <li>▪ Operational dashboard (lower level KPIs meant for operational management)</li> <li>▪ Data integration tools</li> <li>▪ BI software platform (department / project focused implementation)</li> <li>▪ IT consulting services (to assist with KPI definition and management)</li> <li>▪ IT consulting services (to assist with implementation of operational KPI tools / solutions)</li> <li>▪ Automated / electronic scorecard</li> <li>▪ BI software platform (enterprise implementation)</li> <li>▪ Automated alert tools</li> <li>▪ Data cleansing tools</li> </ul>

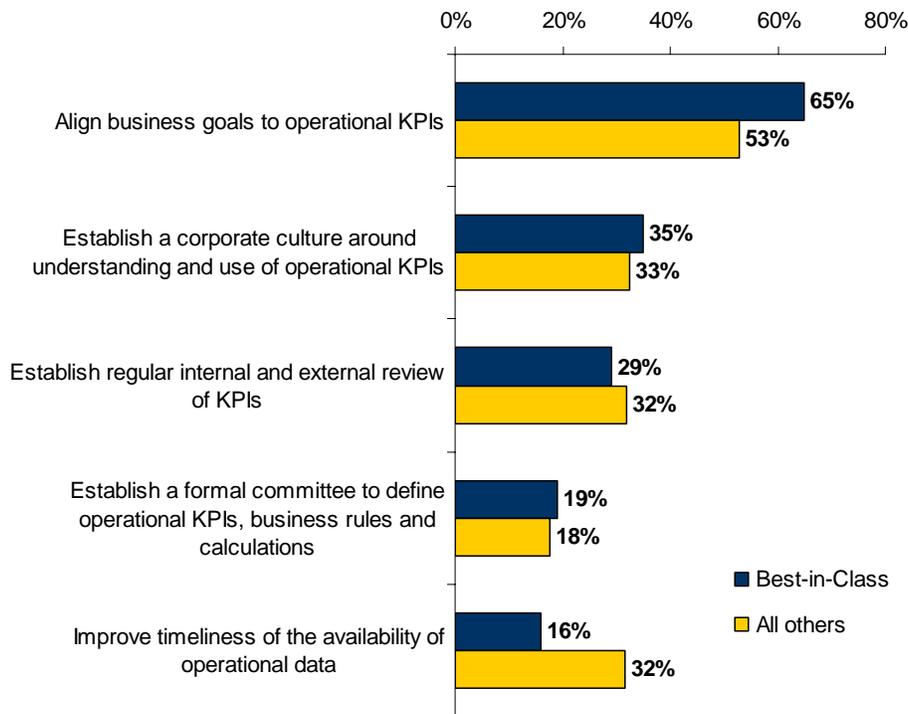
Source: Aberdeen Group, August 2008

## Best-in-Class Strategies

Best-in-Class companies are focusing on business alignment. This pertains to the ability to tie operational activity and performance to the successful attainment of corporate goals. This single strategy is more than twice as likely than any other to be at the topmost of executives minds as they address their operational performance initiatives.

Unlike typical strategic business intelligence initiatives that focus on trend data that is captured over large expanses of time (weeks, months, years), operational performance initiatives relate to areas of the business that experience change and activity multiple times throughout the business day. This requires the capability to access, capture, integrate, and analyze operational data quickly. Best-in-Class companies seem to have already established a greater ability to capture operational information in a timely manner than all other respondents (Figure 4).

**Figure 4: Top Five Best-in-Class Operational Performance Management Strategies**



Source: Aberdeen Group, August 2008

**Aberdeen Insights — Strategy**

The alignment of operational business activity and performance to the goals of the enterprise as a whole (while the top strategy listed by all respondents) is one that Best-in-Class companies have embraced and supported strongly. This support, however, is shown clearly through the second and third most prevalent strategies currently implemented by Best-in-Class companies. In order to align operational KPIs and business goals, companies are focusing on changing / establishing internal culture. Operational excellence and change cannot occur until the organization as a whole understands the importance of operational KPIs, and how they relate to their own job performance. Additionally, companies recognize that the dynamics of business at the operational level can change frequently. This explains the importance of establishing regular internal and external reviews of operational KPIs and why this strategy is a top-three action that companies are prioritizing.

## Chapter Two: Benchmarking Requirements for Success

The improvement of operational performance and the identification, definition, and tracking of operational KPIs requires a combination of capabilities and mastery of technologies and techniques that have been introduced to businesses only recently. Yet many of the processes, techniques, and capabilities are based on technologies that have been in use for much longer periods of time. The following case study describes the approach that a mid-tier wine importer has taken to improve operational performance through the combination of activity and goal alignment with the introduction of specific KPIs tied to different areas of the business.

### Case in Point – Mid-Tier U.S. Wine Importer

The wine and spirits market in the US is highly regulated, and with a three-tier distribution system legally enforced, there are limited opportunities to pursue growth strategies such as vertical integration. During the last decade there has been increasing consolidation among the distributor and retailer channels that the company depends on to reach the consumer. This consolidation has concentrated power downstream in the supply chain, threatening margin pressure and the potential restriction or loss of distribution channels. With only limited strategic options, the company focused on improving operational performance as a primary means of growing bottom-line performance.

The first step towards success was the process of identifying the most easily addressable areas for improvement. The operational KPIs that could drive continued growth and competitive success in the marketplace included:

- On-hand / on-time inventory available
- Outstanding “open” order value
- Net-new accounts through distribution network
- Promotion costs and ROMI

Through better management of the core KPIs that were driving business, the company was able to increase revenues by 12% in one year, more than twice the industry average. From an operational standpoint, the availability of inventory and open order value enabled field sales representatives to gain competitive advantage through a better view of the customer and the right price and delivery pressures to apply. Strategically, senior management could keep a pulse on the key metrics driving new business and whether costly marketing programs were delivering or not.

The end result has been an increased awareness within the organization that operational performance equates to overall success.

### Fast Facts

- √ Best-in-Class companies have achieved a **5.6% improvement in year-over-year delivery performance to the customer** as opposed to Industry Average companies (0.5%) and Laggards (-2.0%)
- √ Best-in-Class companies have achieved a year-over-year **increase in the identification of new pipeline accounts by 5.8%**, compared with Industry Average (1.0%) and Laggards (-6.2%)

“We’re ready to sit down with customers and discuss issues and arrive at solutions much faster. That’s made us a better partner - and a more desirable partner - for a lot of distributors across the country.”

~ CFO, Mid-Tier Wine Importer

## Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories:

1. **Process.** The approaches they take to execute their daily operations
2. **Organization.** Corporate focus and collaboration among stakeholders
3. **Knowledge management.** Contextualizing data and exposing it to key stakeholders
4. **Technology.** The selection of appropriate tools and effective deployment of those tools
5. **Performance management.** The ability of the organization to measure their results to improve their business

These characteristics (identified in Table 3) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

**Table 3: The Competitive Framework**

	Best-in-Class	Average	Laggards
<b>Process</b>	Formal process for identifying and incorporating operational KPIs into day-to-day operations		
	72%	47%	36%
<b>Organization</b>	Continual internal and external review process for operational KPIs		
	63%	55%	47%
<b>Data/ Knowledge</b>	Formal committee to establish KPI definitions, business rules and access permissions		
	44%	32%	25%
<b>Technology</b>	Regular internal communications to establish corporate KPI-driven culture		
	75%	53%	40%
<b>Performance</b>	Automate integration of operational data required to support KPIs		
	45%	33%	25%
<b>Performance</b>	Operational dashboard (lower level KPIs meant for operational management)		
	69%	44%	28%
	Measure and track KPI performance against corporate goals		
	69%	61%	48%
<b>Performance</b>	Measure and track KPI performance against departmental goals		
	66%	60%	47%

Source: Aberdeen Group, August 2008

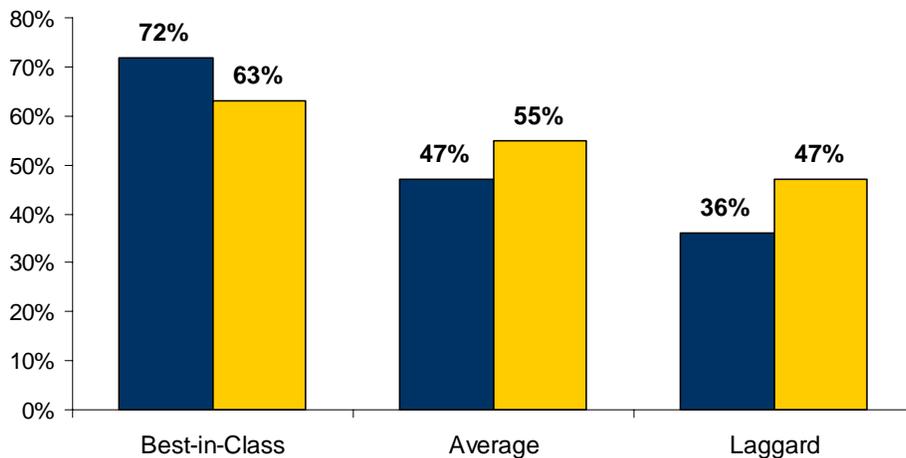
## Capabilities and Enablers

Based on the findings of the Competitive Framework and interviews with end users, Aberdeen's analysis of the Best-in-Class demonstrates that successful operational performance and KPI initiatives depend on a combination of specific capabilities and technology enablers. Aberdeen's research has identified several capabilities that Best-in-Class companies share in order to achieve operational performance excellence.

### Process

Aberdeen research has found that, as business dynamics change, so too must the KPIs that are used to measure performance. Best-in-Class companies are over 50% more likely than Industry Average companies and 100% more likely than Laggards to employ a method for identifying, incorporating and reviewing / updating KPIs related to operational performance (Figure 5).

**Figure 5: Best-in-Class Process Capabilities**



- Formal process for identifying and incorporating operational KPIs into day-to-day operations
- Continual internal and external review process for operational KPIs

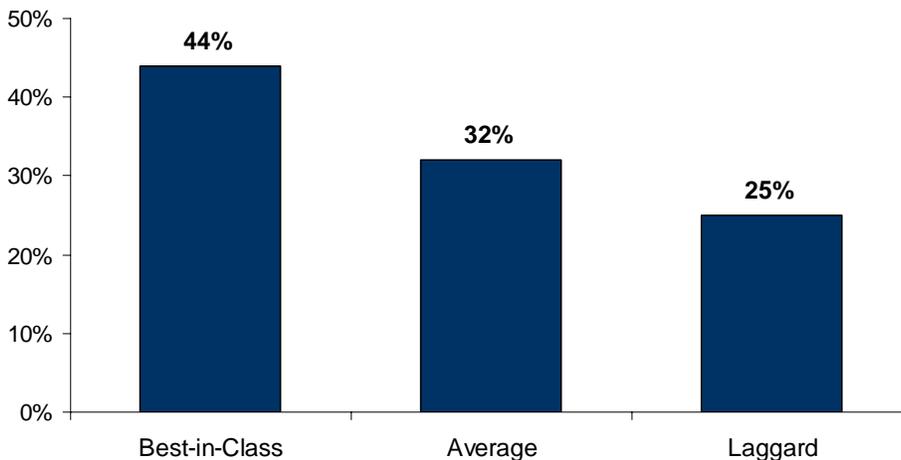
Source: Aberdeen Group, August 2008

The process of updating KPIs on a continual basis is extremely important when it comes to operational performance. KPIs that are established at the outset may become obsolete very quickly. For example, an on-line retail company that is presenting a new product line on its web site may set KPIs initially based on past performance of similar products. However, after the first few days of activity, results may indicate a new method for presentation or a new offer type to be introduced. The KPIs used to measure performance, therefore, may need to be altered to reflect the new paradigm and need for a re-set of the short term goal.

## Organization

In addition to having a process for updating KPIs related to operational performance, Best-in-Class companies are also formalizing this process within the construct of a committee tasked with defining the KPIs (Figure 6). Best-in-Class companies are nearly 40% more likely than Industry Average companies and nearly 50% more likely than Laggards to take this approach.

**Figure 6: Best-in-Class Organizational Management Capabilities**



■ Formal committee to establish KPI definitions, business rules and access permissions

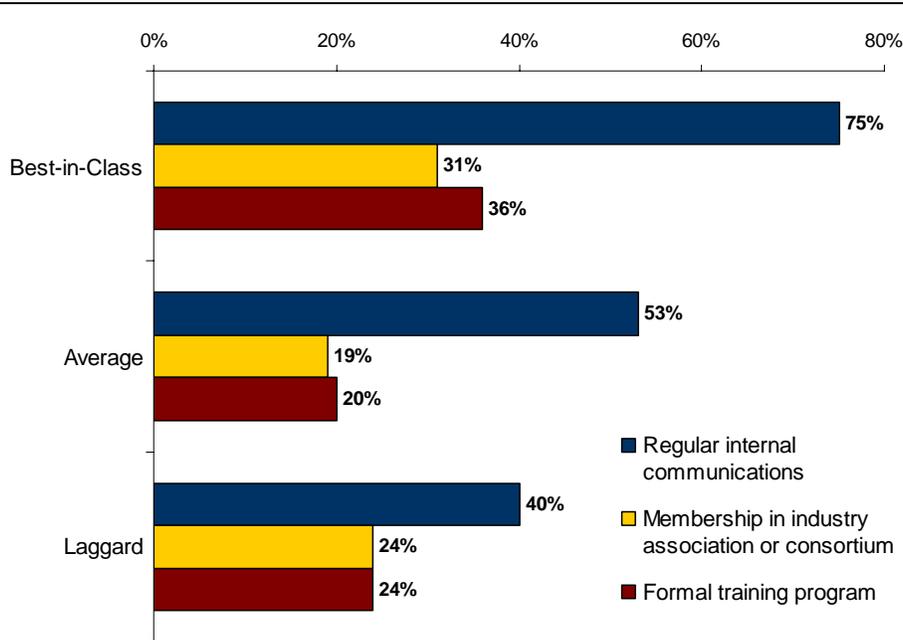
Source: Aberdeen Group, August 2008

A formal committee enables an organization to develop specialized KPIs that address the performance of multiple areas of the business. This is accomplished through the make-up of the committee, the most successful of which are those that prioritize the inclusion of a cross-discipline team that encompasses IT, business executives, and business end users. Often, the KPIs associated with operational performance involve complex mathematics and formulas that require integration of information from multiple data sources. Establishing quantitative measures based on these types of data sources is enhanced by the existence of a formal committee dedicated to understanding this information, and applying the necessary business rules and metrics to create appropriate KPIs.

## Knowledge Management

In order to establish a set of operational KPIs, and an operational performance driven culture, clear and effective corporate communications capabilities must be obtained. In addition, intelligence about industry-wide performance will help to gain an understanding of the performance thresholds that should be expected and strived for based on peer and competitor performance. Finally, any performance measurement capability should be accompanied by an internal training program that allows all stakeholders to understand and buy-in to the program (Figure 7).

**Figure 7: Best-in-Class Knowledge Management Capabilities**



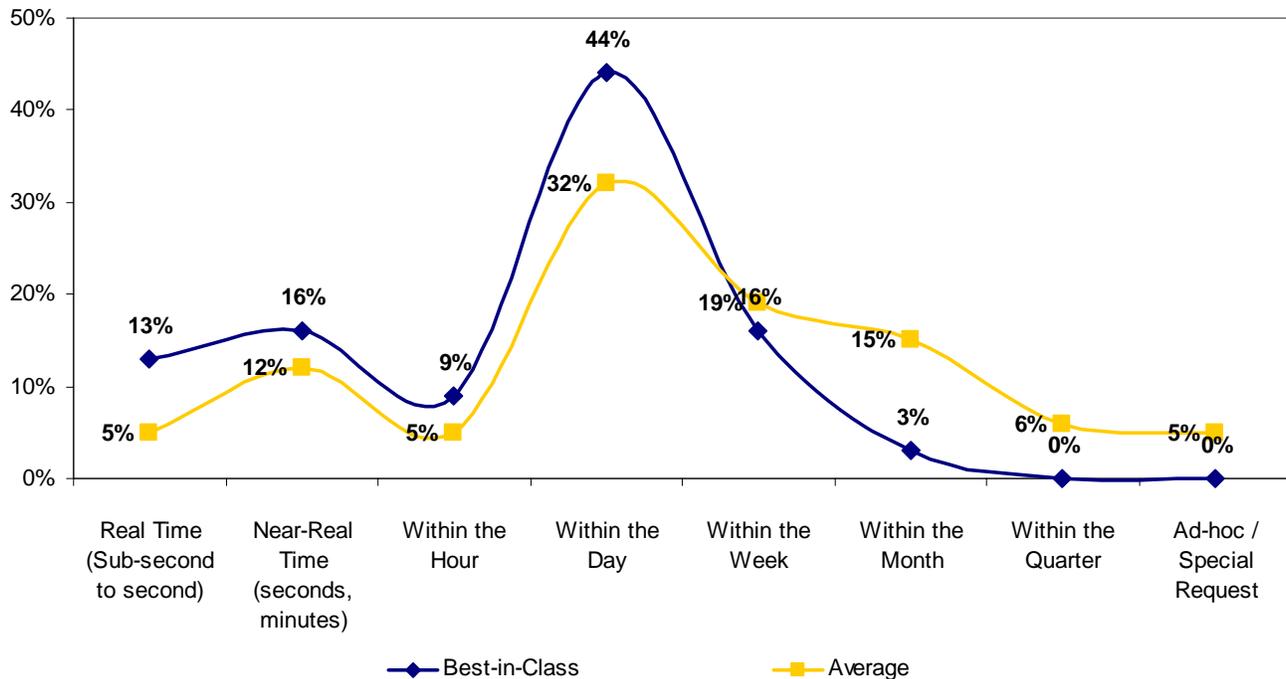
“We measure performance against our peers through involvement in an industry consortium. This allows us to initiate improvement projects that are driven based on industry best-practices. Peer-based performance measures are important to achieving success.”

~Senior Manager, IT, Large Utility Company

Source: Aberdeen Group, August 2008

Companies are trying to improve efficiencies and performance of many day-to-day and real-time operational activities, such as customer interactions, finance and accounting processes, transportation / shipping, sales activity, manufacturing, inventory management, and marketing. Aberdeen research conducted for the September 2007 report, *Smart Decisions: The Role of Key Performance Indicators*, found that Best-in-Class companies are improving their time-to-information through the implementation of capabilities, technologies, and services that enable faster delivery of mission-critical information to the people who need it, when they need it, and how they need it.

Aberdeen has found that in the duration of a year, the gap has widened significantly in terms of the time-to-information capabilities that Best-in-Class companies have achieved. In fact, Best-in-Class respondents are now over 65% more likely to obtain information about business events within a day or less as compared to Industry Average companies (Figure 8).

**Figure 8: Time-to-Information – A Best-in-Class Knowledge Management Performance Advantage**


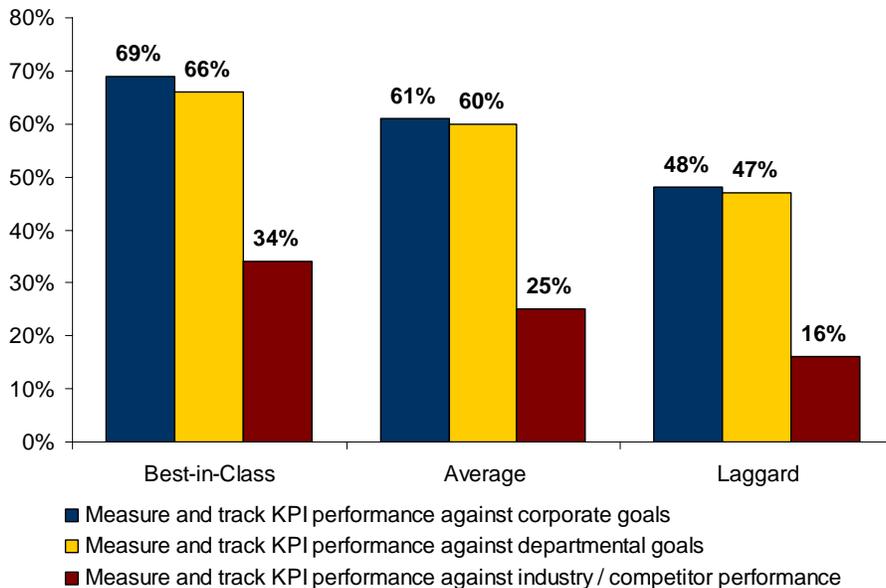
Source: Aberdeen Group, August 2008

### Performance Management

As stated in Chapter One, the top business pressure driving companies to focus on operational performance and development of KPIs is the desire to elevate visibility of operational performance to executives. Best-in-Class organizations are not only establishing KPIs to measure the company's operational performance over time, but are also obtaining comparative capabilities in order to ensure that performance measures are in alignment across the organization.

Interviews with executives revealed that it is not enough to simply define KPIs and track them over time. They also need to understand how the indicators relate to performance goals of the group, the company, and how this performance compares to that of competitors. This is achieved through membership and involvement with industry trade associations, and integration of data from industry aggregators and often through integration of data that can be obtained from government agencies.

While Best-in-Class companies have excelled at establishing internal alignment of KPIs to corporate and departmental goals, the ability to extend this to comparisons against industry thresholds and competitive performance is lacking. Still, Best-in-Class companies are significantly more apt to have this capability than Industry Average and Laggard organizations (Figure 9).

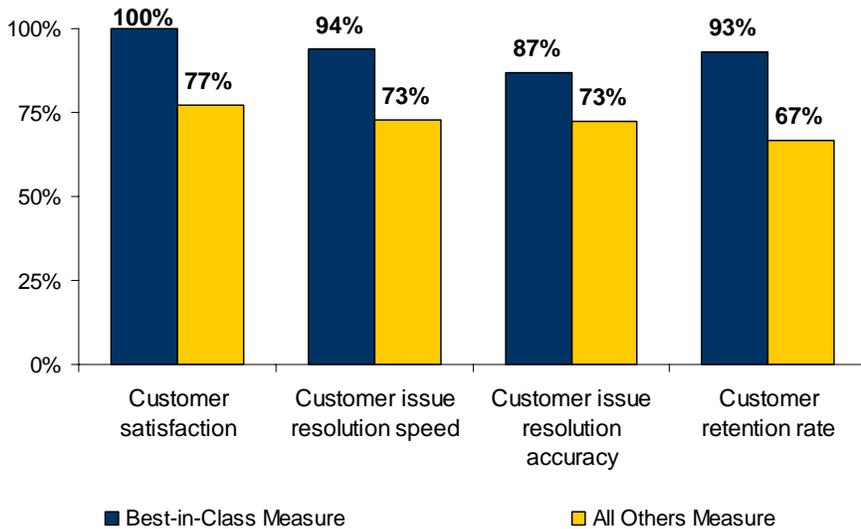
**Figure 9: Best-in-Class Performance Management Capabilities**


Source: Aberdeen Group, August 2008

Best-in-Class companies are also more likely to establish KPIs across a wide range of operational areas of the organization. Aberdeen research has revealed that the more operational areas addressed, the more improvement will be realized across all areas of the business. Aberdeen's research program measured respondents' use of operational performance metrics across a wide variety of operational business areas, including:

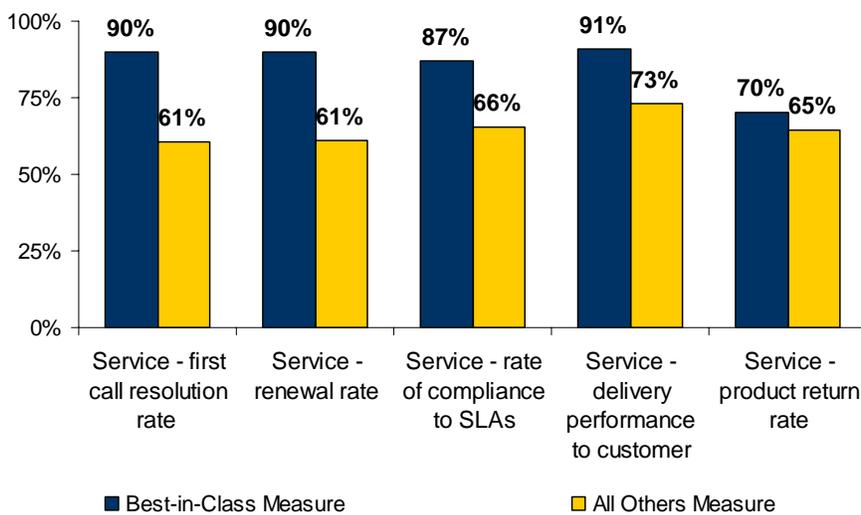
- **Customer performance.** Including metrics for customer satisfaction, customer issue resolution speed, customer issue resolution accuracy, and customer retention rate (Figure 10)
- **Service performance.** Including metrics for service - first call resolution rate, service - renewal rate, service - rate of compliance to SLAs, service - delivery performance to customer, and service - product return rate (Figure 11)
- **Sales operations.** Including metrics for new pipeline accounts identified, meetings secured, conversion of inquiries to leads, average call closure time, and dials completed per hour, shift, and day (Figure 12)
- **Sales plan / forecast.** Including metrics for price to purchase order accuracy, purchase order fulfillment ratio, quantity earned (revenue can be recognized), forecast to plan ratio, and total closed contracts – cumulative (Figure 13)

**Figure 10: Best-in-Class Customer Performance Management Capabilities**



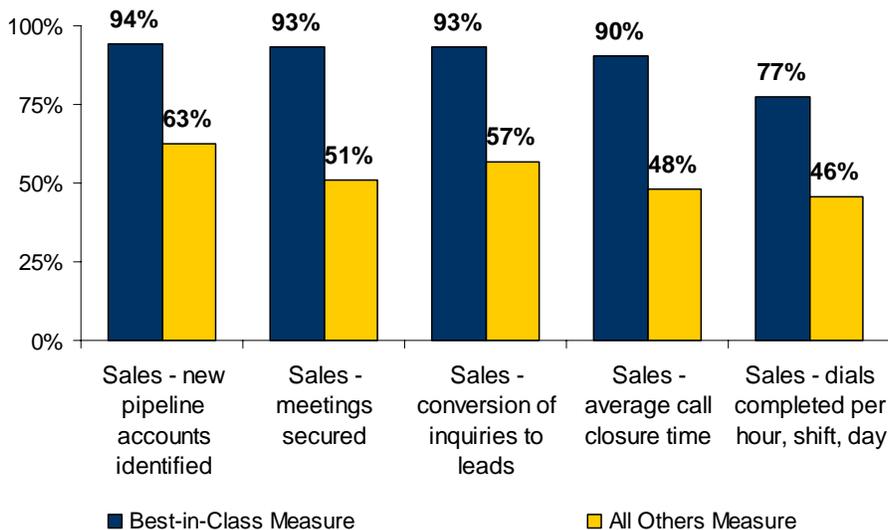
Source: Aberdeen Group, August 2008

**Figure 11: Best-in-Class Service Performance Management Capabilities**



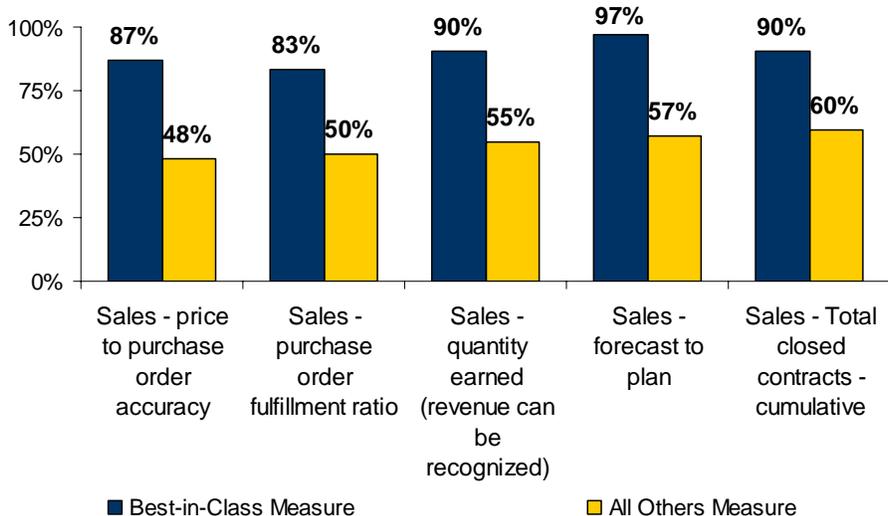
Source: Aberdeen Group, August 2008

**Figure 12: Best-in-Class Sales Operations Performance Management Capabilities**



Source: Aberdeen Group, August 2008

**Figure 13: Best-in-Class Sales Plan / Forecast Performance Management Capabilities**



Source: Aberdeen Group, August 2008

### Technology

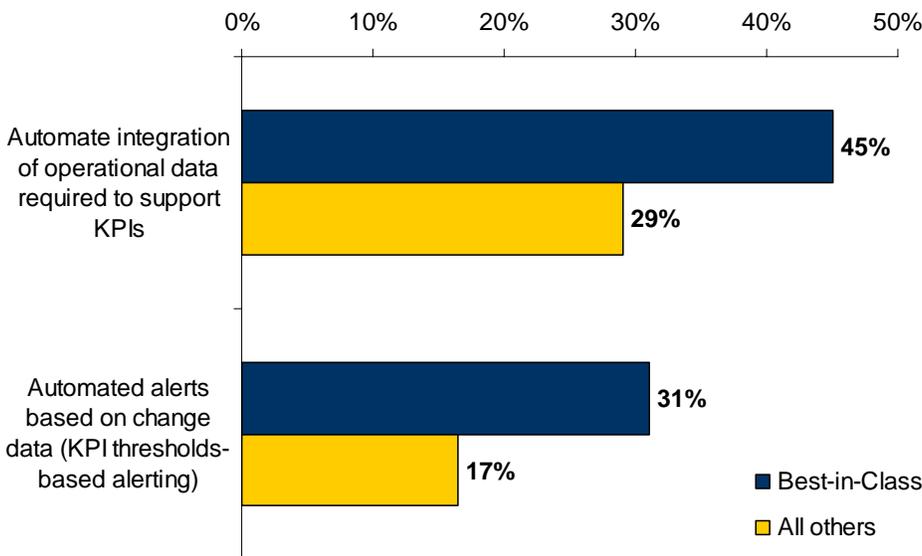
Interviews with respondents and survey results revealed that the time, effort, and IT resources required to generate operational reports and analytic capabilities and deliver them to the right end users at the right time is a major factor that inhibits operational performance improvement. This can come as an unwelcome surprise as BI implementations begin to grow in scope from pilot projects to full-production applications encompassing large data sets, complex calculations and algorithms, and a diverse set of non-technical business users. The level of technical ability among users typically pushes the job of report generation to the IT department. This not only causes additional costs in terms of IT resource utilization, but also drives the need for additional headcount to be hired to meet the demand for increasing report and analytical view requests.

Best-in-Class companies have realized that the automation of data integration, report generation, and alerting is a key technology management capability that can alleviate these inhibitors and improve the speed and ease with which information can be collected, assembled, and delivered to end-users (Figure 14).

"We're not too sophisticated in terms of the technology applied to developing and tracking our KPIs. We use Excel spreadsheets on a shared drive to collect and deliver KPI information. There are positives and negatives associated with this, but the main benefit is that people are held accountable for their own KPI data."

~ Mary Kay Gilbert, Vice President, Operations, Compbenefits, Inc.

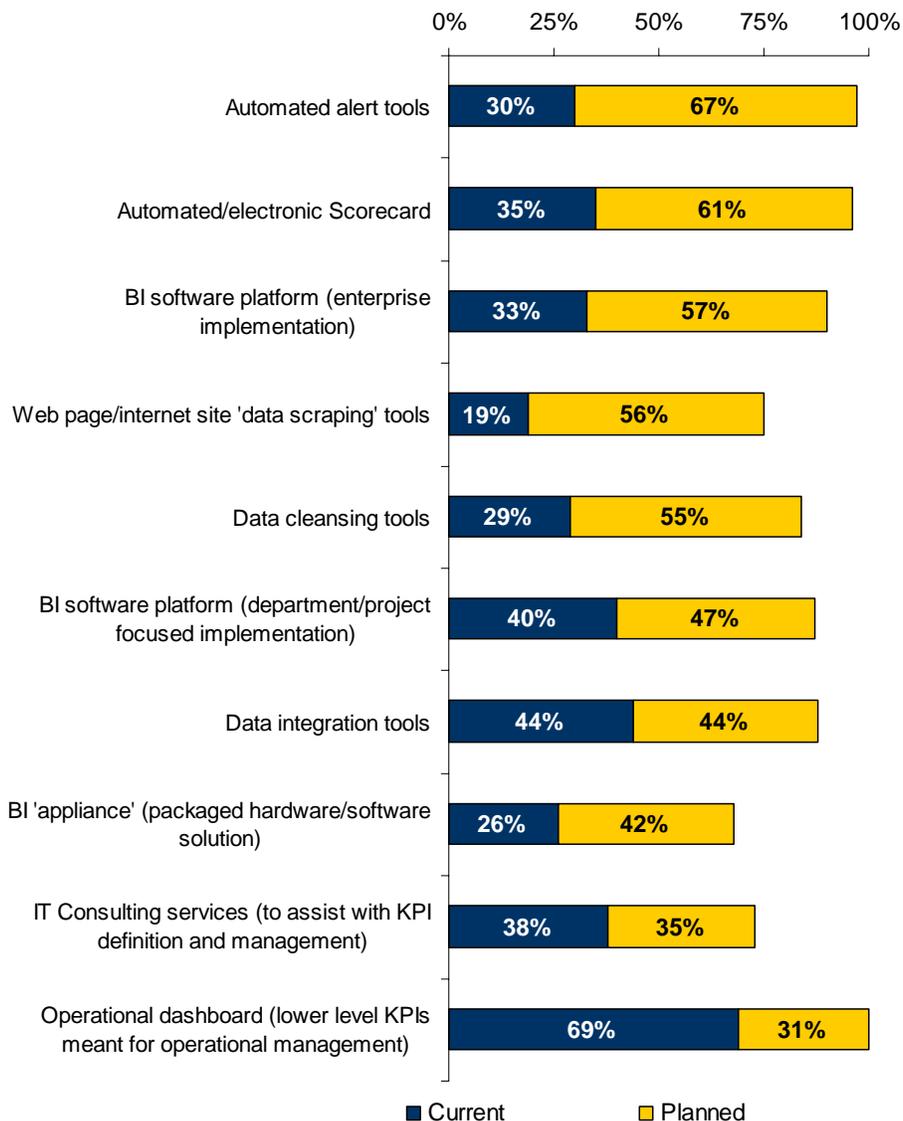
**Figure 14: Best-in-Class Technology Management Capabilities**



Source: Aberdeen Group, August 2008

The technology tools, services, and solutions that Best-in-Class companies are currently or planning to implement are listed in Figure 15.

**Figure 15: The Top-10 Best-in-Class Current and Planned Technology Investments for Operational KPI Management**



“We haven’t used a true balanced scorecard system, per se, but our approach to measuring KPIs across multiple areas of the business follows a balanced scorecard methodology. We simply use Excel spreadsheets because they are familiar to everyone, and there is very little training required. One of the downsides to this approach is that we continually have to audit the data and determine if there have been mistakes or corrupted formulas.”

~Operations Director,  
Mid-Tier Health Services  
Organization

Note: responses are sorted by planned technology investments in the next 12 to 24 months  
Source: Aberdeen Group, August 2008

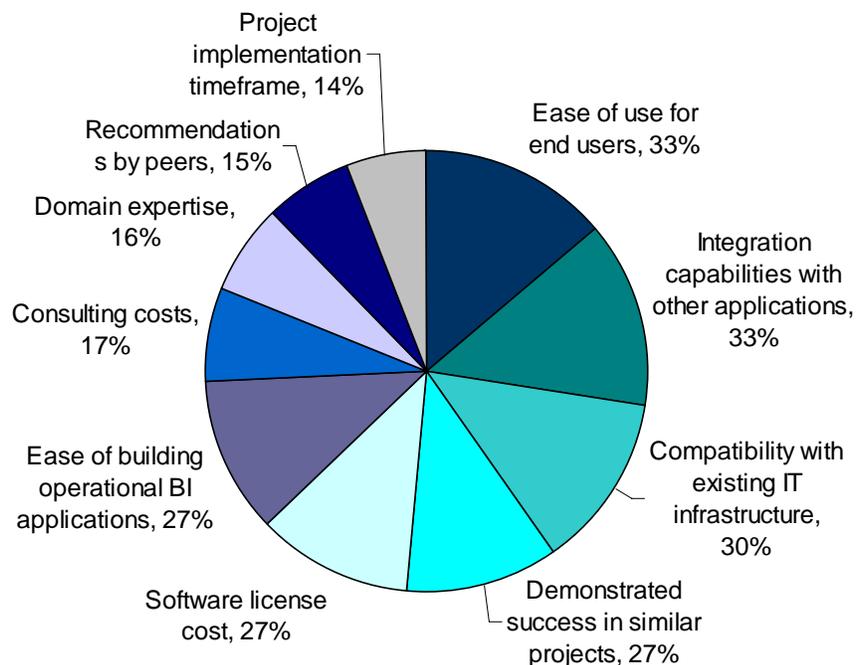
Operational performance management capabilities involve several technology disciplines that span the entire range of information management and data flow within an organization, including:

- Data management technologies that allow for the cleansing and integration of disparate data from multiple internal and external sources
- The building of complex data models that incorporate business rules

- Dashboarding and scorecarding tools that allow easy access and display of information to a variety of technical and non-technical business stakeholders
- Automated alert capability to enable stakeholders to learn about performance changes as they occur as opposed to having to search for information without knowledge of “hot-spots” where data has changed and performance has been affected

Survey respondents have also clearly prioritized the selection criteria they deem as critical when choosing a solution provider for management of operational KPIs and performance. At the top of the list are “ease of use for end-users,” and “integration capabilities with other applications.” This is the first time in over 18 months of studies that a purchase criteria other than “ease of use” has achieved (albeit a tie) the top spot (Figure 16).

**Figure 16: Operational KPI / Performance Management Solution Selection Criteria**



Source: Aberdeen Group, August 2008

## Chapter Three: Required Actions

Whether a company is trying to move its performance from Laggard to Industry Average, or Industry Average to Best-in-Class, the following actions will help spur the necessary performance improvements:

### Laggard Steps to Success

- **Direct operational KPI projects beyond the typical financial focus areas, and toward metrics that pertain directly to improvement of customer, process, and sales operations performance.** Adoption of a KPI-based performance measurement strategy has a direct impact on customer performance metrics. The average decrease in customer satisfaction and customer issue resolution speed experienced by Laggard companies in the past 12 months is indicative of the tendency to focus on standard financial metrics.
- **Take a fresh look at KPIs and ask whether they are aligned with the current state of the business.** Laggard companies are only half as likely to align operational KPIs with corporate strategy and the attainment of corporate or departmental goals. This is essential to achieving continual improvement as business dynamics and the associated KPIs change.
- **Include dashboard and auto-alert reporting technologies as part of a KPI initiative.** Speed and availability of KPI information is lacking among Laggard companies. The dashboard and auto-alert reporting technologies employed by Best-in-Class organizations provide the capability to rapidly make the organization aware of changing performance metrics. These approaches can also serve as a way to inform the organization of specific actions that can improve performance and alleviate harmful situations before they happen.

### Industry Average Steps to Success

- **Build a corporate culture around the operational KPI strategy.** Institutionalization of a KPI strategy is accomplished through a combination of training and corporate culture. Industry Average companies are less likely than Best-in-Class companies to develop a corporate culture around the use and understanding of operational KPIs within the organization. Many Best-in-Class companies are forming a BI Center of Excellence and training programs (as reported in the July 2007 benchmark *Delivering Actionable Information to the Enterprise*) to facilitate an institutional approach to information delivery. An operational KPI strategy should be included in these initiatives.
- **Establish operational metrics across multiple areas of the business.** Industry Average respondents are less likely to utilize operational KPIs across multiple operational areas of the business.

#### Fast Facts

- √ Best-in-Class companies have achieved a **3.2% improvement in year-over-year sales-to-forecast accuracy** as opposed to Industry Average companies (0.3%) and Laggards (-9.3%)
- √ End-users at Best-in-Class companies are **63% more likely to trust the information** delivered in existing operational KPIs.

While there are many metrics, it is important to determine which are critical to measuring operational performance improvement. Interviews with Best-in-Class companies revealed that it is easier to start with customer, service, sales, and financial metrics that can be measured with available data, and expand to additional metrics as capabilities are obtained and improved over time.

## Best-in-Class Steps to Success

- **Establish a corporate operational KPI culture.** Institutionalization encompasses a definition of KPIs through a committee process, and regular review of KPIs to insure alignment with the current business strategy. While the Best-in-Class exhibited these tendencies as being advantageous, in comparison to Industry Average and Laggard companies, almost two-thirds of Best-in-Class companies have not yet adopted a “KPI culture” approach.
- **Make operational KPIs visible to line of business management and decision-makers.** Goals are more easily met when the targets, and associated steps, are clearly defined and accessible to those accountable for performance. As KPI initiatives mature, the complexity of the system may require external expertise to continue to derive more value over time.
- **Regularly measure use of operational KPI information to determine decision quality.** A KPI initiative is not effective if it is not used. Whether it is a simple spreadsheet methodology or a complex balanced scorecard system incorporating strategy maps and cascaded objectives, consistent use of the system promotes enterprise-wide understanding of KPI-based metrics and goals. Interviews with Best-in-Class companies indicated that the review process must occur at least annually, if not more frequently.

“KPIs are near and dear to our hearts and have become very visible within the organization through a culture that has been driven by senior management. We currently review our KPIs in conjunction with our month-close process. As a margin-based business, we look primarily at financial and production metrics. Although a lot of the data is gathered manually today, we are looking into an enterprise scorecard system that will help to automate the process, and deliver daily KPIs.”

~CIO, Mid-Tier Manufacturing Company

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### Aberdeen Insights – Summary

Operational KPIs are an integral part of a company’s performance management strategy. The correct definition, use, and continual adaptation of KPIs directly impacts performance. Best-in-Class companies have adopted a set of capabilities that deliver positive results across a diverse set of operational performance metrics. To achieve Best-in-Class performance, organizations must:

- **Align business goals and operational KPIs.** Best-in-Class companies are achieving alignment of business strategy and company goals through the establishment of KPIs across a broad spectrum of operational areas of the business.
- **Continuously revise KPI definitions.** Business dynamics change, and as this occurs, so must the KPIs used to measure it.
- **Provide access to KPI information to all decision makers.** Dashboards, scorecards, and auto-alert reporting are being used by Best-in-Class companies to proactively support information requirements and address operational data as it changes.

## Appendix A: Research Methodology

Between June and July 2008, Aberdeen examined the experiences, intentions, and performance of 204 enterprises involved in operational KPI management initiatives in a diverse set of enterprises.

Aberdeen supplemented this online survey effort with interviews with select survey respondents, gathering additional information on strategies, experiences, and results.

Responding enterprises included the following:

- *Job role / function:* Information technology (35%); sales, marketing, customer service (21%); operations, process management (19%); manufacturing, logistics, supply chain (10%); finance, procurement (8%); and other (7%).
- *Industry:* The research sample included respondents from several industries. Heavy industry, utilities, engineering was the highest represented industry with 20% of response, followed by IT consulting services (11%); government, defense, public sector (11%); software, hardware supplier (8%); retail, wholesale, distribution (7%); finance, banking, insurance (7%); consumer products (6%); health, medical, dental services (6%); general manufacturing (5%); food and beverage, travel, hospitality (4%); telecommunications (3%); market research, publishing (2%); and other (10%).
- *Geography:* The majority of respondents (55%) were from North America. Remaining respondents were from EMEA (28%), the Asia-Pacific region (14%), and the rest of world (3%).
- *Company size:* Thirty-six percent (36%) of respondents were from small enterprises (annual revenues below US \$50 million); 36% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 28% of respondents were from large businesses (annual revenues of US \$1 billion or more).
- *Headcount:* Twenty-eight percent (28%) of respondents were from small enterprises (headcount between 1 and 100 employees); 27% were from midsize enterprises (headcount between 101 and 1,000 employees); and 45% of respondents were from large businesses (headcount greater than 1,000 employees).

Solution providers recognized as sponsors were solicited after the fact and had no substantive influence on the direction of this report. Their sponsorship has made it possible for Aberdeen Group to make these findings available to readers at no charge.

### Study Focus

Responding executives completed an online survey that included questions designed to determine the following:

- √ The business drivers causing companies to focus resources on operational performance and related management of KPIs
- √ The actions and capabilities that organizations are developing in order to improve operational performance
- √ Current and planned use of various technologies, data sources, and services and the degree to which each assists users in achieving performance improvement

The study aimed to identify emerging best practices for operational KPI management capability, and to provide a framework by which readers could assess their own management capabilities.

**Table 4: The PACE Framework Key**

Overview
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p><b>Pressures</b> — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p><b>Actions</b> — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p><b>Capabilities</b> — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing)</p> <p><b>Enablers</b> — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: Aberdeen Group, August 2008

**Table 5: The Competitive Framework Key**

Overview	
<p>The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:</p> <p><b>Best-in-Class (20%)</b> — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.</p> <p><b>Industry Average (50%)</b> — Practices that represent the average or norm, and result in average industry performance.</p> <p><b>Laggards (30%)</b> — Practices that are significantly behind the average of the industry, and result in below average performance.</p>	<p>In the following categories:</p> <p><b>Process</b> — What is the scope of process standardization? What is the efficiency and effectiveness of this process?</p> <p><b>Organization</b> — How is your company currently organized to manage and optimize this particular process?</p> <p><b>Knowledge</b> — What visibility do you have into key data and intelligence required to manage this process?</p> <p><b>Technology</b> — What level of automation have you used to support this process? How is this automation integrated and aligned?</p> <p><b>Performance</b> — What do you measure? How frequently? What’s your actual performance?</p>

Source: Aberdeen Group, August 2008

**Table 6: The Relationship Between PACE and the Competitive Framework**

PACE and the Competitive Framework – How They Interact
<p>Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</p>

Source: Aberdeen Group, August 2008

## Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- [\*Smart Decisions: The Role of Key Performance Indicators\*](#) September, 2007
- [\*Measuring Marketing Performance: The BI Roadmap to Information Nirvana\*](#) October 2007
- [\*Operational BI: Getting Real-Time About Performance\*](#) December 2007
- [\*The Expansion and Contraction of Business Intelligence\*](#) January 2008
- [\*Managing the TCO of Business Intelligence\*](#) February 2008
- [\*Data Management for Business Intelligence\*](#) March 2008
- [\*Business Intelligence Deployment Strategies\*](#) April 2008
- [\*Financial Planning and Budgeting\*](#) April 2008
- [\*Predictive Analytics, The BI Crystal Ball\*](#) May 2008
- [\*BI in Healthcare: Have Providers Found a Cure?\*](#) June 2008
- [\*Is Your GRC Strategy Intelligent?\*](#) July 2008

Information on these and any other Aberdeen publications can be found at [www.Aberdeen.com](http://www.Aberdeen.com).

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