Key Performance Indicators

The 75 measures every manager needs to know

Bernard Marr

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Praise for *Key performance indicators*

'Marr has collected and described a great set of metrics that managers can select from when choosing the performance measures for their business and especially for translating their strategy map into a Balanced Scorecard.'

Robert S. Kaplan, Baker Foundation Professor at the Harvard Business School and co-author of *The Balanced Scorecard* and *The Execution Premium*

'All the KPIs you need to consider are here, from the familiar (net profit, ROI) to the emergent (Klout score). If you care about performance measurement, you need to leaf through Marr's book from cover to cover – don't miss a page!'

Thomas H. Davenport, President's Distinguished Professor, Babson College and co-author of *Competing on Analytics and Analytics at Work*

'Once again, Bernard Marr shows why he is the leading thinker in business performance. With Key Performance Indicators *he delivers another must-read book for anyone in business. This book will help you focus on the metrics that really matter to answer your key management questions. It provides an essential toolset critical for the effective running of any organisation.'*

Gerry Pimm, Strategy, Planning & Performance Manager, Citizens Advice

'Bernard Marr's new book is an incredibly valuable resource for any manager. Marr has again hit the bull's eye with a book that is extremely clear, concise, well-organised, and, most importantly, immensely practical.'

Dean R. Spitzer, PhD and author of *Transforming Performance Measurement*

'In Key Performance Indicators, *Bernard Marr has identified the most meaningful measures that companies and organisations should look at. I've so often seen people fumbling around trying to define the right measures for their business strategy and they often do a poor job of reinventing the very measures defined in this book. I will be using this book with my clients so they stop wasting time choosing measures and start using them instead.'*

Stacey Barr, Performance Measurement Expert, Samford, Australia

'I love the set of 75 KPIs outlined in this book – their breadth and the highly-readable format makes it a much needed contribution to the field of management!'

Gary Cokins, Principal, Business Consulting, SAS and author of *Performance Management: Integrating Strategy Execution, Methodologies, Risk, and Analytics*

'Bernard Marr continues to establish himself as the leader in the field of performance measurement. His latest book Key Performance Indicators *is a great resource for managers to select the measure that actually matter.'*

Todd Scaletta, Vice President, Research and Innovation, CMA Canada

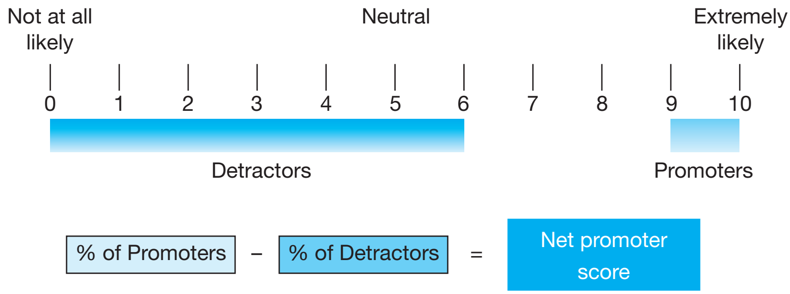

Figure 19.1

Frequency

Most companies don't collect customer data frequently enough. Instead of the 'big' annual customer survey, companies can use this simple one-question approach to collect data more frequently. A good idea is to collect data on NPS continuously from a subset of your customers or at least monthly (from e.g. 10% of customers). This way, you can get trends and avoid drawing conclusions on biased or outdated data.

Source of the data

The data for your NPS come from surveying your existing customers.

Cost/effort in collecting the data

The simple nature of this KPI makes it more cost efficient compared to more traditional customer satisfaction surveys. However, as with any customer satisfaction survey, costs can be significant. Costs are particularly high for hard copy and mail surveys. A way to reduce costs is to automate data collection.

Target setting/benchmarks

Here are some benchmarks from the NPS leader table compiled by Satmetrix:

Table 19.1 **2011 Net Promoter Industry Reports for the US and the UK**

NPS Leaders – US 2011		*NPS Leaders – UK 2011*	
Company	***NPS***	***Company***	***NPS***
USAA – Banking	87%	Apple – Computer Hardware	67%
Trader Joe's – Grocery	82%	First Direct – Banking	61%
Wegmans – Grocery	78%	LG – Television	39%

NPS Leaders – US 2011		NPS Leaders – UK 2011	
Company	***NPS***	***Company***	***NPS***
Costco – Dept Store and Wholesale	77%	Samsung – Television	35%
Apple – Computer Hardware	72%	Sony – Computer Hardware	30%

Source: Satmetrix

Example We can look as this simple calculation example. A company surveyed 1,000 customers with the question: 'How likely would you be to recommend the product from this company to a friend?' Respondents can then score their reply on a 0–10 scale (0 = Not at all likely, 5 = Neutral, 10 = Extremely likely. Here is a breakdown of the replies:

Score	Counts
0	1
1	2
2	0
3	0
4	2
5	5
6	10
7	110
8	170
9	400
10	300

The NPS is therefore:

NPS = (% of customers that are Promoters) − (% of customers that are Detractors)

$$\text{Promoters: } \left[\frac{(300+400)}{1{,}000}\right] \times 100 = 70\%$$

$$\text{Detractors: } \left[\frac{(1+2+0+0+2+5+10)}{1{,}000}\right] \times 100 = 2\%$$

$$\text{NPS} = 70\% - 2\% = 68\%$$

Tips/warnings

The NPS will give a nice, simple number; however, what it won't give you are the reasons why customers would or wouldn't recommend you or your products or services. A very powerful supplement to the single-question survey is a set of open questions along the following lines:

- What do you particularly like about this company/product?
- What or which areas could be improved?

This way, the company will not only get insight into how many customers are Promoters versus Detractors but also into the areas that need to be improved. Take this example from the Canada-based online retailer Zappos. The NPS survey is administered in two different situations: 1) after an order; 2) after a customer speaks with a customer loyalty representative.

Zappos online questions ask the NPS (on the 0–10 scale): 'How likely are you to recommend Zappos to a friend or a family member?'

However, to gain further information that would help them move their customers that are Detractors or Passive to Promoters status, they also ask the customer: 'If you had to name one thing that we could improve upon, what would that be?'

Moreover, following the interaction with the customer loyalty representative (and again on the 0–10 scale) the customer is asked: 'If you had your own company that was focused upon service, how likely would you be to hire this person to work for you?' Further questions ask 'Overall, would you describe the service you received from (insert name of customer loyalty representative) as good, bad, or fantastic?' and 'What exactly stood out as being good or bad about this service?'

As a point of warning, people highlight the fact that the NPS methodology lacks statistical integrity because grouping the responses into just three categories causes the error interval to multiply nine-fold. It might be that the NPS oversimplifies the scoring a little and companies might be better off looking at the actual breakdown of answers from the 10-point scale and their changes over time.

References

Net promoter is a customer loyalty metric developed by (and a registered trademark of) Fred Reichheld, Bain & Company, and Satmetrix.

Frederick F. Reichheld, The one number you need to grow, *Harvard Business Review*, December 2003.

Fred Reichheld, *The Ultimate Question: Driving Good Profits and True Growth*, Boston, MA: Harvard Business School Press, 2006.

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Customer retention rate

20

Strategic perspective

Customer perspective

Key performance question this indicator helps to answer

To what extent are we keeping the customers we have acquired?

Why is this indicator important?

In order to keep making money, companies need customers who buy their products and services. Keeping the customers we already have is usually better and cheaper than trying to find and win new ones. First, attracting and converting leads to customers is expensive. It is generally cheaper to maintain an existing customer relationship than to create a new one from scratch. Second, once customers have made a decision to buy from you it is generally easier to re-sell, cross-sell and up-sell to them.

This is why most businesses aim to convert their first-time buyers into long-term profitable customers. In his book *The Loyalty Effect*, Fred Reichfeld makes the point that 'A 5% improvement in customer retention rates will yield between a 20 to 100% increase in profits across a wide range of industries.'

The customer retention rate is a powerful indicator of current customer performance as it demonstrates loyalty through real behaviours (customers have actually decided to come back or stay), instead of factors that might predict future loyalty such as the net promoter score and brand equity (customers might be more likely to re-purchase in the future but there is no guarantee). On the other hand, of course, current retention rates are no guarantee of future retention either, but as a rule of thumb it can be stated that customers who buy more frequently are more likely to continue to do so.

Customer retention is therefore a metric that allows you to understand what percentage of your existing customers remain customers or make a repeat purchase. If your retention rate is high, you can generally assume high customer satisfaction levels (unless the barriers to leaving are very high or the incentives you give your customers outweigh the bad service they might receive). If retention is low, you want to know not just the actual numbers but more importantly the reasons for dissatisfaction (especially relative to your competitors).

A final point to remember about retention is that you don't necessarily want to keep all the customers you have acquired. Reasons for this are that some might not be profitable or some might be more expensive to serve compared to others. This is why the customer retention rate needs to be understood in the context of other measures such as customer profitability and customer lifetime value.

A complementary measure of customer retention is the customer churn rate (or customer attrition), which measures the percentage of customers a business loses over a specified time-frame.

How do I measure it?

Data collection method

When companies have good and accurate customer data, data for your customer retention ratio come from your purchasing information, i.e. your general sales ledger or your CRM (customer relationship management) system. If no customer data are available, a survey could be used to estimate customer retention.

Formula

Retention rate measures the percentage of customers a company is able to retain over a specified period. The formula that is often provided in textbooks just divides the number of active customers at the end of the time period by the number of active customers at the start of the time period. The problem with this formula is that it not only measures retained customers but includes newly acquired customers and therefore is not really a measure of retention.

A better formula is:

$$\text{Customer retention rate (CRR)} = \frac{\text{Number of customers at the beginning of a period}}{\text{Number of those customers that remained customers at the end of a period}}$$