Key Performance Indicator (KPI)

Introduction

Key Performance Indicators or KPIs specifically help determine a company's strategic, financial, and operational achievements, especially compared to those of other businesses within the same sector. They are specific measures of the performance of an individual, team, or department. They provide targets for teams to shoot for, milestones to gauge progress, and insights that help people across the organization make better decisions.

Definition

Key performance indicators (KPIs) refer to a set of quantifiable measurements used to gauge a company's overall long-term performance.

When to Use it

KPI is used t5o track progress towards goals.
KPIs can be used to measure performance at different strategic levels. For example, a company might choose one set of KPIs to measure its overall business performance. But then use another set of KPIs to measure the performance of different functions in the company, such as Sales, Marketing, Finance, HR and Operations. You can also use KPIs to measure the performance of individuals, projects, campaigns, processes, tools or even machines.

Details

KPI is also referred to as key success indicators (KSIs), KPIs vary between companies and between industries, depending on performance criteria. For example, a software company striving to attain the fastest growth in its industry may consider year-over-year (YOY) revenue growth as its chief performance indicator. Contrarily, a retail chain might place more value on same-store sales, as the best KPI metric in which to gauge its growth. There are many types of KPIs. Some of them are discussed as below:

Financial Metrics

Key performance indicators tied to the financials typically focus on revenue and profit margins. Net profit, the most tried and true of profit-based measurements, represents the amount of revenue that remains, as profit for a given period, after accounting for all the company's expenses, taxes, and interest payments for the same period.

Customer Metrics

Customer-focused KPIs generally center on per-customer efficiency, customer satisfaction, and customer retention.
Customer lifetime value (CLV) represents the total amount of money that a customer is expected to spend on your products over the entire business relationship.

Process Performance Metrics

Process metrics aim to measure and monitor operational performance across the organization. By dividing the number of defective products by total products produced, for example, businesses can measure the percentage of defective products. Naturally, the goal would be to get this number down as low as possible.

Example:

Sales KPI examples

Total Sales Volume: Measures the total volume, in dollars, of sales each month. Create a monthly or quarterly target so that your sales team has a goal, and be sure to adjust it regularly for dips or increases in sales which might occur around seasonal events or holidays
Sales Cycle Length: Taking too long to complete a sale can negatively impact your bottom line and prevent you from reaching your quarterly goals. This KPI helps you measure how long it takes for a sale to be completed from start to finish.

Financial KPI examples

Gross Profit Margin: Get a percentage value of your total sales revenue. This KPI doesn't look at expenses, but instead focuses mainly on profits. It's a good yardstick to use when comparing your profits to that of your competitors.
Net Profit Margin: This KPI looks at the total percentage of your revenue after you deduct all your expenses, like operating costs, taxes, and interest. Net Profit Margin is more helpful for internal comparison of your profits.

Marketing KPI examples

Traffic: This is a common KPI example. Here, you're looking at the total number of visitors to your business, whether it's traffic to your website or visitors in a physical location. You can measure the differences of this KPI over any amount of time, such as by hour of the day, day of the week, or month after month to see when you're getting the most visitors.
Cost Per Lead: Once your traffic is converting into leads, you'll probably want to know what each lead is costing. You might look at your cost of bringing in traffic or running your campaigns. This is a common KPI in online marketing and it usually measures how many people express interest in your business vs how many people see your ad or campaign.

Limitations of Using Key Performance Indicators (KPIs)

Some of the disadvantages to using KPIs include:

- The long-time frame required for KPIs to provide meaningful data
- They require constant monitoring and close follow-up to be useful
- They open the possibility for managers to "game" KPIs
- Quality tends to drop when managers are hyper focused on productivity KPIs
- Employees can be pushed too hard aiming specifically for KPIs