AMR Research Outlook

# Defining Your Measurement Strategy, Part I: Three Simple Steps to Improve Performance

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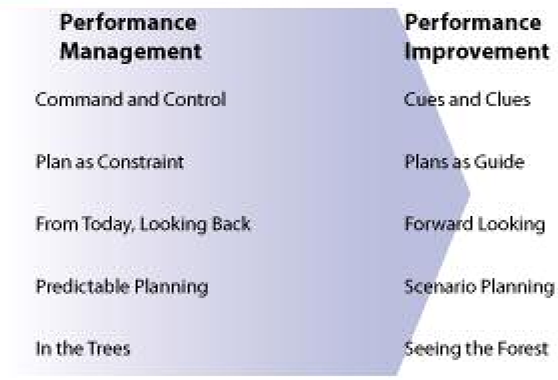
For the last year, and especially in the last two quarters, the number of inquiries from customers wrestling with data and analysis has skyrocketed. The tone of these questions has also changed. No longer are companies satisfied with simply understanding their company's accomplishments. Now, they want to actively use this newfound intelligence to streamline and improve performance. When you compare a traditional view of performance management with one that embraces improvement, subtle but important differences emerge (see Figure 1).

While it's clearly important, companies continuously struggle with how to manage and improve performance effectively, including grappling with the following:

- Which metrics really matter?
- How do we get buy-in around the organization?
- Can we get the right resources needed to collect data before it's too old?
- How can we overcome the resistance to systemic measurement?

**The Bottom Line:** What's needed is a cohesive measurement strategy that encompasses three simple steps to performance improvement: the why, what, and how. A measurement strategy identifies your goals, defines a portfolio of metrics to achieve them, and outlines an implementation plan to make it part of your ongoing business process.

**Figure 1:** EPM—traditional views have expanded




*Source: AMR Research, 2005*

### Defining a measurement strategy: why, what, and how?

The words "measurement" and "strategy" are not used together in most businesses today. If they are, it's to say that the metrics and measurement processes used by an organization should support its business strategy.

What we're saying here is quite different. We're talking about a measurement strategy that outlines a vision for where you want to get to from a measurement perspective and a plan to get there that includes the necessary change management activities and the technology to make it repeatable.

A measurement strategy encompasses three simple steps to performance improvement:

- *Why?* Identify Goals
- *What?* Define Metrics Hierarchy
- *How?* Implement for Repeatability

In this article, we'll describe Step 1. Steps 2 and 3 will be the topic of future articles.

### Step 1: Why? Identify Goals

The first step is to clearly define your goals for measuring because different goals require very different metrics: the why steers the what.

- Is your goal to have metrics that will help you analyze the root cause of problems in your business and apply the appropriate corrective action?
- Is your goal to provide a view into the financial health of your business?
- Is your goal to do scenario planning that will help guide ongoing decision-making?

For example, the metrics that the CFO needs to get a good picture of the financial health of the supply chain business are quite different than the metrics the VP of supply chain needs to diagnose, correct, and manage supply chain operations. Each requires its own portfolio of metrics. It's possible, even likely, that there will be overlap between the portfolios, but there are major differences as well.

Even where the same metrics are used, there are differences. Consider the example of inventory:

- The CFO wants to see total inventory as a percentage of revenue.
- In contrast, the VP of supply chain wants to see inventory days or turns, and wants to see it broken down into its components of raw material, work-in-process, and finished goods so she can pinpoint whether the source of problems is on the supplier, internal production, or customer side of the business.

**Conclusion**

To get to effective performance improvement, you need a plan that outlines the why, what, and how. In this article, we've discussed the first step, defining the "why": the different purposes for which you will be measuring. This, in turn, leads to the next step: establishing the metrics that matter, which we will cover in our next installment.