

The importance of key performance indicators for your business

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Many businesses do not make use of key performance indicators to help grow their business.

Maybe the business owner thinks that it is too much trouble to keep track of. Maybe the business owner thinks that only top management should see what the results of the business are.

More successful businesses are creating KPI metrics that relate to all of the team, whether the team member is in management, in shipping, in safety protocols or in sales. Each area of the business needs the feedback that KPIs bring, in order to improve what really impacts their area of the business. The improvement in each area generally positively impact the bottom line.

The successful businesses embed the KPIs into incentive-based systems to focus the team on what is really important to the growth of the company. For instance, if the manufacturing company measures the number of rejected shipments that are returned, this KPI may relate to shipping, manufacturing or even the sales department that caused the rejection, e.g. for damaged shipments or sending the wrong product, to name a few reasons for the rejected deliveries.

Having a lot of rejected goods can cost the company a lot of money, and it can also give the company a bad reputation.



If the company creates an incentive around lowering the amount of customer returns, it shows to the various departments involved what is really important to the company, and this allows the departments to share in the savings to the company from having a lower return rate.

In setting up KPIs (or resetting the KPIs), it is important to pick items that are specific, are easily measurable, and align with the company's goals. Here are some examples of some KPIs that may be used in a manufacturing type company:

1. Customer return rate, which was discussed above.
2. On-time delivery -- This KPI creates a measure of customer satisfaction, if all shipments can be made within the time set forth in the purchase order.
3. Safety -- This is a KPI that looks to attain less safety incidents, or preferably no safety issues in the plant. This allows the company to keep their team from incurring an injury.
4. Production schedule attainment. This can measure the factors that may affect production, which also impact the on-time delivery of its product.
5. Capacity utilization -- Using this KPI can indicate if the machine is in good working condition and producing at its maximum capacity.
6. Time to changeover -- This KPI tracks the time in setting up for each job, including retooling, calibrating and programming for that next job.
7. Sales repeat business -- This measures the repeat business from existing customers, which will show sales effectiveness for each sales rep.

These are but a few examples of KPIs that can be used in a manufacturing business. It is important to tailor the items that need to be measured in order to produce a better bottom line, better cash flow, more safety in the plant, better collection of cash in the business, etc. It is important to measure those items that need improvement in the business, as measuring consistently leads to improvement.

Measuring these KPIs consistently and combining them with an incentive plan can be the key to improving that metric that will give the company a better bottom line.

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