KPIs: The Good, The Bad, & The Ugly!

Article by John Higgins

Key Performance Indicators ("KPIs)" are a very important part of any successful business. Having measures that can look at performance in a specific area of your business is critical to knowing how well you are doing and how you compare to similar dealer operations in your industry. Sharing and evaluating KPIs in Dealer Performance Groups is a great practice that can bring exceptional results improvement. That said, KPIs can be very powerful tools that can turn pretty ugly and hurt the business more then they help. Here is some insight on "The Good, The Bad, & The Ugly" of KPIs:

The Good: When linked to your strategy, a KPI can generate tremendous focus on what's important. It not only acts as a report card on the execution of your strategy, but it can also bring strong and healthy discussion around what that KPI means and how it should be viewed. This education process develops a much stronger team with a richer understanding of the broader dynamics of your business. When teams engage in this knowledge environment, they start thinking differently about their decisions and share and engage in conversations that help the entire business perform better.

The Bad: When a KPI is an isolated target, it can drive negative behaviour as a result of "Local Optimization". When an owner or senior team in a business dictates KPIs and ties them to individual incentive plans, behavior changes. A great example of this was a Parts Manager that was given a KPI target for inventory turns. The KPI was not set with the support of the Parts manager and it had an individual financial reward attached to it. This is when behaviour started to change. In a plan to hit the KPI, the Parts Manager started reducing inventory without thinking about how it would affect any other area of the business, most importantly the Service Department and Customer Satisfaction. This was discovered with decreased turn around in the shop, many angry visits to the GM's office by customers, and the legitimate concern from the Service Manager that this behaviour was negatively hurting his KPI performance.

However, we were able to fix this problem and get the results the dealer was looking for. First, by bringing the team together, then selecting the KPIs with the right benchmarks, and finally tying the incentives to the joint team.

The Ugly: When KPIs become targets that low-integrity leadership sees as a way to maximize compensation, very serious behaviour changes happen. In a recent discussion with a dealer, he was shocked to learn that his sales manager who just left after his big bonus payout had left a financial train-wreck behind. The owner of the business had set a Market Share Target that was tied to a significant financial reward. Not being as close to the daily operations as he should have been, the dealer did not monitor trade values on used equipment, residual risk on leases, or side commitments to customers to get deals done. The sales manager got the Market Share the owner was looking for, and his big financial reward. But, it was not long after that the financial and customer relations damage started to surface.

KPIs are great for getting a view of your business as it relates to your strategy as well as benchmarking how you are doing in the industry. However, there are some critical elements to remember: make sure the data you are using is good, that you have selected the right measures, and that your team is part of the selection process. Also, remember that a KPI is only a snapshot of a moment in time. To get full value from KPIs, always track them over time in a graph. Knowing the direction a certain measure is moving over time is the best way to see progress or alert you to possible negative trends.

For more information on KPIs and how they can be used to optimize your business, get in touch with the author of this article, John Higgins. John is VP of Consulting Services at DFS Solutions and can be reached at jhiggins@dfs-solutions.com.

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