

# Getting the Key KPI's



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- Ask most Finance professionals how they measure their business and they'll cite our typical tools....
  - Income Statement
  - Cash Flow Statement
  - Balance Sheet
- These are merely reporting mechanisms for the true tools that we use to measure our respective businesses.
- **What are the KPI's that help you make your business decisions?**

## Wide Scope of Companies & Approaches

- O'Neill Wetsuits
- GT Bicycles
- Pacific Sunwear of California
- Flex Foot / Ossur
- Wedbush Morgan Securities
- Zappos.com
- DC Shoes
- **MGE UPS Systems**

- MGE-UPS Systems (\$250m NA / \$800m Globally)
- Division of Schneider Electric (CAC public co.)
- 30% of Company revenues Service related.
- Installation, Repair, Contract Maintenance
- ≈ 350,000 labor hours per year.
- Basis for long-term customer relationships.
- **No reporting on labor productivity levels.**
- **No reporting of hourly cost rates.**
- **No basis for setting service contract pricing.**
- **No financial reporting of Service segments.**

**How do you create value for the Company in the absence of such critical reporting?**

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**How do you price a Service Offering when you don't know your costs?**

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**How do you formulate staffing decisions when you don't know how hours are consumed?**

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**How do you drive improvements when you don't even know where the waste is?**

## Establishing New KPI Reporting

- Confirming the total amount of monthly labor hours.
- Establishing new set of labor reporting codes.
- Classifying new reporting codes as “Productive” and “Non-Productive”\*
- Aligning the new labor codes to revenue segments.
- Calculating hourly cost rates at national and regional levels.
- Calculating labor productivity levels.
- **North America effort would roll out globally.**

- **Challenges:**

- Implementing a new reporting structure in a mature company.
- Communicating to tenured employees (decades+) that their time would be specifically measured.
- Exposing true field performance & areas of deficiency previously hidden.
- Trying to quantify/confirm statistics presented by Service management.

- **Expected Benefits:**

- New hire decisions could be easily supported w/ new data.
- Bonus plans could be driven at regional level.
- Bidding for national service contracts could be adjusted based on specific data.
- New data could support specific incremental improvements as opposed to general goals.
- Labor costs could be allocated to appropriate revenue segments for financial reporting.
- **Extremely minimal cost to implement!**

## Reporting Rollout Strategy

- Establishment of new Labor Codes.
  - Selection of codes broad enough for all activities.
  - Review / approval of codes by Regional Directors\*
- Implementation of ADP EZ-Labor platform.
  - Allowed Field Engineers to report hours real-time.
  - Hours could be reviewed by RSD's on a daily basis.
- Draft & distribute training documentation.
- Conference calls with RSD's & managers to discuss new program.
- Incremental regional rollouts to minimize potential disruptions.

## Initial Observations

- High rate of non-reported time by FEs.
  - Variance between hours reports on FSRs and Payroll.
  - Signal that customer work is unbilled or payroll overstated.
- Excessive amount of training hours.
  - Cold weather climate FE's to CA for Winter training.
  - Training for equipment that is not typical to region.
- Excessive amount of travel time for jobs.
  - Skilled FEs traveling farther to cover untrained FEs.
  - Poor dispatch strategy from central call center.
  - Used as a tool for FEs to pad payroll hours + mileage cost
- Ability to track hours showed excess actual hours versus quoted hours on major projects.

## What does this have to do with KPI reporting?

- It's not enough to review the Income Statement and set a goal of improving Service margins.
- It's not enough to review Headcount expense and set a goal of reducing it by a random %.
- It's not enough to approve key business decisions on a global overview of the results.
- Only through key metrics can you make targeted Income Statement improvements.
- Only through key metrics can you truly quantify the need for additional headcount.
- Only through key metrics can you specifically support customer needs and initiatives.
- Only through key metrics can you intelligently address competitor threats w/ revised prices or offerings.

## Quantified Results

- Established standards for acceptable levels of Productivity.
  - At 70% there was a calculated HCR of approximately \$105.
- Quickly reduced Non-Reported time from high-teens to low-single digits.
  - Recaptured  $\approx$  40k hours to improve quality of reporting.
- Determined that Training = 13% of total hours.
  - Equates to 45k hours, or \$4.8 million in expense.
  - Provided a target to improve Training effort.
  - Allowed for retention incentives to avoid turnover.
- Determined that Travel  $\approx$  25% of total hours
  - Equates to 85k hours, or \$9.2 million in expense.
  - Target to improve dispatch accuracy for FEs.
  - Training strategy targeted to regional install profile.

## Quantified Results

- Regional Productivity levels provided guidance for staffing requirements.
  - Heavily impacted areas given additional staffing support.
  - Areas w/ excess provided opportunities to transfer FEs.
- Better understanding of hourly cost rates allowed for more competitive project bidding.
  - Definitive costs on bidding rather than approximate.
  - Considerations to equipment benefit as well (plant capacity).
- Definitive reporting mitigated confusion or implied “beliefs” at the Corporate level.
  - Ability to qualify any material variances to plan.
- Formulation of Budget allows targeted improvements.
  - Targeted expense controls & Productivity levels.
  - Targeted hours per labor category.
  - Targeted HCRs as well as properly priced Service offerings.

- **Closing Summary:**

- Financial ratios are not your KPIs.
- KPIs are not a static reporting structure.
- KPIs should be a dynamic form of reporting that changes w/ needs of the business.
- KPIs should be viewed as the “triggers” to improve your financial ratios.
- Incremental improvements in your KPIs will result in improved financial results.
- **Will your KPIs help you drive performance?**

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