

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?

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

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

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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