Key Strategic Indicators

Tracking the health of your business

SNAPSHOT
The E-Myth Mastery Program
Module 1: Foundations of E-Myth Leadership
Business Development Process: LD-0050

The sad fact is that Quantification is not being done in most businesses. And it's costing them a fortune.

—Michael Gerber, *The E-Myth Revisited*

Definition

Key Strategic Indicators are the quantification of your company's condition compared with the key elements of your Strategic Objective.

Key Strategic Indicators Development Processes

Identify the Key Components of Your Strategic Objective

↓

Establish Key Strategic Indicators (Worksheet)

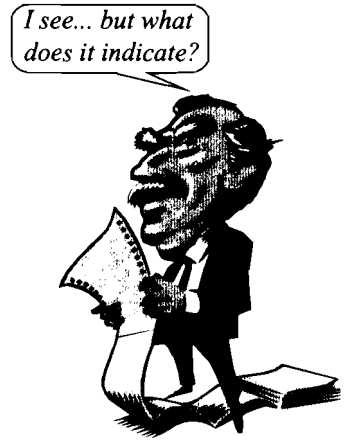
↓

Track and Evaluate

Examples of Key Strategic Indicators

Sales and **profit margins** are always Key Strategic Indicators. After that, the indicators are what you say they are. Examples:

Growth rates
Company value
Productivity
Customer satisfaction
Employee morale
Industry leadership
Reputation in the market Product/service quality



Why track Key Strategic Indicators?

Helps manage progress toward your Strategic Objective.

Takes the "big picture" perspective and focuses on the truly key components of your strategy.

Makes you less biased, more objective in your perceptions of progress.

Enables you to quantify intangibles and non-measurable results.

Key Points

Focus on the few key elements of your Strategic Objective.

Quantify them. Measure what can be measured.

Use a "scoring" system to quantify intangibles and elements you are unable to measure. Create "opposite pair" (best case—worst case) descriptions for each element of your Strategic Objective. Score them on a scale from +10 to -10.

-10 -9 -8 -7 -6 -5 -4 -3 -2 -1 0 +1 +2 +3 +4 +5 +6 +7 +8 +9

+10

Worst Condition — **Best Condition**

Quantification of an intangible result does not make it tangible. It gives you a better perspective, clarifies the result, and makes your understanding more objective.

Track and evaluate your Key Strategic Indicators periodically.

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Putting the Pieces Together

Santa Rosa, California, USA

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Key Strategic Indicators

Tracking the health of your business

"The sad fact is that Quantification is not being done in most businesses. And it's costing them a fortune."

—Michael Gerber, *The E-Myth Revisited*

What Are "Key Strategic Indicators?"

Key Strategic Indicators are the quantification of your company's condition compared with the key elements of your Strategic Objective.

Any system has indicators that tell you how well or how poorly parts of the system are working, and key indicators that focus on the most critical elements of the system. Key *Operating* Indicators tell you how well various parts of your business are working and Key *Strategic* Indicators tell how well your whole business is working, and how it is progressing toward your Strategic Objective.

We don't always pay attention to them or measure and track them, but nevertheless, the indicators do exist. The trick is to identify them, quantify them, and track them periodically.

Why Bother To Track Your Key Strategic Indicators?

If you are like most small business owners, you have a "feel" for your business. You *know* what's going on from day to day and hour to hour. You see your customer traffic, hear their complaints and compliments. You see the activity of your employees and *their* complaints and compliments. Your suppliers are happy—or not so happy—with your orders and your payments. Your products or services are in demand, or maybe they're not. Good or bad, you know what's going on.

But do you really? Are your personal observations enough? You can see where this is heading. Of course they're not.

Personal observations and a "feel" for your business are important, in fact, they're essential. But they are not enough. And more often than one would like to believe, personal observations can actually be misleading. The

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problem is that the mind reacts to what it is exposed to—unusual events make a disproportionate impression and the greatest weight is given to what's happening currently. In the daily rush of business, it is all too easy to lose perspective and be out of touch with the *real* progress your business is, or is not, making.

What every small business owner needs is a quantified, systematic, objective way to observe the progress of his/her business. That's the purpose of Key Strategic Indicators.

Measurable Indicators and Non-Measurable Indicators

It is common in business today to think of indicators as only those things you can objectively measure. Sales, profits, growth rates, assets, liabilities, net worth, market value, efficiency, units of production—they're measurable and clear. Well, relatively clear. If it can't be measured, it's either ignored or factored into decision making in some subjective way, usually biased, almost always inaccurate.

A big mistake!

Every businessperson—large corporate CEO, small business owner, or worker on the factory floor—intuitively places great importance on things in the workplace that can be observed or experienced but cannot explicitly be measured. How do you measure high employee morale? Or respect between management and employees? Or confusion, job satisfaction, frustration, mistrust, creativity, and a hundred other very real, very important, but hard-to-pin-down elements of your business? The answer is that you can't directly *measure* these experiential aspects of your business. But you can *quantify* them and track them and use them for informed, effective decision making.

Quantify? Measure? Aren't They the Same Thing?

No, they're not. "Measure" means you can count something, put it on a scale, put a yardstick next to it, time it, use an instrument to test its purity, its strength, its intensity. But what yardstick do you use for satisfaction or frustration? How do you weigh trust? What units of measurement define respect? You can't measure them, but you can describe them numerically—quantify them—and

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thus become more objective about your understanding of their impact on your business.

Quantifying and Tracking the Non-Measurable

As an example, let's quantify something that cannot be measured, and make sensible use of the quantification. How about springboard diving? The diver executes the dive, the judges observe the beauty, precision, and athleticism of the dive, and each judge rates the dive on a scale of 0 through 10. If the diver gets an "8" for the dive, everyone knows it was a good dive, yet there was nothing that could be measured. The weight of the diver? Irrelevant. The distance of the drop to the water? Also irrelevant. The quality of the dive? Extremely relevant but non-measurable, yet we have quantified it in a useful way.

How about precision? There were five judges at the diving competition and their scores were 6-1/2, 8, 8, 8-1/2, and 9. That's pretty imprecise, isn't it? That's typical of quantifying intangibles. These numbers are less precise than those for measurable factors, yet much more precise than reliance on unquantified impressions and "gut feelings." For all their imprecision, diving scores give us a useful way of evaluating the performance of the divers and a fair way to establish the winner. And the same is true for your business.

Establishing the Key Strategic Indicators for Your Business

Let's translate the idea into your business. This time, *you* are the judge. You have many measurable and non-measurable elements of your business. You will need to identify the factors that are key to achieving your Strategic Objective and devise a way to quantify them. The result will be the set of Key Strategic Indicators for your business. Then you merely track them periodically to evaluate your progress toward your Strategic Objective.

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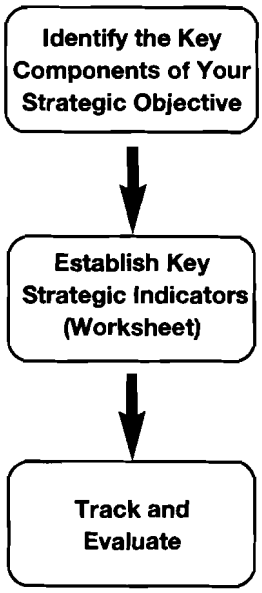

It's a three-step process.

1 First, you carefully review your Strategic Objective statement and identify its key components. Sales and profits will *always* be key components, others depend on your business.

2 Using the worksheet we have provided, establish your Key Strategic Indicators and how they will be quantified. The measurable ones will be measured, and the non-measurable ones will be quantified using a scoring method such as the one we will show you.

3 Create the system you will use to periodically track and evaluate your business against its Key Strategic Indicators. Let's talk a bit about how to quantify the non-measurable indicators before we walk through an example.

Quantifying the Non-Measurable Key Strategic Indicators of Your Business

In a nutshell, you quantify intangibles by first setting up the good and bad extremes on a scale of minus 10 to plus 10 (or any numerical scale that works for you), and then use your judgment to indicate where your business falls on the scale.

Let's try it by quantifying, say, employee morale at your business. The good extreme is described as "Employees Satisfied" and the bad extreme as "Employees Frustrated." You can use terms that work for you. Then, circle the number that best indicates employee morale at the present, like so:

-10 -9 -8 -7 -6 -5 -4 -3 (-2) -1 0 +1 +2 +3 +4 +5 +6 +7 +8 +9 +10

EMPLOYEES FRUSTRATED — EMPLOYEES SATISFIED

Just look at what this quantification does for you. The zero point indicates the middle ground where your employees have about as much satisfaction as dissatisfaction. If the balance is tipped toward frustration, your rating is a -2 or -3. If your people are about to strike and burn your shop down, then a -9 or -10 should be the score.

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What if, as you improve your business in the years ahead, employee morale becomes better than you dreamed it could be, even better than the vision of your Strategic Objective. You are not constrained to the end of the scale at +10; it is possible, and desirable, to reach a +12 score or higher.

Watch for the Traps

It's just that simple, but watch out for traps, like trying to think in terms of "units" of employee morale. There is no such thing. Don't let yourself think, just because you have put a number to something intangible, that you have made it tangible. You have merely created a new way of looking at it, a way that allows you to be more objective, to gauge your progress more rationally, and to see it from an additional perspective.

Another trap is to bias the numbers by exaggerating your scores, whether on purpose or inadvertently. You have to be as honest in your scoring as possible, or your scores are worthless, maybe even misleading.

Now let's walk through an example.

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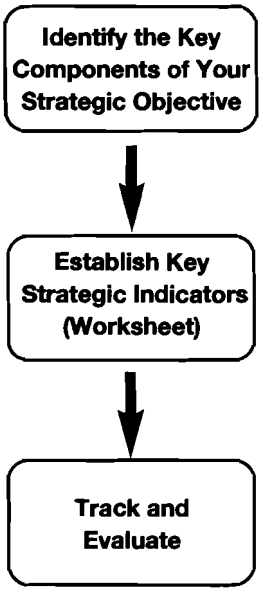
Example: BuggBusters, Inc.



To illustrate how to create and use Key Strategic Indicators, let's look at the case of Mike Furgeson, owner and President of BuggBusters, Inc., a growing pest control company with an innovative, high-tech method for exterminating termites. Mike used the following steps to develop the Key Strategic Indicators for BuggBusters:

1. He examined his Strategic Objective statement to determine its key components.
2. He defined and quantified the key indicators for each of the key components:
   - He measured those that could be measured.
   - He used a scoring method for those that could not be measured.
3. He set up a Key Strategic Indicators worksheet (based on generic worksheets we provided him) and completed his first evaluation of BuggBusters' Key Strategic Indicators.

Mike now tracks and evaluates BuggBusters' Key Strategic Indicators quarterly.

Let's walk through the process with Mike as our guide. Mike's first step was to identify the key components of BuggBusters' Strategic Objective statement. Here is his Strategic Objective statement with the key components he highlighted:

> *BuggBusters will be a premier pest control service with at least twelve branches statewide and positioned for nationwide growth within three years. Sales will exceed $18 million annually and branch profit margins will exceed 28%.*
>
> *BuggBusters will appeal to concerned property owners who appreciate the clean, convenient, environmentally sensitive approach to pest control while minimizing damage to their property, eliminating disruption of their lives, and avoiding the embarrassment of conventional methods. BuggBusters will continually innovate to remain at the leading edge of our industry.*
>
> *Customers will call any branch and get fast, convenient service*

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at reasonable prices from polite, clean, friendly people who provide knowledgeable, attentive, and professional service. Customers will feel comfortable and confident with BuggBusters people in their homes.

Customer satisfaction

Every branch will be systemized to perform the work in the same professional manner. The branch will be clean and efficient. Each branch will have three distinct areas of operations harmonized together: Uniformed sales inspectors, whose sales presentation and inspection procedures are consistent, thorough, and honest; office personnel, who are well organized, have excellent telephone manners, are knowledgeable about the pest control business and quick to assist and resolve problems; and uniformed production personnel, who follow exactly the same procedures for performing the work at each location.

BuggBusters will seek input from employees to create a pleasant team atmosphere that will emphasize service, friendliness and above all customer satisfaction.

With the key components of his Strategic Objective identified, it was a simple matter for Mike to list them and set them up on the Key Strategic Indicators Worksheet we provided him. First, he listed them, grouping those that were measurable and those that were non-measurable.

Measurable

- Sales
- Branch profit margins
- Number of branches
- Growth rate (sales)

Non-Measurable

- Premier pest control service
- Leading edge of our industry
- Professional service
- Customer satisfaction
- Systemization of the company
- Team atmosphere

Then, for each of the non-measurable components, Mike created "opposite pair" descriptions. Opposite pair descriptions are short phrases that define the range of

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results from best to worst. The positive end of the range is where Mike expects each component to be when BuggBusters achieves its Strategic Objective. The negative end of the range describes the worst condition Mike could reasonably imagine for each key component. Here are the opposite pairs he came up with:

Premier pest control service

Best condition:	We're #1, the best in our market
Worst condition:	We're unknown, held in contempt

Leading edge of our industry

Best condition:	We're ahead in technology, strategy, and skills
Worst condition:	We're trailing everyone

Professional service

Best condition:	On time, every time, exactly as the customer expected
Worst condition:	Shoddy, inconsistent service

Customer satisfaction

Best condition:	Customers love our products, services, delivery, etc., and prefer them to all others
Worst condition:	Customers hate our products, services, delivery, etc.

Systemization of the company

Best condition:	We are systemized from top to bottom
Worst condition:	We are reactive and unsystematic about everything

Team atmosphere

Best condition:	Cohesive, cooperative, "family" feeling throughout the company
Worst condition:	Zero teamwork, people alienated from each other, competitive rather than cooperative

After all that, Mike found it a relatively simple task to create the worksheets he would use for his quarterly progress review. His worksheets are shown on the next pages.

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Key Strategic Indicators Worksheet

Company Name: BUGGBUSTERS

Date Compiled: JUNE 30, 2000

Measurable/Tangible Indicators

Indicator	Target Result	Previous Period	Current Period	Progress
Sales (annual rate)	$ 18 MILLION	$ 5.6 MILLION	$ 5.9 MILLION	+$0.3 MILLION
Profit Margin	28.0%	17.8%	18.7%	+ 0.9%
BRANCHES (#)	12	5	5	0
GROWTH RATE (SALES)	11.3%/QTR	13.5%	5.4%	- 5.9%

Non-Measurable/Intangible Indicators

PREMIER COMPANY	+10	-2	-2	0
LEADING EDGE COMPANY	+10	+4	+4	0
PROFESSIONAL SERVICE	+10	0	+1	+1
CUSTOMER SATISFACTION	+10	0	+1	+1
SYSTEMIZATION OF THE COMPANY	+10	-6	-5	+1
TEAM ATMOSPHERE	+10	-1	+1	+2
	+10			
	+10			
	+10			

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Key Strategic Indicators Worksheet

Non-Measurable/Intangible Indicators

UNKNOWN, HELD IN CONTEMPT									PREMIER COMPANY											#1, BEST IN OUR MARKET
-10	-9	-8	-7	-6	-5	-4	-3	(-2)	-1	0	+1	+2	+3	+4	+5	+6	+7	+8	+9	+10
TRAILING EVERYONE EVERYONE									LEADING EDGE											AHEAD OF IN TECHNOLOGY, STRATEGY, & SKILLS
-10	-9	-8	-7	-6	-5	-4	-3	-2	-1	0	+1	+2	+3	(+4)	+5	+6	+7	+8	+9	+10
SHODDY, INCONSISTENT SERVICE									PROFESSIONAL SERVICE											ON TIME, EVERY TIME, EXACTLY AS CUSTOMERS EXPECT
-10	-9	-8	-7	-6	-5	-4	-3	-2	-1	0	(+1)	+2	+3	+4	+5	+6	+7	+8	+9	+10
CUSTOMERS HATE US AND OUR PRODUCTS									CUSTOMER SATISFACTION											CUSTOMERS PREFER US AND OUR PRODUCTS OVER ALL OTHERS
-10	-9	-8	-7	-6	-5	-4	-3	-2	-1	0	(+1)	+2	+3	+4	+5	+6	+7	+8	+9	+10
REACTIVE, TOTALLY UNSYSTEMATIC									SYSTEMIZATION OF OUR COMPANY											SYSTEMIZED FROM TOP TO BOTTOM
-10	-9	-8	-7	-6	(-5)	-4	-3	-2	-1	0	+1	+2	+3	+4	+5	+6	+7	+8	+9	+10
ZERO TEAMWORK, NO COOPERATION									TEAM ATMOSPHERE											COHESIVE, COOPERATIVE FAMILY FEELING
-10	-9	-8	-7	-6	-5	-4	-3	-2	-1	0	(+1)	+2	+3	+4	+5	+6	+7	+8	+9	+10
-10	-9	-8	-7	-6	-5	-4	-3	-2	-1	0	+1	+2	+3	+4	+5	+6	+7	+8	+9	+10
-10	-9	-8	-7	-6	-5	-4	-3	-2	-1	0	+1	+2	+3	+4	+5	+6	+7	+8	+9	+10
-10	-9	-8	-7	-6	-5	-4	-3	-2	-1	0	+1	+2	+3	+4	+5	+6	+7	+8	+9	+10
-10	-9	-8	-7	-6	-5	-4	-3	-2	-1	0	+1	+2	+3	+4	+5	+6	+7	+8	+9	+10

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How about Personal Key Indicators?

It has probably already occurred to you that the Key Indicator approach would be a great way to track your *personal* progress with your business. Key "personal objectives" indicators like income, accumulation of retirement funds, and the dollar value of other benefits are obvious and easy to measure. But what about the other, less tangible dimensions of your business experience?

It would be a simple matter to identify the key components of your business experience and score them periodically to track your personal growth as it relates to your business. Things like your "professionalism" as a manager, the degree to which you feel free of or trapped in your business, the degree to which you feel frustrated or joyful in your business, and any number of other dimensions of your business life that are important to you, and that block you from or help you toward realizing your life's Primary Aim.

Remember though, quantifying something intangible doesn't make it tangible. Putting a number to your feelings, hopes, and experiences hasn't made them concrete—it has merely given you another way to look at them and to make judgments about your progress in a more objective, rational way.

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