

Management briefing

6 steps to effective KPI-based planning

Turn your business goals into operational realities

SUPPLY CHAIN PLANNING & OPTIMIZATION

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Discover the missing link between business goals and operational plans

Your business has goals. Your business makes plans to achieve those goals. How close do your plans come to actually achieving those goals?

Many business suffer from a significant disconnect between strategy and operations. When asked what constitutes a good plan or schedule, planners typically mention criteria that have very little to do with business goals or KPIs.

This isn't surprising.

Given the complexity of many modern businesses, most planners are relieved to arrive at a feasible plan. Any feasible plan. There is simply no time to consider whether the plans they are struggling to create are aligned with business goals. In other words, most planners are planning in the dark.

What planners need

It goes without saying that planners benefit from intelligent decision support. More than that, they need immediate feedback on the quality of decisions before they are made.

Planners need to see the effects of their decisions so they can make optimal ones.

What form should this feedback take?

Throwing more data at planners isn't helpful. The answer lies in summarizing enormous amounts of information in an easy-to-understand, high-level overview. Key performance indicators (KPIs) that translate business goals into measurable objectives fit this role well.

Powerful KPIs vs post-mortem KPIs

KPIs are frequently used in management post-mortems to measure progress or the lack of it. But what if you could base your plans on the effect they have on KPIs – before committing to a course of action? What if you could actually plan by KPIs?

6 steps to effective KPI-based planning

This management briefing describes six practical steps that will give your planners the insights of hindsight – in the present.

The approach offered here has been described as 'an enabler for excellent results' by Novelis, and has driven significant gains in efficiency and productivity within leading organizations worldwide.

Step 1: Gather the right people

The right people are those who set your company's business goals and determine how they are measured.

The group should also include those who execute the daily processes that drive those goals.

Getting buy-in from all these colleagues is crucial.

What if you could base your plans on the effect they have on KPIs – before committing to a course of action? What if you could actually plan by KPIs?

Step 2: Invite the group to identify key business goals and planning decisions

What are the main business goals your company should focus on?

Common goals in a manufacturing environment include improving delivery performance, increasing customer satisfaction and reducing lead times. Once you have a shortlist, check for redundancies. For example, 'customer satisfaction' may already be covered by 'delivery performance' or 'lead times' or a combination of the two.

Next, list the key planning decisions. Continuing with our manufacturing example, typical planning decisions might include sequencing, batching, order acceptance and resource allocation. Once again, remove any redundancies.

Step 3: Create a matrix

Place your business goals on the X-axis and your planning decisions on the Y-axis. Now ask the group to examine all the intersections where the X- and Y-axes meet.

Their task is to identify the intersections where planning decisions have a significant effect on business goals. For example, a planning decision about how to 'sequence' tasks may well have a significant impact on the business goal of 'productivity'.

Once the group has identified these key intersections, highlight them.

Step 4:
Define the KPIs that link planning decisions with your business goals

This is the heart of the matter.

The highlighted intersections now need to be filled with appropriate KPIs. In other words, the group needs to determine how to measure the impact of certain planning decisions on the relevant business goals.

Take, for example, a home care service that schedules its care givers. Here, sequencing (a planning decision) is strongly related to productivity (a business goal). Changing the sequence of tasks a care giver performs will affect the interval time between tasks, and thus the his productivity. A helpful KPI at the intersection of sequencing and productivity might be:

$$\frac{\text{Daily planned task durations}}{\text{(Length of shift - lunch break)}}\ \%$$

	Business goals			
	Customer service	Employee happiness	Productivity	
Assignment	✓	?		Planning decicions
Sequencing	✓		✓	

Step 5: Give your planners instant KPI-based feedback before they commit to a decision

To benefit from the KPIs the group has defined, your planners need an intelligent decision-support system that automatically calculates those KPIs and displays them on screen immediately. This gives planners the feedback they need to make optimal planning decisions – before committing to them.

Instead of being told they have hit an iceberg after it happens (postmortem use of KPIs), your planners can correct course and align plans with business goals instantly.

Step 6: Conduct regular reviews of KPIs that need to be improved

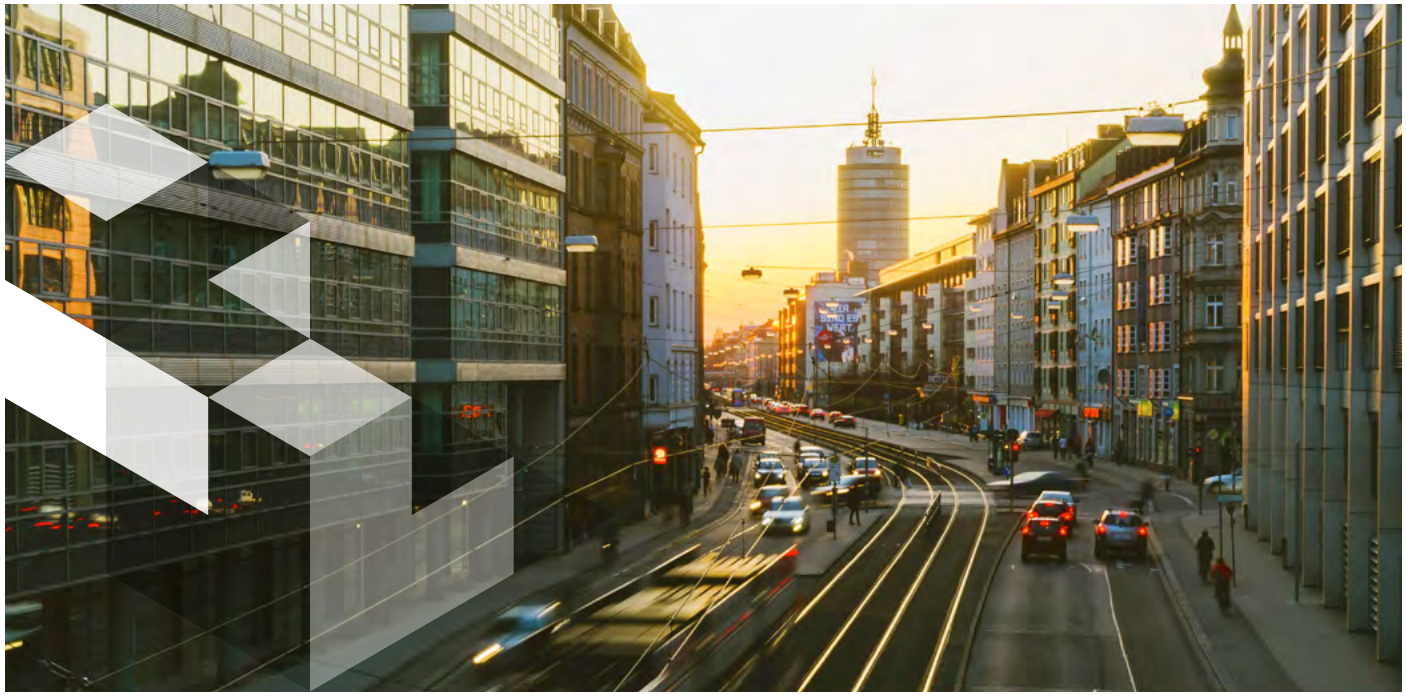
A KPI-matrix is also a useful diagnostic tool.

Suppose delivery performance is 70% when you feel it should be at least 90%. With a KPI-matrix that links business goals with planning decisions, you know exactly where to look. The KPIs at the relevant intersections will help you pinpoint why delivery performance is poor, and where to focus your efforts. If all the KPIs are fine, the poor delivery performance may not be due to sub-optimal planning at all.

Strategic alignment is something you can control. By:

- creating a KPI-matrix that links business goals and planning decisions
- implementing this in an intelligent decision-support system that calculates these pre-defined KPIs instantly

you can give your planners the benefit of hindsight – in the present.



A KPI-matrix with KPI-based decision support takes the mystery out of strategic alignment and turns it into a straightforward, measurable process. By following these steps you won't just be measuring progress. You'll be ensuring it.

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