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Online Intelligence Solutions

# KEY PERFORMANCE INDICATORS (KPI) – DEFINITION AND ACTION

## Integrating KPIs into your company's strategy

By Jacques Warren

## ABOUT JACQUES WARREN

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Jacques is the co-author of "Web Analytics : Mesurer le succès et maximiser les profits de votre site Web*" Eyrolle editions 2009.

*"Web Analytics: Measuring the success and maximizing the profits of your website"

# SUMMARY

# INTRODUCTION

The widespread use of Web Analytics over the last few years has shown us that there is a general trend which has been adopted in measuring the performance of online investments. Veterans in the field no longer feel the need to convince company leaders of the importance of measuring online investments. Any large company or any company for that matter should use one or several different tools to analyse their online activity.

Not all companies have taken the required step which involves establishing the most important areas to be analysed so that the success of their online activity can be measured. Ideally, this process should be carried out before any web analytics tool is used. The term which is used to refer to these measurements is Key Performance Indicators, or KPI.

Without KPIs companies will play the web analytics game by ear, in other words they will have no reference to any indicators showing them how well their online activity is performing.

# DEFINING THE KPIs

A KPI is a measurement which evaluates how a company executes its strategic vision

A definition of the term KPI could have been given from the outset, but this is not as easy a task as one might think, due to the fact that there are so many different variations of the definition of a KPI available in the literature written on this topic. As consultants, we generally prefer a more concrete, rather operational approach, of the different concepts; KPIs they ought to be practical tools rather than discursive ones.

A KPI is a measurement which evaluates how a company executes its strategic vision. The term strategic vision refers to how an interactive[1] strategy is integrated into a company's strategy as a whole. It is important that everyone involved in the company strategy agrees on what the strategy represents and how its variations are interpreted.

A KPI, or group of KPIs to be more exact (since a KPI rarely exists alone), form a type of language which can be used, not only to measure the effectiveness of Web projects, but also to state their chances of success. A KPI is a fundamental characteristic, and without any agreement on their meaning, would become a source of chaos rather than a source of focused action.

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1  The term interactive is used to include the different ways in which the Web is present nowadays: web sites, social networks, mobiles etc. The web is used in the exact same way for all of these different platforms.

## MAIN CHARACTERISTICS

The following list shows the main characteristics associated with KPIs, they should:

**Conform to a company's strategy** – this is an extremely important point, as mentioned above. If there is no clear link between a KPI and a company's business objectives, then a KPI is not a KPI. The indicator may well be an operational or secondary metric, but it is not a key performance indicator.

**Be easy to understand** – this may be a very obvious point but it tends to be forgotten. It is easy to imagine the different problems in productivity which a poor understanding of the indicators might lead to. If the KPIs are used to communicate, then everyone involved needs to agree on what they are used for and what they mean.

**Allow for action** – a measurement which cannot be influenced, even indirectly, is not of great importance. It is extremely important that people are aware of how the evolution of KPIs can be monitored and influenced.

**Be contextual** – it should also be easy to adapt KPIs to the creation of different targets which are to be reached and to the creation of lower thresholds, both of which are part of the continuous improvement of interactive marketing. At the beginning of the year we recommend that a company clearly define its growth or objectives depending on the indicators that have been used. KPIs will also be used to make it easier to determine how marketing activities will contribute to objectives being reached throughout the year.

We recommend that the term KPI be reserved and used for the most important metrics of your web investments. A high number of indicators, for example more than 15, would be the result of a lack of clarity as to what really lies at the most strategic level.

When asked the following question "How is the company's online activity performing?" the ideal response should be able to rely on three to five key figures associated with the KPIs.

# ESTABLISHING KPIs

Our involvement in several different projects for defining Web KPIs with some of the largest industrial companies has allowed us to establish the following rules of thumb:

**A KPI project involves everyone** – By including all of the managers who are involved in a company's online marketing, it becomes a much easier and quicker task to reach an agreement. External help is a major advantage but it is extremely important that the procedure that is drawn up comes from within the company.

**A general consensus is key** – This is a consequence of what was mentioned in the previous point. Participation in any KPI project must result in a common understanding of the importance, meaning, desired variations and the responsibility of each of the indicators. Without these guidelines in place, any negative result will be challenged. This leads us to back to asking different questions about the company's culture. Any analysis which is used to measure performance depends strongly on the implementation of the measurement tool that is used within the company. Is such a tool used as a control method or for the purposes of learning?

**There is no one universal solution** – If companies with a similar background were to use the same method to measure their online activity then to a certain extent a universal solution would exist. Establishing KPIs is a task that should not be avoided, because it is important that the different indicators respect a company's strategic vision.

## LAUNCHING THE DISCUSSION

In order to help companies think about and identify KPIs they need to ask themselves the following question: "If we asked management to triple Web budgets, what figures would we use to support our demand?" You can imagine that you will probably not be talking about visits or time spent on a site to begin with, never mind conversion rates!

This simple question raises a rather important heuristic; it forces participants to immediately position the web as part of their company's strategic plan. The hypothetical question stated above restricts teams to thinking about and defining their measurements from a purely business point of view, prohibiting them from thinking in terms of Web Analytics. From the outset, these business challenges take precedence over the different concepts and technology used. The technology depends on the requirements of the analysis, rather than on the different analyses which the wide range of tools can provide.

## FORMALISE AND DOCUMENT

*There is a lot of groundwork to be done, which consists in clearly documenting each indicator*

A KPI project should be seen as a formal exercise. There is a lot of groundwork to be done, which consists in clearly documenting each indicator with the method used to calculate it, where the indicator comes from and the data format used. It is also important to state the metrics which may influence the indicator the most. This phase, albeit an extremely important one is, however, neglected too often. It ensures the durability of the analyses, as far as both duration and interpreting the results are concerned.

Such an exercise will also help companies choose the technology that is to be used for data processing. The choice of the technology that is to be used is based on the needs of the company and not on the different attractive features associated with it.

# SHARING THE RESULTS

We believe that KPIs have a direct link with the way in which the results are shared, and what format is used etc. We have no preference as to what particular type of report is used, whether it contain mainly text or visuals, as is the case with very modern dashboards. What is important is that the main body of the message (a clear explanation of what has happened, what this will impact, what will happen in the future, and clear predictions made by the KPI objectives) will be easily understood by a company's decision-makers.
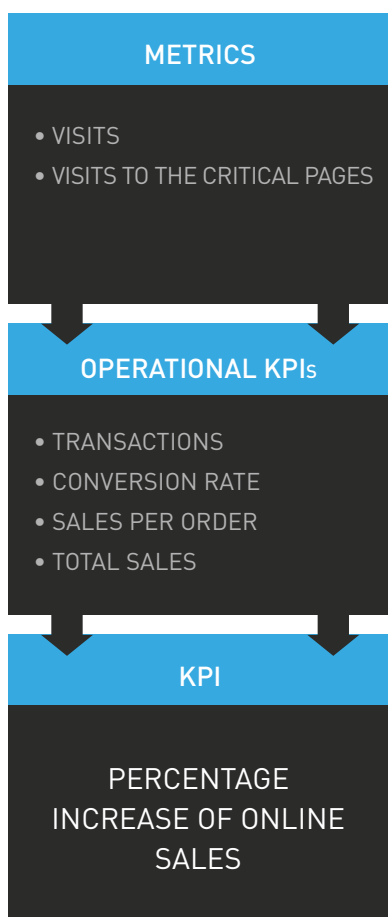
Choices relating to the different reports which are to be used must respect this principle of clarity.

# USING THE KPIS

## STRATEGY AND ACTIONS

We have shown the very narrow link that exists between KPIs and a company's strategic vision for their online activity. As KPIs are used to describe how well a company's strategy has been executed, we could almost say that the KPIs are a component of the strategy.

All that remains to be known is how they can be influenced. We insist that each KPI be subject to the determination of a company's growth objectives which are to be reached; each indicator also needs to be assigned to one or several managers who are responsible for creating a company's goals and objectives.

It is only natural that we have a very clear idea of how KPIs can be influenced through concrete actions. A well defined KPI will go through all of the variables which have a direct impact on each indicator. Operational KPIs are referred to as Drivers, or quite simply metrics. These measurements group together metrics which are found in the reports of web analytics products.

For example, if one of the KPIs is "to increase the percentage of online sales" an example of a metric which would have a direct influence on online sales would be the "conversion rate". In trying to increase the conversion rate, a marketer will indirectly influence the KPI in the way they want to. "Average order sales" is another example of a metric which could have a direct influence on the same KPI, and which can be found in the reports of applications. It is also possible to make a list of the different metrics which act upon the same KPI.

The following diagram illustrates how certain metrics influence a KPI:

**METRICS**

- VISITS
- VISITS TO THE CRITICAL PAGES

**OPERATIONAL KPIs**

- TRANSACTIONS
- CONVERSION RATE
- SALES PER ORDER
- TOTAL SALES

**KPI**

PERCENTAGE INCREASE OF ONLINE SALES

## MEASUREMENTS AND OPTIMISATION

The efforts which are invested in any KPI project represent the basis of the measurements used to analyse the performance of any online investments. KPIs are only relevant if they can show us the path to success, a path with many different actions with the aim of trying to improve a sustained effort of optimisation.

Optimisation is defined as the continual improvement of results which are obtained by different activities such as those which are evaluated in the framework of a strict measuring process. We believe that there is a slight risk in trying to chase small percentage points without having any performance indicators as a reference.

It will become necessary to transfer all optimisation efforts and channel them into KPIs, which are essential reference points.

Experience has also taught us that from a certain stage, the margin for improvement is inevitably reduced: marginal profit gain is close to zero for a given type of intervention. Web analysts may lose their ability to intervene on an operational indicator, which in turn will lose its influence on the KPI. Thankfully, there tends to be more than one way in which performance indicators can be influenced; each indicator is part of a real work plan.

We feel that it is also necessary to highlight the fact that there is a limit to how each of the optimisation points can be improved. We have also seen the effects of cancellation where the increased efficiency of a particular action seemed only to occur at the expense of another action.

Finally, we arrive at the point where the limits of web analytics can only be surpassed thanks to the marketing brain.

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AT Internet is a leading Independent web and mobile analytics solution provider, operating in 9 countries internationally. AT Internet prides itself on its data integrity and customer centric approach.

Proud winner of the 2009 Platinum Distinction for European Seal of E-Excellence, AT Internet provides a robust and reliable best of breed SaaS analytics platform offering a complete solution to enhance your marketing intelligence and business effectiveness.

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