Grow Your Business By Choosing What To Measure Now

By Peter Meyer

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If you want to speed the growth of your business, you can and should guide it by choosing to measure outcomes, not just outputs. Carefully setting up key performance indicators (KPIs) and using them correctly helps you grow time, revenue, and people in ways that contribute most to overall business growth. Doing it systematically can make that growth more intentional and less episodic. Consciously making the choice in the present can help make business growth sustainable over a longer period. This commentary is about making that choice.

In many businesses, managers track myriad activities. That is partly because there's a lot going on, but it's also partly because managers may not take the time (or be willing) to choose which outcomes really matter. Intentionally choosing your desired outcomes will guide where your business grows. Jonathan Becher, a senior executive of the multinational software company SAP, put it well: "The story of what you become as you grow up is based on the KPIs you choose." It means measuring outcomes, not outputs.

Outputs May Not Be Outcomes

Let's take a moment to look at input, output, and outcome. Identifying key inputs for processes is easy with a critical path analysis. However, that does not help distinguish outputs from outcomes.

To distinguish them, consider that "outputs" are often activities and "outcomes" are desired results. For example, booking a sale is an essential output of the sales process, but collecting the revenue may be the outcome that you want your business to gain. Unfortunately for your business, if the sale is not solid or is for something that you can't provide, getting a booking may not result in revenue. This is just one example of how output does not always deliver the desired outcome. To grow your business along any sort of plan, you want your team focused on outcomes.

To explain output and outcome, consider the personal income for people who work in your business. What happens with salaries and spending can be an example of input, output, and outcome.

Your employees collect income in the form of salary, bonuses, and commissions. Many will spend most of that income to make ends meet each month. The input is easy to identify; they measure that in dollars. Many of your employees use their income to do or get what they need to build a fulfilled life. The input is financial. The output is products, services, or investments (perhaps a boat, a vacation, savings, or tutors for the children). The desired outcome is your employees feeling good about themselves and their families.

The output is money spent. Spending is a key activity to turn salary into a meaningful outcome. But who defines meaningful outcome? It has to be individual. Do your employees measure success by the money spent or the results of that spending? The output of money is a means to an end. Most of us define outcomes that reflect what we want *after* the money is spent. The real goal for most employees is choosing what they wish to do to achieve that end. *That* is the outcome.

Even if the outputs are similar, a good outcome for one employee would not work for her coworker and vice versa. One might want savings on which to retire and travel; another would design an investment program to support his children in college. Outcome is very individual.

Your employees individually choose their outputs—perhaps putting their money into savings or tutors or a vacation home. They base those investment choices on the outcomes they wish to enjoy.

And how can they be most likely to get their desired outcomes? By defining them in advance. If they know what outcomes they wish, fulfillment is going to

come more quickly and with less effort.

Why Choose Outcomes at the Start?

In your business, you can either base your growth on hope or you can plan the pattern of your growth. Famously, hope is not a strategy. [Attributed to former New York City Mayor Rudy Giuliani, speaking at the Republican National convention, September 3, 2008.]

To systematically grow a business, the people involved should know what matters to the whole business. You want them to focus on important outcomes instead of everyday distractions. As the owner or manager, you get to broadcast desirable outcomes, not just focus on outputs. Planned growth can come from a conscious and specific choice of the outcomes that matter.

The Art of Choosing

But planning also means carefully choosing a few *specific* outcomes for your team to focus on. In putting this work together, I interviewed dozens of executives who successfully lead growth. Over and over I find that they rely on no more than five KPIs. Asking your team to work to more than five KPIs is asking them to be unfocused. Just as bad, it is asking them to think that *you* might be unfocused.

There are two traditional ways to choose what outputs and outcomes to measure. The more common is to measure myriad indicators. It seems safer, because by measuring a lot of things you're covering all the bases. But you don't get planned growth for your business by covering all the bases and hoping that growth will happen. You grow it sustainably by targeting the outcomes you wish.

Measuring everything reflects an uncomfortable truth: Picking many metrics is easy but narrowing the choices can be difficult. Measuring everything often results in watching and then overreacting to things that you cannot control. As the leader, you are not going to quickly and systematically grow your revenue, time, and people by reacting primarily to the actions of people outside your business. Predictable growth happens when you govern and direct your business, not when you "go with the flow." That means measuring outcomes that you can directly influence.

Another common way to choose what to measure is to select outputs that are easy to understand even if they don't actually deliver the desired outcomes. Focusing on outputs instead of outcomes is tempting for many managers. Outputs are easy to measure here and now; outcomes seem to be in the future and ethereal. You can ask a team to focus on outputs such as getting a report done on time or meeting a sales quota. These are in their control; an outcome like customer satisfaction or overall revenue may be beyond their reach. You can

and should work with them to get the right outputs to help deliver the outcome, but you have to be clear on the outcome you desire.

Measuring those outputs allows you to easily rank and rate effort in the moment. For that, the direct link from input to output is important. But measuring what a person or team delivers often results in an organization that is active at an individual level but may not be productive as an enterprise. Active individuals and an unproductive business is a combination that does not lead to predictable growth. In the personal financial example, two families could both be saving the same amounts of money, but that money does not automatically lead to a desired outcome.

One employee might collect as much money as possible without a plan to use it later. The employee who identifies the outcome she wants in advance will speed the delivery of that outcome with those savings. The money held in a savings account is the output. Not having an outcome in mind might reduce the value of the output.

A much more successful strategy is to choose the desired outcome and measure it. If you want to set up growth that is less episodic and more sustainable, this is the starting point. To program revenue or any other kind of growth into the business, or to do effective planning, you need to determine the outcomes you want to experience.

Choosing Now to Guide the Future of Your Business: An Example

SAP is a company that has grown substantially in the past few decades. Today it is a 74,000-person organization that provides software that companies use to manage their business.

Jonathan Becher runs a business inside SAP that provides us with an example of using outcome-based measurements. SAP was built on selling enterprise-level software costing hundreds of thousands to millions of dollars to buy and implement. The process of doing that has been based on person-to-person selling.

But what SAP had not previously done is to scale these business offerings to individual consumers in a user-friendly, even no-touch way. Until now.

(SAP is used here purely as an example of KPI usage. The author does not have any business or personal connection to SAP or Becher.)

Becher’s team was built to make it possible for individual consumers to easily take advantage of SAP software and education. The delivery vehicle is online sales and consumption and, increasingly, in-application purchase or upgrade.

Managing to Outcome

To guide the new online business, Becher is careful to separate compensating his team for outputs from compensating for outcomes. “I want the KPI measured on the outcomes,” he says. “I want to reward people for [getting to] the destination, not the hard work that got us there.”

Many organizations are dominated by financial metrics and by a focus on inputs and outputs. It is certainly a more accurate reflection of the individual contribution. In sales, you often compensate a representative on the revenue that he or she delivers in a territory. You find that same pattern in finance, engineering, and marketing contributors. It makes sense to observe outputs, but when you reward for them, you get a focus on these instead of outcomes. The individuals might succeed at the expense of the business.

Contributors often expect to be rewarded for activities. They can point to themselves as being a success whether or not the overall organization does well. It is easy to maximize effort to make the activity look great: the measurements help the contributor stand out, even when they don’t actually support the outcome.

For example, a salesperson can book a sale that cannot be installed. He will have delivered the output as defined by his compensation plan, but that does not lead to the desired outcome: revenue. In general, you will get the outcomes that you reward. Becher calls these measurements “egometrics" when they measure and reward output instead of outcome. A better strategy is to reward for the desired outcome—in this case booking the revenue.

Growing a business requires drawing a line between what you measure and what you reward. Becher makes it clear to his team that he wants to know what they’re doing. “I track them all,” he explains. “I want to know how well the engine room is running. But my main focus is on outcomes and that is what I measure every day.” However he is also clear that the key indicators for his business are the outcomes, not the activities.

But in order to reward the outputs that lead to key outcomes, you must first define the outcomes *before* you define the measurement system. This means you must make a commitment as to what is important in the future. If this is something that will be managed day by day. You’ll want to heed the guideline to limit outcomes to no more than five KPIs.

Outputs will change often as your business changes. Your stated and desired outcomes should not. Invest the time to choose the right outcomes early, and then work to stick with them.

Choosing the right KPIs is choosing how your business and your people will grow. You can fall into this accidentally, or you can take the time up front to decide what kind of growth you want and then select the right outcomes to measure. Systematic growth comes from choosing to guide that growth from the very beginning. That is aided when you focus on five or fewer outcomes and hold to them.

Five is not a magic number. Some executives have limited their KPIs to three. It's an individual choice. Choose your limit based on what you think a manager or individual contributor will keep in mind during a very busy day. Asking him or her to focus on more than that is likely to fail. The busier your team is, the less capacity they have for more measurements to remember. The best practice is to keep the number small.

SAP Digital's Five KPIs

What exactly does Becher measure? His five key outcomes define his business future, and here is how he describes them.

1. "When we started out, the single most important KPI was percentage of orders that did straight-through processing. This means that an order was placed and went all the way through our process without exception or failure."

2. "Second is the percentage of orders that go from purchase to productive within" the targeted time frame.

"For example, we have a product for individual sales reps and small teams. Since it's designed to be used without any help by IT, we have a target of going from purchase to productive use in under 30 minutes."

It is easy to measure the product downloads every day. What matters more is whether the user can make it work. The number of downloads is an output to observe. Becher's KPI is "purchase to productive."

3. "Third is the percentage of trials that convert to paid orders. This is the current proxy for customer satisfaction."

Free trials are common in the software business. However, if a product does well in trial but does not convert to paid order, then the activity is not leading to the outcome Becher wants. An activity that does not lead to the correct outcome shows that there is a problem. If you were on Becher's team you'd want to know that.

4. "Fourth is the percentage of orders that move from a 'teaser' (trial) period to a longer agreement. It is quite common in the digital business for

someone to access a free version of a product for a promotional period but never to convert to a paying customer. We are intentionally focusing on this rate of adoption."

Looking at rate of transition from free to paid is a single indicator that replaces a number of "egometrics." The percentage is an easily measurable outcome that really matters to SAP.

5. "Our ultimate measure of success is the percentage of people who grow their relationship. This could be buying (product for) more users, renewing their agreement for longer time periods, or unlocking more features and content."

For Becher, this outcome is about growing a connection. Downloads are important outputs to note, but growing customer relationships is the desired outcome.

The Outcomes You Choose Can Accelerate Your Growth

Choosing and measuring outcomes that matter—and limiting their number to only a very few—are the two techniques you should use to define where and how the business will grow. It may not be rocket science, but it's essential nonetheless. Choosing the right outcomes can be key to building your best strategy.

If you ask each team member to focus on just his or her own output, you may get operational excellence at the expense of business growth. This can happen if, for instance, the sales team books deals that cannot flow to revenue. The sales team looks good and gets rewarded. Your business suffers.

If you ask the entire team to focus on five or fewer outcomes that really matter, you increase your chances of being able to keep everyone on the same path. This accelerates your growth.

But focusing on outcomes does even more. By choosing today which outcomes you want to measure, you refine what matters to you and the people you depend on. That focus today will define what outcomes you produce tomorrow as well. The result can be growth that is both more predictable and targeted. It is investing your time now to get the right outcomes later.