

# 14. Defining Key Performance Indicators (KPIs)

Defining the S&OP process

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For a full overview of the tools see:

Stentoft, J., Freytag, P. V. & Mikkelsen, O. S. (2019), *Improved Competitiveness through Implementation of Sales & Operations Planning*, Department of Entrepreneurship and Relationship Management, University of Southern Denmark.

# Purpose, participants and application

- **Purpose**

- To create a set of KPIs that makes the targeted effect of the Sales & Operations Planning (S&OP) process visible.

- **Participation**

- Top management, S&OP process owner/manager, finance and IT.

- **Application**

- In defining the S&OP process.



# Defining KPIs

- In a company, there will typically be a number of performance indicators for follow-up and direction setting purposes.
- The present process set focus on identifying the performance indicators that are especially important in the S&OP process.
- The process with identifying and defining KPIs can take place with help from key-resources in the S&OP team and from the daily operation.
- A special focus must be on KPIs that sustain the strategic objectives.



# Typical challenges with KPIs

- Lack of IT-systems to support the measures.
- Insufficient time to carry out the measures.
- Challenges with acquiring data to measure the right things.
- Lack of resource allocation to carry out the measures.
- Challenges to secure the right data quality.
- The right things are not measured.
- Measures are not founded on real-time data.
- Challenges with organizational anchoring (disagreement about what to measure)
- Challenges with making the right actions based on the measures – inability to act.
- Challenges with communicating the measures.
- There are too many measures.



# 1. Purpose

- Describe the purpose with the measure.
- The measure can e.g. be:
  - Improving on-time-in-full (OTIF)
  - Improving customer satisfaction
  - Reducing scrap



## 2. Definition

- The measure is defined precisely.
- Every element that is part of the measure should be defined.
- The calculation method must be explained and defined.



# 3. Reporting

- Description of:
  - Reporting form (curves, pillars, schemes etc.)
  - Content (results)
  - Frequency of measuring (how often to report)



## 4. Assumptions

- Determine the data foundation needed for carrying out the measure.
- It might be “registration of complaints” or “registration of waste.”





# 5. Organization

- Division of tasks in relation to the establishment of the measure, development, and maintenance must be described.
- Responsible persons for data collections, calculations, and reparenting must be pointed out.
- Tasks can be delegated.



## 6. Registration area

- It must be clarified which areas of the company the measure is concerned with.
- It can be order handling, inventory, customer service etc.



# 7. Information

- List the persons that need to be informed about the measures and where the results should be visible (information boards, company magazine, electronic reports, intranet etc.).



## 8. Influence potential

- List how it might be possible to influence the measure.



## 9. Current level

- If the current level is known, it should be stated.
- Measures should be stated e.g. with deadlines for their achievement.
- Performance benchmarks in other departments or other external companies can be listed to make comparison targets.



## 10. Remarks

- Special comments can be added to inform the definition or the use of the measure.
- Describe eventually negative or undesirable impact within or outside the company the measure might cause.



# Template for describing KPIs

#	Point	Description
1	Purpose	
2	Definition	
3	Reporting	
4	Assumptions	
5	Organization	
6	Registration area	
7	Information	
8	Influence potential	
9	Current level	
10	Remarks	

Source: Based on Neely, A. Richards, H., Mills, J., Platts, K. & Bourne, M. (1997), "Designing performance measures: A structured approach", *International Journal of Operations & Production Management*, Vol. 17 No. 11, 1997, pp. 1131-1152.