

Measure What Matters, everything else is a waste of money.

“Over the years you make lots of mistakes by making it complex and taking too many measurements.” -- Edward Watson

There is one simple reality in business, no matter what your product, service, or industry is, *customers make your bottom-line*. If you understand this central principle of business, measurement effectiveness on anything you do in your organization can be radically simplified, while at the same time dramatically improving business results.

Measurement and Performance Improvement

There has always been emphasis on measuring and improving business performance. There have always been questions as to what and how things are measured. There have been long debates about what the critical dimension of business performance are that need to be measured and improved. With the Quality movement in the 1980s and now Six Sigma, measurement and improvement is taking more prominence in organizational activities. Sometimes it seems as if measurement is the core output of the business rather than value for customer.

The intent of business measurement is to achieve two things. One, it provides a relative position assessment on how well something is being accomplished at a certain point in time relative to a goal. Two, measurement provides information that potentially enables improvement or correction to the goal achievement. While the intent of measurement is often right, what typically plays out in business is somewhere in the spectrum of either measuring everything or a claim that some things just cannot be measured--a leap of faith is required.

Business spending in areas such as, Change Management, IT, Marketing, OD & Training functions traditionally requires such a leap of faith between what is spent and what will be achieved. Often spending and results seem to be only vaguely linked. In cases where a business has a history of initiatives that parallel successful growth, it's not uncommon to find faith guiding decisions more than a disciplined focused method that leaders can implement with confidence. A business frequently misses meeting goals, not because it's not measuring, but because it's:

- measuring things in the wrong order
- measuring the wrong things about customers
- measuring a consolidated view of the market and customers
- measuring what matters to business efficiency, not customers
- measuring its product against competition
- measuring too much

Measuring in the Wrong Order

The business may be measuring important things in the wrong order of when they should be measured, such as measuring and improving its product quality or supply chain or manufacturing efficiency before it knows whether the specific improvements really make a difference to customers. In an organization with diverse

capability, this can be particularly acute. Every function and team member acknowledges and acts upon the company's goal to improve.

The flurry of plans, actions and results get measured every time the dust settles, and every report describes improved performance, except maybe with the customers. The measurements do tell how much faster the product is getting to customers and how good this is for the business' inventory management; but it's not likely measuring the impact on the customer's operation. More demoralizing occurs when the customer has noticed your improvement and has also noticed the competition made a similar improvement effort. So it's back to working harder and faster, to only get tougher negotiation with customers with each improvement.

The Performance Measurement Matrix in Figure 1 describes the how to prioritize measurement. This performance measurement matrix is developed around customer value based logic. It starts with measuring what value matters to customers and ends with the measurement of how much money a business made. Profits are a result of providing superior value to customers.

Figure 1

Value Based Measurement Priorities Matrix

Measurement Priority	Knowledge Goal	What needs to be assessed	Key Factors	What to Measure	When to Measure	How to Measure
1) Measures what really matters to customers?	Determine Customer Value Do you really have value that will be important to customers?	Real Value? - Value Segments - Historical customer performance - Current customer performance - Value gaps	- CTV factors - CTV's results within segment	- Gaps within CTV factors - CTV's results in segments	Ongoing activity to gather insight and information with semi-annual assessment	Six-Sigma Methodology
2) Measures how well your business is transforming itself?	Form Follows Value Are you aligning people, process, systems, budgets, metrics?	Processes, plans system, suppliers - channels - partnerships - alliances	Process, systems and enterprise response to CTV factors	- organizational changes - people alignment - process improvement	Quarterly	Six-Sigma Methodology
3) Measures how customers respond to your value?	Customer Insight What are customers actions and responses?	Superior Value? Assess the customer's behavior and value expectations	-Who makes decision -Basis of buying decisions -Why customers make decisions	-Sales cycle time -Customer turnover -Price response	Judgmental call anytime its noticed that customers are acting differently	Six-Sigma Methodology
4) Measures customer improvements from value received?	Customer Results How has the customer's life and businesses been improved?	Superior Value? Is the customer better off?	Customer's recognition of value and their ability to measure your impact to them	Effects on: - Costs - Sales - Profits - Value impact	Semi-annually	Six-Sigma Methodology
5) Measures your business results and performance?	Your Results What have you achieved, changed, and improved?	Profitable Value? Is the business succeeding at what it's doing?	-New Business -Retention -Revenue -Costs, margins -Economic profit	Effects on our: - Costs - Sales - Profits - Economic profit	Quarterly Annually	Six-Sigma Methodology

© All Rights Reserved-SYNECTION 2002

The first step is to determine what value factors are critical to customers. CTVs (critical to value) are those value drivers identified for each customer segment that the business has determined form the basis of a superior customer value commitments for the respective segments. In transforming a business into a value-based marketer, CTV factors should be the most important focal point of measurement because CTVs are what matter most to the customers' purchasing decisions and process. Finding the winning value with customers is the starting point for everything else happening in the business. Realistically, many traditional measurements may stay in place in the near-term to improve transaction and product performance while the business discovers the value most meaningful to customers.

However, the business team needs to have the courage to lead the transition to replace current metrics with CTV metrics as the first measurement priority when running the business. Otherwise, the business will be seduced into believing that the current improvement measures (for example, lowering sales channel costs) are indicators of

how well the business is being run. Value-based marketers, though, won't know if the lower sales channel costs are a good thing until they can assess the sales channel's performance relative to the customer value commitments and how the costs that impact particular customer segments are being lowered.

Once a business has clear CTVs to focus on, the second step is to measure whether changing processes, systems, resources, suppliers and/or people can deliver on the value commitments to customers. Value-based marketing shouldn't be confused with the marketing technique of simply changing the customers' perception of a product through clever promotional campaigns. Value-based marketing is about creating both better values for customer and a better-run operation that can consistently and profitably deliver the value. Without the right alignment of resources sustainability is unlikely.

The third priority is to measure how the customer is responding to the value offered. This occurs after measuring the operational changes that are starting to take place. The business can then assess both the customer value it's providing, and its ability to run the operations and market channels through which the value is being delivered. Assessing customer response to value without the operations and channel assessment can give a false read on the market. It could tell that you have a great new customer value but then encourage the operation to be run in the old ways. This only undermines the great new value discovered, as with what has happened to so many cellular phone providers.

The fourth priority and the one ignored by most companies is to measure how the customer is better off with the new value being offered. If the customer isn't better off, it won't be long before the customer discovers alternative value options or just beats upon price terms. Interestingly, with all that has been written about Jack Welch and his successor, Jeff Immelt, in the past year, this point has emerged as perhaps the only difference in their business approaches and what Immelt could build his legacy upon. "Immelt is determined to reshape GE for the next generation ... making the front-line workers obsessed with helping customers. That's right--obsessed. He will measure managers by how much they improve their customers' bottom lines--something Welch never did--and how much time they spend in front of their customers."¹

Finally, measure how well you are doing. This is the result gained from doing the first four measurement priorities correctly. Ironically, the point of business is to satisfy someone else's needs, yet most of the measurement attention is focused on how the business is doing without knowing how the business makes a difference to its customers. It makes one think sometimes as if all the measurement is just for better pitches to Wall Street. Savvy business people know there will only be a bottom line to measure if their products and services are in high demand from their target customers and they determine first what their specific value link is with customers.

The Wrong Customer Perspective

Businesses often measure the wrong things about customers because the business has created the wrong perspective on its customer, such as believing a better product is better for customers, when in some cases a better price with the existing product is what the customer really values.

This is the time to be brutally honest and ask, "If I were my customer, how would I do what they are trying to do?" Forget about having the best, most wonderful product. The focus needs to be on what the customer is trying to achieve, why they're trying to achieve it and how it could be better achieved.

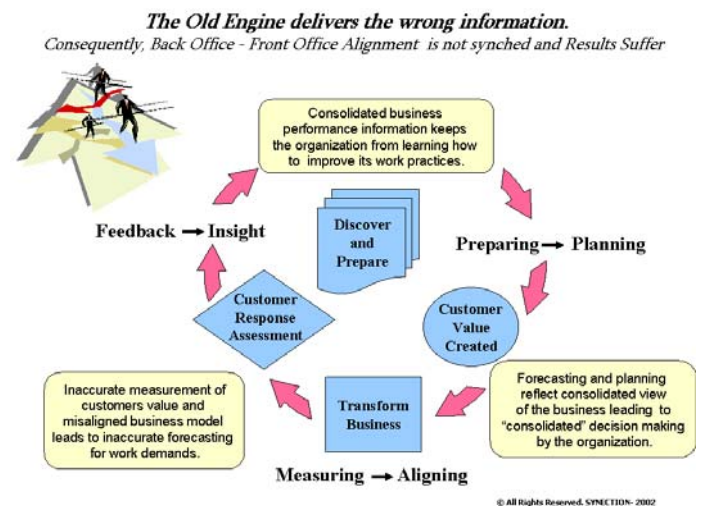
The Six-Sigma movement, with the Voice of the Customer (VOC) tool, is also prone to helping develop the wrong perspective on the customer. The VOC exercise assumes, often wrongly, that customers are able to describe their most pressing needs, that customers have enough insight about what they are buying to describe improvements or issues or that changes with customers are substantiated with clear supporting statistical data. Six Sigma also has a hard time with handling the early warning signals that may come from things around a customer, but it can lack clear data.

Consolidated Customer Viewpoints

Many companies, in becoming more customer focused, develop extensive market research surveys that ultimately become part of a consolidated view of customers rather than develop a customer value segmentation approach that recognizes the different value drivers between customer groups. Many customer satisfaction surveys roll up all customers into one database and then analyze the most dominant data points. When the data are consolidated, the top issues, needs and customer products and services are analyzed to determine where to focus efforts and resources. What the business doesn't learn is that the top-rated needs and issues are not the same for all customers; it just looks that way from the analysis done.

As Figure 2 shows, without using customer value segments, the business can measure and make decisions based upon a sum total composite of many different customer inputs. The best of the best doesn't emerge. Rather the best middle of the road answer comes out that doesn't really matter to any one group of customers. The longer a business uses this approach, the more mediocre its results become and the more frustrated it becomes since it can't explain why all its work studying customers has not made a difference.

Figure 2



Measure What Matters to You

Measuring as though it really matters, but not to the customer, is another common misguided use of measurement. The business has developed measures that it believes are important to its own success and makes assumptions about what the customers' needs are. These assumptions about the customer form the basis of what a business thinks it must do to meet its own success criteria. It focuses totally on execution, measuring frantically against its internal goals and perhaps

getting fairly creative along the way to explain what actually happens in the marketplace relative to its goals.

Figure 3 shows the typical metrics of a company running its business by what's important to it. Usually the product or service forms the core identity for the business, so measurement is centered on the product or service.

Figure 3
Typical Product-Centric Business Metrics

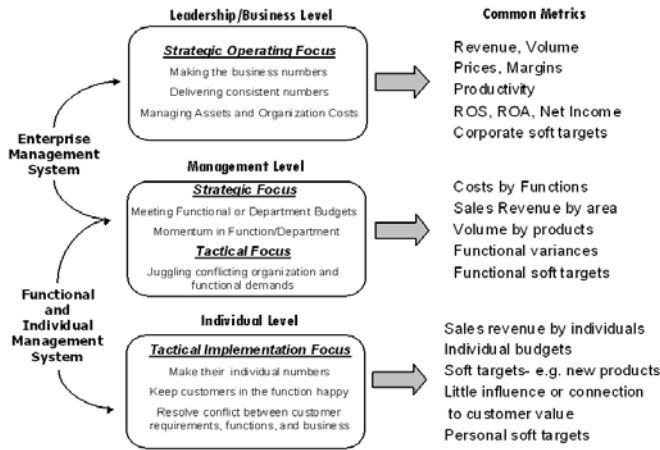
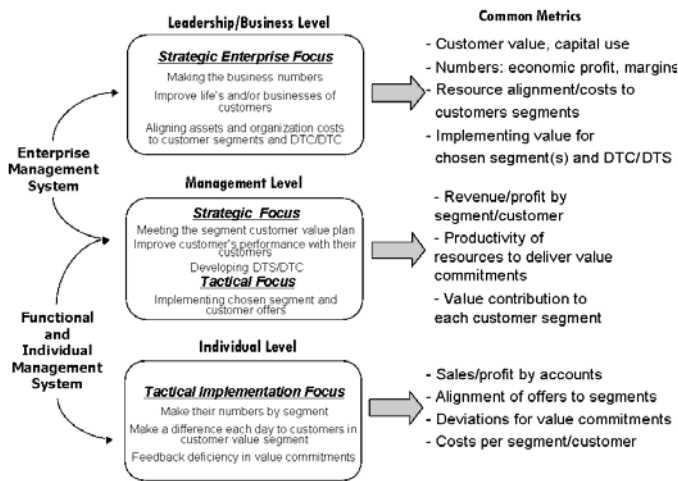


Figure 4 shows how measurements change when using a value-based marketing approach to running a business. The central focal point becomes the customer value segments and how the business is aligning its costs and resources to provide its customer value commitments.

Figure 4
Value-Based Business Metrics



Measuring Products against Competition

Measuring the product/service and business performance relative to the competition is based on the fallacy that the business believes the better product, service or business wins the customer's business. In a

world of similar customer options, this works until one competitor wakes up and says "enough" and changes the game based upon new value, technology, product or service. Great value creators all share the ability to discover new value, even in mature markets. This usually doesn't happen by studying the competition, but by studying the world of the customer.

Measuring Too Much

Having more data isn't inherently better. More data can mean a diminishing return in understanding and applying it. Eventually there is so much data that no one remembers what the question was. Or the company suffers from "paralysis by analysis."

Some businesses become so convinced that the latest globally connected customer relationship management (CRM) system will save the day in answering any question or targeting customer needs that they lose sight of the two-legged computers they employ who have more data than the Central Intelligence Agency.

The issue isn't more data, but tapping the right data, in the right place, at the right time. Though this is the promise of CRM systems, only a human brain has the processing capability to glean real insight from mounds of data. Otherwise it remains a mound of wabashi.

In short, the essence of measurement from a value-based marketer's approach is to make the case within the business that great business performance comes from delivering something of value to customers. The discovery of value can only come from discovering what really will make a difference to the customers' life or business. Measure what will impact customers long before counting how much money the business will make.

"Most measurement makes you feel good, but it does not mean anything and makes lots of extra work and cost for the buyer." -- Edward Watson

Eric Balinski is the founder of Synection; a firm that helps companies achieve superior profitable growth. Eric has held management roles at GE, Dow Chemical, and AlliedSignal in North America and Europe. He is co-author of, Value Based Marketing for Bottom-Line Success, published by McGraw-Hill and the AMA. His next books are Leadership on the Fly and The Seventh Sigma. Contact: ebalinski@synection.net or 973-726-8091



¹ Brady, D. (April 29, 2002.) The education of Jeff Immelt. *BusinessWeek*, 86.