Lesson 3.4: Types of KPIs

In lesson four, we are going to look at the four main types of metrics and KPIs and the importance of spreading KPIs across the four different types. So, the four main types of KPIs that we work with often are: 1) **quality,** which considers the standards by which things are measured, 2) **quantity or productivity,** which considers the quantum and value of things being measured,

3) **timeliness,** considered the lead times; the progress and the due dates of things being measured, and 4) **efficiency,** considers the outputs in relation to the inputs. And this is normally related to cost when we are talking about efficiency. Now, people ask what the difference between productivity and efficiency... Let's take this example:

We have Mary and John. Mary makes 120 widgets per month and John makes one hundred widgets per month. So, Mary is more productive than John by 20 percent. Now Mary earns $12,000 per month. And John earns $8,000 per month. So, the cost per widget is 12,000 divided by 120, which is equal to a hundred dollars per widget – that is what it is costing Mary to make a widget.

And for John, the cost per widget is equal to 8,000 divided by one hundred. So, it is costing $80 per Widget. So, John is more efficient than Mary by 20% now, which is better productivity or efficiency? Well, it depends... if you have got a looming deadline coming up and you must make lots of widgets at all costs, Mary would be a much better option to take.

But if cost is an issue, you have only got so much budget and you do not have this looming deadline, then John is more efficient. He is slower but he is more efficient when you take his cost into account. So here are some examples of the different types of metrics and KPIs, quantity, and productivity. In sales, the value of sales would be the quantity, number of boxes produced per month is productivity and the number of training hours delivered - all speaks to quantity. If we are looking at quality, then gross profit in a sales environment, percentage gross profit is a better-quality metric but gross profit is the quantity of gross product. The quality of the gross product would be the percentage of gross profit.

Video Transcript

In operations the number of rejects per million would give us an indication of the quality and in an HR environment, the percentage of certifications achieved would give us the quality of the certifications achieved.

Timeliness in sales marketing, on-time deliveries, or the order lead time would be good timeliness metrics. Percentage schedule adherence would talk to operations, and percentage project milestones achieved those talks to timeliness in a project environment, and then efficiency is the cost per inbound lead in sales and marketing, cost per box produced, and percentage of IT cost to profit.

That would give us an efficiency of IT to the profit. So, when you choose a quantity or productivity KPI to measure on your scorecard, make sure that you balance it with quality or efficiency, or timeliness, and I will suggest that you would take all three of those, but choose one of them that you need to counter the quantity aspect. Otherwise, you might get skewed results. You might find if you are just focusing on quantity, then quality efficiency or timeliness suffers, so you would pick the quantity, which is your main KPI, and then pick one of these other two. If the main KPI is quality, then you could balance it with quantity, timeliness, and efficiency etc.

The balancing aspect will help you to reduce the skewness of your results and get people focused on the entire spectrum of what needs to be measured for that objective.

So, in summary, there are four main types of metrics and KPIs and spreading different types of KPIs per objective, avoids skewed performance.