



## Designing Effective Business Metrics

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One of the most important aspects of a business strategy or new initiative is designing the proper metrics for success. This sounds much easier than it actually is. While it may sound simple to conclude that the proper metric for evaluating the success of a public awareness campaign, for example, is whether or not public awareness was increased, a good set of business metrics digs much deeper and asks more pointed questions. For example: By how much did public awareness increase? How do we even measure public awareness—survey responses; the number of customers who requested the product or service by name? What was the nature of this public awareness? Keep in mind that an increase in the number of people who have a negative opinion of a company, product or service can still be considered increased public awareness.

Clearly, defining the proper metrics is more complicated than it seems. Some key principles to always keep in mind when defining business metrics are: favor quantitative over

qualitative metrics, clearly define the metrics being used, closely align your metrics to your goals and constantly reevaluate your metrics.

### **Qualitative versus Quantitative**

What is a qualitative business metric? How does it compare to a quantitative business metric? Why are quantitative metrics superior to qualitative metrics?

Generally speaking, a qualitative metric measures something that is primarily directional. At the most basic level, qualitative metrics can have two or three values: “yes” or “no,” or “up,” “down” or “the same.” For example, a business initiative to improve employee morale could involve the qualitative metric: “did employee morale improve?” There are really only two possible answers to this question: “yes, morale improved,” or “no, morale did not improve.” A slightly better alternative would be to ask if morale increased, decreased or stayed the same.

These metrics are qualitative because they measure a quality or characteristic, rather than hard numbers. They measure the direction something moves – up or down – rather than the size of that movement. Qualitative metrics can, of course, be expanded to provide additional detail; however, this detail is inherently subjective. We could improve our employee morale example by asking: “Did employee morale improve slightly, moderately, significantly or tremendously?” Obvious questions surround these dimensions. Where is the cut-off point between significant and tremendous improvement? Reasonable people may

differ on the answer to this question, making qualitative metrics much less consistent than quantitative data.

Quantitative data, by comparison, uses hard numbers. Rather than asking, “did sales improve?” we can ask “By how much did sales improve?” “Over what period of time?” “How does this compare to the improvement that resulted from previous initiatives?” Quantitative data is inherently objective. You can have subjective opinions over what the numbers mean, but you can’t argue that a 15 percent increase is less than a 10 percent increase, all else being equal.

### **Clearly Define your Metrics**

Forcing yourself to use quantitative metrics is the first step towards forcing yourself to clearly define your metrics. It’s easy to use vague metrics when you’re using qualitative evaluation methods. But try quantifying and increase in employee morale. How would you measure this with hard numbers? The short answer is, you can’t. You must find clearly defined metrics in order to quantify them. Rather than using “employee morale” as a metric, tease apart what the employee morale actually means. How does employee morale manifest itself in the workplace? Maybe happy employees call in sick to work fewer times per year. Maybe they make fewer complaints to HR. Maybe they initiate more projects on their own. All of these are aspects of employee morale which can be measured and quantified.

Not only are clearly defined metrics easier to measure; they are also easier for managers and employees to work towards. For example, if the goal is customer satisfaction,

giving a manager a clearly defined goal such as “work towards a 10 percent reduction in product returns” is much more helpful than simply saying “work towards making the customers happy.”

Working towards developing clear, quantitative metrics also allows for more effective evaluation of the success or failure of an initiative. If you simply ask “did we improve sales?” you will get the same answer whether you increased sales by five percent or 500 percent. Additionally, if your goal is to increase sales by 15 percent, you can determine how close you came. Initiatives which produce a three percent increase and 13 percent increases in sales both fall short of the 15 percent mark. However, the latter is obviously much closer than the former.

### **Closely Align your Metrics to your Business Goals**

An effective business metric must be closely tied to the goals of the initiative the metric is evaluating. The process of closely tying goals to metrics should begin in the strategic planning phase when the goals are developed. A goal that is not easily quantified and measured will be hard to evaluate.

Nevertheless, some goals are important enough that measurable, quantifiable proxies should be substituted for qualitative goals. Customer satisfaction, for example, is clearly an important goal; however, quantifying customer satisfaction is not easy. While there are some potential metrics that can be used, such as number of customer complaints, number of returned products, number of repeat customers or number of customer referrals, not all of

these metrics may truly get to the ultimate goals of the initiative. For this reason, the goals themselves must be clearly defined. Why is customer satisfaction important? A likely answer is that it is to drive repeat business and referrals. If this is the case, that should be made clear and the metrics should reflect the underlying goal.

### **Constantly Reevaluate your Metrics**

No matter how well defined your metrics are, and no matter how well they fit your business goals, there is almost always room for improvement. You may find that even after meeting or exceeding all of your specific, quantitative goals, you seem to have fallen short of your overarching, more general goal. It is important to regularly reevaluate the types of metrics you use as well as the weight you assign to them and the benchmarks you place on those metrics..

Some metrics may capture important elements of your intended goal exceptionally well, while others may seem to be intuitively relevant in theory, but uninformative in practice. For example, you may find that customer complaints, for whatever reason, have little to do with overall customer satisfaction. Perhaps the customers who register complaints are so satisfied with the response they receive from your customer service representatives that they continue to do business with you and even refer their friends. If you discover this is the case, it may make sense to disregard this metric in the future or at least place less weight on it.

Changing the values of your benchmarks is also an important exercise as you continually improve your metrics. You may find that you are regularly exceeding your quantitative goals for improvement, for example. If this is the case, you may be

underestimating the potential of your organization. A more aggressive goal could drive further improvement. By contrast, if you are regularly falling short of your goals by a substantial margin, you may have unrealistic expectations. Employees and managers who consistently fail to reach the goals your organization sets may stop working towards those goals either because they don't see them as realistic, well thought out goals or because they lose confidence in their abilities.

Furthermore, because the process of developing new initiatives and designing metrics to test the success of those initiatives is a continuous process, you will likely find that thinking more critically about your metrics will have a positive impact on the way you design your initiatives. Knowing that you will have to measure your results against measurable, specific criteria will help focus your initiatives on specific, concrete goals.

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