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Why KPIs matter? Or better yet; what makes KPIs matter?

Key Performance Indicators, or as some prefer Critical Profit Variables (*CPV's*) are simple statistics that measure a business's performance over a set period of time.

Why KPIs matter? One simple statement, that bears repeating. "You Can't Manage What You Don't Measure." Without using KPIs how do you know if you've improved or gotten worse? KPIs help us see our world, our industry from a broader perspective. The average batting average by team in Major League Baseball (*MLB*) is about .251, with the top ten players hitting over .330, it's pretty easy to see where a player ranks as a hitter. *MLB* is a great example of KPIs or statistics; they seem to have a statistic for everything. As a fan, I sometimes think there are too many statistics used in *MLB*, in the business world I call this *DAP*. (*See more on DAP later in this article*)

During a recent phone conversation with Craig Seelinger from *BASF* we found that we share quite a few opinions about KPIs. We spoke specifically about those KPIs related to the refinish department. With over thirty years in the Collision Industry, Craig has become very fluent in KPIs. Overseeing the *BASF Vision PLUS* program has given Craig an even greater understanding of the influence of KPIs on Body Shop gross and net profits.

I asked Craig how many KPIs the *BASF Vision PLUS* program measures. Craig replied just over 30. When I asked why so many, after a chuckle the response was; This allows different shops at different points in their growth to pick the KPIs that they can best relate to and work on them first, as the shop grows and progresses operationally. We both agreed that 4 to 5 KPIs was a good number for most shops to concentrate on and place in the forefront of their dashboard. Often shops will switch their target KPIs to stir things up, refocus or add new discussion points to their meetings. Keeping other KPIs in more of a "side view mirror" type of monitoring perhaps makes more sense.

When asked to shorten the list of KPIs from the 30 produced by the *Vision PLUS* program, Craig's top three refinish related KPIs were:

- Sales per RO
- Paint Hours per RO
- Touch Time

Sales per RO, is still the apex of KPIs for most all shops. This is the single greatest area where improvements have the biggest impact. While this may seem obvious, the methods used to get there differ from shop to shop.

Paint Hours per RO, sometimes reflect smaller items that can cascade into bigger gains. With as little as 0.4 of an hour more in refinish we can see gains in P&M gross profit, Paint Labor gross profit and overall gross profit. A shop averaging 9.0 refinish hours per RO and a shop averaging 9.4 hours will have significantly different profitability on materials. While sometimes challenging, Craig noted these 0.4 hours can often be found in non-included items (*P-Page items*) such as refinishing a pinch weld that had been clamped, adding back the sound deadener material, and undercoating and corrosion protection.

Dollars per refinish hour -- often this rate seems market driven, or set due to other influences. That doesn't mean we shouldn't make this a constant area to strive to improve. Any increase here translates directly to profits.

Touch Time – this KPI, billable hours per RO per day levels the playing field. Regardless of the total RO dollar amount this KPI allows for comparison as repair size varies.

Performance groups or twenty groups are a great place for businesses to gather and share KPIs. Many shops have found the value with their membership in these groups and sharing and comparing KPIs. Many of these groups have found that focusing on just a few KPIs where there is a demonstrated opportunity for improvement (*where a shop is under performing compared to their peers*) is the way to go. (*See Craig's top three above*)

Most shops can't afford a Board of Directors, these twenty groups often fulfill that void with the added value of being composed of industry professionals who have or will share the same challenges. What a difference a board can make.

When comparing results Craig noted that a Vision PLUS member had sales in 2013 of \$3.5 million, this same member added \$900k in sales for 2014 with \$350k of that being added profit. We won't attribute all of that improvement to these shops having a "Board of Directors" and tracking their KPIs, but these two factors did contribute significantly.

With so many KPIs to choose from are there any bad KPIs? I for one say yes. KPIs need to be actionable and meaningful to the people you expect to help improve those KP's. For example P&M gross profit percentage is a great indicator of performance. But this KPI is controlled or influenced by two different groups -- the sales side by those writing the estimates and repair plans, and the cost side by those performing the repairs. By breaking this KPI into its two component parts each involved member of your staff can measure their own impact. For the production staff using cost per refinish hour, and for the estimators or repair planners using hours per RO there would be a better measurement for both teams.

A bad KPI is one that can't be translated into action for an individual or group/team in your shop. Another example of bad KPIs are those that never leave the bosses desk. Too often the greatest value of the KPI process is lost when it is not shared. Sharing your KPIs with staff and your business partners adds team members to help achieve improvements in KPIs. Too few shops post a scoreboard for their employees. The scoreboard should be the rallying point for staff and production meetings. The scoreboard needs to be expressed in terms that each individual or team member can see their impact on improvements.

Early I mentioned DAP (*Datum Analysis Paralysis*). Too much information can be overwhelming. Focusing on just a handful of KPIs for overall shop performance, and refined to just a few related KPIs by department or team seems to have the best success. It is fine to keep track of lots of KPIs, but focus on a select few, especially with staff and extended staff. This is where some have taken to the term CPV or Critical Profit Variables. Separating out the most important KPIs and focusing your staff on those.

KPIs need to be more than just a buzz word or something discussed at high level meetings. They need to be presented to all the members of your staff. If you've been measuring a particular KPI for years and it hasn't improved, it is a buzz word not a KPI. Consider changing to a different measurement, one that is more easily related to by your staff, one that allows each member of your staff to see their contribution.

Some KPIs matter more than others. The best KPIs are those that matter to you and your shop:

- They are actionable (*An improvement or change can clearly be seen*).
- They can easily be measured. And shared! (*Simple, Timely Reporting*)
- They have an opportunity for improvement (*KPIs where by comparison you are missing the mark set by your peers*).

Great, now what after gathering a list of KPIs, narrowing the list down to those few that we find actionable how do we start making improvements? A few suggestions: First bring the team together share those KPIs that you have gathered and ask for their inputs. Listen carefully to every idea, allowing everyone to express their opinion; this will help your staff feel that they are part of the solution, rather than part of the problem. Second look for the low hanging fruit, there will likely be some changes that will result in fairly quick improvements in a KPI or two. Share this win with staff spread the credit to as many people as reasonably possible. Now you have a winning team, they will want to win again.

Without any KPIs we don't know where we are doing our best and where we are not. Whether we are watching the score board at the baseball game, or reviewing our children's report card KPIs matter. Without the measurement and comparison, we can't really manage change. Several recent surveys have shown that those businesses that regularly track, and share KPIs achieve better results. Establishing KPIs and setting goals for improvements is crucial to any business, bringing this to the employee level is the where you'll find the fastest improvements.

People outside of your shop can help with your KPIs. Beyond the benefits of having a "Board of Directors" or 20 groups, there are other people on your extended team that can help you achieve your goals using KPIs as a tool. Car rental companies such as Enterprise have systems to track LOR (*Length Of Rental*), a KPI sighted or used by several insurance companies. The dealer where you buy your parts may have tracking reports that can help. Some reports are as simple as fill rate and backorder status, others have much more detail, such as by manufacturer and model days to 100% delivery. Sharing your KPI with your major suppliers and asking them how they can contribute, expands your team at very little if any cost.

The paint manufacturers and distributors also play a significant role. Often armed with reports and KPIs both local and broader market these extended team members can be a great help. Some jobbers provide specific KPIs that drive paint shop reports, tracking costs per hour, material per RO, ounces per refinish hour. Set your goals, enlist their help and share your KPIs with them. Some jobbers do this in house others rely on third party sources to provide these reports.

KPIs matter because they can help us improve. We can clearly see where we can best spend our efforts and time to become more profitable, more efficient or more of what our customer want us to be. KPIs matter because we are not alone! Rather we are measuring how our performance measures against industry peers. KPIs show us where we can improve with the help of our staff and extended team members.