



PERFORMANCE CHANGE MONITORING

What to Look For

Summary:

Owners and managers need to be aware that changes in performance greatly affect the value of their business. They need to have chart-intensive reporting systems that allow them to find such changes, to see how much they have already affected performance, and to see whether they are becoming more severe.

If you own or manage a business, you are keeping close watch on your "key performance indicators" (KPIs) such as sales, gross profits, days' supply of inventory, or any number of other such measures. But are you able to spot **changes in performance** that could signal either an opportunity or threat to your business?

What is a "change in performance"? Here is an example of a news article that illustrates what we mean:

" ... Starbucks' same-store sales grew 4% in the April quarter, about half what it did in some quarters in recent years ... Starbucks' shares are off 30% since last November"

Note that what is being mentioned in the first sentence is not the actual value of the KPIs (in this case, the sales revenue). While it mentioned a growth rate (4%), that was not the key point of the author. Rather, he was emphasizing the change in the growth rate -- that it had slowed down to about half of the growth rate in earlier years.

That change in performance had a significant impact on the value of the business (down 30%), as the second sentence makes clear. That is why you need to monitor these kinds of changes closely.

However, to find changes in performance using reports that show just numbers, you need to have reports that show the growth rate of a KPI over time. This is not as common a report as one that shows just the actual KPI values over time. Many business systems may not include such reports. And even if they do, you will need to perform a lot of mental calculations to convert the report data into actionable information.

You will have a much easier time detecting changes in performance if you are looking at a chart that shows you the values of the KPIs over time. Charts convey far more information than a series of numbers. If you look at a chart, you can quickly grasp the magnitude, growth rate, and changes in the growth rate of the KPI, all at the same time. You can see at a glance when a change started, and when it ended. At a minimum, make sure your systems provide you with time-series charts for all your KPIs.

But is that all you should be concerned with? As an owner or manager, you need to know other facts that may not be obvious in a plain time-series chart:



What has the impact of the change been to-date?

In other words, how many dollars or units has the change added to, or subtracted from, the "expected value" (i.e., the value the KPI would have had, if the change had not occurred)? This tells you how serious the impact of the change has been, already. You can then decide how much priority you need to give to investigating the causes of the change, and to developing a plan of action.

For example, a change that has caused the business to miss sales targets by \$1,000,000 should get much more attention than a change that has only caused a \$1,000 shortfall so far. If you can't see the impact of the change from your current charts or reports, you should strongly consider asking your I/T staff, consultants, or software vendors to augment them in a way that supplies that information.

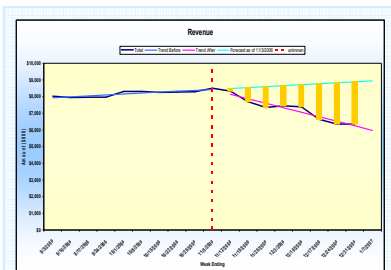


Fig. 1: Sample chart that shows at a glance the trends before and after a selected date. The striped area shows the magnitude of the change. The diverging trend lines after the event show that the change is accelerating.

Is the change accelerating?

Before you take action, you should determine if the change is getting more and more pronounced, compared to the "expected performance". After all, if the growth rate is returning to its previous value, no corrective action may be required. On the other hand, if the actual values are diverging from the expected value more and more over time, then you need to take more drastic action to bring performance back in line with expectations.

Again, make sure that your system produces charts that clearly show how actual measurements compare to expected values over time.

Changes in performance greatly affect the value of your business. You need to have chart-intensive reporting systems that allow you to find such changes, to see how much they have already affected performance, and to see whether they are becoming more severe.

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