

We Bring Your Numbers into Focus...

The 5 Techniques

1 CHART KPIS

A picture may be worth a thousand words, but a chart is worth a thousand numbers.

2 USE RATIOS

Eliminate issues of volatile measures or significant difference in scale by using ratios of KPIS.

3 BENCHMARK

Compare your KPI's and ratios to other business units, competitors or World Class firms.

4 TREND

Reduce the impact of volatility using average or rolling sums.

5 CONTEXT

Package a set of charts with a focused objective. Limit charts to the minimum necessary to clearly convey your performance message.

Whitepaper courtesy of:

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5 Techniques for Better Reports

KPIS ALONE ARE NOT ENOUGH

Organizations track their performance and project their future using Key Performance Indicators (KPIs) with the same goals: to measure and communicate business unit and company performance.

Yet some companies are much better at either analysis or communicating their numbers. These companies achieve their goals more consistently than other companies with able management, in growing industries. Why is this?

Successful companies identify and use KPI's to track and measure to answer the following questions:

- Where have we been?
- Where are we now?
- Are we going to meet our objectives?

It doesn't matter whether the goal is to lower costs, improve customer satisfaction, or increase sales. KPI's clearly and consistently reported, focus everyone in these companies work towards the stated goal.

Why can't you do this with your current reports?

WHAT'S WRONG WITH MY CURRENT REPORTS?

Successful companies produce the same standard accounting and managerial reports as less successful companies. The difference is that they recognize that the reports, designed in the late 19th and early 20th century have a flaw which limits their usefulness.

Traditional reports were designed to communicate business performance to all of an organization's stakeholders using the

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Spreadsheet Version of a Traditional Report

“shotgun approach” to communication. Put enough information on a page, and everyone will get what they need.

Your audiences have varied backgrounds which lead them to different answers based on the numbers presented to them. The breadth of information

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delivered in traditional reports makes them more confusing than clarifying.

Several individuals may spot patterns relevant to the current goals in a large table of numbers. But if everyone doesn't clearly see the same patterns, your message is lost.

TECHNIQUES FOR A CLEAR MESSAGE

What makes a message clear to audiences with different backgrounds?

There are five techniques which can transform raw numbers into clear and concise messages:

- Chart
- Ratio
- Benchmark
- Trend
- Context

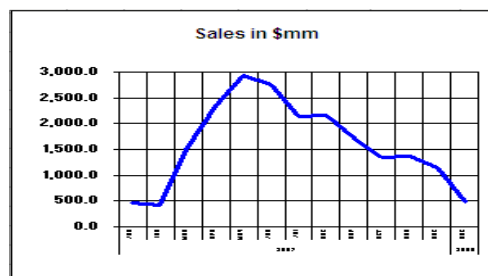
Used alone, any one of these techniques will improve communication. Combine two or more and the clarity of the message is dramatically improved for all members of your audiences.

1. CHART

As a picture is worth a thousand words, a chart pictures a thousand numbers. When a table of numbers is presented, the reader focuses on each number and then tries to compare adjacent numbers. When they reach the end of a row of

numbers they stop and move down to the next row. It takes work for them to integrate the numbers from more than two or three rows.

A line or bar chart shows the reader the relationships between the numbers immediately, without seeing the actual numbers. The reader's eye moving from left to right continues the lines beyond their end.



Sample Sales Chart

Without any forecasting involved, the reader has an implicit understanding of the direction of the line (up, flat or down) and therefore a sense of future performance.

2. RATIO

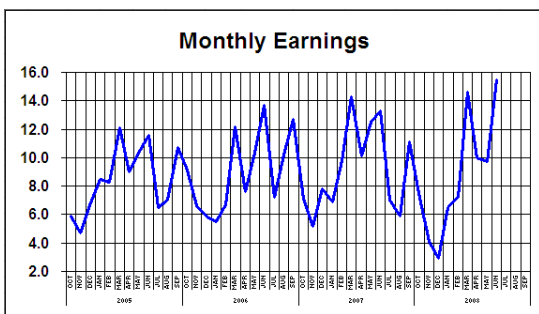
Where a simple line or bar chart falls down as a technique is when there is volatility. It is not uncommon to have the monthly numbers for a KPI vary widely.

The chart below labeled "Volatile KPI" is a good example of this issue. It is difficult to determine, given the volatility of the monthly

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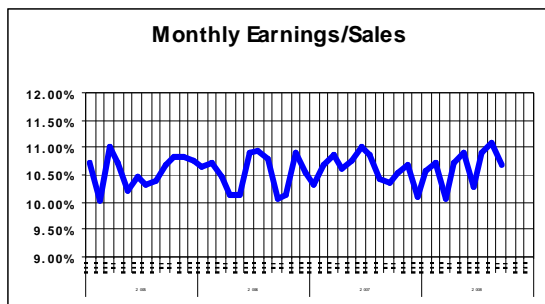
numbers, whether earnings is improving or not.

Creating a ratio of the KPI to another KPI which is related reduces and sometimes removes this volatility.



Volatile KPI

An example is Earnings presented in the chart above. The volatility displayed is a range of This ratio displays the earnings for each dollar of sales. In the example,



Ratio Clarifies Volatility

“Ratio Clarifies Volatility”, Every dollar of sales generates between 10 and 11 cents of Earnings.

3. BENCHMARK

Benchmarking is a commonly used term from engineering which means comparing something to a standard.

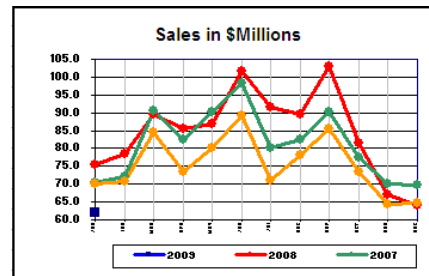
Applied to management there are four major benchmarking types:

- Over time
- KPI to its components
- Other business units
- External benchmarks

Over Time

Comparing a key performance indicator to itself over time provides a sense of momentum and volatility.

The direction of the line (up, across, or down) relative to those with which it is



KPI Over Time Example
Year over Year Sales

depicted, communicates whether the KPI is improving, staying the same or worsening.

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Charting a KPI in a year-over-year format provides two valuable pieces of information.

The first is whether this period is increased or decreased versus prior years same periods. The gaps and or cross-over points between these lines communicate performance independent of seasonality.

The second is whether the shape or height of the line has changed. A change in a single year identifies a one time event (price changes, accounting changes, cost changes) or if it is in the most recent year, may indicate a change in seasonality. A change in multiple years, indicates a change in the seasonality of this key performance indicator.

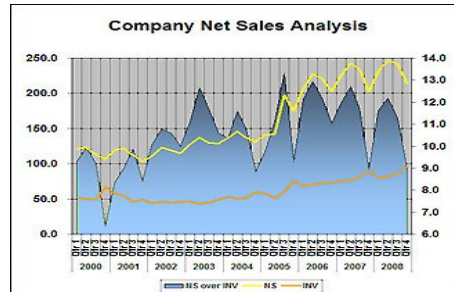
The problem with using over time alone is that seasonal or periodic volatility often obscures the trends.

KPI to its components

Some KPIs are composed of or a function of two or more other KPI's. Charting one or two of the components against the composite shows the impact a change in one or both components have on the ratio.

In the example below "KPI to Components", the ratio of sales to

inventory is shown with lines

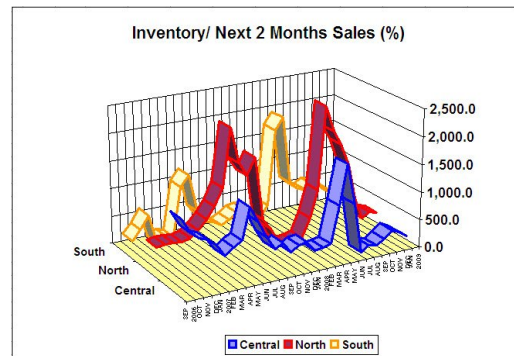


KPI to Components

for Net Sales and Inventory. In the final period, the ratio is dropping because Net Sales dropped and Inventory increase.

Other business units

Charting a key performance indicator against other business units (divisions, plant, stores, etc.) provides



Division Comparison

information on performance within the organization. This technique provides a measure of a business unit's

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performance compared to other business units in the same company.

External benchmarks

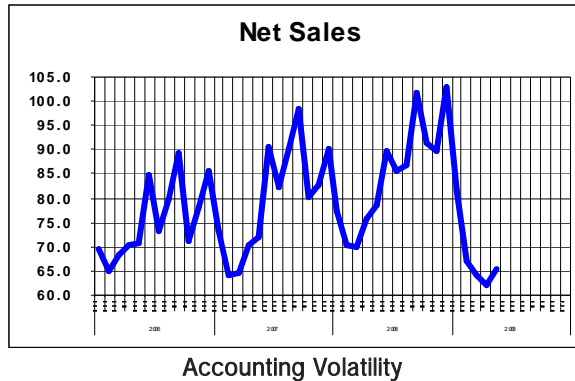
Comparison of a KPI for a business unit or the business as a whole versus external organizations shows performance in context of external factors. Selecting external companies in similar industries with known “world class” or “best practice” capabilities benchmarks an organization’s performance against the best.

4. TREND

Volatility period to period in the key performance indicators can make it difficult to understand the state of the indicator, much less its direction going forward. Volatility can be due to seasonal variations, accounting cycles, or the natural volatility of the business.

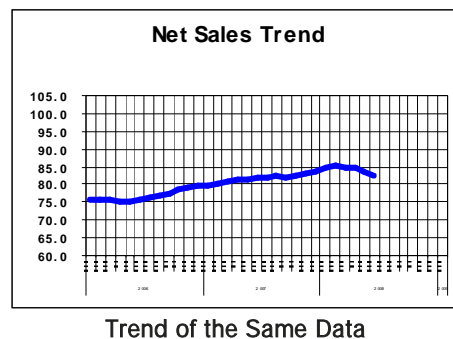
An example of accounting volatility is the case where a company measuring sales is on a 4-4-5 cycle. To make each quarter exactly 13 weeks, the months in a quarter have four, four and five weeks respectively. Since there is an extra week in the

last month of the quarter, and public company sales



forces concentrate on making their quarterly number, the sales for the final month of the quarter almost always show a significant rise over the previous two months. In the example above “Accounting Volatility”, there are three spikes each year. Each is the end of a quarter. The end of the fourth quarter (which falls in December) is represented by a dip.

Creating a trend of the same data, removes this and other seasonal “noise” and makes it easier to see where the



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business is likely to be in the near future.

5. CONTEXT

Individual charts, no matter how well designed and how much they integrate comparison and ratios will not automatically improve communication.

Grouped packets or presentations they combine to communicate a single message or theme .

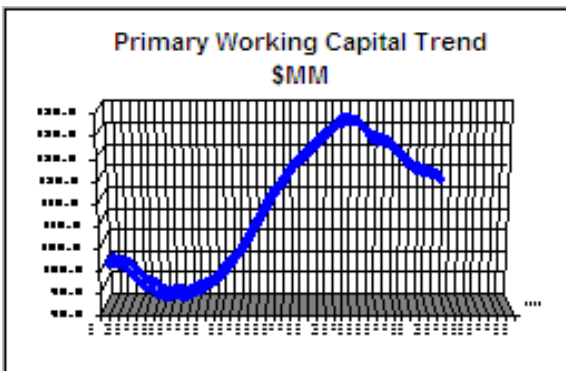


Chart 1: Primary Working Capital Trend Over-

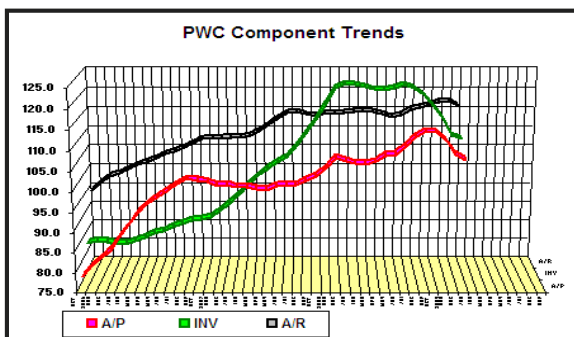


Chart 2: Components Shows which are Driving Change in PWC

In the example above two charts are used to explain changes in Working Capital and which components are causing the change. Chart 1 shows a downward trend in Working Capital. Chart 2 shows that Inventory has dropped the most of the three KPIs and is having the greatest effect.

Using a sequence of charts to depict change and the root causes is a vast improvement over traditional reports.

CONCLUSION

You must both track and communicate the meaning of your KPIs clearly to effect change.

Replace your tables and columnar reports with charts and apply the techniques of Ratios, Benchmarking, Trends, and Context. The results will be improved understanding and focus on your KPIs.

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