

THE ULTIMATE GUIDE TO KPIS

Everything you need to get started with Key Performance Indicators and get the most out of them.



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First edition: 26th February 2021

Published by Perdoo GmbH

www.perdoo.com

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Introduction

KPIs have been around for decades, and millions of organizations work with KPIs in some shape or form, but the concept of KPIs is often misunderstood. The adoption by many organizations of the popular goal management framework, OKR, has only added to this confusion, proven by talk on the internet about “migrating from KPI to OKRs” or “using KPIs in your Objectives.”

This eBook aims to bring clarity to the topic by explaining the vital differences between metrics, KPIs, and Key Results. It offers a great starting point for organizations that are new to KPIs, and helps organizations that are already working with KPIs to get the most out of this wonderful tool. It’s also valuable for those who are working with OKR, as it explains how the two types of goals can reinforce one another to achieve greater outcomes for your organization.

Those, struggling to identify the right KPIs for your team or organization, will be happy to find an extensive list of example KPIs in the appendix!

If you’re still left with questions after reading this eBook, feel free to connect with us via email: team@perdoo.com.



Henrik-Jan van der Pol
Founder & CEO of Perdoo

P.S. If you're already a frequent reader of Perdoo's content, some of this eBook might be familiar. New to Perdoo? Subscribe to get notified about all our latest articles: perdoo.com/resources.

The vital difference between Metrics, KPIs, and Key Results

Before we explore how to get the most out of KPIs, it's important that we first create clarity about what a KPI really is. A KPI is often confused with a metric or a Key Result. On the internet, people use these terms interchangeably — as if they all mean the same thing.

A metric, KPI, and Key Result are all different things. However, a metric is a key component of both a KPI and a Key Result — and that's probably where the confusion stems from.

Let's resolve this confusion by looking at each object in more detail, starting with metrics.

Metrics

The Oxford Dictionary defines a metric as “a system or standard of measurement.” Specifically for businesses, they use the following definition: “a set of figures or statistics that measure results.”

As you can see, the word measure is encapsulated in the term metric. Historically, that makes sense, since the word metric is originally derived from the Greek word métron (μέτρον), which means “measure” or “something used to measure.”

In other words: a metric is a tool to measure something.

Example metrics

Let's say you want to measure the success of your product. There are different metrics you could look at to measure this, such as:

- ✓ Customer Renewal Rate (or Customer Churn Rate)
- ✓ Monthly Active Users
- ✓ Net Promoter Score

If you want to measure the financial performance of your organization, you could use metrics such as:

- ✓ EBIT
- ✓ Cashflow
- ✓ Burn rate

KPIs

A KPI is a well-established tool whose origins go back almost one hundred years. It even has its own Wikipedia page. KPI is an abbreviation for Key Performance Indicator. While setting your KPIs, you are defining what the key areas of your business are, and you are using a metric (as well as a target value) to indicate how that key area is performing.

Be aware that some OKR or KPI tracking tools come up with their own definition of KPIs. Some say, for example, that a KPI is a “featured” Key Result, others substitute Key Results with KPIs (so that it's ‘Objectives and KPIs’ instead of ‘Objectives and Key Results’). This is one of the reasons why so many people are confused. This eBook, as well as the Perdoo software, sticks to the accepted academic definition of KPIs.

The anatomy of a KPI

A KPI consists of the following elements:

- ✓ Metric
- ✓ Current value
- ✓ Target value
- ✓ Title

Metric

This we have covered above: a metric is a tool to measure something, like NPS or Gross profit margin.

Current value

A metric will always have a current value, which is simply the value that your metric has at any point in time.

For some metrics, the way the current value is calculated may differ from one organization to the next. For example:

- ✓ When calculating the current value for Customer Renewal Rate, you can use:
 - ✓ Customers that renewed this month / Customers that were up for renewal this month.
 - ✓ Customers that renewed this month / Total number of customers.
 - ✓ Customers that renewed this quarter / Total number of customers.

- ✓ Or, when calculating the growth of your website traffic, you can use:
 - ✓ $\text{Unique visitors this month} / \text{Unique visitors last month}$.
 - ✓ $\text{Unique visitors this month} / \text{Unique visitors in the same month last year}$.
 - ✓ $\text{Sessions this quarter} / \text{Sessions previous quarter}$.

Target value

The target value is the minimum or maximum value that you want that metric to have. This target value tells you what good performance looks like. Without such a target value, the KPI can't be an indicator of performance because you don't have an idea yet of what good performance looks like. This is really important: a KPI isn't a real KPI without a target value.

Whatever you consider to be "good performance" is of course subjective. However, sometimes there are industry benchmarks available — that would remove such subjectivity. For example, for a B2B / software-as-a-service website that offers an instant signup option on its website (like perdoo.com does), a healthy visitor-to-lead conversion rate is around 7% or higher.

Title

The title should consist of the metric and the target value. Right above the title, you can then display the current value, and that's all the information someone needs to see what the KPI is and if the KPI is healthy or not.

This is how the Perdoo Sales team have set up their KPIs in Perdoo:

KPIs			
 Close \$5M  \$3.2M  \$360K	 Avg. deal size ≥ 5K  \$4.5K	 SQL to Cust. ≥5% 5.1%	 Customers won 43  25

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Now that we have established what a KPI is, and how it's different from a metric, let's have a look at Key Results.

Key Results

Key Results always belong to an Objective. They kill two birds with one stone: (i) they remove ambiguity by clarifying and quantifying what success for an Objective looks like, and (ii) they help you measure progress toward that Objective.

An Objective usually has 2-3 Key Results for the same reasons that a GPS needs 2-3 satellites to accurately pinpoint your location. Each Key Result is designed to positively impact a certain metric.

The anatomy of a Key Result

The components of a Key Result are very similar to that of a KPI, except that a Key Result always has a target value that is different from the start value (remember: a Key Result is designed to positively impact a certain metric).

A Key Result consists of:

- ✓ Metric
- ✓ Current value
- ✓ Start value
- ✓ Target value
- ✓ Title

Metric and Current value

These are already explained above.

Start value

The start value is the value that your metric has at the start of a certain timeframe.

Target value

The target value is the value that you want that metric to have at the end of a specific timeframe (eg, Q2 2020).

Title

A good title bundles all the components of your Key Result. For example, a good title would be *Increase NPS from 20 to 40*, where your metric would be “NPS,” your start value “20” and your target value “40”.

Summary

For results-driven organizations, metrics, KPIs and Key Results are indispensable tools. However, they can be slightly confusing, since there is some overlap between them:

- ✓ A metric is a tool to measure something.
- ✓ A KPI is a tool to keep track of how a key area of your business is performing. A KPI always contains a metric to measure the performance of that key area.
- ✓ A Key Result is a tool to positively impact the performance of a certain metric. Therefore, a Key Result also always makes use of a metric.
- ✓ KPIs and Key Results make use of a metric, but they consist of more than just a metric.
- ✓ The same metric can occur in both a KPI and a Key Result.

OKR vs KPI

A Key Result is a key component of an OKR (OKR stands for Objectives and Key Results). KPIs and OKRs are different types of goals. For those of you working with both KPIs and OKRs, or those looking to implement OKR alongside their existing KPIs, it's important that we clarify the differences between the two frameworks.

The ultimate guide to OKR

Learn everything you need to know to get started with Objectives & Key Results

Download eBook

perdoo.com/resources/eBook-the-ultimate-guide-to-okr



An analogy

Imagine your organization is a car, and you're driving your car toward a destination. That destination is your organization's ultimate goal (the mission & vision), and your OKRs build your roadmap toward it. But, as you're driving your car toward your destination, you also need to keep an eye on your car's dashboard to make sure, for example, that the engine is functioning well and that you're not running out of gas.

The things you'll find on your car's dashboard are the things that you always need to watch — regardless where you are on your roadmap. Hence, the things that you'll find on your car's dashboard translate to business as usual for your business. Business as usual is best measured through KPIs: simple indicators that immediately tell you if something is performing well or not — just like the indicators on a car's dashboard.

New to OKR? Get your KPIs in place first!

There are 3 reasons why you should get your KPIs in place before implementing OKR in your team or organization:

1. Don't drive without a dashboard

The analogy above also helps us explain why it's important to start with KPIs. KPIs are the things that you find on your car's dashboard. Would you feel comfortable driving a car without a dashboard? You wouldn't be able to see the oil pressure and risk breaking your engine. You wouldn't be able to see the fuel level and risk running out of gas.

Your KPIs help you keep the engine running. Without having them in place first, you'll almost certainly get stranded somewhere on your journey toward your ultimate goal.

2. KPIs provide important input when setting OKRs

As we've seen, a key component of a KPI is its desired target value. So once you have your KPIs in place, you can immediately see which KPIs are healthy and which aren't.

This is important information when setting OKRs: when a KPI is unhealthy, you should consider making it a priority to fix it. In other words, you should create an OKR to fix your KPI.

3. KPIs help everyone understand what OKRs are really for

Lots of teams that are new to OKR struggle to understand what OKRs are for. We've developed a simple model to address this: [build, improve, or innovate](#). In short, that model explains that OKRs are designed to help you break out of the status quo and realize your ambitions.

Yet teams that are new to OKR are often working on OKRs that reflect their business as usual. You'll quickly notice that is the case when your OKRs are pretty much the same each quarter. When your OKRs are reflecting your business as usual, your OKRs won't help you see what deserves priority right now, and they won't help you understand how particular problems are being addressed.

When introducing KPIs and OKRs at the same time, you tackle this problem from the start. As you identify what's most important to work on, you can naturally designate whether the goal is best represented as a KPI or as an OKR. Ask yourself, are we doing anything differently (OKR), or is this already an established process (KPI)? Are we building, improving or innovating (OKR), or will we continue to do what we already do (KPI)?

I guarantee that you will end up with much better goals this way!

How to get the most out of KPIs

Now that we understand the key differences between metrics, OKRs / Key Results, and KPIs, we can zoom in on KPIs to help you get the most out of this wonderful tool.

As we now know, KPIs are designed to help you monitor performance of your business as usual. Your business as usual is everything you need to do to keep the engine running. Business as usual typically consists of processes that you execute on an ongoing basis. A KPI defines the results your business as usual is required to accomplish.

Here are the 5 steps to help you get the most out of KPIs:

1. Identify the right metrics for your KPIs.
2. Find the right way to calculate the current value (harder than you think).
3. Agree on a target value.
4. Make sure everyone involved understands the KPI.
5. Regularly review your KPIs.

Let's go through each step in more detail.

1. Identifying the right metrics for your KPIs

While this may feel like a daunting task, this is actually quite simple. KPIs and metrics have been around for such a long time and so many organizations are using them, that lots of example metrics are available today. You just have to pick the ones that you deem most relevant for you.

A B2B/SaaS company like Perdoos will always have MRR (or ARR, the annual equivalent of MRR) in one of their KPIs. Most companies today care a great deal about their employees and thus they have KPI that contains the metric Employer NPS. Marketing teams of online businesses will use website visitors, leads, and visitor-to-lead conversion rate.

Check out [Appendix A](#) for an extensive list of example metrics!

Focus

The challenge is to focus on those metrics that really are key for your team or organization. KPI stands for Key Performance Indicators, and not all your “performance indicators” will be key.

I sometimes see teams with 30 KPIs, which is ridiculous. They’re avoiding the hard choices on what’s key and what isn’t. Ask yourself: Is this really reflecting our most critical business as usual? Is this really a metric that we need to be looking at every week?

Sometimes wanting to track too many metrics is the result of focusing too much on the details.

A few examples to illustrate this:

- ✓ An HR team can track Employer NPS for each department individually, but they can also track Employer NPS for the company as a whole. When Employer NPS drops below the desired target level, they can then zoom in on the details to see if it's a problem within a specific department or if the problem exists across the organization as a whole.
- ✓ A Software-as-a-Service business should track the metric MRR in a Company KPI, and leave NewBiz MRR to Sales and Churn MRR to Customer Success.
- ✓ A Customer Success team could track the metrics Expansion MRR, Contraction MRR, and Churn MRR in separate KPIs, but they could also look at Net MRR Churn Rate which incorporates all 3.

In Perdoo, to ensure you're staying focused and working on KPIs that really matter, our system will flag when you have too many KPIs.

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✓ Free forever ✓ Unlimited goals ✓ Best resources & support

New to KPIs? Don't overthink it!

If you're new to KPIs I urge you not to overthink this step. Agree on an initial set of max 6 metrics, finalize the KPIs (step 2 to 4), work with them for a while, and then review them to make sure they're the right ones for you (step 5).

2. Finding the right way to calculate current value

This is probably harder than you think. There are different ways to calculate the current value and each approach has its own pros and cons. I can't tell you what the best formula is for your situation, but I can highlight the differences for you.

✓ Rolling X days vs. Fixed timeframes

If you're focusing on rolling X days, your current value can change every day. If you're focusing on fixed timeframes, such as monthly or annual, then your current value will only change once that timeframe is completed.

Do you need to get daily feedback on your KPI? Would you like to get immediate feedback when something changes? Then rolling X days is probably the better option. But if you don't want to be disturbed too much, checking your KPI once a week or once a month, then a fixed timeframe would be better.

✓ Numbers vs. percentages

For some KPIs, like your sales target (eg, *Close \$5 million in deals*) it's obvious that you want to look at numbers. For others, such as *Visitor to lead conversion rate*, it's obvious that you want to look at percentages.

But for some KPIs this is less clear. Imagine that you need to make sure your sales people are having enough demos with prospects. Will you be tracking the total number of demos booked, will you look at the % conversion rate on your demo booking page, or will you look at the % availability that your sales team has left? Each option will have its own pros and cons, so it's important to decide what exactly you want this KPI to accomplish and then verify if your current setup is accurately reflecting that.

✓ Large vs. small data sets

The larger the data set that you're focusing on, the more accurate your number probably is. For example, your NPS for the past 3 months is probably a better indicator of how happy your customers are than today's NPS.

However, the larger the data set the longer it takes for your current value to move. Today's NPS will change every day, while your NPS for the past 3 months will change much slower. If things recently started to deteriorate, you would see that immediately in today's NPS but it would take much longer before you would see that in your NPS of the past 3 months.

3. Agreeing on a target value

Now that you know how best to calculate the current value for your metric, it's time to decide what you want that current value to become. It's time to set your target value.

The target value tells you what good performance looks like. Without it, the KPI can't be an useful indicator of performance since — apparently — you don't know what good performance looks like.

Less than or greater than

The target value is the minimum or maximum value that you want that metric to have. So you have 2 options for your target value:

- ✓ Greater than or equal to ($\geq$)
- ✓ Less than or equal to ($\leq$)

It doesn't need an explanation that "greater than or equal to" is for metrics that you want to have a high value, such as *Close $\geq$ \$10 million in deals*, *Employer NPS $\geq$ 30*, or *Gross profit margin $\geq$ 70%*. \$10 million, 30, and 70% could be your targets, but anything higher than those would be even better of course.

Same for "less than or equal to". This is for metrics that you want to have a low value, such a *Gross Monthly Churn $\leq$ 2%*, *Annual Employee Turnover $\leq$ 10%*, and *Written-off invoices $\leq$ €25K*. 2%, 10%, and €25K are your maxima, lower is better.

Healthy vs unhealthy

Your target value will define whether the KPI is healthy or not. If the current value exceeds your maximum target value, it will be unhealthy. Same if it drops below your minimum target value. An unhealthy KPI requires attention, see also chapter 4 [The interplay between KPIs and OKRs](#).

If it stays below your maximum or above your minimum, the KPI is healthy and there is no need to put extra focus on it.

KPIs

 CSAT $\geq$ 98%	 Resolution Time $\leq$ 24...
 97%	21

KPIs that are unhealthy are marked with an orange triangle in Perdoo. You will also be notified about this in your Feed, and via the Weekly Progress Reports.

Finding the right target value

It's not always easy to find the right target value, but industry benchmarks (if available) can point you in the right direction. Is your website's conversion rate currently at 4% and the industry benchmark states that for companies like yours 8% is considered a good conversion rate, then you know you probably still have a lot to win with your website.

When looking at industry benchmarks, it's important to look at benchmarks for companies that are similar to you. For example, if you ask for credit card details during signup, your benchmark conversion rate is probably much lower than if you didn't require this.

If industry benchmarks aren't available, then you can verify your target value by asking yourself "What if we're at this target value, will our business still be in good shape?". For example, if you believe that a lead-to-customer conversion rate of 3% is good, but you know that your business needs to acquire 100 customers per month and your company currently acquires 2000 leads per month, then you know that the numbers don't add up. You either need to acquire a lot more leads (can you reasonably expect that to happen?) or focus on a lead-to-customer conversion rate of 5%.

4. Making sure everyone understands the KPI

To make sure everyone understands a KPI, you need to provide proper context and ensure that it's not open to more than one interpretation.

For each KPI, answer the following questions, and store these answers on the KPI so that they're easily accessible for everyone in your organization:

✓ Why is this a KPI?

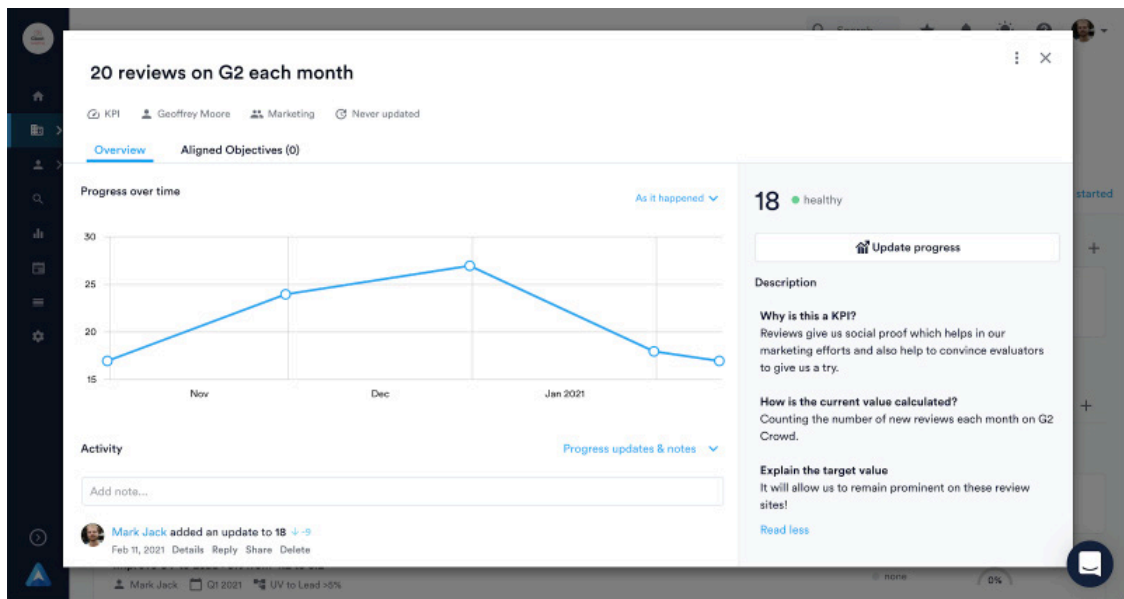
This question forces you to think critically about the KPIs that you are creating for your Team or Company. Your explanation for why you believe this should be a KPI helps others follow your train of thought. It helps them put the KPI into context, which is especially valuable in larger teams and organizations where you don't have the chance to talk to everyone directly.

✓ How is the current value calculated?

However you calculate the current value, it is critical that everyone who will be looking at the metric understands how it is calculated. Share your formula.

✓ Explain how you got to the target value?

Every KPI should have a target value, and everyone needs to understand why that is the target value. Is it based on a benchmark? Share your sources!



In Perdoo, you can store the answers to these questions in the description field of each KPI, so that they're easily accessible to everyone across your organization.

5. Regularly review your KPIs

There is only one way to make sure that you're working on the right KPIs and that is to regularly review them. At Perdoo, we review all our KPIs at the beginning of each quarter, at the same time when we're closing past quarter's OKRs and are drafting new OKRs.

Sometimes we realize that we never looked at a particular KPI, which could be an indicator that the KPI wasn't really important. Other times we realize that the KPI didn't influence our behavior, which could be an indicator that it wasn't set up correctly.

Regularly reviewing your KPIs is also important because what could be the right KPIs for your team or organization for one year, doesn't automatically mean that they're the right KPIs for the next year.

The interplay between KPIs and OKRs

KPIs and OKRs are two types of goals that can reinforce one another to achieve even greater outcomes for your organization.

Did your KPI turn unhealthy? Create an OKR to fix it. But it can also work the other way around!

How an OKR can fix a KPI

At Perdoo, we also have a Marketing KPI that tracks the overall conversion rate of our website. We want this KPI to be at 7% or higher. That means that as long as 7% of our website visitors convert to a lead, we're all good and Marketing doesn't need to put extra focus on this.

Should this KPI show that the conversion rate drops below 7%, Marketing could make it a priority to fix this KPI and bring the overall conversion rate back to the desired level. In other words, Marketing could create an OKR to fix this KPI.

How an OKR can become a KPI

In the previous quarter, our Marketing team was working on an OKR to optimize our website's conversion rates. We've used Google Optimize in combination with Google Analytics to run all sorts of experiments to help us increase the performance of our website and convert more website visitors to leads.

The OKR was a great success but we've also learned that running these experiments takes a lot of time. Each experiment must run for at least two weeks, and sometimes much longer depending on the traffic that you get on a particular page.

Because our website is the main place where people can learn about us and where we can learn about those people, it's always going to be important that the conversion rates are as high as possible. Since we believe there's always room for improvement, we've decided that running experiments (with the aim to increase conversion rates) should become business-as-usual for our Marketing team.

So after we accomplished our OKR and gave our conversion rates an initial boost, we decided to create a new Marketing KPI that safeguards the constant tweaking and optimizing of our website's conversion rate. This KPI, *Optimize website conversion rate by 5% per month*, makes sure that running experiments with the aim to increase conversion rates becomes business-as-usual.

Summary

As you see, there can be strong relationships between KPIs and OKRs. OKRs can turn into KPIs, and KPIs can be improved through OKRs. This is one of the reasons why it makes sense to track your KPIs and OKRs in one place.

Combining them also gives you full transparency on the priorities of each area of your business, like Marketing, Sales, or Product.

In Perdo, you can visualize these relationships by aligning an OKR to a KPI in order to take it to the next level. On each KPI you'll then see what you've tried — or how you're trying — to improve it.

About Perdoo

Perdoo is a simple but powerful goal management platform that helps ambitious organizations turn great strategies into amazing results. Thousands of companies across the world use Perdoo to boost transparency and alignment by combining their strategy and all their goals (OKRs and KPIs) in one place. And you can start for free!

Get started for free

At Perdoo, we believe in truly democratizing the concept of OKR and want to liberate companies from the hassle of tracking OKRs in spreadsheets. We already offer most of our content for free. Now we've decided to go even a step further and offer our software for free as well.

Go to perdoo.com to sign up for a free account!

Our free account includes all core functionality and allows you to track an unlimited number of goals.

[Get your free Perdoo account](#)

Questions?

Contact us via hello@perdoo.com and we'll get back to you asap.

Appendix A: Example metrics

Metric and Current value

- ✓ Growth rate
- ✓ Employee NPS
- ✓ Customer NPS
- ✓ Revenue
- ✓ Cash flow

Marketing metrics

- ✓ Customer Acquisition Cost
- ✓ Cost per Lead
- ✓ Unique Visitor to Lead Conversion Rate
- ✓ Customer Lifetime Value
- ✓ Traffic growth

Sales metrics

- ✓ Sales Revenue
- ✓ Sales Qualified Leads to Customer Conversion Rate
- ✓ Average Deal Value
- ✓ Average Time to Close
- ✓ Revenue per Sales Representative
- ✓ Opportunity Funnel Value

Customer Service metrics

Customer Support

- ✓ First Response Time
- ✓ First Contact Resolution
- ✓ Average Resolution Time
- ✓ Abandoned Call Rate
- ✓ Customer Satisfaction Score

Customer Success

- ✓ Customer health score
- ✓ Expansion Revenue
- ✓ Customer Retention Rate
- ✓ Customer Referral Rate
- ✓ Number of Customers Successfully Onboarded

Product, Engineering, IT metrics

- ✓ Response Time
- ✓ Number of Bugs
- ✓ Average Downtime
- ✓ Pull Request Review Time
- ✓ Deployment Frequency

Operations, Finance, BI metrics

- ✓ Gross Profit Margin
- ✓ Operating Profit Margin
- ✓ Current Ratio
- ✓ Accounts Payable Turnover
- ✓ Accounts Receivable Turnover
- ✓ Return on Equity
- ✓ Burn Rate
- ✓ Inventory Turnover
- ✓ Budget Variance

HR metrics

- ✓ Average Time to Hire
- ✓ Average Tenure
- ✓ Overtime Hours
- ✓ Cost Per Hire
- ✓ Employee Turnover Rate
- ✓ Pulse Survey Score
- ✓ Employee Referral Rate
- ✓ Employee Engagement Score

