

An Exact Software White Paper



# The Metrics-Driven Organization:

How to Keep Your Finger on the Pulse of Your Business in Challenging Times

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Metrics increase visibility and sharpen decision making to ensure excellent customer service, rising revenue and growth.

## Introduction

Today's small to mid-sized corporations have little room for error. Pressure on IT has intensified as companies look for ways to ramp up productivity, retain and grow their customer base and eclipse the competition. They are searching for ways to achieve one version of the truth, and for the technology capable of tapping it.

In any organization, multiple sources of data must be analyzed and turned into actionable information. The difficulty is bringing it all together, focusing on the critical information and using it to measure, learn and innovate.

This white paper discusses how metrics increase visibility and sharpen decision making to ensure excellent customer service, rising revenue and growth. It documents the top five technology guidelines necessary to manage metrics across the organization, and concludes with examples of three metrics-driven companies noted for their continuous improvement and customer responsiveness.

## Executive Overview

In today's global economy, many organizations operate multiple sites within a rapidly changing environment. They are coping with shorter product development and launch times, the challenges of regulatory compliance, customers demanding cost reductions, the need for demand sensing and dynamic supply chains.

The problem is that a gap exists between what these companies most need to know and what is available to them. No wonder that metrics—measures that quantify an organization's activities and how they support customers, employees and shareholders—and the technology that generates them continue to gain importance

## Increased Reliance on IT

As the competitive juggernaut intensifies and economic pressure increases, executives across most industries are turning to IT to keep their fingers on the pulse of their businesses. Many are turning to collaboration and business intelligence systems that track and analyze metrics or key performance indicators (KPIs).

It is not surprising that according to the InformationWeek Analytics Survey of 500 Executives\*, most companies' IT investment in 2008 remained the same or higher than in 2007. Among those surveyed, the average company spent 2.8% of revenues on IT in 2008. Approximately half was spent on products and services and one-third on staff.

## How to Keep Your Finger on the Pulse of Your Business in Challenging Times

The survey reveals that more than four fifths increased their use of automation, or improved data integration between systems or departments. “Even in a troubled economy, these companies are investing in technology, spending an average of 39% of their IT budgets on new projects,” says Chris Murphy, a survey author and editor at InformationWeek.

### IT Budget As Percent of Revenue: 2002–2008

	2002	2003	2004	2005	2006	2007	2008
Automotive	1.7%	2.1%	1.5%	1.8%	2.0%	1.3%	1.0%
Banking/financial services	7.6%	7.1%	8.6%	10.0%	6.0%	6.3%	8.0%
Biotechnology/pharmaceuticals	3.8%	3.5%	6.0%	4.3%	3.3%	4.3%	4.0%
Chemicals	2.1%	2.1%	1.5%	2.0%	1.8%	2.0%	2.0%
Construction/Engineering	1.8%	1.4%	0.5%	0.5%	0.8%	0.7%	1.5%
Consulting/business services	3.5%	3.4%	4.0%	5.0%	3.9%	4.0%	4.3%
Consumer goods	2.8%	2.1%	1.9%	2.5%	2.0%	2.1%	2.0%
Distribution	1.4%	1.7%	1.2%	1.5%	1.1%	1.0%	1.0%
Electronics	5.0%	3.7%	3.0%	3.0%	3.3%	3.0%	3.0%
Energy/utilities	3.0%	2.1%	2.0%	2.5%	2.1%	2.0%	2.0%
Health care/medical	2.7%	3.3%	3.0%	3.0%	3.5%	4.0%	4.0%
Hospitality/travel	2.5%	2.0%	1.5%	2.0%	2.5%	2.9%	2.0%
Information technology	4.2%	4.4%	4.0%	3.5%	3.0%	4.0%	4.0%
Insurance	4.0%	3.6%	3.4%	3.0%	3.4%	3.0%	3.0%
Logistics/transportation	4.8%	3.0%	2.7%	2.0%	2.0%	2.0%	2.0%
Manufacturing	2.7%	2.4%	1.8%	2.0%	2.0%	2.0%	2.0%
Media Entertainment	5.6%	3.3%	2.5%	3.0%	3.7%	5.0%	5.0%
Metals/natural resources	1.5%	1.4%	1.0%	1.0%	1.0%	0.8%	1.0%
Retail: General merchandising	1.4%	1.6%	1.4%	1.0%	1.6%	2.0%	2.0%
Retail: Specialty merchandising	1.8%	2.7%	2.5%	1.0%	1.5%	2.0%	2.0%
Retail: All	–	–	–	–	1.6%	2.0%	2.0%
Telecommunications	4.6%	4.6%	4.9%	6.0%	5.4%	5.2%	5.0%

Note: Percentages represent medians. Additional data from InformationWeek Surveys of InformationWeek 500 executives, 2002–2007.

Data: 2008 InformationWeek Analytics Survey of InformationWeek 500 executives.

\* Large enterprises were surveyed, all of them innovative users of technology across multiple industries.

This survey reprinted with permission from InformationWeek

Thanks to ERP, CRM, BI and other enterprise information technology, a company’s unique business processes can now be tracked, measured, reproduced and spread with reliability across the organization. As corporations seek new ways to engage their customers, deliver business intelligence to their employees and create revenue based on new business models, metrics become a vital measure of progress. To survive and more importantly thrive, the directive of any CEO should be: deploy, measure, innovate and promulgate.

## Metrics That Drive Productivity

*Metrics: Integrating and leveraging data consolidated from many sources and the ability to transform that data into actionable information; both inward and outward-focused metrics apply.*

Metrics need to be chosen carefully, aligned to company strategy, then monitored and revised as conditions change.

Metrics, or KPIs, are like steering wheels—they can turn a company in both the right and wrong directions with both good and bad effects on human behavior. Metrics need to be chosen carefully, aligned to company strategy, then monitored and revised as conditions change.

## Strategic and Demand-Driven Metrics

Unassailable metrics concentrate on critical success factors. These measures are not always the easiest to attain but provide the most value because they link to corporate strategy and, just as importantly, to supply and demand volatility.

In the area of manufacturing, for example, “One of the most powerful ways to change behavior is by changing the metrics by which people are measured and rewarded. Unfortunately, the operations excellence initiative in many organizations has taken on a life of its own, disconnected from corporate DDSN (Demand Driven Supply Networks) strategies,” say Colin Masson, Alison Smith, and Simon Jacobson, authors of the January 2007 AMR Research Study titled Demand Driven Manufacturing.

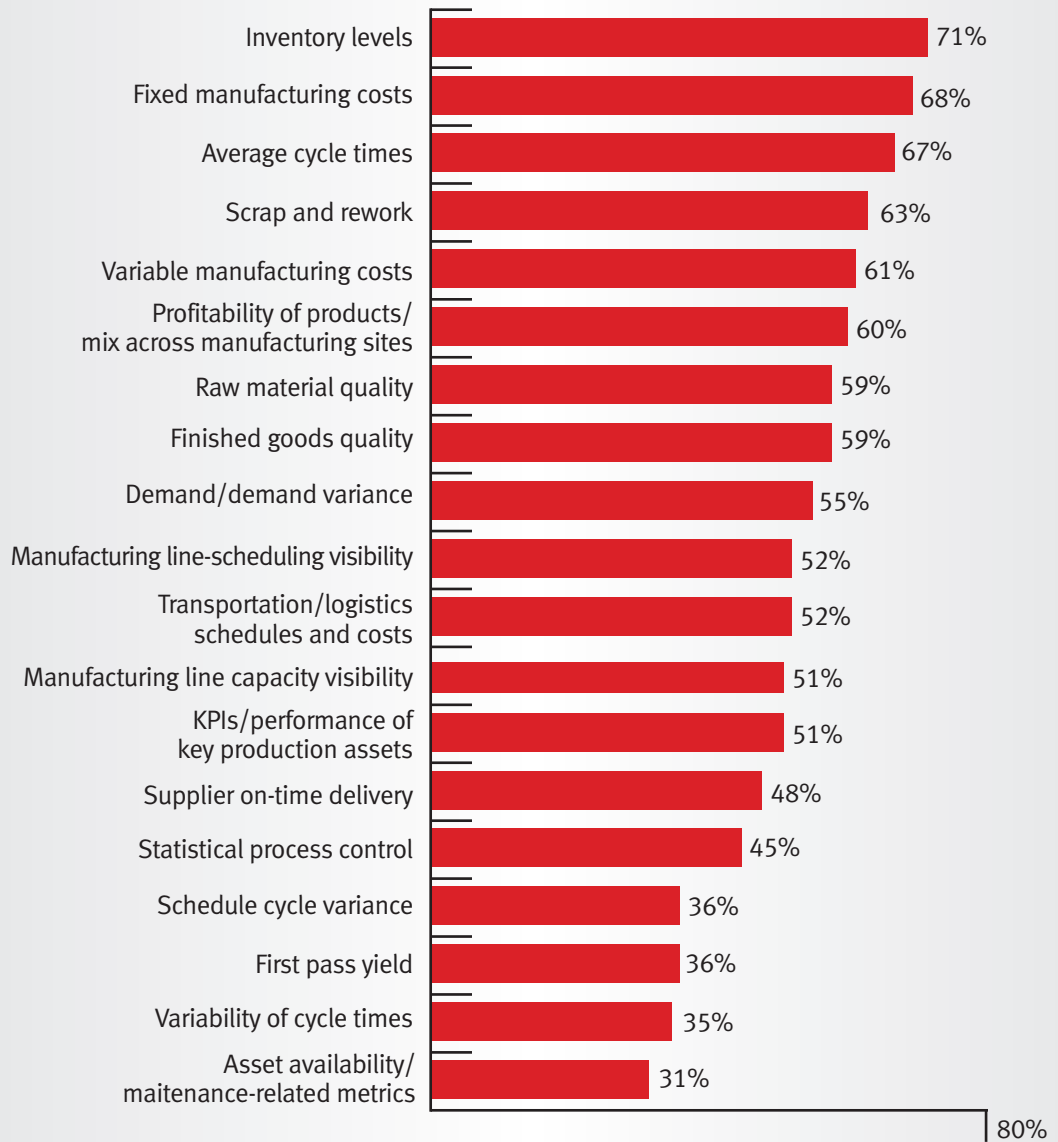
The authors surveyed 100 global manufacturers and stated the following in regard to survey results:

“Only a third of the 100 manufacturers we surveyed in recent research on manufacturing metrics are measuring asset availability, first-pass yield, and manufacturing cycle time variances.”

“Almost a third are not tracking inventory levels, raw material, or product quality in manufacturing...”

“...and just half indicate visibility into the actual scheduling of capacity and supplier on-time delivery to replenish the shop floor.”

## Manufacturing metrics used today



Percentage of responses: n = 100  
Source: AMR Research, 2007  
Reprinted with permission from AMR Research

According to the study's authors, "...there's a real potential for blinkered operations initiatives to conflict with demand driven supply network objectives, especially when success is measured solely on cost reductions, as most is."

They add that "...removing manufacturing waste in lean programs shouldn't reduce manufacturing ability to be responsive to increasingly volatile demand. There's a balance to be struck between operational efficiency and agile response."

Ease of use, dashboards, direct access to data and the free flow of information play key roles in the execution of business performance metrics.

What AMR Research learned regarding the shortcomings of manufacturers' metrics has bearing on other industries. Evaluating metrics for alignment within the value chain is vital. Alignment dictates whether metrics at various levels and within a range of departments or global locations contribute to strategic goals and reflect marketplace demands. For most organizations, choosing balanced metrics and revising them as conditions change requires the help of technology.

- Metrics provide value only if the resulting information is available, usable, and reliable to those who can act on it
- The data has to be updated frequently and metrics must be aligned with lean initiatives as well as today's demand-driven economy
- Metrics data should be automated and offer 'one version of the truth' rather than a series of conflicting conclusions

## Top Five Guidelines For Deploying Technology to Automate Metrics

Organizations effective at implementing metrics linked to strategy, demand, and lean initiatives are skilled at using IT to do it. They deploy software that scales with growth and adapts to opportunities the business may create. Ease of use, dashboards, direct access to data and the free flow of information play key roles in the execution of business performance metrics.

The fundamentals of good execution start with making sure the right information is gathered and then flows where it needs to go. The following guidelines lay the foundation for an organization-wide technology infrastructure that fosters metrics linked to strategy, demand and customer service.

### I. User Power

The failure of many IT projects is what often sabotages business performance metrics. It stems from company-wide resistance: users sinking the system because it was forced on them or difficult to use, or they see no compelling reason to learn it. Ideally, the worth of your IT system should be apparent so users adopt it and make use of the timely metrics data and views it offers.

"This is not an MIS driven project. It's a user driven project. We just want our managers and sale reps to be information savvy," says an IT professional at a midsize manufacturing company. He is right. Once beyond deployment, a large swath of your company should own your IT system. For example, sales managers should be able to slice and dice data for more flexible reporting and ad hoc analysis. Marketing and support should rely on its data and measures for understanding of the marketplace and the truth behind the business.

Static reporting can not provide the whole picture. Evolve your reporting with collaboration methods and software to support knowledge management, cultural change and innovation.

## II. Dashboards and Direct Access to Data

Whenever possible, find software that works with your current system's original data. Avoid the expense, personnel and time required to create and maintain a data warehouse (intended to bring together several physical databases, i. e. Microsoft Access, SAP or Oracle). The goal should be direct access to the same tables of information and programs you are writing to and reading from currently. Benefits include faster implementation, less data redundancy and fewer resources needed.

Take advantage of dashboards and/or logical views. Without them, you will have to rely on manual extrapolation from multiple applications, each containing silos of critical data. At best, the result can be hit or miss decision making. Dashboards look at the enterprise as a collection of interrelated components, and do so graphically, presenting metrics in a clear, colorful format. They also help alert you that improving one area of metrics without considering the effect on others will yield poor results.

## III. Reporting and Analysis

Static reporting can not provide the whole picture. Evolve your reporting with collaboration methods and software to support knowledge management, cultural change and innovation. Turn to business intelligence (BI) tools to gain vital analysis and multi-dimensional gates to information.

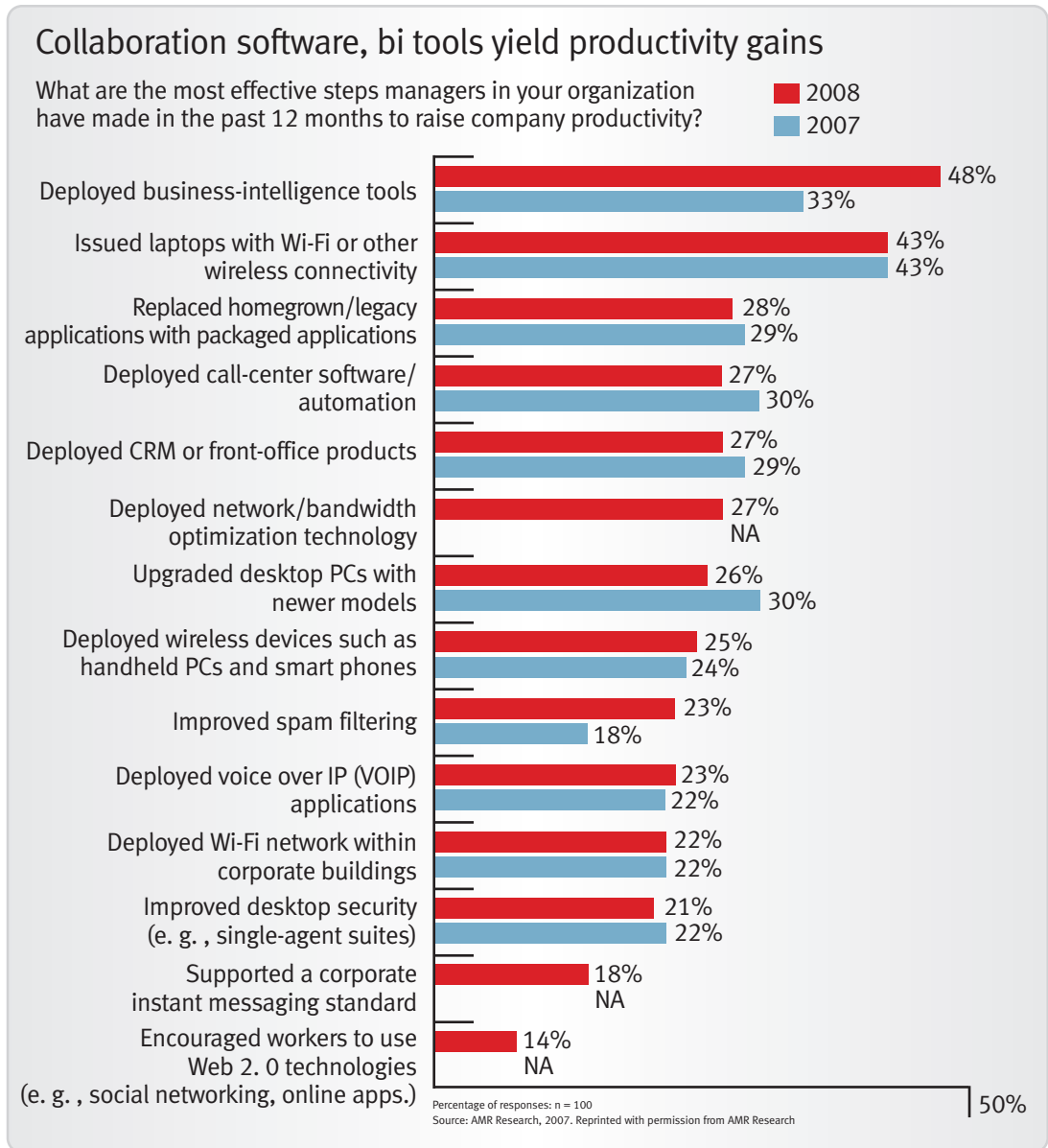
More and more companies are focusing on collaboration methodologies to enable a global workforce to work toward common goals, to engage customers and partners and to integrate enterprise applications. Then they look to BI for analysis of trends to empower management and enable them to turn on a dime when the economy, competition, or target markets change.

According to a 2008 InformationWeek survey, executives across 22 industries named collaboration systems and business intelligence software as the two best ways to raise productivity—48% and 43% respectively rated them the most effective tools implemented in the last 12 months.

## IV. Simplicity

If possible, work with one technology vendor or suite of products rather than several. A consistent technology platform will be simpler to deploy yet provide sophisticated information. Choose affordable software that integrates or comes bundled with your ERP, CRM and BI so they talk to each other.

At the same time you will be developing an infrastructure to achieve process harmonization and data integrity, which lowers costs and hastens deployment. As you partner with one vendor, they can collaborate to provide flexibility without sacrificing standardization.



Just as Southwest Airlines gained from flying only Boeing 737s, simplifying IT by integrating your business management, communication and performance systems provides the structure and control to enhance productivity rather than impede it.

### V. Free Flow of Information

If your company has small-to-medium sized subsidiaries around the country or the world, you will want to make sure your systems provide seamless integration across divisions and subsidiaries. If information does not flow horizontally across parts of the company, then units behave like island kingdoms, forfeiting economies of scale and the transfer of best practices.



“Right now, I can see into every Alltech warehouse in the world, and see what product levels are, all the way down to the lot number and shelf life for every product we have, off 63 diverse databases,”

–Tim Arthur,  
Global Director MIS, Alltech.

Information must also flow vertically. Field and line employees’ rational decisions depend on it. If a sales manager thousands of miles from headquarters has no idea how far she can cut prices before eroding margins, she can hardly be held accountable for her decision. Make sure free flow of information allows users to understand the bottom-line impact of their decisions.

With the free flow of information, customer and product teams on different continents can collaborate in serving important customers. Far flung units need to be privy to key metrics, analytics and customer data to cooperate on issues critical to multiproduct customers, offering them potential tradeoffs or volume discounts.

## Metrics in Action

Following are examples of two midsize and one small organization that improved business performance, strengthened customer relationships and lowered risk. Their belief in metrics, technology and cross enterprise collaboration made it possible.

### **Alltech, a multinational biotechnology company**

Alltech provides natural solutions to the feed and food industries. Founded in 1980, the company now operates in 85 countries and employs 1,500 people. Alltech leads in the field of research-based animal health.

After years of expansion into global markets, Alltech found itself with a disjointed IT infrastructure and multiple overlapping systems for accounting, material tracking and sales operations. As step one, they standardized their ERP and CRM systems. Solutions from Exact Software™, provided them consistent views of finance, sales and their supply chain.

Alltech still struggled under the burden of creating, maintaining and distributing 1,200 static business reports. The absence of enterprise-wide reporting hampered their performance. Building a centralized warehouse was an option, but integrating more than sixty operations’ physical databases seemed too big a challenge.

Instead, Alltech deployed Exact Business Analytics® and turned metrics data in their sixty distinct databases into logical views published automatically via e-mail. The views enabled managers to see what was happening at all levels of the corporation and to manage proactively. Dashboard visuals kept them informed of daily sales, customer activity, profits and performance. The biggest benefit? Managers could reconfigure production of time-sensitive products to match customer demand and deliver products just-in-time.

“Right now, I can see into every Alltech warehouse in the world, and see what product levels are, all the way down to the lot number and shelf life for every product we have, off 63 diverse databases,” sums up Tim Arthur, Global Director MIS, Alltech.

Permac Industries in Minneapolis is a flourishing 34-person precision machining company that doubled the size of its plant and grew 15.9% in 2006, expanded 15.3% in '07, and despite the economy, continues to find new customers and increase sales in '08 and '09.

## **PADI Worldwide, a service organization of scuba and snorkel instructors**

PADI Americas, based in Rancho Santa Magrita, Calif. , is part of PADI Worldwide, which includes seven service offices around the globe. PADI develops programs that fulfill the public interest in recreational scuba and snorkel diving worldwide. Its 100,000 ethnically diverse professional members operate in 175 countries and territories.

In early 2002, Sharon Dill, CIO for PADI, sought to enhance PADI's ability to serve its customers. "Our dive center, sales department, training and education groups all speak with our customers," Dill said. "As a result, we might have three conversations going on in isolation. We didn't have a way to keep track of those conversations. "

PADI Worldwide selected Synergy® from Exact Software™, a business management solution that unifies a company's people, processes and knowledge. Dill said. "Synergy is a different way of thinking; a different way of interacting with your core constituencies. "

Synergy is collaboration software that integrates workplace data to provide complete management of CRM, workflow, relationship management and knowledge management capabilities. It has changed the way PADI captures information. Advantages are easier expansion of the business, streamlined metrics and processes, and more efficient communication with customers.

"Instead of creating isolated Excel files or other methods to do their jobs, our employees now understand that everyone can access customer notes if they begin entering data into Synergy," says Dill. " Some departments have taken off, as they realize the power that comes with having customer data available 24/7. "

Seamless integration between Synergy and their ERP solution, Exact Macola ES®, led to greater collaboration and efficiency. PADI now has their membership information, Macola ES and Synergy sharing the same database.

## **Permac Industries, a precision machine shop**

Permac Industries in Minneapolis is a flourishing 34-person precision machining company that doubled the size of its plant and grew 15.9% in 2006, expanded 15.3% in '07, and despite the economy, continues to find new customers and increase sales in '08 and '09. In April of '08, they beat hundreds of other national finalists to win the United States Chamber of Commerce Small Business of the Year Award.

A factor contributing to their win was outstanding customer service fueled by metrics. At Permac, performance tracking keeps office and shop floor employees informed of their progress. The underlying goal is customer satisfaction. The shop uses Exact JobBOSS® Job Control, Data Collection, Shop Stats and ShopBOSS® for history, costing, and customer relationship management metrics.

In these challenging times, the goal is not just to react or even to anticipate. It is to collaborate—to employ metrics, communication, common definitions and process in serving your customers and managing them profitably.

In addition to financials, Permac tracks key performance drivers including demand, supplier quality, costs, responsiveness, flexibility, quality and delivery. Three key metrics are updated daily for all employees to see. Both office and shop floor feature display boards posting:

1. **Scrap rate**
2. **External defects per million**
3. **On-time delivery rate**

Shared knowledge of metrics fosters continuous improvement and closer customer relationships. “Our goal is to form a customer partnership verging on marriage, so it becomes more difficult for a customer to move the business away. Metrics help us do it,” says President, Darlene Miller.

## The Rewards

From an economic and competitive standpoint, it has never been more critical to establish metrics, performance management and knowledge sharing across the enterprise.

Organizations are using integrated ERP and CRM systems to manage their accounting, manufacturing, distribution, customer service and e-commerce. They are letting their ERP lay the groundwork for their technology infrastructure. Once visibility into key metrics has been established, they implement BI for analysis across the enterprise. Dashboards integrate information from diverse sites and put reports and analysis in the hands of decision makers. The rewards are growth and a more secure future.

In these challenging times, the goal is not just to react or even to anticipate. It is to collaborate—to employ metrics, communication, common definitions and process in serving your customers and managing them profitably. As organizations evolve, they interact with customers in new ways thanks to a cross-enterprise view of metrics data. Ideally, the view is both within the four walls and across the value network, both local and global, viewed from the executive ranks to the field level.

Omnipresent metrics are not easy to achieve. Yet neither are they complex. Rather than hundreds of metrics, it may be just ten KPIs that your shop, your plant or multinational enterprise uses to drive performance to the next level. From online universities to retailers to banks and manufacturers, companies are keeping their fingers on the pulse of their businesses. They are using metrics to drive themselves to the next level, now during this critical time when lost customers or poor decisions may be too costly to absorb.

The technology exists to enable you to advance. More than technology, there are integrated methods for increasing visibility and sharing of knowledge. Take advantage of collaborative solutions to push your employees to be strategic, united and metrics driven. Do it now so when the economy recovers, you will be strong and positioned to rebound with it

For more information call 1-800-468-0834 ext. 2650.

## About Exact Software

Established in 1984, Exact Software is one of the world's leading providers of business software solutions. Its integrated solutions comprise traditional Enterprise Resource Planning (ERP) as well as related software solutions such as Human Resource Management (HRM), Customer Relationship Management (CRM), Project Management, Business Intelligence/Analytics (BI/BA), and Electronic Workflow. Exact is headquartered in Delft, the Netherlands and has offices in Europe, the Middle East, North and South America, Asia, Australia and Africa. With over 2,700 employees, subsidiaries in more than 40 countries, solutions available in 40 languages, Exact currently serves customers in more than 125 countries across all five continents. Exact Holding N.V. (EXACT) has been listed on Eurolist by Euronext Amsterdam since June 1999.

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