Primary Performance Metric – Is your Company Winning or Losing?

The 2011 Oscar-nominated sports movie *Moneyball* shows how focusing on the primary performance metric is important. The plot describes a quest by the low-budget Oakland Athletics for the secret of success in baseball. Despite being one of the poorest teams, the Oakland As became one of the most successful franchises in Major League Baseball using a different approach.

The movie begins with an innocent question: how did one of the poorest teams in baseball win so many games? Whilst the intimacy of the sports drama alone is worth the price of admission, the real jackpot is they uncovered the primary performance metric to focus on. The Oakland As metrics geeks proved that the traditional yardsticks of success for players and teams were fatally flawed.

As we cheer on the geek driven David (Oakland As) versus the Goliath moneymen of the other baseball franchises, we are left to wonder whether our companies are really aligned around the right **Primary Performance Metric.** Or perhaps we are like the other baseball franchises drowning in competing metrics that our cloud judgement and decision making.

Getting alignment on your company's Primary Performance Metric

What is your **Primary Performance Metric**? How do you know whether you're winning or losing? Your Primary Performance Metric is your company's key goal at the highest level. There are three options:

- Maximize profit

- Grow revenue or recurring revenue
- Increase market share

Every company faces the dilemma of making progress on these seemingly conflicting objectives as the same time. To kick off a recent engagement, I met with the company's CEO and CFO. I asked them together what their Primary Performance Metric was. I requested that they choose one from the three options above and write it down.

You've probably guessed it by now – the CEO wrote revenue growth and the CFO wrote profitability. This lack of alignment resulted in mixed communication to the management team. The team thought that the company was undertaking a revenue growth strategy, but the message from the CFO was solely focused on profit.

Let's look at the following statement

"My Company's strategy for 2017 is to become the market leader while also maximizing revenue and maximizing profit."

Do you recognize this company? Does this describe your own strategic objectives? I certainly hope not. Since there isn't a company in the world that has successfully managed to strategically pursue all three at once. Not one, none, zip!

Revenue growth places disciplines on which customers to pursue and what price to charge, thereby impacting market share and profitability.

The pursuit of profit restricts product development and will impact both revenue growth and market penetration. Significant investments in new market development cannot be undertaken if the Primary Performance Metric is profitability.

Market penetration sacrifices revenue and profit in order to win lots of new customers. To take this to the extremes, you might choose to give away your product for free, if it means you will get a desired footprint in the market.

Because of the disciplines and restrictions from each Primary Performance Metric, only one key financial goal can be pursued, while the others can serve as operating constraints. Relentless adherence to this rule makes you focus on how to achieve what you want while operating between the guardrails.

Choosing a Primary Performance Metric

To make an informed decision, it is critical to understand the character of your market and your organization. How structured is the market? Is it changing rapidly? Is your company dynamic enough to adapt as conditions or demands change? Is the executive team empowered enough to make decisions and effect change without recourse to the board?

Profitability – best pursued in well-structured markets (probably with slower growth) that don't change too rapidly. The challenge is to avoid the rut of success, which can blinker you to new competitors and change when it does arrive.

Revenue growth – best pursued in an unpredictable and changing market. Unless decision-making is quick and execution is decisive, opportunities will be lost and the investment will be made without any gain.

Market share – best pursued in a market with well-established rules. You can only pursue this strategy with a unique sustainable advantage and adequate resources.

Insight in brief

Most companies have an abundance of data, however they lack clarity about their Primary Performance Metric – this is the single most important metric that tells the whole team whether they are winning or losing. This lack of clarity gives mixed messages. For example, the CEO, CFO and VPMarketing may all have conflicting views.

Like the Oakland Athletics, companies that work through this dilemma by basing their budgets, focus, and performance on their Primary Performance Metric are more likely to win.

Insight in Action

1. At your next management meeting, explain the concept of Primary Performance Metric to your team.

2. Ask them each to privately write down on a yellow sticky, what they believe is the company's primary performance metric.

3. When the yellow sticky exercise is completed, ask each person to place their yellow sticky on a flipchart and explain why they chose this metric. Discuss the findings and work through the required alignment.

4. Make tracking and communicating visually monthly progress on your primary performance a top priority. Use it to guide decision making and build your KPI system around it.