



Dynamic Performance Management: Unlocking the Power of Live Value Optimization

Many businesses are plagued by performance indicators and management dashboards that swamp them with data but offer little insight about how to optimize the organization's performance.

Managers want to focus on the decisions and actions that really make a difference. To do so, they need live information showing only those key performance indicators (KPIs) that both drive value and are controllable. Yet reaching the point of "live" value optimization has, until now, been a slow and expensive process, with most KPI reporting projects falling well short of their intended benefit — if they were completed at all.

Relatively few metrics have any significant influence on future cash flow, but identifying those critical KPIs, understanding the interactions between them and linking the insights to management response can be extremely powerful. In our experience, getting this right can deliver profit uplift of up to 30%.

In addition to generating a substantial profit boost, live value optimization brings far-reaching benefits. These include:

- Dramatic increase in understanding and collaboration between business domain leaders
- Aligning live management information with longer-term budgeting and planning

- Immediate quantification of investment decisions and accelerated evaluation of alternative scenarios
- Linking incentives and reward mechanisms directly to real-time KPI movements

It can also be the catalyst for a complete refresh of a company's strategy, organizational structure and culture.

In this *Executive Insights*, we unpack a three-step process that quickly generates high levels of transformational benefit: 1. value model creation, 2. deep KPI integration and 3. live value optimization (see Figure 1).

Three steps to live value optimization

L.E.K. Consulting has worked with many large organizations to help them increase profitability using KPI-driven models. Our approach is well tested and codified, and recent developments in data analytics tools and techniques have made KPI data easier, faster, and less costly to acquire, store, analyze and display. Connection to multiple data sets (regardless of format), leveraging machine learning, and simplifying secure aggregation and analysis at scale are just some of the new possibilities.

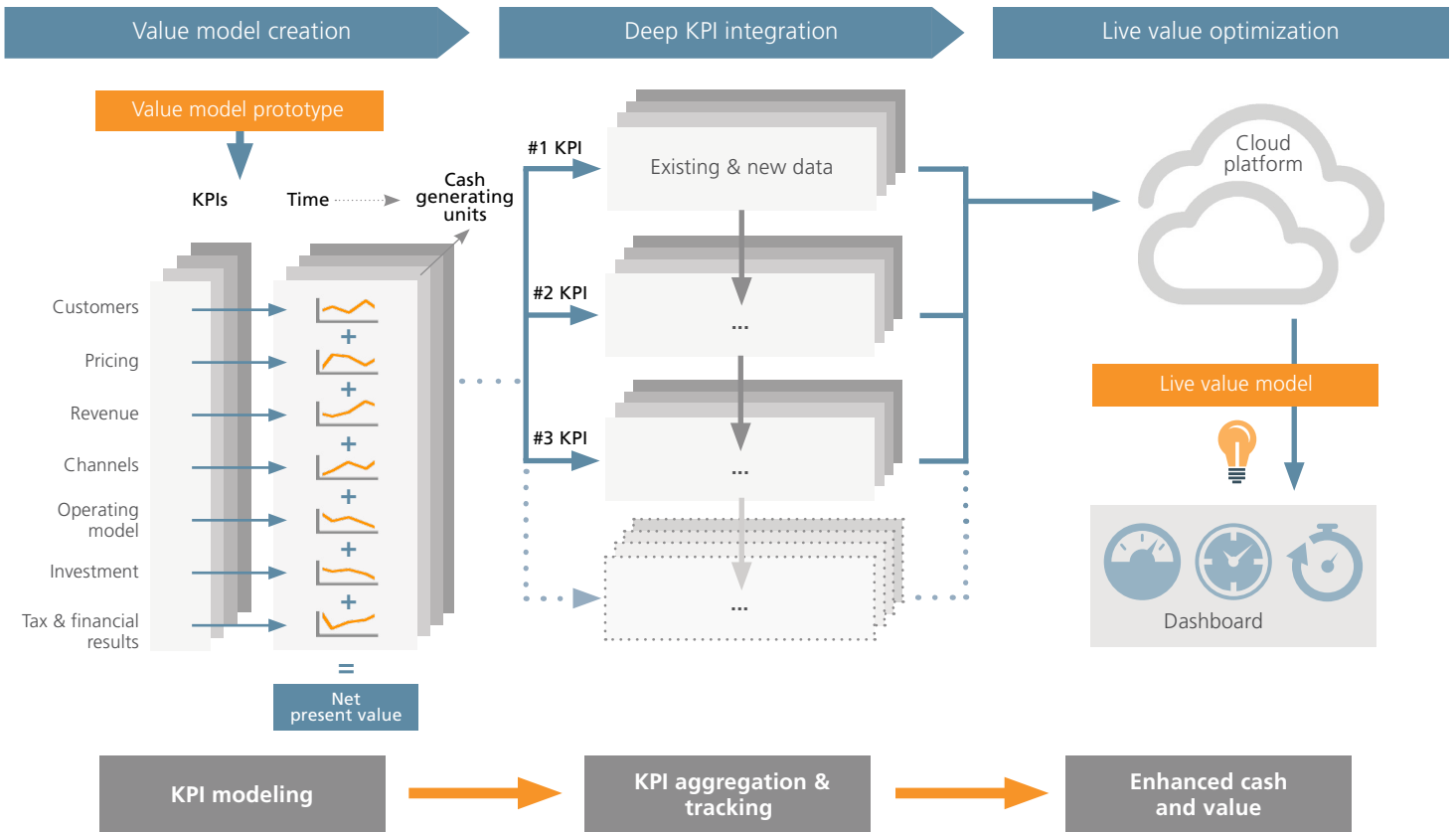
These developments have amplified the impact of live KPI reporting, with deeper and more usable insights. The added speed, agility and lower cost also mean management teams can move from concept to working solution in a matter of weeks, rather than years.

Dynamic Performance Management: Unlocking the Power of Live Value Optimization was written by **Peter Smith**, Partner and **Philip Meier**, Principal. Peter and Philip are based in London.

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Figure 1
Three steps to live value optimization



Source: L.E.K. analysis and research

Step 1. Value model creation

Value model creation requires three key elements: definition of a set of operational metrics that reflect the way the business really works and can be controlled internally; linking the metrics together in an economic framework that models future cash flow; then establishing which of the metrics really matter and refining the model to focus on those KPIs more effectively.

Identifying meaningful metrics is an insightful exercise in itself. By linking the metrics to future cash flow, confidence in the measures builds as the model is calibrated, iterated and refined. Following this, the process of drilling down to a handful of critical KPIs may highlight some valuable surprises, often identifying new metrics that, if incorporated, have the potential to unlock significant value.

Further explanation of step 1 can be found in our earlier *Executive Insights* “Dynamic Performance Management: Seven Steps to Full Potential.”

Value model creation is just the start of the dynamic performance management approach. To refine the model, the business must drill down into the critical KPIs using real, live data.

Step 2. Deep KPI integration

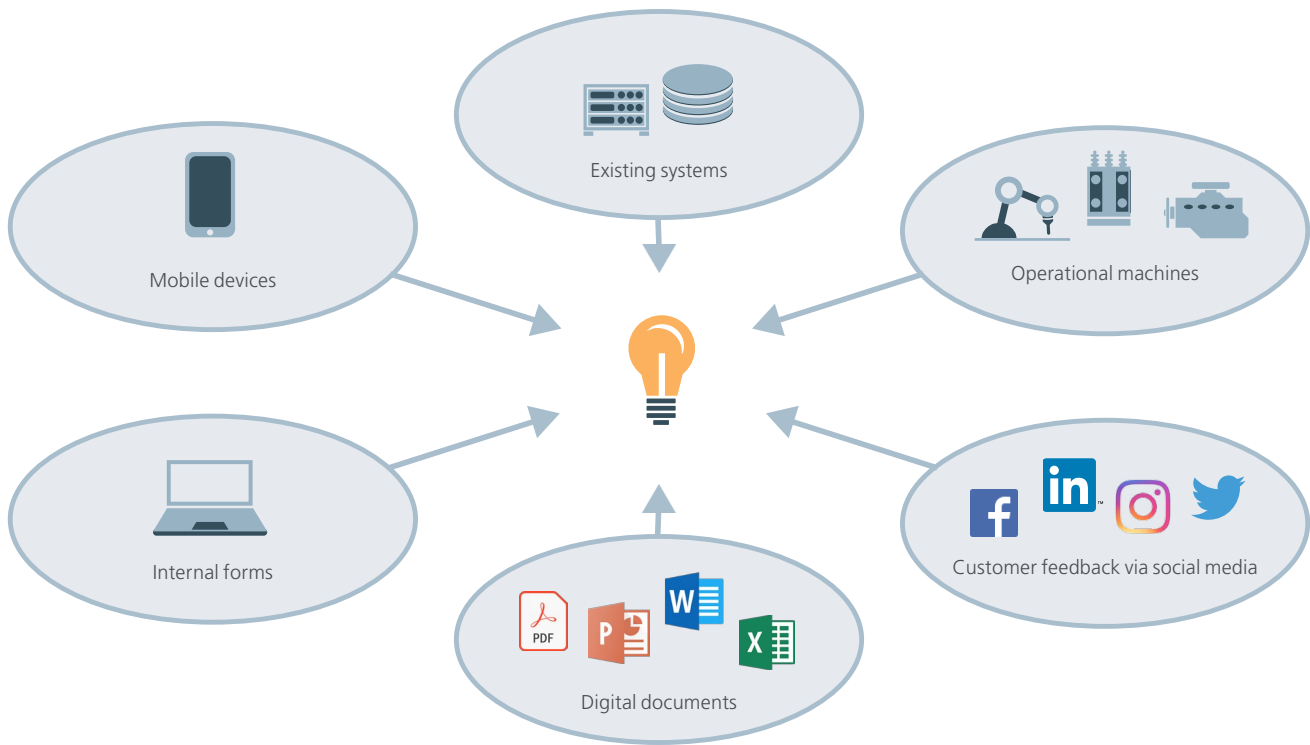
To capture or create the data needed for each KPI at the right level of granularity and depth requires commercial and analytical expertise to track down the data or develop a new process to generate it from scratch. It also necessitates data engineering capability to establish connections to all the relevant data sets from the multiple legacy systems and applications that exist in every business. Some of the potential data sources are shown in Figure 2.

Collecting new data and leveraging previously untapped sources of information have become much simpler with recent advances in analytic tools and cloud technologies. Machine learning algorithms have evolved to the extent that they can identify patterns in business-specific metrics that are undetectable by the human eye, delivering competitive, real-time advantage. The rate of development continues at pace, so it is critical that businesses are fully aware of the opportunities available and use the right tools to optimize the commercial benefits of their data.

Step 3. Live value optimization

The heart of live value optimization is a scaled-up version of the step 1 value model creation. It is a calculation engine drawing on

Figure 2
Likely sources of data for KPIs



Source: L.E.K. analysis and research

all the data assembled and created in step 2, with a dashboard cascading operational KPI metrics to business users on their communications devices. Dashboards and their KPIs are designed to meet the specific needs of different types of users.

Once the system is in place, the business can optimize its performance. By focusing the management debate on the KPIs in the dashboard and monitoring the impact that actions have on the KPIs, the business can start a positive feedback loop that is self-reinforcing and creates a range of benefits. This information becomes the basis on which the business aligns budgeting and long-term scenario planning, incentives for management, suppliers and customers, and key decisions about investments and other strategic initiatives.

The ongoing migration to the cloud enables straightforward standardization of this solution and more rapid deployment as it is no longer constrained by legacy IT systems.

Providers such as Inawisdom — with which L.E.K. works closely — are critical to this process. Without the data and analytics tools outlined, it is unlikely that the levels of complexity, connectivity and agility could be mastered to deliver a live analytical solution at an acceptable cost and time frame and with the direct control of the initiating management team.

Common problems

Even when businesses have identified the correct set of KPIs and modeled their interrelationships, there are frequently major obstacles and delays in creating a live solution: There is often no single source of truth; the required data can prove difficult to access and is of poor quality; IT resources are often diverted to other projects; and the business can become distracted by urgent but less important issues. Furthermore, many businesses do not have the ability to report against multiple structured and unstructured data sets, or have the time and resources to visualize data. Finally, companies also tend to isolate their digital and data expertise from the commercial side of the business when they should be collaborating closely to design commercial solutions.

Organizations must work hard to overcome these challenges, and commitment by an organization's most senior management is critical to success.

Transformation awaits

Cracking live value optimization is not straightforward, but continued advances in data analytics and cloud technology mean that new solutions can be developed, tested and deployed much faster than before, often in a matter of weeks. The approach is cost-effective, secure and scalable to manage the most complex data sets.

Executive Insights

This agile and iterative process enables businesses to unlock opportunities to differentiate, increase operational efficiency, cut costs, and boost sales and profits. We have seen these benefits at a wide range of organizations, with value created through price optimization and realization, procurement savings, operational and overhead cost reduction, and the negotiation of better commercial

terms through having a single view of sales and customer spend across business units, among many other mechanisms.

For management teams with a clear performance improvement agenda, and the vision and drive to embrace new analytical tools and techniques, live value optimization provides transformational business opportunities and sustained competitive advantage.

About the Authors



Peter Smith is a Partner in L.E.K.'s London office. He has led numerous assignments in the aerospace, defense, aviation and travel sectors, and also has deep experience in industrial products and services. He has been with the firm for more than 27 years, focusing on corporate strategy and performance improvement work in Europe. Peter holds a Bachelor of Arts in Metallurgy and Material Sciences from The University of Oxford and an MBA from INSEAD.



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About L.E.K. Consulting

L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and rigorous analysis to help business leaders achieve practical results with real impact. We are uncompromising in our approach to helping clients consistently make better decisions, deliver improved business performance and create greater shareholder returns. The firm advises and supports global companies that are leaders in their industries — including the largest private and public sector organizations, private equity firms and emerging entrepreneurial businesses. Founded in 1983, L.E.K. employs more than 1,400 professionals across the Americas, Asia-Pacific and Europe. For more information, go to www.lek.com.

About Inawisdom

Inawisdom is a specialist in advanced analytics, artificial intelligence and machine learning, enabling customers to rapidly discover business differentiation from their data assets. Cloud natives, the company was founded with a simple goal: to give customers the ability to rapidly exploit every aspect of their data using artificial intelligence.

Inawisdom is a company of experts dedicated to transforming the way businesses think and operate. The company's AWS-based enterprise platform accelerator, RAMP (rapid analytics and machine learning platform), combined with an agile discovery-as-a-service consulting approach, allows organizations to prove and deliver business value both quickly and cost-effectively. Inawisdom has the tools and expertise to accelerate the transformation of data into tangible commercial insights.

Inawisdom is an AWS advanced consulting and machine learning competency launch partner. For more information, go to www.inawisdom.com.