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Why it matters to measure what matters

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Too many telecom executives still believe that more information is always better. One telco chief executive recently ended up with no fewer than 6,000 distinct metrics he could use to diagnose the state of the business. While many metrics raised red flags, few told the chief executive who in his organisation was responsible and could fix the problem.

There's a better way. In our experience, management teams should concentrate on no more than 20 vital metrics, assessed weekly and compiled monthly, that fit on a single page. This exercise forces executives to allocate precious metrics, which in turn often serves to sharpen a company's strategic priorities: how many of the Vital 20 should focus on overall corporate performance versus individual business units? How much should they emphasise emerging businesses versus core cash generators?

Companies also need to ensure their metrics are leading indicators that illuminate meaningful trend lines rather than backward looking reports that show what happened last month. The Vital 20 should include operating measures that can point to root causes, and avoid a bias toward financial metrics that usually identify symptoms. Finally, each metric should be linked to an owner accountable for explaining the right trends and correcting the wrong ones.

The information overload came about naturally enough. During the industry's rapid build-up, telecom executives felt pressure from investors to expand quickly into new business opportunities, from Internet retailing to wireless services. Indicators for different businesses proliferated; different parts of the business were measured differently. New measures were added and few were removed.

The sheer mass of information has its own consequences. The massive reports that make a thud on chief executive's desks around the globe every month don't synthesise the flood of information in a meaningful way, and so tend to get ignored. And the pain of producing such reports usually delays their compilation, meaning they are often out of date by the time they hit the desk.

The likelihood that measures will spur action diminishes when companies rely too much on financial metrics. At one telco, more than 95 per cent of metrics looked backward, measuring things like profit per customer instead of analysing trends that influence investment decisions, like the number of high value customers acquired last month or the number of new corporate contracts closed. Capital expenditures and other cash outlays are important factors in a company's free cash flow – a current bellwether for telecom investors – but measuring returns on recently invested capital actually serves as a better predictor of profit.

Companies also tend to measure where information is easier to gather. Financial data is readily available and can be useful for understanding a company's state of health. But operating metrics can diagnose the causes of problems and help management prescribe a cure. Declining sales numbers, for instance, point to a problem, but what telco executives really need to know is revenue churn - specifically, how much revenue went "out the door" with customers canceling contracts. This tells managers where to start taking action.

To spur useful action, metrics must be both tied to an owner and consistent throughout the ranks. The few metrics that the CEO sees for the wireless business unit, for instance, should be the same key metrics at the top of the list for the head of the wireless business. It does little good for the CEO to fume about wireless churn among high-value corporate customers if the head of wireless tracks churn differently.

Focused measures helped Japan Telecom Holdings achieve an impressive earnings and cash flow turnaround at its fixed line subsidiary Japan Telecom. When Bill Morrow stepped in as president of the company in December 2001, it was heading for its worst reported financial performance, but there were few alarm bells.

Mr Morrow recently commented, "Early warning indicators (EWIs) and key performance indicators (KPIs) were at the top of my list as we began building the turnaround plan." An initial set of metrics was in place within weeks. Many metrics were structured to look forward on a run-rate basis and were monitored against Japan Telecom's targets. Over time, the results book evolved into a highly-focused, single-page summary starting with five key financial metrics-revenue, contribution margin, overhead costs, ebitda (earnings before interest, tax and depreciation) and cash flow. These cascaded into 16 metrics at the business unit level, supported by measures for major products, cost categories and operations. At a glance, this one-page summary allowed management to identify the root causes of trends, determine who was accountable and agree on actions in monthly operations reviews.

The results? For the fiscal year ended March 2003, revenue growth in the strategic core data business was up 25.6 per cent, despite an anaemic Japanese economy. Japan Telecom reduced costs by 14.8 per cent, and net income moved from a loss of $640m to a profit of $130m, boosting free cash flow just under a billion dollars. The turnaround positioned Japan Telecom Holding for the sale of its fixed line business to private equity firm Ripplewood, announced on August 21. That move allows Japan Telecom and lead shareholder Vodafone to focus on and recapitalise their core J-Phone mobile business.

As Japan Telecom knows, what gets measured gets done. Focusing on the Vital 20 metrics will help telecom chief executives, and those in other industries, to tap the right metrics to make the right decisions-and act on them.

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