Module 8: Human in the Loop

Lesson 2: Managing & Measuring the Deployment of the AI Business Strategy

In this lesson, we'll explore the importance of Key Performance Indicators, or KPIs, in measuring progress and success towards our goals.

As we like to say, **"Arithmetic is NOT an opinion."**

Using hard data (KPIs) when creating and reviewing the performance goals of an AI project removes subjectivity on whether or not the project is on target.

Let's start by defining what Key Performance Indicators are.:

KPIs are quantifiable metrics that help us know how well we perform against our objectives. They provide clear and measurable insights into the progress being made and are easily understood by all relevant stakeholders.

Categories of KPIs

KPI Category	Description	Examples
Leading Indicators	Proactive metrics forecasting future outcomes based on current data. Facilitates course correction.	Customer Churn Rate, Number of scheduled sales calls, Website traffic
Lagging Indicators	Retrospectively assess results of past activities, reflecting past management decisions or business strategy.	Revenue, Employee turnover, Market share
Quantitative Indicators	Numeric KPIs used for optimization based on variance from target.	Sales volumes (number), Cost per acquisition, Churn rate
Qualitative Indicators	Assess subjective aspects and measure intangible data points.	Customer satisfaction, Brand perception, Website user's experience
Input Indicators	Quantify resources invested, used for calibrating ROI and efficiency measurements.	Capital invested in a project, Labor hours, Raw materials used
Output Indicators	Measure process results, assess relative productivity of the business.	Orders processed, Support tickets resolved, New products launched
Directional Indicators	Benchmark against competitors, gauge positioning in the marketplace.	Market share, Customer loyalty, Brand awareness
Actionable Indicators	Track execution success, ensure strategy actualization.	Number of sales qualified leads, Pipeline velocity, Proposal-to-close ratio
Financial Indicators	Provide insight into fiscal health, fundamental intel for investment decisions.	Revenue, Cash flow, Profit margins
Outcome Indicators	Assess goal achievement. Help determine if on track to achieve targets.	Conversion rates, Recurring revenue, Lower costs

Leading Indicators - are proactive metrics that aim to forecast future outcomes based on current data. They give us an idea of what the future results of the business will look like and allow for course correction.

Examples:

- Customer churn rate
- Number of scheduled sales calls
- Website traffic

Lagging Indicators - These KPIs retrospectively assess the results of past activities and reflect the impact of past management decisions or business strategy.

Examples:

- Employee turnover
- Revenue
- Market share

Quantitative Indicators - KPIs that take a specific numeric form and provide data to make decisive optimization, depending on their variance from the target.

Examples:

- Sales volumes
- Cost per acquisition
- Churn rate

Qualitative Indicators - These assess subjective aspects and allow the company to measure intangible data points.

Examples:

- Customer satisfaction
- Brand perception
- Website user’s experience

Input indicators - These quantify resources invested and are used for calibrating ROI and efficiency measurements.

Examples:

- Capital invested in a project
- Labor hours
- Raw materials used

Output Indicators - This is how we measure process results and assess the relative productivity of the business.

Examples:

- Orders processed
- Support tickets resolved
- New products launched

Directional Indicators - These KPIs benchmark your company against competitors and help the company gauge its positioning in the marketplace.

Examples:

- Market share
- Customer loyalty
- Brand awareness

Actionable Indicators - Track execution success and allow the leadership team to know that the strategy is being actualized.

Examples:

- Sales-qualified leads
- Pipeline velocity, or how fast someone goes from prospect to customer
- Proposal-to-close ratio

Financial Indicators - As the name suggests, these provide insight into the company's fiscal health and provide fundamental intel used to help the company understand how much capital is available for investment into the company.

Examples:

- Revenue
- Cash flow
- Profit margins

Outcome Indicators - Are we hitting our goals? These KPIs are the type that helps the company determine whether or not they are on track to achieve their targets.

Examples:

- Conversion rates
- Recurring revenue
- Lower costs

These are the main categories of KPIs you will need to be concerned with when evaluating the impact of the AI Business Strategy on the company.

Remember from the training on the scorecard in the AI Business Strategy Module we aren't looking for EVERY metric, just the ones on the scorecard. Understanding the categories of metrics will help you further calibrate the scorecard metrics and allow you to tune the AI projects using data-driven insights.

Mid-Range Goals

What do we want to achieve within the specified timeframe?

Clarity on our mid-range goals is required to know which KPIs we should track that align with our objectives.

Let's consider an example: Suppose our mid-term objective is to increase customer satisfaction, measured by Net Promoter Score (NPS), by 15% within the next year.

Once we understand our mid-range goals, it makes it easier to determine our ideal outcomes that would show progress toward those objectives. When we use these measurable outcomes as our reference, we can create the KPIs that will give us a reading on how well we are doing towards achieving the mid-range goals.

Using the customer satisfaction example, a measurable outcome could be the percentage of customers who rate their experience as "satisfied" or "highly satisfied" in post-purchase surveys.

This customer feedback and associated KPI align with our mid-range goal of increasing overall customer satisfaction.

Data Collection and Analysis

To measure progress, we need to collect the relevant data, have it added to the scorecard by the person accountable for the achievement of the goal, and review it regularly, ideally in the weekly meeting, so we can quickly discover if it looks like we may not be tracking with the goal set during the quarterly planning session.

For our customer satisfaction example, we would gather data from post-purchase surveys and analyze the results during the weekly meeting to see if we are moving closer to our customer satisfaction target.

Remember, what gets measured gets managed, and KPIs are essential to stay focused and on track toward your mid-range goals.

“Cascading” Goals

The concept of cascading goals is a powerful strategy that allows us to connect our mid-range goals with the efforts of the relevant departments and roles.

So what does that mean, “Cascading Goals”?

When you consider the amount of contribution that may be required from many roles or departments to achieve a quarterly goal, it becomes apparent that the bigger goal needs to be broken down into smaller goals and assigned across any roles that impact the realization of that goal.

In this instance, cascading means to break the big goal down to the individual team members' level.

The first step in cascading goals is to have a clear and well-defined set of mid-range goals. These are the key milestones we discussed earlier, which, upon achievement, lead toward the company achieving the BHAG, quarter by quarter.

For example, suppose a mid-range goal is to expand our market share by 25% within the next three years.

Once we have clarity on the mid-range goal, the next step is to break the objective down by the departments that will contribute to the goal's achievement. That means each department should have specific goals that all add up to achieving the company's *mid-range goal*.

For our market share expansion example, the marketing department might have a goal to increase brand visibility by implementing targeted campaigns. The sales department may have a goal to open new markets and increase customer acquisition velocity.

This is a classic "eat the elephant one bite at a time" analogy. The bigger goal gets chunked down into smaller goals and assigned to the appropriate team members who can impact those smaller goals.

Align with Individual Responsibilities

After defining departmental goals, cascading them down to the individual level is essential. Each team member should have clear objectives that contribute to achieving departmental goals and, ultimately, the company goals.

Continuing with our market share expansion example, individual goals for the marketing team might include increasing social media engagement and improving click-through rates (CTR) from that engagement … more people seeing the content, more people clicking on the links in that content.

For the sales team, individual goals would include increasing contact rates with those new prospects coming in from the increased social media engagement and improved CTR and closing more of those prospects.

The compound effect that comes from the efforts of many people contributing to the larger goal is unarguable.

Achieving KPIs Requires Accountability

To ensure the successful cascading of goals, accountability at every level of the organization is a must. That accountability must be made clear to those participating in achieving the goal.

Also, everyone who is part of the cascade should be clear on how their effort contributes to the whole and the impacts on the rest of the contributors involved when their number isn't met. In the example, the marketing team should know that lower engagement and lower click-through rates mean the sales team can't contribute their part.

When each department and team is conducting a weekly meeting and has a well-defined scorecard and clear accountability as to who is responsible for each number, you'll never go more than a week before you are aware that a KPI is off track. By tracking weekly, you can see a week-by-week trend unfold over the quarter, allowing you to better forecast if you are in danger of not hitting the target by the end of the quarter.