

Non Financial Measures of Performance

Specification requirement—Market share, sales targets, productivity, environmental impact, quality, customer satisfaction.

The ultimate objective of firms is to make a profit, and we measure how successful a firm has been at making a profit through the use of financial measures of performance such as ROCE, NPM etc, But we can measure a firms success against other parameters such as market share and productivity. In this chapter we look at these non financial measures of performance.

Market Share.

Market share measures the proportion of the market that buy goods or service from a firm, or the proportion of sales of the total market sales. So of a firms sales are £150m and the market is £700m, then the firms market share will be 21.4%

Some firms will spend to gain customers, reducing profits in the short run, but hopefully increasing profits in the longer term. The objective is to take a bigger slice of the pie. They may even be able to force other competitors out of the market, by using loss making pricing strategies.

Sales Targets.

Sales targets are important to all firms, after all it is sales that generate profits. There are though times when the objective can be an increase in sales, at the cost of short term profitability. This may involve the use of loss leader products, which result in increased sales in the future. Targeting increased use of products by existing customers is also an example of sales targeting. The

idea of increased use of products is important to subscription TV companies such as SKY and Virgin. Here the objective is often not to gain new customers but to increase sales to existing customers by selling them more expensive packages.

Productivity.

Productivity is a measure of output against a fixed input. So we may say output per worker or sales per square foot. Higher levels of productivity reduces average costs and makes a firm more competitive. So to calculate productivity in a firm that produces 200,000 pairs of shoes a year and employs 100 workers, we would just divide 200,000 by 100 to find a productivity level of 2,000 pairs of shoes per worker.

A simple but effective example of how productivity in an industry can differ, was the levels of productivity achieved by MG Rover and Nissan in their British factories in 2004. Productivity as measured by cars produced each year/ per workers employed, was 17 cars per year MG Rover worker, in the same year productivity at Nissans Sunderland plant was 103 cars per worker. Productivity was therefore 6 times as high in the Nissan plant!

Environmental Impact.

There are businesses that will try to minimise the impact of their business activities on the environment, they may try to ensure suppliers in developing counties get a good deal, they may pay their workers above the market wage. When environmental issues are seen by management as being of long term importance to the business, the firm may carry out an Envi-

ronmental Audit.

Quality.

Quality can be measured in many ways—for example against rivals, against internal measures, or against set standards. The AS section on Operations Management looked at achieving quality and the measurement of quality. The essential point is that if your product or service is perceived as being as good as your rivals you have achieved one of the most important measures of quality. Consumer surveys are used to judge company performance, topping these can be used as a measure of success.

Customer Satisfaction.

Customer satisfaction measures the degree to which customer expectations of product / service quality and price are met or exceeded.

Perhaps the easiest method of measuring customer satisfaction is to measure repeat purchases—do customers come back and buy again? Just as important a measure of customer satisfaction is recommendation. Do your customers tell their friends how good your product is?

Companies often publish figures on customer satisfaction, quoting percentages of satisfaction from surveyed customers. These figures can be used in advertising, '8 out of 10 owners say their cats prefer', '90% of our customers agree that' etc.

Notes