Guide 22: Choose measures of business performance

Your goal

Choose useful ways to measure progress towards your business goals. Explain how you would interpret the results and decide what to do next.

A business cannot judge performance from “things seem good.” It needs measures linked to what it is trying to achieve.

What to produce

Key performance indicators for customer, market, operations, and finance-related goals. Include at least one indicator for each of these four areas.

Use appropriate benchmarks to help judge performance and targets. The prompts below help you explain the measures; they are not additional official canvas sections.

Key terms

- **Goal:** a result the business wants to achieve.
- **Key performance indicator (KPI):** a specific measure linked to an important goal.
- **Target:** the result the business aims to reach by a stated time.
- **Benchmark:** a standard used for comparison, such as past performance or a relevant industry figure.
- **Baseline:** a starting measure used to compare later results.

The KPI is the measure, not the desired improvement. “Average delivery time” is a KPI. “Reduce delivery time to two days” is a target.

Step 1: Identify goals in all four areas

Think about what matters for your business:

- **Customer:** attracting or keeping suitable customers and meeting their needs.
- **Market:** reaching people in the chosen market or improving the business's position against competitors.
- **Operations:** making and delivering products reliably.
- **Finance:** managing revenue, costs, and profit.

Goals should connect to your customer research and business plans. Do not select an easy number to count if it tells you little about the goal.

Step 2: Define each measure

State exactly what you will count or calculate, the unit, the time period, and where the information would come from.

For a percentage, define the numerator and denominator. For example, a defect rate could be defective items divided by items checked, multiplied by 100. A count of defects alone may rise simply because production increased.

Avoid unclear labels such as “better marketing” or “more success.” Ask whether another person could calculate the same measure from your instructions.

Example: Ready Pouch

Ready Pouch is our fictional example business. Its proposed product is a small pencil pouch for students.

These are fictional planning choices, not measured results.

- **Customer KPI:** number of first-time buyers per month. The business would count completed first purchases, not expressions of interest.

- **Market KPI:** percentage of people at a permitted school display who request product information. The team would count requests and total visitors consistently, without collecting names.
- **Operations KPI:** percentage of checked pouches with a faulty zip. The team would use the same quality check each time.
- **Finance KPI:** pretax income for year one. The team would use its income statement rather than treating cash received as profit.

These measures serve different goals. A large number of visitors does not prove that they bought or enjoyed the product. A low defect rate does not show whether the price is affordable.

Step 3: Find suitable benchmarks

Look for a relevant comparison: previous tests, similar products, a trustworthy published source, or a teacher-provided example. Record its source and explain why the comparison fits.

Do not call an invented target an industry average. If no reliable benchmark exists, say so. You could plan a small first test to establish a baseline, with your teacher's guidance.

Businesses can differ in size, location, product, and period. A comparison with a large company may be misleading for a new school project.

Step 4: Set targets and plan responses

Use the benchmark and your resources to propose a realistic target and time period. Keep the target separate from the KPI's name.

For example, suppose fictional trial records showed 2 faulty zips among 20 checked pouches. That is a 10% defect rate. A later target might be below 5%, but the business would need to explain how it could improve quality and check a sufficiently useful sample. The trial figures are invented for this calculation only.

Explain what you would change if performance misses the target. Check the reason before acting; one low result does not explain its own cause.

Your turn

For each area, record the goal, KPI definition, data source, benchmark, target, and possible response. Mark planned measures and targets clearly if the business has not operated yet.

Check your work

- I covered all four goal areas.
- Each KPI is measurable and relevant.
- My units, period, and calculation are clear.
- I distinguished KPI, target, and benchmark.
- I explained benchmark sources and limits.
- I did not report planned or fictional results as actual performance.

Next: Make a strategic decision

In Unit 4, Task 3, you will compare choices using the PACED decision model.

Independent guidance based on the AP Business with Personal Finance CED, printed pages 173-174. This is not an official College Board resource.