BUSINESS SEN$E

Next Level Tools for Entrepreneurs & Small Business Owners

BUSINESS OPERATIONS SERIES

Metrics & KPIs (Key Performance Indicators)

Why is this important?

KPIs and metrics enable a business owner to keep business objectives at the forefront in decision-making and to more fully understand the business' performance, track results and make course corrections as necessary to ensure long-lasting impact and success. KPIs encourage a culture of accountability and serve as the foundation for employee performance evaluations. A KPI may reveal that a perceived "poor performer" may have some favorable stats and deliver good results. And, poorly performing employees can't dispute when data-driven and objectively based KPI stats demonstrate the absence of results. As importantly, if the majority of your employees are having difficulty achieving the KPI's that have been set, it may be time to reevaluate your business' goals to understand why exactly those targets are not being hit. KPIs thus foster an environment of continuous learning, enabling you to set realistic goals for your business growth and how you want to measure its success.

Vermont Sustainable Jobs Fund

Key Performance Indicators

Key Performance Indicators (KPIs) are the elements of your business plan that express what you want to achieve by when. They are the quantifiable, outcome-based measurements you'll use to assess if you're on track to meet your goals or objectives. There are many metrics that can be used. It's best to pick a few metrics that are easy to report on and are contributing factors to the larger goals such as sales. Some metrics are interesting to review on a less frequent basis, but may not be helpful in daily operations, particularly if it takes a lot of spreadsheet manipulation to get comparable numbers between different time periods.

It may take time to pick the right KPIs - some may be very meaningful now but less important as you focus on other activities in your business. Initially a shipping department may need to focus on shipping a specified number of orders per day, but once they have improved their processes, they might be more focused on making sure that all orders are shipped accurately and within 24 hours. Metrics & KPIs can help you objectively look at the quantitative performance of your business through numbers. KPIs are important metrics in business because they specifically define how well your business is doing in any number of areas.

Using metrics means you are measuring something. Usually you are using readily accessible numbers, but sometimes you may use a tool like a survey to help you define something that is qualitative (e.g., customer satisfaction). Most common metrics and KPIs are an outcome of your financial reporting, for example, sales increase %, gross profit $, gross profit %, however there are also metrics and KPIs inherent in your operational processes (i.e., number of orders shipped per day, value of good produced per day, etc.). Sales metrics could include the number of retail outlets in total or by channel, the number of SKUs by account, etc.

Rather than thinking you are doing "well", your financials should attest that your sales have increased 20%. When developing projections, you can use a KPI to document what you are planning for (i.e., a 30% increase in sales). If your target is a 30% increase but you've only

achieved 20%, then your business is not performing according to your plan.

Financial Metrics & KPIs

The most easily accessed metrics and KPI's originate from your financials. To use your financials metrics most effectively, you need to understand what are the most important numbers to track.

If a company is aspiring to grow, sales growth is a main KPI. That KPI goes hand in hand with other metrics, such as gross profit. Why? If significant sales growth comes with less profit, profitability might be the more critical key performance indicator.

How do you get started establishing KPIs for your business? The first step for KPI's is the past - what did you do last year or last month? If your company is seasonal, KPI's might work best by comparing this past month to the month one year ago. In some cases, your metrics might only be meaningful if you look at them on a year to date basis. If you have projections, you want to monitor your performance against your projections, rather than the past.

Operational Metrics

Like the basic financial metrics of sales per day or per year, there are many aspects of your business operations that can be tracked to ensure efficiency and productivity. Some of these metrics will help you to understand if your business is operating to the level that you need. Such measures might be orders shipped per day, open pick tickets, and backordered items, which can help you see when the system is not operating at its expected or 'normal' level. Giving employees specific measurable goals on the activities in which they are involved in your operations can help you assess individual performance as well as alert them to what really counts to make your business successful.

What makes a good KPI?

A business's ability to track its progress toward a goal is only as effective as the quality of its KPIs. Using the **"SMART"** framework, a good KPI should have the following qualities:

S	**Specific:** A KPI should be a detailed, simple and clear description of what exactly you want to achieve. For example, "Improve customer satisfaction" is too broad. A better KPI is, "Improve customer satisfaction ratings by 10% by the end of Q3."
M	**Measurable:** As demonstrated in the example above, KPIs should be quantifiable to establish an exact definition of success. When thinking about ways to measure, consider using dollar amounts, percentages or raw numbers.
A	**Achievable:** It's best that your KPIs are ambitious yet attainable within reason. This ensures individuals working toward them are motivated and challenged but don't burn out. It also helps set realistic expectations with stakeholders and company leadership.
R	**Relevant:** Your KPI should help advance the larger key business objective(s) of the team. For example, if you're on a process improvement team that falls under the company's manufacturing unit, your KPI should align with business operations objectives. All KPIs should align with a larger key business objective.
T	**Time-bound:** Select an ambitious yet realistic amount of time in which you'll measure your progress toward a KPI. For example, you might decide you want to achieve a certain amount of repeat sales from existing customers by the end of a quarter, month or calendar year.

Evaluate: Regularly examining your KPIs is a great way to ensure you and your team are still working toward the right objectives. A dashboard of your key performance indicators is a recommended tool to display your quantifiable measures of performance over time for your business' specific objectives. A KPI dashboard helps users track the progress of established goals, identify progress or shortfalls with respect to the goals, and make data-driven decisions. Dashboards can be customized to fit the specific needs and culture of your business and should be easily understood. During your business planning cycle, you might ask questions like, "Are the KPIs still relevant? What are the main blockers to success? Do we have the right budget, tools, talent and support systems? If this KPI period is complete, what should be measured next?

Reevaluate/Readjust: Consider reevaluating your KPIs at specific periods—perhaps halfway through your KPI timeframe and once again at the end. Take this time to determine whether it's necessary to make changes to your KPIs so they're up to date, achievable, relevant and in line with overall company objectives.

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KPIs & Cascading Goals

As your company grows, you may have departmental KPIs in addition to organization-wide KPIs. KPI's specific to a department (or even a specific employee) can help guide a unit's or employee's work to fit in with the larger objectives of the company. Here are some examples:

- **Sales:** Number of active prospects, Sales dollars or SKUs increases per customer, Number of new contracts signed per quarter, Dollar value of new customers signed per quarter, Number of engaged, qualified leads in the sales funnel, Average length of time for new account conversion
- **Financial:** Growth in revenue, Net profit margin, Gross profit margin, Current accounts receivable, Inventory turnover, EBITDA
- **Marketing:** Website specific KPIs - Number Visitors, Activity or Time (Engagement) on specific pages, Keywords in Top 10 search engine results, Social media followers percent growth or engagement, Social media traffic conversions, Number of qualified leads, # of blogs articles published monthly, Percent of market share
- **Customer Service:** Number of calls answered, Average call time, Number of new customers, repeat customers, and retained customers, Net promotor score, Average Ticket/Support/Warranty resolution time
- **Purchasing:** Inventory Turns, Number of Stockouts, Inventory as a percent of Sales
- **Credit:** Number of accounts 30 days + past due, Bad Debt Write-offs
- **Shipping:** Orders shipped per day, Open Pick tickets over 1 day
- **Accounting:** Days to close the month
- **Human Resources:** Employee satisfaction rating, employee churn/turnover rate, employee promotion percentage, application received per job posting

Business Sense is a no-fluff source of information that gets right to the heart of what small business owners need: essential tools and informational resources to help their businesses grow. Written by our team of business coaches, this series shares their decades of experience in areas such as financials, operations, sales and marketing, human resources, leadership, and governance. Business Sense is designed to provide entrepreneurs and small business owners in various sectors, including agriculture, forestry, waste management, renewable energy, and environmental technology, with recommendations and practical advice to help their businesses not only survive but thrive.

Our business management coaching and Business Sense Resource Guide are designed to accelerate the growth of the enterprises we work with and expand the leadership capacity of the enterprenuers who own and manage these businesses.

Let Us Help You and Your Business

The Vermont Sustainable Jobs Fund provides tailored business management coaching, entrepreneurial support, and training to position Vermont-based entrepreneurs and small business owners in our designated market sectors for growth and long-term success. We partner with state government, private sector businesses and nonprofit organizations to build a thriving economic, social and ecological future for Vermont. Learn more at VSJF.org

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