Executive KPIs eBook.

Top 7 key performance indicators for mid-market executives

Phocas.

Got data. Get results.

Table of Contents

Introduction.

Data and analytics have never been more important for executives in setting the course for their businesses.

Data is the key to modernisation within a business. The true value of your data is how your people use data insights and how it impacts decision making.

Given the growing competitive climate, pressure on profits and product margins, and the constant need for innovation, data helps provide the evidence that CEOs and executives need to make the best strategic decisions for their companies.

Information aggregated from the various departments, branches and systems will provide a clear picture of your business performance and what needs to happen next.

In KPMG's 2019 CEO Report[1], CEOs explained that organization-wide digital reinvention was necessary to unlock long term growth. They are building resilience into their companies by upskilling people with technological training and preparing them for ongoing change. Four in ten (44 per cent) are intending to upskill more than half of their current workforce in new digital capabilities over the next 3 years. Interestingly though, the majority (68 percent) said they are spending more capital investment on buying new technology than spending on upskilling their workforce (32 per cent).

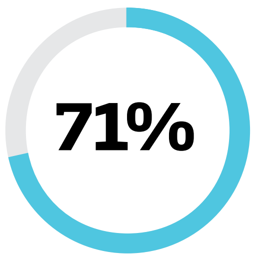
Business models that have lasted for decades are now under increasing threat as a result of digital disruption. KPMG's findings show that executives recognize that the rules of the game have changed, and a new resilience is required. A significant majority (71 percent) said that their company's growth relies on their ability to challenge and disrupt any business norm.

To drive innovation, CEOs also recognised they need to steer their companies in new directions. To change, the leaders need a data mindset where they need to be prepared to question long-held assumptions and beliefs. Leaders need to be closely connected with their customers and understand their changing values and needs. 71 percent say they have a personal responsibility to set the social, environmental and governance policies to reflect the values of their customers.

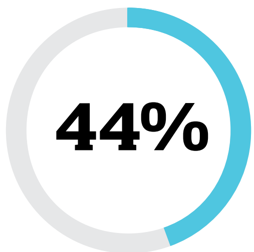
CEOs also need to balance data-driven insights into customer needs with their own expertise and intuition. KPMGs research shows that a massive 71 per cent disregard data-driven insights because they are contrary to their own intuition.

To get value from increasingly sophisticated analytics, CEOs need to change their mindset. They must change from being emotional to evidence-based decision makers. CEOs need to trust the findings in front of them which also means ensuring stronger data management across the business and consolidating all data sources into a single interface.

Investing in new technology vs. 32% workforce upskilling



choose intuition over data for decision-making



to upskill digital capability of workforce

71% have a personal responsibility that they social, environmental and governance polies reflect the values of their customers

The need to be more data driven.

As more companies turn to data to help their business, it's clear that for any analytic initiatives to be successful, the CEO must be actively involved.

A study by McKinsey & Company found that "senior leader involvement and organizational structure plays a critical role in how effective (or not) a company's analytics are."[2] The study found that "44% of high-performing companies said that most initiatives are sponsored by the CEO; only 16% of low-performing organizations make that claim."[3] Overall, the survey found that company leaders are "less involved less involved in analytics efforts than they are in digital activities."[4]

Companies are investing billions of in big data and analytics, but many projects and programs are failing to meet expectations. If you're like many CEOs', you don't trust your data or how your teams are using it. For this to change, you must be engaged in the business intelligence (BI) initiatives of your company. Your involvement, in addition to defining and leading the strategic direction of your company's analytics programs, should include monitoring several key performance indicators (KPIs). These will provide you a clear picture of your business performance, from manufacturing to customer retention.

Identifying the KPIs - what is the key?

With this background, the next questions are, what KPIs should you be regularly monitoring on your analytics dashboard? Do you know your company's critical success factors? Does your leadership team?

As an executive, you need to know things such as:

1. Is our product or service quality where it needs to be?
2. Are we performing well financially?
3. Where are opportunities and challenges?
4. Are our customers happy?

Ultimately what you decide to measure will depend on the goals and objectives of your business. Your KPIs can include financial, and operational metrics, as well as relevant sales and marketing data. As CEO, you set the expectations and establish the measurements that will help you steer the business. You need to work collaboratively with your c-suite and the individuals directly responsible for the analytics reporting to develop the KPIs that will help you monitor the health of your organization.

These KPIs should:

1. Articulate the most important priorities of the board, reflecting the board's strategic goals and concerns about risks facing the organization.
2. Highlight both the desired outcomes, as well as the way you can achieve these outcomes.
3. Use language that is meaningful to you and your board of directors and anyone coming into any of these roles in the future.
4. Be revised on a regular basis (ideally quarterly) to reflect changes in the organization, government policy and the environment in which the organization operates.

Here is a list of the top seven KPIs that you should be reviewing regularly:

1. Revenue vs. forecast

Most businesses establish revenue projections or a financial target that they are trying to achieve.

These forecasts can be set for a specific branch, across a region or for the entire business, and they can be set for a specific period or sales team. They can also be established for a product or service within a specific industry. A sales forecast is a best guess, but it gives your team something to strive for.

As you track actual revenues against forecast figures, you will have a better understanding of whether your financial targets were too aggressive or whether you underestimated the demand for your products or services. Review and update your financial forecasts regularly so they are in line with the current state of your business and to keep your sales team motivated. Producing accurate forecasts will help you identify issues that are threatening your business, as well as opportunities that will increase revenues.

2. Profit margin

How effective is your business at generating profit on every dollar that you generate? More sales and higher revenues don't always equal better results.

Depending at what stage your business is in, if your profit margins are dropping, it could be sign of an unhealthy business. In addition to seeing the big picture, or the overall profit margin of your business, it's important to look at margins across individual products, product lines, customers and lines of business. By monitoring profit margin regularly across these various areas, you will be able to adjust pricing as needed.

3. Progress towards long-term targets

CEOs are responsible for setting goals for their businesses from short-term, time-sensitive objectives, to annual sales goals and hiring targets.

Many businesses are also working towards stretch goals, defined as:

> “reaching for big opportunities and **accomplishing extraordinary results**.”[5]

These stretch goals can be short-term or far-reaching, but they are established to push the organization. As the word stretch insinuates, these goals are not supposed to easy. They are created to “stretch” your team and challenge your business plan. That is why there is some controversy as to whether they help or harm a business. One expert suggested that you pick a goal that “both scares and excites you”[6], while another suggests setting:

> “**targets that are ambitious**... but that you and the team truly believe you can achieve.”[7]

Most importantly however, as you analyze your business, evaluate your performance against these long-term targets.

Operating productivity

Measuring employee productivity is important and helps you understand the inner workings of your team. An unhappy team can have far reaching implications, while on the other hand, high performing teams can be your secret weapon.

Productivity ratios can be applied to almost any team in your business. The best way to measure productivity is consistently and constantly. Some measures include:

Revenue per employee: to calculate, divide the revenue by total number of employees. This helps evaluate what your team contributes to the organisation, what each employee contributes to the individual team and will help determine the costs of losing a particular employee.

Total cost of workforce: this is the sum of all the wages, benefits, superannuation, travel, contractors and other expenses in the team.

Effectiveness ratio: to do this, calculate the profit for every dollar spent on the workforce. This measure is particularly effective because it isn’t tied to time. It gives an insight into the effectiveness of your team as a whole.

4. Inventory and efficiency KPIs

People often refer to inventory as cash they can't spend. Stock deteriorates over time and is expensive to store and move. For distributors, it's also a crucial component of success.

Cash Conversion Cycle

This KPI measures the time it takes to convert an investment in inventory or some other resource input into cash. This provides a measure for how long cash is tied up in inventory before the inventory is sold and cash is collected from customers.

Asset Turnover Ratio

The asset turnover ratio measures a company's ability to generate sales from its assets by comparing net sales with average total assets. For example, a ratio of 0.5 would mean that each dollar of assets generates 50 cents of sales.

Sell through Rate

Think of sell-through rate as your short-term rate of sales success. Of all the inventory you have on hand, how much was sold over what period of time? The sell-through rate is calculated by comparing the number of units sold during a period of time to the product available at the beginning of the time period.

5. Fixed vs. variable operating expenses

As an executive, it is crucial to understand your cost structure. Revenue can be difficult to predict. Costs are not.

Variable costs change with production volume, while fixed costs are a constant expense. Fixed costs are things like rent, management salaries, and insurance, which must be paid even if you aren't producing anything.

The rookie approach is to keep costs to a minimum. And while generally that's more correct than not, there's subtlety to it. It depends on what you're optimizing for and the nature of your business. R&D budgets, experimental programs, marketing expenses, and technology costs are all technically fixed costs. These are also the future of your company and things from which you'd expect a positive ROI. The trick is to understand what costs support existing and on-going operations versus what is investment.

It is also important to track expenses accurately especially when they are coming from multiple areas. In some cases, there may be errors in tracking expenses that can be avoided. The ability to have a single source of truth that aggregates all the expenses and then quickly and accurately breaks down where the expenses are coming from will help you identify errors, determine where costs can be trimmed and how to make your business operate more efficiently.

6. Customer KPIs

Retention of customers and increasing their share of wallet with your business are essential ways to achieve a successful strategy for driving sustainable revenue growth. That's why you should always work to deliver value to your customers.

Profit per customer

This is one of the most important KPIs to measure. It is both a financial and operations KPI because it represents the financial relationship with your customer, which is also a reflection on how well you team is doing at servicing that customer.

While it may show how much your customers are spending with you over a period, the number may reveal that you have challenges or opportunities to improve. There are many reasons why customer profitability could be trending downward. Perhaps their business has changed, and they are no longer buying as much from you. Or a poor customer experience drove them to buy from a competitor, resulting in fewer sales. By building better relationships with your customers and improving loyalty, you can expect profit per customer to increase.

Profit per customer KPI will also reveal your top customers, creating incentive to focus additional attention to build and strengthen the relationship. Analysis of what is going well with these customers can provide best practices that can be used to replicate the success with other customers.

While you can make improvements within your organization, it may be determined through your analysis that an ongoing relationship with the customer is no longer beneficial to your business. You may find that some of these customers require more work than their business merits. Current and accurate customer profitability data will reveal a variety of details that will help you make more strategic business decisions on customer-by-customer basis.

Customer retention rate

The sales process has changed dramatically, and acquiring new customers is more challenging and more expensive than ever before.

Depending on the source, acquiring a new customer costs anywhere from five to seven times more than retaining an existing customer. Current customers are also 50 percent more likely to try new products and 31 percent of them spend more money than new customers.[8] In addition, lowering your customer churn rate by just five percent can boost your profitability anywhere from 25% to 125%.[9] In other words, focusing on retaining customers can produce significant financial benefits.

Customers stop buying or take their business elsewhere for a variety of reasons. Monitoring and analyzing your customer retention rate will help you identify the contributing factors to any fluctuation. Is it price? Did something happen with the last product upgrade? Is there a trend of customer satisfaction with a specific salesperson? Whatever the reason for a decrease, or increase, in customer retention rate, it's important that you tracking the data so you can make informed decisions to reap the benefits of customer retention.

7. Growth rate

Ultimately what you want to know from your data is whether your company is growing.

The future of your business depends on knowing the answer to that question.

Your board wants to know, and they want to be able to see the trajectory of that growth. Is the trend going in the right direction for one-year, three-year or five-year growth or beyond?

Growth is a broad KPI because it is not only a reflection of your overall business. You can track growth for specific products, salespeople, customers, departments, branches or geographic regions. With the data, you are aggregating as part of your BI, you can build a strategic snapshot of your growth rate across all areas of your business. With that clear picture, you can make better decisions, and make the necessary adjustments to strategy, staffing, products that will help reverse a negative trend or keep the trend going in the right direction.

Phocas on KPIs.

The ability for your business to be agile enough to respond to changing business conditions, and to respond to threats to products, customers and markets, depends on you and your executive team engaging in your company's analytics program.

In the past, managing, monitoring and analyzing all the KPIs mentioned above would have been a daunting task requiring more time and resources that many CEOs have been willing to commit. The statistics indicate, however, that for data and analytics programs to work, CEOs need to be more involved. What will help is better data and better tools that offer the ability to quickly and effectively measure each KPI, combined with the convenience of accessing all the KPIs from one single source of truth.

Phocas offers a BI solution that makes it easy for you to access and analyze all your business data from one central location.

Phocas Dashboards provide a visual representation of your information from across your company and can be pre-loaded with your KPIs and targets so that whenever you need to, you can quickly see how a product, customer or your company is performing.

From the dashboard, you can drill deeper into underlying information and transactions. You can compare revenues with forecasts, track profit margins, analyze customers that are purchasing less year-over-year, review customer retention rates and monitor your growth trajectory.
When data is visible to you and other decision makers, extra attention can be given to specific products, customers or branches that need more attention. You know how important your engagement is to the success of your analytics program. As you focus on the opportunities and challenges within your business made visible by monitoring KPIs, you can make better, more informed decisions that catapult your business forward.

Notes:

[1] KPMG [2] McKinsey & Company [3] Corcentric [4] McKinsey & Company [5] Entrepreneur [6] ibid [7] Inc.
[8] Sailthru [9] Social Annex

Get in touch.

Learn how Phocas can help you achieve your business goals.

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Demo.

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