Setting KPIs

for Business Success

THE ALTERNATIVE BOARD

Shared Wisdom, Bottom Line Success

There is an old saying in business

Maybe you've even used it yourself: What gets measured, gets done. What this means is that you can set as many goals as you like, but if you do not set guideposts and track your progress, you'll be no closer to reaching them than when you started.

Key Performance Indicators (KPIs) are the guideposts that let you know your business is on the right track. They provide a quantitative measurement of your company's performance over time that can be understood by your management team, employees, Board Members and potential partners.

KPIs go beyond financial statements and other metrics you may track in your company. Rather than measure overall health, they measure the progress your company is making toward specific goals. They help keep you on track and can provide an early warning sign if something is wrong.

KPIs are the key to successfully meeting your business goals, yet many businesses either neglect to use KPIs, or use them so poorly that they muddy the waters rather than providing clear navigation. Unable to choose the most important metrics, some businesses require managers to report every tiny detail — so that the most important information gets lost in a sea of data. Other businesses simply choose popular KPIs or the same KPIs as other businesses in their industry. But because those generic KPIs aren't tied to their specific business goals, they don't support success.

In this guide, we'll talk you through defining smart KPIs and how to use them to spur business growth.

KPIs: Critical Business Metrics

Because KPIs are a metric that tracks how well your strategy is being carried out, they need to be carefully tied to your strategy, rather than plucked out of thin air.

What does a good KPI look like?

Your goal

Bring on three employees in the next three years. You know each employee must be supported by $X additional revenue and that your average new account is worth $Y annually. To support the additional employees, you will need to open Z new accounts.

Your KPI

The number of new accounts opened in the last month and for the year to date.

Your goal

Reduce the amount of backlog so that you don't miss deadlines due to overcommitment, without resulting in underutilized personnel.

Your KPI

The number of weeks of backlog tracked against the over/under optimum range.

A good KPI is:

Closely linked to a specific business goal

Think of it like a health goal. Losing one pound a week may be a great goal for someone who is overweight — but if you are already at a healthy weight and exercising to tone your body, noticing that you're losing one pound a week indicates a problem. That's why there's no such thing as a universal KPI.

Highly specific

Ideally, there should be a number involved. Instead of answering a question like, "Are our customers engaged?" a Key Performance Indicator should tell you what percentage (a specific number) of your customers open every email you send them.

A critical measure of performance

It says so right there in the name — the KPI gives you a look into a key measure of success for your company. As an example, the amount of money you spent on the employee holiday party is a metric, but it's not key to your business performance. You wouldn't expect profits to double if the holiday party budget doubled.

Benchmarked

Your yearly sales numbers are good to know, but, unless they're benchmarked against last month's and last year's sales, they won't tell you if your company is growing. A good KPI doesn't stand on its own — it's viewed against a backdrop that makes it meaningful.

Is every metric a KPI?

A metric is simply a measurement of something within your business. For example, the number of service visits made in June, or the number of page views on your website. Some are merely interesting, while others — like the number of conversions your flagship product's landing page gets — are quite important.

But what makes a metric a KPI is when it hits everything we spoke about above: It's a specific, critical measure of success linked to your overall business strategy and benchmarked against other factors in order to show progress. It's how you know you're taking steps forward and not back.

How many KPIs should a business have?

The answer is, "As many as you need to support your specific business goals." You can have too few, and you can certainly have too many. The idea is to choose the best numbers to give you a snapshot of your business' health whenever you need it.

KPIs should support goals across the entire business. Areas to consider KPIs include:

- Financial Performance and Budget
- Customer Satisfaction and Engagement
- Sales and Marketing
- Operations and Internal Processes
- Employee Productivity, Retention and Engagement
- Environmental Stewardship
- Information Technology and Innovation

Tying KPIs to Goals

Since one pivotal Strategic Planning Board Meeting in 2013, TAB Board #301 has transformed the way they talk about KPIs. Previously, the Board Members focused on tracking common financial metrics relating to sales and profit. This gave an important snapshot into how the business was doing at each monthly meeting but didn't provide much leverage for propelling the business forward.

Upon further discussion, the Board realized how important it was to focus on KPIs that tie back to business goals. They've now incorporated goal-oriented KPIs as part of each meeting's Monthly Member Update. This helps the Board ensure that Members are staying on track.

TAB Board #301
Fairfax, Virginia

SAMPLE KPI RESOURCES

When getting started with using KPIs for your business, it can be helpful to see real-world examples of how others are using them to meet their goals.

Browse these libraries of KPIs to find inspiration while developing your own. But don't just copy a KPI without reframing it to help you benchmark your own business goals. Remember, KPIs should be specific to your company.

Advanced Performance Institute's KPI Library

Service Now's KPI Library

Klipfolio's KPI Examples and Templates

Scoro.com's Complete KPI List

Scoreboard's KPI Examples

Defining KPIs with Leading and Lagging Indicators

The first step to setting good KPIs is to define your business outcomes. This could be something like a long-term growth strategy or a problem that needs to be solved.

For example, if you run a heating and cooling company, you may notice that only a small percentage of annual maintenance customers purchase higher-margin services such as duct cleaning. If that current conversion rate is only 5%, you may set a goal of doubling that within the next year.

To learn whether or not you're on the right track, you need to know your leading and lagging indicators.

Lagging indicators are "output" oriented. They're easy to measure but difficult to directly influence. For our heating and cooling company, that would be the conversion rate.

Leading indicators are "input" oriented. They can be harder to measure but they're easier to directly influence. For our heating and cooling company, that could be something like the number of outbound sales calls made to upsell recent annual maintenance customers on a duct cleaning.

Put another way, lagging indicators tell you whether or not you've reached your goal, while leading indicators tell you what you need to do to get there.

When using lagging and leading indicators to create KPIs, it's critical that you establish a link between them. Otherwise you risk setting KPIs for employees that don't result in more business growth — only more busywork.

SETTING SMART KPIS

Like any goals, KPIs work best when they are SMART. That is, when they follow these five conditions:

Specific: Connected to a well-defined strategic objective.
Measurable: Associated with a numerical metric.
Achievable: Grounded in what's possible.
Relevant: Making sense within the context of the business.
Time phased: Linked to a certain period of time.

Use Annual Reports to Establish Industry Benchmarks

If you don't have concrete industry numbers, it can feel like you're setting growth goals in a vacuum. Marcel Vouriot, owner of Vomar Industries, Inc., uses this tactic to peek behind the curtain and get competitors' numbers.

If your competitors are public companies, their annual reports can be a great source of competitive intelligence like KPIs, benchmarks and industry trends. "You may want to buy one share in the public company to automatically receive their annual report and quarterly updates," says Vouriot.

He also recommends developing a mini annual report of your own, containing 5- to 10- years worth of key numbers for your business. "Your own annual report can also help you to obtain top dollar if you decide to sell your company," says Vouriot. It can also be a useful tool when looking for new financial partners, hiring key employees and negotiating with new suppliers or prospects.

Marcel Vouriot
Owner, Vomar Industries, Inc.
TAB Member since 2007

Linking KPIs to Business Strategy

If you're having trouble defining KPIs, the problem may be that your business strategy isn't well-defined. This requires analyzing the problem, setting realistic outcomes and creating an action plan of specific, measurable steps that will lead to those outcomes.

In going back to the example about the heating and cooling company, perhaps after analyzing the problem, they realize that even though customers are told about duct cleaning services during the annual maintenance visit, most customers get busy and forget to make the appointment.

The company could come up with several strategies at this point:

Technicians could **leave behind literature** explaining about duct cleaning, along with a coupon.

Technicians could be trained to **schedule an appointment while on the service call** and offer a discount for making the appointment that day.

Sales could **call homeowners the week after their annual maintenance** to ask how the service call was and set up a duct cleaning appointment.

Remember, each of these are leading indicators. The company can directly control how many pamphlets are left behind, how many technicians make the ask and how many post-service calls the sales team makes.

The company can track any one of those things, and they can also track the overall conversion rate. But which one makes a good KPI?

Tracking the overall conversion rate will help the business owner understand if duct cleanings are on the rise, but it won't necessarily tell him which business strategy is working. Tracking the number of conversions during the annual maintenance calls or post-service sales calls will provide a clue as to what works best and help the business owner refine the upselling process even more.

It's important to make sure each of these KPIs you choose to follow are aligned with one another.

Ask for a Different View of Your Numbers

Are you taking advantage of your team's expertise? Getting a different perspective on your KPIs can uncover solutions you hadn't thought of or alert you to problems you didn't see coming, according to Jason Dubois, president of Len Dubois Trucking, Inc.

"If you have a financial person in your company preparing your monthly KPI report, it is a good idea to ask them for a brief statement on what they conclude or draw from the data," he says. "Since their focus is on the numbers they may see corporate results from a different perspective."

Along with asking for their conclusions, you should also ask if they have any concerns about the numbers or recommendations on how to improve results. You may be surprised at the insights you gain from having a different view of your numbers.

Jason Dubois
President, Len Dubois Trucking, Inc.
TAB Member since 2004

Getting started with KPIs: A Checklist

Getting started using KPIs in your business doesn't have to be intimidating. Follow these steps.

Get your team on the same page

Make sure everyone affected by the KPI — from front-line employees to upper management — understands what is being measured and why it's important to the overall strategy. If the metric seems arbitrary, people may not be as compliant.

Start with your most important indicators

Trying to introduce too many KPIs at once can be overwhelming — both for your employees and for you as you try to track your progress. Instead, start with the most important numbers for your company and add on from there.

Start with the low-hanging fruit

Some data will be easier to collect than others. As you're getting started with KPIs, start by identifying which data sets you already have at your disposal before implementing new reporting methods.

Keep your reporting consistent

If you're tracking sales calls per day one month and customer conversions per call the next you won't have a clear sense of your company's direction. Each KPI should be expressed by a simple formula (such as Adwords budget/new customer = cost per new customer acquisition). Be sure to calculate it the same way each time you measure it.

Track KPIs in a central place

KPIs should be a snapshot of your business health, but they won't illuminate anything if you're constantly searching for them. Track all your KPIs in a central place such as a shared Excel spreadsheet or the dashboard of reporting software. Make it a place that all relevant parties can easily update and access.

Set regular check-ins

For your KPI tracking efforts to make the biggest difference, you need to review them regularly. Set a standing meeting — either with your team or just with yourself — to review the results and plan for the next month. At these meetings, don't be afraid to reexamine your KPIs to make sure they're still relevant and in line with your overall business goals.

KISS KPIs Can Prevent “Yeah, Buts…”

Getting employees and management on board with KPIs is critical. When your team feels ownership and has confidence in the KPI measurement process, they’ll be much more invested in hitting those targets. A lack of involvement and understanding can lead to what Ron Mondor, president of Zantek Information Technology, calls “yeah, but…” situations.

He recommends business owners use the KISS (“keep it short and simple”) principle when assigning KPIs to staff. Rather than overloading them with metrics, focus on at most three KPIs and make sure the reporting process is simple and clear, says Mondor. “If these pre-conditions are not met, your staff member may say, ‘Yeah, but I didn’t realize that was my responsibility,’ or ‘Yeah, but I don’t agree with how that KPI was measured.’”

Make sure you have your staff on board from the get-go, and you’ll see better results.

Ron Mondor
President, Zantek Information Technology
TAB Member since 2005

Green is Good; Red is Bad

What do you do when your employees aren’t collecting — or paying attention to — KPIs? At Aschinger Electric, Eric Aschinger has a colorful solution.

“To reinforce the need for diligent collection efforts by our project management staff we have started color coding our KPI’s for Accounts Receivable,” he says. “If the billings are timely and within terms they are coded in Green. If they move in the area of starting to fall outside of terms they are marked in Red.” The color scheme helps to quickly get the staff’s attention.

Eric Aschinger
Past Chairman & CEO, Aschinger Electric
TAB Member since 1996

Is TAB for You?

Tracking KPIs is most powerful when you have others to question your logic, help you brainstorm your goals and offer their expert advice. The Alternative Board® (TAB) helps forward-thinking business owners grow their businesses, increase profitability and improve their lives by leveraging local business advisory boards, private business coaching and proprietary strategic services.

Becoming a member of The Alternative Board gives you access to resources and expert advice to help you set KPIs that drive your business forward, as well as a supportive network of peers to keep you accountable to your goals.

Find a TAB Board near you and begin growing your business today.