

THE BAROMETER OF GROWTH - USING BUSINESS METRICS

Introduction

Many businesses that we come in contact with consider strategy as a one off event and that event is typically when the business started. Plans were drawn up and once the funding from a bank or investor was in place, they were left in the draw and forgotten.

Our work with many companies has identified that a focussed strategy that is dynamic and embedded within the organisation not only helps to execute the strategy on a day to day basis but drives growth and profitability.

This short paper introduces the reader to the importance of using well defined business metrics in not only supporting the implementation of strategy but as a means of driving the growth and profitability of a business.

What is business metrics?

Business metrics is a fancy term to describe the key information that defines a business. Invariably we understand the information to be financially based around the key categories of the P&L and Balance Sheet. However although business metrics includes elements of these numbers they comprise of all aspects of the business operations that defines strategy and process improvement.

We will outline below the typical example business metrics that one could use to define a companies activities:

General Business Metrics examples (not exhaustive)

- Sales & Customer Service
 - Average system costs (a system being a collection of individual products e.g. guttering system)
 - System margin & gross profit
 - Cost of sales/ sales
 - Number of distributors or agents
 - Value of sales pipeline and percentage forecast for the following quarter.
 - Top 10 customer sales and gross profit
 - Customer complaints (Number and percentage)
 - Number of customer queries into the office
 - Customer excellence or satisfaction scores
- Operations
 - Product scrap value per shift
 - Product output values, including cycle times
 - Inventory stock turns (cost of goods sold/ average inventory)

- Work utilisation
- Production efficiencies
- Power consumption values
- Picking goods errors in despatch (%)
- On time in full delivery metric (%)
- Top 10 or key supplier purchases prices
- Supplier lead times
- Tenders completed
- Tenders issued
- Finance
 - Normal P&L and Balance sheet values
 - ROI on key projects
 - Spend on product development as a percentage of sales
 - % of sales of new products to existing products
 - Key liquidity ratios including debtor levels
 - Breakeven consultancy rates on projects
 - Breakeven consultancy rates for bidding on projects
- HR
 - Leadership scores for individuals and team
 - Absenteeism levels
 - Sickness levels (% of workforce or department)
 - Work utilisation per employee
 - Training days per employee
- Marketing
 - ROI on marketing campaign
 - Hits to website
 - % Market share
 - Conversions on pay per click campaigns
 - Conversions on email campaigns
 - Conversions on direct mail campaigns
 - Bounce and email open rates
 - Number of prospects coming through the site and the % of conversions to customers
 - Target customer acquisition values

How to use metrics

- Ensure that metrics are linked to the overall business strategy
- Create metrics that are SMART
 - **S**pecific - clearly defined parameters
 - **M**easurable - numbers that everyone understands or not ambiguous
 - **A**chievable - define metrics that are stretched goals or in other words metrics that your employees agree are achievable
 - **R**elevant - in other words chose metrics that mean something and are designed to drive the implementation of strategic goals

- Timebound - always choose metrics where one can see real changes rather than metrics which are long term or those that can only be measured after a long period of time.

Understand the metrics you are measuring

There are two types of metrics so ensure that you understand which ones are important in driving the business forward

- *Performance metrics*
 - These are metrics that measure high level elements of 'what' you are doing. These are metrics that monitor outputs, customer requirements and business needs for the process
- *Diagnostic metrics*
 - These are metrics that measure 'why' a process is not performing. These are mainly focussed on your internal processes or as a means of monitoring supplier performance.

The key for the development of a set of metrics is to choose a handful. We recommend no more than 6 in each category so that focus can be administered by the team. Clearly a quality or human safety critical product will have tens or even thousands of metrics applied to it. However even in this case those metrics can be grouped under a few master metrics which helps to understand and drive process and business improvement.

How to report metrics

There are a number of reporting structures for metrics which are available including management dashboard software or models such as the balanced scorecard.

Our clients have achieved double digit growth in profitability and revenue through a thorough implementation of the 5W strategy steps. Contact us for a free consultation to discuss how you too can achieve business growth - even in a recessionary environment.