HOW TO:

DETERMINE YOUR MOST IMPORTANT BUSINESS METRICS

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TACOMA STUDIO

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BY TACOMA STUDIO

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Having reliable and accurate data about your key business objectives gives you the insight you need to make data-driven decisions on both a large and small scale. Finding your most important business metrics, also known as your Key Performance Indicators (KPIs), is a critical piece of the data puzzle in a business. In this how to guide, you'll learn how to determine which KPIs are most important for you to monitor, how to produce data that is both reliable and accurate, and how to routinely report on your business's performance.

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1.

WHAT ARE KPI'S?

Key Performance Indicators (KPIs) are metrics that represent the most important goals in each division of a company as they relate to the business's overall goals. **KPI's are a snapshot overview of how a business is performing.**

Using KPIs aligns your employees around common goals, allows you to easily gauge progress toward your goals and spot weak points in your business model, and enables you to optimize areas of the business that aren't performing to your standards.

"KPI'S ARE A SNAPSHOT OVERVIEW OF HOW A BUSINESS IS PERFORMING"

Types of KPI's

When first getting started you may think there are a certain number of essential KPIs that you need to be measuring and reporting on. In reality, there is no magic number of KPIs nor a magic list of the ones you need to be measuring.

There are, however, different types of KPIs to consider which, when combined, will allow you to generate accurate snapshots of your business in the past, present and future.

There are three different types of KPIs to measure. Each have their individual benefits and drive different actions:

1. **LEADING INDICATORS**: These measures input, progress and your likelihood of achieving a goal in the future. These types of metrics serve as predictors of what's to come. Website traffic, average age or income of a contact, and sales team activity are just a few examples of leading indicators.

2. **LAGGING INDICATORS**: These measure something that has already happened. These types of metrics are good for purely measuring results, as they solely focus on output. Total sales last month, the number of new customers, and hours of professional services delivered are all examples of lagging indicators.

3. **QUALITY INDICATORS**: These measure the quality of what was produced. Satisfaction rates, ticket reopens, time on page, and percentage of errors/bugs are examples of quality indicators.

It's important to measure a variety of types of KPIs to get a complete picture of what's happening. For example, a sales manager might want to track:

Number of Calls - leading indicator
Number of Sales - lagging indicator
Conversion Rate - quality indicator.

Company KPI’s

The first step in determining which KPIs to measure in each aspect of your business — operations, marketing, sales, customer service — is to develop your business’s overall **“thematic goal”** for the year.

Thematic Goal: *A single, qualitative focus or rallying cry that is shared by the entire leadership team — and ultimately, by the entire organization — and that applies for only a specified period of time.*

Based on your thematic goal, you’ll determine departmental goals, and then you’ll determine the KPIs — a combination of leading, lagging and quality indicators — that would help you track their success.

When viewed together, your KPIs should give you a good view of your business’s progress toward your departmental and thematic goals.

Example: Say your thematic goal for the year is to grow by 20%. To achieve this goal, your **marketing team** might focus on generating more quality leads; your **sales team** might focus on increasing core product sales, and **customer service** might focus on improving the customer retention rate. Your **operations/finance team** might measure monthly recurring revenue or another financial statistic relevant to your business model.

Based on those departmental goals, you’d choose relevant KPIs.

Example cont: Department goals that contribute to the Thematic Goal

MARKETING

Department Goal
Increase the number of new contacts generated

Supporting KPI's

Number of qualified leads
Ad click-through rates
Opt-in page conversion rates

SALES

Department Goal
Increase core product sales

Supporting KPI's

Number of qualified leads
Number of opportunites
Percent of calls completed
Closing rate

CUSTOMER SERVICE

Department Goal
Improve customer retention

Supporting KPI's
Customer satsifaction scores
Cancellation rate
Number of support inquiries solved

OPERATIONS

Department Goal
Increase monthly recurring revenue

Supporting KPI's

Working capital
Accounts payable turnover
Charbeback success rate
Churn rate

Common KPI's

KPIs benefit a number of departments including marketing, sales, finance, customer service and operations. When each team is on the same page about their KPI goals, these numbers act as a unifying force for the company, making sure that everyone is moving together in the right direction and delivering value to the business.

Here are some examples of some of the most common KPIs you might want to use:

MARKETING

Thoroughly monitoring the performance of your marketing efforts provides actionable data that you can use to confidently optimize your campaigns. When you know how many people are clicking on your ads, opening your promotional emails, and opting in for your lead magnets, you'll have the data you need to make better decisions about where to allocate your marketing budget.

Here are some examples of common marketing KPIs:

- Monthly new leads
- Marketing-qualified leads (MQL)
- Sales-qualified leads (SQL)
- Sales-accepted leads (SAL)
- Cost per lead generated
- Monthly website traffic
- Visits per channel
- Website conversion rate
- Inbound links to website
- Traffic from organic search
- Advertising cost per acquisition (CPA)
- Cost per conversion (CPC)

SALES

When you know how many leads are in your sales funnel, your average conversion rates and the average length of time it takes for leads to be converted to customers, you can predict your future revenue based on your current sales pipeline. This kind of oversight makes it easier to identify problems before they happen so that you can appropriately manage your cash flow.

Here are some examples of common sales KPIs:

- Pipeline volume vs. goal
- Activity per rep
- Average sales cycle length
- Sales-qualified lead (SQL) to win conversion rate
- Average follow-up attempts
- Lead response time
- New sales / new clients
- Average conversion time
- Customer lifetime value (CLV)
- Time spent on your platform

CUSTOMER SERVICE

By tracking KPIs such as customer retention rates, average response times, and the frequency of customer issues or complaints, you can gather objective data that reveals the performance of your customer service team as well as individual team members. This will reveal opportunities for both individual improvement and overall improvements to your team's processes.

Here are some examples of common customer service KPIs:

- Average wait time
- Average handling time
- Average resolution time

- Customer satisfaction score (CSAT)
- Net promoter score (NPS) - how likely they are to refer you
- Customer retention rate

FINANCE

There are numerous ways to assess the financial health of your business, and it’s important to choose KPIs that most accurately reflect your business model and goals.

Here are some examples of common finance KPIs:

- Gross profit margin
- Payment error rate
- Net profit margin
- Inventory turnover
- Accounts payable
- Accounts receivable
- Debt-to-equity ratio
- Return on equity
- Payroll headcount ratio
- Working capital

OPERATIONS

Take careful note of your internal operations KPIs. They’re what keep your business running smoothly, so it’s important to clearly define the metrics that matter within your inner workings.

Here are some examples of common operations KPIs:

- Average process overdue time
- Percentage of overdue processes
- Average process age
- Percentage of processes where the actual number assigned resources is less than the planned number of assigned resources
- Sum of costs of “killed” / stopped active processes

- Average time to complete task
- Sum of deviation of time (e.g., in days) against planned schedule of all active projects

Setting a Solid KPI Foundation

As you begin to determine which KPIs you'll focus on for each area of your business, there are several factors to keep in mind to avoid generating bad data or focusing your energy on the wrong metrics.

Accurate Reflections of Your Goals

First, ensure that the KPIs you measure accurately reflect the results that you want your business to achieve. For example, if your business goal is to generate 30% more sales, but your KPI represents the number of website visitors, your team will be focused on increasing web traffic rather than sales. Measuring your "closing rate" or "% of leads in the sales pipeline" would be more successful in aligning your team to your growth-specific goal.

Accurate Data

Second, make sure the data you are pulling is accurate and cannot be manipulated. If you are generating your data from multiple tools, spreadsheets or sources, it's important that the parameters for the data match up across all those platforms so that you're comparing relative data.

For example, if you are monitoring engagement such as clicks on a marketing campaign, your advertising platform could give you one number while a tracking platform might give you another, and your employee could be showing you an average of the two. While they all might have reasons for generating the numbers that they do, it's important to be sure that you understand the differences between them and decide which one to report on. All associated stats should be pulled with the same parameters in mind so that you're comparing apples to apples.

Useful and Timely Delivery

Third, make sure that you are representing your KPIs in ways that are useful to you and your team and that you're delivering them in a timely manner. If you have too many KPIs, they aren't shown in an easily comprehensible format, they keep changing, or they aren't delivered in time for them to reflect current status, they won't be useful to you and they will most likely be abandoned.

Alignment with Business Model

Lastly, you should understand that KPIs are going to vary based on industry, business model and goals. Duplicating another business's KPI report or tracking certain metrics solely because someone else told you to could cause you to focus energy on the wrong areas of your business.

To ensure that you are setting attainable standards for your business, make sure that your goals are **S.M.A.R.T**:

> **SPECIFIC:** Define a specific outcome
> **MEASURABLE:** Targets against which progress can be assessed
> **ACTIONABLE:** Action can be taken on the goal
> **REALISTIC:** A high probability that the goal can be achieved by its due date
> **TIME-BASED:** Specific due date

2.

REPORTING AND ANALYZING YOUR KPIS

Once you have figured out which KPIs to measure, stick with that KPI for at least six months so both you and your team can start to see trends and track results over time.

It's important to not only track your KPIs, but also report on them so that the team is continually aware of the status. Your KPI reports should follow these guidelines so that they're useful to you and your team:

LIMITED#: Rather than choosing dozens of metrics to measure and report on, you should focus on just a few key metrics. If you have too many, it becomes overwhelming and difficult to decipher, which can lead to your team abandoning them altogether.

DISPLAY: Different KPIs need to be presented in different ways, and some charts can hide problems in your business or make your growth seem greater than it is. Take great care to make sure you have the right type of graph displayed for each statistic.

TIMELY: You'll find that some stats make sense to see daily while others are better weekly, monthly or quarterly. Think about what KPIs you can actually act on for your daily report – your crucial stats vs. ones that are monthly updates on progress. Additionally, consider how much time it takes to actually produce the report. For daily reports, think 10 minutes or less, weekly 30 minutes, whereas monthly and quarterly reports can take much longer.

Common KPI Mistakes

Once you get your system in place to measure and improve performance, consider these common mistakes small business owners make when they start measuring KPIs.

MEASURING EVERYTHING THAT'S EASY TO MEASURE: While usually more data results in better insight, sometimes irrelevant data can throw you off and be a waste of your resources. Make sure you have sound reasoning behind every metric you're choosing to measure.

APPLYING THE KPIS FROM OTHER INDUSTRIES TO YOURS: Every business is different. That means they'll likely have different KPIs. B2B and retail require completely different metrics. If it worked for one business, it may not work for yours. That's why it's important to develop your specific KPIs for your business.

NOT ANALYZING YOUR KPIS TO EXTRACT INSIGHTS: It's important to act on your data. Set processes in place to continually analyze and search for trends and make plans for improvement.

NOT CHALLENGING AND UPDATING YOUR KPIS: The answer to why you're measuring a specific KPI should never be "that's how it's always been done." Take a closer look at your current KPIs and see if and how they directly benefit your business.

KEEPING THE DATA IN SEVERAL DIFFERENT PLACES: It's always a risk when your data is scattered across different platforms on different spreadsheets. That's why it's important to store all your information in all-in-one CRM with automatic data collection. When everything's in one place, there's no need to reconcile disparate information and no question as to your data's accuracy.

Maintaining Data Accuracy

When you're measuring a variety of statistics across numerous aspects of your business, it's crucial that your data is reliable and accurate and that you're comparing relative information.

The best way to ensure this is by using one central platform to house all your business data. An all-in-one CRM platform that incorporates your customer records, marketing automation, sales force automation, ecommerce data and more keeps every piece of information about your customers in one place. This means that there will be no need to reconcile disparate information and no question as to your data's accuracy.

Most all-in-one CRMs offer a metrics dashboard that enables you to create a customized display of all your KPIs at a glance, updated in real-time. This not only generates the most accurate, up-to-date information possible, but it also streamlines and automates your reporting process.

Regardless of the tools you use to measure your KPIs, if they are aligned with your business goals, industry type and business model, as well as accurately reported in timely and useful ways, you're on the right track to getting data insights that will support your business decisions and enhance your understanding of your progress toward your goals.

3.

WORKSHEET: DETERMINE YOUR KPIS

What is the thematic goal of your business?

What departmental goals support the thematic goal?

MARKETING:

SALES:

CUSTOMER SERVICE:

OPERATIONS/FINANCE:

For each goal that you listed, determine a leading, lagging and quality indicator.

GOAL	LEADING KPI	LAGGING KPI	QUALITY KPI

Keeping those metrics in mind, draw a depiction below of how you would like each statistic to be displayed (e.g., bar graph, line chart, pie chart, progress bar, percentage or just a number).

GOAL	LEADING KPI	LAGGING KPI	QUALITY KPI