Executive KPIs eBook.

Top 7 key performance indicators for Executives

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Top 7 key performance indicators for Executives.

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

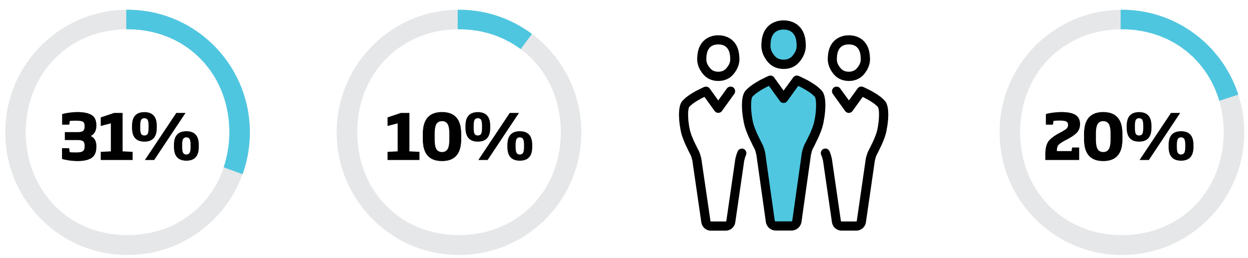
Given the growing competitive climate, pressure on profits and product margins, and the constant need for innovation, data provides the evidence that CEOs and their executive teams need to make the best strategic decision for their companies.

Information aggregated from the various departments, branches and systems will provide a clear picture of your business performance and what needs to happen next. After all, how do you know where you're going if you don't know where you've been?

In KPMG's 2016 CEO Report, CEOs named data and analytics as "a top-three investment priority for the next three years."[1] Among the biggest challenges for the C-suite is keeping up with the volumes of information created across the enterprise, and then using the information to make intelligent business decisions.

According to KPMG, many CEOs recognize that their organizations are struggling to keep pace even with the innovations in data analysis technology.

Among the CEOs surveyed, only 31 percent felt that they are "leaders in data and analytics usage." One in 10 CEOs distrusts how their organizations are using the data, one-third highly distrust the data accuracy and 20 percent "have limited trust" in how their organizations use data.



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Actively engaged in analytics strategy.

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] To quote Dr. Seuss, "Unless someone like you cares a whole lot, nothing is going to get better, it's not."

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 key KPIs.

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.

4. Expenses

In addition to keeping track of what is coming into the business, it's critical that you monitor what is going out as well.

As the adage says, "It takes money to make money," and whether it's staff, equipment, technology, fuel or materials, having a snapshot of what is draining your business of its financial resources will help you make decisions that will contribute to your long-term success. Part of the challenge for monitoring expenses is the amount of data that represents all the outgoing capital.

Even for small businesses, expenses come from multiple areas. In some cases, there may be errors in tracking expenses that could be costing you significant money. Whether someone keyed in the wrong numbers for their expense report or if a vendor submitted a duplicate invoice, errors happen. 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.

5. 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.

6. 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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