



KPI's

Monitoring and Managing the Performance of Your Business

A Workshop Exclusively for Small Business Owners and Their Team


Bottom Line – We Love Small Business™

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Today's Session

- Why they are so important?
- Where do KPI's fit in a number-based strategy?
- Reading our Financial Statements
 - KPI's and our Financial Statements
 - KPI's and the Income Statement
 - KPI's and the Balance Sheet
- Examples: What to avoid? Financial vs. Managerial?
- Where to start?




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Key Performance Indicator Benefits

- Anticipate and solve challenges before they occur
- Tells you the story behind your numbers
- Becomes the bench-mark to measure progress within your business and your financial goals
- Trends and relationships



"What gets measured is what gets done" – Keith Cunningham

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Sales	\$100	\$1000
- Expenses	\$80	\$900
Profit	\$20	\$100
		$20\% \times 100 = \$20$ $10\% \times 1,000 = \$100$ \$200



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Sales	\$100	\$1000
Expenses	-\$96	-\$996
Profit	\$4	\$4



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KPI Basics

- Which one's matter for your business?
- How much to measure, how much to track? What's enough? What is overkill?
- KPI Dashboards & Reports– Keep it simple
- Putting Dashboards together, reporting
- Next Steps: KPI's in your business



"What gets measured is what gets done" – Keith Cunningham

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Implementing a Numbers Based Strategy

Management, Leadership and Operations



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Cause and Effect

Response vs Reaction



What's going on here?
Root Cause = Trend + Relationships

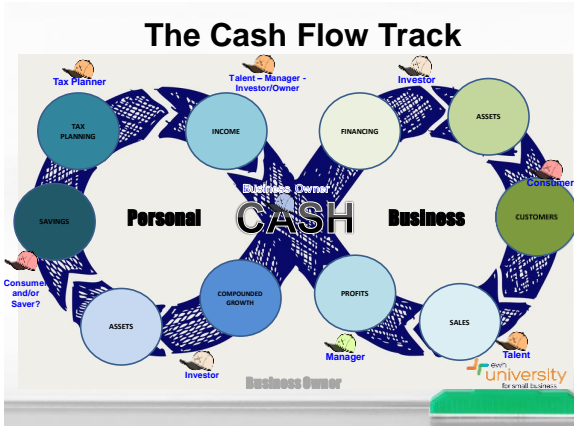
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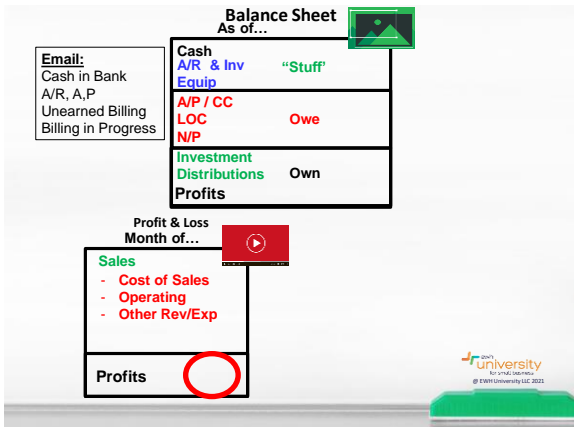


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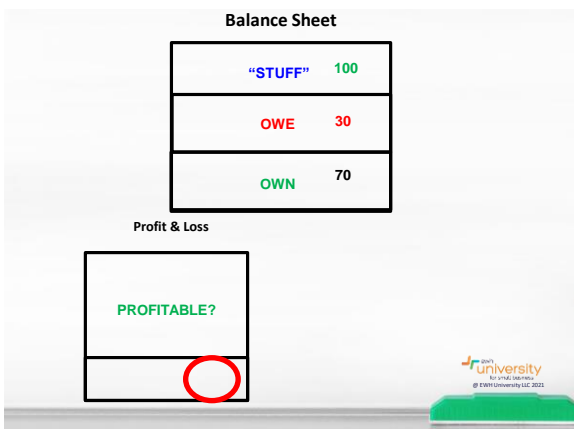
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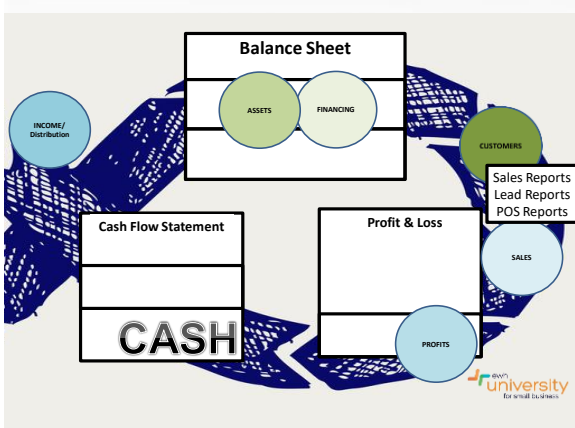
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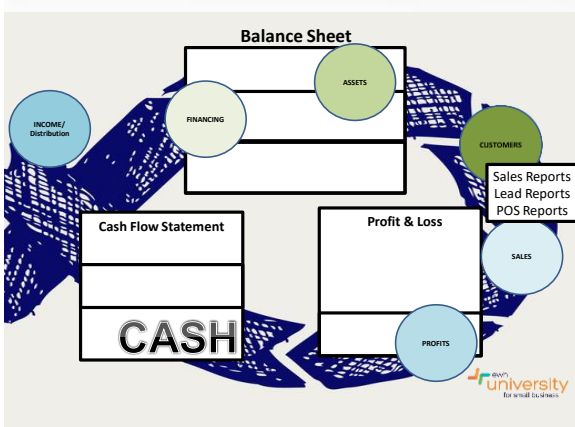
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Item	6 Months		% Sales	
	Current Month	Year-to-Date	Current	YTD
Sales				
Liquor	22,265	108,043	45.8	38.1
Food	26,304	174,983	54.1	61.8
Total Sales	48,569	283,026	100.0	100.0

	Current Month	YTD	CM%	YTD%
Sales	\$48,569	\$283,026		
Gross Wages	\$9,821	\$46,506	20.2%	16.4%
Gross Profit	28,353	167,679	58.3	59.2
Expenses				
Operating Supplies	1,509	7,371	3.1	2.6
Postage	1,250	7,463	2.6	2.6
Gross Wages	9,821	46,506	20.2	16.4
Officer's Salary	4,000			
HH&AC				

$\$48,569 \times (20.2\% - 16.4\%)$

$\$48,569 \times 3.8\% = \1846




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Balance Sheet

CASH	A/P \$35,000
A/R \$50,000	Sales Tax \$5,000
Inv \$5,000	Payroll Tax \$765
	Dist. \$300,000
	Profit \$180,000

Profit & Loss

Sales \$600,000	A/R
- COGS \$120,000	\$600,000/12 = \$50,000
Gross Profit \$480,000	Sales Tax
- Expenses \$300,000	\$50,000 * 5% = \$2,500
Profit \$180,000	




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Balance Sheet

CASH	A/P \$35,000
A/R \$50,000	Sales Tax \$5,000
Inv \$5,000	Payroll Tax \$765
	Dist. \$300,000
	Profit \$180,000

Profit & Loss

Sales \$600,000	Total Expenses
- COGS \$120,000	\$120,000
Gross Profit \$480,000	+ 300,000
- Expenses \$300,000	420,000
Profit \$180,000	\$420,000 / 12 = \$35,000




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Balance Sheet

CASH		A/P	\$35,000
A/R	\$50,000	Sales Tax	\$5,000
Inv	\$5,000	Payroll Tax	\$765
		Dist.	\$300,000
		Profit	\$180,000

Profit & Loss

Sales	\$600,000	Inventory	
- COGS	\$120,000		$\$120,000 / 12 = \$10,000$
Gross Profit	\$480,000		
- Expenses	\$300,000		
Profit	\$180,000		




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Balance Sheet

CASH		A/P	\$35,000
A/R	\$50,000	Sales Tax	\$5,000
Inv	\$5,000	Payroll Tax	\$765
		Dist.	\$300,000
		Profit	\$180,000

Profit & Loss

Sales	\$600,000	Payroll Taxes	
- COGS	\$120,000		$\text{Wages } \$120,000 / 12 = \$10,000$
Gross Profit	\$480,000		
- Expenses	\$300,000		$\$10,000 \times 7.65\% = 765$
Profit	\$180,000		





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Numbers Are Your BUD!

B B = Benefits > Costs = ROI

U U = Understandable & Useful

D D = Data Monster - Avoid!

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KPI Examples

- Call Center- Calls, DM, Leads, In Future
- Restaurant – Avg \$ Transaction, Transitions per month
- Monthly Accounts, Members, Users, Accounts - Average Monthly Value – Growth Report
- Average Transaction Size – Body Shop



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KPI Examples

- Lifetime value of a client
- Cost to acquire a client
- McDonalds Drive-thru
- Drive -thru smiles



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Managerial & Financial Accounting

Managerial Accounting

- Scheduling
- Product costing
- Budgeting
- Forecasting
- Various Financial Analysis

Financial Accounting

- Bank Reconciliation
- Financial Statement entry, preparation, and finalizing
- Guidance, Tax Advice
- Final Financial – Used to file ret

Staffing/Scheduling: Might compare and access as feedback mechanism but not Match to Budget, and Actual on Financial Statements



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KPI “Things to Remember”

- Even time periods: Months, 6 Months, YTD
- As sales go up and down – the relationship, the %, not the number, tells the story!
- During the Month: Manage A/R, A/P, Inv., and Sales Activity



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Data Monster; Watch out!



- Don't put cart before the horse
- You NEED a Financial Statement
- Automating to the point of complexity
- Garbage in - Garbage out
- A push of 1 button?
- Myth of “ALL KPI's in one place”
- Specialized software
- Use different reports, system for different things



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KPI's & Critical Driver Reports

What's the difference?

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KPI's & Critical Driver Reports

Indirect Costs
(Overhead/Operating Expenses)

$$\frac{\text{Indirect Costs}}{\text{BE Sales}} = \text{GPM\%}$$



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KPI's & Critical Driver Reports

Average Transaction Size

X Number of Transactions

$$= \text{Sales}$$



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Next Steps: Where to start?

- ✓ Receiving a Financial Statement Monthly. Why Monthly?
- ✓ Make sure all information put in properly: bills, invoices, bank rec
- ✓ Determine 5-10 F/S KPI's that are important. Start with Income Statement. Key Balance Sheet KPI's A/R, A/P, Inventory
- ✓ Think of other sales-related KPI's
- ✓ What do you need to gather, how often for reporting purposes?
- ✓ Create, design and utilize your reports
- ✓ Manage the Process; use KPI's as your guides - dials



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