STRENGTH IN NUMBERS: KEY PERFORMANCE INDICATORS FOR YOUR SMALL BUSINESS

It seems that many newbie small business owners suffer from a special variation of Numerophobia. Just the mere thought of a cash flow forecast or a balance sheet is enough to make them break out in a cold sweat. Sadly, there is no place for this kind of irrational fear of financials in a thriving small business. Numbers aren't to be feared. Indeed, if the numerophobic amongst you could embrace the fear, you would see that there truly is strength in numbers.

In order for a business to meet its full potential, you need to understand what drives your 'bottom-line'. This is even more important when times are hard. The effects of Britain's double-dip recession have been hard felt among the nation's small business owners. Research released from Borro's Enterprise Ladder Report reveals that in the past five years 46% of all small business owners have seriously considered either selling their business or closing it down completely[1]. In such a climate of fear and uncertainty, many small business owners prefer the illusion of safety created by sticking your head in the sand and ignoring the reality of the financial performance of their business rather than facing the difficult truth.

I'M PRETTY SURE EXCEL DOESN'T HAVE A "FUDGE" FUNCTION.

I can understand why small business owners are tempted to be ostriches. Business finance can seem impenetrable at the best of times. However, in times of uncertainty, it seems that the emotional equity each owner has in their business has conditioned them to bury their head in the sand. The tough truth can be glossed over when you are feeling overwhelmed day in and day out. If you don't make any decisions at all and are blissfully unaware of how your small business is performing, then it feels, for the time being at least, as if you are insulated from the dangers and challenges in the wider business environment.
The temptation is to fudge the numbers, if we even pay any attention to them at all and paper over the growing cracks in our small businesses with blind optimism.

Don't get me wrong, this is no attempt to rip away small business owner's illusions. I'm all for optimism, even in the midst of a double dip recession. There is no good reason why your small business shouldn't thrive in this environment, if you can follow through and act whilst your competitors are paralysed by fear. Great companies have been established during recessions in the past and no doubt some of the great companies of the future are starting out life now as small businesses. For example, household name James Dyson launched his vacuum company in the downturn of the early nineties, while entrepreneurial icon Bill Gates founded Microsoft in the recession of 1975. Yes, I'm all for optimism but a balance needs to be struck between "Optimism" and "Realism".

[1] http://www.investortoday.co.uk/news_features/half-uk-sme-owners-consider-selling-or-closing

The simple fact is that the current numbers of a business are its reality. The business world regularly uses key performance indicators, or KPIs, to track the performance and project the future success of a business organization. The KPI has to measure a process. You want the KPI linked to a specific small business goal but it is not the goal itself.

No standard list of KPIs exists that the business world recognizes and adheres to as a way to track these. Instead, KPIs can vary from industry to industry and even from business to business within the same industry. The fact that so many businesses differ on what they consider the most important KPIs, makes it that much more difficult to define what they are.
In short, a KPI is a measure imposed on important financial and non-financial business information that provides an indication of either success or failure for the business.

The role of KPIs in the strategic planning process stems from the widely accepted belief that KPIs provide a measurable and objective standard by which business leaders can track progress and implement change. Businesses use KPIs in the strategic planning process to provide benchmark by which they can measure current performance. Business leaders rely upon these KPIs to help them make more objective and scientific planning decisions, thus reducing the chance of human error. A business tracks KPIs over time to determine what progress the business is making and what changes it needs to implement if positive change does not occur.

IMPORTANT CONSIDERATIONS FOR SMALL BUSINESSES

In setting KPIs for your small business, you will need to carefully choose the right ones. That which you water will grow, so make sure that you are focusing on the right numbers by asking yourself the following seven questions about your suite of small business KPIs.

1. DOES IT HAVE CLEAR LINK TO STRATEGY?

For your measure to be excellent, it must have a clear line of sight to your business direction – to your strategic goals or priorities. If you are measuring something and improving it won't make any real contribution to achieving your strategy or small business goals, do you really need to measure it? In an ideal world, you would design your measures at the same time you formulate your goals.

2. IS IT OWNED BY SOMEONE?

Unless your measure is officially owned by someone – not a department, not a team, but a person – it's highly unlikely that it is being used to make performance improve. It may not even be properly reported. Measures need an owner to make sure it is reported and used for the benefit of the business. In order for KPIs to drive business improvement, you will need the person that owns the KPI to have enough authority to respond to the measure.

3. CAN IT BE BROUGHT TO LIFE?

Vague ideas, surveys and acronyms are not measures. A measure needs to be spelled out in enough detail that you can know exactly how to calculate it, how often and from which data.

The devil with performance measurement is always in the details, but it is in these details that you test its viability as a KPI. formulate your goals.

4. ARE YOU ABLE TO TRACK IT REGULARLY OVER TIME?

Before and after measures (which is what annual measures usually end up being) don't give enough feedback to manage improvement efforts. Your measure must be tracked regularly enough (such as weekly or worst case scenario monthly) to give you clues about whether your improvement efforts are working, before it's too late. Especially when the business environment is more turbulent, it is not good enough to read about your company performance nine to twenty one months after it has happened in the company year end accounts. Financial information is needed more frequently or you need to find an indicator that you can measure more frequently.

IT WAS A CALCULATED RISK AND I FORGOT TO CARRY THE ONE

5. DOES IT GIVE YOU MORE VALUE THAN IT COSTS?

Measurement doesn't happen for free. But you need to be confident that the costs associated with its design, data collection and reporting are less than the benefits it brings to your business, which is usually through decision making and the resulting improvements you get for your bottom line or your stakeholder value. KPI reporting needn't be prohibitively expensive, especially if you strive to remove waste and duplication from data collection and reporting and consider use sampling instead of measuring it all.

6. DO USERS UNDERSTAND IT?

If your measure is a convoluted index of other measures, or its calculation is difficult to explain in everyday language, it can make using it too daunting a job to create, analyse or use. Instead, find the simplest measure that can convey the needed information.

7. DOES IT INSPIRE THE RIGHT BEHAVIOUR?

If your measure is not encouraging people to choose performance-improving behaviour over sweep-it-under-the-rug behaviour, it's a candidate for throwing out. The measures that are the most potent in improving business performance are those that make blindingly obvious the right actions to take to get better performance results. If you involve staff in designing the measures, the right measures are more likely to promote positive behaviours as they have more understanding and buy-in.

WHY IS THERE STRENGTH IN NUMBERS?

Without real time data regarding business performance, your small business is flying blind. You may get lucky initially but as time goes by, without properly interpreted real time data, your business will stray off course, just as surely as an airplane without its complex instrumentation would depart far from its flight plan and finish up a long way away from where it should be. Your small business, like an airplane, tends toward being off course. Getting off track is an inherent part of being human. However, your small business can make it to its destination in the same way as the airplane; by nearly incessant course corrections throughout the duration of the flight.

The right performance measures in your small business help you to consistently gather and interpret the data you need to make the numerous course corrections required for you to arrive at your destination. You need a review process that can focus on answering key business questions and provide a consistent interpretation of strategy.

Continuous Business Planning acts like a satellite navigation system for your business, keeping you on track by helping you respond to real time data. You'll know which of your products and services are succeeding, which aren't performing as planned and what is really behind the problems of a product or service.

To all the numerophobes amongst you, you must simply do as Susan Jeffers advised and "Feel the fear and do it anyway". You'll be glad you did as you experience a greater sense of control and hope for the future as you realise that you truly are able to respond to the challenges that your small business faces and touch down at your dream destination safe and in one piece.

Colin Smith

Lead Project Manager
Continuous Business Planning