

## Performance Measurement - Beyond the Financials

If you're serious about succeeding in business, chances are you're already doing something different or better than the business next door.

That's what having a competitive edge is all about - offering something different to encourage customers to come to you rather than your competitors.

But it's not enough just to have the edge; you've got to keep improving it. And to know how and where to make improvements, you have to be able to measure your business performance.



### Traditional data not enough

Traditional accounting-based performance information is extremely important to understanding the financial health of your business, but these days it's not enough. It ignores the key issue of linking operational performance to the business's strategic objectives. As well, it's often inadequate for the strategic decision making needed to expand a business.

Surviving in business today is more about measuring the value you add. It's about measuring how well you are performing against your business goals and objectives and, significantly, where you can improve.

With that in mind, what you should now be looking to measure in your organisation is:

- How well you are doing operationally such as in customer servicing, delivery and accuracy
- How well your customers think you're doing such as in satisfaction levels and retention rates
- How well your employees think you're doing such as in satisfaction levels, productivity and retention rates, and of course,
- How well you are doing financially such as in return (profitability) on net assets.

While keeping financial soundness as a principal factor, businesses today need to venture beyond costs and profits and look to a variety of measures in order to maintain their competitive edge and succeed.

*"If you don't have a standard to work from, how will you know if you are winning or losing?"*

From *500 Award-Winning Small Business Secrets*, **Geoff Grist**

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## Performance Measurement - Beyond the Financials Cont'd

### Key Performance Indicators

The trend these days is for small and medium-sized businesses to measure performance using Key Performance Indicators (KPIs). A KPI is a way of measuring a particular business process, a bit like evaluating how well the company is doing in that particular area. By recording and analysing KPIs company-wide the business owner can see at a glance which processes need attention.

KPIs provide the detail measures of your business that financial measures can never reach. And what good is an A+ profit and loss sheet when you're actually losing customers hand over fist through slack customer servicing. If, however, you were using KPIs to measure:

- What customer deadlines have been missed?
- What is the conversion rate from quotations to sales?
- For which department were customer complaints received?
- What is the direct cost of complaints?

Then you would already have seen why you were losing customers, how much it was costing you and exactly where you would need to start making some improvements.

If you rely solely on traditional financial data you cannot get an accurate picture of what is really happening in your business.

### A set of inter-connected business processes

In order to develop relevant, meaningful KPIs that will accurately measure your business, you need to catalogue what your company does as a set of inter-connected business processes. Once you've catalogued each process you need to develop a KPI for each one which can measure how well your business is doing in that particular area. Once in place make sure the information is collected regularly and provide feedback to all levels of the organisation.

Results from this type of measuring system are more meaningful to the day-to-day work of employees than financial data, especially when they are taking part in collecting the information. A set of financials doesn't have any relevance to their jobs but individual processes do - dealing with customer complaints immediately or servicing orders more quickly is something employees at the coalface can definitely aim for. These small improvements are more likely to make the biggest impact on your business.

This theory of performance measurement, often known as the 'Balanced Scorecard Approach', requires management to focus on factors that create long-term economic value and strategic benefits to the organisation. It focuses the organisation on carefully chosen, actionable measures - things that business line managers and their teams can influence directly.



### Next Steps - Develop Performance Measurement Systems

Your accountant can discuss this with you further and provide greater insight into developing a performance measurement system to suit your business.

- Clearly define your mission statement (normally part of the business plan).
- Identify strategic objectives and goals using your mission statement as a guide.
- Catalogue exactly what your company does as a set of inter-connected business processes.
- Develop a KPI for each process that measures how well the business is doing in that particular area. (It should be simple to understand, easy to respond to and credible in the eyes of its users. It should also facilitate learning and therefore continuous improvement.)
- Measure regularly and use the performance results to locate areas of opportunity and improvement.
- Provide feedback to all levels of the organisation.



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*Be sure to read each article with the mindset "How this could apply to our business?" Thinking of it that way will guarantee that you get value. Also make copies for each team member. To really make sure something positive happens, work with your business development specialists to talk your team through ideas.*

## Key Points of the Business Plan

Is your business plan up to scratch? Is it really doing its job as the blueprint to lead your business into the future? Let's look at some of the key points to be included.

### **The Mission**

Upfront you need to describe what your business does and the goals and objectives you wish to achieve in your business - let's face it, you've got to have a dream or a mission and this is the place to state it.

### **The market**

Researching your market and your competitors is important before you go into business. Information about market size and growth and whatever 'intelligence' you can find about competitors should all go into your business plan. This information can then help plan your marketing strategy - what segment of the market will you target?

A SWOT Analysis helps you work out the strengths and weaknesses of the business and what opportunities and threats you are facing. You should be looking to maximise your strengths and opportunities and develop strategies to overcome the weaknesses and threats.

Once you've looked at the market, the competitors and done the SWOT Analysis, you can put together your marketing plan - a key section of the business plan. The marketing plan considers the four Ps of marketing - having the right *product*, how you will *price* it, the *place* you will sell it and what forms of advertising and other promotional activities you will use to *promote* it.

### **The people**

No business can operate without an effective human resources plan. The long term vision for your business has to give thought to who is going to help you reach your goals and how you are going to help them do this. You need to plan the training and professional development you will offer, the way you will communicate, your style of leadership and how you will appraise performance and give feedback

### **The financials**

Now you can prepare a budget which will give you an idea of the trend and seasonal fluctuations of both sales and expenses and will indicate the viability of the business in both the short and medium term. From here you'll have to work out what capital expenditure will need to be undertaken to achieve the budget forecast.

It should now be possible to prepare the cash flow forecast on a detailed monthly basis, taking into consideration the current trading terms for such items as debtors, creditors and wage payments. You'll also need to consider 'seasonal' trends, especially relative to sales and stock purchases, as well as the arrangements negotiated with banks and financiers relative to loan repayments, owner's drawings and income tax payments.

### **The contingency**

A prudent section of any business plan should be a sensitivity analysis. This is a 'what if' study to test your ability to react quickly to incidents affecting your business. The planned action of this analysis is the contingency plan that can immediately be put into effect when called upon. It's much easier to have a plan in place rather than react irrationally to sudden events.

### **The action**

Finally, draw up an action plan - a detailed list of all the work to be completed as listed in the business plan. Assign each task to a person and write down the deadline for when the work should be completed. Review the plan periodically to discuss progress.

***These are just the key points to think about when drafting your business plan. There are plenty of books available to guide you through the process in more detail***

### **An important Message**

*While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.*



## Businesses Need Customer Referrals

Customers are what keep your business alive, but have you ever thought of them as an asset to grow your business?

Your customer base is one of the key assets you have. If these customers are happy, why not encourage them to tell others about you.

Various experts have claimed that around 90% of business for professional offices and 80% of business for retailers is from word of mouth referrals.

An amazing statistic, but it will only continue if you set up a system to handle referrals. You need to have a 'new customer' system to record details of the new customer and ensure the existing customer receives special treatment. This is important - you want them to continue referring people so why not give them an incentive.

When you get a referral, send the existing customer a letter thanking them for the referral and maybe a small gift, such as a voucher. Then give the 'red carpet' treatment to the person who has been referred. Don't let the person who has been referred go back to the referrer and complain about the lack of service. Not only will you lose the person who was referred to you but you also run the risk of losing the original referrer.

Remember that you may have to encourage existing customers to refer people. They may think that you have enough business already. Tell them you are looking for referrals and offer special incentives.

When mailing out brochures or other promotional material, always send two or three copies and ask customers to hand on the extra copies to friends and associates.



### Sample Customer KPIs

- What would be the impact if a major customer failed or left the business?
- What percentage of sales is being exported?
- What is the level of customer complaints?
- What delays are being caused by the Quality Assurance System?
- What are the results of customer surveys undertaken?
- What customer deadlines have been missed?
- What is the percentage of complaints to sales per department?
- What is the number of new customers per department?
- What is the average sale to new customers?

### Sample Employee KPIs

- What are the ages of employees?
- What percentage of employees will retire over the next three years?
- Number of employee resignations?
- What were the reasons for staff resignations?
- Were any exit interviews carried out?
- How many employee sick days were taken?
- How many employee accidents occurred?
- Number of employee training hours achieved?
- Staff meetings held - outcomes of these meetings?
- Number and cost of potential ACC claims?
- Sales achieved per employee?
- Gross profit earned per salesperson?

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