 Click to Print[SAVE THIS](#) | [EMAIL THIS](#) | [Close](#)

KPIs track business results, data, trends

Aug 1, 2009 12:00 PM, by Jayme Broudy MANAGEMENT CONSULTANT

If someone asks you how's your business doing, what do you tell them? If you've just seen last month's financials you might feel fairly confident in saying "OK," but you have a feeling that you're not 100% sure your business is really doing that well.

Suppose you'd invested a big chunk of money in a classic car that was your life's dream. All your life you were aiming toward getting this car, and you finally bought it.

Now, suppose you disconnected all the gauges, the warning lights and the speedometer. How comfortable would you be charging down the highway? What if you were losing oil pressure or the water pump was failing at 90 miles per hour? You wouldn't know until the engine seized up. How about if you were on the highway every day, but could only look under the hood and at the odometer once a month?

That sounds like a ridiculous way to take care of an expensive asset, but if your financial reports are your only gauge of how your business is performing, you're doing the same thing with your business and putting it at risk every day.

Monthly financial reports are critical to a successful business, but they're not day-to-day operating tools. Running a successful contracting business means keeping your finger on its pulse continuously. You can't watch every detail every minute, but you can keep an eye on a few critical factors — the equivalent of oil pressure, temperature, RPMs, and fuel level. If these key performance indicators (KPIs) are within an acceptable range, you do nothing. If the warning lights come on, you know about it immediately and can take corrective action before serious damage occurs.

Identify the indicators

You use rules of thumb every day on the jobsite and KPIs are just rules of thumb for the business. Check with your trade association for operational indicators and your accountant for financial ones. For example, operational indicators are revenue per employee, callback percent, on-time job completion, job status, service calls per truck and revenue per service call. Financial indicators are quick ratio, day's cash on hand and days receivables.

You also need to establish a standard and acceptable range for each indicator. For example, 25 service calls per truck per week, plus or minus five calls, and 75% receivables at 60 days or less are

acceptable standards and ranges.

Another thing you need to do is monitor. Assign an employee to generate the KPI reports every day or week. It may take some effort to get the data flowing, so be patient. Establish a format and post the reports where your people can see them. Make KPI results a primary focus of employee meetings. If an indicator is varying from standard, you can immediately focus on the cause and correct it then, instead of having the problem masked until month end.

You also need to watch lots of data and trends. It's more useful to see your KPIs on a graph with several periods of data, so you can see performance over time. Watching a variance in a single time period can fool you. If your booked sales are at the lower end of the acceptable range in one month, no big deal. If they're at the lower end for three months in a row, that is a big deal, but you won't see it unless all three months are displayed together.

You need to make sure your employees understand and buy into your standards. When you establish KPIs and their standards, you're defining what's important in your business, and your employees should be optimizing them as well. To do that, incorporate the indicators into your employees' job descriptions and their performance evaluations. If you define the indicators properly, what's good for your business will be good for your employees.


Establishing and monitoring KPIs cost almost nothing and have big advantages, such as no surprises, you know where you stand at all times; eliminating interpretation, when your operations are quantified, the data tells the true story; highlighting opportunities, variances from standards show where you can improve efficiencies and profitability; avoiding upcoming hazards, a small problem you see today can be prevented from becoming a major mess; offloading the need to watch everything yourself, the KPI system like the warning lights, watch things for you; and focusing on your employees, when everybody knows what's important, everybody can pull in the same direction.

Anything you treasure deserves ongoing vigilance and upkeep, and your business certainly qualifies. A solid KPI system tracks results every day of the month, and it's those results that drive your monthly financials. Done right, you'll have a pretty good idea of your monthly performance before the financials hit your desk.

Jayne Broudy is the founder and principal of Contractor's Business School, a coaching, training and consulting firm, helping contractors produce more profit in less time. Since 1993, Jayne has worked with hundreds of contractors in many specialty areas to build successful stand-alone businesses. Visit www.contractorsbusinessschool.com or call 800.527.7545 to get the FREE CD "10 Key Strategies to Build a Business that Works."

Find this article at:

<http://www.contractormag.com/columns/broudy/kpis-track-business-0809/index.html>

 [Click to Print](#)

[SAVE THIS](#) | [EMAIL THIS](#) | [Close](#)

Check the box to include the list of links referenced in the article.