

## Key Performance Indicators: Your Early Warning System



By Jayme Broudy, Contractor's Business School

**Dear Jayme:**

When somebody asks me "How's your business doing?" I don't always know the answer. If I've just seen last month's financials I feel fairly confident in saying "Okay", but there's a nagging feeling that I don't really know.

-Robert

**Dear Robert:**

Suppose you'd invested a big chunk of money in a classic car that was your life's dream. Big money: like TV car auction money. All your life you wanted this car and you finally bought it and can go driving with the top down and the engine roaring.

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 an 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 once a month?

Monthly financial reports are critical, 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 a few critical factors. 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. Examples:

- **Operational:** Revenue per employee, Callback %, On-time job completion/job status, Service calls per truck, Revenue per service call.
- **Financial:** Quick ratio, Days cash on hand, Days receivables.

**Establish a standard and acceptable range for each indicator:** e.g.: 25 service calls per truck per week, plus or minus 5 calls. 75% receivables at 60 days or less.

**Monitor:** Assign an employee to generate the KPI reports every day or week. 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.

**Watch lots of data & trends:** Watch your KPIs on a graph so you can see performance over time. 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 3 months in a row, that IS a big deal, but you won't see it unless all three months are displayed together.

**Enroll the troops:** Key Performance Indicators and their standards define what's important in your business, and your employees should be working to optimize them. Incorporate the indicators into your employees' job descriptions and performance evaluations. If you define the indicators properly, what's good for your business will be good for your employees.

Anything you treasure deserves ongoing vigilance and upkeep and your business certainly qualifies. A solid Key Performance Indicator 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.

**Cheers!**  
**Jayne**

*Jayne Broudy is the founder and principal of Contractor's Business School®, a coaching, training and consulting firm specializing in 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/assessment](http://www.contractorsbusinessschool.com/assessment) or call (800) 527-7545 for a Free Business Analysis and learn how your business is faring.*

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