Are You Looking at the Right Key Performance Indicators (KPI's)?

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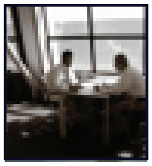

How do you tell how well your business is performing? If your answer is 'by monitoring how much money you have in the bank' or your 'monthly financial statements completed three weeks after month end' – then these are simply not good enough. What are the Key Performance Indicators (KPIs) of your business that you can measure on a daily/weekly basis to tell you how your business is really doing?

If you know what defines success for your company and you monitor and manage it to that level, then your business can react quickly and effectively to internal issues and market changes. KPI's will vary from industry to industry and even business to business, but to keep them simple I will give you examples for a 'professional services' business. This may help you identify and utilize the right KPI's for your company. In our example, let's define the following KPI's for a CPA firm:

1) Staff wage rate multiplier
2) Percentage billable
3) Realized fee percentage
4) Days billings outstanding
5) Client retention rate
6) Marketing cost per new client

In our simplified assumption we will take the position that all revenue is from billable time. Let me explain why each of these factors is important, and if well managed, the business will be well run and profitable. The staff wage rate multiplier is the number of times the base hourly rate paid to the staff member is billed to the client. The lower the number, the less margin there is in the work being performed. Too high however and it will lead to a loss of clients. So a CPA firm wants to keep this number within a reasonable range and monitor it across the firm. Percentage billable is of course an important piece of information. If it is too low, then the costs relative to revenue will be too high. If it is too high, it may be an indication that the staff is working too hard and may burn out. Realized fee percentage in theory should be near 100% in so much as all the billable hours are paid by the client. In some cases however too much work is done at a fixed fee and the estimates are not done carefully enough and it is necessary to write down too much of the billable fees. Days billing outstanding tells you how well you are doing at collecting your receivables. If your terms are net 30, but your days billing outstanding are 55, then they are either billing slowly or receivables are not well managed. Client retention rate measures how many clients leave and what percentage of the clients needs to be replaced each year. This is largely a measure of client satisfaction and since it can be expensive to bring on new clients, an important measure of performance. And finally, marketing costs per new client. In the best case this is very low, with clients coming to you from word of mouth/referral, in any case however a combination of lower client retention rates and high marketing costs per new client mean something needs correcting. There is no replacement for looking at monthly financial statements, but if a CPA manages these KPIs carefully I can assure you they will have a high level of financial performance.

If you would like us to help you both identify and then implement reporting of KPIs in your businesses please give us a call at 3033-459-4870.