
Topic 2 - Key Performance Indicators (KPI's) or rather a lack of focus on them.

Surprised? So were we. We have encountered this issue time and time again when undertaking consulting work in businesses. In fact we also held a conference with a national group of accountants who rated this topic as one of the common issues that they see when reviewing their clients businesses.

The vast majority of businesses simply do not have any discernable KPI's or the ones that do have them, have chosen to focus on ineffective ones.

So what is a KPI?

KPI's are the **tools used to measure the “key drivers”** of a business. That is, the most important aspects of your operations.

The main theme we are discussing here relates to the basic understanding of what drives your business. What is **important** to know and what is **nice** to know.

If you monitor the 3 or 4 most important area's of your business closely, ensuring that they are trending in a positive direction, you will be on track to success. The rest does not really matter, but is good to know for information purposes.

Before you can monitor your KPI's you need to understand what is truly important to your business. Some Directors worry about issues that are not important but are obviously a pet hate and spend far too much time and energy in thinking, worrying and addressing them.

Some examples of issues that are not going to make a difference to your business but that commonly attract a disproportionate amount of time and energy are- Tea and Coffee expenditure- For some reason in places where the owner provides tea and coffee facilities there is always conjecture over how much is too much and how much “we have given you guys” which gets constant air time at meetings and general office chit chat.

Punctuality- Unless a team member is constantly late by a substantial margin this should not be a major issue. It does however cause anger and grief from business owners because they believe they have had time stolen from them. Whilst it is an issue, and it does need to be addressed to ensure there is no team disharmony caused, it is not an issue that is going to make a demonstrable difference to your overall business performance

Management “over viewing” production work practices- the director has a belief that he knows everything about everything and constantly interferes with production schedules, work orders and the methodology adopted. If he has appointed a production manager he must let him do his job. This serves to undermine the entire business model.

In all 3 of the above issues, it is important to realise that YOUR time must be utilised on making the decisions that matter and more importantly, having the means and tools to monitor the trends.

Each of the KPI's for the top 3-4 drivers of your business need to be measurable and simple to understand. You will want all of your team to be striving towards the same goals so everyone must know and understand what is being measured.

Simple graphs highlighting how the team are progressing towards-

- Sales targets
- Average production time per unit sold
- Total orders fulfilled etc

Will ensure you have them focussed on the job at hand. It must also be a part of your weekly meetings to discuss and address the issues relating to the achievement of these drivers.

There will be KPI's you share with your staff as above and there may be ones you will utilise purely for you and your management team to assist with your financial management. These may include-

- Average margins obtained each week/month
- Employee costs (payroll/superannuation/work cover etc)
- Debtors/creditors or working capital positions

So in summary, as we are running out of space, we would like to leave you with one final statement

Measure and monitor what is important to your business. Use your time to work on the business not in it.