



Key Performance Indicators

How will you know if you are successful?



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Business Plan

- Mission and Vision Statement
- Product or Service Description
- Market Analysis
- Management Description
- Marketing Plan
- Opportunities and Challenges
- Cash Flow Statement and Revenue Projections

Other Essentials

- Location Selection
- Business Operations
- Business Registration
- Business Finance
- Business Lending
- Business Funding (Grants)
- Human Resources
- Marketing & Sales
- Taxes

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Sybil has spent many years in business management and consulting. She has been an employee and a business owner. Sybil started as a business advisor for the IL SBDC at ECC in 2008 and became the Director in 2011.



KPI – Key Performance Indicators

- Defined - A **key performance indicator (KPI)** is a business metric used to evaluate factors that are crucial to the success of an organization.



What are KPI?

- Quantifiable/measurable and actionable
- Measure factors that are critical to the success of the organization
- Tied to business goals and targets
- Limited to 5-8 key metrics
- Applied consistently throughout the company

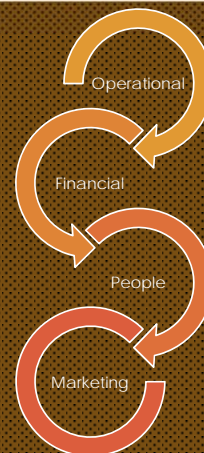


What they are not:

- Metrics that are vague or unclear
- Nice-to-know's or non-actionable
- Reports – like top 10 of an item
- Exhaustive set of metrics
- Refutable

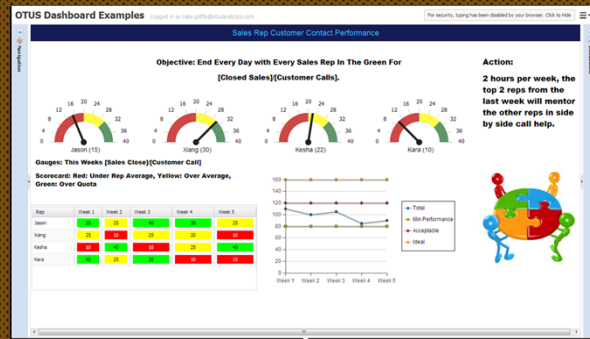
Types of KPI's

- Operational & Productivity
- Financial
- People
- Marketing



What could they include:

- Weekly Revenue
- Sales Calls
- Proposals
- Closed Business
- Customer Satisfaction
- Accounts Receivable
- Utilization/Capacity
- Errors



Examples:

Operational

- Billability for service org - billable hours/standard hours per week or month (excludes overtime)
- Average transaction price - total sales per week or month/# transactions
- Average inventory - \$ in inventory /\$ Sales per month or quarter

Let's say you currently ship your product (bolts) in 25 pound boxes, and your typical customer buys at least 50 pounds. If you ship 20 boxes in a month and the cost is \$468.60, the average cost per box is \$24.33. If you instead pack each box with 50 pounds of bolts, and send 10 50-pound boxes instead at a cost of \$407.20, your average cost per box goes up (\$40.72 per box), but the overall shipping cost goes down by \$61.40.

Examples:

Financial

- Measure the rate at which your company pays off suppliers (Accounts Payable turns in days)
- Measure the rate at which you collect on outstanding accounts (Account Receivables turns in days)
- Measure how effectively you generate profit on each dollar of revenue (Net Margin)

Examples:

People

- Average item cost – sales staff payroll per day/number of items sold per day
- Quality Check – Number of defects per individual (in a given timeframe) vs. average allowable number of defects for all performing the same job in the same time frame





Examples:

Marketing

- Leads to close ratio
- Cost of Customer Acquisition (consider both expense and time)
- Website or Social traffic to Lead Ratio
- Life Time Value of a customer – revenue x gross margin x Avg # of repeat purchases
 - One time purchase vs. repeat business

<https://vtdesign.com/inbound-marketing/16-marketing-kpis-to-measure/>



Why are KPI's important?

- Identify Trends
 - Example: Average cupcakes sold – measuring daily and weekly helps predict salesforce needs
- Improve Decision Making
 - Example: Billability by week – indicates too many or too few staff
- Alert when Something is Wrong
 - Example: Inventory should be 15% of sales – early warning notice before unable to fulfill orders

Steps to Create KPI's



1. Tie Into Overall Goals

- What are the key goals?
- Pick one goal
- Establish what you want to do

Increase profits by 10%

Profit = Revenue - Expense

2. Know Your Key Business Drivers

- Utilization
- Defects
- Cost of goods sold
- Competitor prices
- Your prices
- Sales force costs



3. Ensure Meaningful KPI's

- Controllable
 - Utilization
 - Defects
 - Cost of goods sold
 - Your Prices
 - Sales force costs
- Non-controllable
 - Competitor prices





4. Ensure KPI's Are Measurable

- Utilization
 - Example: As a rental company, track days an asset (car) is available vs. actual days rented
- Defects
 - Example: Number of repairs needed (appropriate for software development or manufacturing). Could also track delay and/or repair time to determine impact.



5. Set Measurement Dates

- What makes the most sense:
 - Hourly
 - Daily
 - Weekly
 - Monthly
 - Quarterly
 - Semi-Annually
 - Annually

Depends on the sensitivity to make changes.

6. Establish Proper Tracking Tools

- Right systems and processes
- Timely
- Accurate
- Trended
- User Friendly



Evaluation

- How will you use the data you receive from the KPI's that you measure?
 - Time of year
 - Sales cycle
 - Economy
 - Actions you can take





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Questions



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