



be your best...

Online Report

For Managers, Principals, Team Leaders and Internal Consultants
 Author: Henry Blatman

Issue No 9: Back to Basics

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Back to Basics

In many of my recent online reports I have focussed primarily on soft skills. Perhaps it is my early training as a Chartered Accountant which leads me to always come back to the numbers. While I am interested in Sales, Gross Profit and Net Profit, I like to dig down and see if a business is aware of its Key Performance Indicators (KPIs). I also inquire as to whether they benchmark those indicators. I have found working with KPIs to be an important way of improving business performance.

While Key Performance Indicators can be applied to the role of people in your team, the focus of this *be your best report* is on the KPIs of an organisation or a group within an organisation.

Key Performance Indicators, unlike conventional financial statements, allow you to focus on the key drivers of a business. They are what is behind the figures you see on a conventional financial statement and help make sense of 'what is really going on' in the business.

I was introduced to the power of KPIs by Dr Keith Cleland about 17 years ago. Keith is a pioneer in simplifying the process of tracking and improving business performance. (See www.fbm.com.au). What I learned from Keith is that every business, no matter what type, has a measure of activity and a rate for each unit of activity. If the business focuses on these KPIs for a period of time it is possible to improve performance - sometimes dramatically. For example, an accounting practice has hours as the activity and average rate per hour. A retailer has number of sales and average gross profit per sale. Indeed some businesses have different KPIs for different parts of the business.

When working on monitoring business performance, I will often work in collaboration with the accountants to the business to look at two key performance indicators - the activity and rate. Other indicators will be identified as the work progresses. Let me illustrate with a case study.

Case Study

When I recently started working with a large home wares retailer I discovered that there were communications issues between the business partners. It did not take long to find out that as a result motivation was at an all time low and, surprise, surprise, the business was not trading profitably.

Some urgent surgery was needed.

The first step was to get the team talking. After the first two-hour meeting, the partners were talking more openly and feeling more positive. We set budgets and agreed on action. In particular, we set weekly gross profit targets per sale (rate) and a target number of sales per day and per hour (activity). The partners agreed to communicate these targets to all staff. We agreed to meet six times at 2-3 weekly intervals and then review.

During these meetings, some simple, yet highly effective actions were taken including:

- Examining a sample of sales and finding that they had been targeting a mark up percentage instead of a gross profit margin. To remedy this, the front-end computer system was adjusted and overnight they had about 2 percentage points more to play with when negotiating a deal with a customer.
- Targeting a lower proportion of sales that were being discounted. We found that 9 out of every 10 sales were being discounted (another KPI).
- Documenting Job Descriptions including personal KPIs and discussing with each staff member
- Changing the reward system for shop floor staff from sales to gross profit to be in line with the KPIs
- Setting a higher conversion target for extended warranties from about 2% of Sales to 10% of sales (another KPI).
- Setting up a system to monitor store traffic and conversion (another KPI).

Results

By the fourth meeting, gross profit was up by 4 percentage points, partners and staff were much more motivated and they had nearly finished rejuvenating the store to herald its successful rebirth.

What has happened here:

1. Change Process

A plan and process for change has been put in motion. One off meetings are not good enough. Change is all about subtle and consistent checking and correcting - particularly in the early stages of a change process.

Also, we are not just talking about changing a few prices here and there; a change process often involves individuals at all levels of the business behaving and seeing themselves differently to how they have before.

One partner in this business admitted that he often discounted prices early on in the piece because he wanted his customers to like him and feel good about him. He saw this as the only way to get a sale.

We needed to work with him to give him the professional confidence in his and his team's ability to charge customers a price in line with the value of the service they (the customer) receive. In business, we often ignore the vital role that our team members' motivation and sense of their own value plays in pricing, profitability and business performance. By the fourth meeting this same partner was saying he saw himself as a 'business man' and had

the confidence to go in, talk to the customer and demonstrate his value and knowledge before offering any discount (if at all).

2. Time Out

By taking time out to work on the business (rather than only focusing on working 'in' the business) the partners could be strategic and find ways for improving the business. Although I was there as a consultant, the vast majority of the ideas were theirs - they just had never had the time or space to share or explore their ideas together with their colleagues in the past (let alone move them from thoughts to actions!).

Special Note for Accountants in Practice

An accountant in practice referred the work with the homewares retailer to me. This is work he could have been doing himself but didn't feel he had the time (or maybe the skills). This is work that many of your clients would love you to be able to do for them. There are ways to reorganise how and what type of work your practice does if you are prepared to invest the time and energy into strategic thinking and planning a restructuring of your practice. This is not the only way to go - It's a choice. However, there is plenty of work like this waiting to be done and if you don't do it there are others who will and already are doing it.

Exercise

Try to identify at least two KPIs for your business. Start with activity and rate. Talk to others and set some targets and see what happens. If you get stuck, send me an email and I will give you some assistance. If you want to check your answers send me an email and I will give you some feedback.

Henry Blatman
Leadership and Performance Coach
Ph: 61 3 9699 7771