

How to Develop Your KPIs

Key Performance Indicators

A Key Performance Indicator System is one of the most important strategies you can implement in your business if you desire to experience freedom from the operational responsibilities of your company. A Key Performance Indicator System measures and reports the key activities in your business so that everyone knows how their efforts are either making or breaking the business. Without this, it's impossible for your team to know how the business is running, how they're doing, and what they need to change.

Here's how it works. Imagine that you have to spend the next few months alone on an island with your cell phone. You're allowed to make just one 60-minute call per week to just a few people in your company to direct and coach their activity. What numbers (usually 5 to 10) would you like sent to your cell phone at the end of each day to give you a very clear idea of how the day went, how the team performed, and how the business is running? What numbers will give you the basis for coaching your team to run the business effectively in your absence?

Here's a partial list of common KPIs used by most business owners, as organized by business function:

1. Marketing
 - a. Leads generated
 - b. Cost per lead

2. Sales
 - a. Inbound calls
 - b. Appointments set
 - c. Appointments conducted
 - d. New sales closed
 - e. Average sale value
 - f. Conversion rate
 - g. Revenue generated
 - h. Revenue growth rate

3. Operations
 - a. Units produced per hour
 - b. Gross profit per unit sold

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- c. Product returns
 - d. Inventory turns
 - e. Average transaction value
 - f. Billable hours per employee
 - g. Average hourly rate
 - h. Customer satisfaction
 - i. Customer retention
 - j. Revenue per customer
4. Finance
- a. Current Ratio
 - b. Quick ratio
 - c. Inventory Days
 - d. Accounts Receivable Days
 - e. Accounts Payable Days
 - f. Gross Profit Margin
 - g. Net Profit Margin
 - h. Advertising to Sales
 - i. Rent to Sales
 - j. Payroll to Sales
 - k. Interest Coverage Ratio
 - l. Debt-to-Equity Ratio
 - m. Debt Leverage Ratio
 - n. Return on Equity
 - o. Return on Assets
 - p. Fixed Asset Turnover

Questions to consider as you're crafting your KPI system:

1. How often you want to review your KPIs? (Daily, weekly)
2. What key positions and responsibilities do you want to measure? (Review your organizational chart and position descriptions)
3. What KPIs are important to you? (Numbers, ratios, percentages)
4. How do you want the information delivered? (Fax, email, text message)
5. How often will you communicate the KPIs to your team? (Email, bulletin board)

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6. What indicates good performance in this position? What is the goal? How do you measure good performance?

For a more extensive list of KPIs, check out these resources:

<https://www.scoro.com/blog/key-performance-indicators-examples/>

<https://www.qlik.com/us/kpi/kpi-examples>

<https://getlucidity.com/strategy-resources/complete-list-of-product-kpis/>

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