BUSINESS GUIDE

Make or Break Metrics

20 KPIs Every Growing Business Should Track



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Make or Break Metrics

20 KPIs Every Growing Business Should Track

Key performance indicators (KPIs) are quantifiable business metrics that track and measure an organisation's progress toward its strategic objectives. More than just numbers, KPIs tell a story about how well a company is performing. Understanding KPIs as they relate to your industry, company and even separate departments within a company is essential for any growing business.

Business leaders increasingly realise they can leverage this information to make better decisions.

The immense amount of information available to decision-makers today can also be overwhelming, so we reduced it down to 20 widely used KPIs relevant to most businesses. This business guide explains why KPIs matter, the characteristics of a good KPI and provides a list of popular financial and operational KPIs.



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CHAPTER 1

What Is a KPI?

A KPI measures a company's performance against its primary business objectives. High-level KPIs focus on a company's overall performance, while lower-level KPIs focus on departmental processes, products and productivity. A company doesn't need to monitor too many KPIs—no more than 10 as a general rule. After all, measuring everything clouds the picture of what matters most to the organisation.

There are many different types of KPIs. Many focus on financial performance metrics, such as revenue growth rate and net profit margin. Others focus on customers, such as customer satisfaction or customer churn. Some KPIs measure operations, such as time to market and average order fulfilment times, while others concentrate on employee or talent management metrics, such as workforce retention and turnover.

KPIs fall into two categories: leading and lagging. Leading indicators predict what may happen in the future and offer businesses the opportunity to prepare accordingly. For example, an increase in deal size or employee headcount may result in revenue growth. Lagging indicators reflect past results, measuring the aftermath of actions. Monthly recurring revenue and employee turnover are two examples of this type of KPI. Lagging indicators can uncover trends, help companies evaluate their progress and influence future decisions.



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CHAPTER 2

10 Popular Financial KPIs

While organisations need a firm grasp of what will make them successful and which industry-specific KPIs matter to them, there are metrics relevant to most businesses. Here are 10 popular financial KPIs used by growing businesses.

1. Gross Profit Margin

Gross profit margin measures the amount of money left over from product sales after subtracting cost of goods sold (COGS). A higher gross profit margin indicates the company is efficiently converting its product or service into profits. The cost of goods sold is the total amount to produce a product or service, including materials and labour. Net sales are revenue minus returns, discounts and sales allowances.

Gross profit margin = Net sales – Cost of goods or services sold / Net sales x 100

2. Operating Profit Margin

Operating profit margin shows the percentage of profit a company makes from operations before subtracting taxes and interest. Increasing operating margins can indicate better management and cost controls within a company. Gross profit minus operating expenses is also known as earnings before interest and taxes (EBIT).

Operating profit margin = Gross profit – Operating expenses / Revenue x 100

3. Operating Cash Flow

Operating cash flow (OCF) is the amount of cash a company generates through typical operations. This metric can give a business a sense of how much cash it can spend in the immediate future and whether it should reduce spending. OCF can also reveal issues like customers taking too long to pay their bills or not paying them at all.

Operating cash flow = Net income + Non-cash expenses – Increase in working capital

4. Working Capital Ratio

Working capital ratio measures the liquidity of a business to determine if it can meet its financial obligations. A working capital ratio of 1 or higher means the business's assets exceed the value of its liabilities. Companies often target a ratio of 1.5-2, and anything below 1 signals future financial problems. The working capital ratio is also known as the current ratio.

Working capital ratio = Current assets / Current liabilities

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5. Quick Ratio

Quick ratio, also called the acid test ratio, measures whether a business can fulfil its short-term financial obligations by evaluating whether it has enough assets to pay off its current liabilities. Quick ratio is written as a number, with a ratio of 1.0 meaning a company has just enough assets to cover its liabilities. Anything below 1 could mean the company's business model is not viable.

Quick ratio = (Cash + Marketable securities + Accounts receivable) / Current liabilities

6. Return on Assets (ROA)

Return on assets measures the profitability of a business compared to its total assets. This return on investment (ROI) metric shows how effectively a company is using its assets to generate earnings. A higher ROA means a business is operating more efficiently. To calculate average total assets, add up all assets at the end of the current year plus all the assets from the prior year and divide that by two.

ROA = Net income / Average total assets

7. Days Payable Outstanding (DPO)

The average number of days it takes a company to make payments to creditors and suppliers is days payable outstanding. This ratio helps the business see how well it's managing cash flow, and whether it's taking advantage of discounts for early or on-time payments from vendors. To calculate DPO, start with the average accounts payable for a given time (could be a month, quarter or year).

Average accounts payable = Accounts payable balance at beginning of period – Ending accounts payable balance / 2

DPO = Average accounts payable / Cost of goods sold x Number of days in accounting period

8. Days Sales Outstanding (DSO)

This metric shows how long it takes, on average, for customers to pay a company for goods and services. A higher day sales outstanding indicates a company takes longer to get paid, which can lead to cash flow problems. Generally speaking, the lower your DSO, the better.

Days sales outstanding = Accounts receivable for a given period / Total credit sales x Number of days in period

9. Cash Runway/Burn Rate

Cash runway shows how long a company has before it runs out of cash based on the money it currently has available and how much it spends per month. This metric helps businesses understand when they need to cut back spending or get additional funding. If your cash runway shortens over time, it's a sign your company is spending more money than it can afford to.

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Cash runway is closely tied to burn rate, which measures how much money a company spends over a certain period (usually monthly). Burn rate is frequently used by investor-backed startups that lose money in their early days.

Monthly burn rate = Monthly expenses – Monthly revenue

Cash runway = Cash balance / Monthly burn rate

10. Budget vs. Actual

Just as it sounds, budget vs. actual compares a company's actual spend or sales in a certain area against the budgeted amounts. Although budgets and expenses are related, budget vs. actual can be used to compare both revenue and expenses. This "budget variance analysis" helps small business leaders identify areas of the business where they're overspending that may need further attention. It also reveals areas of the business that outperformed expectations.

Budget variance percentage = Actual / Forecast – 1 x 100



CHAPTER 3

10 Common Operational KPIs

Operational KPIs show how well your business is running. Improved internal business processes and metrics lead to more satisfied customers, which is imperative for growing businesses.

1. Cost Per Unit

Cost per unit is how much a single unit of product costs a company to produce or buy. It is best used in companies that manufacture or sell large amounts of the same product. Knowing the cost per unit helps companies understand if they are making products in a cost-effective manner, how to price products and when they'll turn a profit.

Cost per unit = (Fixed costs + Variable costs) / Number of units produced

2. Lead Time

Lead time measures the amount of time that passes between the beginning and end of any supply chain process. This could be the time between a business ordering a product from a supplier and receiving it, between a customer placing an order and receiving it or between the start and end of a production process. This KPI measures the efficiency of the entire supply chain or certain steps within it. Lead time is important because it impacts the amount of inventory a company needs to have on hand to fulfil orders. In that way, it indirectly impacts customer satisfaction.

While the formula below is for total lead time, it can easily be adjusted to measure customer lead time, supplier lead time or production lead time.

Cumulative lead time = Order process time + Production lead time + Delivery lead time

3. Cash-to-Cash Cycle Time

This metric tells you the length of time between when you pay suppliers for materials and when your customers pay for the final finished product. You want the cycle time to be as short as possible. Tracking this metric will help identify potential causes of cash flow issues. Although this metric varies depending on what you sell and your customer base, some of the most efficient companies have cash-to-cash cycle times of less than one month.

Cash-to-cash cycle time = Receivable days + Inventory days – Payable days

4. Inventory Turnover Rate

Also known as inventory turnover ratio or inventory turn, inventory turnover rate is the number of times a company sells and replaces its stock in a certain time frame, usually one year.

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Businesses can use the inventory rate to determine if they're carrying too much inventory compared to how much of its stock is selling. Inventory turnover rate measures how well a company makes sales from its inventory.

Inventory turnover rate = Cost of goods sold / Average inventory

5. Sell-Through Rate

Sell-through rate is a comparison of the inventory amount sold and the amount of inventory received from a manufacturer. Sell-through rate is important because it helps you understand how efficiently you're selling through inventory. A high sell-through rate is positive because it means you're moving product quickly. A low sell-through rate, on the other hand, is undesirable because it means you're paying to stock excess inventory.

Sell-through rate = Number of units sold / Number of units received x 100

6. Gross Margin Return on Investment (GMROI)

The gross margin return on investment measures how much money a company makes on a specific inventory investment. Tracking this metric gives your company insight into which inventory items are especially poor or strong performers. In general, a GMROI of 200 to 225 is considered solid.

Gross margin return on investment = Gross profit / Average inventory cost x 100

7. Lost Sales Ratio

A lost sales ratio is the number of days a specific product is out of stock compared to the expected rate of sales for that product. Companies can then use this number to calculate the money lost when a company runs too lean or experiences an unexpected surge in demand, leading to stockouts. Measured as a percentage, companies should be aiming for the lowest lost sales ratio possible.

Lost sales ratio = (Number of days product is out of stock / 365) x 100



8. On-time Delivery Rate

On-time delivery rate measures the percentage of orders that arrive on time to customers (either on or before the scheduled delivery date). On-time delivery rate analyses supply chain efficiency. A low rate of on-time delivery could be a sign of slow processes in your supply chain, shipping bottlenecks or slow delivery methods. Regardless, it will hurt customer satisfaction and could keep the customer from buying from you again.

On-time delivery rate = (Total orders – Late orders) / Total orders x 100

9. On-time Shipping Rate

The on-time shipping rate shows how often orders go out to customers within the promised shipping window. Tracking this metric is important in assessing the efficiency of your order fulfilment and shipping processes. It can also help you pinpoint the proper on-time delivery benchmarks for various products.

On-time shipping rate = Number of items shipped on time in a period / Total items shipped in period x 100

10. Perfect Order Rate

Perfect order rate is a measurement of how many orders a company ships without any issues, such as damage, inaccuracies or delays. While every company aspires to a perfect order rate close to 100%, what's realistic for your organisation will vary. This metric is strongly linked to customer satisfaction and operational efficiency.

Perfect order rate = [(Number of orders delivered on time / Total number of orders) x (Number of orders complete / Total number of orders) x (Number of orders damage free / Total number of orders) x (Number of orders with accurate documentation / Total number of orders)] x 100



CHAPTER 4

How to Choose the Right KPIs for Your Business

Before a business can select any of these KPIs, it must first establish its overall goals. Only then can it know what aspects of the business and functions on which to focus. From there, choosing the right KPIs helps an organisation gauge whether it's on track to achieve its business goals.

But what does a good KPI look like? What characteristics should you look for? Consider the following criteria:

- Goal alignment. A strong KPI reflects a business's strategic goals. Goals will vary by the type of company, such as business-to-business (B2B) or business-to-consumer (B2C), and business model. A software company, for instance, will have different measures of success than an industrial manufacturer. If the goal is to increase ecommerce revenue by 30%, a company might choose metrics that measure average order value, conversion rate and cart abandonment.

  KPIs can also align to the goals of different departments, teams and individuals. If the purchasing department wants to improve inventory management, the most effective KPIs might include inventory turnover rate and perfect order rate.

- Growth-stage alignment. A good KPI also matches where a business is in its life cycle. The metrics for a growing business, for instance, might centre on customer feedback and business model validation. KPIs for more established companies could be monthly recurring revenue, customer retention and customer acquisition cost.

The Difference Between Metrics and KPIs

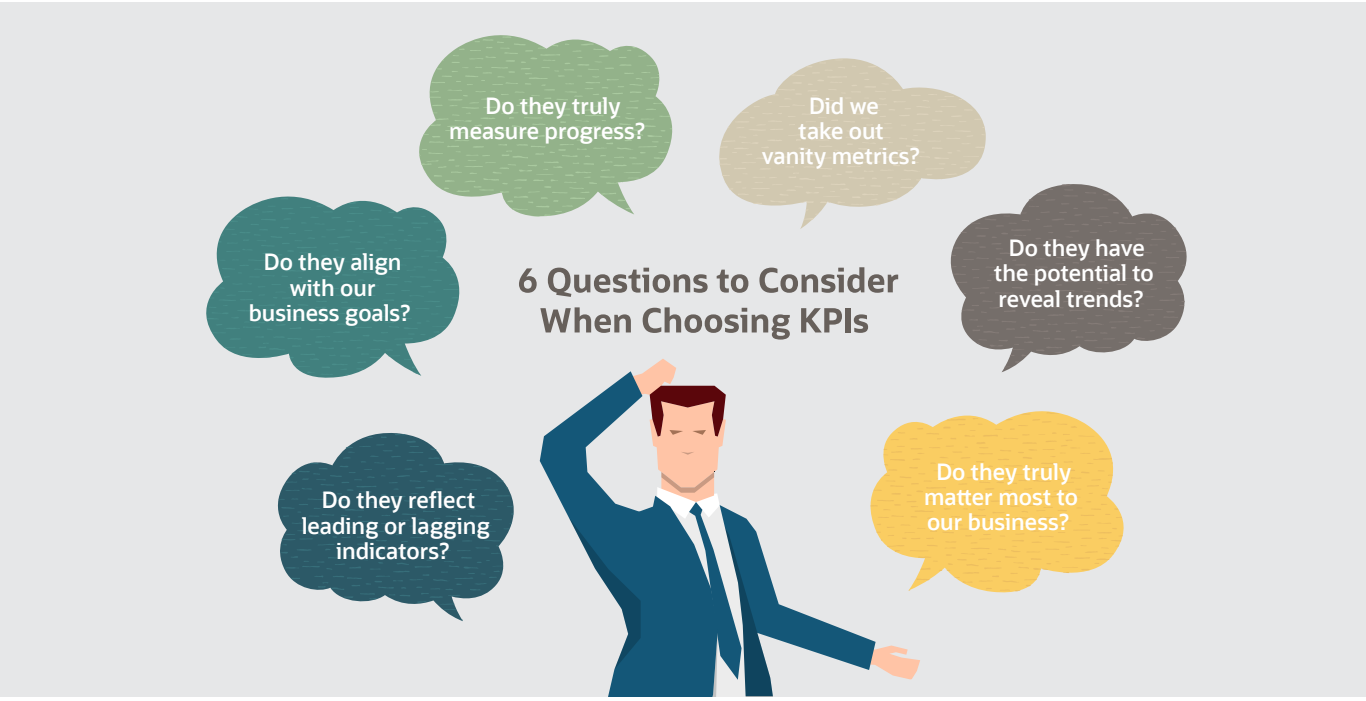
While the terms metrics and KPIs are often used in the same instance, each has a distinct meaning. Metrics are any quantifiable data a company monitors to track performance and improvements across the business. Once an organisation starts tracking an important metric, it has a baseline against which it can compare future numbers to see how the performance of various processes or teams has changed over time. As a business grows, it often starts tracking more metrics, including ones specific to certain initiatives or departments.

Key performance indicators are metrics that are particularly important to your business because they measure progress against critical company objectives. A distinguishing feature of KPIs is they usually have predetermined goals, which is not true of all metrics—a company might monitor certain metrics for years without specific targets in mind. At least a few KPIs are usually financial metrics, like revenue growth, profit margin, cash flow and customer acquisition cost.

- Quantifiable and measurable. Good KPIs are easy to measure and based on clear, trackable goals. They can be expressed as ratios, percentages or rates, so teams can see at a glance where they stand and where they need to go. For example, "lower customer acquisition cost by 15%" is a measurable goal, but "lower customer acquisition cost" is far less so. KPIs for this goal might include conversion rate and lead generation cost by channel.
- Substance. Does the KPI concentrate on what truly matters to move the business forward? Or does it focus on surface-level vanity metrics that appear to cast a product or the business in a successful light, such as number of downloads for a free app or social media followers? In most cases, the majority of these users will not become paying customers, so the value is limited. The right KPIs offer value, point to a trend or inform next steps.
- Attainability. A good KPI measures achievable goals rather than unrealistic targets. Attainable also means the data needed to calculate the KPI is available, accessible, trusted and presentable to stakeholders.
- Actionable. An actionable KPI indicates measurable tasks that lead a business toward its goals. Without a goal, the KPI is just a metric, not an indicator. KPIs can inform decisions, such as whether to adjust a sales plan based on how well a product is performing in the market. They also reveal trends that impact future strategies.

The Difference Between Metrics and KPIs

In short, KPIs reveal if a business is achieving its primary objectives or targets. Metrics simply track the status of different processes that are of varying importance to the company.



CHAPTER 5

How Can Financial Software Help With Setting and Tracking Financial Metrics and KPIs?

Tracking even basic metrics like revenue, expenses and income can become cumbersome with spreadsheets or other manual methods. It's difficult to keep all this information up to date, especially as a company grows and its transaction volume increases. That leads to inaccurate information and, consequently, a number of other problems that could inflict lasting damage.

Manually calculating more complex metrics, such as some of the financial and operational KPIs discussed above, is even more challenging and prone to error.

Leading business management platforms like NetSuite have all the data needed to calculate any and all KPIs your business might want to track, displaying all this information in dashboards that update in real time.

Why Do KPIs Matter for Your Business?

KPIs help companies achieve their short- and long-term business goals and make adjustments to stay on track. They are particularly meaningful when analysed in the context of and alongside other KPIs, often in a dashboard that provides a comprehensive view of how different aspects of a company are faring.

KPIs provide a variety of insights, and businesses rely on them to:

- Monitor company health. KPIs can be grouped in a variety of ways—organisational or operational, leading or lagging, and by customer, financials, growth or process. Taken together, they indicate how well an organisation is performing.
- Measure progress. By their very definition, KPIs measure progress on a company's key business objectives. If one of a company's goals is to increase annual sales by 20%, then KPIs like monthly sales growth and monthly sales bookings can help it gauge progress toward that goal.
- Adjust goals and targets. Circumstances may change after a company establishes its goals. By monitoring KPIs often, even

NetSuite's financial management system can automatically calculate these numbers and send out regular reports to stakeholders. Similarly, NetSuite's solutions for inventory management and order management can track and distribute critical operational metrics.

Growing businesses must set clear KPIs and track a wide variety of metrics to excel in today's turbulent environment. Without insights, these companies have no real sense of how they're progressing toward goals and whether they're financially healthy or headed in the wrong direction. Corporate leaders must make it a priority to pinpoint the KPIs that matter most to their business, monitor them and continually adjust based on what the data tells them.

Back-end business systems with integrated reporting and analytics capabilities can go a long way toward helping companies track these numbers and spot changes that will have a positive or negative impact on their financial health. Growing businesses need a way to constantly check on these metrics, because they can be a deciding factor in whether or not they make it.

Why Do KPIs Matter for Your Business?

daily, a company may realise an objective is unrealistic or no longer aligned with its revised plan. This insight gives stakeholders a chance to revise their plans to better match an organisation's goals.

- Identify problems to solve. Analysing KPIs can uncover an issue that might otherwise go undetected. For example, marketing KPIs related to the company's website, such as a high bounce rate or a drop in daily active usage, can signal that pages are loading too slowly or contain broken links.
- Spot patterns. When these numbers are measured over time, such as month by month, patterns and trends often emerge that can shape decision-making. If sales for a particular product aren't growing, perhaps a new marketing campaign is in order. If the rate of returns for a certain product has increased over a six-month period, that could indicate an issue with manufacturing.
- Pinpoint inefficiencies. When KPIs are applied to business processes, companies can more easily identify bottlenecks and reallocate resources to boost efficiency. For example, if it takes five business days for inventory received to be available to sell, then the company may want to consider hiring more warehouse employees or upgrading its technology to get items stocked faster.

KPIs should be easy to understand, balance short- and long-term needs and must be something businesses can measure and report on in a timely manner. Above all, KPIs should align with a company's objectives and be limited in number to keep a business focused on its highest priorities.

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