

MONEY SENSE



Tracking Total Performance Puts Your Business Ahead of the Curve

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Imagine, for a moment, how it feels when you get behind the wheel of your car. The driver's seat provides a clear vista of the roadway along with a control panel equipped with signals, gauges and instruments that give you immediate access to every aspect of your travel — from your speed, to gas mileage, to signs of engine trouble. You know exactly what is going on at all times.

Now imagine feeling that same way when it comes to your business.

Companies of every size, large or small, can optimize their success by tracking, interpreting and reacting to every aspect of their performance. Most organizations tend to focus on finance, relying on conventional accounting practices to monitor fiscal assets, liabilities, gross profit margins and other standard measurements. However, in today's highly competitive business environment, it's not enough. Balance sheets and profit-and-loss statements are indispensable, but also one-dimensional. They will tell you if salaries are up or sales are down, but they won't tell you why. And that is a critical question when you're trying to grow a business.

In my role as a CPA and business advisor, I encourage clients to expand their scope of analysis and look beneath the surface. In order to

consistently operate a lucrative enterprise, business owners should know precisely what it is that makes their business sell. We call these elements "Critical Success Factors" or CSFs. They are unique to every organization, but only useful when they are clearly

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defined and measured. Depending on your particular industry and market positioning, these may include: superior quality, fast product/service delivery, lowest prices, convenient location, and/or extraordinary customer service. Whatever they are, CSFs represent the things your company must get right to delight your customer.

Once a company has identified its CSFs, it needs to measure and monitor them by establishing Key Performance Indicators (KPIs). These are directly correlated to your CSFs and often linked to the four primary avenues for building any business: increasing the number of customers,

increasing the average sale, increasing the frequency of sales, and enhancing the effectiveness of processes.

For instance, if your company guarantees quick turnaround, you might track delivery time to ensure every shipment is received within three days of purchase. You could also develop the system to instantly alert you when a breakdown occurs — thus giving you advance warning of a potential problem and the opportunity to resolve it before it threatens your success.

Businesses that promise outstanding customer service, on the other hand, may want to monitor how many rings it takes before a representative answers the telephone, or how long it takes for someone to return a client's call. Although seemingly benign, this data can be essential when you're selling the accessibility of your team and your clients depend on it.

KPIs are also valuable for citing trends, probing performance and generating solutions. As a case in point, these indicators were extremely helpful to one of our clients, a building material supplier in Monmouth County, New Jersey. Accounting reports revealed that the company's sales were thriving, yet its cash flow was hindered due to low profit

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margins. Our firm helped the organization drill down by following the purchasing patterns of its top 20 customers over a period of time — producing information about how frequently they purchased, how much they were purchasing, and how those numbers changed when the company modestly raised prices in certain areas. The owners discovered that customers continued to buy the same volume despite the price changes, enabling them to boost their profit margin and increase cash reserves by \$75,000 within one year. Had they not tested the marketplace with additional performance indicators, they would have been more reluctant to increase their prices and, in turn, less empowered to invest in company improvements.

CSFs and KPIs work in tandem with more traditional reporting mechanisms to provide an accurate snapshot of how well your company is performing, as well as the ability to swiftly respond to change and new situations. When you think of accounting, try to think beyond compliance and financial statements; consider all of the variables that affect your profitability. Because you can't grow a business by merely looking at the bottom line; you have to look at the top line, too — and evaluate everything in between.

In many ways, operating a business is like operating a vehicle — whether it's a luxury sedan, SUV or convertible. All of them are built for driving and under your control. By tracking where you are, where you've been and where you're going, you're more likely to remain on course, and more importantly, to stay ahead of the curve.

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