



# Why risk the health of your business by measuring the wrong things?

If your business lost major money for three months, one after the other, you'd be stressed.

You'd be stressed enough to do something about it.

Making a loss prompts a strong emotional reaction. And a strong enough emotional reaction results in corrective action, as it should.

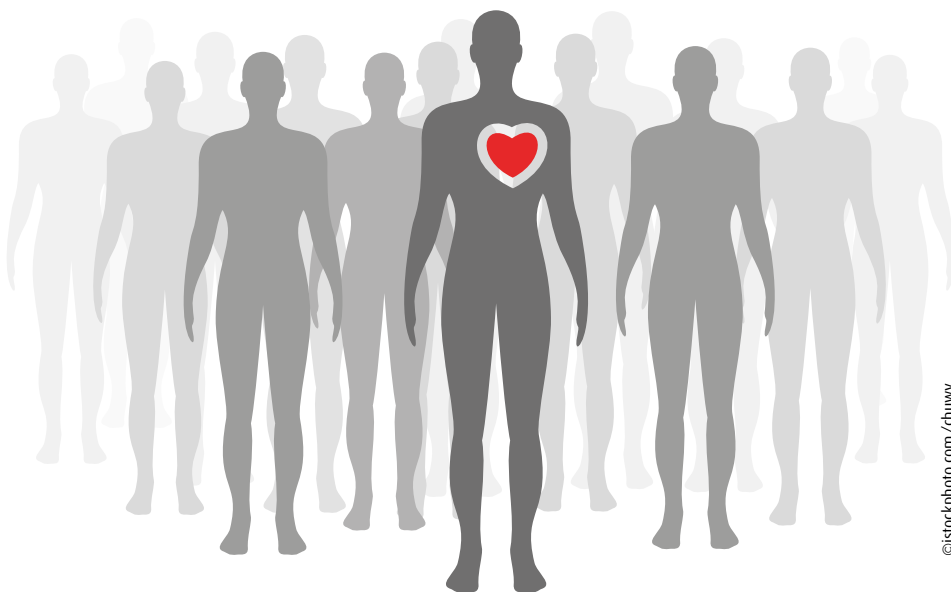
So a key measure in your business – a loss – gets you to do something to improve your business results – reduce costs or improve sales.

But shouldn't you be taking timely action to prevent the losses in the first place?

### In a nutshell

Use customer-focused, healthy heartfelt business measures and you'll take action sooner. Take action sooner and you'll avoid problems leading to losses in your business.

Like most business owners and managers you are familiar with KPIs – Key



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Performance Indicators.

Most business owners and managers measure what they think is right rather than measure what matters most.

### Use cleverer KPIs...

In 1994 Continental Airlines was failing miserably.

In the previous decade it had filed for bankruptcy twice.

But then Gordon Bethune took over. Bethune simply got every employee focused on three KPIs. Together they

delivered a remarkable comeback.

Continental became one of the most profitable airlines in the sky in the late 1990's.

In 1994 they had a complex set of measures for their business, mostly focused on cost reduction. So Bethune theatrically burned the employee manual in their car park. The rules had changed.

The game changed because Bethune changed the KPIs. He dumped most measures and got every employee focused on three KPIs:

- Less lost luggage
- Fewer complaints
- More on-time arrival

Notice how these three company KPIs matter to the airline's customers.

Profits soared because they focused on KPIs that made a dramatic difference **to their customers.**

### Here's a proven solution for you...

Measure what matters to your customers and the health of your business will be safe and sound.



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**You can predict your future success with canary-like KPIs**

Bethune managed to get all Continental employees taking regular action to improve these three customer-focused KPIs.

Less lost luggage – a **quality KPI**

Fewer complaints – a **customer satisfaction KPI**

On time arrival – a **speed of delivery KPI**.

What’s your equivalent to Bethune’s three customer-focused KPIs?

**Critical question...**

What happens to your business results when you start to measure the numbers that matter most to your customers?

**Worthwhile answer...**

You start to predict the future success of your business.

If and when you track, measure and, most importantly, act on KPIs that matter to your customers, you stack the odds in favour of your success. Just like Continental Airlines did. They went from worst to first in their industry – what could you achieve?

**Canary-like KPIs...**

You’ll know why miners used to take canaries down the mine with them? To predict their future survival!

Should a canary stop singing and fall off their little perch, the miners knew the air quality was dangerous. But here’s what matters most about this...

**Just 6 minutes! Or 13 if they were lucky...**

The emergency breathing-masks the miners used had between six and thirteen minutes of air. So when a canary fell off its perch, miners were fast to put on their breathing masks. Then they legged it, they got out of there fast!

Here’s the rub. It’s one thing to have a great health predictor – a canary – it’s another to take action, and take action fast.

**You want your business to succeed...**

So start measuring what matters to your customers and your ‘*Key Performance Indicators*’ become ‘*Key Predictive Indicators*’. Your KPIs become your business canary!

Act fast when these ‘*Key Predictive Indicators*’ change and your survival is more than likely.

Better still, take action because of what your ‘*Key Predictive Indicators*’ tell you and your business success is more likely.

**Simplicity seals the deal**

Continental Airlines started with a long complex set of KPIs.

Then Bethune simplified this to three easy-to-understand, customer-focused KPIs.

When you work out a handful of KPIs that work for your customers, you too can dramatically improve your business results.

**Get it all on one page...**

Long and complex or short and simple?

Research by the software company Exact suggests that businesses with a business plan are consistently more profitable (70%) than those without a business plan (52%).

But business plans often feel like a waste of time to business owners. Especially when the resulting business plan ends up gathering dust in a drawer somewhere!

But what about a short, simple business plan on one page? One page focused on a handful of customer-facing KPIs. One page of KPIs you refer to often because it predicts your future success and steers the actions you take.

One page of KPIs you can share with your people so you’re all taking action to improve your results.

**TIME TO DISAGREE**

**“Business is more complex than reducing what we do to handful of numbers.”**

It is all too easy to be tempted to focus on accounting numbers.

And yet, not one of the three Continental Airlines KPIs would show up in a set of accounts! This is the point of this bitesize business breakthrough.

It’s like Ron Baker says in his masterful book on KPIs:

***"...ultimately the success of any business is a result of loyal customers who return."***

As Baker's book title suggests when you 'Measure What Matters To Customers' you measure the few things that can steer you towards your future success.

In another landmark study on KPIs – 'The Balanced Scorecard' by Kaplan and Norton – the authors argue for a balanced set of KPIs in your business.

Measure the KPIs that matter to your customers AS WELL AS your cost, sales and marketing KPIs.

But keep a 'business one page plan' approach. Long and complex is to be avoided – keep it simple and short, on one page.

NB If you want any help on nailing down your business KPIs in this way please get in touch.

***"It's almost impossible to get our people to take KPIs seriously."***

You could argue it was easier to get buy-in to new KPIs at Continental Airlines because they'd nearly gone bust twice, so fear played a role.

You could also argue having a new CEO helped too.

However the logic, simplicity and common sense of the three KPIs used – less lost luggage, fewer customer complaints, more on-time arrivals – did the following...

***"...help pilots, flight crews, baggage handlers, or food service caterers fulfil the goals and objectives of the airline on an hour by hour timeline."***

- Ron Baker, 'Measure What Matters To Customers'

Involve your team in a discussion about Key Predictive Indicators – the numbers that matter to your customers – and you'll stand a good chance of getting their support.

Like Michael Basch (co-founder of FedEx) suggests:

***"People don't mind change. They mind being changed."***

***"Some things are hard to measure. Wouldn't we better off measuring the easier stuff?"***

Yes it is difficult to get an exact measure of customer satisfaction. And it is easy to get the exact cost of for example fuel consumption.

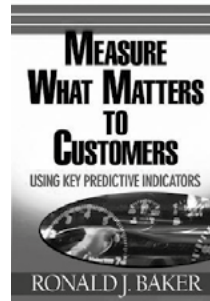
But as Ron Baker suggests:

***"Exact measurements of the wrong things can drive out good judgements of the right things."***

If you like the idea of greater certainty over your future business success, then you'll be willing to do the work of measuring the 'less exact' customer-focused KPIs.

### Tell me more...

If you need further convincing about the power of measuring what matters to your customers, check out Ron Baker's power-packed book. It's well-worth your attention if you are committed to growing your business.



## 4 helping hands for you...

It's easy to accept the status-quo and continue to measure what you've always measured in your business.

Why not put these 4 things to work so you can improve your KPIs and improve the actions you take and improve your business results too:

- 1. Get your team involved and discuss what KPIs matter most to your customers**
- 2. Identify a handful of KPIs you think will do the job for you**
- 3. Set these KPIs up as a business one-page plan**
- 4. Refer to your one page of KPIs regularly to drive the right action in your business**

**ULTIMATE ARGUMENT:**  
***"How do I know this will work for me and my business?"***

Until you test these new-style customer-focused KPIs (Key Predictive Indicators) in your business you won't know.

You can keep your existing measures (as an accountant we recommend you do) but have a look at how your decision-making and actions taken change when you and your people use customer-focused KPIs

**STOP:** thinking your existing KPIs are good enough. It suggests you're stuck in the old way of managing your performance.

**START:** measuring what matters most to your customers. Then take regular action to improve these new-style KPIs.

### Use the Business Bitesize Support Tools And Resources

to help you make the most of this edition of Business Bitesize – go here: [www.businessbitesize.com/pentlands](http://www.businessbitesize.com/pentlands)

### Your feedback is important to us.

We'd love to know what you think of this edition of Business Bitesize and how you use it or plan to use it. Also we'd welcome your suggestions for future editions of Business Bitesize. To give us your thoughts please use the simple feedback form here: [www.businessbitesize.com/pentlands](http://www.businessbitesize.com/pentlands)



## Your next steps:

Here's your bitesize, customer-facing, business one page plan KPI checklist. This will help you identify your Key Predictive Indicators and put them to work in your business.

## Start by working with your people:

Your people are the ones who do the work that delivers you satisfied or delighted customers. They must be involved in deciding which KPIs will best serve your customers, and serve your business too.

By getting your people involved you are more likely to have them support your efforts and make it happen.

## More tools and information for you:

As well as the checklist here, you can use the forms and checklists in the online supporting tools. Together they'll help you make more of this bitesize business breakthrough.

# Here's how you create a Business One Page Plan of Key Predictive Indicators for your business:

## 1. Get clear on the goals for your business

Continental Airlines goal was to climb away from being the worst ranked airline in 1994 and avoid bankruptcy. Their goals changed as they made progress but they used clear SMART goals.

Find out how you can create SMART goals for your business in the Business Bitesize support tools – you'll get to these from our Business Bitesize library page (see the box below).

## 2. Work out, with your people, your customer-facing predictors

What's your equivalent of *Less Lost Luggage*? A quality KPI.

What's your equivalent of *On Time Arrival*? A speed of delivery KPI.

And what about a customer care KPI? And you might opt for tracking an overall customer satisfaction KPI. For more guidance on these please see the Business Bitesize support tools.

## 3. Work out your sales and marketing predictors

The growth of your business means you must generate enquiries from new prospective clients (marketing). What are your best marketing KPIs?

You must also convert these enquiries to paying customers (sales). Which KPIs show you how well your business does this?

## 4. Work out your cost and cash predictors

You are likely to have one, two or three costs that dominate the money you spend to run your business. It could be salaries or staff turnover. It could be fuel or other raw materials. It could be capital investment costs. What are yours?

And because cash is king in every business you'll want to know every day, every week or every month how well your cash collection is working. What KPIs show you this?

## 5. Add in your key financials

You know these already but it makes sense to show these on your business one page plan too. But it's good to have confirmation on the hard facts about the three numbers that tell you how well you did historically – turnover, cash in bank and profitability.

## 6. Track your KPIs every month (at least) and take action to improve them

Predictive Measurement is not enough. Take action to improve your numbers.

**YOUR SUPPORT TOOLS ARE HERE: Go to the link below and you'll find a suite of support tools to help you build your business one page plan of heartfelt key performance (predictive) indicators.**

**Find the support tools to help you here - [www.businessbitesize.com/pentlands](http://www.businessbitesize.com/pentlands)**

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So a key measure in your business – a loss – gets you to do something to improve your business results – reduce costs or improve sales.

But shouldn't you be taking timely action to prevent the losses in the first place?

**STOP:** thinking your existing KPIs are good enough. It suggests you're stuck in the old way of managing your performance.

**START:** measuring what matters most to your customers. Then take regular action to improve these new- style KPIs.

## Contents: Healthy Heartfelt KPIs

Here's how you create a Business One Page Plan of healthy *Key Predictive Indicators* for your business:

1. Get clear on the goals for your business
2. Work out, with your people, your customer-facing predictors
3. Work out your sales and marketing predictors
4. Work out your cost and cash predictors (KPIs)
5. Add in your key financials
6. Track your KPIs every month (at least) and take action to improve them

### 1. Get clear on the goals for your business

Continental Airlines goal was to climb away from being the worst ranked airline in 1994 and avoid bankruptcy. Survival was their first goal, then their goals changed as they made progress but they used clear SMART goals.

Here's the definition of **SMART** goals for your business:

*"Lost luggage will reduce from 1 in 57 passengers to 1 in 100 passengers by next November."*

- ❖ **Specific** – there's no ambiguity or uncertainty about what is being measured, it's specific, detailed, crystal-clear. Reducing lost luggage is specific. Make your SMART goals specific too.
- ❖ **Measurable** – as well as being specific it can be measured. 1 in 100 can be measured. Make your SMART goals measurable.
- ❖ **Achievable** – the people responsible for the measure believe it can be achieved. From 1 in 57 to 1 in 10,000 passengers next month would probably be seen as unachievable. Make your SMART goals achievable.
- ❖ **Relevant** – there's little point having goals that aren't relevant to the success of your business. Lost luggage reduction is relevant to an airline. Make your SMART goals relevant to you, your business and your people.
- ❖ **Timely** – there's no ambiguity or uncertainty about what is being measured, it's specific, detailed, crystal-clear. Give your SMART goals a deadline, make them timely.

## 2. Work out, with your people, your customer-facing (KPI) predictors

- What's your equivalent of *Less Lost Luggage*?
- What's your equivalent of *On Time Arrival*?
- What's your customer care KPI for your business?

When, with your team, you discuss what matters to your customers, you'll be able to work out SMART customer-focused Key Predictive Indicators for your business.

You know you've chosen these customer-facing KPIs well if, should these KPIs get worse, you know your customers and your business are at risk.

And if these KPIs improve you know you'll be impressing your customers and promoting future success in your business.

You'll find your customer-facing KPIs fall into three categories:

- a. **Quality** – number of returns – number of repairs – length of service (tyre mileage).  
What could you measure similar to these?

- b. **Speed Of Delivery** (or speed of response, or both) – on-time deliveries – minutes til return of calls – job turnaround time. What could you measure similar to these?
- c. **Customer Care** (customer service) – customer feedback score – customer complaints – testimonials received – customer recommendations received – 5-star reviews on Amazon or TripAdvisor or similar. What could you measure similar to these?

What else could you measure that reflects your customer views?

### 3. Work out your sales and marketing predictors

The growth of your business means you must generate enquiries from new prospective customers (marketing). What are your best marketing KPIs?

You must also convert these enquiries to paying customers (sales). Which KPIs show you how well your business is at selling?

Your business and your industry sector will have unique types of sales and marketing KPIs specifically relevant to you.

**For example:** The marketing and sales KPIs for a steel tube foundry will be different from a hairdresser business.

Two extremes we know but you must work out the best marketing and sales KPIs for your unique business. (NB It is also healthy to look at other sectors for inspiration for the best KPIs).

If you want any help with working out your best KPI's please let us know.

Here's some ideas to get you thinking:

Business Type	Marketing KPIs	Sales KPIs
Retailer	Number of daily visitors to the store – time in store – floors visited – coupons submitted – website visitors – sample requests – brochure requests...	Number of items bought – value of items bought – time between purchases – warranties bought – time with sales staff –brochure follow ups – sample follow ups...
Furniture Manufacturer	Website visitors – information pack requests – exhibition stand visitors – no. of referral requests – no. of referrals given – no. of brochure point of sale displays – newsletters sent out – press coverage column centimetres – joint venture displayse with fabric companies...	Enquiries received – items on display per store – no. of stores with display items – sales agent visits to stores – exhibition stand visitor follow-up calls...
Plumber	Business cards posted per week – no. of requests for quotes – website visitors – referral requests – no. of meetings/calls with builders and other contractors –	Number of emergency call outs – no. of planned jobs – quotes submitted – quotes won – no. of referrals given to other contractors...

Plumbers cnt'd...	no. of case studies captured and shown on web site – website downloads of 'better bathroom' report...	
Advertising Agency	Newsletters sent out – press coverage column centimetres – awards won – no. of case studies produced – no. of networking meetings attended – no. of seminars presented...	Number of requests to pitch – no. of pitches converted – email open rates - click-through rates - telephone follow up calls...
Precision Engineer	Number of networking events – press coverage column centimetres – no. of case studies produced – press coverage column centimeters – no. of exhibition stand visitors...	Number of meetings with buyers – no. of meetings with designers – no. of requests to quote – no. of exhibition visitor follow up calls and meetings – no. of test samples created/submitted...
Recruitment Consultant	Number of candidate calls made – no. of employer calls made – no. of candidate interviews made – no. of employer meetings held...	Number of job opportunities identified – no of 1 <sup>st</sup> interviews – no. of 2nd interviews – no. of offers made – no. of offers accepted – no. of live jobs – no. of paid-for 'search' opportunities live...

### 3. Work out your cost and cash predictors (KPIs)

Let's deal with cost KPIs first.

You are likely to have one, two or three costs that dominate the money you spend to run your business. It could be salaries or staff turnover. It could be fuel or other raw materials. It could be capital investment costs. What are yours?

Business Type	Most likely key cost predictors
Retailer	Profit per square foot by department; stock turnover by department; employee costs as percentage of revenues (by department).
Furniture Manufacturer	Raw materials; employee costs; equipment finance costs;
Plumber	Travel costs per job; equipment costs; employee costs; insurance; training.
Advertising Agency	Employee costs as percentage of revenues; event costs; staff turnover cost.
Precision Engineer	Capital equipment finance costs; employee costs; design lead time costs.
Recruitment Consultant	Employee costs as percentage of revenues; event costs; staff turnover costs.

Like the famous saying advises:



*“Turnover is vanity, profit is sanity and cash is reality”*

And because cash is king in every business you’ll want to know every day, every week or every month how well your cash collection is working. What KPIs show you this?

What cash KPI’s, when they improve, will improve the flow of cash into your business?

### **Cash Predictor Examples:**

- Total debtors – the value of money owed to you
- Total debtors over 30 days; over 60 days; over 90 days
- Total income on Direct Debit or Standing Order or Credit Card
- Cash transactions
- Amounts paid in 7 days or less

Your industry will have an ‘expected’ way of doing business and getting paid. It can often be worth challenging these norms and seeking alternatives. For example; Microsoft Office used to be bought by customers in one transaction up front – now with Microsoft 365 they have an annual renewable licence fee (in advance).

## **4. Add in your key financials**

You know these already but it makes sense to show these on your business one page plan too. It’s good to have confirmation on the hard facts about the three numbers that tell you how well you did historically –

- Turnover
- Cash in bank
- Profitability

Tracking these numbers monthly can also help drive you to take action on your other KPIs.

## **5. Track your KPIs every month (at least) and take action to improve them**

*Predictive Measurement is not enough. Take action to improve your numbers!*

Tracking and reviewing your KPIs is only half the job! Like the miner with a collapsed canary, unless the miner takes action he won’t live to mine another day.

Action is the key to your future success.

Your Business One Page Plan using your chosen Key Predictive Indicators will show you the way.