



Every Company Uses Metrics

by R. Thomas Stocker

So you aren't a financial wizard. That's OK. You can still run a successful business. In fact, there is a very large population of small business owners who really don't understand how to read or use financial statements. Each has their own way to keep score and make adjustments when they see there is a problem brewing. Even those that may be financially savvy use non-financial measures to keep their business on course. Interestingly, they may not consider what they are using as metrics because they may be using something very informal. The point is that everyone uses metrics in and out of business on a continuous basis.

As a simple example, how do you know you are going to be late for an appointment? Whether you may have driven the same way over and over again or are following directions, know the time it takes, distance and so on, (lets call this a process) a late start, traffic delay or other factor causes you to know you won't be on time. That knowledge will allow you to call the other party to let them know you won't be on time. This metric isn't written down anywhere, but it is a metric just the same. This metric allows you to address the problem and take a proactive approach to solving it.

The same can be said for your business' in-house processes. There are many metrics you and your employees "just know". The trick is to try to identify the ones that can make a (big) positive impact on the rest of your business and formalize them so the rest of your organization can use them where they fit. They don't have to be financial, and the further you get away from top management, sales and accounting, the most likely measures

you are using are non-financial. Even those areas have many non-financial metrics they can and should be using.

Every industry uses a standard set of Key Performance Indicators or "KPI's". Some are financial, some are process and some are industry benchmarks. Every business should use KPI's of some sort that makes sense for them. Unfortunately smaller less sophisticated or informally run businesses generally don't. Those companies pay a price as a result. They spend more time reacting to problems as they present themselves, fixing symptoms, creating work-arounds, paying premium prices for goods and services, building unnecessary inventory levels and so on.

At the same time, some very large or sophisticated businesses also miss the power of metrics as they may equate everything to dollars or measure everything just to measure it. This also wastes time as meaningless data must be collected, analyzed and put into a format that is potentially useful. As a result the information may not be in a usable format for their employees to understand and act on, or equally wasteful, having their employees collect meaningless data in the first place.

To be sure, in the end, everything gets measured from a financial basis. But as you get closer to the production of your product or service your employees are not likely to be able to equate dollars produced to their day-to-day jobs. A programmer may relate better to lines of code written, a furnace repair man or landscaper may better relate to time on a job and a production worker would relate much better to units produced.

All are valid metrics and can be equated to dollars at the management level when goals are added to the evaluation. Having schedules and expectations to measure against are as important as the measures themselves. It isn't hard to start. As a stake in the ground, use what you produced last year, or what your expectations are for a particular time period. Maybe it is a contract deadline or X number of jobs promised for that day. Keep it simple.

As you move forward you will learn from your metrics. You will learn how to anticipate. You will learn how to schedule better. You will learn to identify when the train *starts* to leave the tracks. Most of all you will learn discipline and how to use facts to manage your business.

Not only will you learn, but your employees will learn as well. If you provide them with metrics they can understand and relate to they will help you. It will become their scoreboard; something to look forward to (if you are not using it for them to try to achieve unrealistic goals). They will be able to help provide solutions so they can succeed. They will become part of the correction and

improvement process. Most of all your company's productivity and moral will increase as goals are met and exceeded.

What about the informal metrics I spoke about earlier? I always recommend to my clients to be inquisitive. Any experienced worker has some sort of internal measure they have used to measure their own success throughout their career. If you have a particularly more successful manager, supervisor or worker than their peers, ask how they know. You may find a valuable metric that your organization can benefit from. Why not use it?

At the end of the day, no business can be successful without using some sort of metrics to measure their progress. Non-financial metrics are as important in day-to-day business success as the end of the month financial metrics used to gauge business success. Metrics can be very powerful regardless of how large or sophisticated you are. Use them to your advantage. Your biggest competitors are.

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About the author; Tom is a Principal of Boardroom Advisory Group, LLC, an owner advisory and consulting firm. Tom serves on the Board of Directors for the RI Economic Development Corp's Small Business Loan Fund Corporation (SBLFC), the finance arm of the RI EDC. He writes a monthly article for the RI EDC's Every Company Counts initiative. His articles focus on topics that are of practical value to business owners. Contact Tom directly at 401-451-9799 or tstocker@boardroomadvisorygroup.com.

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