



Inside this Issue

Management and Strategy

Setting and Using Key Performance Indicators

A Key Performance Indicator (KPI) is a quantifiable measurement that reflects the critical success factors for your organization. You can break it down this way:

Key: Of fundamental importance in gaining a competitive advantage or a make or break component to success or failure (Critical Success Factor)

Performance: Measurable, quantified and easily influenced by individual behaviors

Indicator: Leading information on future performance

Key Performance Indicators

This issue includes advice from members on KPI metrics – Key Performance Indicators that help business owners measure company performance at a high level. Why are KPIs important? Well, as quality guru H. James Harrington has said, “Measurement is the first step that leads to control and eventually to improvement.” In other words, we can’t expect to understand what drives a company’s growth without tracking performance, and the most effective way to do that is with KPIs.

Net Profit – Only Part of the Story

As a business owner, I catch myself doing what most business owners do – focusing on net profit to determine the health of my business. Net profit may be the ultimate KPI since it provides a bottom line. However, it does not provide any insight into the leading indicators of what that profit will be. Thus, when determining the overall health of the business, we should instead focus on current and future performance using KPIs for productivity, risk/quality, and financial result.

The first KPI should measure the main sources of productivity that drive sales.

Whether it’s number of service calls, widget units produced or billable hours – this will give you the driver for top line revenues.

Finance

Linking Pay to Profits

Our company has long believed that some portion of employee compensation should be linked to profitability. The challenge has been in designing a system that works for all employees and benefits the business.

Legal

Enforceable Non-compete Agreements

Every business has methods, practices, customer lists, etc. in which they have invested resources and which represent value. The prospect that an employee could walk out the door and compete with that information is scary. The trouble comes in crafting an enforceable agreement. When it comes to a non-compete, although the law differs widely among states, courts will typically apply the Rule of Reason.

Operations

Customer Training Videos

Many businesses sell products and services that require customer training. Typically this information is provided in a printed manual, or may even take the form of a personal visit by a company employee.

Human Resources

Process-driven Recruiting

Hiring the right employee for the job is key to the success of any small business (some might even make it a KPI). To ensure we make good hiring decisions, we have gone beyond interviewing to create a process-driven recruiting approach that systematically eliminates job candidates at every step.

Targeted Tips

Test Drive Partnerships

If you are considering bringing in a partner or doing a merger, consider a “trial run”

VIDEO TESTIMONIALS



Hear how TAB can help you and your business.

[Watch Video](#)

Local Facilitator/Coach



Marcy Turkington

(973) 940-2020
[Email](#)

[Read Bio](#)

[See All](#)

before cementing the deal. You need to be sure there are synergies between the two companies – both culturally and from a value perspective – for the relationship to work. You should also do a SWOT (strengths, weaknesses, opportunities and threats) analysis for both parties. Understanding the goals and issues of each party will make for a stronger relationship.

Keeping Technical Managers Happy

Not everyone wants to be a manager. Some engineers or similar employees just want to do technical work and aren't interested in being promoted to management. Yet, they may well be key employees in the organization, even part owners. It can be difficult to keep these people happy as your company grows – especially as you start working toward your exit from the business. One solution is to have Managing Directors who manage people and Technical Directors who manage technology. The titles don't matter so much as letting the technical people stay technical, especially if they are good.

Encouraging Employee Innovation

Whenever my team gets down on their results and wants to give up I ask them, "Have you tried everything?" This gets their minds working on new creative solutions.

Keeping Score

My company uses a "returns scoreboard" to call attention to the number of times a work crew has to return to the warehouse because they don't have what they need to do a job. This helps ensure that trucks leave fully equipped and ready to be productive and draws attention to any areas that might need further examination if we see a spike on the scoreboard.

Give Your Employees CLAMS

In a recent board meeting we were discussing what today's employees are looking for. One member suggested an acronym he had heard – CLAMS (Challenge, Location, Advancement, Money, Security). We added an extra "A" for another important ingredient: Acknowledgment.

Virtual Meetings

During my recent vacation, my TAB coach suggested that we hold our monthly executive coaching session via Skype (www.skype.com), a free online conferencing service. He drove to my office where he and my management team connected with me in Barcelona using Skype video conferencing. We had a very productive session, and all I needed was my laptop and an Internet connection. We now plan to use Skype for our monthly key performance meetings between regional offices.

Categorizing Credit Card Fees

Here's an accounting tip that many small business owners might not know. Credit card processing fees should be categorized as a General Expense rather than Cost of Goods Sold (COGS). COGS reflects the costs you incur to manufacture your product. Credit card fees are not a direct cost of manufacturing. Instead, think of them as a form of financing. Thus, it is a generally accepted rule that credit card processing fees can be categorized under General Expense.

A Different Perspective on KPIs

When reviewing your monthly KPI report, ask the person who prepared it for a brief statement on what they conclude from the data. Since their focus is on the numbers they may see corporate results from a different perspective than you do. Ask if they have any concerns about any of the numbers or ratios, and if they have any recommendations on how to improve results.

A Route to Your Goals

"You gotta be careful if you don't know where you are going, because you might not get there." This quote from baseball legend Yogi Berra speaks to me about the importance of developing clarity and vision for my business. In order to achieve your goals, you must know where you want to go, as well as the best route to get there. Focus and planning including well-defined KPIs) are essential to being successful in the long-run.

Linking Pay to Profits

Date : April - 2011

Category : Finance

By : Andy Vande Hey, Vande Hey Company, Appleton, WI
<http://www.vandeheycompany.com>

Our company has long believed that some portion of employee compensation should be linked to profitability. The challenge has been in designing a system that works for all employees and benefits the business. Landscaping projects generate most of our income, and the salesperson, landscape designer, supervisors and crews each contribute to profitability in different ways. Linking each team member's payout to the project's gross margin (price minus materials and direct labor) has paid off for everyone. The sales staff is now pursuing projects with better pricing, crews are working more efficiently and team communication has improved. Over time, our variable compensation system and business profitability will continue to improve because the same financial metric drives both.

Process-driven Recruiting

Date : April - 2011

Category : Human Resources

By : Barbara Alves , Emilcott, Chatham, NJ

Hiring the right employee for the job is key to the success of any small business (some might even make it a KPI). To ensure we make good hiring decisions, we have gone beyond interviewing to create a process-driven recruiting approach that systematically eliminates job candidates at every step.

First, we developed candidate profile/requirements that can be measured. During the recruiting process, we use four screening stages: an online questionnaire, a phone interview, skills tests and, finally, face-to-face interviews. At every stage, we ask both experience and behavioral-based questions.

This approach takes most of the guess work out of the screening process, and gives us a final candidate pool of highly qualified people.

Enforceable Non-compete Agreements

Date : April - 2011

Category : Legal

By : Edward E. Sharkey, Law Office of Edward E. Sharkey, LLC, Bethesda, MD
<http://www.sharkeylaw.com>

Every business has methods, practices, customer lists, etc. in which they have invested resources and which represent value. The prospect that an employee could walk out the door and compete with that information is scary. The trouble comes in crafting an enforceable agreement. When it comes to a non-compete, although the law differs widely among states, courts will typically apply the Rule of Reason.

This means that a non-compete is enforceable only if

- 1) it is not more extensive than is necessary for the protection of the employer's business,
- 2) it does not harm the consumer, and
- 3) it does not cause undue hardship to the employee.

What does this mean in practice? First, tying every employee to a boilerplate non-compete gives a false sense of comfort and can actually impair your case against an employee. Only employees who have unique skills, are privy to sensitive information, or have been tasked exclusively with customer relations should be asked to sign a non-compete. Additionally, if enforcing the non-compete would cause the employee undue hardship, a court may not enforce it. Also, the non-compete cannot be unlimited in scope (geographically) or indefinite; for most businesses, a one-year period is

sufficient.

Setting and Using Key Performance Indicators

Date : April - 2011

Category : Management and Strategy

By : Russell Lookadoo, TAB Salt Lake Metro

A Key Performance Indicator (KPI) is a quantifiable measurement that reflects the critical success factors for your organization. You can break it down this way:

Key: Of fundamental importance in gaining a competitive advantage or a make or break component to success or failure (Critical Success Factor)

Performance: Measurable, quantified and easily influenced by individual behaviors

Indicator: Leading information on future performance

The best KPIs provide a high-level snapshot of success for the business, and are rooted in the vision of the organization. They are well defined and measurable, and are tied to key business processes and operational activity that supports the company's overall goals. A good example of a KPI for increasing revenue might look like this:

Annual Sales Goal: \$2,000,000

Average sale/num. of sales: \$4000/500 per week/day: 10/2

Close rate: 50% • Appointments per day: 4

Cold calls per appointment: 5

KPI: 20 cold calls per day

The important thing is to be as specific as possible and to make realistic goals. For instance, you may not want to set a goal to be "popular among affluent customers" because this would be very difficult to measure. You wouldn't want to design a KPI for increasing customer satisfaction unless you had a way to measure and track customer satisfaction, such as a validated survey system.

Once you determine your KPIs, it's important to communicate them consistently and continually. One way to do this is to visibly chart their progress in break rooms or in periodic updates to your employees. KPIs should also be incorporated into your performance management system, and/or tied to incentives, raises or profit distributions. In addition to providing a snapshot of how the business is doing, KPIs also help you improve your business processes. It's true – we manage what we measure!

Key Performance Indicators

Date : April - 2011

Category :

By :

This issue includes advice from members on KPI metrics – Key Performance Indicators that help business owners measure company performance at a high level. Why are KPIs important? Well, as quality guru H. James Harrington has said, "Measurement is the first step that leads to control and eventually to improvement." In other words, we can't expect to understand what drives a company's growth without tracking performance, and the most effective way to do that is with KPIs.

Net Profit – Only Part of the Story

Date : April - 2011

Category :

By : , TAB San Antonio

As a business owner, I catch myself doing what most business owners do – focusing on net profit to determine the health of my business. Net profit may be the ultimate KPI since it provides a bottom line. However, it does not provide any insight into the leading indicators of what that profit will be. Thus, when determining the overall health of the business, we should instead focus on current and future performance using KPIs for productivity, risk/quality, and financial result.

The first KPI should measure the main sources of productivity that drive sales.

Whether it's number of service calls, widget units produced or billable hours – this will give you the driver for top line revenues.

The second KPI should measure the main source for risk or quality issues that could result in future unnecessary costs.

This could take the form of inventory levels (tying up capital), number of defects (rework costs), or aging receivables (write-off costs). Your productivity KPI could look great, but if you have increasing risks, then the bottom line will be impacted in the long run. (Hello, Toyota!)

The third KPI should be designed to measure the main source that drives net profit.

The main sources of Net Profit could be measured at the overall company level and/ or a per service/unit level. If you are properly managing expenses and the first two KPIs, then net profit should look great. If not, it provides a basis to dissect the issue and find the root cause.

KPIs and metrics are good when they drive the right behavior.

Focusing on the wrong ones or an incorrect mix will sub-optimize your company performance. With these three KPIs, you should have a greater understanding of what drives your business and a more balanced view of the health of your company.

Customer Training Videos

Date : April - 2011

Category : Operations

By : HerbertGolterman, Golterman & Sabo, St.Louis,MO

<http://www.golterman.com>

Many businesses sell products and services that require customer training. Typically this information is provided in a printed manual, or may even take the form of a personal visit by a company employee. However, both travel and printing costs are becoming more expensive. An affordable alternative is to provide video training via the Internet on a site like YouTube (www.youtube.com). You just need a video camera and someone who is comfortable training in front of the camera. This not only eliminates the need for traveling and printed manuals, your customers can view the information at their leisure and as often as they like.

Minimizing Email Disruptions

Email can be a huge time consumer. At my company we have taken steps to make it less disruptive. For example, we ask employees to turn off the automatic notifications that pop up whenever a new email arrives. Also, we have created Outlook rules to forward certain emails automatically, as well as sort and deliver email into specific folders so that items such as e-newsletters can be read later rather than as they arrive in the inbox. This helps the time spent on emails to be more productive and less interruptions to other projects.

By : Robert Ferrara, Atlantic Industrial Technologies, Shirley, NY

E.L. Smith Plumbing - <http://www.elsmith.com/>

Bank for Your Buck

When looking for financial advice, your banker is not necessarily the best choice as there is a natural conflict of interest. If you have any business with that banker (loan, line of credit, bonds, investments) they will always recommend their bank's products and services. Seek outside financial advice, and shop your banking business around every two years or so to ensure you are getting the best bank for your buck. Also examine your bank's level of service offerings to ensure you are getting full use of the bank for the value of all the accounts you have with them.

By : Kin Christie, TAB Winnipeg

Does Your Lawyer Have Your Back?

Most lawyers will tell you to pick your battles, and may advise you not to pursue a matter that they feel you can't win. But sometimes it's not about winning – it's about making a statement about your willingness to pursue something legally. Taking an offensive position might be what is needed to avoid a legal battle down the road. It's important to remember that a lawyer is hired to represent you. If your lawyer isn't standing up for you, don't be afraid to fire them.

By : David Granato, Stars Information Solutions, San Antonio, TX

<http://www.starstek.com/>

Free Labor Law Posters

You may have received solicitations selling labor law posters, but there is no need to pay for them. Free federal posters are available from the Department of Labor: <http://www.dol.gov/oasam/programs/osdbu/sbrefa/poster/matrix.htm>

and from OSHA:

<http://www.osha.gov/pls/publications/publication.html>

You can find free state posters by Googling "(your state) labor law posters".

Communicating Organizational Values

As a general contractor, communicating my company's core values to our hundreds of subcontractors can be a daunting task, especially since our work crews are widely dispersed. But we came up with a way to easily and effectively communicate our values to subcontractors and everyone else who steps onto a job site. Since the "Knaack Box" is where work crews meet several times a day, we made large stickers for the inside lid of the boxes – open all day long – that state our commitment to client satisfaction and list the main points of our company values. This helps ensure that anyone who we are working with is aware of our values and guiding principles.

By : Gregory Parr, Jr., Frontier Construction Inc., Orland Park, IL
<http://www.frontierconst.com/company.asp>

Test Drive Partnerships

If you are considering bringing in a partner or doing a merger, consider a "trial run" before cementing the deal. You need to be sure there are synergies between the two companies – both culturally and from a value perspective – for the relationship to work. You should also do a SWOT (strengths, weaknesses, opportunities and threats) analysis for both parties. Understanding the goals and issues of each party will make for a stronger relationship.

By : Kevin Adams, Direct Dental Plans of America, Denver, CO
<http://www.directdentalplansofamerica.com>

Keeping Technical Managers Happy

Not everyone wants to be a manager. Some engineers or similar employees just want to do technical work and aren't interested in being promoted to management. Yet, they may well be key employees in the organization, even part owners. It can be difficult to keep these people happy as your company grows – especially as you start working toward your exit from the business. One solution is to have Managing Directors who manage people and Technical Directors who manage technology. The titles don't matter so much as letting the technical people stay technical, especially if they are good.

By : Dave Goracke, Calibre Boat Repair, Denver, CO
<http://www.calibreboat.com>

Encouraging Employee Innovation

Whenever my team gets down on their results and wants to give up I ask them, "Have you tried everything?" This gets their minds working on new creative solutions.

By : Lee Cirillo, Fitness Together, Port Jefferson, NY
<http://fitnesstogether.com/portjefferson>

Keeping Score

My company uses a "returns scoreboard" to call attention to the number of times a work crew has to return to the warehouse because they don't have what they need to do a job. This helps ensure that trucks leave fully equipped and ready to be productive and draws attention to any areas that might need further examination if we see a spike on the scoreboard.

By : Greg Smith, E.L.Smith Plbg, SanAntonio,TX
<http://www.elsmith.com>

Give Your Employees CLAMS

In a recent board meeting we were discussing what today's employees are looking for. One member suggested an acronym he had heard – CLAMS (Challenge, Location, Advancement, Money, Security). We added an extra "A" for another important ingredient: Acknowledgment.

By : Peter Begin, TAB Board of West Hartford Connecticut In a recent

Virtual Meetings

During my recent vacation, my TAB coach suggested that we hold our monthly executive coaching session via Skype (www.skype.com), a free online conferencing service. He drove to my office where he and my management team connected with me in Barcelona using Skype video conferencing. We had a very productive session, and

all I needed was my laptop and an Internet connection. We now plan to use Skype for our monthly key performance meetings between regional offices.

By : Marcel Vouriot, Vomar Industries, Lasalle, MB
<http://www.tanktraders.com/vomar.html>

Categorizing Credit Card Fees

Here's an accounting tip that many small business owners might not know. Credit card processing fees should be categorized as a General Expense rather than Cost of Goods Sold (COGS). COGS reflects the costs you incur to manufacture your product. Credit card fees are not a direct cost of manufacturing. Instead, think of them as a form of financing. Thus, it is a generally accepted rule that credit card processing fees can be categorized under General Expense.

By : Diane Smith, Smith & Associates P.C. , Lakewood ,CO
<http://www.smithassociatespc.com/>

A Different Perspective on KPIs

When reviewing your monthly KPI report, ask the person who prepared it for a brief statement on what they conclude from the data. Since their focus is on the numbers they may see corporate results from a different perspective than you do. Ask if they have any concerns about any of the numbers or ratios, and if they have any recommendations on how to improve results.

By : Jason Dubois, Len Dubois Trucking Inc., Winnipeg, MB
<http://www.lendubois trucking.com/>

A Route to Your Goals

"You gotta be careful if you don't know where you are going, because you might not get there." This quote from baseball legend Yogi Berra speaks to me about the importance of developing clarity and vision for my business. In order to achieve your goals, you must know where you want to go, as well as the best route to get there. Focus and planning including well-defined KPIs) are essential to being successful in the long-run.

By : Judith Finley, Space 360, Hudson, NY
<http://www.360warren.com/>
