The CEO's Guide to Keeping Score

How to Drive Performance, Profitability and Growth with KPIs, Scorecards and Reports

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put your numbers to work

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DEDICATION

This is dedicated to my dad, Stephen J. King, who taught me how to look at my numbers, even when the news wasn't very good.

Winners Keep Score

When two companies compete in the exact same target market, with the exact same product, why is one wildly successful while the other struggles to survive? After serving over a thousand small businesses, we have studied why, and have come to one solid conclusion: **winners keep score.**

In a football game, the final numbers on the scoreboard rarely tell the story of how the game was won. Digging into the statistics: such as: time of possession, turnovers, passes completed and yards gained, paints a better picture of how the game was won.

The same is true in business. Like a savvy football coach, a CEO must understand how to produce and analyze KPI's, reports & scorecards about past performance to drive future results.

Introduction

So how do you do that? How do you build a scorecard to help you make decisions to help your business be successful? What should you monitor to help your business run better, grow faster, and make more money?

There are five main areas a CEO should be focused on where decisions need to be made. This ebook will teach you the questions that a strategic CEO should be asking and five scorecards with actionable statistics for each of these areas.

The CEO's Guide to Keeping Score gives management a road map to improving a company's bottom line. You will learn the most useful reports, KPIs, scorecards, and dashboards to drive performance, profitability, and growth.

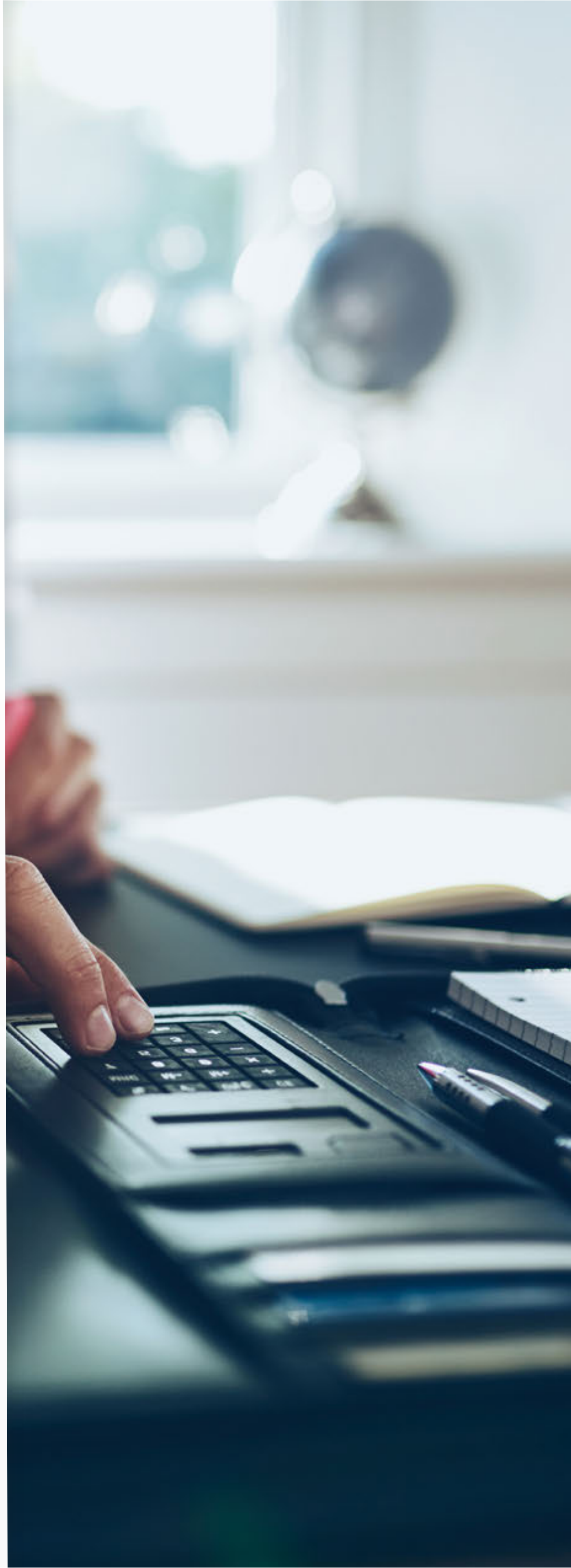
In the end, you will understand how to Put Your Numbers to Work by creating a monitoring system for leading indicators, and learn how to read your KPIs to make data-driven decisions.

Put Your Numbers to Work

In business, those actionable statistics are called: **Key Performance Indicators** or KPIs. These are the pre-determined, measurable drivers of the business that drive a company's business success. These are the statistics that CEOs must monitor to help their businesses run better, grow faster and make more money.

The traditional way that most businesses try to keep score is through their financial statements. However, an income statement and balance sheet aren't actionable. They show the historical results of a business' performance. Those documents don't provide insight into how the business got to that point, or what needs to be done to change those results in the future.

Most accounting systems, such as QuickBooks, don't readily provide KPI reports that help drive performance. That's why small businesses must look beyond the traditional financial statements that get spit out of the accounting system and follow this guide to get actionable financial intelligence that put your numbers to work.



Management Accounting

Management accounting uses unit economics to break down a business to its most basic element, so you can understand profitability by whatever way you organize your company. Once you understand your unit economics, then you measure what drives its success and make decisions based on those KPIs you choose for your company. If done right, management accounting turns accounting from a necessary back office expense into an integral profit generating tool.

A strategic CEO evaluates employee profitability and operations by measuring the unit economics that apply across the entire business – this is also known as **Common Sizing**. Examples of unit economic metrics for a service business are: profit by customer, by job, by employee, or income and expense per hour paid.

"Management accounting turns accounting into an integral **profit resource.**"

Making Data-Driven Decisions

Inside the Mind of a CEO

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Chapter 1

Inside the Mind of a CEO

The most important job of a CEO is to set a clear, strategic vision for the company and get the company aligned around that strategy. Not all CEOs are created equal and some naturally focus on strategy and the long run, whereas others are focused on the tactical and the most urgent fire.

That's also the difference between an Entrepreneur and a CEO. Many Entrepreneurs are primarily tactical, focused on the latest crisis to hit their desk. A CEO's job is to work at a higher level, create a vision and get a team to rally around that vision.

Entrepreneurs tend to pivot based on the issues of the day: an unhappy call from a big client or a bookkeeper giving two week's notice - which means billing, payroll and bill payment will come crashing to a halt. That tendency to make knee-jerk reactions, which are usually based on cash flow problems, limit a startup's ability to grow. In order to reach their full growth potential an entrepreneur has to make a pivot and start acting like a CEO and looking at the big picture, instead of fighting fires.

To be a strategic leader, we recommend a CEO commit 15-20 percent of his or her time (roughly the equivalent of one day a week) to focus strategically. This will help makes sure the other 80-85 percent is the most effective use of their limited time.

To help CEOs focus their strategic thinking, we have organized the mind of a CEO into five areas of business where decisions need to be made.

> "CEOs should commit 15-20% of their time to focus **strategically.**"

The Five Areas of Business Decisions

1. Strategy & Planning
2. Sales & Marketing
3. Clients & Services
4. People & Operations
5. Cash & Finance

These five sections of a CEO's brain are design to help visualize where, as a strategic CEO, you need to spend your time. The first area of focus is Strategy & Planning which should take up 15-20% of your time. Top of mind for every CEO has to be Sales & Marketing because that's how you grow your business. Clients and Services are the driving force of the business, but a strategic CEO figures out how to put strong people in place to deliver quality services, so delivery of service can't be all consuming. Otherwise, you become the widget.

What that means is People & Operations become how you drive profits. Since people are the foundation of the company, this will take up a largest area of your strategic thinking. Without the right people in the right seats on the bus, a CEO will always be forced to be tactical.

Finally, the front of the CEO's brain must always be focused on Cash & Finance. Every business always needs to keep an eye on cash flow, but in order to be strategic, cash flow needs to be a small part of your day to day functioning. If dealing with cash flow consumes a sizable portion of your world, you can't be strategic. Then you have no choice but to be a tactical CEO.

To make data-driven decisions, you need to understand the key business drivers of your business. Once you know those drivers, you can start developing your KPI reports to help you keep track. This eBook will show you how to develop your own set of KPIs. Each driver should be on its own KPI chart designed to easily be read, understood and shared company-wide with your team to have the biggest impact.

"Use your KPIs to **reinforce** your **core values** and culture."

The Basic KPI

Five Fundamental Scorecards

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2

Chapter 2

Five Business Scorecards Every CEO Should Have

1. The Company Scorecard
2. The Sales & Marketing Scorecard
3. The Services Scorecard
4. The People Scorecard
5. The Finance Scorecard

Our scorecards are listed in order of priority for a service business, because you have to start at the macro / company level before you can drill down to see what's happening in each department. These scorecards follow the five areas of business decisions in the mind of a CEO to understand key business drivers of your business.

The Core Set of KPIs

The 5 Scorecards we're discussing here should be viewed as **The Basic KPIs** and, depending on your business model, you should have additional advanced KPIs and reports. The set of KPIs outlined herein are designed for service businesses that make money on people's time, but the concepts can be used for any industry. This goal of this guide is to get you started with a basic core set of KPIs and then show you how to build more advanced KPIs based on the drivers for your business.

The key to turning financial data into actionable financial intelligence is to be able to look at each number and compare it to what it was supposed to be. If a business driver is important enough to track each month, that driver should have a budget. What are the resources or processes vital for the sustained growth and success of a business? Those become your plan and your key metrics need to be measured against that plan. By studying the variances against your plan a strategic CEO can more quickly figure out where to focus your time and where to take action. Finally, you need to watch your KPIs over time. This will ensure that you do not respond emotionally to the most recent financial results. By studying the trend lines, especially Trailing Twelve Months (TTM), you can understand what's really happening in the company over the long term. Each of the charts in our KPI template shows the KPI as an individual data point for each month in the left column and the TTM in the right column. In the TTM charts, each dot represents the total for the prior 12 months. By looking at the trend over a year, you are watching the trend of two years' worth of data. This eliminates seasonality and shows the true trend of each business driver.

Strategy & Planning

The Company Scorecard

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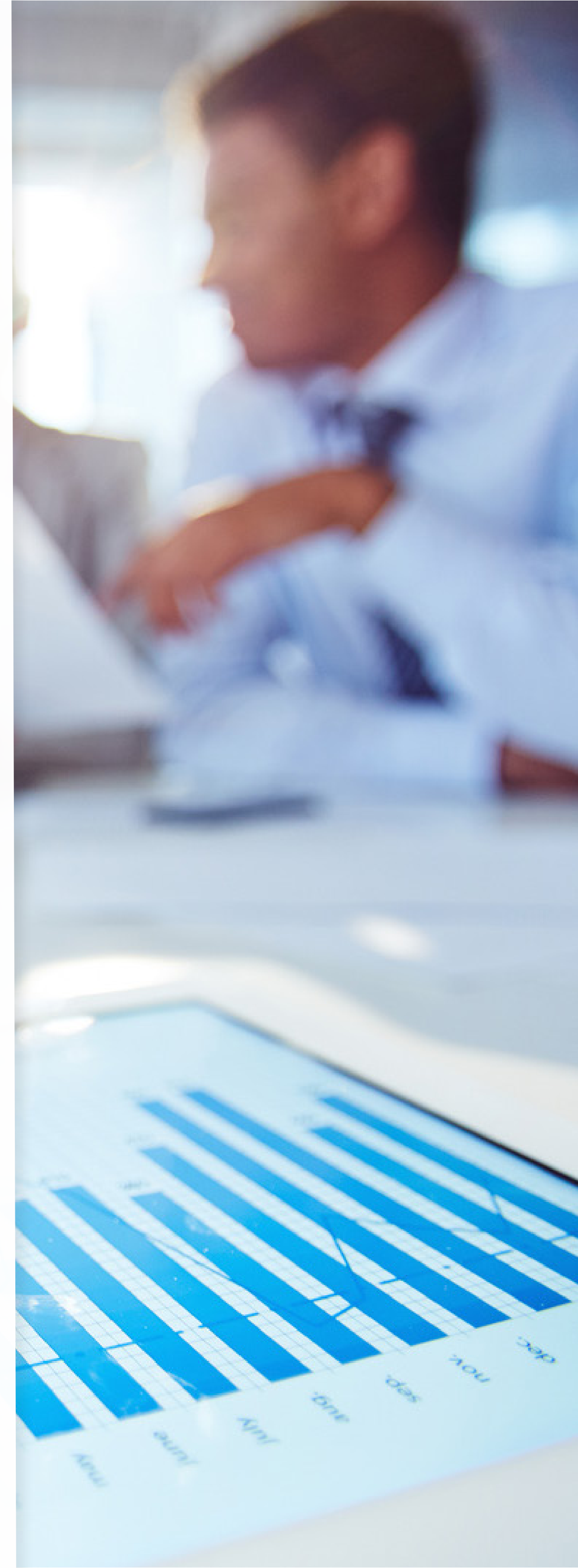
Chapter 3
Strategy & Planning - The Company Scorecard

So let's get started. This part of the CEO brain represents the 15-20% of time that should be focused on strategic thinking. When establishing key performance indicators for **Strategy & Planning**, a CEO should start with the end in mind. The end starts with defining your critical business drivers, and the decisions you can make to improve those drivers.

The recipe for defining your drivers and creating actionable management reports starts with the company vision. Why do you exist? What does the future look like? How will the company get there? Where will sales come from? How many clients do you need to make money? How many people do you need to serve those clients? Where are they coming from and what do they cost?

Starting with your vision for the company, and the plan to achieve that vision, enables you to create company KPIs to help monitor progress where it matters most. Then you can cascade those company goals to departmental and employee goals. You build high performing teams by recognizing and rewarding the individuals and teams that contributed the most to profits.

If you haven't answered those questions, if your vision and strategy have not yet been clearly defined, or if your people don't know the unique reason why you exist,



then get your management team in a room and get answers to those questions.

Once you have those answers, you will understand the drivers for the business. Then challenge each department leader to identify their role in the business' strategy. Thinking like a strategic CEO in strategy & planning will force you call out these questions. Then you can develop company scorecards to help you to measure these drivers more efficiently.

Strategy & Planning Questions a Strategic CEO Should Be Thinking About

1. Why does this company exist? What are the critical drivers to success? Each department should identify their role in the company success and work backwards to identify the drivers of that success.

2. If your strategy and vision is clear and you are aligned with your people, then you need to see if your business is growing, sinking or staying the same.

    - What is the trend of our revenues, gross profits and net income?

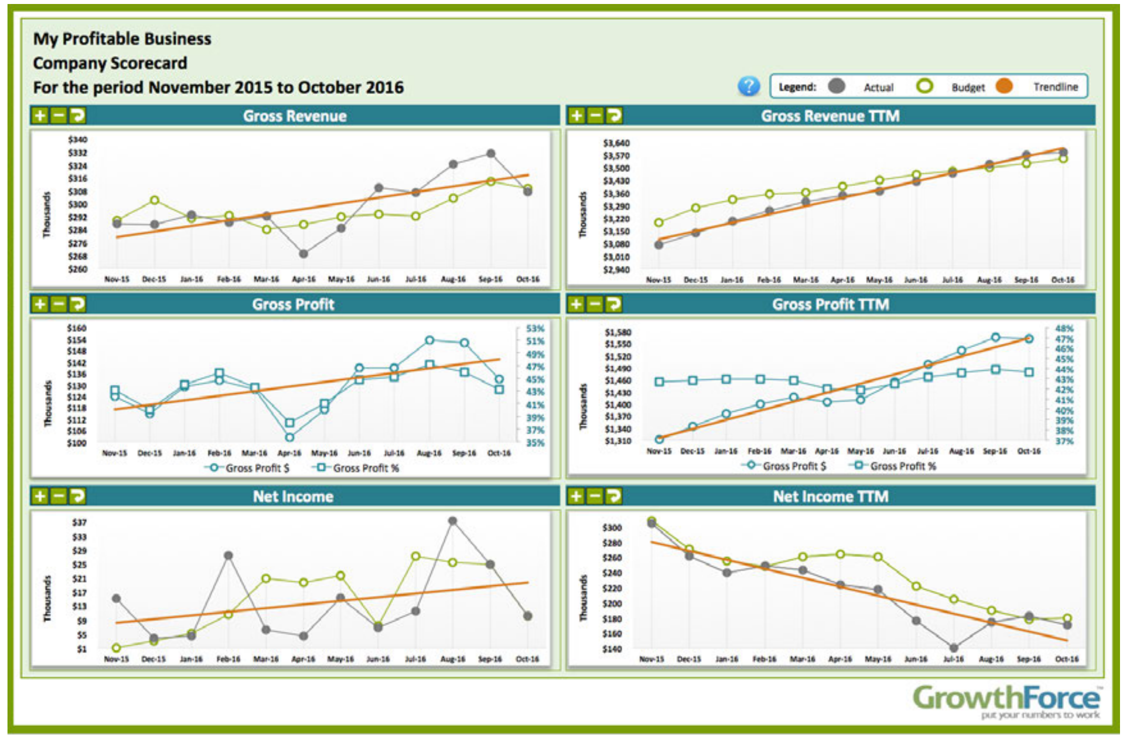
3. How does that compare to the plan?

    - Based on those trends, study what's broken and needs your attention.
    - Use the variances and trends to figure out where to spend your time.

- Ask yourself, "What changes I can make to grow my business and make more money?"

The Company Scorecard

Here are the charts we suggest you track in a Company Scorecard. They show the most macro results of any company. You should share this one page company scorecard with your management team and trusted advisors because what management monitors gets done.



Charts in the Company Scorecard

- Gross Revenue
- Gross Profit
- Gross Profit %
- Net Income

In the Company Scorecard, the charts on the left show the actual monthly results for topline revenue, gross profit and the bottom line net income for a 12-month time period. The right side charts depict the same metrics, however each point represents the trailing twelve months. You want to understand revenue and profit, not just on a month-by-month basis but using the Trailing Twelve Months (TTM) charts. This eliminates seasonality and shows the real direction of your company.

The Company Scorecard helps you evaluate your revenue and whether it is growing or shrinking. You can also understand relationships between sales and gross profit to see if you're pricing your jobs right, managing your people effectively including the use of their time.

Analyzing gross profit, both as a dollar amount and as a percentage of revenue, allows you to better understand if you are pricing your jobs right. As we'll discover later in the Service Scorecard, this is the most important decision a company will make. It also tells you how well you manage employee productivity and if you're hiring and onboarding employees at the right pace.

The Company Scorecard, in effect, is a proof statement of how well you are running the company. If all the trend lines are going in the right direction, it confirms that you have the right alignment of gross revenue driving gross profit and, in turn, management of overhead to drive net income.

"The Company Scorecard helps you **evaluate** your revenue and whether it is growing or shrinking."

Additional/Advanced Company KPIs

There are several KPIs you can track to measure the health of your company. However depending on your business, here are three additional KPIs you might consider incorporating into your Company Scorecard.

- **Operating Margin** – while gross profit shows the "Direct" profit on the work that you did, operating profit or margin shows the total net profit of that work by also subtracting the associated sales and variable overhead expenses related to that job.
- **Net Income %** - in addition to monitoring net income in terms of dollars, you should watch net income as a percent of sales. Most industries strive for 10-15% of revenue to the bottom line.
- **Return on Assets** – this tells you what percentage of every dollar invested in the business was returned as profit (also knowns as ROI).

Sales & Marketing

The SAM Scorecard

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Chapter 4
Sales & Marketing - The SAM Scorecard

The top of the CEO brain represents Sales & Marketing, focusing on new revenue flow. Businesses simply cannot grow without revenue. The only way to keep revenue flowing is by producing new sales, which is growth driven by marketing and business development efforts. The Sales and Marketing (SAM) departments illustrate the interdependency of the business scorecards. The efforts of the sales and marketing departments naturally directly influence the company, service, people, and finance KPI scorecards.

Sales and Marketing KPIs are the leading indicators for any business. These are the most valuable type of indicators because they help you plan and do a better job predicting the future. To create them, you start by determining "what causes sales" in your business.

You answer that question by defining the steps of your sale. In one form or another, every company causes sales by following defined sales-process steps that usually looks something like this: leads, proposals and closed sales. Your specific steps may have different names, or there may be more steps for different companies, but they follow the same basic formula.

Sales Steps Formula

Leads → Proposals → Closed Sales

The CEO must set sales and marketing goals and objectives for the company and departments. Then the sales team needs to outline how those goals will be met. Then you can figure out what needs to be measured. What are sales and marketing activities you need to achieve the sales targets? Those are the metrics to share with everyone in the sales organization so you can figure out if the right people are in place to achieve those goals.

Sales & Marketing Questions a Strategic CEO should be thinking about:

1. What do your sales leading indicators tell you? (Hint: watch the trends)
2. What does your pipeline look like? Is this where the CEO needs to focus?
3. Where should you spend sales and marketing resources to get the most profitable deals?
    - What type of clients should the sales reps focus on? (Hint: look to the Service Scorecard to tell you who are the most profitable clients)

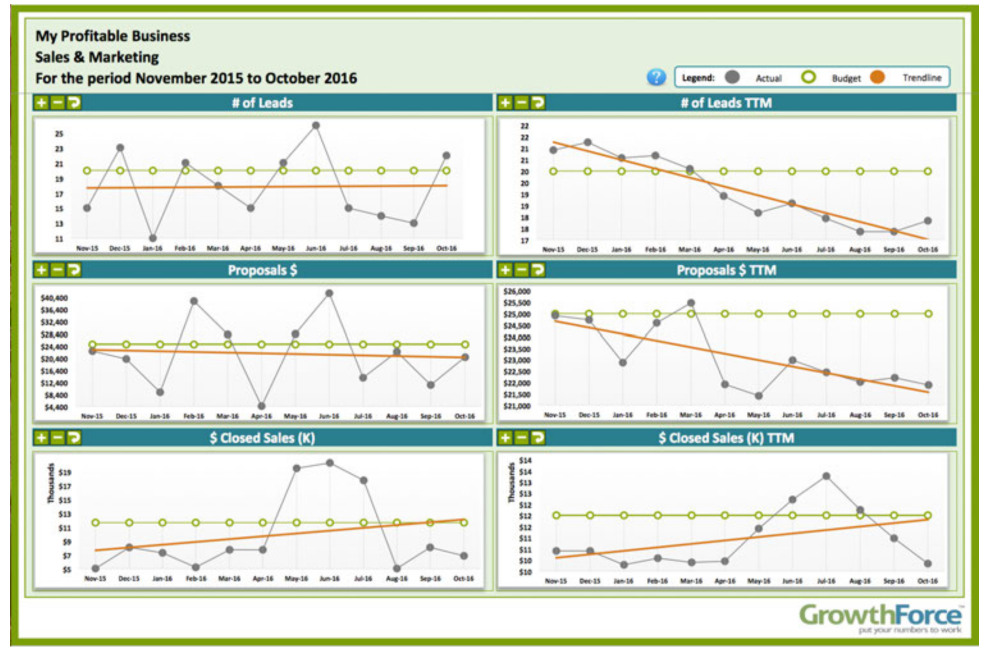
The SAM Scorecard

In sales and marketing, a business' key performance indicators revolve around the steps of the sale. In our KPI template, we have selected three basic sales KPIs based on the three steps of the typical sale.

The sample KPI charts follow the progression of a sale:

Sales Steps Formula

Leads → Proposals → Closed Sales



Charts in the SAM Scorecard

- # of Leads
- $ Value of Proposals
- $ Closed Sales (K)

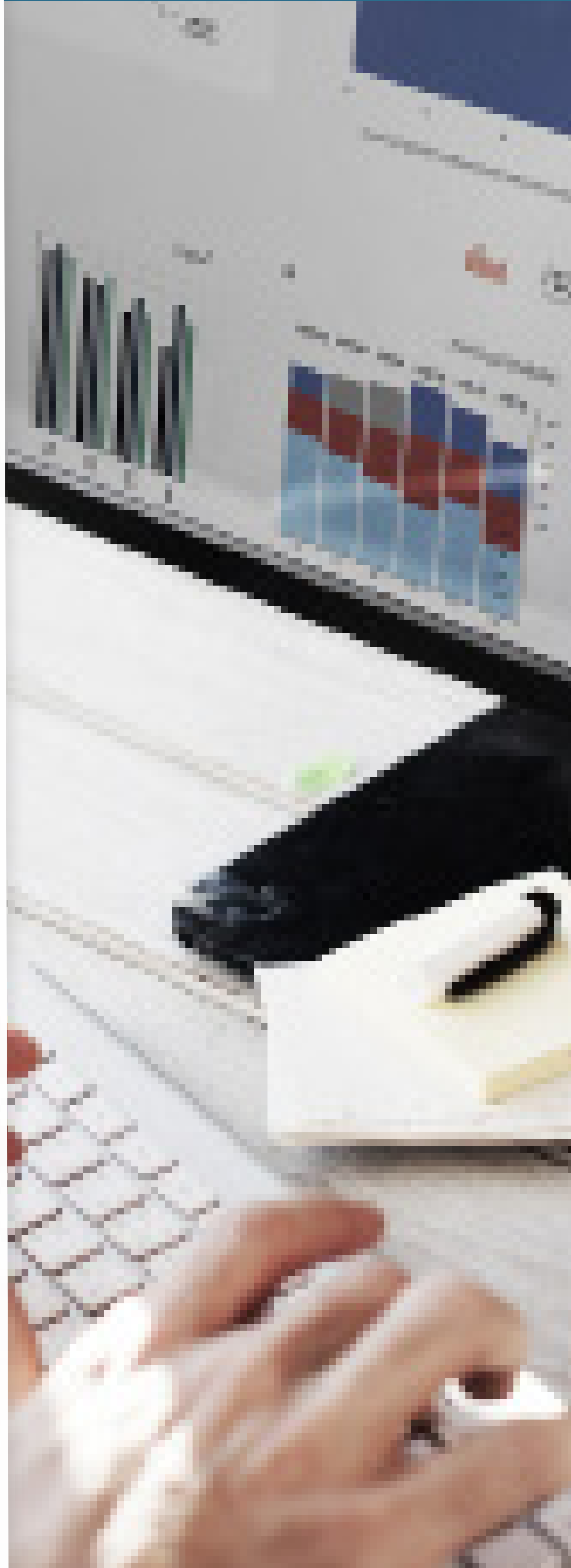
By studying the sales KPI charts, a CEO can make some predictions for the future by asking: What step in the sale process is the best indicator of future success? (For GrowthForce, it's the number of qualified leads). How are you doing in getting those leads versus your targeted goal?

The Sales & Marketing Scorecard trailing twelve month KPIs help you to see trends over time. In any given month leads, proposals and sales may be up or down, giving a false sense of fear or security. The TTM trend looks at a two year trend and shows you what's really happening in the business.

If these KPIs are trending down that usually means lead generation should be the focus of the CEO and sales management. If your pipeline is full and leading indicators of leads and proposals are trending in the right direction, the CEO can focus elsewhere such as increasing service capacity.

If you're a service business, these leading indicators become extra important as it helps forecast hiring plans and when to bring on new people. Having the right employees is the key to success. To get them, you must have the lead time to be able to hire right. You get that extra lead time by looking at leading sales indicators to forecast when you will need more people.

That gives you more time to find someone who has the behaviors that match the core values of the company. That's how you lower turnover.



Additional/Advanced Sales & Marketing KPIs

CEOs should focus not just on total sales but also sales efficiency. CEOs should ask themselves: How many steps does it take to close a sale? What are our percentages of qualified leads that become clients? What is the percentage of proposals that become clients? By understanding your sales funnel conversion metrics and comparing them over time you can learn where to put energy into improving that part of the process.

Tracking activity and profitability by each sales rep, team, office or region will help you see which offices have the best activity and closing ratios.

You should also be analyzing your marketing spend ROI and the number of leads and closes being driven by any given marketing source.

- **$ in backlog (sold but not delivered)** – this tells you what the short-term revenue will look like. Make this one of your key indicators to build a steady backlog in your business.
- **Lead to Close percentage** – this shows how many leads you need to get to close a new sale. This is typically a critical leading indicator of future sales.
- **Lead to Proposal percentage** – shows how many leads become proposals. Work backwards to figure out how many leads you need to generate the targeted number of proposals.
- **Proposal to Close percentage** – shows the percentage of proposals that become clients. Work backwards to figure out how many proposals you need to get a new client.

Client & Services

The Services Scorecard

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Chapter 5
Clients & Services - The Services Scorecard

The back of the CEO brain focuses on the clients and services that drive profitability. Profitability by client or job is the most important metric to monitor in Clients & Services. Why? Because if you make money on other people's time, that usually means you are working on clients or jobs. If you don't work on clients or jobs, then use "per hour paid" as your unit for unit economics

Once you can see profit or loss by client or job, then you can tag each job which allows you to see profitability any way you need to make decisions to improve profits . You can tag each job with codes that will show your profitability by team, industry, product sales rep or even marketing campaign, and can track where your profits come from.

Tactical and strategic CEOs approach clients and services differently. A strategic CEO focuses on client and employee retention issues. A tactical CEO deals with day-to-day service problems and doesn't think ahead to answer the following questions:

Clients & Services Questions a Strategic CEO should be thinking about:

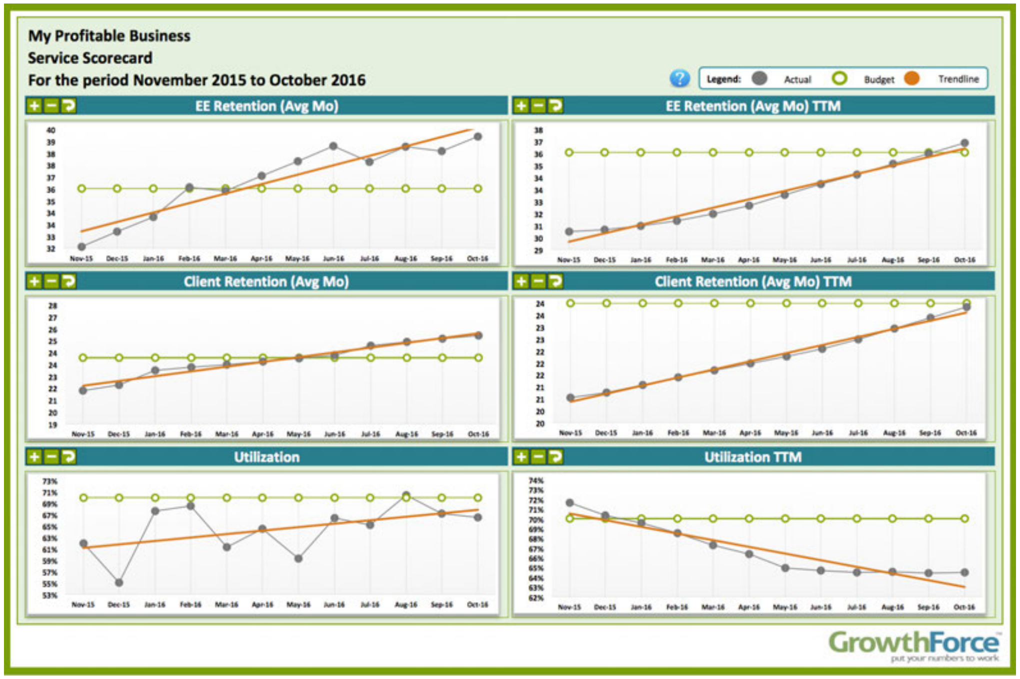
1. Who are my most and least profitable clients?
    - Am I pricing my jobs right? Am I getting my target gross profit margin?
2. Are valuable staff leaving us? Is your knowledge walking out the door?
3. Should I hire a new staff person?
    - First decide which clients you should fire, and if you can replace them with better clients to make more profit from people you already have.
4. Why do clients leave us?
    - What service changes do we need to make deliver a "wow" experience?
    - Where do we already offer additional value services we could charge for?

The Services Scorecard

The Services Scorecard allows you to analyze how well you manage the effectiveness of your staff.

Charts in the Services Scorecard

- Employee Retention
- Client Retention
- Utilization



A CEO must keep tabs on these three KPIs if you want to have your fingers on the key drivers of your service organization:

1. **Employee utilization rate** – you can't look at gross profit per client on the Company Scorecard alone. You also have to look at utilization rate - the percentage of time staff spend on billable activities. This is because gross profit may be overinflated if staff are not charging their time to clients or jobs. Time leakage may be occurring when the rate of employee utilization is below the company's goal.

2. **Employee retention** – businesses that make money on their people must keep knowledge workers to build a high performing teams. Studying why people leave will help you figure out how to keep your best people

3. **Client retention** – this metric is important if you do repeat business from your clients. If not, track some measure that shows how happy your clients are, such as client referrals, net promoter score or client survey results.

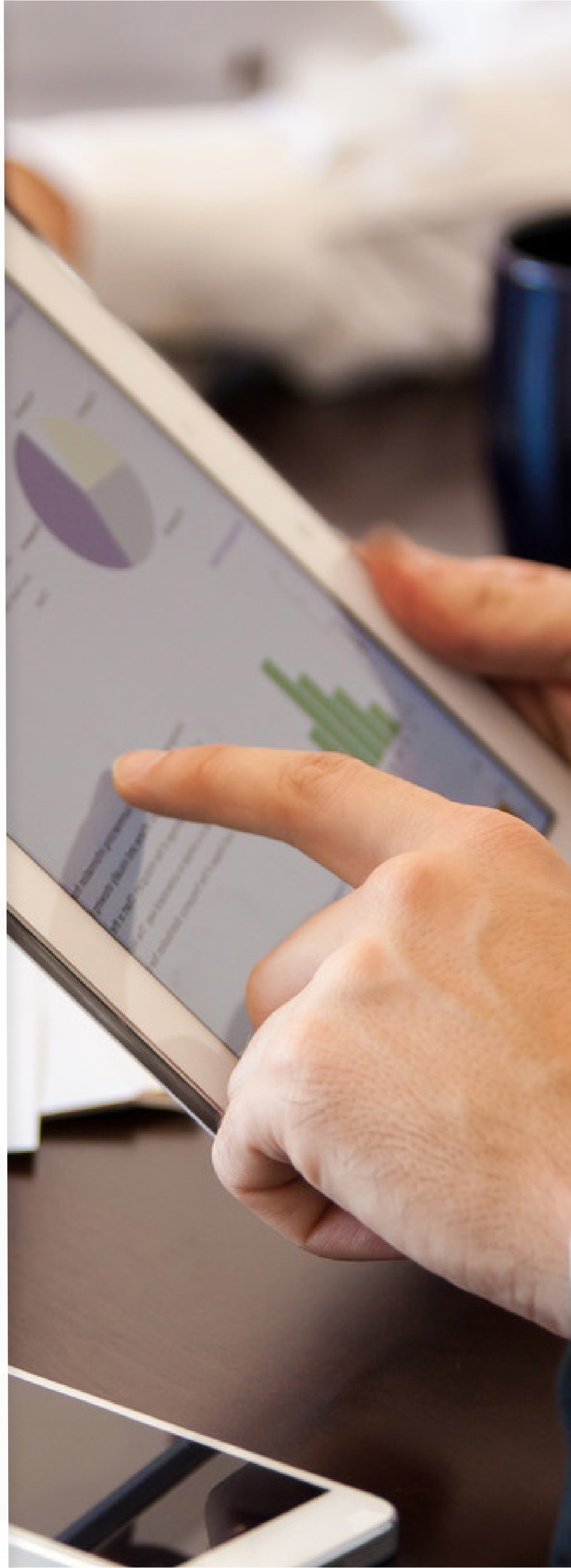
"Typically, service businesses want to strive for **80% - 85%** utilization rates."

A best practice is to look at gross profit and utilization percentages together. Let's say a job shows a healthy 70 percent profit margin this month, but the employee utilization rate is just 50 percent. That tells us employees are not charging all their time to the job. When the CEO checks the reason for the discrepancy, it may be because employees have been charging time to non-billable activities that nobody is monitoring and the gross margin is artificially inflated.

Or a low Utilization might also mean that new employees are being hired but the new hires are not yet reaching their full productivity. The results may also indicate that employees are really spending time in training, not yet serving clients. Utilization rate helps the CEO know how their people spend their time.

Additional/Advanced Services KPIs

- Profit and loss by customer and job
- Profit and loss by whatever way you have organized your business organization: by team, department, location; or based on the kinds of sales decisions you need to make: show profitability by sales rep, marketing campaign, industry, product or service.
- Labor Cost as % of income



People & Operations

The People Scorecard

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Chapter 6
People & Operations - The People Scorecard

The largest part of the CEO brain should be focused on the people. With service businesses, your business' ability to make money is directly a function of how well you attract and retain people who your clients will love. You do that by recruiting to fit your culture, core values and behaviors because culture creates one of the biggest differentiators between success and failure. With payroll costing an average of 70% percent of a service business' costs, you must closely monitor the success of your employees, the biggest expense of your business, to understand where your business is today and where it can go.

In companies that profit from their workers' services, gross profit is directly related to people performance.

Strategic CEOs consider employees an asset to the business. Thus, the lower employee turnover rate will help them achieve their targeted profit margins.

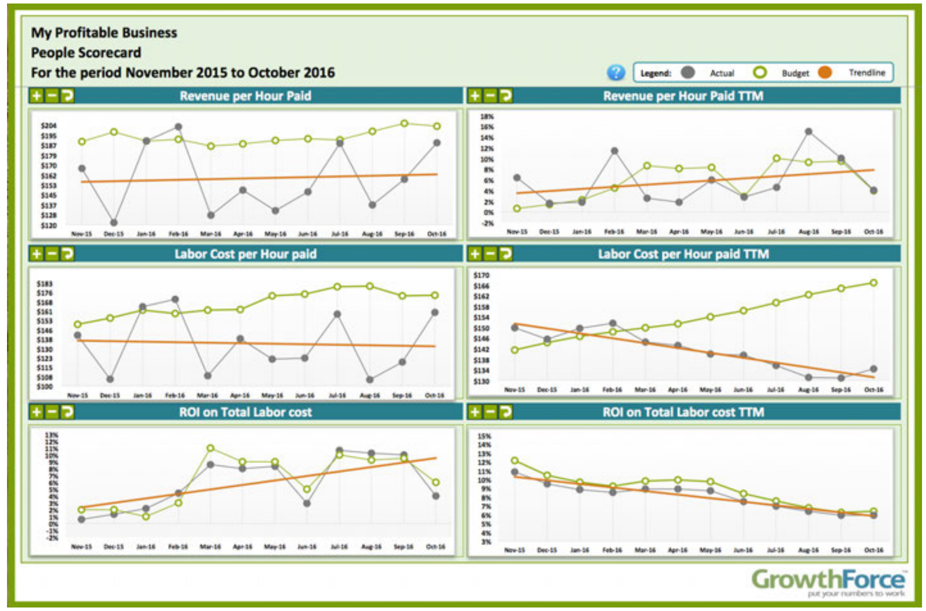
> **"80% of turnover comes from bad hires.**
> You can hire "A" players, if you don't have to rush into hiring employees."

People and Operations Questions a Strategic CEO should be thinking about:

1. Do I have high-performing teams or do I just have workgroups?
2. Do I know who are my best performing people?
   - Who contributes the most to profits? How do I measure that?
   - Are my employees as productive as they could be?
3. Do we know which behaviors are the most successful in our business?
   - How do I reward and recognize our best employees, both at work and at home?
   - Do our employees have a personal development plan?
4. What are the hidden costs of turnover and unengaged employees? Do we have a morale problem?
   - Which employees should be let go and when?
   - When should we hire new people and how much can we pay them?

The People Scorecard

This KPI shows the profit on the investment you made in your people. When analyzing the People Scorecard, CEOs should make sure that the income per hour paid trend line is increasing at an equal or greater rate than the labor cost per hour paid. That's the secret in a service business - driving profitability, lowering your turnover, and reducing the amount of time it takes for a new hire to be a fully productive employee.

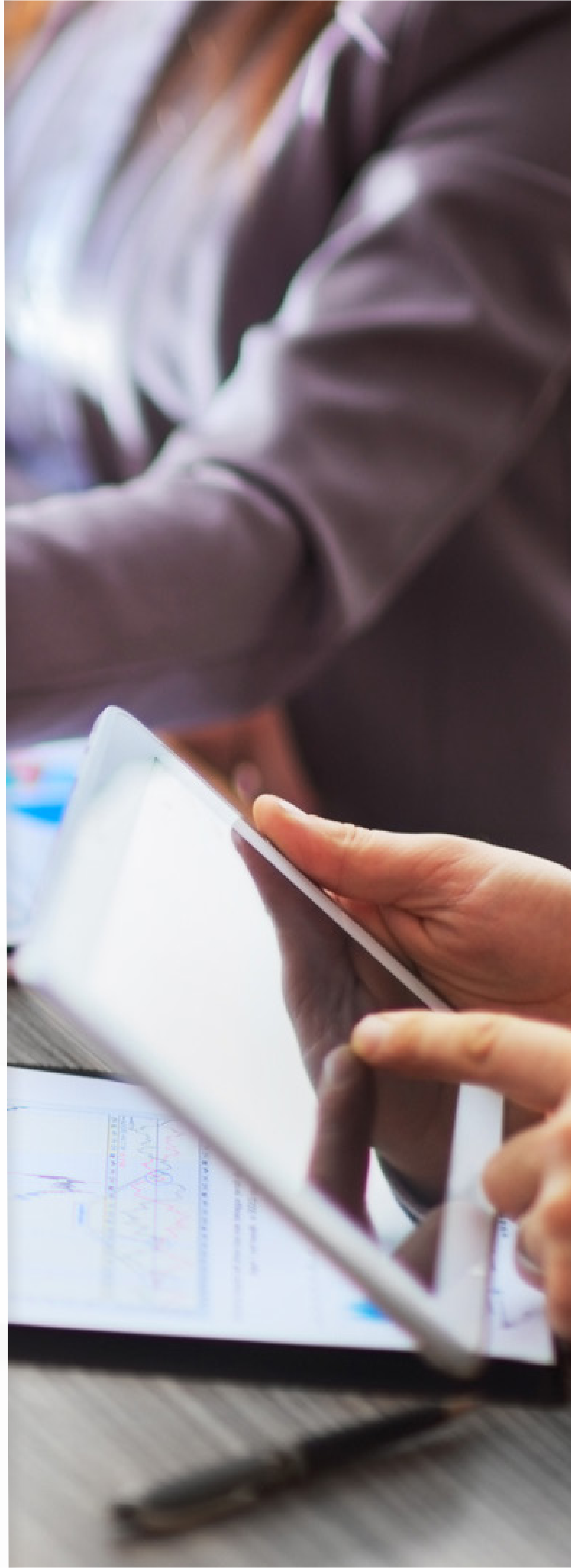


Charts in the People Scorecard

- **Revenue Per Hour Paid** - It shows the total amount of revenue generated from your people and shows the impact of turnover on your company and the company's efficiency in onboarding new staff.
- **Labor Cost Per Hour Paid** - Total labor cost should include the hidden costs of your people, including overtime, recruiting, training as well as the fringe benefit costs of health insurance and paid time off. The rule of thumb is full-time, salaried employees with 40 hours of work per week are considered one FTE.
- **ROI on Total Labor Cost** - the percentage of net income divided by the total labor cost.

Additional/Advanced People KPIs

- **Net Income per Employee** – this metric shows how well you manage the ratio of your people and your profits
- **Compensation per employee** – in high performing teams compensation per employee may actually increase in companies that share profits with the people who causes profits.
- **Compensation as a % of Revenue** – this shows how much income you earn for each dollar of pay in salary. It allows the company to determine if personnel costs are in line with organization goals, industry benchmarks and business plans.



Cash & Finance

The Finance Scorecard

GrowthForce

Chapter 7
Cash & Finance - The Finance Scorecard

The forefront of the CEO brain is focused on cash flow. If cash flow is an issue in a business, a CEO is forced to act tactically. If cash flow is an issue, cash in the bank is what consumes the CEO's attention. They think about it in the shower and when their head hits the pillow at night. They look at the bank balance every day. If cash flow is a problem, the business most likely isn't hitting sales targets or pricing its jobs correctly. They haven't watched their revenue per hour paid versus the total labor cost per hour paid.

Once again pricing jobs is the most important decision a CEO will make. That's why it is critical for CEOs to use job costing to understand the true costs of their jobs, and price according to a targeted gross profit margin. The failure to follow that process is what causes cash flow problems for a business.

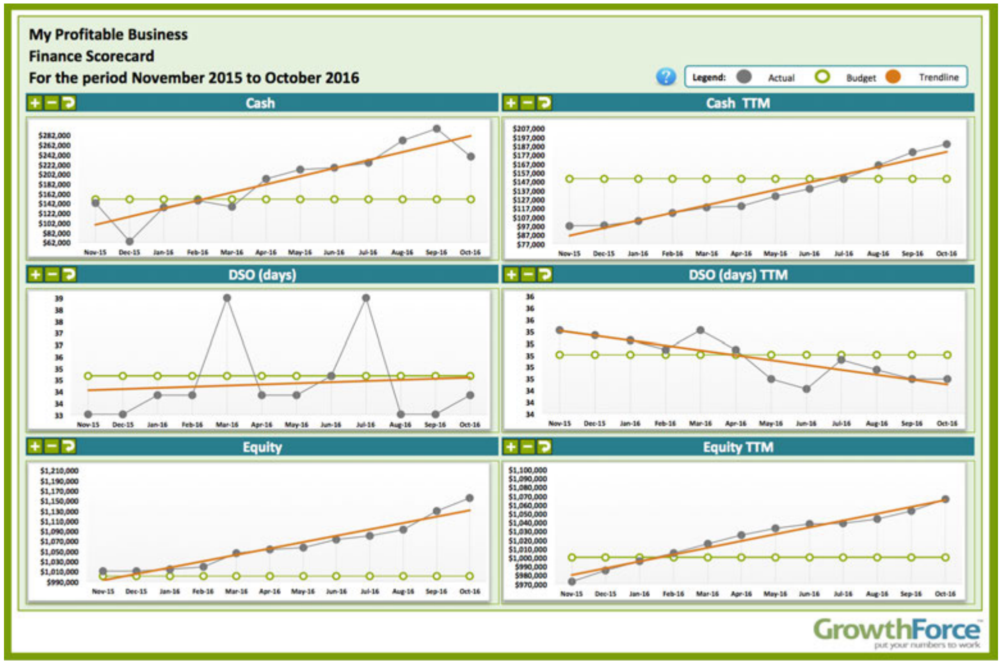
Clients & Services Questions a Strategic CEO should be thinking about:

CEOs with cash flow problems are often forced to make tactical, not strategic decisions. Its the single biggest reason why businesses fail. It becomes a downward cycle in that CEOs make bad decisions on pricing because they are driven by the need to get the next check, not what's best for the their business strategy. That's how small businesses fail.

1. How much cash do we need to invest in growing the company?
2. Are we doing our best to quickly get paid for the work that we do?
3. How can I improve profits by investing in operational efficiency or outsourcing non-core functions to lower costs and improve that function?

The Finance Scorecard

The Finance Scorecard is directly related to all other business scorecards. Since the purpose of the company is to make money, finance is driven by sales and marketing, service and people metrics. More than simply having a relationship with all the other business functions, finance has its own issues to track, including cash flow, EBITDA (earnings before interest, tax, depreciation and amortization) and DSO (daily sales outstanding).



Charts in the Finance Scorecard

- Cash Balance
- Days Sales Outstanding
- Equity

Cash flow: many businesses have cash flow problems. Usually, those problems come from pricing jobs too low or from not implementing best practices in billing and collections.

Many business owners think that they can solve any problem just by selling more. That technique will work, only if you are able to sell good business, getting the target profitability on each client, and make sure that you're pricing jobs right.

However, if you sell low-margin business, that practice will extend your cash flow problems, not solve them. Service KPIs should focus on customer and job profitability as well as employee retention. Predictable and reliable employee output allows you to plan for the future.

"Service KPIs should **focus** on customer and **job profitability** as well as employee retention."

EBITDA: Earnings before interest, tax, depreciation and amortization are a measure of a company's operating performance. EBITDA lets you evaluate a company's performance without having to factor in financing decisions, accounting decisions or tax environments. EBITDA is a great placeholder for cash flow. If you have strong EBITDA you'll have great cash flow.

Days Sales Outstanding: The DSO ratio is the accounts receivable amount divided by the average sales per day.

DSO measures the average age of your accounts receivable. If your DSO average is trending up, then your business is more likely to struggle with cash flow. Knowing your DSO can help you determine whether to outsource collections or to simply improve your current billing and collections processes and policies.

Additional/Advanced Finance KPIs

- **Return on Assets / ROA** – Return on assets, or ROA, tells you what percentage of total assets in the business was returned to you as profit.
- **Return on Investments / ROI** – Return on Investments / ROI sometimes is used the same as ROA, but often is used to tell the ROI of specific investments such as a marketing campaign.
- **Return on Equity / ROE** – Return on Equity or ROE tells what percentage of profit you make for every dollar of equity of the company.

Getting Started - Putting it to Work

Create a KPI Monitoring System

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Chapter 8

Create a KPI Monitoring System

Once you take on the mindset of a strategic CEO and understand the kinds of decisions you'll need to make, you can ask the right questions to determine which KPIs are right for your business. How then do you leverage your accounting system to set up a KPI monitoring system?

To produce the KPIs your business needs on a consistent basis, you may find that you need to automate some business processes, like time tracking, or setting up reports to calculate additional metrics, like gross profit - both of which are essential for job costing.

You also need to make sure your books are on an accrual basis and not cash basis. Cash basis reports get skewed based on timing of cash in or out. For example, having a bi-weekly payroll means twice a year there are three pay periods in one month. That means payroll costs for those months are 50% higher than in the other ten months. Said another way, those two months are wrong because the net income is understated and the other 10 months are also wrong because the payroll is understated. Accrual accounting records the income that was earned and the expenses that are incurred, regardless of when the cash went in or out the door.

Make Data-Driven Decisions

Now that you know how to identify and track your business' KPIs, the next step is to understand how to read the KPI charts. The ability to analyze the data found in the graphs allows CEOs to make informed, data-driven decisions about the five key business areas.

To help make this eBook more actionable, GrowthForce has created a companion Excel KPI Template you can use to build your own KPIs. This template comes pre-populated with the charts and info contained in this guide.

Track Your Business Drivers
Download Now: **KPI Template**

Conclusion

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Less is More

When it comes to KPIs, less is more. One mistake a business owner often makes is they track metrics just because they can. The fewer items you track, the more valuable each metric becomes. Not only does it cost money to create and have managers try to figure out each report; if you focus on everything you aren't focused on anything. Limit yourself to as few KPIs as possible just getting the key information you need to make decisions.

Dont Change Your Culture

The most profitable companies know that culture eats strategy for lunch. Whatever you do, don't let this Keeping Score program and your new KPIs change your culture. In fact, you should do the opposite. Use your KPIs to reinforce your core values and culture.

For example, at GrowthForce we have a core value of Teamwork . That means we value team members higher than individual high performers. Our actions and incentives are designed for one accounting team to work together. That means we use our "P&L by team" reports to get all managers working together to help the lower margin teams, rather than using the KPIs to get them to compete against each other.

Score a Winning Playbook - Get Help with Your KPIs

By using KPI scorecards, a CEO can confront business' financial realities - just like a coach with a winning playbook.

The CEO's Guide to Keeping Score gives management a road map to improving a company's bottom line. Successful CEOs and businesses are more likely to be using KPIs to produce actionable financial data to drive their business decisions.

As valuable as the traditional financial statements may be, they do not slice and dice the most important profitability metrics, which should form the basis of your business decisions. Most businesses utilize some form of key performance indicators, but chances are that many businesses do not monitor the correct KPIs.

Service-oriented companies, in particular, should utilize KPIs that scrutinize the relationship between pricing, staffing and cash flow. To recap, KPIs can help you set pricing strategy, determine your best performers (clients and employees) which helps you figure out where to focus your sales reps and which marketing campaigns to invest in and stay on top of your cash flow.

When business leaders fully grasp concepts like gross profit percentage, they can better identify their profit drivers. By identifying and monitoring custom KPIs for your business, you will be able to focus on your most profitable customers and clients.

A business owner may find that outsourcing or augmenting their accounting department to a third party is what they need to get on the right track to keeping score.

Let GrowthForce Help You Get Started

To know if your business could benefit from outsourcing, ask yourself these three questions:

1. Do you know who are your most profitable clients and employee?
2. Are you getting financial reports that help you drive performance?
3. Does your business use QuickBooks?

If you answer "no" to the first two questions, and "yes" to QuickBooks, talk to us about how we can set you up with a customized KPI reporting package to enable your business to run better, grow faster and make more money. Contact us today!

About GrowthForce

GrowthForce provides outsourced bookkeeping, management accounting and controller services for growing businesses and nonprofits. GrowthForce combines advanced QuickBooks accounting system design with a fractional share of a full service accounting department including a U.S. based, dedicated team of bookkeepers, accountants and controllers. Our customized financial reporting and KPIs help small businesses and organizations drive performance and profitability through data-driven decisions.

To view our full library of case studies, white papers, and guides, please visit http://www.growthforce.com/resources.

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