

The Importance of Key Performance Indicators (KPIs) in Tracking SMB Performance

Overview

A defining characteristic of many successful small and medium-sized businesses (SMBs) today is the ability to capture, monitor, and evaluate ongoing performance data and track progress toward goals. These Key Performance Indicators (KPIs) are the metrics that provide a quick, accessible snapshot in time of your business' health and performance. They enable you to gauge current performance, predict future performance, and make informed decisions based on data-driven insights.

KPIs are used to monitor every aspect of business performance rather than relying on faulty instincts and inaccurate assumptions. Without using analytics, regardless of experience, it is nearly impossible to measure how well you fulfill organizational needs and meet business objectives. While most SMB leaders recognize this truth, it can be difficult implementing a comprehensive system of KPIs due to a lack of time, knowledge, and tools.

KPIs are quantifiable, measurable values that demonstrate progress toward successfully reaching business objectives. Once you start diving into analytics, your company should customize a set of overarching KPIs that track the overall performance of your business towards achieving its specific goals and a set of lower-level KPIs to measure the performance of individual departments, units, and employees.

It is important to note the difference between KPI and goal, which are sometimes used interchangeably but have a key distinction. Your business goals are the SMART (specific, measurable, assignable, relevant, and time-bound) outcomes you want to achieve, and KPIs are the indicators that tell you whether or not you are on track to achieve those outcomes.

Benefits of Business KPIs

Keeps your finger on the pulse of your business:

KPIs provide a real-time, accessible view of performance. These indicators empower your leaders with a precise understanding of how your company is performing relative to specific metrics so that you can make informed adjustments with a high degree of confidence in your decision-making. The alternative is to fly by the seat of your pants, making assessments and decisions based on limited information and imperfect intuitions.

Tracks goals and targets:

By tracking the same KPIs daily, weekly, monthly, quarterly, and annually, you can detect critical patterns to see where you are succeeding and where you are falling short. With this information, you can optimize your strategies to reach your SMART goals. By detecting small patterns and larger trends, you can determine how far from your objectives you are and make more accurate predictions about target attainment.

For example, if your company goal is to sell 50 high ticket items each month, tracking your daily and weekly totals, as well as individual sales performance, helps you implement effective measures and incentives to reach your target. Knowing that there is a transparent system of accountability, individuals work harder to achieve their assigned goals. With established KPIs, teams work more collaboratively, leaning on one another and being accountable.

Builds on what you learn:

KPIs develop a culture and an individual mindset of learning within an organization. Tracking KPIs and holding progress meetings leads to meaningful conversations and more informed executive and managerial decisions. When negative patterns arise, leaders can quickly take corrective action, talking with the involved individuals and teams about making incremental changes to get back on track.

Software designed for your industry with real-time customizable KPI dashboards build on this benefit, enabling leaders to see performance at a glance and ask the right questions to adapt. This makes learning from successes and failures a built-in feature of how your business operates.

Increases transparency and accountability:

Without measurable goals and indicators assigned to every level, from individuals to teams, units, departments, and the entire organization, there is no disciplined method for gauging performance. KPIs provide the necessary system for built-in transparency and accountability. This way, everyone knows what the expectations are and can anticipate and prepare for evaluations against expectations.

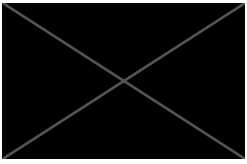
Without vital performance data, you may make assumptions for which you have no quantifiable proof. You may think an employee is performing well because you see effort; conversely, you may believe a team is performing poorly because you don't see the communication through digital channels like email and messaging apps. A KPI may reveal that a manager's assessment of an employee's performance was incorrect and can help to guide managerial improvements. Similarly, poor-performing employees will have a more challenging time arguing their case for raises, bonuses, and even continued employment if their KPIs show missed goals and downward trends.

Guides smart forecasting and decision-making:

When you implement KPIs, you will need to develop and automate the infrastructure and processes to measure, discuss, and respond to them. Think of KPIs as the seeds from which business intelligence systems ultimately grow. By planting these seeds today, you can assure more confident, informed, and accurate business forecasts and decision-making tomorrow.

Keeps employees focused and motivated:

Often, SMB leaders worry that instituting KPIs will amount to relentless pressure on their employees. In fact, the opposite is true. When people understand expectations, there is less uncertainty, which is a leading cause of anxiety and stress on the job. Employees want to know they have specific goals and that you have the training and tools they need to achieve those goals. It drives their daily efforts and results in greater satisfaction when their targets, milestones, and ultimate goals are reached. Managers can use KPIs to reward strong-performing employees with updates on their progress and nudge underperforming employees to remember their training, get back to fundamentals, and reverse poor performance patterns. KPIs create an individual success mindset and a corporate culture in which employees feel focused, equipped to succeed, and motivated.

**Ensure performance continuity:**

Executives and managers may turn over through the years, but the most important metrics you run your business should remain relatively constant. KPIs promote the achievement of long-term strategic goals, which are essential to a company's long-term planning.

Functions that KPIs should guide

Customer management:

Customers may not communicate their dissatisfaction, but their actions certainly do, and that's something that every business leader should have the tools to see and understand. To keep customers happy, two important KPIs are:

- **Growth rate:**
The rate at which your customer base is growing, per time period.
- **Retention rate:**
The percentage of customers that return to your business after a given period, relative to the total number of customers.

Service management:

If your business is service-related, customers evaluate the quality based on website uptime, timely deliveries, and problem resolution rates. Every service business has its own unique set of KPIs that provide a total picture of how it meets service expectations. Industry-specific software enables you to customize dashboard views to the KPIs that matter most to your business.

Field service management:

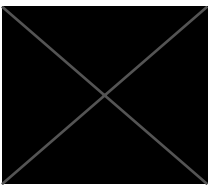
KPIs are critical here, in part because they provide visibility into the performance of employees who work primarily offsite. Some KPIs that field service businesses track include first-time fix rate, billable hours, SLA compliance rate, and rescheduling ratio. To learn more about KPIs for field service, download our **Key Performance Indicators for Field Service Businesses** eBook.

Employee performance management:

How do you assess whether employees are meeting their expected standards? It's challenging without quantifiable measures and reliable indicators. That difficulty becomes compounded over time as you forget past accomplishments and recency bias takes over. The best SMBs across industries monitor employee performance with KPIs that track specific targets. It becomes much easier to conduct fair and accurate performance reviews and uphold high-performance standards over time when you use KPIs. Employees want to be evaluated based on these objective standards rather than individual managers' unpredictable subjective standards and biases.

Financial management:

Financial metrics are the ultimate measure of your company's performance and among the most frequently used. High-level KPIs like debt-to-equity ratios and operating cash flow are the traditional measures of a company's financial health. Having the right software tools enables executives to take the next step by tracking and monitoring more detailed and sophisticated sets of KPIs.



How to choose the right metrics

Start by reviewing the high-level metrics that provide the most straightforward view of your business' health, such as net revenues and days to close. Avoid falling into the trap of selecting random KPIs or too many for your needs. Talk with other business leaders in similar verticals and learn about the metrics that matter most to them.

To get started choosing the right metrics for your business, download **The Ultimate Guide to KPIs that Matter**.

In conclusion

As you implement KPIs, make sure that you have them tiered for individuals, teams, units, and departments. Base KPIs on the SMART (specific, measurable, assignable, relevant, and time-bound) outcomes you want to achieve and should be implemented with tools that enable you to see and understand them in real-time, at a glance.

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