This section is all about explaining your key metrics, also known as key performance indicators. How will you determine if your business is successful? Your total amount of sales revenue? Your net profit? Your customer acquisition cost? Your staff turnover rate? Then, you need to determine your benchmarks. What benchmark do I have to meet to fulfill that key performance indicator?

You should have a chart in your Key Metrics section that models the one below. The chart below outlines some, but not all, key metrics (key performance indicators) options. Use as many or as few as you’d like. The ones with a \* next to them mean that I have not taught them in class, and I won’t be teaching them in class. You can do outside research on those key metrics, but if you decide to use them in your chart, please do so accurately and realistically. The items in the benchmark column are just examples. Make sure you add strategies in the “how to improve” column; some examples of strategies are provided.

**Key metrics**

*Type introduction to your key performance indicators here.*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Key Financial Metrics** | **Purpose** | **Calculation** | **Benchmark** | **How to Improve** |
|  |  |  |  |  |
| ***Profitability (Income Stmt.):*** |  |  |  |  |
| Revenue | Monitor market acceptance and share | SP X Quantity sold | * 2016 $100K * 2017 $150K * 2018 $250K | * Evaluate revenue streams by customer segment to establish strategies |
| Gross profit margin (%) | Measure profit from product sales and our ability to cover operating expenses | (Rev - COGS) / Rev | * Industry Specific * Versus plan | * Increase sales price * Increase quantity sold * Decrease Cost of Goods |
| Net profit | Measure overall performance including operating expenses | Gross Profit – Operating Expenses – Interest - Taxes | * Industry Specific * Versus plan | * Gross Profit strategies above * Decrease operating expenses * Manage taxes and interest expenses |
| ***Efficiency (Balance Sheet):*** |  |  |  |  |
| ROCE\* | Measure efficiency of capital invested in the business | Net Profit / (LT debt + Equity) | * Industry Specific * Versus plan | * Improve profitability * Pay down debt |
| Inventory turns\* | Measure how fast inventory is being sold | COGS / Average Inventory | * Industry Specific * Versus plan |  |
| Days A/R outstanding (DSO)\* | Measure how fast A/R is collected | (A/R / Credit Sales) X 365 | < 30 days |  |
| Days A/P outstanding (DPO)\* | Measure how fast A/P is paid | (A/P / COGS) X 365 | > 30 days |  |
| Cash conversion cycle\* | Measure time to turn inventory into cash | Inventory turns + DSO - DPO |  |  |
| Revenue by employee\* | Measures the efficiency of employees to generate Sales | Revenue / # of employees | * Industry Specific * Versus plan |  |
| ***Liquidity:*** |  |  |  |  |
| Working capital ratio\* |  | Current assets / current liabilities | 2 : 1 |  |
| Acid ratio\* |  | (Current assets – Inventory) / current liabilities | 1 : 1 |  |
| Ending cash balance |  |  | > $10,000 |  |
| Net cash flow |  | Cash in – cash out | * 2016 $100K * 2017 $150K * 2018 $250K |  |
| Cash burn rate\* | How fast cash is being used up | Beg cash – End cash / months in period |  | * Increase revenue * Reduce expenses/costs * Discontinue products * Manage working capital |
|  |  |  |  |  |
| **Key Operating Metrics** | **Purpose** | **Calculation** | **Benchmark** | **How to Improve** |
|  |  |  |  |  |
| ***Customer:*** |  |  |  |  |
| Life time value |  | See Section VII B |  |  |
| Acquisition Cost |  | See Section VIII A |  |  |
| Churn\* |  |  | < 25% |  |
| Satisfaction score |  |  | >90% |  |
|  |  |  |  |  |
| ***Employees:*** |  |  |  |  |
| Staff turnover |  |  |  | * Training, recognition, teamwork, etc. |
| Satisfaction score |  |  | > 90% | * Critically evaluate for prioritizing |
| Staff cost ratio |  | (Payroll + Payroll Tax) / Sales |  |  |
|  |  |  |  |  |
| **Industry-Specific Metrics** | **Purpose** | **Calculation** | **Benchmark** | **How to Improve** |
|  |  |  |  |  |
| Rent ratio |  | Rent / Sales | 6% - 9% |  |
| Sales per square foot |  |  | $300 |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

Lead out with a statement on the importance of the customer and employee Satisfaction scores and a comment about how financial performance will follow if these are attended to.

**More resources about key metrics (key performance indicators):**

<http://business.tutsplus.com/series/key-metrics-every-business-should-track--cms-563>

<http://www.forbes.com/sites/martinzwilling/2011/09/28/10-metrics-every-growing-business-must-keep-an-eye-on/>

<http://articles.bplans.com/7-key-metrics-every-business-owner-monitor/>

<http://thebusinessferret.com/key-financial-metrics/>

<http://cdn2.business2community.com/wp-content/uploads/2015/03/c8fabcbf-a178-4118-9651-950b326178a7-728.jpg.jpg>

<http://www.klipfolio.com/resources/kpi-examples>

<https://www.clearpointstrategy.com/18-key-performance-indicators/>