



## Route to Profits

August 2007

*Sometimes all you need is a little direction...*

If you are a football fan as I am, and if you are as old as I am, you may remember football games 35 years ago had only a few key indicators to track a team's performance in a game. Mostly the tracking consisted of the score at the end of each quarter. Maybe there was an occasional yards rushing statistic for a notable running back or quarterback. Then Monday Night Football was introduced to Howard Cosell. Howard was a New York lawyer who gained notoriety by announcing heavyweight boxing fights and more specifically interviews with Muhammad Ali. Not only was Howard controversial, he had numbers to back up his commentary.

Today, you can not watch a football game without being inundated with statistics about not only the individual players but entire offense, defensive, even the special teams like the punt return and kickoff teams. One thing is for sure, the team with the best overall statistics wins the game.

Our business is much like that football team that is playing hard every Monday night to entertain while earning their paycheck. You can be sure that they are tracking performance along with the media.

You may have previously heard the phrase KPI. It stands for Key

Performance Indicators. Every business and employee has KPIs. In the long run, the company that wins the game is the one that tracks and improves their KPIs on a regular basis.

So how do you start tracking KPIs in your business? The key is to focus on particular areas of concern. Try not to track too many indicators in the beginning. First, identify the area of your business that you feel has the most possibility for improvement; for example, marketing. Much like the football games years ago, you may only be tracking gross revenue each quarter. But what is that really telling you? How are you obtaining the growth you have seen or, more importantly, what is causing the decline?

To answer that question you need to spend some time with your management team. You will brainstorm and agree on the top two or three items that are contributing to your success or decline in sales. Using a force field analysis may be helpful. The items you might identify are sales calls per day, phone calls per day, sales by region, etc. Once you agree on the KPIs to be tracked; you can determine who tracks the measurement and distributes the information on a daily or weekly basis.



One of the limiting paradigms you need to discuss with your management team is the concept of revenue minus expenses equals profit. Obviously from a pure accounting standpoint this is the case. However, this concept is limiting and one dimensional. Discuss and entertain the concept of people times process equals profit. Now consider the possibilities this concept presents to you.

$$\begin{array}{c} \text{REVENUE} - \text{EXPENSES} = \text{PROFIT} \\ \text{VS} \\ \text{PEOPLE} \times \text{PROCESS} = \text{PROFIT} \end{array}$$

Sales now becomes a function of y dollars being derived from x number of sales calls. Therefore, if x number of sales calls produce y dollars of sales then an increase of 1 more sales call per sales person per day should produce what amount of additional sales per month?

If sales is a function of x number of customers being sold a product or service each month at an average price of y then it would stand to reason that average price of y+\$1 would produce how much more sales? I think you get the concept.

KPIs will help you track and improve these types of concepts and will have a dramatic and instant impact on your business.

As the owner/manager of your own business, there is a key benefit and incentive for you to start tracking your KPIs on a consistent basis. Over time you will be able to manage and predict your company's financial performance by tracking the KPIs of your organization.

Now imagine you are on the golf course, it's Friday afternoon and you get an updated KPI report on your iPhone. You open it up and see that all of your KPIs are moving nicely in the right direction. It won't bother you at all that you just put that brand new \$4 golf ball in the middle of the lake!

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