



the business transition specialists

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Designing The Right Management Reports For A Volatile Economy

When the economy is volatile, or trending downhill, the need to respond quickly and proactively to events is critical to staying afloat. Taking days or weeks to respond can leave your business struggling. Too often problems or opportunities remain unrecognized and unaddressed, or are only picked up in the year end accounts, too late for a change of course.

Part of the answer is fast, regular management reports, with the data that reveals issues and supports the necessary decision making to address them. But what data is needed - what kind of numbers matter?

There are two key types of indicators that should be tracked closely, **lead** and **lag**. Businesses more commonly focus their energies on reporting lag indicators what has happened rather than lead indicators which focus on what is to come. **Lead indicators provide us greater analytical and predictive power.**

> Tracking and reporting - lead and lag indicators

Historically, business performance measures concentrated on more on tangible financial measures such as ROI, cash flow and cost of sales. These are all valid and necessary measures, but their limitations for directing management must be realized. They are lag indicators – they show what has happened and not necessarily what is likely to happen. That introduces their second limitation – they do not allow drill down to see where the problem originates or what area of process/operations/strategy needs to be addressed to correct it.

To predict the future in the current economic climate based on lag indicators is impossible; the past can no longer be used as a reliable predictor for the future and it shouldn't be used as one for a performing business in any event.

Key Result Indicators KRIs

These measures have been well termed, Key Results Indicators KRIs. Top level measures such as sales and net profit before tax show the result of many combined actions within the business over a period of time past. KRIs give a clear picture of whether the business is tracking in the right direction, and of the progress made towards achieving desired outcomes and strategies. They are useful to a board or a CEO as indications of how management has performed from a critical success factor perspective.

Key Performance Indicators KPIs

To drill down requires another set of indicators, Key Performance Indicators KPIs. Some of these are measures of the daily activities the business has to perform at a certain level to meet its goals number of employees participating in training programs; number of leads in the pipeline, inventory turnover, etc. In effect they are measures of the activities that further the business strategy, so measuring them focuses the team on carrying out the right activities - those that are in alignment with its strategy.

Other KPIs provide direction on what to do to increase performance. These may not be easy to determine. A good understanding of the business model, particularly the profit drivers, is required.

Finding The Right KPIs	
A consulting services firm	<i>person-hours sold per consultant per week is the major driver of profitability and also allows a review of who is selling how much.</i>
A delivery service:	<i>the number of less-than-full-capacity trucks sent out - while dispatch managers may see sending out small loads as good for customer service, they really cut into profitability. Short delays agreed by the customer would improve profitability while not compromising service level.</i>
An engineering company	<i>the defect ratio - defects lead to goods being returned, extra work to rectify the faults, delays in payment, and lower prices being achieved.</i>

> Know where you are going – not just where you have been

A significant difference between KRIs and KPIs is that whereas the former are all lag indicators, the latter can be either past, current or future measures. To guide decision making and assess the likelihood of a particular action being successful, it is necessary to determine a number of futures or lead indicators.

For sales, the futures indicator with the best predictive power might be 'Orders already booked'. This would not be the sales forecast but the actual orders already on the books or the number of meetings that have already been scheduled with key customers in the coming week, fortnight or month. From there it can be established if the sales plan is on track with orders matching forecasts, or if it is down and some revisions need to be made including reviewing why.

Futures indicators allow prediction and analysis.

> Designing a monthly management report pack

A good management pack should include the measures that indicate where issues are arising and which levers to pull to manage them.

The Ideal Monthly Management Pack
• Clear, reliable and timely data
• Covers the right KRIs and KPIs at different levels of detail for Board/CEO and managers
• Executive summary with a synopsis of KPIs and identification of all key issues.
• Action plan specifying corrective actions and contingencies
• P&L account showing period and cumulative positions against budget - with major variances highlighted
• Projected outturn recalculated on the basis of actual performance and action plans
• Profiled cash flow summarizing actual and projected receipts, payments and balances to year end
• Capital program analysis showing progress of major capital schemes (percentage completion, current and projected expenditure, completion cost and timescale)
• Balance sheet showing working capital position in tabular form or using performance indicators, e.g. debtor and creditor days.

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