How to Develop Actionable KPIs and Harness Your Business Metrics in 2022

Develop the right KPIs for your business and identify the most important business metrics to track your progress toward meaningful growth.

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To effectively grow a business, companies need to continuously track their progress toward their defined goals. However, given the large amount of data available in most companies, it's often hard to know which business metrics to look at to measure success. This is where KPIs can help.

KPIs, or key performance indicators, are quantifiable business metrics that companies set in order to easily evaluate their progress toward an objective. Companies usually narrow down two to four core KPIs per business objective such that, when the metrics are analyzed together, a company can nimbly track its progress toward each goal and take actionable next steps when needed.

What is a KPI?

When developed correctly, KPIs can serve as an important tool for your organization.

Most businesses have a host of metrics available from their internal and third-party data. KPIs are a handful of those metrics that a business has identified as being key indicators of success. The idea here is that if a business's KPIs improve over time, the business is improving toward its goals, and vice versa. By narrowing focus from large sums of data to a few metrics, executives can more easily see their performance trends.

Act as a company health scorecard: They give clear insight into whether the business is growing or declining relative to overall goals.

Measure progress over time: KPI trends clearly show how a company has either improved or declined relative to its goals.

Identify when to take action: As soon as executives see their KPIs deteriorating, they know it's time to take corrective actions.

Identify patterns: Measuring KPI trends over time can help identify performance patterns such as seasonal performance shifts, macroeconomic trends and more.

Commonly Tracked Business KPIs

Each business will have different KPIs tailored to their business situation, but there are a few common KPIs that growing businesses utilize based on their goals. These include:

Sales & Marketing	Finance	Project Management
CAC Cost to acquire a customer	**Net Margin** Profitability after overhead and fixed costs	**Cost Variance** A projects actual cost vs. its budgeted cost
MQL Number of marketing qualified leads ready for sales outreach monthly	**OCF** Operating cash flow ratio measures your ability to pay for operating expenses	**% Projects Completed** How many projects are completed vs. canceled
LTV Lifetime value or revenue a customer will bring over the entire relationship	**Current Ratio** Measures short-term liquidity for meeting financial obligations	**Headcount/Project** A measure of resource efficiency

Overall, setting business KPIs that are targeted toward company objectives can help a company measure its growth and take action with ease.

How to Develop Actionable KPIs

Developing KPIs involves strategic goal setting and defining how to measure and communicate those business metrics to your organization and stakeholders.

Data is Integral to Building Objectives and Tracking Progress

Businesses may approach KPIs by evaluating competitors' tracked metrics and following or differentiating based on those benchmarks. But business must also look internally to their own data.

Before you can create actionable KPIs, you need the data infrastructure to know where you are as a business and where

you believe that you're headed. The foundation of a meaningful KPI starts with your data, and more specifically, with good financial forecasting and modeling.

A financial forecast allows you to play with different assumptions to see what a certain department or service line would need to do in order to make a greater impact and fuel growth. For example, what would a new executive hire or a new product need to return in order to justify the investment and reach the goal set for that investment? When you have an idea of where your business will be in a year, you can create objectives that build on that information.

Of course, each business will have different data—both with regards to type and volume—which means that your objectives should be based on what you can realistically track, how frequently you can track it and what makes the most sense for your business.

Form S.M.A.R.T. Objectives

Once you know what drives your business and where you are headed, you can create objectives that truly propel you toward your vision. Examples of strategic objectives include increasing stockholder shares within the next year or increasing internal revenue for the next two years.

Creating S.M.A.R.T. objectives allows you to create objectives that meet a common business goal but that can have varying levels of granularity.

When evaluating business objectives, it's helpful to follow the **S.M.A.R.T. method**, a framework for setting clear, achievable company goals. S.M.A.R.T. strategic objectives meet the following criteria:

S

Specific:
A clear outline on what the business is trying to achieve, when, and how it is going to get there

M

Measurable:
An objective that is clearly measurable using existing business metrics

A

Attainable:
A business goal that can be achieved with clear, actionable next steps

R

Relevant:
An objective that will contribute to the overall performance and success of the organization

T

Time-Bound:
A goal with clear time frames or deadlines

Align on Your Companies Definition of Success

Oftentimes, business goals are high level, so it's not always clear what achieving that goal looks like. Thus, it's important to set clear definitions of success for each objective. For example, if the company's goal is to increase new customer acquisition within the next year, it may measure success as an X% increase in new customer purchases in a one-year time frame. If leadership can identify what success will look like, it will be much easier to align on what metrics to use for their KPIs.

Define Measurement For Quantitative and Qualitative Business Metrics

This is the stage where business metrics come in. Some goals can be measured directly. In the example above, a clear KPI for measuring new customer acquisition is the number of new customers who purchased in the last year.

However, some goals don't have one KPI that can accurately measure the company's progress. For instance, companies may set qualitative goals like increasing employee happiness this quarter or boosting customer satisfaction in the next year. With such goals, it's best to choose a few KPIs that, when looked at holistically, give a clear picture on how the business is progressing. In the employee happiness example, for instance, employee satisfaction scores, average number of vacation days taken and other metrics may all be necessary to get a clear picture.

Communicate KPIs Effectively

Once you've aligned on goals, definitions of success and how to measure your KPIs, it is time to implement. Measuring and communicating KPIs involves a few steps:

Define Data: Make sure that everyone in the organization understands where the data comes from and what these measurements mean. It is much harder to make key business decisions based on KPI performance if everyone is unclear on how you measured each KPI and what it implies for your business.

Set KPI Ownership: There are two types of KPI ownership at a growing company: the employee (often a financial analyst) who collects the data and measurements and the person (usually an executive) who interprets and communicates the KPI and its implications for the business.

Create KPI Dashboards: In order to quickly interpret KPI data and trends, compile your KPI performance into a simple dashboard or visual that company executives can easily glean insights from.

Avoid Common Challenges of Implementing KPIs

Even if a business follows all of the steps above, there are a few common pitfalls that may deter a business from setting accurate, actionable KPIs. These include:

Lack of consensus: Even if company executives can align on overall business objectives, they often disagree on what success looks like and how to measure it. It's important not to have too many definitions of success, as this can lead to a long list of KPIs that are difficult to look at holistically.

Inadequate Data: A business's KPIs are only helpful if the underlying data is accurate and timely. This can be avoided by providing clear definitions of the business metrics used to measure the KPI and how often those metrics are pulled.

Too Many KPIs: Many companies add more KPIs to the analysis than are really necessary, thinking that more metrics and information is better. Additional measurements create clutter in a KPI dashboard and make it difficult to identify key trends in company growth.

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Want to define the right KPIs for your business and set yourself up to achieve your business goals? FP&A services can help you define the best KPIs for your business, create KPI dashboards and other visual tools that you can use to highlight company progress and identify issues in the long-term. Request a consultation with Paro today to enable your company to drive and measure growth.