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Business Leaders Get It.

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Business decisions require a real-time scorecard

When your business' profit picture is in great shape, you enjoy plenty of banking, investment and finance opportunities. That is why now is the time to drill down and optimize results for 2006, and set up 2007 to be as strong as possible.

Have you identified the key financial performance indicators that contribute to your company's profitability? What would it mean if you could identify the percentage of unprofitable customers, or the dollars lost in unprofitable customer relationships as the orders are taken — as opposed to 20 to 30 days after the close of the month after the order ships or even at the close of the year?

Chances are, it would mean a great deal to your bottom line. Without information in real time and a format that is actionable (in other words, able to be acted upon), based on root cause and simple to understand, it is impossible to manage for optimal results.

A popular topic in business today is creating a balanced scorecard, but few in small business actually create tools or meaningful measurements to help them be proactive in their businesses. This reactive management style is costing businesses thousands, if not millions, of dollars in lost profitability.

Business owners often let common roadblocks stand in the way of creating meaningful scorecards. They are:

- Overwhelmed about what to measure
- Likely to overcomplicate their scorecards
- Concerned about the accuracy and integrity of historical data
- Worried about complex information technology platforms that make it difficult to extract relevant information.

Here is the good news. Today's sequel-based computer systems make it easier than ever to create root cause, simple-to-under-

MEASURING SUCCESS



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stand and actionable measurements. These measures should be delivered daily to the users' e-mail or displayed on their desktops. Identifying root cause measurement is crucial because it offers actionable information. Equally important is communicating with those individuals accountable for achieving agreed-upon performance targets. Keep it simple, and examine a limited number of actionable key performance indicators. Examples can include sales, gross profit, sales by customer, and on-time delivery. Then, engage change to enhance performance in all key areas.

No matter the industry, each individual working for the organization should be accountable to the measurement that he or she can directly influence. And everyone should share in the revelation daily as to whether team performance is on the money or missing the mark.

For example, an important monthly measurement of inventory turns is a dependent variable, and therefore it is not actionable on a daily basis. However, a root cause measurement for inventory turns can be determined by open purchase orders compared to open demand by product category. This provides an actionable, root cause measurement that can immediately be addressed.

A wholesale distributor could determine the price, margin and delivery period by customer, product and salesperson of orders placed yesterday and today. Focusing on the top and bottom 10 would provide

actionable, root cause information. If the business is experiencing a reduction in its contribution margins, more reaction time is available if the trend has already been identified. Otherwise, the books are closed and the products are delivered only to discover that there are thousands or millions of dollars in reduced margin already in the sales order backlog.

If you are watching sales orders and embedded gross margins on a daily basis, you can go into the system and determine that an order is sold at a 28 percent margin. However, if it should have sold at 40 percent gross margin, that is a danger point. This information will offer positive affirmation or negative consequences, and either way is good. By breaking down the information into simple tools or intelligence that is actionable and root cause, you can identify potential issues today before they become profit-zapping problems.

Measurements must be easy to understand. Focus on a limited number of data points. Otherwise, data points in the hundreds will become diluted, difficult to understand and not actionable.

There are a number of readily available and easy-to-use systems on the market today to help organizations of any size benefit from the information that flows from a daily measurement scorecard. From Microsoft Query to Crystal Excelsia to AMS Scorecard to Oracle Scorecard and beyond, it is a matter of making the right decision and learning and deploying the system to your profit-building advantage.

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