Measuring business performance and forecasting

A guide for clients

BWM, Castle Chambers, 43 Castle Street, Liverpool, L2 9SH
www.bwm.co.uk 0151 236 1494

Introduction

Changing market conditions make it more important than ever to measure your business' performance on a regular basis.

Knowing your business' strengths and weaknesses will help you manage your business efficiently.

There are various tools and techniques out there to help you assess the performance of your market, but knowing where to start can be the trickiest obstacle of all.

Finance

One of the biggest challenges is to ensure there is always enough cash to pay expenses when they are due, as running out of cash will threaten the survival of your business.

Cashflow

Regularly reviewing and updating your cashflow forecasts will show the amount of money flowing in and out of your business. This is usually done on a monthly and annual basis.

Comparing your forecasted sales and profits against your costs should enable you to identify any potential problems before they arise.

Profitability

Every business hopes to increase profits as these are the lifeblood of their company. Things to consider include:

- **gross profit margin** – total amount after sales but before tax
- **break-even** – the volume of sales needed to start making a profit
- **net profits** – figure after all overheads, interest and tax deductions
- **return on assets** – level of profit in relation to net assets.

Measuring profitability should highlight areas for potential growth or underperforming aspects of your business.

Accounting ratios

Accounting ratios compare one aspect of your business against another.

They make it easier to interpret financial statements by giving you a greater insight into your business' performance.

The previous list of bullet points can be used in the ratios which measure profitability. Other important ratios to consider include:

- **liquidity ratios** – measure your business' ability to pay debts
- **efficiency ratios** – measure how well you are utilising your business assets
- **gearing ratios** – measures your business' financial leverage.

Customers

Retaining existing clients is as important as attracting new customers.

Talking to your customers will tell you if you're keeping up with their demands and expectations. Even if the feedback is generally positive there may still be areas to improve.

Your sales data would be a good place to start but questionnaires and comment cards can also help identify if your clients are satisfied.

Social media platforms, such as Twitter or Facebook, also offer an accessible opportunity to engage with customers, while a functional website should offer several ways for customers to get in touch.

If your business is performing poorly, clients may take the option to formally complain. But bear in mind many unsatisfied customers will simply switch provider if they're unhappy.

Engaging with clients can help your enterprise identify how your customers' needs are changing and where improvements can be made to your products and services, staff or business procedures.

Staff

The more successful your business becomes the more staff you are likely to employ and measuring their performance within the business therefore becomes an important consideration.

Informal meetings, such as one-to-ones, and annual appraisals can offer practical ways to measure and monitor staff performance as well as an individual's development aspirations.

If workers have specific targets to meet, measuring their performance can be useful.

Sales or marketing targets, productivity figures and profits generated could be tied in with incentives and enable you to ensure your teams are working efficiently.

Another thing to consider is how your staff reflects the identity of your business, particularly if they are dealing with clients on a daily basis. For example, do they adhere to a certain standard in terms of effectively resolving customer queries?

Benchmarking

Benchmarking measures your company's performance against that of your rivals.

It enables you to find ways to improve your performance and understand different approaches to achieve best practice or keep up with evolving market trends.

Strategic benchmarking goes one step beyond, measuring your performance against the best-in-class or what is considered to be world-class performance.

This involves looking at other industries to try and establish best practice, which can then be transferred to drive up standards in your sector.

The importance of business targets

Setting your business accurate targets is important in a number of key areas:

- **Knowing what success looks like:** establishing what you would like to happen means you understand what you want your business success to look like. The company's subsequent performance against those targets will show you how accurate your view is in the real world.
- **Increasing team cohesion:** by setting goals that everyone in the company is working towards you can better ensure that everyone understands what they are collectively trying to achieve. These collective goals can then begin to underpin the decisions individuals make on a day to day basis.
- **Gaining deeper organisational knowledge:** business-wide objectives can be divided into department specific ones, which get everyone on the same page about how they should be working together in theory.
- **The ability to reassess: a** by-product of setting yourself a target for a year's time is that you now also have milestones that you need to have reached in 3, 6 and 9 months' time in order to complete your goal. If by 6 months your original target looks untenable, you can reassess based on your performance.

Accurately measuring performance

A major part of setting the right kind of business targets is having a realistic idea of how your company is actually performing. Without having detailed knowledge of your performance you won't be able to set targets or know whether or not you have achieved them.

SWOT Analysis

Assessing your strengths, weaknesses, opportunities and threats (SWOT) can be a useful way of measuring business performance. Ask yourself:

- **strengths** – what are you doing well?
- **weaknesses –** identify the areas in which you are not performing well
- **opportunities –** are there any favourable developments you can use to your advantage?
- **threats** – factors with the potential to have a negative effect on your operations.

As market conditions evolve you need to constantly review your strengths, weaknesses, opportunities and threats.

Look at your sector and consider what has changed since your last review.

This can help you check your business plan against your objectives and identify if there are any mitigating factors against poor performance, such as a downturn in market conditions.

KPIs

An important aspect of performance measuring comes in the form of key performance indicators (KPIs). UK companies are required to comply with legislation regarding business reviews, meaning that they must report on a range of financial and non-financial KPIs as part of their annual Directors report.

The Companies Act 2006 classifies KPIs as factors "by reference to which the development, performance or position of the business of the company can be measured effectively."

Using KPIs can help measure all of the aforementioned criteria to gauge your business' performance against key objectives.

However, be warned: there are thousands of KPIs to choose from and it is vital you select the right one for the right task.

KPIs are most commonly used to measure financial metrics, such as profits, costs and sales, but you can easily become bogged down.

The trick is to limit the number of KPIs to a manageable figure and focus on monitoring the KPIs that are vital to your business achieving its goals.

The KPIs you should choose will depend on your company and your business sector. It is important to bear in mind that KPIs are not synonymous with your business goals, and have much more to do with your business processes. What is it your business does, what does it need to do it and how can your processes be changed so that you can do more?

Many people like to use the SMART criteria:

- **S**pecific to your company
- **M**easurable
- **A**chievable
- **R**elevant
- **T**ime phased

So, an example set of KPIs for a shoe shop may include:

- capital expenditure
- sales (sales per hour or average sale)
- loss prevention
- visit to buy ratio
- customer purchase value (how much money does the average customer spend each time?).

While a website development business' list might include:

- actual delivery date vs. estimated delivery date
- number of errors per project (bugs or incorrectly implemented features)
- actual number of hours vs. estimated number of hours
- accuracy of project plan vs. actual project.

Contact us to talk about your business goals today.

Setting the right targets

Using your KPIs to set your business targets means that you understand the fundamentals of your business process and can subsequently set realistic targets.

Some important points to remember are:

- while ambitious goals can be a good motivational tool, unattainable targets often lead to apathy
- minor tweaks to business processes can often yield more productive results than disruptive root and branch change
- make sure the burden for reaching your targets is spread evenly around the business, focusing everything on your sales team for example will probably create stress and tension
- there are some aspects of your business which are simply out of your control (such as staff illness or macroeconomic factors) so make sure you include a degree of flexibility.

The essentials of business forecasting

Business forecasting is a complex process of making statements about events that have not actually happened yet. By using your KPIs and your business targets you should be able to paint a pretty accurate picture of what kind of shape the company will be in if you hit all your targets, only some of them or none of them at all.

There are many different methods for business forecasting and which one is best suited for you will depend on the size, scope and sector your company is in.

There are a number of business forecasting essentials which should always be factored in:

- flexibility is key and forecasts should include a range of scenarios from the best possible performance to the worst. This way you will be better prepared for whatever happens
- understanding how your market and how your business fits into the wider macroeconomic environment is vital to successful forecasting. No business operates in a vacuum
- a forecast is not a list of your aspirations and you are going to need to be as realistic as possible to get the best results
- make sure to factor in interest rates and tax liabilities; if your profit grows you could be liable to pay more tax
- many businesses fail to take account of how the small stuff adds up over time; paperclips, teabags and toilet paper add up to significant amounts over the course of a year.

While forecasting, target setting and performance measuring are all distinct practices, when done properly they can work effectively in tandem. Knowing where you want your business to be is not particularly useful unless you also know how you operate right now and how your company is likely to react to different situations.

Setting targets and forecasting can be complex and resource draining tasks. We can help you get right down to the core of your operations and build up an accurate and flexible set of targets and forecasts. We harness the power of Futril a powerful cloud-based management reporting tool transforming your financial and non-financial data into visual performance reports that can be presented as PDF or shared online, providing the insight for making better decisions and improved accountability.

Futrli allows a quick and easy creation of budgets, three-way forecasts and scenarios, enabling businesses to look forward with certainty and strategise for the future.

Get in touch with us today to discuss your business.

FOR GENERAL INFORMATION ONLY

Please note that this guide is not intended to give specific technical advice and it should not be construed as doing so. It is designed to alert clients to some of the issues. It is not intended to give exhaustive coverage of the topic.

Professional advice should always be sought before action is either taken or refrained from as a result of information contained herein.

About Us

Professional, Personal, Affordable.

We are one of the leading, independent chartered accountancy practices in Liverpool. At BWM we provide a wide range of accountancy and business support services to organisations and individuals throughout the North West of England and beyond. Our experienced and skilled partners and their teams are ready to support you with high quality, individual yet affordable services however complex your personal or business needs.

For more details of how we can help you transform your organisation, please visit www.bwm.co.uk or call us on 0151 236 1494.