sage Intacct

E-BOOK

Predictive KPIs

Predictive KPIs can help drive success

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Introduction

Key performance indicators (KPIs) are defined as the quantifiable measures used to determine how well an organization meets its operational and strategic goals. Too often leaders don't look at KPIs through the right lens. Executives who look at KPIs to answer the question, "How did we do?" instead need to ask, "How will we do?" Rather than a rear-view-mirror look at performance, the right batch of KPIs can help predict business success, reveal the challenges ahead, and help data-driven organizations gain real competitive advantages. Predictive KPIs help executives lead the organization rather than just manage, shifting the focus from short-term objectives to longer-term visions. Instead of numbers to hit, these KPIs can help drive change.

Predictive KPIs are those designed to inform and influence decision-making. These are not limited to finance and operational KPIs. Instead, they should include customer perception and market perception of the organization. As detailed below, customer perception can be measured by customer behavior, tracked in platforms such as Salesforce, to predict shifts up or down.

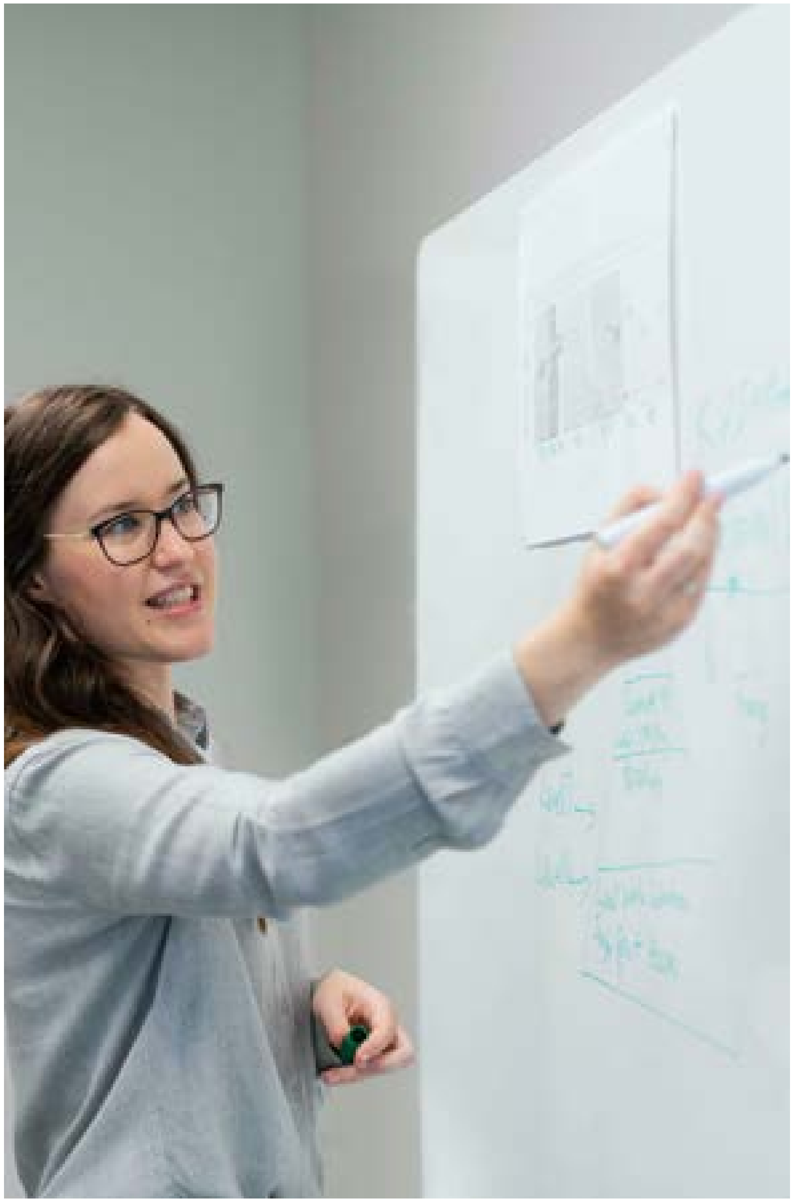
To better understand how predictive KPIs can help drive success, let's look at the stages that most businesses and organizations go through during their lifetime, and the strategic focus for each.

Stage	Strategic focus
Start-up	Execution
Adoption	Engagement
Growth	Expansion
Maturity	Efficiency
Reinvention/decline	Perception

Start-up stage

At the start-up stage, the focus is on how well the organization executes its business strategy. Predictive KPIs at this stage might include:

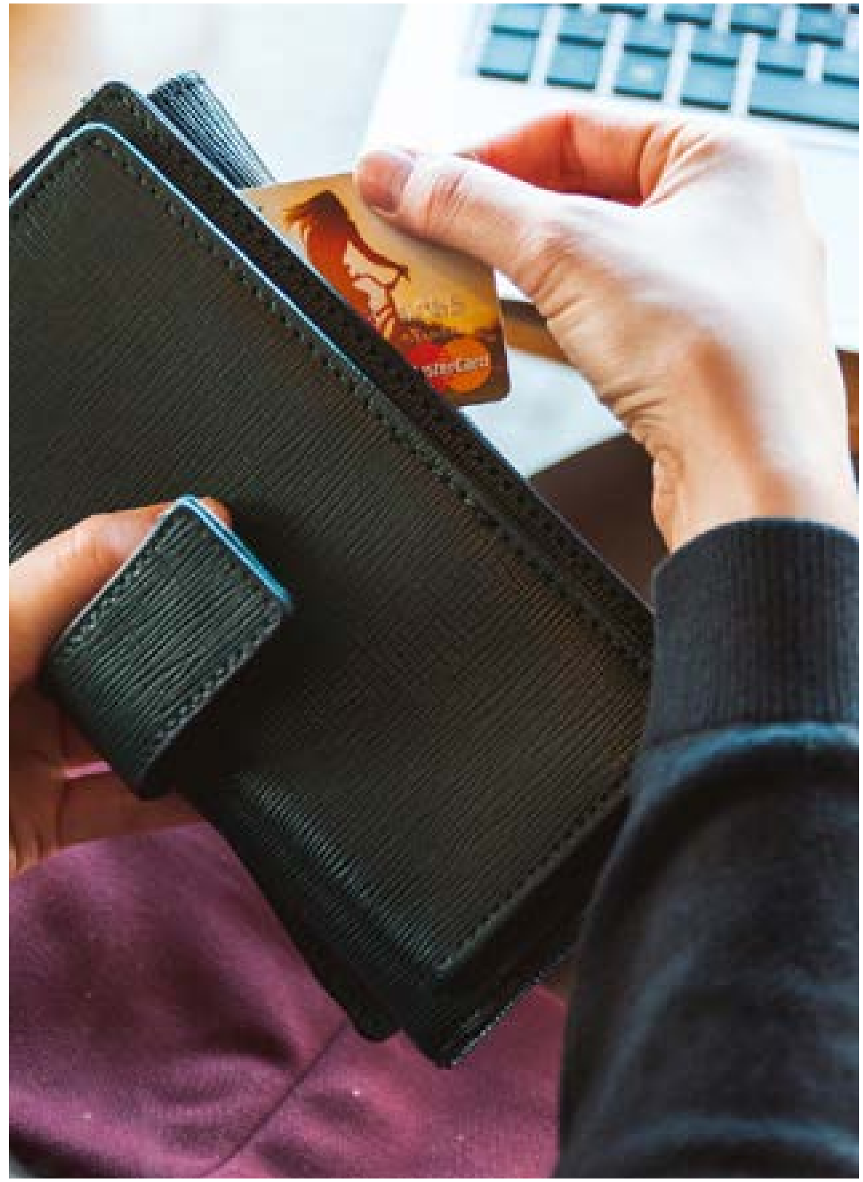
- **Budget variance and the trends over time**: Greater variances would suggest the organization is not budgeting properly, which could lead to challenges moving forward.
- **The ability to meet project deadlines and speed of implementation** (if applicable): Achieving high mark on these KPIs shows the organization can meet its commitments to its customers.
- **Gross burn rate**: Measures the rate at which the company uses up its available cash to cover operating expenses. The higher the burn rate, the faster the companies with a high burn rate will run out of cash without more funding or financing.



Adoption stage

Once past the start-up stage, organizations can focus on how well their customers are engaged with the company to measure adoption. These metrics might include:

- **Unique users**: Growth in the number of customers (unique users for digital concerns) would indicate a growing adoption rate.
- **Daily active users**: An increase in active accounts can help predict future success, while a decrease is a warning sign that something is amiss.
- **Click-to-open rates**: Are your customers opening your emails? Are prospects looking at what you send? Click-to-open rates could be a harbinger of difficulties to come.
- **Current accounts receivable (AR) ratio**: Are your customers paying their bills on-time? A low ratio might indicate that your customers are dissatisfied and are dragging their heels, or it might indicate that your customers are experiencing cash-flow issues and that might lead to cash-flow challenges for your organization.



Growth stage

Predictive KPIs for the growth stage of an organization's lifecycle typically focus on metrics linked to company expansion, and may include:

- **Customer acquisition cost**: This is an important metric to track over time. If the customer acquisition cost is decreasing, it may indicate future growth and a predictor of success. If the CAC is increasing, it may indicate a shrinking addressable market or increased competition.
- **Customer interaction**: This metric should track the type of interaction—positive, negative and neutral.
- **Churn rate**: Lower churn rates are a good indicator of overall customer satisfaction; conversely, high churn rates can show problems ahead. Along with churn rate, it's important to understand what's causing the churn. Are your customers closing their doors? Are they replacing your solution with a competitive offering? Are they not realizing the value that your solution brings? Is the market shifting?
- **Annual return rate**: As the company grows, is the annual return rate growing as well, or are the costs of expansion chewing into returns at a higher than projected rate?
- **Number of sales**: A steady growth in the number of sales is healthy. A sharp increase might predict capacity issues, while a decrease may predict other challenges for the organization.
- **Average deal size**: Is the deal size going up or down? Do you have the capacity to handle larger deals, or the resources to add more deals if the deal size is decreasing? This number will help you predict what actions you need to take to continue a growth path.

Maturity stage

Organizations that have reached the maturity stage focus on efficiency. Typically, companies look as historical KPIs such as gross profit margin, return on sales or operating margin and net profit margin, which are important metrics to track, but predictive KPIs might include:

- **Customer lifetime value**: As a predictive KPI, increases or decreases in customer lifetime value can show where the organization is headed on future return. If the customer lifetime value is decreasing, the company will need to add more customers at a higher rate to achieve its results.
- **Average revenue per user**: ARPU is a shorter-term way to look at customer revenue. As with customer lifetime value, decreases in ARPU might predict revenue challenges moving forward.
- **Cost savings**: Are cost-saving measures producing the expected results, or is the company bleeding money due to lower-than-expected earnings or inefficiencies?
- **Time to market**: How long does it take to get new products or services to market? The answer to this question will depend on complexity, but there are certain stages of the process that should become more routine over time. If time-to-market is increasing disproportionately to expected effort, this KPI is predicting greater inefficiency.
- **Overtime hours**: Is the company staffed correctly or are overtime hours increasing, eating away at earnings?
- **Maintenance costs**: An increase in maintenance costs is another predictive KPI that might indicate greater organizational inefficiency. Over time, it's reasonable to expect some modest increase as assets requiring maintenance age, but unexpected jumps are signs of problems to come.
- **Production volume**: Changes in production volume, where applicable, can indicate future revenue trends.
- **Capacity utilization**: Hand in hand with production volume is capacity utilization. Low capacity could be caused by several factors, including labor shortages or maintenance downtime. If capacity remains low for any length of time, it will negatively affect financial results.

Reinvent or decline

Following the maturity stage, there comes a time when a company either needs to reinvent itself or face decline. Here predictive KPIs focus on perception, as follows:

- **Net promoter score**: This KPI measures customer loyalty from a range of -100 to +100 based on asking customers how likely they are to recommend the organization's products or services. A low NPS indicates the company is at a crossroads and must either make some transformational changes or accept future losses and business decay.
- **Number of support requests**: A swing in the number of support requests either up or down could indicate that customers are encountering new problems, however a decrease might indicate that customers are simply giving up and are ready to move on.
- **Days sales outstanding**: This metric measures how quickly customers pay their bills. It is the average number of days required to collect accounts receivable payments. It can be used as a predictive KPI if DSO is going up, which might indicate growing customer dissatisfaction.

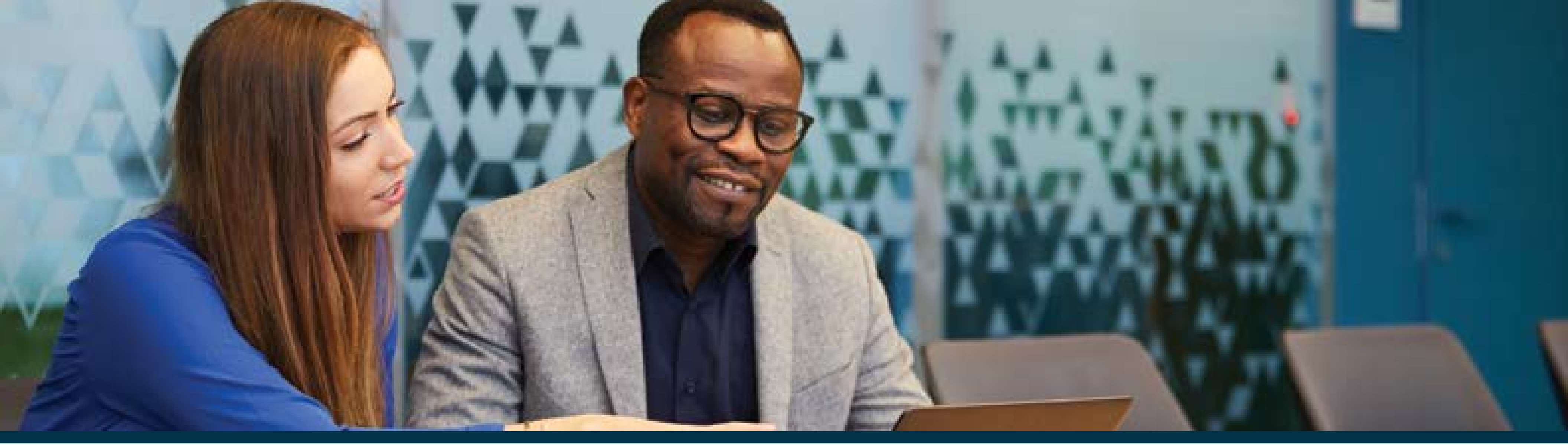
Which KPIs are best for you?

The end goal for any company or organization is growth. We've shared some predictive KPI examples but finding the most useful and meaningful KPIs for your business can be a challenge. Your KPIs will depend on the organization's goals, business model and processes. Some KPIs are almost universally applicable, while others will vary by industry.

We suggest starting by identifying a value outcome—your organization's guiding north star. For public companies, it may be driving shareholder value. Secondly, identify the strategic drivers, then identify the tactical drivers. Lastly, map financial and operational metrics to the tactical drivers. Start by pulling in organization leadership and focus on what to measure rather than how. By integrating your ERP with a modern financial management system, you can automate KPIs and then update these in real time. This gives you the ability to create reports and dashboards that automatically combine operating dimensions with financial data so you can analyze KPIs for each operating entity, location, building, region and other units.

Your KPIs will evolve as the organization goes through its lifecycle. With this in mind, it's important to pick business systems for KPI tracking that can evolve as well. For example, some companies start with simple bookkeeping software, such as QuickBooks, to measure financial performance, but QuickBooks lacks sophisticated multidimensional reporting and the ability to handle multiple entities. More importantly, QuickBooks does not integrate with ERP systems, so as the organization grows, this lack of integration severely hampers the systemic tracking of both historic and predictive KPIs.

For executives at growing companies who want to make data-driven decisions, Sage Intacct provides real-time financial insights. Sage Intacct is a true cloud-native financial management system, built in the cloud for the cloud, and offers simplified integration with other cloud-native platforms such as Salesforce. It offers functionality not found in the various versions of QuickBooks Desktop or QuickBooks Online in areas that include core accounting, data entry, inventory management, job costing and reporting. Unlike QuickBooks, Sage Intacct easily handles multiple entities and currencies, simplifies reporting, closing and audit preparation, and helps finance executives share the data needed to make strategic business decisions.



Sage Intacct

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