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Measuring business performance

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Measuring business performance

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

The impact caused by recent events, such as the vote to leave the EU in June 2016 and the snap general election, have added to the uncertainty felt by business owners around the UK.

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.

For example, to calculate liquidity ratios you divide current assets by current liabilities.

The result will indicate whether your business has sufficient assets to cover its liabilities at that specific time.

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.

If your business is a member of a trade association, you may be able to access industry-wide statistics.

Failing that, another option could be to purchase benchmarking data from industry-related organisations.

This will help you identify competitors (if you didn't know them already) to measure your business' performance against.

Benchmarking will help you look at what is driving success in your sector. Is a rival offering more attractive prices? Is their customer service simply better? Or has a recent marketing campaign gained sufficient traction? By pinpointing these factors, you can stay at the forefront of innovation.

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.

Measurement methods

KPIs

Using key performance indicators (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.

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.

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