

# The Art of Decision Making: Developing and Benchmarking your KPI's

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The Association of  
Accountants and  
Financial Professionals  
in Business

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# About Presenter's Organization

We are a specialized professional services firm comprised of Big 4 alumni and industry executives.



**600+**

Professionals



**220+**

IPOs in the last decade



**1,600+**

Clients globally

**90**

IPOs in the last 3 years

# Learning Objectives

- Understand the importance of KPIs
- How to set KPIs that:
  - Align with the purpose of an organization
  - Are key decision-making tools
  - Provide motivation for all levels
  - Are meaningful and accurate
- How to communicate KPIs to the right people in your organization.



# Agenda

- What are KPIs and why are they important?
- Developing Meaningful KPIs
- Critical KPIs for Business Success
- Communication
- Predictive KPIs



**What is a Key Performance Indicator (KPI) and why is it important?**

# ANALOGY



## Road Trip!

Let's imagine you're on a long car (or motorcycle) trip.

What are some of the items that you keep track of on your dashboard to make sure you get to your destination?

# Road Trip: Important Information

1. **Odometer:** If we know our starting point, it tells us how far we have gone
2. **Fuel Gauge:** Allows us to plan the resources (fuel) that we need to get to our destination
3. **Tachometer (RPM):** Tell us how hard we're working
4. **Speedometer:** How quickly are we getting to our destination and is useful in determining if we are compliant with laws





# KPI Defined

A Key Performance Indicator (KPI) is a quantifiable and measurable metric that is used to evaluate the performance of an organization, a project, a department, or an individual towards achieving specific goals or objectives.



# KPI Benefits

Focus	Clarity	Alignment	Feedback	Motivation
<ul style="list-style-type: none"><li>• Helps teams to prioritize what is most important</li><li>• Provides direction and enables goal-setting</li></ul>	<ul style="list-style-type: none"><li>• How do you define success for sales? Finance?</li><li>• There can be things that are successful for a department, but not for the business</li></ul>	<ul style="list-style-type: none"><li>• Clarity leads to alignment</li><li>• Once everyone is aligned on the goal, success can be attained more efficiently</li><li>• Employees are in the details more than leadership</li></ul>	<ul style="list-style-type: none"><li>• Tracking key metrics closely helps leaders to know exactly when teams are on track and achieve goals</li><li>• Can use to celebrate or motivate</li></ul>	<ul style="list-style-type: none"><li>• KPI targets can become fuel for teams and are most effective when individuals are empowered to improve the metrics</li></ul>

# Developing KPIs

# Poll Question 1:

**What area are you working with that could use KPI's?**

- a. As an individual contributor
- b. Managing a team
- c. Managing a department
- d. Managing an organization
- e. Managing stakeholder expectations

# Poll Question 2 Results: (Placeholder)

“Achieving a goal only changes your life for the moment. We think we need to change our results, but the results are not the problem. What we really need to change are the systems that cause those results.”

- James Clear, author of *Atomic Habits*

# Is the KPI Useful?

KPIs should align with the goals of the organization.



# Said another way...

**Critical Success Factors**



**What?**

**Key Performance Indicators**



**How Much?**



# Examples of Success Factors

Across different industries

- An investment company requires a certain level of profitability of recently acquired companies
- A retail company monitors demand and maintains a certain level of stock of inventory it sells
- A service company aims for excellent customer service and tracks metrics such as customer reviews
- A manufacturing company strives for quality of their products
- A software company has developed a sales funnel and strives for a certain number of different types of sales activities

<b>Critical Success Factor (What?)</b>	<b>Key Performance Indicator (How Much?)</b>
An investment company requires a certain level of profitability of recently acquired companies	EBITDA growth of 10% quarter over quarter
A retail company monitors demand and maintains a certain level of stock of inventory it sells	Minimum of 6 months inventory on hand for the fastest moving products
A service company aims for excellent customer service and tracks metrics such as customer reviews	Overall ratings of 4.8 stars or higher
A manufacturing company strives for quality of their products	Less than .10% defects
A software company has developed a sales funnel and strives for a certain number of different types of sales activities	50 potential customer touchpoints each day

# Developing Useful KPIs

1. Align with the vision of the company
2. Determine critical success factors
3. Marry critical success factors with KPIs



# How will you measure your KPIs?

How you measure KPIs can create different incentives



# Measurement Options

Timing	Quantity	Units	Objectivity
<ul style="list-style-type: none"><li>• A monthly amount produces more consistent results</li><li>• A YTD amount lend themselves well to large goals tied to bonus targets</li></ul>	<ul style="list-style-type: none"><li>• The total of something?</li><li>• How much it changes?</li><li>• New or net change</li></ul>	<ul style="list-style-type: none"><li>• A count?</li><li>• Dollar amount?</li><li>• Ratio?</li></ul>	<ul style="list-style-type: none"><li>• Objective?</li><li>• Subjective?</li></ul>

## Poll Question 2:

**Which KPI do you believe is most crucial for measuring financial health of a startup software company?**

- a. Return on investment
- b. Profit margin
- c. Monthly recurring revenue
- d. Cash flow

# Poll Question 3 Results: (Placeholder)

# Setting Targets

Once you have established a metric, how much of that measure is considered success?

**Past performance vs.  
Industry Benchmarks**





# KPIs based on Past Performance

Start with historical data and adjust for  
certain key factors



## Changes in market conditions

- Economy
- Competitors
- Customers



## Pricing changes



## Cost changes



## Regulatory changes

# KPIs Based on Industry Benchmarks

Industry benchmarks are particularly good for those who may not have good historical data

- New businesses
  - Businesses entering a new product line or location
  - Business making major changes
- 

## Focus on

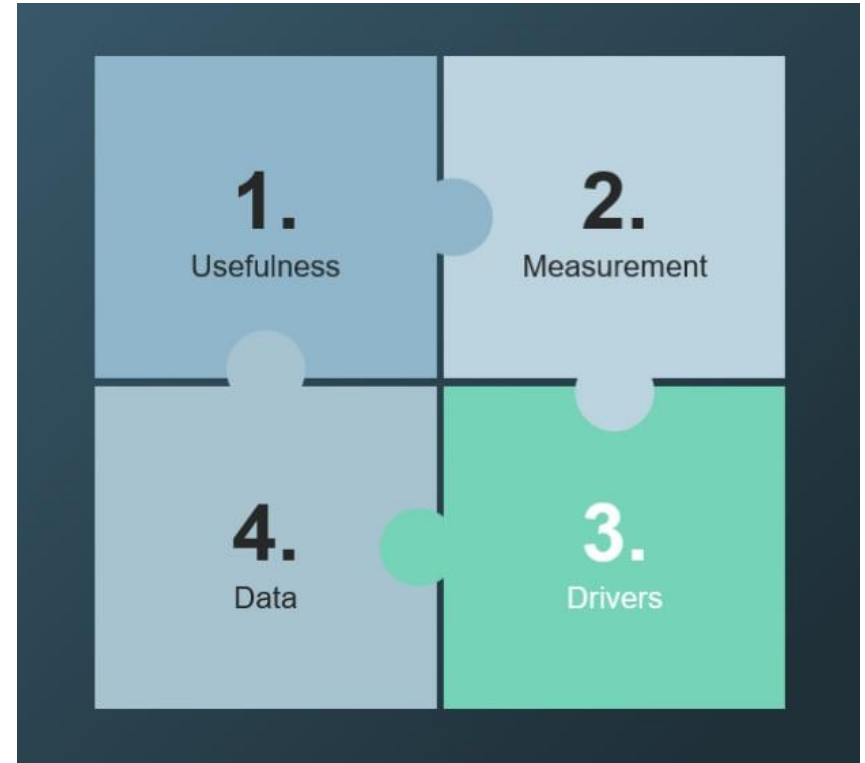
- Trade websites
- Journals
- Conferences
- Industry publications

A good way to see if something is worth measuring is to **measure it retrospectively**

- Did it provide clear feedback on the status of what you were trying to measure?
- Were the results easy to understand or require lots of explanation or context?
- Would it have caused you to make good decisions?

# Assess the Drivers

Don't think on just the results, but the impact that a focus on the results will have to all members of an organization.



# Considering Drivers: Guidelines

- What are the drivers of the metric? Can the person or department responsible for the metric control or mostly control its drivers?
- Is it considered fair?
- Is the measurement easy to understand? If not, can you educate your staff on it?
- Is it motivational?
- Would it ever incentivize people to do the wrong thing for the company?



# Data Concerns

**You may want to measure KPIs with data that you don't currently have**

It's important to develop KPIs with accurate data.

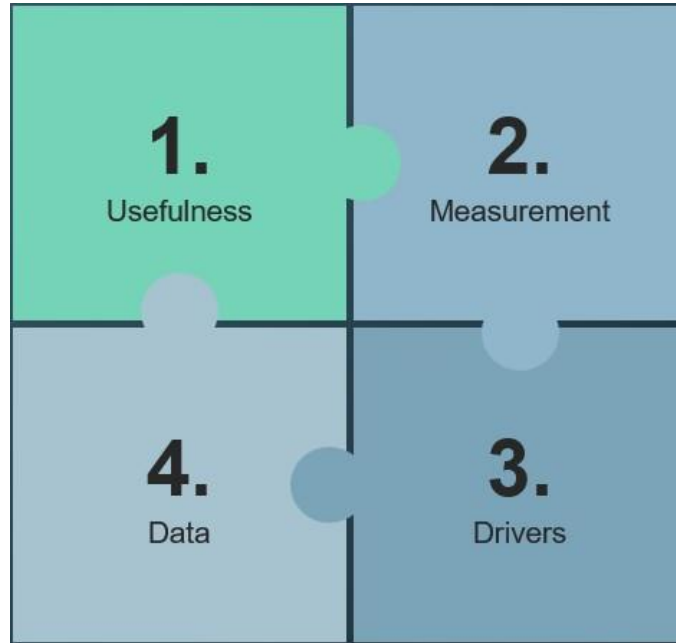
- Start gathering the data now and testing the measurement with the questions that we just went over.
- Implement it when you're sure you have good data, and the metric can be useful.
- Until then you may want to measure it a different way or pick a different metric to measure.



# Recap

What are your company's critical success factors? Create your KPIs based on those.

KPI figures must be generated using accurate and reliable data.



Be thoughtful in how your KPIs are measured. Remember that measurement can cause KPIs to have different effects.

Ensure that responsibility for KPIs are given to the right individuals or groups. They must be able to influence the outcome.

# Key KPIs for Business Success



# KPIs All Businesses Should Track

## Customer Acquisition

- The engine that drives growth. Without steady flow of customers businesses struggle to scale.

## Liquidity

- Liquidity keeps a business operational day-to-day. Maintaining healthy liquidity gives a business flexibility and resilience to handle opportunities and challenges as they arise.

## Profitability

- The ultimate measure of a business's success. While acquiring customers and managing cash flow are critical, long-term sustainability depends on a business's ability to generate profits.

# KPIs to Track

## Customer Acquisition The Lifeblood of Business

- **Customer Lifetime Value** – *Helps guide marketing efforts to retain high-value customers*
- **Return of Ad Spend** – *Are marketing investments paying off*
- **Website / Store Traffic** – *How well are marketing campaigns driving awareness*
- **Conversion Rate** – *How effectively leads are turning into paying customers*

# KPIs to Track

Liquidity  
Cash Flow is King

- **Working Capital** – *Capital available to run daily operations*
- **Accounts Receivable Turnover** – *How quickly customers are paying*
- **Burn Rate** – *Amount of cash the business is burning each period*

# KPIs to Track

## Profitability The End Goal

- **Revenue** – *Sales generated by the business*
- **Expenses** – *Track both fixed and variable costs to ensure it does not outpace revenue*
- **Net Profit** – *Bottom line, does the business make money*

# Industry-Specific KPIs Based on Fortune 100

## Consumer

- Returns
- Membership Base
- New Locations
- Average Transaction Amount
- Number of Transactions
- Store Originated vs. Digital

## Technology

- Traffic Acquisition Costs (TAC)
- Revenue Segmented by Product/Service
- Daily Active People (DAP)
- Ad Impressions
- Average Price Per Ad

## Healthcare

- Number of Consumers Served
- Unique Digital Consumers
- Net Customer Savings
- Medical Customers
- Medical Care Ratio (Medical Costs as a % of Premiums)

# Communicating KPIs



# KPI Dashboards

Choosing a set of metrics to make available to members of the organization.

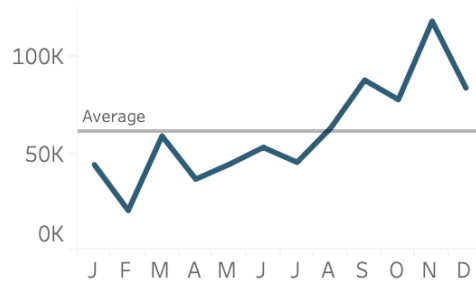
- Who in your organization should have access to KPIs? Should different people have access to different KPIs?
- The number of metrics will depend on the organization, but we commonly see 5 to 15 KPIs
- Consider the use of software to automate generation of KPIs and distribute to key individuals

## SALES

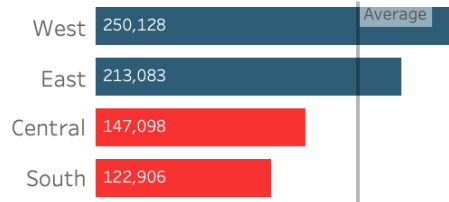
**733,215**

▲20.4% vs. PY

### TREND



### BY REGION

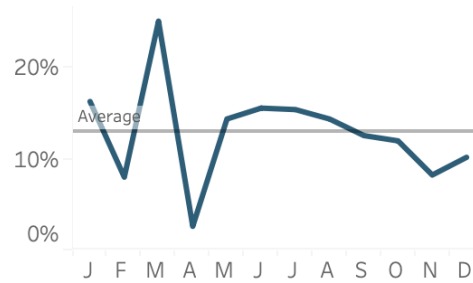


## PROFIT RATIO

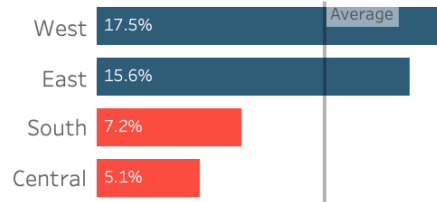
**12.7%**

▼0.7% vs. PY

### TREND



### BY REGION

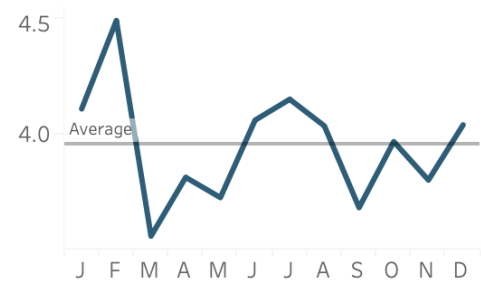


## AVG DAYS TO SHIP

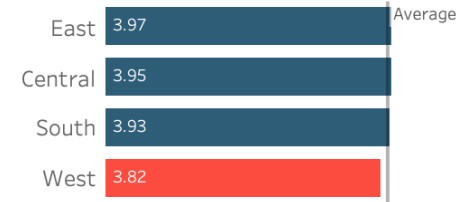
**3.9** DAYS

▼1.0% vs. PY

### TREND



### BY REGION





## Poll Question 3:

**Which software do you currently use (or would be most interested in using) for KPI tracking?**

- a. Spreadsheet (e.g. Microsoft Excel or Google Sheets)
- b. Visualization tool (e.g. Tableau or Power BI)
- c. ERP Reporting (e.g. NetSuite, SAP, QuickBooks)
- d. Other
- e. Don't know

# Poll Question 4 Results: (Placeholder)

# Predictive KPIs

**How can KPI's be used to anticipate future outcomes and drive decision making?**



# Machine Learning (ML)

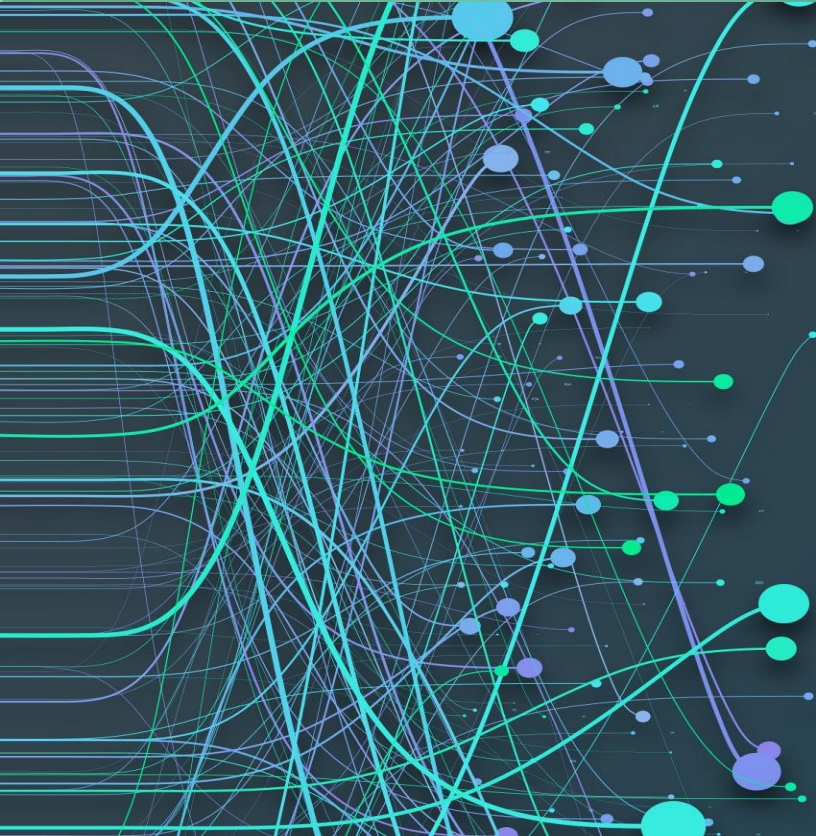
*A branch of AI that focuses on using data and algorithms to enable machines to imitate how humans learn.*

**By leveraging multiple KPI's and other data points, we can produce predictive KPI's.**

**This can be accomplished by leveraging tools such as machine learning.**



# A Plethora of Applications and Opportunities



- Recommendation Systems
- Financial Forecasting and Customer Insights
- Fraud Detection and Risk Management
- Capital Allocation and Optimization

# Use Cases For Predictive KPIs With ML

Proactive data-driven actions and decisions, enhancing revenue growth, cost reduction, and improving controls and compliance.





# Revenue Retention



## Concept

Predicting customer behavior to take proactive measures that accelerate revenue growth.



## Use Case

Generating a predictive KPI that factors in the probability of the customers churn, value to the business, and other key considerations

## Problem

- Scaling proactive time sensitive decisions by customer is difficult
- Identifying drivers of behavior often requires a multi-dimensional perspective
- Customer behavior patterns continuously evolve over time

## Solution

- ML algorithms decipher complex patterns in data to predict future behavior
- Connects the dots across multiple dimensions to uncover drivers
- Continuously learns and adopts to changing patterns
- Produce a KPI that drives prioritization of customer retention efforts

## Impact

- Evolve from reactionary organization to proactive customer strategy
- Accelerate revenue growth through data driven intelligence
- Improved ROI - customer management and engagement



## Poll Question 4:

**What value proposition matters most to your business when it comes to using predictive KPI's?**

- a. Better decision making
- b. Improved data quality
- c. Scaled solutions
- d. Positive financial impact

# Poll Question 5 Results: (Placeholder)

# Start NOW!

- The businesses that can leverage predictive insights from their KPI's before their competition will gain a strategic advantage
- Investing in tools like AI/ML to drive predictive KPIs yields rapid ROI in many cases
- Planning now gives you time to:
  - Create a clear long-term vision
  - Deploy systems that provide robust data and KPI calculations
  - Identify and evaluate use cases
  - Create scale, speed and a competitive edge
- If you wait until you need it, you're in for a long wait and a large cost

When should you  
start?

*Leverage the Gift  
of Time!*

# Questions and Answers



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