Swoop

# A Guide to Key Performance Indicators (KPIs)

How do you establish and measure KPIs? In this article, Neil Dillon gives a crash course in setting and tracking the metrics which will ensure your business is on track for success

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# A Key Performance Indicator is a measurable value which indicates how well a business is achieving its core business objectives.

For business owners to know that the organisation they have set up is performing well and moving in the right direction, it is crucially important to identify and set KPI targets for the whole business.

Every member of the team should be aware:

- what these KPIs are
- what they mean
- how they can help to achieve them

As a business owner, awareness of your KPIs will tell you how to manage your business, where to concentrate efforts and resources and where to fight fires.

# What should the KPI show?

KPIs are the best way to track progress against your business strategy and this tracking should act as a feedback mechanism.

KPIs should also show the value you deliver to your customer: often revenue is the best indicator of that, since the amount of money a customer is willing to pay is a great indicator of how much the customer values your product or service.

*NB. If your business is not revenue generating (for example, it may rely on network effects and a large increase in users before generating any revenue), you may use the number of active users as primary KPI. In this case, ensure that you give a definition of 'active users'.*

# How do I set my KPIs?

As a startup growth is the primary goal, so set targets that will measure and demonstrate this growth over time. What sort of growth do you wish to achieve? Fast initial growth will look great in the beginning, but it will become harder to maintain over time. On the other hand, some businesses need a longer 'time to sell'. An enterprise business will have a longer sales time than a consumer business. So take these differences into consideration when setting your KPIs.

You will need to cover four basic pillars when setting up your KPIs:

1. **Measure** – detailed verbalisation of what it is we are measuring
2. **Target** – numeric value of what you want to achieve, including a due date
3. **Source** – be clear what the source of the data is and keep it consistent
4. **Frequency** – how often will you report on this KPI?

Here is an example of some KPIs using the four pillars above.

| | Raw #s | Progress | Change |
|---|---|---|---|
| Measure | # of new customers compared to this time last year | % Complete | % Increase in Sales |
| Target | 2000 | 100% | 30% |
| Source | CRM (Salesforce) | Project Plan | P&L |
| Frequency | Monthly | Quarterly | Monthly |

# Leading & Lagging Indicators

A *leading indicator* is an indicator of performance that may predict future success or failure.

A *lagging indicator* is an indicator of past performance that measures how the business performed.

Very often we will focus only on lagging indicators because they are easier to measure. If a company wants to know how many sales were completed in the previous month, it should be a straightforward matter to count them.

Leading indicators are more difficult to determine but are crucially important to ensure future success. They are a predictive measure of specific outcomes. For example, if a business wants to increase sales, one good leading indicator might be the number of sales calls to be made in the next month.

*The predictive nature of leading indicators means that they are not a guarantee of success and there may be debate over which indicators to use.*

While they are more difficult to choose and to measure, a combination of both lead and lag indicators will give your business the best chance of improved business performance.

**Decide on your North Star KPI and let that guide you. Your North Star KPI is the critical metric for the long term  growth of the business. While some KPIs are nice to know, this North Star KPI should become synonymous with the growth and success of your business.**

# Some examples of common KPIs

<u>Primary KPI – often the key indicator when making decisions</u>

Revenue

Monthly Recurring Revenue

Active users

<u>Secondary KPIs (pick 3 -5) – these are nice to have and help track progress but our not the main focus of the business</u>

Churn

Customer Acquisition Cost (CAC)

Retention

Organic vs paid users

Referral rate

Gross margin

Burn rate

Payback Period

Contribution margin GMV

Average Contract Value (ACV)

Total Contract Value (TCV)

Net Promoter Score (NPS)

Email conversion

*NB. Every business is different and there is no 'one size fits all' when it comes to KPIs: some will be right for your business and some will be wrong.*

For example, Biotech and Hardtech startups will not use these KPIs as none of them will be relevant. The value of these types of company is based around the promise that the technology they are developing will work in the future.

# Conclusion

When setting your KPIs, you are sending a clear message to everyone in the organisation about the direction of the company and how you know where you are on the journey.

The greater clarity you can achieve with your KPIs, the easier it is to know when you are on track and when to act. People across the organisation will know what you want to achieve and be able to offer suggestions for how a KPI can be achieved more efficiently, or be an early warning system when things do not go to plan.

Using the right KPIs can empower you to create a successful startup. The numbers don't lie, so use them as your measure of success.