The Data-Driven CFO

Refocusing on the KPIs That Matter

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Refocusing on the KPIs That Matter

"Thou shalt know thy numbers." It's a CFO mantra, but that trusty dashboard might not be telling you the whole data picture now.

Businesses have experienced seismic operational shifts over the past few years. Supply chain issues, talent shortages and demand fluctuations now look increasingly like ongoing, long-term challenges. As a result, many finance leaders have become resilience experts, moving quickly from one crisis to the next. Meanwhile, the pandemic and all those seismic shifts that came with it made some historical data useless. In 2019, history was a reasonable indicator of future success. That's no longer true, so how do you reimagine your KPIs?

Our advice: Step back, breathe and take a critical look at the data you're using to inform decisions.

For many, KPIs tracked now look very different from a pre-pandemic dashboard. For others, the mix hasn't changed much. In both cases, that may be hindering growth. In this business guide we'll offer advice on how to refocus on the data that matters — and then use the resulting insights to set strategy.

It's always been smart to periodically reassess the internal and external data points used to predict trends, track performance and measure the impact of the challenges of the day. Now, it's not just smart, it's a must-do.

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Business Data Reset

The first step in renewing your data focus is to ensure the company's KPIs and associated metrics still align with strategic goals.

As director of market development at FocusCFO, a fractional CFO services provider, Michael Stier has a unique view of how priorities have shifted, garnered through feedback gathered from his team. They've seen increasing emphasis in four areas:

- **Inflation:** Measures of inflation, particularly raw material inflation, have become critical to track in relation to how rising costs affect the selling price of finished goods.

- **Inventory:** Because of supply chain issues, days-of-inventory-on-hand data has become more prominent. Because a just-in-time inventory strategy will likely not work well, metrics around the costs to maintain higher inventory levels, like space, insurance and shrinkage, have also increased in priority.

- **Personnel:** A tight labor market means that personnel-related metrics, like turnover, referral sources and average hourly wage versus budget, are receiving more attention.

- **Profitability:** Many businesses, like restaurant groups, are now tracking profit by day of week as well as hours of operation. This data allows managers to make informed decisions about closing or reducing open hours on certain days.

They monitor company health.

They reveal patterns and trends.

5 Reasons Why KPIs Matter

They measure progress toward goals.

They uncover trouble spots.

They indicate whether a goal needs to be adjusted.

Additionally, Stier notes that EBITDA has taken on a more important role due to the treatment of forgivable PPP loans, which causes distortions in net income. Cash flow from operations is also being prioritized above total cash flow.

As CEO of RoseRyan, a finance and accounting advisory firm, Dave Roberson has both chosen KPIs for his own business and helped his clients through the process.

"When I'm interviewing a new client, I always ask, 'How do you determine success for your business? What are your KPIs?'" said Roberson. "It tells you a lot about what their business really is about."

Choosing the right data to track has "a little bit of art to it," said Roberson. Here are his top tips for getting it right.

Choose SMART objectives: Look at the company's current top-level strategy, mission and vision. Then, with this in mind, collect data that reflects the context and realities of today's business landscape. This isn't the time for vagueness. To create relevant and effective KPIs, businesses need SMART objectives, meaning they're specific, measurable, achievable, relevant and time-bound.

—

> "A KPI people can relate to, that they can engage with and make an impact on is, to me, a good one."

Dave Roberson, CEO, RoseRyan

3 External Data Points to Watch

Goals can either be internal, that is, related to efforts by employees, or external, meaning they contribute to business objectives like increased sales.

1. **Churn rate** calculates how frequently customers stop using your product or service over a given timeframe. Are 20% of customers abandoning your service after a year, or do most use it for three to five years? Does your churn rate track with norms for your industry or business model? A high churn rate indicates problems.

$$\text{Churn Rate} = \text{Lost Customers/Starting Number of Customers} \times 100$$

2. **Attrition rate** is the number of customers lost in a specific timeframe relative to your customer base. For example, if your business had 1,000 customers at the start of the quarter and 920 by the end, that math looks like this:

$$80 \text{ (number of customers lost)} / 1,000 \text{ (total customers at the start of the quarter)} = 0.08$$

3. **Net Promoter Score (NPS)** measures how likely customers are to recommend your business to a friend or colleague, on a scale from 0 to 10. Those who rate a company a 9 or 10 are promoters. Those who give a rating of 7 or 8 are passives. Anyone who gives a rating of 0-6 is a detractor.

$$\text{Net Promoter Score} = \text{Percentage of surveyed customers who are "promoters"} - \text{Percentage of surveyed customers who are "detractors"}$$

For each business objective, define the associated KPI and data metrics that will allow you to monitor progress. Additionally, leadership needs to define what success looks like for each KPI and communicate that to employees.

Designate both leading and lagging indicators: KPIs inform strategy, while metrics show how to adjust tactics as needed to achieve goals. However, progress toward strategic objectives can be difficult to track when using only lagging indicator data. For instance, if a law firm aims to increase its revenue by a certain percentage within two years, tracking revenue doesn't necessarily inform progress because it's a lagging indicator — this is data that tells you what already happened.

In contrast, data on new-client or -case intake or days to close deals is forward-looking. It can help you estimate what future revenue will look like and tweak strategy appropriately around areas like marketing and pricing to impact the larger goal of increasing revenue.

And remember that a full slate of data indicators may not be just classic metrics with formulas. Include macroeconomic indicators, like unemployment, commodities and energy costs, wage pressures, even factors like weather severity for some industries. This is where that "little bit of art" comes in.

Share data widely: A data-driven focus is even more important for companies with remote employees.

"It actually keeps people aligned when they're not physically in the building," said Roberson. "It's a way of having a shared language and a shared vision."

However, he caveats that you need to allocate time to data gathering and dissemination. Once a month, Roberson discusses company KPIs and has his teams report data that shows progress.

And remember, sometimes less is more.

"I used to have eight charts for every KPI, but I realized that people were tuning out," said Roberson. "So I now have just a couple of charts — the really important ones."

Revisit your KPIs: Remember the initial point: KPIs should be assessed for strategic relevance at a regular cadence, not just when once-in-a-century events occur. Roberson recommends examining KPIs and associated metrics as a part of the annual planning process, at a minimum.

"How do you know where you're going if you're not tracking the right data about where you've been and where you're heading?" he said.

For finance teams that can pull data into a cohesive story, the payoff is business units all pulling together to achieve common goals. So let's delve deeper into choosing and using KPIs.

The Data-Driven Dashboard

Data doesn't do your organization much good if it's buried in a mish-mash of tools. Dashboards take raw data from a variety of sources and display it in the form of charts, tables, gauges and other visualizations. Data sources may include your company's application databases and other files, as well as external online sources. Better use of higher-quality data is a frequent reason companies implement ERP systems.

Dashboards can be created in spreadsheets or using specialized tools included in business intelligence and ERP products. These integrated business suites can support all of an organization's major functions, from accounting and human resources to production and inventory. All of the applications' raw data and key metrics are stored in a single shared database. This can make it easier to present current data from across the company in personalized dashboards to help each business department tap into the information it needs to plan, budget and report.

Data-driven CFOs are also investing in business intelligence and data warehouses.

BI is all about customizable dashboards that allow for analysis based on business objectives and goals developed from the information coming from a central database. Decision-makers can identify exceptions, trends and opportunities and drill down into any underlying metric or transaction for greater detail.

Integrated BI systems allow for analyzing very large volumes of data from all lines of business, as well as external sources. Look for a scalable system that provides a range of integrations so you can pull in all relevant data and that allows for role-based access.

A data warehouse is a computer system designed to store and analyze large amounts of structured or semi-structured data. It serves as a central repository, accessible to authorized business users who rely on analysis to make better-informed decisions. A data warehouse is a key underlying component of business intelligence efforts.

Data is routinely transformed and loaded into a data warehouse from various transactional systems, relational databases and other sources. Data engineers and scientists, business analysts and decision-makers access the data using BI tools, as well as other analytics applications like machine learning, and use it to populate dashboards and generate reports.

How do you know your company needs a data warehouse?

You need to analyze data from disparate sources. For instance, if you want to track the activity of your most valuable customers, you may need to combine payment information from your credit card processor with financial information from your accounting system, along with the data these customers generate when they use your product or service. This is much easier when the data from all three sources can be stored and manipulated in one central location.

You need to separate your analytical data from your transactional data. BI specialists may want to collect and analyze the data from a production application's activity logs, but they don't want to risk disrupting operations by working directly in the application's database. They can sidestep that possibility by automatically sending the data to a data warehouse that's designed for complex querying and working on it there.

Your original data source is not suitable for querying. For example, the vast majority of BI tools do not work well with NoSQL databases. To work with this data, analysts must first transfer it to a data warehouse, where their BI apps can access it.

You need to speed up your queries. When your transactional data resides in hundreds of thousands of rows, standard queries will be incredibly slow. It's far more efficient to use a data warehouse to create summary tables that aggregate the data, which can then be queried much faster. This will also unburden your transactional database so that it, too, will perform better.

ERP and BI overlap in many ways, but they have different strengths. An ERP system primarily manages and integrates important business processes, like manufacturing, inventory management, financials and supply chain. As a unified process system, centralized data breaks down silos and promotes greater efficiency across the organization.

BI takes this data further, enabling businesses to organize, analyze and contextualize information from around the company to generate actionable insights.

Essentially, BI is great for delving into current data plus historical trends, while an ERP can deliver data in real time.

4 Dashboard Best Practices

Good dashboard design can maximize the value of data to your business and drive more use of metrics. Here are tips to help display the right data in the right way:

1. **Answer business questions.** When building a dashboard, start by asking users which business goals they're working toward. This will determine which metrics to track and influence how to display them — whether historical trend graphs or snapshots would be more useful, for example.

2. **Customize.** Department leaders need to see performance data relevant to the function of their departments. Sounds basic, but many a data initiative has faltered under the weight of TMI (too much information). Personalizing dashboards for each user ensures they'll see relevant, meaningful information.

3. **Consider the design.** Since people generally read from left to right, it often makes sense to place your most important metric or visualization at the top left of the dashboard. And maintain a consistent, simple color scheme.

4. **Keep it simple.** Just because you can track dozens of data points doesn't mean you should. The goal of a dashboard is to distill complex data into an easily digestible visual. Minimize distractions to make it easier to absorb information and facilitate data analysis.

What Should a Dashboard Contain?

Essentially, data that feeds KPIs and their associated metrics to help departments keep tabs on current performance and inspire actions to improve business processes.

When building a dashboard consider:

- **Charts and graphs:** Visual representations of information, such as bar charts, pie charts, trend graphs and meters, succinctly summarize complex information.

- **Icons:** Most dashboards use icons to represent objects, functions or information. A green triangle pointed upward, for example, signifies an increase at a glance. In addition, icons may trigger actions when clicked. For example, clicking on the familiar double-arrow icon in the corner of a dashboard element expands it into a full-screen view. Clicking other icons may generate specific reports or change the way information is presented.

- **Images:** Images or diagrams can explain or simplify concepts that would otherwise take more cognitive effort to understand. They can be used to quickly convey important insights.

- **Reports and report summaries:** Reporting capabilities let users obtain detailed business information with the click of a button. People should be able to customize reports by, for example, culling data from a variety of metrics in a selected date range. Report summaries help users quickly scan trends.

- **Calendars, alerts and reminders:** Because a dashboard acts as a one-stop shop for the user's most important business information, it can be useful to include other tools that help people do their jobs, like popup alerts.

More Resources

- Business Intelligence: A Must Have for Today's CFOs: To continue building partnerships across the organization, CFOs need to become masters at translating all sorts of data into insightful analysis and actionable advice. That's where BI systems and dashboards come in.

- The Data Warehouse Defined: What It Is and How It Works: To remain competitive, companies of all sizes rely on analytics tools to glean insights from disparate data, monitor their KPIs and provide reports to support sound decision-making. Underpinning all these efforts are data warehouses.

- ERP and Business Intelligence: Why Your Business Needs Both: Enterprise Resource Planning (ERP) is a mainstay technology in businesses that want to gather, analyze and share insights among multiple departments from a single database. While ERP systems are great at connecting the dots between business processes, these days, remaining competitive calls for even more.

- **Drawing objects:** Dashboards may include drawing tools that enable users to draw lines or connect items to create diagrams or emphasize key information. However, drawing capabilities can be cumbersome if used in excess, potentially detracting from the otherwise concise overview a dashboard should display.

And consider your audience.

• Strategic dashboards, sometimes called executive dashboards, support executives and managers by providing a high-level overview of business performance. Strategic dashboards typically offer snapshots or KPIs such as business revenue and key expenses, or charts that monitor the progress of long-term business strategies.

These dashboards are an effective way to communicate data among top stakeholders and are a selling point for BI.

• Analytical dashboards, also known as tactical dashboards, dive into nitty-gritty details. They usually include more context and nuanced data to facilitate analysis. Analytical dashboards make it easy for users to drill down into data for further analysis, such as correlating data from multiple sources to see whether a sudden rise in employee turnover is related to a change in corporate structure.

Note that dashboard elements should be active where possible. For example, if inventory levels show up as lower than expected, you should be able to click on that element of the dashboard and see how the metric was built and determine what's causing the anomaly.

• Operational dashboards are like vehicle dashboards. They give users a concise, at-a-glance view of the current status of operations in their areas of the business. They may be used by line managers and their teams to track day-to-day operations. A production manager might use an operational dashboard to keep track of order progress, for example.

And of course, financial dashboards should yield real-time insights into metrics including profitability ratios, inventory margins, liabilities, fixed assets and cash positions.
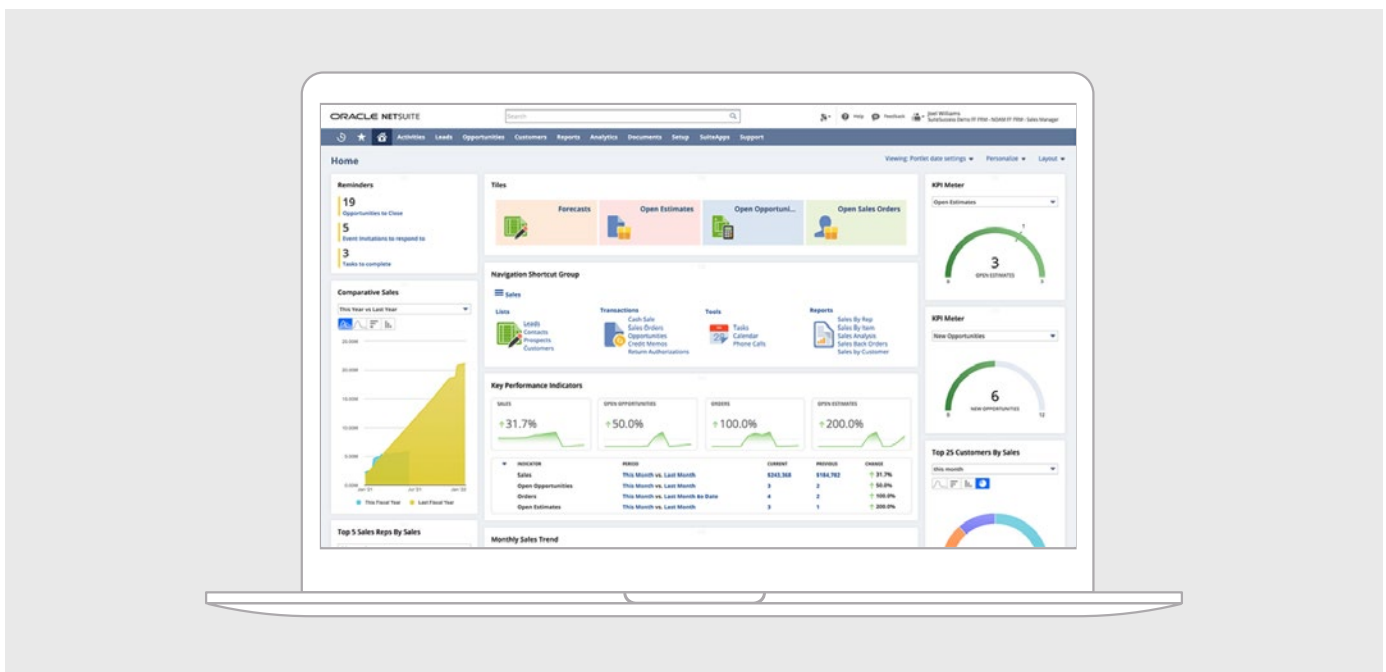
Users can easily customize NetSuite dashboards to display KPIs, charts and graphs relevant to their roles.

How to Choose the Right KPIs for Your Business

More than just data points, KPIs tell a story about how your organization is performing. There are hundreds of indicators that vary by industry, company and even department. So how do you choose which KPIs, and therefore data, are most relevant for your business, right now?

Building on Roberson's advice, consider the following criteria:

Goal Alignment: If a strategic goal is to increase ecommerce revenue by 30%, you might choose metrics that measure average order value, conversion rate and cart abandonment. Data collected can also align to the goals of different departments, teams and individuals. If purchasing wants to improve inventory management, the most effective KPIs might include inventory turnover rate and perfect order rate.

Growth-Stage Alignment: A good KPI also aligns with a business's lifecycle. Data metrics for a startup, for instance, might center around customer feedback and business model validation. KPIs for more established companies could be monthly recurring revenue, customer retention and cost per acquisition.

Attainability: A good KPI measures movement toward achievable goals rather than unrealistic targets. Attainability also means the data points needed to calculate the KPI are available, accessible, trusted and timely.

6 Questions to Consider When Choosing KPIs

- Do they truly measure progress?
- Did we weed out vanity metrics?
- Do they align with our business goals?
- Do they have the potential to reveal trends?
- Do they reflect leading or lagging indicators?
- Do they truly matter most to our business?

Substance: Does the KPI concentrate on what truly matters to move your business forward? Or does it focus on surface-level vanity metrics, such as number of downloads or social media followers, that aren't actionable? Good KPIs offer value, point to a trend or inform next steps.

Quantifiable and Measurable: Yes, that's easy to say, hard to do. Ideally, KPIs are easy to measure because they're based on clear, trackable goals. They can be expressed as ratios, percentages or rates. Analytics and reporting tools, such as dashboards, help centralize KPIs so a business and its teams can see at a glance where they stand, where they need to go, why something happened and whether corrective strategies are needed.

Of course, in the real world, things get messy. Take COGS. It's central to product profitability, and it's also notoriously hard to calculate exactly. Machines may be used to make multiple products. Employees may work on many machines. Fully encumbered COGS is a guessing game: How much of the marketing budget should be assigned to each product as a cost? The fact is, while "good" KPIs are easy to understand, the devil is in the details of accurately calculating them.

The key is consistency. Maybe you decide marketing is outside the calculation, or you assign costs based on product revenue. Data-driven CFOs and their teams are in a good position to make decisions on how to simplify and still have meaningful data.

Actionable: An actionable KPI incorporates measurable data that leads a business toward its goal. Without a goal, the KPI is just a metric, not an indicator. KPIs can inform decisions, such as whether to adjust a sales plan based on how well a product is performing in the market. They also reveal trends that impact future strategies.

When data feeds into KPIs and the resulting insights are applied, CFOs can more easily make resource decisions to improve the likelihood of staying on track to goals.

More Resources

- **What Is a Key Performance Indicator (KPI)? The Ultimate Guide:** This guide to KPIs provides comprehensive information about the different types of KPIs, how to choose them and how to use them.

- **A Comprehensive Guide to Operational Metrics & KPIs:** Operational metrics and key performance indicators (KPIs) allow a business to measure the status of its operations and strategies. Learn which KPIs to track and what they can tell you about the health of your operations.

- **How to Choose the Right KPIs for Your Business:** More than just numbers, KPIs tell a story about how well a company is performing. These indicators vary by industry, company and even separate departments within a company. Which KPIs are right for your business?

Putting Data Into Action

A data-driven CFO will use generated insights to play the long game, inspiring systemic organizational improvements, while also pivoting quickly — taking actions to manage cash flows when they start going the wrong way, for example. That combo keeps a company at the top of its game.

Dashboards and reports play a crucial role here. But conveying information alone doesn't prompt change.

The problem is that reports often lack guidance on what to do with information.

An example of an actionable report might be an automated mid-quarter roundup of sales teams that are behind on their goals. This generates action by prompting the sales manager to dig in for explanations and redirect the teams' efforts. It's generated early enough that there's time to correct the course. And it holds people accountable for their slices of meeting revenue goals.

For a manufacturing company, a report may shed light on a part that's suddenly failing some testing procedure. A services company might get an alert when a customer that generates over a certain amount of MRR shows signs of disengagement, triggering outreach. This is how data-driven companies win.

On the flip side, non-actionable reporting is like reviewing a checking account balance every day and seeing it dwindle, without knowing why or doing anything about it. Actionable reporting looks at the balance, provides alerts for unauthorized spending and offers solutions to cut expenditures and rebuild the balance.

Mix Organizational and Operational

Organizational KPIs measure strategic, long-term goals that are tied to a company's mission or values. Examples include market share gains, customer acquisition rates, global expansion and revenue growth. Companies sometimes focus on a single all-important metric during each phase of a product's life cycle, an approach known as "one metric that matters" (OMTM).

Operational KPIs monitor day-to-day business performance in terms of tactical, operational processes and efficiency. Operational KPIs can be applied to processes, teams and individuals. Examples include sales by region and cost per click for a digital marketing campaign.

Note that the more automated reporting is, the better. Data timeliness is also critical, as is culture. Employees need to get in the habit of looking at metrics daily and responding to blips.

To turn data into actionable insights, consider these five steps:

1. **Dig deep to find all the data.** You almost certainly have data that's sitting in a database or spreadsheet, unmined and unappreciated. CFOs are in a good position to figure out where these lodes are and how to incorporate them.

2. Automate where you can. Gathering and analyzing data are time-consuming tasks. What's more, data is most effectively used when it's viewed by multiple employees. Automation means decision-makers receive relevant reports and act sooner.

What kind of information can be automated? Consider a sales team that's identified metrics to track related to quarterly sales goals. They've created a sales dashboard leveraging data from the ERP system to keep an eye on the lead-to-conversion ratio, average deal size, win/loss ratio and other indicators. Rather than manually gathering this information and running calculations by hand, the data is pulled from the ERP or BI and data warehouse system, dashboards are created on a set schedule showing real-time updates and reports are sent to the entire sales team and management. After initially setting up the reports, every step in this process is automated and requires no human intervention to complete.

3. Tailor reports to your audience. CFOs will likely start with their own AR, AP and other functions. But then, move on to help sales, marketing, finance, HR, the C-suite or any other business area become more data driven. An order fulfillment team, for example, should be watching on-time shipping percentage, total order cycle time, internal order cycle time, perfect order percentage, order picking accuracy, rate of return and more.

See the end of this report for a list of KPIs for various departments.

4. Use segmentation where it makes sense. In data analysis, segmentation is the process of grouping similar data based on specific parameters. This is particularly useful in marketing — for example, by segmenting data by demographic to more easily tailor messages to a specific market. But beyond marketing, segmentation can make it easier to analyze stored data and help identify potential problems and opportunities within specific datasets.

5. Break down silos. Truly data-driven organizations work in sync. Siloed data foils the ability to create actionable reports because business data, by nature, is kept separate. This can lead to data errors, duplicate data and other governance issues that ultimately make data untrustworthy.

The Bottom Line

Data-driven CFOs make sure their companies have the right data working for them. This requires the ability to transform static information into actionable reports that lead to positive change.

ERP software can be instrumental in integrating data from across your business into one digital ecosystem. Automated actionable reporting capabilities can save time, increase productivity and ultimately help companies grow — all by making sure business data is always put to good use.

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