Identify what drives your business

Identify and monitor the key drivers of your small business to improve profitability and focus on what is most likely to grow your business.

A key 'driver' is something that has a major impact on the performance of your specific business. A range of factors can affect the performance of every business and the secret is to focus on a handful of core drivers that:

- Affect the performance of your business significantly.
- Are measurable.
- Can be compared to a benchmark such as last year's figures or an industry average.
- Can be acted upon.
- Which categories of products are selling well.
- What each salesperson has achieved.
- If lead conversion rates are improving.

What are some of the key drivers in business?

Critical drivers vary from business to business and each industry has its own unique characteristics. The following are some common drivers that you should be keeping an eye on.

Converting leads into sales

The number of leads (information requests or quotes given) provide early warning of any peaks or troughs in your sales. If you have an established leads-to-sales conversion ratio and know the size of an average sale, you can use the pace of leads to forecast sales.

Monitoring sales figures can show:

Cost drivers

Maintaining a healthy gross profit margin is critical. If your gross margin percentage is falling, take swift corrective action. The causes could include higher input prices, a changing product mix, production inefficiencies or excessive discounting.

If you run a service business that bills out time, it can be useful to treat consultants' salaries as a variable rather than overhead costs because this makes it easier to work out who is making you money.

Collecting receivables efficiently

Your accounts receivable collection period (the number of days on average to collect payments from customers) is an important driver to monitor. Try to improve on your past performance and at least match the industry standard.

If the standard is 35 days, and you're taking 45 days on average to receive payments from customers, then improve your collection activities immediately. Bill promptly and highlight overdue payments for prompt action.

The key is consistency – late payers should know that you will unfailingly contact them.

Optimal inventory levels

Your inventory turnover rate is the ratio of cost-of-sales to inventory. Most businesses aim for a high inventory turnover rate because it indicates an efficient use of capital resources. If the ratio decreases, find out why.

For example, you may be overbuying or purchasing inventory that you cannot sell. The more you can break down your inventory figures into separate product categories, the easier it will be to pinpoint problems.

Hours billed

Most professionals bill for hours worked and measuring hours billed per employee per week is the key driver.

Staff turnover

For some businesses losing staff on a regular basis can indicate there are wider problems to address. This can include monitoring the recruitment and training process for new salespeople and reviewing incentives and quarterly performance reviews.

Defective goods

Manufacturing companies might find their defect or wastage ratio their key driver. Defects led to goods being returned, extra time wasted on rework, delays in payment, and lower profit for the business.

Take action

What are the key factors that enable your small business to outperform its competitors? Try to identify the key drivers you need to focus on.

The questions you need to ask yourself are:

- What drives the sales figures?
- What drives costs?
- What drives cash flow?

For most small businesses, the key drivers include major cost-efficiency items.

Drivers often include 'soft' factors. For example, effective networking (the ability to build new business relationships) has proved to be a key driver for many small businesses. If you've identified employee morale as a driver, you could monitor it by tracking voluntary overtime, absenteeism and sick days.

- Identify which parts of your business are critical for success. Choose elements across the business (financial ratios, sales, internal efficiencies, employees)
- Determine how you will track these key drivers
- Experiment over a period of time to see which of the key drivers are impacting on your business and then take action to improve