Identifying the right insights can do wonders for your business

As the leader of the business you need insights into what's happening at an early stage. You need to spot trends, identify problems, fill gaps in your product line, and generally have the information necessary to take your business to the next level.

Once your business is up and running, it takes on a life of its own. It will have its own heartbeat. The day- to-day activities will become habitual.

Most business activities have financial consequences, and because of the authorities' need to levy tax, accountants follow set formats to record results. That's all great for the tax man, but are tax compliant accounts the best form of information for the entrepreneur? One could argue they aren't.

Measure the things that matter

Almost every new client I meet measures their success by their bank balance. Why is that? Two key reasons: One, it's easy to obtain in today's digital world. Two, it's easy to understand.

The next level up is to have annual accounts. However, you need to wait a year before you know how you performed! What's better still is to have management accounts, quarterly or even monthly. These generally follow the tax authorities' formats.

When I started out in business, management accounts were the best option available. However, the world changed with the onset of cloud accounting. I adopted cloud accounting early on, as I saw how it gave us as professional advisers the ability to fundamentally change our relationships with our clients for the better. Suddenly we were working together, on literally the same web page, with current, real-time information.

How to lose a quarter of your business from under your nose

What would you prefer? To know in advance that you're going to make a loss (and have the chance to take action)? Or to find out in four months that you made a loss several months ago?

So, how often do you measure your performance?

Measuring the bank balance won't give you accurate enough information to know if you've made a loss. However, even if you did know you'd made a loss, you should have been taking action to prevent the loss in the first place. That's where key predictive indicators come in.

Your bank balance can cloud your judgement and give you a false sense of safety. It can also be misleading if you don't understand your liabilities (eg, business tax or VAT due). The bank balance is also known as the lagging indicator, as it's a result of a decision made months ago and actions taken over many months. It could also be higher than expected if you've improved cash flow (see the previous chapter).

Key predictive indicators

One of the original key predictive indicators (KPIs) was a canary. In Victorian times, coal miners would take canaries down into the mines with them. If the canary stopped singing and fell off its perch, the miners knew the air quality was dangerous. This KPI measured something that really mattered: a life-or- death indicator.

The miners' emergency breathing masks had between six and thirteen minutes of air. So, when a canary fell off its perch, miners were very quick to put their breathing masks on and move themselves away from the danger zone.

The moral of the story is this: it's one thing to have a great predictor; it's another to take action, and to take action fast. To ensure your business succeeds, start measuring what matters to your customers and create KPIs. They will become your business canary.

What measures work and why

We learned at an early age that we can only help people do something if they understand the reasons why it's worth doing.

In 1994, Continental Airlines was failing badly. During the previous ten years, they had filed for bankruptcy twice. Then Gordon Bethune took the helm. He reviewed the management strategy at Continental and concluded that their main drivers should be reducing the running costs and the cost per available seat mile. Following his analysis, Bethune discarded the existing strategy. He pointed out, 'We aren't in business to save money, we are in business to put out a good product. It's the old age: "You can make a pizza so cheap, nobody will eat it." You can make an airline so cheap, nobody will fly it.'

Continental shifted their focus away from costs and started tracking three leading KPIs:

- On-time arrival – a speed of delivery measure
- Lost luggage – a quality measure
- Customer complaints – a customer satisfaction measure

What's significant about the above measures is that they mattered to the airline's customers. Profits began to soar once the company started focusing on measures that made a dramatic difference to their customers.

What happens when you start measuring the numbers that matter most to your customers?

You start to predict the future success of your business. When you track, measure, and, most importantly, act on the KPIs that matter to your customers, you create an enjoyable experience for them and increase your business' chances of success. Continental Airlines went from worst to first in the industry by simply focusing on the things that mattered to the customers. My client transformed their fortunes in the same way.

Creating a plan to use insights effectively

Most accountants are trained to analyse the standard lagging measures, such as profit-and-loss sheets and balance sheets. While these things have value, they won't help you create value for your business and your customers.

So how do you decide what aspects of your business to measure?

You need to revisit your business value proposition. What are you doing to create value for your customers? What's important to your customers? Then, work out ways of measuring the value you're providing. If you focus on that you will excel. Also, you're more likely to take action on measures if they're being monitored publicly.

Measuring the wrong things will lead you to focus on the wrong things, and will ultimately produce the wrong behaviours, which is why it's so important to measure the correct indicators.

Once you have identified the two or three key indicators that matter to your customers, make them public and celebrate improvements in those numbers. Remember, choose only a few; otherwise, they won't be key. Initially, you'll likely need to put in measurement systems to give you the numbers. These key indicators may not have been measured before: in our example, on-time delivery percentage may not have been measured systematically, so you will need to devise a system to measure it. It's as simple as recording the number of deliveries sent and the number arriving on time. If possible, don't reinvent the wheel – you may be able to pull in measurements from existing reports. Only create new systems for key indicators.

Many modern entrepreneurs conduct sales via web shops such as Shopify or WooCommerce. Used correctly, these platforms can provide valuable insight into what works and what doesn't in terms of marketing initiatives.

We regularly provide in-depth customer insights to our clients. For example, if you have two complementary products and you know a customer has bought one but not the other, wouldn't it be wise to market the other product to that customer? Paying attention to details like this shows you care about the customer, and it also increases your profits!

Your Next Steps:

- Revisit your business value proposition, and analyse if you are doing everything you can to add value to your product
- Identify which KPI's (Key Predictive Indicators) to focus on
- Start measuring those KPI's!
- Keep track of your customer insights
- Consider working with a business adviser that can keep you accountable and provide in-depth customer insights to help you get ahead of your competitors.

Do you have a strong team that is able to support your business vision, or do you sometimes wish you'd get more out of your employees? Read our resource on **Building Your Dream Team** to find out if you are on the right track.

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