FP TRANSITIONS®

# BEYOND METRICS: MASTERING KPIs FOR BUSINESS SUCCESS

#FP*INSIGHTS*

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In the dynamic landscape of business, the ability to Mark, Measure and Master performance is crucial for success. This E-book aims to provide an understanding of Key Performance Indicators (KPIs) and their pivotal role in business management. KPIs are essential metrics that organizations utilize to measure their performance against strategic goals and objectives. By identifying and tracking KPIs, businesses can make informed decisions, drive improvement, and ensure long-term success. This E-book will discuss the importance of KPIs, clarify categories of KPI's, and provide guidance on selecting and implementing KPIs for optimal business management.

# KEY PERFORMANCE INDICATORS

## SELECTING

There are many different types of KPI's and often it is difficult to determine which ones are most impactful for each individual business objective. Examples of common categories of KPI's include Financial, Operational, Customer, Employee, and Marketing. The use of specific KPI's should be matched to the insights you wish to track within your business and provide you with the greatest improvement potential. As part of your Equity Management Solutions® membership, you are provided different levels of KPI insights based off your level of program engagement. As EMS™ Essentials members you can find the valuation focused KPI's in your Comprehensive Valuation Report. If you are a EMS™ Grow or Professional Members you can unlock even more detailed KPI's in your Equity Builder Benchmarking report.

Choosing the right KPIs is crucial for effective business management. This section outlines a systematic process for selecting KPIs based on organizational goals, industry benchmarks, and the SMART criteria (Specific, Measurable, Achievable, Relevant, Time-bound). It emphasizes the importance of aligning KPIs with the overall business strategy.

**KPIs should directly align with the organization's strategic objectives.**

**KPIs must be quantifiable and measurable to provide meaningful insights.**

**Chosen KPIs should enable actionable insights, allowing for informed decision-making.**

**FIGURE 1.** COMMON KPIs BASED ON SCALE

### SOLE PROPRIETORSHIP

Revenue
Recurring Revenue %
Recurring Growth %
New Client Growth %
Average Fee
Profit per Client

### PRACTICE

Client Affluence
Expense Percentage
Revenue per Client
Clients per Professional
Profit per Professional

### ENTERPRISE

EBITDA
EBOC/SDE
Expense Ratios
Compensation Ratios
Client Acquisition Cost

**FIGURE 2.** EXAMPLES OF METRICS FOR ADVISOR FIRMS

### FINANCIAL

Revenue Growth

Profit Margins

Return on Investment (ROI)

Cash Flow

### OPERATIONAL

Cycle Times on Client Meetings

Number of Client Meetings

Number of Financial Plans

Number of New Accounts

Paperwork Not in Good Order Rates

### CUSTOMER

Customer Satisfaction

Net Promoter Score (NPS)

Customer Acquisition Cost (CAC)

Retention Rate

### EMPLOYEE

Employee Satisfaction

Productivity per Employee

Training & Development Metrics

Employee Turnover Rate

### MARKETING

Conversion Rates

Cost per Lead

Website Traffic

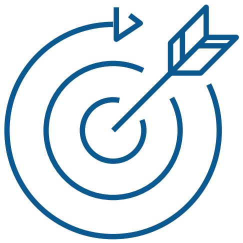
Social Media Engagement

## UTILIZING

How successful is your business? This can be a difficult question to answer, and even more so, to answer truthfully. And it does take a measure of self-reflection. Where is your business strong? Where do you have opportunities for improvement? Utilization of KPIs will tell you the honest answers to what can be complex questions. In a proper implementation of KPIs, the process also establishes a baseline of your business activities, providing an opening for a true benchmarking opportunity.

Eventually what emerges is a schematic of success, a quality of data. You will be able to see exactly where your business is, and all the achievements you have created. Additionally, your areas for growth will be painfully obvious. Once you have the established data set, you can use these indicators to help you achieve specific targets or objectives. But the real power of KPIs is unleashed when you leverage that data set and benchmark it against other competitors in your peer group. As an example, at FP Transitions, we can provide our clients with KPIs from over 5,000 peer businesses, which is a number unmatched in our industry. And through analysis of where you benchmark on these unique data sets, you are able to focus on the things that matter.

Deployment of KPIs helps you identify your personal strengths and opportunities for your business. They also allow you to leverage the comparative understanding of your position, relative to peers and other industry competitors. This relative knowledge, and the direction it provides, is what allows you to leverage KPIs to become best in your peer group.



## IMPLEMENTING USING SMART GOALS

SMART is an acronym that stands for Specific, Measurable, Achievable, Relevant, and Time-bound. It is a framework commonly used in goal setting to enhance the effectiveness of objectives by making them clear, tangible, and achievable.

**Specific:** Goals should be clear and well-defined. Instead of a vague objective like “improve productivity,” a specific goal would be “increase team productivity by 15% through streamlined project management.”

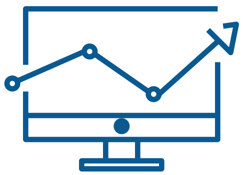
**Measurable:** Establish criteria to quantify progress and determine when the goal is achieved. For instance, instead of setting a goal to “enhance customer satisfaction,” make it measurable with a target like “achieve a 20% increase in customer satisfaction survey scores.”

**Achievable:** Goals should be realistic and attainable. While it’s important to set ambitious targets, they should also be within the realm of possibility. Setting an unattainable goal can lead to frustration and demotivation.

**Relevant:** Ensure that the goal aligns with broader objectives and is relevant to the overall mission. This ensures that efforts are directed towards meaningful outcomes that contribute to the larger picture.

**Time-bound:** Set a specific time frame for achieving the goal. A deadline creates a sense of urgency and helps in prioritizing tasks. Instead of saying “improve employee training,” specify “implement a new training program by the end of the quarter.”

By incorporating these five elements, SMART goals provide a structured approach to goal-setting, enhancing the likelihood of success and providing a framework for monitoring and evaluating progress. Whether applied in personal development, business planning, or project management, the SMART criteria help individuals and teams set objectives that are clear, measurable, and conducive to success.



# MEASURING AND TRACKING

Measuring and tracking KPIs involves establishing baseline metrics, setting targets, and regularly monitoring progress. This section explores methods for accurate data collection, performance analysis, and the role of data visualization tools in presenting KPI insights to stakeholders.

## Data Collection and Analysis

- Establish reliable data collection methods.
- Implement data analysis tools to derive actionable insights.
- Clearly define KPIs and their purpose.
- Regularly reassess the relevance of chosen KPIs.
- Foster a data-driven culture within the organization.
- Data accuracy and reliability.
- Resistance to change.

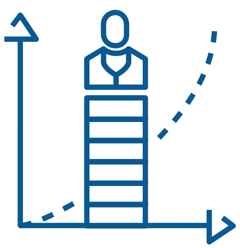
## Regular Monitoring and Review

- Regularly review KPIs to stay informed about business performance.
- Adjust KPIs as business objectives evolve.
- Overemphasis on quantitative metrics at the expense of qualitative factors.
- Ensure that relevant stakeholders are informed about KPIs and their implications.
- Foster a culture of transparency and accountability.

## Adapting KPIs to Changing Business Environments

Business environments are dynamic, and KPIs should be adaptable to change. This section explores strategies for reviewing and adjusting KPIs to ensure they remain relevant and reflective of the organization's evolving priorities.

# BUILD OFF OF YOUR KPIs



Through the study of your KPIs, you will optimize your business practices while simultaneously advancing your business value. The very first step is to establish where you are, right now. And as we discussed, it needs to be an honest evaluation of your current business standing. Unearth the skeletons. Don't fear the negative.

While it is self-congratulatory to analyze the areas where your business is strong, the real opportunity to grow your business lies in the spaces where you aren't. Prepare yourself to identify and address those areas where your business is falling behind. Mike McKennon, EMS™ Consultant advises his clients, "If you really want to identify the areas where your business can grow, the best news I can give you is a bunch of bad news!"

## DECIDE WITH PURPOSE

Usually, it is not just that one KPI that tells the story. Often it is a complex interaction of multiple KPIs. But again, having data of similar financial planning businesses' KPIs is an invaluable step in this process. Is it your intention to build long term, sustainable growth? How do your KPIs stack up against your peer group, as well as those businesses twice your size, a cluster we at FP Transitions refer to as your Target Group? In order to answer these questions, you first must have the data to benchmark and evaluate your business.

Be intentional. Once you know where you are to start, you can formulate a plan for how you will improve it. Where do you want to go? Do you want to sell your business in 24 months? What is it you need to work on, and how much do you need to improve? If you are at the top of your class, do you even need to improve? Leverage the insights that having Benchmarking KPIs provides.

Be purposeful with the data as you develop your plan. If you know you need to boost your revenue, how do you do that? Do you increase your fees? Raise client minimums? Decide, and then track those data points. Give that data a full, quantitative analysis on an annual basis to make sure that you are actually making progress and make any adjustments to your plan if they are needed.

Figure 1 lists a common set of KPIs, but as you will notice, these indicators are listed by the scale of the business, and they are quite different.

## MARK

Running your business well and optimizing your equity value starts with an annual valuation of your business. With the data gathered in this process we can track relevant metrics and establish an understanding of the current leading and lagging indicators of success in your business.

**The most relevant KPIs can be divided into Revenue strength and Enterprise Strength KPIs.**

Revenue Strength is the principal component in determining the value of a privately held financial services practice. At its most basic level, value lies in household relationships and the revenue stream they generate. As such, the term “revenue strength” refers to the strength and durability of the revenue sources and profit centers of an advisory practice. Primary examples of revenue strength KPIs include recurring revenue percentage, average revenue growth rate, and revenue per client.

### REVENUE STRENGTH KPIs

- Recurring vs. Non-Recurring Revenue %
- Average Revenue Growth Rate
- Average Fee Charged
- AUM per Client
- Revenue per Client
- Profit per Client

Enterprise Strength is the measurement of your physical and organizational structure which supports not only growth, but the enduring value of the practice. We're addressing the questions: Are the necessary resources and people in place? Is your team adequately and properly compensated in a way that sustains efficient and competitive growth rates well into the future?

## ENTERPRISE STRENGTH KPIs

- Pay per Employee
- Occupancy Cost
- Marketing Dollars per New Client
- Number of Owners
- Number of Employees
- Number of Professionals
- Profit per Professional
- Profit per Owner
- Clients per Professional
- Clients per Owner

We can think of enterprise strength factors as the engine for creating and supporting the revenue strength elements. Without enterprise strength it's near impossible to achieve sustained growth and long-term value appreciation. Examples of enterprise strength KPIs include pay per employee, clients per professional, and profit per owner.

It's important to note relevant KPIs change as a business evolves. For example, a sole proprietor might start by tracking their average fee charged. As it grows into a practice, revenue per client becomes a more important metric. By the time it becomes an enterprise, EBIDA and compensation ratios emerge as more common KPIs.

Regardless of the stage of your firm, a relatively universal guiding principle is a rule of thirds. One third of your revenue should be allocated to professional compensation. One third should account for all other overhead–which would include non-revenue producing comp, occupancy, technology, and marketing. This leaves one third for profits, which are usually paid out in quarterly distributions.

**FIGURE 3.** RULE OF THIRDS

**1/3 COMPENSATION** **1/3 OVERHEAD** **1/3 PROFIT**

## MEASURE

Next, it's important to give these marked KPIs context and a point of reference from which to compare them. Benchmarking a business' KPIs with peers of the same valuation allows you to determine the quality of your business's growth and to identify areas of strength and improvement.

Pinpointing opportunities for enhancement can be more valuable than discovering areas of excellence. These are the insights that will allow you to boost growth and value, as well as develop an idea of what your metrics might be a few years down the road.

Exploring KPIs as a whole creates a complete picture of your business and allows us to see how different factors are affecting each other, and how things will change as you continue to work on the business.

## MONITOR

Managing equity in a financial services practice is an ongoing process. Just as you do annual reviews for your clients and their financial plans and investment portfolios, you want to do the same for the KPIs in your business. KPI assessments should be made at least annually to provide an accurate picture of growth and to set a comprehensive improvement plan.

When you leverage a library of annual valuations and benchmarking reports, you can see trends emerge and identify how your strengths and areas of improvement evolve. The comprehensive picture your annual reports present can make your business more attractive to prospective clients, next-generation talent, future owners, and even potential sellers of other advisory businesses who want their clients cared for by a well-run organization.

## MASTER

Understanding how your KPIs align with your unique business goals allows you to make strategic decisions about your business. This allows you to know how to push each metric and when to maximize growth, profit, and value.

Every year, after generating an annual valuation and benchmarking report, our qualified consultants help hundreds of your industry peers take action to master their KPIs most relevant to their unique businesses with continuous guidance. Your Equity Management Solutions® membership helps you **Mark, Measure, Monitor and Master** the KPIs driving the equity value in your business.

Learn more about KPIs and which are appropriate for your business in our webinar, **Key Performance Indicators of Running a Successful Business.**

## CONCLUSION

KPIs are the breadcrumbs along the way so we can mark, measure, and grow the value of your business. It's important to leverage your KPI's and gain insights for improvement by engaging with your EMS™ coaches in review of your annual reports. The strongest KPI's for driving value for any financial service practice start with size, stability, and transferability of the revenues generated from your client relationships. Although Gross Revenue, in many cases, provides clear and straightforward comparatives between peer practices, there are many other critical factors (KPI's) that ultimately define your practice's value. Utilizing these KPI's as outlined in your EMS™ reports is critical for the marking, monitoring, and mastering of your business.

In order to achieve your goals, you really need a more complex matrix of KPIs, and the detailed analysis and peer benchmarking that will help you achieve real success.

**Reach out to your EMS™ Coach** to help you begin to plot your road map.

Schedule a Call