What you should be doing with KPI's and why

Business coach Daniel Fitzpatrick from Next Level Tradie looks at how you can use Key Performance Indicators to stay in control.

There's never been a more important time to use KPIs. Because doing business is hard right now. Material and wage costs are increasing. Construction costs for new homes have risen by 9.6% over the last 12 months according to RNZ.

Disruption of schedules, jobs being shifted around all the time, downturn in the market in areas, a shortage of good staff, your existing team having more time off, and expecting more leniency.

All these things add pressure to your profits, cashflow, and day-to-day running of the business.

KPIs give you the ability to keep a firm handle on all important aspects of your business. Without having to be involved in every detail.

Truth is, tracking your performance numbers and your progress is the only way to make sure all your hard work will be worth it.

Let's jump in:

#1: Use KPIs to make difficult conversations with staff easier

Ever had a team member who wasn't performing, had a bad attitude, or was making too many mistakes? It's easy for these issues to get kicked down the road. But the longer it goes on, the worse it gets.

The best thing about KPIs is… **It's not personal.** It's just about what the business needs to be successful. When standards have been set, everyone knows what's expected. And it's clear if they are meeting the mark - or not.

For example, I once worked with a building company that needed more jobs. The sales rep was not getting the results. It was awkward, there were lots of excuses and the owners were almost resigned to accepting poor performance even though it was hurting their business.

We worked together on putting KPIs in place. Suddenly it was much easier to have those sales conversations. Combined with the right

support, the focus shifted to meeting targets. Tracking how many new enquiries this week, how many quotes completed, followed up.

Conversion rates increased from 22% to 35% which everyone was happy about - including the rep who was on commission.

#2: Use KPI's to get staff into an accountability mindset - and fix underperforming

How to get your team to perform at their best? It's one of the hardest things about being in business. Unfortunately, if you don't provide the right structure and direction, even your star players won't be able to deliver.

Does your team know if they are winning or losing each week? Is their definition of success the same as yours? Developing KPIs with your team will get everyone on the same page.

The trick is: **KPIs only work if your team owns them.**

To get buy-in it's most effective to get your staff to come up with their own performance goals.

A drainlayer I have been working with recently had a lot of issues in his team of 7. Jobs were taking too long, gear was being forgotten, a lack of accountability when things went wrong.

He'd tried motivating them before without success so was skeptical about KPIs. But he brought it up at the next team meeting and gave each guy the responsibility of coming up with their own KPIs (with a little guidance).

KPIs ranged from the apprentice turning up on time through to the foremen committing to finishing jobs on schedule. Results were starting to happen. Then one day he overheard his guys comparing their individual targets and how they were going to go about achieving them. That was when he knew it was really working.

Remember to only measure your staff on stuff they have influence over!

#3: Don't overcomplicate your KPIs - only use the ones you really need

I'm a fan of Xero and job-tracking software. I'll tell you what though. All of those complicated reports aren't going to help you much.

KPIs are most effective when they are kept simple. In each part of your business you should only have **a few key things to focus on.**

For example, if you want to improve cashflow, then the main KPI to watch is how much cash you have in the bank after all bills are paid.

The numbers you're tracking must be identifiable. So you can **use them to make smarter decisions.** If not, what's the point?

When I work with tradies to improve their profits, I put all their most important KPIs into one dashboard. Then it only takes around 20-30 minutes a month to see how we're tracking. And gives them laser focus on where to concentrate to get the best results.

This dashboard is **a quick check.** All the numbers are in one place. The last thing you need is to be hunting out info all the time!

One company I've been working with for the last 8 months has gone from significant losses to now making 10k-20k every single month. This success is mainly down to using the dashboard. Consistency is key.

#4: Never base your KPIs off what others are doing

A word of caution: Don't look at what others are doing and think you should be doing the same. And definitely don't measure success by how big your team is compared to theirs. Take it from me: A bigger team does not automatically mean a bigger profit.

KPIs will vary depending on what stage you are at in your business. When deciding your sales target this will depend on where your break-even point is, your gross margins, and how much money you want to make for the year. **It's individual to you and always will be.**

If you're a builder you won't be getting the same margins as an electrician. If you complete high-end work your margins should also be higher than others in the same industry. It's important to get crystal clear on where your margin should be specifically for *your* business.

Wouldn't you rather base your pricing and margins off concrete numbers that are right for you and your overheads. So you know that

you're making money on every job and know exactly where you're winning and losing?

#5: Use KPIs to avoid expensive mistakes

By now you'll have realised that **not having really solid KPIs is costing you more than you thought.** Lost margins, lost profitability, lost focus.

Knowing exactly what you are aiming for will help you avoid mistakes (or at least see things in time to make adjustments when needed).

You can avoid pricing incorrectly (usually this happens if you don't know where your target margin should be) and avoid leaking profits by tracking jobs well throughout.

You can avoid booking too many jobs (if you haven't worked out exactly how much work is optimal for your team). This also means no burning out your team (and reputation) with too much work and crazy deadlines.

You can avoid constantly not having money in the bank when you need it and sleepless nights with cashflow worries because you haven't created a cash buffer or know what that should be.

These mistakes all cost you time, stress, and money.

Bottom line? Running a business without tracking your performance is like being the captain of a ship in the dark of night during a storm. Trying to avoid the rocks. Without a lighthouse to guide the way.

Need some help to get your business tweaked for optimal results? It's time we had a chat. Book here: https://nextleveltradie.co.nz/nextstep/