SMART UP

screening for business health

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Module 3

How to calculate our recommended indicators

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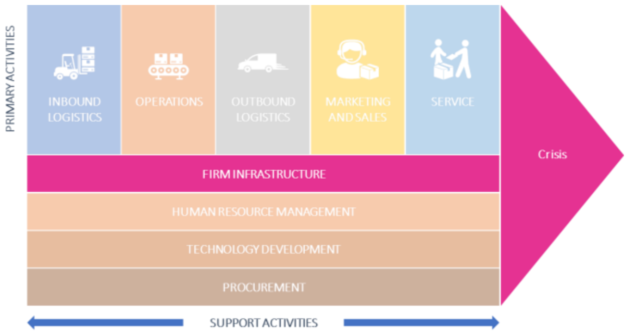
The Financial Ratios you need to know

Gross Profit Margin



Gross profit margin is a metric analysts use to assess a company's financial health by calculating the amount of money left over from product sales after subtracting the cost of goods sold (COGS).

Sometimes referred to as the gross margin ratio, gross profit margin is frequently expressed as a percentage of sales.

What does it tell you

If a company's gross profit margin wildly fluctuates, this may signal poor management practices and/or inferior products. Such fluctuations may be justified in cases where a company makes sweeping operational changes to its business model, in which case temporary volatility should be no cause for alarm. E.g. if a company decides to automate certain supply chain functions, the initial investment may be high, but the cost of goods ultimately decreases due to the lower labor costs.

How to calculate

A company's gross profit margin percentage is calculated by first subtracting the cost of goods sold (COGS) from net sales (gross revenues minus returns, allowances, and discounts). This figure is then divided by net sales, to calculate the gross profit margin in percentage terms.

Formula

$$Gross\ Profit\ Margin = \frac{Net\ Sales\ - COGS}{Net\ Sales}$$

Operating Profit Margin

A slightly more complex metric, operating profit also takes into account all overhead, operating, administrative and sales expenses necessary to run the business on a day-to-day basis.

While this figure still excludes debts, taxes and other non-operational expenses, it does include the amortization and depreciation of assets.

What does it tell you

A company's operating profit margin ratio tells you how well the company's operations contribute to its profitability. A company with a substantial profit margin ratio makes more money on each EURO of sales than a company with a narrow profit margin.

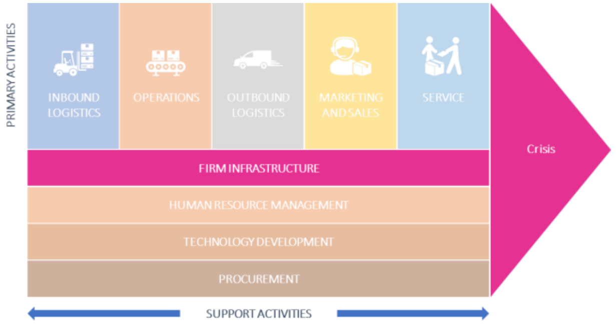
How to calculate

1. Find the operating income (EBIT) by subtracting its operational expenses, allocated depreciation, and amortization amounts from gross income.
2. Find the net sales revenue. This requires no calculation because the sales shown on the company's income statement are net sales. If that figure is unavailable, you can calculate net sales by taking the company's gross sales and subtracting its sales returns, allowances for damaged goods, and any discounts offered.
3. Calculate the operating profit margin ratio by dividing the figure from step one (operating income) by the figure from step two (net sales).

Formula

$$Operating\ Profit\ Margin = \frac{Operating\ Income}{Revenue} * 100$$

Net Profit Margin



The net profit margin can be used to compare performance over different periods. However, this only reveals reliable results if nothing else has changed in your expenses.

What does it tell you

The net profit margin can indicate how well the company converts its sales into profits. This means that the percentage calculated is the percent of your revenues that are profitable. It also indicates the amount of revenue you are spending to produce your products or services.

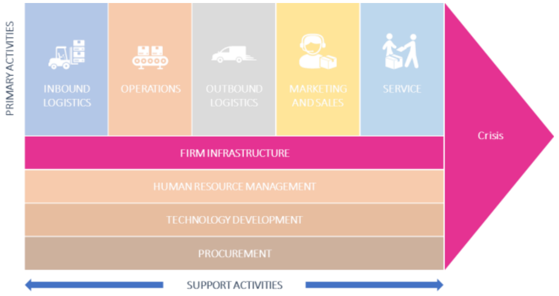
How to calculate

1. You'll have to calculate net profit and net sales, as there are generally not line items labeled as such on the income statement. Net profit is calculated by subtracting all of your expenses from your revenues. These include wages, salaries, utilities, or other expenses.
2. Net sales is the result of subtracting your allowances, returns, and discounts from your total revenue. Allowances stem from problems with a product or service which required you to reduce the price to satisfy the customer. A return is the return of an item or a refund for a service.

Formula

$$Net\ Profit\ Margin = \frac{Net\ Profits}{Net\ Sales} * 100$$

Important Financial Ratios: Quick Ratio



The quick ratio—sometimes called the quick assets ratio or the acid-test—serves as an indicator of a company's short-term liquidity, or its ability to meet its short-term obligations. In other words, it tests how much the company has in assets to pay off all of its liabilities.

Assets include cash, accounts receivable, short-term investments, and inventory. The quick ratio offers a more stringent test of a company's liquidity than the current ratio.

What does it tell you

The quick ratio formula removes a firm's inventory assets from the equation. Inventory is the least liquid of all the current assets because it takes time for a business to find buyers if it wants to liquidate the inventory and turn it into cash. If a company's quick ratio comes out significantly lower than its current ratio, this means the company relies heavily on inventory and may be sorely lacking other liquid assets. The quick ratio assigns a EURO amount to a firm's liquid assets available to cover each EURO of its current liabilities. Thus, a quick ratio of 1.75X means that a company has €1.75 of liquid assets available to cover each €1 of current liabilities. The higher the quick ratio, the better the company's liquidity position.

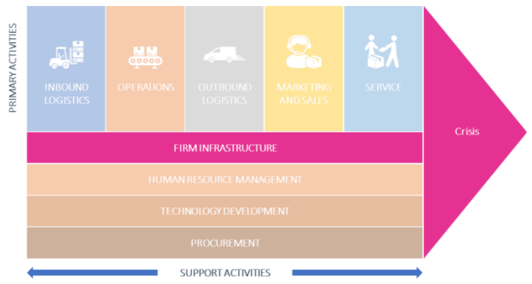
How to calculate

You can calculate the quick ratio from balance sheet data using this formula:

Formula

$$Quick\ Ratio = \frac{(Current\ Assets - Inventory)}{Current\ Liabilities}$$

Important Financial Ratios: Current Ratio



The current ratio is probably the best known and most often used of the liquidity ratios, which analysts and investors use to evaluate the firm's ability to pay its short-term debt obligations, such as accounts payable (payments to suppliers) and taxes and wages.

Short-term notes payable to a bank, for example, may also be relevant.

What does it tell you

The current ratio shows how many times over the firm can pay its current debt obligations based on its current, most liquid assets.
If a business firm has €200 in current assets and €100 in current liabilities, the calculation is €200/€100 = 2.00X. The "X" (times) part at the end means that the firm can pay its current liabilities from its current assets two times over. This is a good financial position for a firm, meaning that it can meet its short-term debt obligations with no stress. If the current ratio is less than 1.00X, then the firm would have a problem covering its monthly bills. A higher current ratio is typically better than a lower current ratio with regard to maintaining liquidity.

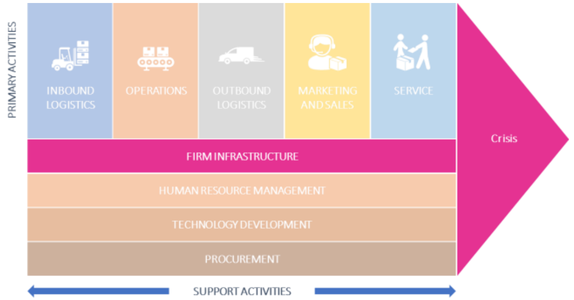
How to calculate

The current ratio is calculated from balance sheet data using the following formula:

Formula

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

Important Financial Ratios: Return on Investment



Return on investment (ROI) is a financial metric of profitability that is widely used to measure the return or gain from an investment. ROI is a simple ratio of the gain from an investment relative to its cost.

It is as useful in evaluating the potential return from a stand-alone investment as it is in comparing returns from several investments.

What does it tell you

- Return on investment (ROI) is a rough measure of an investment's profitability.
- The metric has a wide range of interpretations, such as the profitability of stock investment, purchasing a new manufacturing plant, or the result of a real estate transaction. ROI is comparatively easy to calculate and understand, and its simplicity means that it is a standardized, universal measure internationally.
- On the downside, ROI doesn't account for how long an investment is held, making comparing investments less useful to an investor than a measure that incorporates the holding period.

How to calculate

The ROI is calculated by dividing the net return on investment by the cost of investment and multiplying by 100% or by subtracting the initial value of the investment from the final value of the investment, dividing this new number by the cost of the investment and multiplying it by 100%.

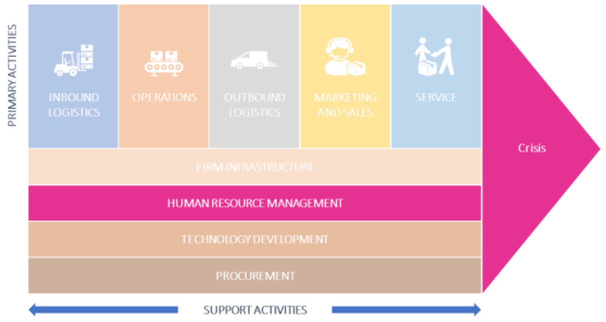
Formula

$$ROI = \frac{Net\ Return\ on\ Investment}{Cost\ of\ Investment} * 100$$

OR

$$ROI = \frac{Final\ Value\ of\ Investment\ - Initial\ Value\ of\ Investment}{Cost\ of\ Investment} * 100$$

Information sources in the company: HR



A large number of indicators for crises in early phases can be determined from the personnel department.

Employees usually have a very sensitive feeling for the company - even if they do not articulate it directly.

→ With relatively little effort you can generate important information about the state of the company – especially when you review them over time

Sick Leave – Did the percentage of sick leaves change over time?

Time until positions can be re-staffed – Is it more difficult to re-staff positions or do you need to pay more to convince candidates?

Agony Box – Do your employees have the chance to mention important topics anonymously?

Staff Interviews – Do you conduct regular Staff Interviews? Are they open to for constructive feedback?

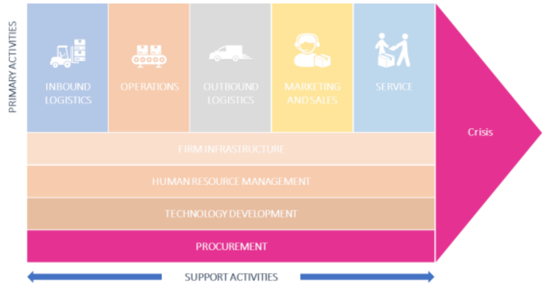
Initiative Applications – Do less people send you initiative Applications?

Online Ratings as Employer – Do you track online platforms for ratings of Employers?

Employee surveys – What are the topics your employees rate as important?

Feedback Culture – Do you have a constructive, open company culture? Did Mood and Motivation change?

Procurement Indicators: Compliance Rate



Contractual and policy compliance are pivotal to ensure legal security. If these compliance rates dip down, they can spike up indirect and maverick spend.

A fool proof purchasing contract with clearly defined penalties can improve the compliance rate

What does it tell you

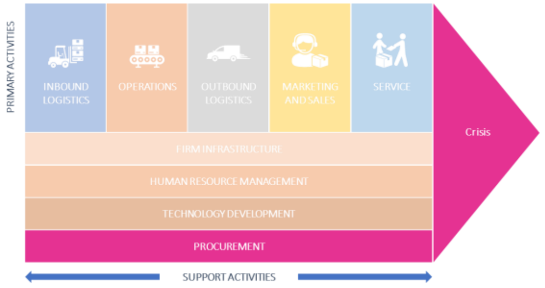
Compliance in procurement represents the whole of basic agreements a company and a supplier lay down. It results in various requirements such as the maximum reaction time in case of any issue, the delivery time, special discount offers, etc. It is a key component in providing guidance and insights into processes, and participates in saving costs through better negotiations with suppliers.

How to calculate

This depends on your areas of interest.
Potential Metrics are:

- The ratio of disputed invoices to total invoices
- The total difference between the praice paid and the price quoted

Procurement Indicators: Number of Suppliers



Relying on too few suppliers and not diversifying your sources creates a high risk of dependency, and potential further problems if one of them pulls out at the last moment. On the other hand, too many suppliers reduce the possibilities of interesting discounts.

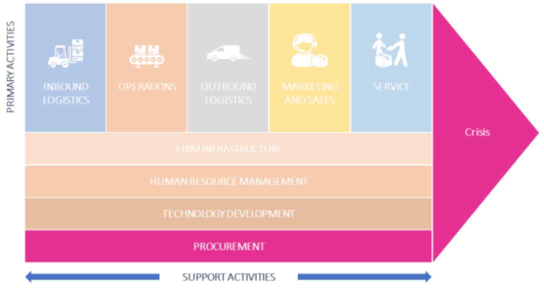
What does it tell you

The number of suppliers shows the level of dependency and the complexity of your procurement. It is interesting to show the evolution of suppliers over the years - e.g. divided by categories: Contracted suppliers and unlisted ones. Often enough, companies prefer contracting suppliers so that they agree with their terms of compliance – but not all suppliers agree, so they are unlisted. The contracted partners can be classified as gold, silver or bronze according to certain criteria measuring the relationship through discount, reliability, etc.

How to calculate

Apart from the level of dependency, the optimal number of suppliers you need should be measured using other metrics like the quantity discount they provide you with, and the defect rate of their supplies.

Procurement Indicators: Purchase order Cycle time



If you're looking to make your business more efficient, you might need to revamp some processes.

The Purchase Order Cycle Time is a procurement KPI that covers the end-to-end ordering process, from the moment a purchase order is created to the order approval, receipt, invoice and finally payment of the order.

What does it tell you

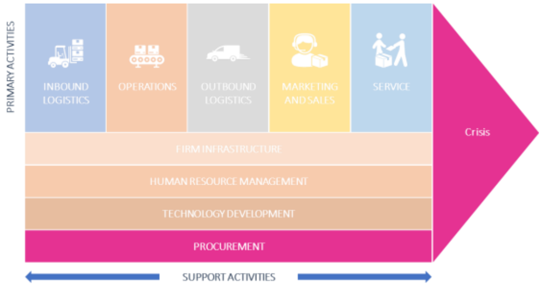
A purchase order cycle is the journey of steps that a purchase order goes through when it's being processed. It starts off with an approved purchase requisition. Then it turns into a brand new purchase order and goes to the purchase order approval process. There are a series of steps that ensure budgets are aligned, that purchase orders match and everything is finalized through the closure process. However, there are a lot of aspects of a business that can hinder the purchase order cycle time. If your business uses antiquated tools, old software, or has a track record of poor internal communication, it could increase your purchase order cycle time.

1. Appoint a purchase manager
2. Build a leaner supply chain
3. Prioritize preferred vendors
4. Review your purchase policies
5. Incorporate digital procurement technology into your purchases

How to calculate

Order cycles per year are calculated by dividing the annual demand D by the order quantity Qo. An order cycle is the amount of time between when an order is placed and when the next order after it is placed. The cycles per year are simply the total number of order cycles completed in that period.

Procurement Indicators: Supplier Availability



In an era of fast-changing consumer habits, where the lines between different channels are blurred, and where mobile-commerce, online purchases, in-store consumer-specific marketing all merge in one retail experience, it is important to manage suppliers as efficiently as possible to guarantee availability of stocks.

By monitoring the evolution of your supplier's availability of stocks, you know the degree of reliability you can place in them.

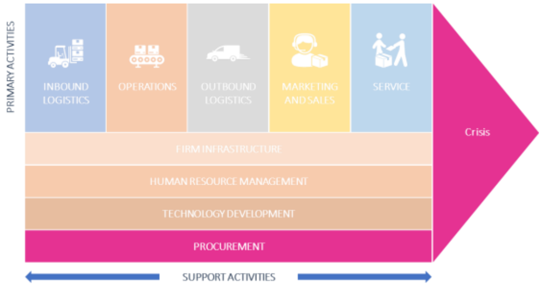
What does it tell you

The supplier availability is a procurement KPI that refers to the number of times goods were available on the supplier's side, or to the number of orders placed with the supplier.
Maintaining your supplier's availability over 90% ensures a good functioning of your supply chain and a greater level of efficiency.

How to calculate

$$\frac{\#\ of\ tmies\ where\ goods\ where\ available}{\#\ of\ orders\ placed\ or\ numbers\ of\ enquiries} * 100$$

Procurement Indicators: Supplier Defect Rate



Supplier Defect Rate measures the percentage of materials or products received from suppliers that do not meet required quality or compliance specifications.

What does it tell you

This is a procurement KPI that is crucial when it comes to determining the final quality of a product. It measures the percentage of products received from suppliers that do not meet the compliance specifications and quality requirements. The Supplier Defect Rate is more critical in some industries that have high-risks and multi-tiered supplier bases like the aerospace or automotive. Tracking your different suppliers' defect rates and break it down into defect type will provide you insights on which supplier is more performant and reliable than other, and what type of errors are done.

How to calculate

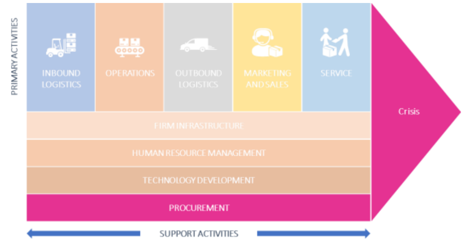
A defect rate is calculated by testing the product quality for non-compliances to a quality target. Quality is typically specified by functional and non-functional requirements.

$$Defect\ Rate = \frac{defects}{goods\ tested} * 100$$

$$Defective\ parts\ per\ million = \frac{Defective\ Parts}{Total\ Parts} * 1{,}000{,}000$$

Procurement Indicators: Cost of Purchase Order

Slide 1 of 2



The Cost of Purchase Order is one of the disputed procurement KPIs, as the definition and application vary. In theory, this metric represents the average costs of processing an order, from purchase creation to invoice closure. In practice, the costs to process internally the purchase order can include a staggering list of variables.

What does it tell you

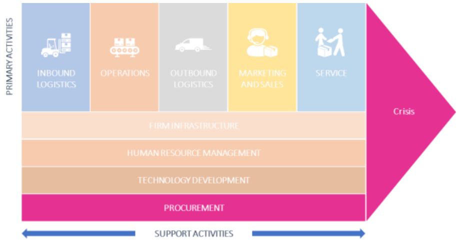
There is no standard benchmark which you can apply to your situation to get the cost of processing a purchase order.

On the other hand, there is a business case for reducing the cost of purchase order because this is a real cost and any efficiency you can gain by optimizing your purchasing process can result into hard savings.

If we can’t rely on benchmarks, how do we go about calculating the cost of a purchase order?

The short answer is getting to your own numbers by looking at the various components of the cost factors in your purchase order cycle.

Procurement Indicators: Cost of Purchase Order Slide 1 of 2



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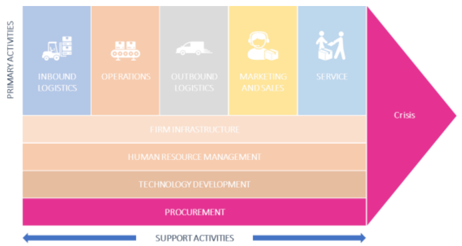
How to calculate

1. List all steps in the purchasing process. A typical process might be
    1. User creating the requisition
       How is the requisition created by the user. Is the process manual or system based? If system based – are there catalogs or other ways to reduce the data entry by the user?
    2. Requisition approval by manager
       Document the steps which are involved in the approval process.
    3. Number of steps in the purchase order process
       Document the average number of steps in the whole process
    4. Creating the purchase order
       Are the purchase orders created manually or are they created automatically by a system?
    5. Sending out the order to a supplier
2. Calculate the average time for each step in your purchase order process

Procurement Indicators: Procurement Cost Reduction



Cost reduction is central amongst the procurement KPIs.

It wants to measure the tangible "hard savings", that you have performed in terms of cost management over the years.

What does it tell you

Irrespective of the industry sector, the size of an enterprise or the maturity of the procurement discipline, realizing cost savings will always be one of the most important objectives of the procurement function. This is hardly a surprise. In most organizations the percentage of revenue that is spent on procurement has grown to 50-70%, depending on the type of business. The most important reason for this growth is the continuing trend of outsourcing tasks that were formerly performed within the organization.

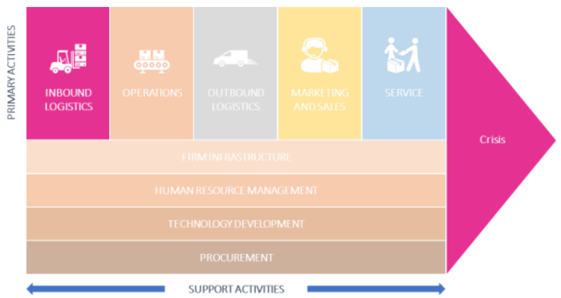
How to calculate

Cost savings initiatives must be based on a solid spend analysis. This serves as a starting-point for identifying saving opportunities and as a benchmark to verify claimed savings. In this analysis different kinds of data are gathered:

Spend
Number of suppliers
Spend per supplier
Spend per cost center and G/L account
Comparison of measured values with benchmarks

The identification of saving options is done per commodity and preferably in interdisciplinary teams to ensure involvement of the different stakeholders. Identified alternatives are analyzed to determine the savings potential (quantitative) and impact (qualitative). The outcome of the analysis is used to set priorities and to decide on the implementation of saving initiatives.

Information sources in the company: Inbound Logistics



Inbound logistics refers to the transport, storage and delivery of goods coming into a business.

An effective inbound logistics program can result in higher quality products, more cost savings and increased sales. It will also improve customer satisfaction, while also reducing total overhead and wasted materials.

Here you can find examples for potential KPIs.

	Efficiency			Perfection			Lean Logistics		
TOP-Level	Inbound logistics costs [€/vehicl	Logistics effort inbound [N/A]	Resource utilisation inbound [%]	Delivery Quality [%]	Process Quality [%]	Information Quality [%]	Flow [%]	Pull [%]	Tact [%]
KPIs (Examples)	Transportation Costs [€/vehicl	Transport service [to*km / vehicle]	Transport capacity utilisation [%]	Delivery date and quantity reliability [%]	Process conformity with planned processes [%]	Stability of call-off orders [%]	Flow Inbound [%]	Pull Inbound [%]	Tact Inbound [%]
	Overhead costs [€/vehicle]	Transport load [to / vehicle]	Space utilisation [%]	Packaging conformity and quality	Number of exception handlings [%]	Quality of transport documents	Through put time Transport [hrs]		
	Inbound inventories [€/vehicl	Transport distances [km/ vehicle]	Dock capacity utilisation [%]	Parts quality [%]		Quality of labelling [%]	Degree of lean implementation [%]		

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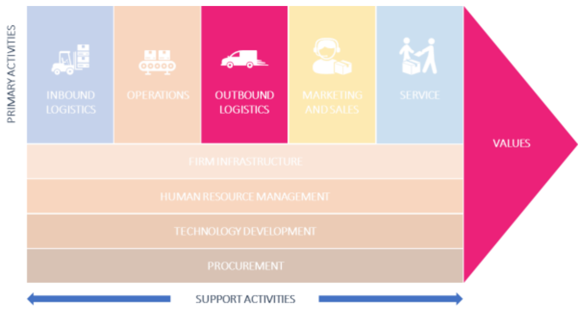
Outbound Logistics Indicators: Shipping Time



On-time delivery (OTD) is the main metric to measure the efficiency of supply chain processes in your organization. It is an indicator of how capable your organization is to meet customer demand in terms of the requested delivery date (RDD).

Failing to meet your customers' requests can lead to all sorts of negative outcomes. Worst case? You loose your customers to competitors.

What does it tell you

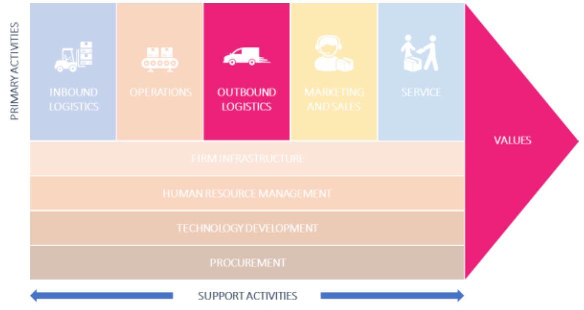
This is a first logistics KPI to help you measure your supply chain performance. Indeed, if the amount of time between the moment the customer placed his order and the moment that order is prepared to be shipped is too long, that can show some trouble in the process that need to be fixed. Whether it is outdated planning processes or disconnected execution systems too slow to face an increasing demand, the issues need to be addressed to quickly answer unexpected events. After realizing a benchmark of the average time you need to ship a certain type of order, you can set a target shipping time relative to each product to achieve.

How to calculate

The On-Time Shipping performance refers to the ratio of orders that have been shipped on or before the requested ship date divided by the total number of orders.

$$On\ Time\ Delivery\ Rate = \frac{Orders\ Shipped\ on\ Time}{Total\ Orders} * 100$$

Outbound Logistics Indicators: Order Accuracy



The Perfect Order Rate is another highly important logistics metric when it comes to your supply chain efficiency.

The perfect order percentage KPI can get pretty complicated, but it provides useful information.

It tells you what percentage of orders are being processed accurately and on time. When you see this number decreasing, it's time to take a look at your processes and who is doing the processing.

What does it tell you

It measures the amount of orders that are processed, shipped and delivered without any incidents on its way. The shipping time as well as the delivery time are both respected, the order is not a wrong one and the goods are not damaged. It is important as it shows the efficiency of your supply chain and delivery services, and that leads of course to more satisfied clients that are willing to come back or recommend your services. The higher is this rate, the better it is for your business. You will lose less money with returns of inaccurate or damaged goods, and increase the level of satisfaction of your customer base.

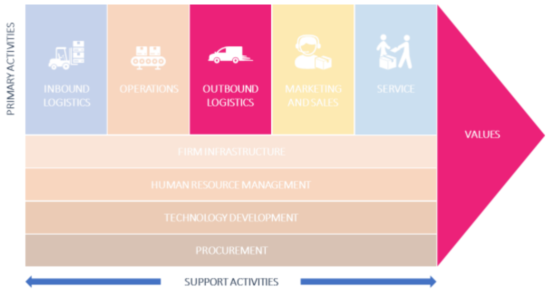
How to calculate

Break down the factors that go into a perfect order. Examples:

- % of orders on time = Orders on time versus Total orders
- % of orders shipped complete = Orders shipped complete versus Total orders
- % of orders shipped no damage = Orders with no damage versus Total orders
- % of orders with correct documentation = Orders with correct documentation versus Total orders

$$Order\ Accuracy\ Rate = \%\ of\ orders\ on\ time * Percent\ of\ orders\ shipped\ complete\ * Percent\ of\ orders\ shipped\ no\ damage * Percent\ of\ orders\ with\ correct\ dosumentation\ *100$$

Outbound Logistics Indicators: Delivery Time



Late deliveries are never ideal, but tracking every late order can help the organization understand the consequences of late deliveries.

What does it tell you

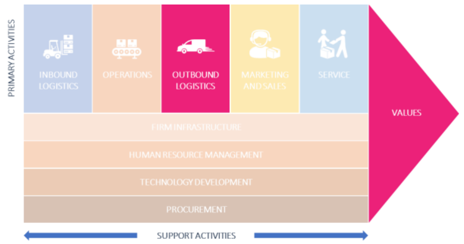
After benchmarking and having an idea of the average delivery time from your warehouse to anywhere, the goal would be to decrease it when possible - offering special delivery services for instance - but more importantly, to precise it. Saying that an order will arrive in 4-5 business days is better than saying it will arrive in 1-to-5 business days. Additionally, if you can precise the delivery hours (between 13h and 15h rather than between 8h and 18h), it is even better. That way, your customer knows when he should be home to pick the package up, increasing your order picking accuracy rate and avoiding returns.

How to calculate

The Average Time Delivery is measured from the moment the order is placed to be shipped and the moment it is delivered to the customer/post office.

$$Average\ Order\ Delivery\ Time = \frac{Total\ number\ of\ days\ delivery\ time}{Number\ of\ orders}$$

Outbound Logistics Indicators: Transportation Costs



Depending on your business model, the overall transportation costs can have a large impact on your overall business performance. Analyzing the individual costs of the processes involved shows you where to find areas for improvement.

What does it tell you

The Average Transportation Costs calculates an overall of the expenses involved in processing an order from the beginning to the end. It will break down all the costs related to this logistics KPI according to distinct categories: the order processing, the administrative, the inventory carrying, the warehousing and finally the actual transportation costs. You can also calculate the transportation costs relatively to a product and see how much one item costs compared to how much revenue it brings you. The goal is to decrease the transportation costs while maintaining a high quality of delivery.

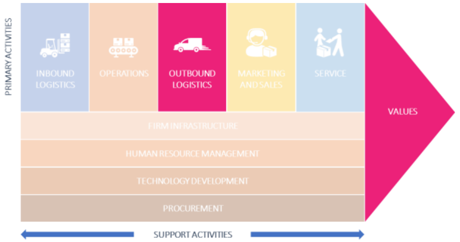
How to calculate

Analyze the costs of all process steps involved in transportation such as:

- Transportation Costs (TC)
- Warehousing Costs (WC)
- Inventory Carrying Costs (ICC)
- Administrative Costs (AC)
- Order Processing Costs (OPC)

$$Average\ Transportation\ Costs = \frac{TC + WC + ICC + AC + OPC}{Number\ of\ Orders} * 100$$

Outbound Logistics Indicators: Warehousing Costs



Warehousing is the management of space and time. And for many companies, warehousing is a main area of business. Therefore it is important to measure and review the costs involved on a regular basis in order to improve operations and evaluate the success of improvement measures.

What does it tell you

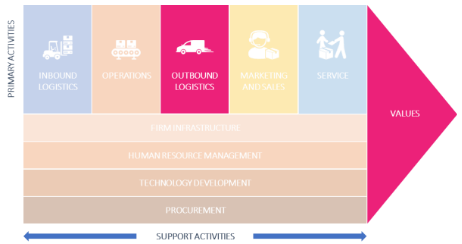
The Warehousing Costs refer to the money allocated to the goods moved into or outside the warehouse. These expenses cover equipment and energy costs like ordering, storing and loading the goods, as well as more human costs like labor, shipment, or delivery. The warehousing costs are a component of another logistics KPI, the total transportation costs. Measuring them is not an easy task, but once it is done it will facilitate your overall management and add a lot of value.

How to calculate

Analyze the costs of all process steps involved in Warehousing and compare them in % of the total Warehousing costs in order to find areas for improvement:

- Order Picking
- Storage
- Shipping
- Receiving
- Other

Outbound Logistics Indicators: Shipments



Shipping is not only a matter of dispatching goods and packages in trucks or boats. Shipments are the showcase of your warehouse; their quality and the accuracy to primary order will demonstrate the quality of your service as well.

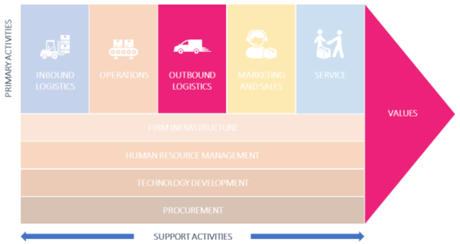
What does it tell you

Analysing the number of shipments over time or by destinations or customers gives you important insights on trends.

How to calculate

Track the number of shipments e.g. by:
- Country
- Customer
- Years
- Months

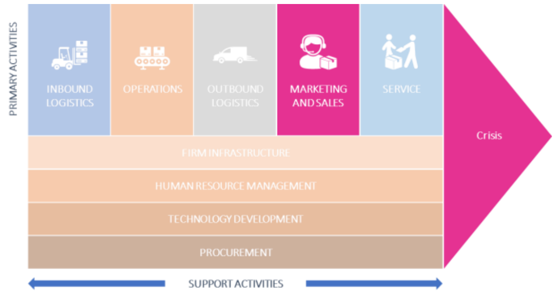
Outbound Logistics Indicators: Inventory Accuracy



Inventory Accuracy is one of those logistics metrics that can make or break your warehouse. Indeed, having a certain record of all your goods in your database that doesn't match the actual physical inventory can harm your business considerably. If your inventory is inaccurate, that can lead to unexpected backorders but also unsatisfied customers and more generally, higher overall costs.

What does it tell you	A regular inventory checking the existing discrepancies with your electronic inventory record ensures that bookkeeping practices are in order and that your business is reliable, avoiding phantom inventory nightmares. This ratio will also help you spot issues related to receiving, shipping, or accounting.
How to calculate	Inventory accuracy is usually stated as a percentage, as in "we have 95% inventory accuracy." Many people might think this means 95% of the on-hand balance records are correct. But to be a true measure of accuracy, the company needs four factors to be right: • On-hand balance totals must be accurate • Locations and location counts must be correct • Item or bin labels and identification must be present • If the company uses serial or lot number tracking, the inventory record must also correctly identify the lot or serial numbers on hand by location

Marketing and Sales: Cost per Acquisition



The Costs per Acquisition (CPA) are a standard metric in online-marketing but can also be transferred to other business models.

Good CPA values depend on the target group, the company status and the individual value of new customers. In high-priced sectors with long-term customer loyalty and high earnings per transaction, the costs per purchase are significantly higher if correspondingly elaborate advertising campaigns are conducted.

What does it tell you

The costs of acquiring new customers are usually recorded in the key performance indicator "cost per acquisition" (CPA). Especially in high-priced industries, the CPA can be used to accurately determine the effectiveness of advertising campaigns. At the same time, CPAs are also used as a remuneration model in online marketing.

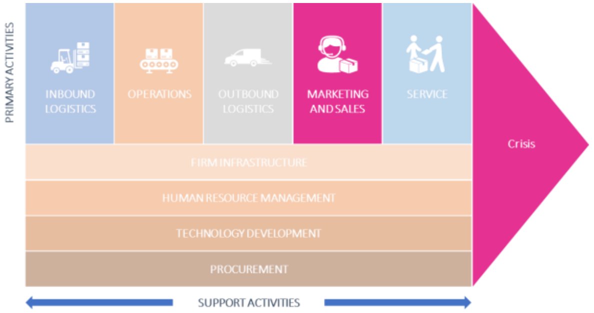
How to calculate

The CPA figure is calculated as the sum of all costs (campaign costs) divided by the sum of all conversions achieved. The result provides a quick cost overview and makes it easier to evaluate how effectively advertising measures contribute to building up the new customer base. Various behaviors can be defined as conversions, among others:

- Product purchases
- Conclusion of contracts
- Software downloads
- Newsletter subscriptions

$$CPA = \frac{\sum Costs}{\sum Conversions}$$

Marketing and Sales: Cost per Lead



A lead is a potential customer that has interacted with your company through your marketing activities. The cost per lead (CPL) is one of our marketing KPI examples, that is inevitable for efficient performance marketing.

What does it tell you

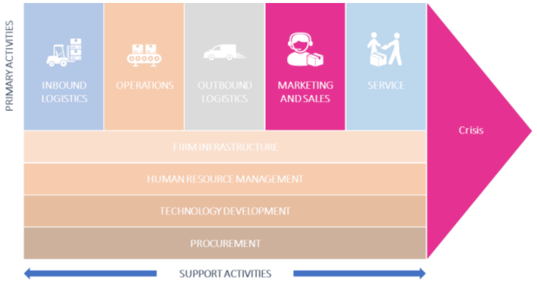
Analyzing Costs per Lead (CPL) helps you to identify where you should focus your marketing efforts since you can compare the CPL for different channels or campaigns. This can be automated by using professional marketing analytics software. It also makes sense to track the CPL over time to see when was the lowest CPL with the highest revenue or net income – that would mean your strategies at these times were effective.

How to calculate

CPL is calculated with the total costs of a specific campaign divided by the number of leads generated. Make sure you compare the total cost per lead with the net income per lead to be able to identify your most profitable marketing activities.

$$CPL = \frac{Costs\ of\ a\ specific\ campaign}{Number\ of\ Leads\ generated}$$

Marketing and Sales: Sales Targets & Growth



Sales target and growth is a real high-level marketing KPI that is influenced by the whole business strategy.

However, your marketing activities have a major influence on your sales and, therefore, you should set ambitious sales targets and monitor them in detail, because at the end of the day the goal of your marketing activities is to sell more and make the business more successful and profitable.

What does it tell you

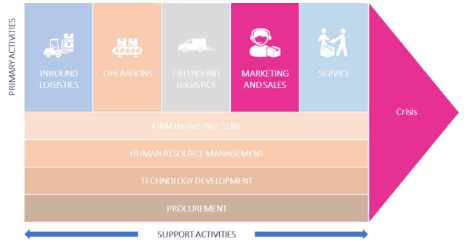
A sales target is a goal set for a salesperson or sales department usually measured in revenue or units sold for a specific time. Set realistic sales targets and track them on a monthly basis to ensure stable growth and viable revenue. Compare your results with the previous periods.

How to set Sales Targets

1. Calculate your monthly sales target
   If you're setting personal or team target, they should align with annual sales goals. Figure your monthly sales goal by working backward from your company's annual revenue target. Once that target is defined, calculate how much your department, teams, and individual reps need to sell to meet that goal.
2. Set waterfall targets
   Budget for ramp-up time when you're implementing new goals and onboarding new staff
3. Prioritize - Determine which goals bring the highest value when hit, and make sure your staff is meeting those first.
4. Incentivize targets
5. Monitor goal progression

6. Set stretch targets (not motivating everyone): A stretch target is a target exceeding the primary goal – e.g. 125%. Be careful as they still need to be achievable.

Marketing and Sales: Return on Marketing Investments



"Marketing expenditures are basically not costs, but investments!" Strictly speaking, investments in awareness, customer relations or brand values. But in many companies marketing is still seen as a cost item. Therefore, it is sometimes necessary to prove the value of a marketing activity in the classical way by calculating the return on investment of marketing investments, i.e. the ROMI (Return on Marketing Investment).

What does it tell you

The consideration of the marketing ROI can lead to the following improvements:

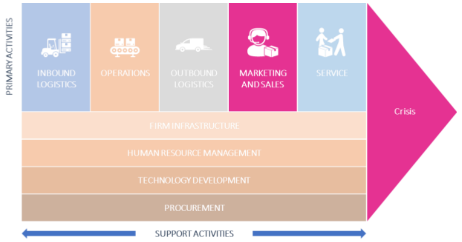
- Reduction of inefficient marketing expenditures
- Reallocation of marketing expenditure towards more efficient measures
- Reduction of marketing process times
- Sales growth
- Profitability increases
- Training of marketing professionals focused on measurement and metrics

How to calculate

Like ROI (Return on Investment), ROMI (Return on Marketing Investment) is calculated as follows:

$$ROMI = \frac{Attributable\ Profit\ - Investments}{Investments}$$

Marketing and Sales: Customer Lifetime Value



The Customer Lifetime Value is one of the most important marketing KPIs. It shows how much value a specific new customer will create and therefore allows you to control how much money you are willing to spend for a new customer.

What does it tell you

In short, Customer Lifetime Value represents the value that a customer brings to a company throughout "customer life". This ratio allows conclusions to be drawn for the meaningful calculation of marketing expenditure.

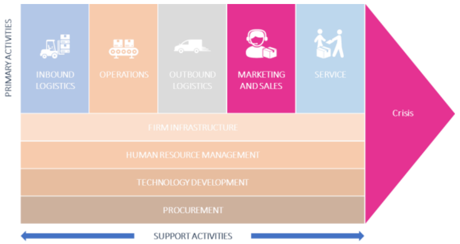
How to calculate

There are different approaches to calculate the Customer Lifetime Value which could be individually or in combination.

Step 1: Collect your data

- t = average customer lifetime: How long does someone stay your customer? Example: 2 years
- r = customer repurchase rate: This is the percentage of customers who make a new purchase in a given period compared to the same previous period. In the example: 35 %.
- p = profit margin per customer: In our example: 25%.
- i = Discount factor for costs: With the discount factor, future payments can be discounted to a certain point in time, for example, to determine the present value or present value. In our example: 10 %.
- m = average contribution margin: The average contribution margin generated by a customer in a given period. With a profit margin of 25% (p) and an average buyer’s spend of 37,856 EUR (result of the calculation "Simple CLV Calculation" below), during the customer's lifetime (t) - you get an average contribution

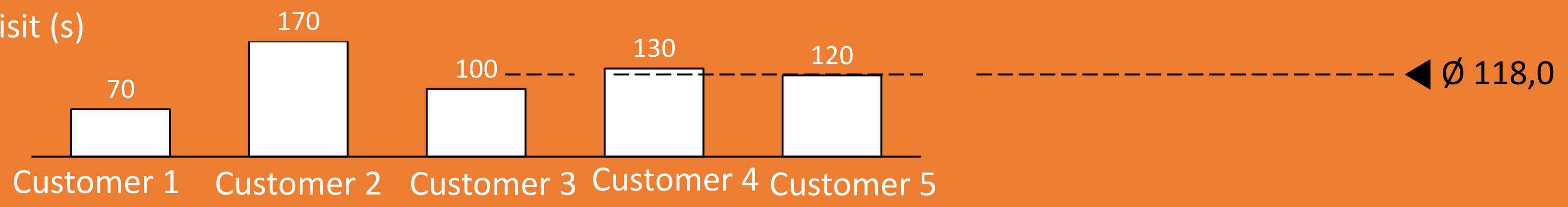
Marketing and Sales: Customer Lifetime Value (cont.)



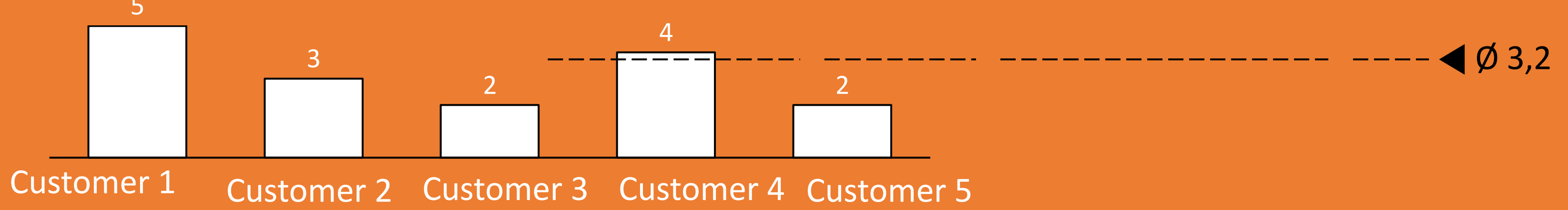
How to calculate (cont.)

Step 2: Determine the average of your variable values

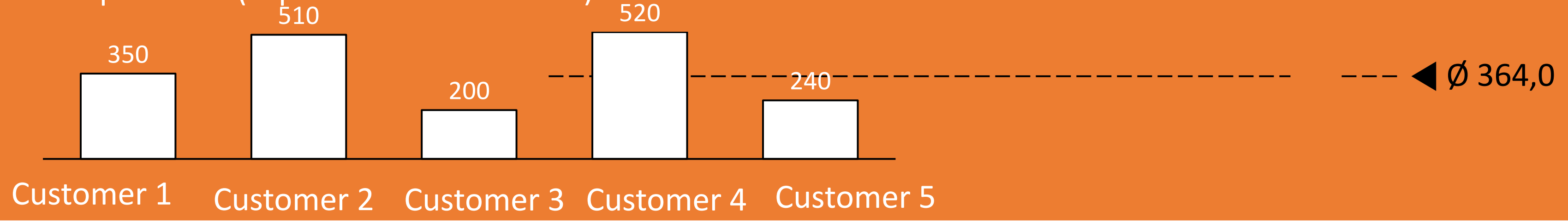
Buyer expenses per visit (s)



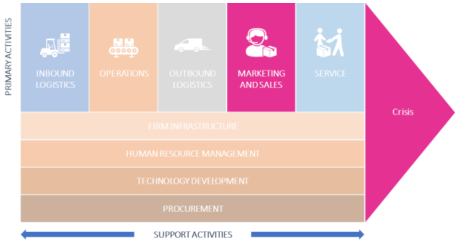
Number of visits per week (c)



Average customer value per week (expenses x visits in Euro)



Marketing and Sales: Customer Lifetime Value (cont.)



How to calculate (cont.)

Step 3: Calculation of Customer Lifetiem Value

As mentioned above, different methodologies are used to calculate the CLV. Below you will find the three most frequently used calculations - these can be used individually or in combination to determine marketing budgets and ultimately the costs of acquiring new customers.

Simple CLV Formula

$$CLV = 52\,(a) * t = 52\,(364) * 2 = 37{,}856\ €$$

Standard CLV Formula

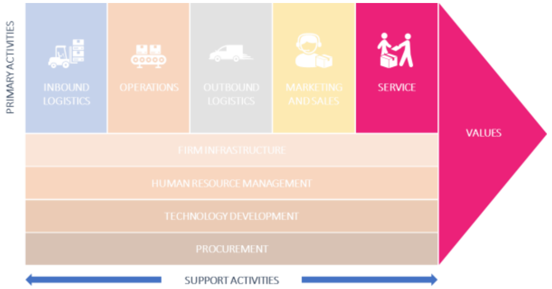
$$CLV = t * (52 * s * c * p) = 2(52 * 118 * 3{,}2 * 0{,}25) = 9{,}818\ €$$

Classic CLV Formula

$$CLV = \frac{m * r}{(1 + i - r)} = \frac{9464 * 0{,}35}{(1 + 0{,}1 - 0{,}35)} = 4{,}417\ €$$

It is clear from this calculation that the 'simple CLV' method, at EUR 37 856, significantly overstates the overall result. Regardless of which of the three formulas is chosen - or whether one takes the average of all of them - the higher the CLV, the more valuable the customer or advertising channel.

Service: Customer Satisfaction Score



The most popular KPI for measuring customer satisfaction is the Customer Satisfaction Score (CSAT), which directly asks your customers to rate their satisfaction with your company, product or service. Your score is the average of all answers from your customers.

What does it tell you

Measuring customer satisfaction is difficult. You ask your customers to express a feeling - and feelings are harder to capture than objective facts, such as your sales department's financial metrics.

Customer Satisfaction Score (CSAT) is the most straightforward of the customer satisfaction survey methodologies, and it measures customer satisfaction with a business, purchase, or interaction.

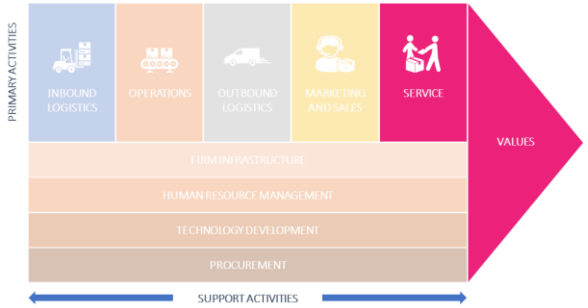
How to calculate

Your CSAT scale can consist of regular numbers, but also of stars, smileys, tiny unicorns, etc. You can also choose different scale ranges, but note that simpler scales are more resistant to cultural differences.

It's calculated by asking a question, such as "How satisfied were you with your experience?" There's a corresponding survey scale, which can be 1 – 3, 1 – 5, or 1 – 10.

A big strength of Customer Satisfaction Score lies in its simplicity: It's an easy way to close the loop on a customer interaction and determine whether or not it was effective in producing customer happiness.

Service: Net Promoter Score



Measuring customer loyalty with just one question is becoming increasingly popular:

The Net Promoter Score is considered the ultimate question with the highest predictive power for future behaviour.

What does it tell you

The NPS measures the probability with which your customers recommend you to another person. Its advantage over the CSAT is that it targets an intention, not an emotion. Thus, the response is less influenced by the mood of the moment.

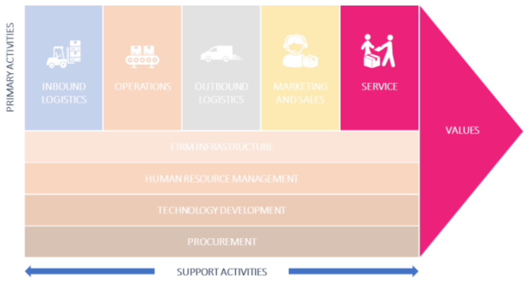
How to calculate

You ask your customers how likely it is on a scale of 1 to 10 that they will recommend you.
They will assign your answers to one of three categories: Proponents (9-10), Passive (7-8) or Critics (0-6). Take the percentage of respondents who fall into the category "Proponents" (9-10) and subtract it from the "Critics" (0-6).

The value range of the NPS thus lies between plus 100 and minus 100.

$$NPS = Proponents\ (in\ \%) - Critics\ (in \%)$$

Service: First Response Time



Customers take a Spice Girl approach to service: "*If you wanna get with me, better make it fast!"*

Speed is a decisive factor for customer satisfaction. Your customers expect a smooth and efficient shopping experience. Responding quickly to your customer inquiries is essential, as your competition is only a mouse click away.

What does it tell you

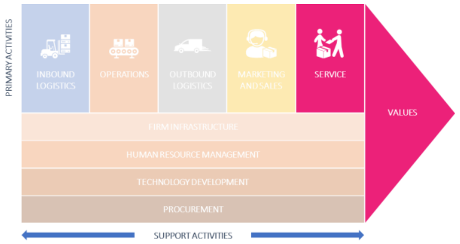
A Salesforce survey found that one-third of respondents were positive about companies that provided a quick initial response. But here's the interesting part: Customers preferred a quick answer over a thoroughly researched but delayed answer-even if it didn't solve their problem.

How to calculate

First Response Time (FRT) is calculated by simply subtracting the time of the customer request from the time of the initial reply. To see more of a trend over time, calculate the Average First Response Time by dividing the sum of all First Response Time by the number of resolved tickets.

$$FRT\ (min, hours, days) = Time\ of\ first\ respone\ - time\ of\ customer\ request$$

Service: Customer Churn Rate



Customer churn helps you see trends in product satisfaction (or dissatisfaction).

Analyzing customer churn based on cohorts can be particularly insightful for determining why or what other factors may be influencing customer decisions (e.g. pricing updates, new feature rollout, changes in messaging, etc.).

What does it tell you

Customer Churn Rate (CCR) is the percentage of customers lost during a given period of time. For SaaS or mobile apps, this means customers who cancel their subscription. For ecommerce, this means customers who fail to make a repeat purchase within an average timeframe for the business (could be 90 days, 120 days, or some other length of time).

The inverse of this metric is Customer Retention Rate which focuses on the customers retained over a given period of time.

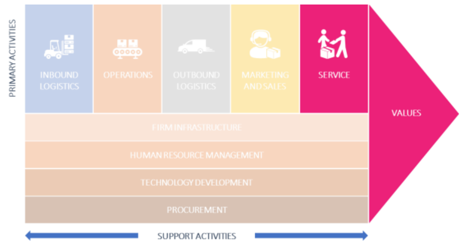
How to calculate

Calculate Customer Churn Rate is calculated by dividing the total customers churned over a time period you specify (e.g. month, 90 days, etc.) by the total customers at the start of the time period and then multiply that by 100 to generate a percentage.

For example, if the total customers lost this month was 150 and the total customers at the start of the month is 5,000, then the Customer Churn Rate would be 3%.

$$CCR = \left(\frac{\#\ of\ customers\ churned\ this\ time\ period}{\#\ Total\ customers\ at\ the\ start\ of\ this\ time\ period}\right) * 100$$

Service: ServQual



The ServQual is a multidimensional key figure that measures "service + quality".

It is considered the most common method of measuring the subjective elements of service quality. You ask your customers to evaluate your service in comparison to their expectations.

What does it tell you

You ask your customers to evaluate your service against their expectations. According to the Decision Making Theory, it is easier to make judgements based on an anchor (here: your expectations). This allows us to better understand and respond to abstract information (your satisfaction with a service).

How to calculate

The questions address the 5 elements of service quality: RATER:

- Reliability - the ability to deliver the promised performance in a consistent and correct manner.
- Assurance - the level of knowledge and friendliness of employees and the extent to which they create trust and confidence.
- Tangibles - the appearance; e.g. of the building, website, facility and staff.
- Empathy - the extent to which employees care and give individual attention.
- Responsiveness - how willing the staff are to provide a fast service.

The first half of the questionnaire aims at the customer's perception of the services provided ("as it is"), the other half at their expectations ("as it should be"). Measure the elements with a seven-level Likert scale ranging from "do not agree at all" to "agree completely". The resulting difference in the comparison shows how your customers' expectations differ from the service you actually offer.