Key Performance Indicators are Business Gauges

The gauges that you use to manage your business are called "key performance indicators" or KPIs for short. An excellent example of an important activity based KPI is your business' "sales conversion ratio". Your marketing and advertising efforts will generate "leads". A "lead" is when a potential customer contacts your business typically by phone, on your website or walking into your business. From the potential leads, only some are converted to actual sales. The number of actual sales obtained divided by the total potential sales is your conversion ratio. When you start to measure this you will get a lot of good data to use to make better business decisions. For example:

1) If you are tracking your total customer count each day you will start to expect a certain volume. You will also now know if it goes up or if it goes down. If you also capture the source of the leads, you will be able to tell if a promotional campaign is making a difference or not. Because you calculate your customer count at the end of each day it is real-time. You can now take immediate action to find out why it changed.

2) If you calculate the conversion ratio, you will know for sure what it is instead of guessing. Once you know what the average conversion ratio is, you have a gauge to monitor different circumstances. Is one salesperson producing a higher or lower conversion ratio? Why?

All the money you spend on marketing and advertising just gets the potential customer to make the contact with your business. It's salesmanship that converts the lead to an actual sale. If your conversion ratio is low, the answer is not to spend more money getting more leads, but instead to work on improving your conversion ratio of the current leads. These potential sales are already on the phone or in front of your salespeople!

We have found that business owners understand and can utilize activity-based KPIs much easier than looking at an income statement. And besides, the potential sales that walk in and out of your business empty handed do not show up anywhere on your financial statement. Once you know your conversion ratio, you can quantify the lost opportunities and start working on taking advantage of them. As an added bonus, the research says that just by measuring the conversion ratio, it will go up an average of 16%. Using this one KPI can therefore only make your profits go up.