

Growth Principle #5: Pay Attention to the Right Things

Watching the numbers that are critical to your business will pay big dividends.

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As we continue exploring business growth together we come to one of the most essential points that successful companies understand – **critical numbers**. So what exactly are your critical numbers? They are the metrics that determine your company's success or failure, and by making sure they move in the right direction you can achieve your objectives and attain greater profitability.

You can't move your company forward if you don't know what criteria really matter. It's crucial that you figure out what activities and metrics drive your business and track them with a vengeance. For some it might be weekly client meetings, for others it might be unit sales... it might even be inventory turn... whatever matters, pay attention to that. Sounds simple, but it's not. So let's walk through the process of discovering and using your unique critical numbers.

First, there are different perspectives that help you find your key metrics:

- ◆ **Basic critical numbers.** These are the numbers that you must hit day in and day out to stay in business. For airlines it's a percentage of seats filled. For a factory it might be units produced per hour. For a service firm revenue per labor hour drives the bottom line. What is your most basic measure of productivity?
- ◆ **Weakness critical numbers.** These numbers help you turnaround a weakness when they move in the right direction. Think about where you run into trouble and attach a value to it. Is your inventory accuracy lousy? Is your backlog too low? Do you need to diversify your revenue stream away from a single anchor product by a certain percentage?
- ◆ **Opportunity critical numbers.** Opportunity numbers are fun because they let you measure a great leap in your performance. Maybe it's releasing a new product by a specific date, reducing defects, or finding a new supplier who will allow you to undercut a competitor's price. Whatever the external opportunity – what critical number will ensure that you grab it?
- ◆ **Crisis critical numbers.** These numbers aren't as fun – but they're really important! When your business is in trouble, what will ensure your survival? Cash balance in the bank, a certain debt ratio, or minimum revenue per employee? What will really matter in an emergency?

Now that you know the angles you might take as you think about critical numbers, let's discuss the actual process. If you don't already know what your financial drivers are (because they keep you up at night!) here's how to find them:

1. **Step 1: Ask questions, gather data and analyze.** Compare your performance to industry standards and see where you are off base. Talk to customers, employees and investors about what's important to them. Conduct market research and scout out what competitors are doing. Once you have a lot of information, sit down and analyze it to see where you can have the greatest impact.
2. **Step 2: Define objectives.** Strategic planning may have already given you clear objectives, but if you aren't sure what you need to do first you need to get clear fast. Sit down with managers, staff and even outside contractors to figure out which objectives will be your focus areas for the next few quarters.

3. **Step 3: Prioritize.** You can't do everything at once, so look at the list of objectives that you've defined and decide what is most important. Your team can't achieve anything if you give them too much to track, so focus on 1-3 key numbers for each person, group or department that they have a lot of personal control over. Make sure they have access to the information and resources they need, and that you share progress regularly.

An honest analysis of your current situation and desired situation should yield a plethora of objectives to choose from. Once that list has been condensed, one simple company-wide objective for each quarter will give you a cascade of critical numbers that apply to various people and departments.

I can't tell you what your critical numbers will be because they vary so much from company to company, but I can tell you this... what the specific metric is that drives your business doesn't matter. What really matters is that everyone in the company is contributing to the same set of objectives in a tangible, measurable way.