# Service Target Metrics & Indicators:

Some targets in an analysis may be given as unit, dollars, or derived from other information so that a dollar-based target can be established. To ensure that the reader knows that the target may be in a unit other than a percent, the term target metric is used.

To evaluate a specific line item, it is compared to the target metric (what is our budgeted objective), for instance, a target metric can help determine if an expense amount is too great, the target metric can also determine whether an entire category of expenses is too high relative to sales (%) it also may be that not so much the expense category is too great but the sales volume is too low.

Therefore, the inclusion of a target metric for each expense line item allows the worksheet to be used as an expense driven analysis. This is useful when a prediction about the business expansion sales target is needed. For example, if expenses are estimated to be $32,000, and they are to be 45% of sales, the sales target would be $71,111 ($32,000/0.45 = $71,111). This means before starting a new business model this could provide some useful quantitative information for budgetary purposes. See also Target Service Metrics on page 3.

The best data is the actual expense data recorded on the profit and loss statement. When creating a model, the plan should be to use the actual billable expenses, so that the manager ultimately can ensure the service facility has enough gross profit margin to pay its expenses and obtain enough net income for the business.

The expenses each month must be entered into the profit and loss statement in much the same way as any cost. After the indirect expenses are calculated and totalled they are subtracted from the gross profit, to present the net profit.

**Analysis of Labour Sales Area Data:**
The analysis of the data that compares the percentage is that data relative to the target metric required. The final calculations can then be made comparing percentages actual to budget, this can then tell the manager, whether the sales costs or expense is operating in an optimum range of not. The greatest concern to any manager is that the output (gross profit, expenses, and net income) are all within the target metric range.

Although there are many ways to look at the data, the objective is to examine the category targets and their components. When they are outside, the optimum range, then the manager should ask why. In some cases, a line item expense within the category is too high or sales too low. In other words, it tells the manager, what is out of range to help him to focus on a specific system issue. Likewise, once the worksheet analysis shows a problem area or areas, the manager, just like a mechanic, must investigate to see what is wrong and determine how it can be corrected.

**Net Income and Cash Flow:**
Earning an adequate net income is the main objective of any business; however, whether the net income earned will be enough is a matter for the business owners to decide over time.

In general, the net income (net profit) earned, should be over 10%, and over 15% of sales usually is describing a very good operation, providing this return can be maintained and improved upon over time. Naturally, if there is not enough income to cover expenses, then there will be not be a profit generated.

In some cases, it will also be a profit, but not enough cash to pay the bills. This is typically due to several reasons. One is the service facility may be owed money from various sources and delayed payments causes bills to come due before cash is received to pay them typically, these are referred to as cash flow problems.

There also may be cash flow problems when the net income cannot pay the loans the owner borrowed to start the business. Because loans to start and expand the business are typically paid from the net income, the failure of the net income to cover the principal and interest may cause a cash flow problem.

To help owners understand how money flows into and out of their business a traditional accounting quarter cash flow statement is useful. Although this is helpful information, creating a cash flow statement can be complex. Furthermore, interpreting why the changes occurred requires extensive evaluation and requires a depth of knowledge about accounting which is beyond what most service managers need to do their job effectively.

**Target Service Metrics:**
The ongoing monitoring of your service business operation over time is essential if you are to be successful. Here is a collection of metrics that I have developed or a number of service based businesses I have been involved with.

Some of these may not be applicable to your particular business, but select the ones that you can use right now and 'lock them in' as key performance indicators (KPI's), and monitor them regularly.

- Gross margin compared to budget (%)
- Gross margin compared to last period (%)
- Sales compared to budget (%)
- Sales compared to last period (%)
- Expense decrease to budget (%)
- Expense decrease to last period (%)
- Direct cost decrease to last period (%)
- Direct cost decrease to budget (%)
- Number of customers (active) compared to last period (%)
- Increase in customers (active) over previous period (%)
- Increase in customer invoice value (%)
- Average sale per customer $ (month)
- Average sale per customer $ (year to date)
- Average sale per customer $ (compared to previous period)
- Materials to sales (%) compared to last period
- Labour to sales (%) compared to last period

- Material dollars in sales generated
- Labour dollars in sales generated
- Available billable time vs. actual billable time
- % recoveries by employee to budget
- % recoveries by employee compared to last period
- Revenue generated per employee per week, quarter, year
- Revenue generated per employee to budget
- % rework to budget
- % rework to previous period

Each one of these metrics can be used to measure the performance of a service based business. Many operators only focus on the bottom line - net profit and wonder why the result is not what was expected.

What they need to do is focus on the cause and not the effect. By establishing some key metrics (key performance indicators) like these in your business, you can very quickly see the 'cause' of the problem and implement some corrective action.

Think of these metrics or indicators as pulse checks for your business, and re-visit them regularly, at least once per month.

These key performance indicators should also be linked to the employees whose job it is to produce these results for you. By doing this you will have the basis for a meaningful discussion when its time to review the performance of the employee.

Spend some time sitting down and come up with some performance metrics or critical success areas (pulse checks) for your business. I am sure the list above will now get you thinking about how to measure the growth of your business operation!

Always remember in your business, if you can't measure it, then you can't manage it…

**Hourly Rate Calculator:**

*Do you know you true break-even hourly rate? Do you know the break-even hourly rate to re-coup your overheads?*

Well we have a great digital tool that can do all this for you, that you can use in your business. It is called the Hourly Rate Calculator (Overhead Recovery Analysis Tool). This great tool can be used in any business that has staff or workers that are responsible for generating revenue for the business.

The hourly rate calculator can therefore be used for workshops (e.g. auto workshops), field service engineers (mobile technicians), a consulting business (where staff are responsible for pulling in their quota of jobs), or any business of this type. There are many, many uses for this great tool.

Using this hourly rate calculator, you are able to monitor and control labor utilised in your business. And if you can control and monitor your labor you can ultimately control and monitor your profitability. This is also a ideal method of employee evaluation making sure that each nominated employee 'pulls' in their quota.

This is true in any labor intensive business operation, involving anyone who is responsible for personally generating revenue. These might be service technicians, mechanics, consultants, virtually anyone whose responsibility is trading hours for dollars! You do this by knowing your predetermined overhead rate, and you calculate this by using the hourly rate calculator tool!

For more information on the Hourly Rate Calculator, please visit:
**www.umacs-business-solutions.com**

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