

Do You Know Your Vital Few?

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Assessing business health is no different than assessing your own personal health. It resides in a set of key metrics or vital few. For example, if you want to quickly size up your personal health, you look at vital indicators such as blood pressure, glucose number, cholesterol, and pulse rate. You continue to monitor these on a regular basis and if something goes outside the normal range, you take corrective action. So the question is why aren't you doing this for your business?

A very easy way to develop key business indicators is to follow the four perspectives of the Balanced Scorecard. The four perspectives are: Financial, Customer, Process, and Organizational. If you understand where your business is within the growth life cycle, the exercise becomes much easier.

Let's start with the financial perspective and identify vital metrics across the three growth stages:

1. Early Stage Company – Companies in an early stage are just starting out and hopefully we will see some rapid growth. So a good financial metric would be to measure and monitor your sales growth. Additionally, the company may not be profitable. A second metric should be profitability.
2. Sustainable Stage Company – Once the company matures, the growth rate slows down and we now need to provide a return to investors. We also want to reduce our costs and lock in strong margins. Therefore, our vital few now emphasizes Operating Income, Return on Capital, and Gross Margin.
3. Mature Company – In the final stage, the company has slow growth and the focus is on cash flow and overall business value. Our vital few metrics shift to cash flow and economic value added.

Unlike the financial perspective, your customer perspective metrics may not shift over time since most companies have stable value propositions. These value propositions tend to fall into five areas: Quality, Price, Timeliness, Functionality, Brand Image and Customer Relationships. Take for example WalMart which delivers low prices. Measuring and monitoring competitive pricing becomes extremely important. If you are selling luxury cars, your emphasis is on measuring quality. If you are Federal Express, the emphasis is on timely delivery. These value propositions represent core competencies – things the company is exceptionally good at in the eyes of the customer.

The third perspective consists of processes that deliver products and services to customers. We can categorize the vital few metrics into three process categories:

1. Innovative Processes – Companies that improve or introduce new and better products will put emphasis on idea capture, improved product features, better solutions, and rapid turnaround to market. All of these can be measured to reflect important performance objectives.
2. Operating Processes – If your value proposition is quality and timely delivery, then you will focus on process efficiency. For example, you can measure cycle times, delivery times, percentage of defects, or number of returned items.
3. Service Processes – Many companies will need to support customers after the sale. This may involve problem resolution or reaching out to customers to evaluate satisfaction. These all can be measured as part of your vital few.

Our fourth and final perspective has to do with the organization and its people. Once again, we can look at three major categories:

1. Employee Competencies – Companies need to retain the best people and make sure they are highly productive and satisfied. You will need to support and train your employees. You can develop and apply metrics to evaluate your effectiveness, such as employee turnover or percentage of manager's with advanced degrees.
2. Knowledge and Technology – Information and technology are critical to most companies. This requires staying on top of best practices, ensuring people share information, and leveraging technologies. For example, maybe you setup a Sharepoint site for knowledge management. How many people signed up? How frequent do people use the site? Did the site help resolve problems? You can conduct surveys to assess effectiveness with this component.
3. Company Culture – You can set performance objectives for company culture such as making sure the workforce is empowered or implementing cross functional teams. Maybe your culture can be developed through higher accountability and transparency. There are a wide range of metrics that can be uniquely applied to this component.

With this balanced scorecard approach, you gain a complete and total picture of the company's health; similar to your own personal health. This is the goal – setting up a set of vital few metrics that touches all important areas of the business. Building this framework is not easy, but if you fail to measure your business in a real way, then you run the risk of getting sick without realizing it and this is not how you should run your personal life or your business life. You need to know what your vital few are!