TOUCHSTONE
Technology > Transformation > Transcendence

Enterprise Performance Management for Middle Market Companies

Business Growth Drivers, Supply Chain KPIs, Financial Performance and Business Intelligence

For mid-market CXOs

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Business Growth Drivers

Run your business at full throttle

Top Challenges

In a survey conducted by a strategy execution software company in June 2018, with over 150 mid-market executives, a question was asked about their top business challenges. Here are the top eight challenges that these executives mentioned:

- Growing Top Line Revenue Year Over Year
- Securing Financial Resources
- Scaling Operational Processes
- Finding, Retaining and Growing Top Talent
- Executing Strategy to Achieve Goals
- Maintaining a Healthy, Accountable Culture
- Beating Competition and Winning Market Share
- Selecting, Communicating & Aligning Top Priorities

Mid-market businesses are the fastest growing companies in US. According to National Center for Middle Market (NCMM) that defines middle market businesses as companies with revenue between $10 million and $1 billion - “roughly 200,000 companies in this group account for approximately one third i.e. $5 trillion to $6 trillion of total US private sector GDP.

Every quarter NCMM surveys 1000 mid-market companies in US tracking hundreds of data points on performance growth and investment activities and the resulting middle market indicator (MMI) shows that average growth rate of US middle market companies has been around 6.5% YOY since 2011 (8.7% in 2019 first quarter), whereas annual average growth rate of S&P 500 is only 3.5%.

Growth Drivers

NCMM analyzed five years of MMI data of 20,000 mid-market companies and identified three characteristics types of companies and seven growth drivers that help certain companies to drive more growth than other mid-market companies. Companies were grouped in those three groups depending on how much weight they give to each driver and relationship between these drivers.

Three Characteristics

The Investors that invested their capital across a spectrum of growth producing activities

The Innovators that win customers and greater share of wallet by being first to market with unique or improved products and services.

The Efficiency Experts achieves superior growth by maximizing return on investment through a combination of lean operations, effective cost management, and rigorous long-term planning for sustainable growth.

Seven Growth Drivers

1. Market Expansion
2. Formal Growth Strategy
3. Investing and Innovating
4. Attracting & Retaining Talent
5. Financial Management
6. Cost Efficiency
7. Staff Development

Source:
National Center for the Middle Market
Rhythm Systems
Strategy+business

1. Market Expansion

Companies that experience the most growth move fastest into new markets and pursue new customers. Market expansion is the most important growth driver accounting for nearly a quarter (23.4%) of the overall growth equation.

2. Formal Growth Strategy

Businesses that have a long-term strategy and execute it last longer and grow more. They experience the most dramatic revenue gains increase the sophistication of their strategic processes by making a point of staying up to date with the latest management thinking.

3. Investing and Innovating

The fastest-growing middle market companies “innovate and invest in their product, services, business systems, processes, equipment, and facilities necessary to delivering their offerings. The best firms invest in the future.

4. Attracting and Retaining Talent

Even the best middle market companies have a tough time keeping good talent, but the fastest-growing businesses say that they’re better than their peers at recruiting and retaining talent.

Seven out of 10 executives at companies that grew 30% or more in the previous year boast of their company’s ability to attract top managers.

5. Financial Management

Strong growers appear to have strong finance functions, led by a CFO who effectively manages cash flow and working capital, oversees financial processes and controls, and maintains strong relationships to sources of capital while keeping a sharp eye on the competition.

6. Cost Efficiency

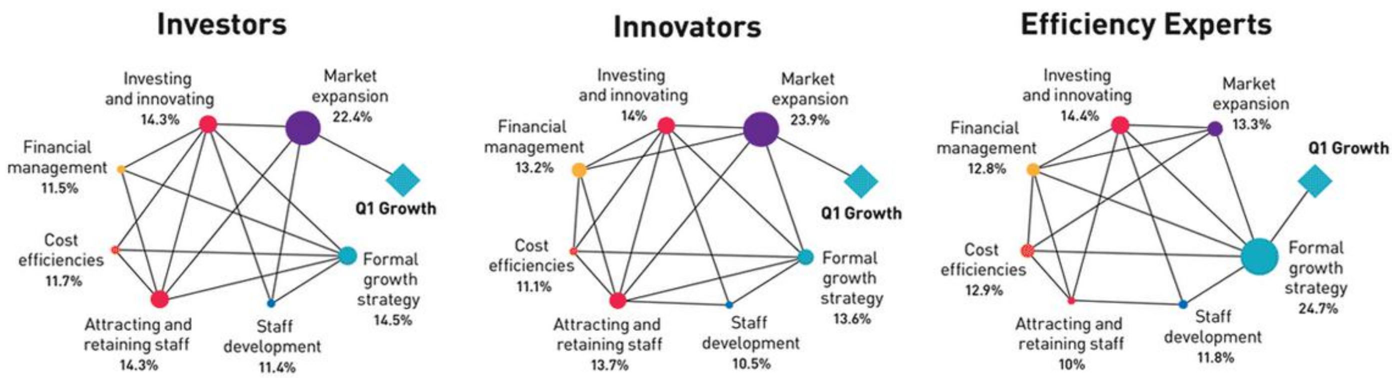
Efficient operations can turbocharge a strong growth strategy, because an efficient company spends less for each dollar of additional revenue.

7. Staff Development

Middle market organizations that train and develop employees have a better chance of growing than those that do not. Among companies experiencing growth of 30% or more per year, more than two-thirds believe they are doing well in providing staff with both tools and opportunities. However, fewer than half of all other middle market companies say their capabilities in these areas are up to snuff.

What the fastest-growing middle-market companies focus on

Analyzing data from 20,000 midsized companies reveals three characteristic types for the fastest-growing enterprises. These are grouped according to how much weight each gives to seven factors and the relationships between those factors. The Investors focus on opportunity, Innovators want to know what’s next, and Efficiency Experts care most about the strategy.



Note: Sums may not total 100 due to rounding.
Source: The National Center for the Middle Market

Supply Chain Metrics & KPIs

If you can't measure it, you can't control it

Whats & Whys

Supply chain KPIs are the measurements to track and evaluate supply chain performance. It enhances understanding about how supply chain is operating and performing over a period of time.

Merely having a scale of measurement is not the solution to supply chain performance issues, the real solution is developing a course of corrective actions which can be used to minimize or totally remove the gaps between the benchmarks and actual measurements.

The scope of supply chain performance enhancements and optimization encompasses several supply chain areas such as procurement, inventory, warehousing, operations, distribution, order fulfillment, delivery, transportation, logistics and customer service etc. through the key performance indicators (KPIs) of each of these areas.

The most effective use of KPIs is only possible when one first selects the right metrics to measure and ensures that managers fully understand what those metrics are actually explaining them. The best metrics to use are those that combine in a ratio form and this means that we lose some of the underlying raw data trend that is available. Combining delivery time with order value will give us an index of how well we are at getting our order pipeline to our customer base but the smoothing effect of the ratio will hide long delivery times for low value products which may increase rather than decrease overall customer satisfaction leading to a knock on effect in customer care and contact center KPIs. Otherwise what one will have is a huge choice of metrics to choose from resulting in a KPI overload with metrics duplicating information and business trends leading to information overload for management which is a perfect KPI disaster recipe and a nightmare for supply chain performance management team.

Development of right KPIs that are both relevant and effective at measuring supply chain performance and progress towards strategic goals is very important. The process links Strategy to Critical Success Factors (CSF's) for the business and then to the development of a set of KPIs that will both:

- Measure progress towards the business strategy,
- Provide visibility for all levels of the business as to their contribution to the business strategy

Some important key result areas and their associated KPIs are as below:

Supply Chain Input KPIs

Company Profile

- Sales

Supply Chain Management

- Existence of Business Plans
- Deployment of Business Plans
- Who reports to who in the Supply Chain
- Existence of Service Level Agreements
- Frequency of employee survey
- Performance of MRP-II process
- Number of times product is handled
- What Cross functional KPIs
- Software used to support Supply Chain
- Electronic commerce used in what activities

Procurement and Supplier Management

- Procurement Policy Document
- Where does Procurement Manager report
- Strategic Supplier Base Analysis

Procurement and Supplier Management

- Procurement Policy Document
- Where does Procurement Manager report
- Strategic Supplier Base Analysis
- Supplier Evaluation Program
- Number of joint improvement programs
- Rationalizing Supplier Base
- Number of Sole Suppliers
- Length of contacts with Suppliers
- What KPIs to manage procurement
- No. & Value of Purchase Orders

Inventory Management

- Inventory Policy document
- Pareto analysis of Inventory
- Customer and Product profitability
- Stock turn performance standards
- How often lead times reviewed
- Who owns Finished Goods Inventory
- Who owns Sales Forecast

Distribution Centre / Warehouse Management

- Frequency of stock taking
- Random storage in DC
- Barcodes and scanners used in DC
- Picking documents printed in printing sequence
- Batch Picking
- Products ordered together stored together
- Time-slotting in DC
- KPIs used to manage DC

Transport Management

- How many transport contractors used

Customer Service

- Number of customers
- Customer Service Policy Document
- When is invoice created
- Customer Research into Service Performance
- Use customer research to develop SC strategies
- Customer payment terms
- Customer Service KPIs used

Supply Chain Output KPIs

Procurement & Supplier Management KPIs

- Number of suppliers managed / purchasing FTE
- Supplier in full
- Supplier on time
- Supplier rejections
- Average variable cost of placing order with supplier
- Cost of purchasing as % of gross sales
- Total procured spend as % total business costs
- Account payable days

Inventory Management & Forecasting

- Number of SKUs / Line Items
- Stock turn over - finished goods
- Stock turn over - raw materials
- Level of accuracy in Catalogue
- Stock available at customers first request
- Sales Forecasting Accuracy by SKU and volume
- Inventory obsolescence
- Inventory management cost as % of gross sales
- Inventory holding costs (IHC) as % of gross sales
- Interest charge for IHC
- Inventory holding costs (IHC) as % of inventory value
- Average inventory value
- Raw material days (if relevant)
- Work in progress days (if relevant)
- Finished goods days

Warehouse / DC KPIs

- Number of order processed in DC per day / FTE
- Time product availability for sales after receipted
- Order picking accuracy rate
- Service level - DIFOT (delivery in full on time)
- Inventory items incorrectly located
- Inventory items with incorrect stock balances

- Warehouse shrinkage
- Total warehouse time lost per person thru injury
- How many times is product handled
- Picking productivity by pickers and all staff
- Inventory accuracy rate at Item level
- Average lead time in DC
- Number of DC in network
- DC / Warehousing cost as % of gross sales or GP

Transport KPIs

- Number of customers order dispatched per day / FTE
- How often are trucks fully loaded
- Amount of back-loading
- On time deliveries
- Total Cost as a % of gross sales or GP

Customer Service KPIs

- Number of customers order processed per day / FTE
- Average lead time for all orders
- Order entry accuracy
- Delivered in full to customer - by case / unit
- Delivered in full to customer - by line / SKU
- Delivered in full to customer - by order
- Delivered on time to customer
- Time window that defines on time
- In full - on 1st request or negotiated or std?
- Percentage of customer claims
- Product returns
- Product Damage
- Invoice accuracy
- Customer Service Cost as a % of gross sales or gross profit
- Accounts receivable days
- Retrieval of signed PODs
- Stock Outs

Supply Chain KPIs

- Total logistics cost as % of gross sales or gross profit
- Cost / Order dispatched
- Cost / Line dispatched
- Cash Cycle
- Logistics Cost / Customer
- Cost as a % of COGS
- Gross Profit
- Cost as a % of Gross Profit

Production KPI's

- Production adherence to plan weekly

There are literally hundreds of KPIs but its not possible for any organization to monitor all of them. Data and metrics are everywhere in business and so are the KPIs. Its important to monitor the KPIs but wasting your time, money and efforts monitoring the wrong KPIs can be detrimental to your business. Here is how to choose the right KPIs:

- KPIs should be directly related to your company's strategic goals
- Cost of obtaining the data and cost of monitoring the KPI must not exceed the benefit
- Select only few (ideally 5-6 KPIs) at a time
- Choose both lagging (past performance / output) and leading (current input / progress) indicators
- Understand every industry has different KPIs
- Understand vague measurement can be interpreted in many different ways and can't help keep everyone on the same page
- Understand that the component of your supply chain do not work same as those of your competitors'. Standard "off-the-shelf" KPIs can be good to have a comparison with your industry standards but understand the problem of your operations and be creative to create KPIs that are specific to the performance of your operations.
- Select KPIs that are actionable
- Supply chain processes, models, characteristics keep evolving with time so do the KPIs. Differentiate between "dead" and "alive" KPIs. Today's KPIs may not be meaningful tomorrow
- No meddling with data
- Choose quality over quantity
- KPIs must be tailored to address the challenges of specific stake holders group but someone from the group should "own" and be responsible for effective implementation of those KPIs

Top 15 Supply Chain KPIs

Moving from the "integrated" to "dynamic" supply chain model enables companies to view their supply chains as adaptable ecosystems of processes, people, capital assets, technology and data. In unpredictable markets, dynamic supply chains can meet the specific needs of each customer channel. Due to this dynamic nature of supply chains tracking, monitoring and managing all the moving parts of supply chain can be a logistical nightmare. Below are the seven supply chain areas that companies tend to monitor through KPIs:

- Order Capture
- Inventory Management
- Supplier and Procurement Management
- Production Planning & Scheduling
- Warehousing
- Transportation/ Shipment Management
- Customer Service

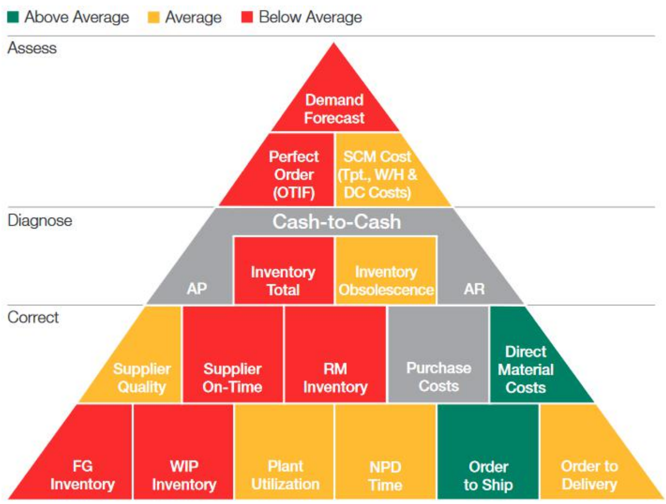
… and following are the fifteen most common supply chain KPIs being used by most companies:

- Percentage of error free orders
- Cash-to-cash cycle time
- Customer order cycle time
- Order fill rate
- Inventory days of supply
- Inventory turnover
- Inventory velocity
- Inventory turnover ratio
- Freight cost per unit
- Days sales outstanding
- Average supplier lead time
- On time shipping rate
- Days of supply
- Supply chain cost as percentage of sales
- Gross margin return on investment

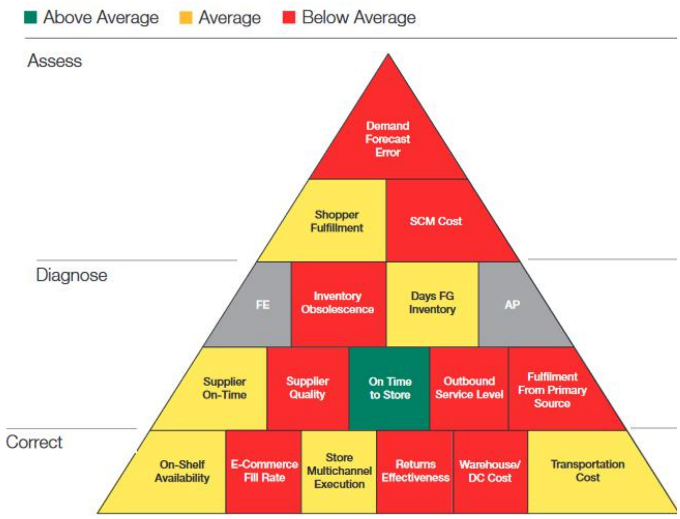
AMR research that was later acquired by Gartner, developed 17 KPIs in a three level hierarchy of supply chain metrics, each level serving different purpose and aimed at different goal:

- **Top level** for Supply chain health assessment
- **Mid-level** for Supply chain diagnostic
- **Ground level** for Supply chain effectiveness

Below are the sample hierarchies of supply chain metrics for manufacturing and retail sectors:



Hierarchies of supply chain metrics: Manufacturing



Hierarchies of supply chain metrics: Retail

Source:
TradeCloud1.com
AMR Research
Gartner.com
Scmchamp.blogspot.com

Financial Performance Management

Insight into your company’s financial health

Understanding FPM

Ventana Research, a business performance research firm describes financial performance management as a specific set of capabilities that includes "defining company's key performance indicators, formulating strategic plans and forecasts, handling performance reporting, and increasing finance operational efficiency and execution company-wide."

Mid-market companies are not only exploring new ways to do more with less but also they have to be always ready for unforeseen events and seize opportunities. With competitors utilizing advanced technologies, cutting edge strategies, financial and operational risk is a rising concern for mid-market firms. Financial performance management enables the companies to identify the trends, be more agile, leverage financial performance management as a strategic function and predict the future more confidently.

Investors & shareholders, lenders, suppliers, employees, customers and government are all different entities interested in timely financial information but most finance teams still spend significant amount of time collecting, consolidating and validating their data before they even run any analysis. This hinders their ability to generate reports, plan budgets, forecast or analyze their numbers.

Financial performance management aligns corporate strategy to organizational plans and their execution through setting goals, objectives, creating financial models, budget planning & allocation, forecasting, monitoring and controlling functions, provides the executives with deeper insights, and devises corporate decision making.

In short - FPM refers to how an organization leverages its assets (people, money and technology) to achieve short, medium and long-term strategic goals.

The Roadmap

In order to drive value creation for the company, its customers, suppliers, employees and other stakeholders financial performance management requires to:

- Understand what drives cost and profits
- Delegate ownership of numbers
- Simplify your processes and systems
- Control cost and meet short-term targets while preserving strategic growth initiatives
- Empower your finance team with technology
- Integrate and streamline processes
- Increase collaboration
- Increase agility
- Increase efficiency
- Be Insight driven
- Adopt continuous improvement
- Keep looking for value adds
- Understand the impact of financial decisions across strategic, tactical and operational levels

Increased integration and collaboration results in a more effective financial performance management

Financial Performance Indicators (FPI)

According to Investopedia - “Financial performance indicators are set of quantifiable measures that a company uses to gauge its performance over time. These metrics are used to determine a company's progress in achieving its strategic and operational goals, and also to compare a company's finances and performance against other businesses within its industry.

When you are running a business, insight counts and numbers matter. Keeping close tabs on your business’ financial performance is vital to long-term success. There can be hundreds of FPIs but below are the most commonly used ones categorized under seven broad categories:

1. **Profit Measures:**
- net income (net profit, net earnings)
- earnings before interest and taxes (EBIT)
- earnings before interest, taxes, depreciation and amortization (EBITDA)
- gross profit margin
- operating margin
- Net profit margin
- Economic value add (EVA)

2. **Profitability Ratios:**
- return on investment (ROI)
- return on equity (ROE)
- return on assets (ROA)
- return on sales (ROS)
- return on capital employed (ROCE)

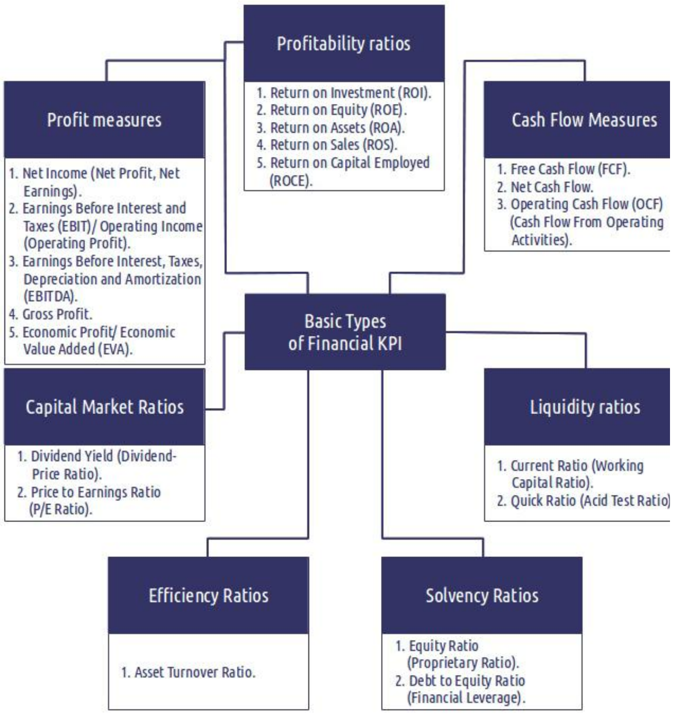
3. **Cash-flow Measures:**
- free cash flow (FCF)
- net cash flow
- operating cash flow

4. **Liquidity Ratios:**
- current ratio (working capital ratio)
- quick ratio (acid test ratio)

5. **Solvency Ratios:**
- equity ratio (proprietary ratio)
- debt ratio
- debt to equity ratio (financial leverage)
- debt to capital ratio
- interest coverage ratio

6. **Capital Market Ratios:**
- dividend yield (dividend-price ratio)
- price to earning (P/E) ratio
- price to earning growth (PEG) ratio
- dividend payout ratio

7. **Efficiency Ratio:**
- asset turnover ratio
- Working capital turn over ratio
- Cash conversion cycle
- Revenue per employee



Seven Main Categories of Financial Performance Indicators

Source:
Ventanaresearch.com
Kpi-examples.blogspot.com
Tagetik.com

Business Intelligence & Analytics

Gain control of your strategic decisions

Why Analytics

Understanding how to leverage the heaps of data sitting in your systems and moving to the next level of data intensive business intelligence can be very difficult for any organization specially keeping pace with the 6 Vs of the data - volume, variety, velocity, veracity, visibility and value. The key factor in achieving better business value is to understand that the gap between the maturity level of the business intelligence within the company and the maturity level of the company itself must match as much as possible.

Gaining greater visibility into the future and complete control of your strategic decisions with the help of this meaningful data makes more business sense especially when it comes to company's operational efficiency, financial performance, and profitability. Utilizing executive dashboard solutions helps organizations capitalize on the tremendous value hidden in their data, transforms the entire knowledge landscape within the firm and provides actionable insights to identify trends, pattern and make predictions. Leveraging BI & Analytics solutions helps you in "smart management" of your company.

It entirely transforms the way you look at your people, processes, assets, resources, and systems and enables you to understand your business needs, align your technology initiatives with your organizational goals through developing innovative solutions with measurable results and helps you managing the next paradigm change of your company.

The Approach

The disparate variety of data available today from different sources including social networking, customer data, industry lists, forums, printer logs, images, audio and video streams needs to be captured and analyzed. But due to the size and nature of data available, traditional models of data analysis become redundant hence a new approach based on "Big Data Analytics" needs to be adopted. A specific domain expertise coupled with data analytics capabilities and real time solutions can enable you to develop a Big Data strategy tailored to your needs.

You must assess your organization's readiness for a business intelligence initiative to increase your competitive position. Below steps need to be followed:

- Initial discovery, assessment, development and support
- Data warehouse design
- Data integration and cleansing
- Data mining
- Predictive analytics
- Analytics and Reporting

Executive Dashboards

Mid-market executives can leverage the enormous value hidden in their data, unveil new opportunities, gain visibility of their operations and processes across the organization, identify trends and patterns to predict unforeseen events and attain complete control of their strategic decisions through executive dashboards.

Business intelligence (BI) provides great insight into how a business is being run, as well as which aspects of the business are succeeding and which are failing. Having the right information at the right time helps a business be more agile and adapt far more effectively to a rapidly changing business environment, this competitive advantage alone can determine the difference between success and failure of the company in a highly competitive environment.

The power that BI can bring to your business is real. It's easier than ever to implement business intelligence. It allows more accurate, faster decision making, increased collaboration between different departments, can be an effective way of communicating data through visualizations and unveils the problems and opportunities you never knew existed before.

BI & Analytics if utilized effectively can help your business soar. It ensures you do not run into the risk of making decisions based on your instinct. Not only you can have a real-time data monitoring, it empowers your organization by making your decision making more "predictive".

After the emergence of BI & Analytics flows of products, services and information within a company have become inseparable.What that means is becoming an information-driven organization is no longer simply an option for middle market companies, it has now become a business imperative. BI & Analytics driven insights will determine and spell the difference between your organization's success and its failure.

About Touchstone ITS

Touchstone ITS is a Management Consulting and IT Services company that works with mid to large sized companies across US and advises C-suite executives on Enterprise Performance Management (EPM) primarily focusing on Corporate Finance, Mergers & Acquisitions, Revenue Growth Strategies, Supply Chain Management, BI & Analytics and designing IT strategy. We help companies capitalize on emerging technologies and leverage our world-class technology consulting & IT services to drive value creation.

Make Touchstone Your Partner.

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