



EXCEEDING EXPECTATIONS

news, tips, solutions



MANAGEMENT STRATEGIES: HOW TO USE KEY PERFORMANCE INDICATORS

There's a management axiom that says "If you can measure it, you can manage it." An important part of the measuring process is developing key performance indicators (or KPIs) that can help you define and gauge your progress toward reaching goals.

KPIs are quantifiable measurements that reflect your organization's critical success factors. No two companies' or organizations' KPIs will be the same—they will vary depending on the type of organization (non-profit vs. for-profit, for example), industry and, of course, each organization's specific goals and objectives.

ARE YOUR KPIs SMART?

Keep this acronym in mind when identifying Key Performance Indicators. KPIs should be:

Specific
Measurable
Achievable
Relevant
Time-bound

MISSION AND GOALS

Before you can identify which performance indicators are the most important ones to be monitored and measured within your organization, you must first have a well-defined mission statement and clear, measurable goals. Your KPIs will emerge

from and support your mission statement and goals.

The most important characteristics of KPIs are that they be *specific* and *measurable*, and that you be able to compare them to a

benchmark. A KPI simply stated as "Increase sales," for example, cannot be measured. *Better*: "Increase sales revenue by 10 percent each year for the next three years."

Before setting such a goal, however, you need to know whether a 10 percent increase is good or bad. To determine this, you need *benchmarks* to compare this number to and put it in perspective.

Benchmarks can be prior years' performance or industry averages. For example, you could compare your accounts receivable collection time (or AR days — see below) to your terms of sale and industry averages to see how well you're doing against your peers and your own internal standards.

The best sources for information on industry averages and benchmarks are your industry trade association and the Risk Management Association (RMA), which publishes *RMA's Annual Statement Studies* each year. This is a comprehensive list of financial performance statistics for small and mid-sized businesses, derived primarily from the financial statements of business borrowers and organized by Standard Industrial Classification (SIC) code. Visit <http://www.rmahq.org> for details on how to order.

FINANCIAL KPIs

On the financial side, KPIs often include common ratios and metrics such as:

Current ratio — Shows how many times current debt could be paid off with current assets. The formula: Current Assets / Current Liabilities

Debt-to-equity ratio — Measures debt capacity. The formula: Total Debt / Shareholder's Equity

Accounts receivable (AR) days — Measures how long it takes to collect the money that's owed to you. The formula: AR x 365 / Annual Sales

Accounts payable (AP) days — Measures how long you take to pay your vendor invoices. The formula: AP x 365 / Cost of Goods Sold

Inventory turnover — Shows how often your inventory "turns over" in a year. The formula: Cost of Goods Sold / Inventory.

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You should have specific goals for the financial ratios and metrics that you determine are key for your business. For example, four times a year is a common inventory turn, and 3:1 or less is generally considered an acceptable debt-to-equity ratio for companies seeking bank financing.

Again, don't just look at these ratios in isolation, but compare them from quarter to quarter or year to year to look for trends that can help you improve financial management.

For example, if accounts receivable days is improving from quarter to quarter, this likely reflects an overall improvement in your collections efforts. By monitoring your cash flow cycle — the cycle of cash conversion from inventory to sales to receivables and back to cash again — you can benchmark everything from a slowdown in receivables collections to an increase in inventory turnover.

NON-FINANCIAL KPIS

While KPIS are often thought of within the financial realm, non-financial indicators can be just as useful — and often more so, depending on the organization. Here are a few common non-financial business indicators expressed as KPI examples:

Customer service: Percentage of calls answered within the first three rings, or e-mails returned within 24 hours.

KPI: We will answer 90 percent of calls to the customer service department within the first three rings, and return 90 percent of e-mails within 24 hours.

Human resources: Level of employee turnover.

KPI: We will maintain an employee retention rate of at least 90 percent.

Manufacturing: Number of units rejected by quality control.

KPI: The reject rate for units on the assembly line will not exceed 1 percent.

Management: Percentage of clients retained in one year.

KPI: We will maintain a client retention rate of at least 90 percent during the upcoming year.

Marketing: Number of new customers acquired.

KPI: We will acquire five new customers each month for the next year, or a total of 60 new customers over the next year.

GET EVERYONE ONBOARD

KPIS should be clearly communicated to everyone in your organization so that all stakeholders have a clear picture of what indicators you have deemed to be most important, but especially to anyone who may have a direct hand in making them happen. Explain them in company and department meetings, mount

them on the walls in your hallways or lunchroom, and post them on your intranet or even your web site.

You can even use them as a “carrot” by basing employee bonuses or other incentives on the achievement of KPIS. Just be sure everyone knows what the targets are, and keep employees regularly informed about progress toward reaching them.

We can help you determine key performance indicators for your organization. For assistance, please give us a call.

CHECK YOUR KPI GAUGES

To get a better picture of what Key Performance Indicators might look like, think about your automobile's dashboard. It probably includes a number of different gauges and lights designed to alert you to potential problems with your engine.

There are also gauges you can monitor to help you keep an eye out for potential problems with your business. For example:

Inventory — By regularly monitoring your *inventory levels and turns*, you'll have early warnings if valuable cash is sitting idle on your shelves in the form of items not moving as fast as they should.

Cash Flow — Keep a close eye on *accounts receivable agings* to determine if receivables are creeping up, which could lead to an unexpected cash flow crunch in the near future.

Growth — Most small and mid-sized companies need to be careful not to grow too quickly, as growth can put a serious strain on resources. Debt-to-equity and debt-to-tangible net worth are two financial ratios you should monitor to keep growth in check — in general, neither should exceed 3:1.

REGISTER ONLINE

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EMPLOYEE NEWS

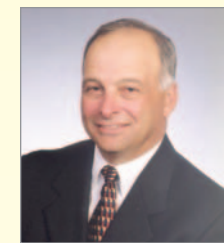
JOHN PUCCI NAMED PARTNER-IN-CHARGE OF SKM'S NEWPORT OFFICE



SKM is pleased to announce that John L. Pucci, Partner, CPA, CIT, has been named the new Partner-in-Charge of their Newport practice. John will be replacing Stephen Massed, who will be transitioning to a new role as Chief Financial Officer of Purvis Systems Incorporated.

John has been with the firm for almost 30 years, 19 as a partner. In addition to the CPA designation, he has earned the designation of CIT (Construction Industry Technician). John is responsible for the firm's emerging and small business clients, as well as advising principals on personal tax planning to maximize asset retention. He will continue to serve his existing Providence office clients in addition to his new responsibilities managing the Newport Office.

STEPHEN P. MASSED SELECTED TO HEAD FINANCIAL STRATEGIES AT PURVIS



After 28 years in public accounting, 18 as a partner with Sansiveri, Kimball & McNamee, L.L.P. (SKM), Stephen Massed will be transitioning to private industry in a new role as Chief Financial Officer of Purvis Systems Incorporated, a client of SKM. “This was not an easy decision,” stated Steve Massed. “I believe

SKM is in a great position to manage this change. We have the professionals and support network in place to provide a smooth transition that is both thoughtful and planned.”

PURVIS Systems Incorporated, an IT systems and service provider for the public safety, emergency management and defense industries, appointed Steve as its Chief Financial Officer, a new position within the company. Steve will be driving PURVIS Systems' financial strategies as the company continues to expand its presence nationwide. He will be based in PURVIS' offices in Middletown, RI.

For more than three decades, PURVIS Systems has been committed to delivering value-driven solutions for organizations seeking a customer-focused, flexible and accessible collaborator for their essential technology needs. Based in Middletown, RI, with offices nationwide, PURVIS Systems leverages its knowledge, experience and accountability to create enduring and highly-effective partnerships. PURVIS Systems clients include the New York City Fire Department, American Red Cross, Naval Undersea Warfare Center, the Surface Warfare Development Group and various other municipal and commercial emergency/public safety organizations.

Michael Garcia, audit supervisor, and his wife, Ellen, are the proud parents of Ashley Lynn Garcia, born on May 12, 2008, weighing in at 7 pounds 7 ounces.



Congratulations to **Daniel Connor** for becoming a licensed Certified Public Accountant in the state of Rhode Island. Earlier this year, Dan also earned the designation of Certified Fraud Examiner (CFE), as well as a master's degree from Providence College.

Rosemarie Kingsbury, CPS/CAP, SKM's Westerly office administrative manager, and president of the IAAP SE CT Shoreline Chapter, and recently named the treasurer of the host committee for the IAAP 2010 international Convention and Education Forum.

Joseph Kimball Jr., CPA and partner in the firm has been named treasurer and director of The DD Independent Franchise Owners, Inc. (DDIFO), which represents the largest association of Dunkin' Donuts franchise owners in the U.S. The creation of a new board of directors will replace its prior board.

SKM Wealth Management, L.L.C., is pleased to announce that **Matthew M. Neyland** has joined the firm as an investment director. Matthew is a certified financial Analyst (CFA) and will be providing information and making recommendations on investment managers, asset allocation and suitability guidelines. He will also be responsible for managing client portfolios using mutual funds, ETFs and separate account managers, as well as meeting with clients. Matthew has over twenty years of experience in financial markets. He has worked on both the buy-side and sell-side of the industry and has designed strategies for corporations and institutional clients.



PRACTICALLY PAPERLESS

SKM continues to broaden our scope of what we are managing paperless. In June 2008, we appeared on the cover of Accounting Technology in the lead cover story titled “Practically Paperless” Our 2007 efforts to move to a paperless environment were very productive, as we successfully worked through our third tax season with significantly all filings performed electronically. Each month we see improvements, as we have been able to streamline all client files, mailings, and correspondence to one central, secure and protected location using our a document management system. Access to client information is just a few clicks away for a SKM professional. For the complete article, please visit:

http://www.sansiveri.com/hot_topics.html or <http://www.webcpa.com/article.cfm?articleid=27963&pg=ros>



THE TAX BENEFITS OF SUMMER CAMP?

Summer has finally come and for those of you with children, so has attending summer camp. New England has so many options to consider: the newspaper even supplies a special supplement each year highlighting the choices. As many of us know, there can be a significant cost with attending camp, especially if you have more than one child. If you and your spouse both work (or you are a single working parent), there is good news: summer camp costs may qualify for the Federal Child and Dependent Care Tax Credit.



being and protection. Not all expenses relating to an individual's care qualify. Amounts paid for food, lodging, clothing, or education are not "for the care of the child". However, if these expenses are provided in such a manner that the expenses cover other goods or services that are incidental to and inseparable as part of the care; the full amount is "for care".

For example, the cost of a day camp or similar program may be for the care of your child and an employment-related expense. Whereas overnight camps, summer school and tutoring programs do not qualify for the credit, as these costs are not considered employment-related expenses.

QUALIFYING INDIVIDUAL

According to the IRS, in order to take the credit, the purpose of the child care expenses must: 1) enable the taxpayer's to be gainfully employed, and 2) the qualifying individual (your child) must have the same principal place of residence as the taxpayer for more than one-half of the taxable year.

A qualifying individual includes: a) the taxpayer's dependent who is under the age of 13 or b) the taxpayer's dependent or spouse who is physically or mentally incapable of self-care.

WHAT COSTS ARE COVERED

Expenses qualify if the primary function is to assure the child's well-

HOW MUCH IS YOUR CREDIT?

You can claim up to \$3,000 in expenses for the care of one individual and \$6,000 for two or more. Once you determine your allowable expenses, your actual credit is limited to a percentage which ranges from 20% to 35%. For taxpayers with Adjusted Gross Incomes over \$43,000, the credit is 20% of the eligible expenses.

Please note: the allowable expenses are limited to the lower earning spouse's earned income. In addition, only out of pocket costs qualify, so you must reduce the total qualifying costs by any reimbursements or amounts paid via an employer's cafeteria (flexible spending) plan.

Please contact a member of the Tax Department should you have any additional questions at (401) 331-0500.

