

A woman with long blonde hair, wearing a grey blazer, is looking down at a tablet computer she is holding with both hands. She is standing in a large, modern industrial factory or warehouse. The background is filled with various pieces of machinery, conveyor belts, and overhead lighting. The scene is brightly lit, with a clean and organized appearance.

sage

The executive's guide to business visibility:

# *Monitoring*

A photograph of two women sitting at a desk, looking at a laptop. The woman on the left is resting her chin on her hand, and the woman on the right is wearing glasses and looking at the screen. The image is dimmed and serves as a background for the text.

# *Find, filter, and focus on the information that matters most*



When it comes to decision making, information is your most valuable asset. Unfortunately, the amount of data from sources such as emails, conversations, documents, telephone calls and orders—from across multiple departments and office locations—can cause more pain than gain. In this e-book, you will learn about tools, technologies and tips that will simplify the way you monitor your business by helping you find, filter and focus on the information that matters most.



# *In their own words*

What your peers say about monitoring business performance.

*"I can strike while the iron's hot . . . Sage has saved me a tremendous amount of time and helps me stay on top of things. In our line of business, that's what it's all about."*

*Scott Schaffer, Controller, PRD Management, Inc.*

*"With Sage, we are able to provide better and quicker service . . . while a customer is on the phone, we easily can see what they have purchased before and at what price. If a product they are ordering isn't in stock, we can query open purchase orders to see when the product is expected to arrive."*

*Steve McNamee, General Manager, OptoSigma*

*"We can now see our customer relationships from all angles. With access to aging, past invoices, open orders, new opportunities and pending support cases, we really have a 360-degree view of our customers and our business."*

*Allen Shulman, Chief Financial Officer, Posera*

*"The software automatically generates and distributes past due reports each day to our sales and customer services reps. As a result of our being able to stay on top of overdue invoices, we've decreased our days sales outstanding by 18 full days. Our cash flow is much improved as a result."*

*John Babcock, CFO, Satellite Industries, Inc.*

# Measuring, monitoring, and managing with key performance indicators

Many businesses are just a few overrun projects or unprofitable customer accounts away from financial hardship. Given the high stakes, it's critical to constantly keep an eye on the status of the business. The most successful businesses use a series of key performance indicators (KPIs) to measure, monitor and manage performance.

KPIs are high-level benchmarks set at the customer or company level based on specific predefined measures. Executive, financial or operations managers can use KPIs as yardsticks to evaluate how things are going, spot red flags and act decisively. What's important to monitor at the customer level?

## **The most important project KPIs are driven by the following demands:**

- Is the project or product delivery on schedule?
- Is the project or production on budget?
- Is the product or service free from defects?
- Is the work getting done right the first time?
- Is manufacturing and distribution being performed safely?

In addition, regular customers may request that you demonstrate a commitment to continuous improvement in your firm's efficiency—especially your ability to reduce costs and compress delivery schedules.

## **What's important to monitor at the business level?**

While business reports and financial statements are used by executives to see what happened over a period of time, it's equally important to monitor what's happening right now in a few key areas. For example:

- Is enough cash coming in?
- Do we have enough work?
- Is our time being used efficiently?
- How is our profit margin?

*Don't rely solely on backward-looking indicators that measure the events of the last quarter or month. If you do, your business will already be in trouble by the time management knows about it.*



# Eight indicators every company should monitor

## **1. Liquidity**

Executives and managers must have the ability to evaluate organizational liquidity—which is a measure of how much cash you have available. Subsequently, you should be able to drill down to the project or customer level to determine which projects or customer accounts are providing liquidity and which are consuming it.

## **2. Work backlog**

Keeping tabs on backlogged work—and the expected gross margins—will embolden your firm to avoid risk associated with insufficient work. You can also use this knowledge to estimate future cash flow and adjust your business plans accordingly.

## **3. Schedule variance**

It's important to track your ability to deliver projects or products on time. The simplest way to track schedule variance is by taking the original planned completion and subtracting the current forecasted completion, which will give you the number of days ahead or behind (schedule variance). However, going one step further and dividing the schedule variance by the total remaining duration in days will show you the variance as a percentage so you can evaluate its significance. A 3% variance is easier to make up than a 23% variance.

## **4. Change requests**

Changes can rob your projects of production of profits. By proactively tracking, documenting, and negotiating payment for unplanned work and expenses, you can get paid for all changes to the project—without disputes or misunderstandings.

*Make resolving unapproved change requests a part of the fabric of your organization's structure. Changes that are not accounted for properly may cause large underbillings and profit erosion.*

## 5. Budget variance

When you're able to monitor costs in real time, you can plan and manage projects or production more strategically. Any slips to budget can be recognized right away. While some variance to budget is to be expected, setting an acceptable KPI for such a variance will allow you and your operations managers to catch anything that falls outside that threshold.

## 6. Staff productivity

Slight improvements in productivity can send profits soaring. Slight decreases can have the opposite effect. There are three essential components needed to track hours: budgeted hours, worked hours and productivity. Make these three pieces of information available to your operations managers on demand.

## 7. Project cash flow

This KPI helps track whether individual projects are generating or consuming cash, enabling you to dig deeper to identify execution successes and failures on projects.

## 8. Committed cost indicator

When your suppliers are not committed contractually to your projects, it exposes your business to a potential risk. This is particularly true for special projects that require additional outsourcing—and can be even more detrimental on longer-duration projects.



## Project or production reports

- Help you determine if your projects are profitable
- Embolden you to make course corrections to keep projects or production on track
- Help you see the difference between a profitable project and budget-breaking cost overruns

## Financial statements

- Quantify or measure the financial health of your company.
- Satisfy stakeholder requirements with records on your business' financial position.
- Help plan the future of your business.

# The role of technology in tracking key performance indicators

Technology underpins nearly every business process today, so it should be no surprise that technology's best practices can also be used to improve teams' abilities to capture and share critical data in order to track KPIs. The major areas of focus as you identify and evaluate technology to help monitor business performance include the following:

## **Integrated financial and operations management software:**

- Supports and automates functions such as marketing, sales, order entry, manufacturing, supply chain management, shipping, inventory and customer service.
- Provides information transparency and supports tracking of timely measurements against KPIs.
- Eliminates silos of information and reduces data re-entry that can result in errors.

## **Automated alert system:**

- Notifies you through email, text or desktop message when exceptions occur.
- Filters high quantities of information to keep you updated on what's most important.
- Helps get the right information to the right people at the right time.

## **Dashboard:**

- Provides graphical visualizations of KPIs and other business metrics.
- Helps you measure and monitor all your KPIs in one place.
- Saves time by making information more intuitive and easier to observe instantly.

*After you have defined a KPI and determined a way to measure it, be sure to publicize a clear target, which should be agreed upon by all relevant personnel. The target should be specific so each individual can take actions toward accomplishing it. Incentivize as necessary.*



# Integrated financial and operations management software: a platform for better information access

Common challenges for sustaining an adaptable and successful operation are information overload, a lack of the right information and skepticism toward the accuracy of the information. In many cases, the data isn't current and it's difficult to sort through because it covers everything ad nauseam. This inefficiency and lack of transparency in the way data is handled hinder management's ability to monitor KPIs that enable strategic decision making.

Businesses with integrated financial and operations management software systems in place should be able to easily get consistent data across the entire company, which in turn allows for timely measurement against KPIs and more rapid and accurate completion of key business processes. Data is centrally managed in a single database and structured consistently. This makes your business information easier to use—the holy grail of decision making.

*Deploying integrated financial and operations management software helps create an environment in which information-based decision making becomes part of your organization's culture.*

## How to buy software for your business:

1

### **Understand your real needs**

Document a dozen or so of your most complex business challenges or inefficiencies. Communicate these business concerns to the software vendors on your short list. As you are viewing demos or test driving various solutions, gauge and rate how simply and elegantly each solution solves your issues.

2

### **Make sure it covers all the bases**

Confirm that all the modules tie together into one seamless system. From financials and job costing to marketing and sales, document management, inventory, purchasing, manufacturing, shipping, supply chain management and customer service—information should flow without bottlenecks.

3

### **Plan for the long haul**

Consider where you want your business to be in five or ten years. Does the software provide room to grow? Is it easy to add additional functionality? What is the vendor doing to innovate and enhance the solution?

4

### **Know the vendor**

Finding the right relationship and commitment is necessary in any vendor relationship. How long has the software vendor been around? Do they have a local presence? How many customers do they have? Pick a vendor who can work with your company and has a responsive and knowledgeable customer service team. You have to be confident that they can guide your company through an implementation and be around to support you for the long haul.

# Alerts: Providing timely, actionable insight

## **An alert system can notify you when:**

- A project has dropped below a profit threshold.
- Inventory on parts or supplies is low.
- A price on a part or component has increased.
- An accounts receivable invoice is 60 days past due.
- A deadline is approaching for a component of a project.
- The aggregate total in your backlog of work falls below a predefined amount.
- A vendor is late with an order, has changed prices, or made an error on an invoice.
- Accounts Payable invoice discounts are about to expire.

KPIs and other business metrics have traditionally been captured and conveyed in a combination of reports, spreadsheets or charts. Although those methods remain helpful, an alert or warning system that's tied to your accounting and operations software can provide more immediate and actionable information. An alert system works by actively monitoring the data housed in your software.

When one of the tracked events occurs—for example, an invoice becomes overdue—the system triggers an email, desktop message or text message notifying the designated personnel of the issue so they can take action. Your organization likely has a vast amount of detailed information about its finances and operations. However, by the time you attempt to filter through it, chances are it will have lost its timeliness. An alert system can provide the immediate notification mechanism that will bring the data inside your business to life.



# *Dashboards: All your vital information in one place*

A dashboard is a business tool that displays a set of metrics, KPIs and other relevant information to a business user. Dashboards are here to stay because of their simplicity and self-service capabilities. Decision makers want to view and analyze information in visually pleasing ways without having to rely on their IT department or outside consultants to build custom reports.

The data that's displayed in the dashboard is typically generated in real time, retrieved automatically from data sources from across the business. In addition, effective dashboards are interactive. For example, an operations manager's dashboard should provide the ability to drill into a particular aspect of production to get further details.

Dashboards provide an effective solution to the overwhelming amount of data that executives, operations managers and sales or service professionals experience every day. A dashboard can improve employee productivity—and save your company money—by providing easier, more intuitive access to project and accounting details.

Consider the efficiency gains when compared to requiring workers to sift through paper and emails to compile information.

## ***An effective dashboard:***

- Presents information with clarity, speed and relevance.
- Offers personalization options so users can configure what data is important to them.
- Minimizes unnecessary distractions, which could cause confusion.
- Enables drill down to find more detail and context.
- Provides a design and structure that is pleasant and appealing to the eye.

*A well designed dashboard puts emphasis on visuals that communicate your data clearly. Distracting animations and glossy graphics tend to get in the way of content.*

# A CEO's dashboard: Simple, fast, meaningful



- Monitor and put processes in place to reduce overdue payments and receivables that can cause havoc with your cash flow.
- Keep regular tabs on your cash position to spot issues that can be corrected before they negatively affect the financial stability of your business.
- Dashboards should be easy to modify so you can see at a glance the items most important for you to monitor.
- A dashboard should let you drill down to get the details on items such as invoices more than 60 days unpaid.
- Quickly understand exactly which projects are behind schedule or over budget.



*Learn more about the visibility  
every business should have*

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business and projects call 866-530-7243 or visit [www.Sage.com/us/erp](http://www.Sage.com/us/erp)