

# Essential Key Performance Indicators for Small and Mid-Size Business

Reimagine how you measure business performance to adapt faster, work smarter, and perform better.

E-book Series





## This information is for you if:

- You want to glean more insights from business systems but are not a data scientist.
- You are looking to understand more about leading and outcome-based key performance indicators (KPIs).
- You need a framework to innovate through incremental improvements by implementing a framework for continuous business process optimization.



Estimated reading time  
<10 minutes

# Table of contents

**04**

Introduction

**07**

Adapt faster:  
Measuring  
business agility and  
continuous process  
optimization

**13**

Realizing results  
with Microsoft  
Dynamics 365  
Business Central

**05**

Key Performance  
Indicators (KPIs)

**09**

Work smarter:  
Productivity  
tracking

**06**

What to measure  
for agility and  
continuous  
business process  
optimization

**10**

Perform better:  
Indicators to track  
cycle times of key  
business processes



## Introduction

Leaders who run small- and medium-sized businesses (SMBs). New competitors offering new business models or additional innovative products and services are entering the market faster than ever. Gone are the days when your only competition is a town over. In today's digital world, consumers have access to products and services globally, continually changing their expectations on quality, availability, price, and how they want to do business with you.

Business success requires you to rethink how you operate fundamentally, not just today but tomorrow and every day after that. Organizations that thrive master change using a business continuity and resilience framework that drives business agility and continuous innovation.

All remarkable strategy frameworks start with how you can measure business outcomes.

While the four dimensions on the right will always be critical to business success, these KPIs will not help you understand how quickly you can adapt to disruption. Nor will they provide a framework to help you measure continuous process, product, or service innovation. This ebook will introduce you to KPIs that will help you measure business agility and business process optimization.

Traditional business key performance indicators (KPIs) focus on four critical dimensions:

1

### Profit

Tracking your bottom line or financial gains will always be necessary.

2

### Profitability

It is essential to know how efficient the company is at turning sales into profit or tracking margins and always working towards lean operations.

3

### Growth rates

Business continuity requires that you be forward-thinking and always looking for innovations that will accelerate growth, even during a crisis.

4

### Risk and returns

Thin margin businesses are riskier, as they cannot withstand an economic downturn for very long. Of course, investors expect higher returns with higher risk.

## Key Performance Indicators (KPIs)

What are they?  
And why do I need them?

The principle “what gets measured gets managed” dictates that by examining a process, you can not only better understand it, but you can also find ways to improve it or get back on track if you know in advance when you are off course. KPIs help you measure strategic, financial, and operational performance compared to a set of targets, objectives, or industry benchmarks. However, many SMB leaders only focus on KPIs that measure business outcomes, which means they only know if they missed the target after it is too late to course correct. Business outcomes or lagging KPIs are essential to understanding performance; however, you create a framework to measure agility and continuous process optimization by tracking leading indicators.

Using a framework that delivers a combination of outcome and leading KPIs will help you not only track financial performance but also:

- Focus and motivate employees to deliver results or solve critical problems.
- Reinforce your business vision and customer promises.
- Provide an early warning system that reduces risk.
- Foster innovation and growth mindset, data-driven culture.
- Drive continuous process optimization to not only reduce costs and improve margins but also remove friction points and create optimal employee, customer, and vendor experiences.



# What to measure for agility and continuous business process optimization

## Lagging key performance indicators

Outcome (lagging) key performance indicators demonstrate if you have achieved a set target, goal, or objective within a specific period. Examples include revenue, profit, profitability, customer satisfaction rates, website traffic, lead conversion rates, etc. Outcome indicators, by definition, are final when you get them. Lagging indicators are output-oriented.

## Leading key performance indicators

Leading key performance indicators are predictive measurements that show what an outcome will be in the future if the trend continues at the current rate. With leading indicators, you can make changes by adjusting processes or investments that get you back on track to hit your target or desired outcome. Leading indicators are result-oriented. A key question to ask is: "What processes, steps, or skills can I measure to achieve the target outcome?" For example, if your customer promise centers around easy returns, you would measure your return cycle time or how long it takes a customer to return a product. While customer satisfaction rate would be the outcome KPI, customer return time would be a leading KPI that ensures success.



Adapt faster

## Measuring business agility and continuous process optimization

For SMBs, the ability to adjust and adapt, especially during times of volatility, is critical to survival. Agility must be more than just a concept; it needs to be embedded into your organization's DNA. That is only possible if you use the right leading KPIs to keep everyone precision focused on the speed of doing business and how long it takes you to implement business model changes.

### Business model adaptability

Industries, customers, and markets change. Even where and how we work is changing rapidly. As will your business strategies, goals, objectives, services, and products. The ability to quickly diversify, scale, and change your business models is a competitive advantage in any market. As change is constant, so should the metrics that you use to measure business adaptability be continually changing.

Some questions to ask to determine what you should measure:

- How easy is it for you to make changes to your current business model? How long does it take to set up a new company, customer, credit for a customer, vendor, employee, pricing structure, product, service, currency, etc.?
- How long does it take to change your website, SEO, or paid media advertising?
- How long does it take to hire a new employee? Change compensation or benefit plans? Change your organizational roles and hierarchy?

Understanding the above process speed times will help you measure how quickly you can change, but you will also want to focus on how open your people are to change.

- How empowered are your employees to recommend process changes or try new approaches in their roles? How often do you create employee objectives (OKRs)?
- How often do you conduct strategic planning?
- What is the Adaptability Quotient (AQ) of your employees? How quickly do they embrace inevitable challenges as changing dynamics arise and your company needs to make strategic shifts?
- Are you able to reskill employees and rapidly onboard them into new roles instead of hiring new talent as your business changes?



## Cash availability

In times of crisis, cash flow is king and critical to survival. It is often cited as the main reason that small businesses fail. Tracking your quick ratio will help you quickly see whether your cash, securities, and the money you expect to have soon (your accounts receivable) are enough to cover your liabilities. It will also show you if you need to pivot your current investments or if you have the money to implement the changes necessary to respond to disruption.

To calculate it, you add cash, marketable securities, and accounts receivable and divide by current liabilities. For example, if you have \$25,000 in cash, \$15,000 in accounts receivable, and \$10,000 in current liabilities, your calculation is:

$$(\$25,000 + \$15,000) \div \$10,000 = 4$$

If your quick ratio is one or higher, you will have enough cash and liquid assets to cover outstanding bills. A quick ratio of less than one means that you need to adjust to cover your current liabilities.

## Brand affinity and sentiment

Understanding your customers' opinions, attitudes, and emotional connections to your brand is called brand sentiment. Understanding brand sentiment can help inform how you're doing in terms of your customer experience, product quality, price competitiveness, and loyalty. It can take some time to shift brand perceptions, so understanding how quickly and what engines help you improve these metrics ties into your adaptability. While changes to your pricing, quality, and buying process might take longer, you can utilize social media, rewards, and marketing to impact your brand sentiment and boost sales. There are tools available to measure brand sentiment from customer comments across social media platforms; however, you can also use analytics from your website.

### Ways to measure:

- Web traffic metrics, time spent on website, or viewing content on social channels
- Direct surveys to your customer using a tool like Dynamics 365 Customer Voice
- Reviewing interactions on your social media channels
- Running promotions, social campaigns, or rewards programs



Work smarter

## Productivity tracking

Understanding how long it takes for individuals to perform specific tasks and the effectiveness or accuracy of the work can help ensure employee success. It is also vital to understand if your business systems are impacting the productivity of your people. Keeping the pulse on your network infrastructure, application performance, and system uptime will ensure your people can do their best work—even when working remotely.

### Objectives and Key Results (OKRs)

Although it is not technically a leading KPI, it is crucial to ensure that everyone in your organization focuses on achieving objectives that align with your business vision and customer promises. This approach is essential to working smarter. OKRs also provide a clear employee performance framework that can attract the right talent to your business.

Talented people want to work for companies that impact and grow their careers the fastest. By identifying the best possible result for each role, you create clarity around a picture of success. You also align each role to impact, which moves your business forward.

### Productivity and Application Performance Scores

Many application vendors often promise to improve productivity; however, it has historically been challenging to measure. The Microsoft Productivity Score provides visibility into where you can improve people, technology, and workplace experiences.

While the Productivity Score measures Microsoft 365 apps' effectiveness, most business applications also provide system performance insights. Keeping focused on the continuous optimization of application performance will ensure your people are empowered to get more done in less time.

You can also measure how long it takes for individual employees or teams to complete specific tasks, such as sales and service calls, order entry, product assembly, inventory picks, etc. By helping employees track individual productivity, you can identify where additional training may be required or have top performers share best practices across the team. It can also help you identify better ways to configure dashboards and app layouts or where you may need to change processes or add in automation.

### Project success and the cost performance index (CPI)

For project-intensive businesses, the way you manage work is critical to improving profitability. Of course, timeliness, budget, quality, and effectiveness are vital to measuring, number of returns, canceled projects, billable utilization, and change requests. However, a leading indicator that will help you determine if you are likely to finish the project under or over expected costs is the Cost Performance Index (CPI):

$$\text{CPI} = \text{Earned value} / \text{Actual costs}$$

#### Earned value

How much project work has been completed at the specified cost

#### Actual costs

What has been paid on the project

**Perform better**

## Indicators to track cycle times of key business processes

While this ebook outlined vital business performance metrics in the introduction, this section focuses on process time or cycle times that can be measured to get leading indicators that tie to outcome KPIs.

The questions to ask here are: how do we improve operational performance to deliver better outcomes to customers, vendors, and employees? And how do we optimize processes to reduce costs and increase financial performance?

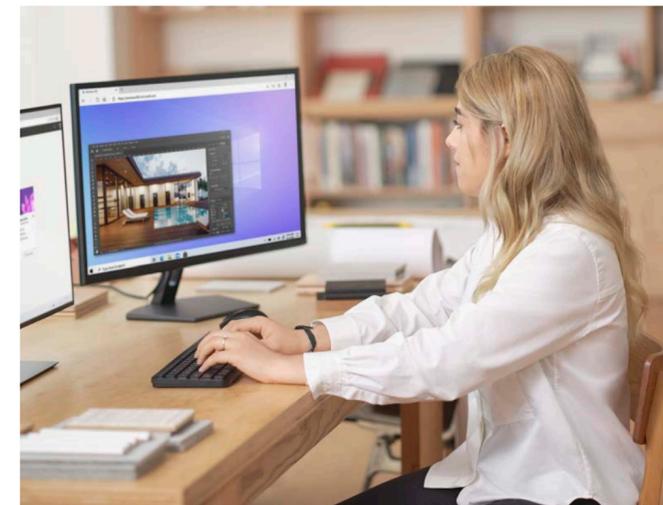
What indicators will help us predict if we are on track to meet revenue, gross margin, or growth objectives?

**Tip**

Take the time to build operational excellence maps, which fuel continuous business process optimization. These maps provide visual representations of your operational processes, such as your hiring, procurement, customer acquisition, or financial reporting workflows.

By mapping your current operations, you will get a better understanding of how your business runs to identify bottlenecks, inefficiencies, and opportunities to better serve your customers.

The KPIs that you select to measure the processes in those maps will be your leading indicators. We provide you with best practices by department here. You create clarity around a picture of success. You also align each role to impact, which moves your business forward.



## Procure-to-pay process map

**STEP 1**  
Create requisition

**STEP 2**  
Requisition approval

**STEP 3**  
Create a PO

**STEP 4**  
PO approval

**STEP 5**  
Receive goods

**STEP 6**  
Invoice approval

**STEP 7**  
Vendor payment



## Finance

- Month-end close cycle times
- Year-end close cycle times
- Financial reporting timeliness (How quickly can you provide financial details when inquiries are made?)



## Sales

- Average sales cycle
- Lead response times
- Opportunity to close cycle time
- Credit processing time



## Inventory and Supply Chain

- Cash-to-cash time cycle
- Perfect order rate
- Days sales outstanding (DSO)



## Project management

- Profitability index
- Number of change orders per project
- Number of staffing changes



## Human Resources

- Time to hire
- Cost to hire
- Time to impact
- Performance review cycle time



## Customer service

- First contact resolution (FCR)
- Meaningful connections score (MCS)
- Time to resolution
- Return product cycle time



## Purchasing

- Procure-to-pay cycle (Requisition placed, vendor selected, PO issued, receiving document logged, invoice received, invoice reconciled, accounts payable check sent)



## Environmental and Sustainability

- Carbon footprint
- Energy consumption
- Waste reduction rate



## Marketing

- Customer acquisition cost
- Customer lifetime value
- Conversion rate
- Return on marketing investment



## Product

- Time to market
- Time to manufacture (assemble)
- Availability (Time to ship)



## IT and Support

- System downtime
- Incident response time
- Resolution rate
- User satisfaction score



## Warehousing and manufacturing

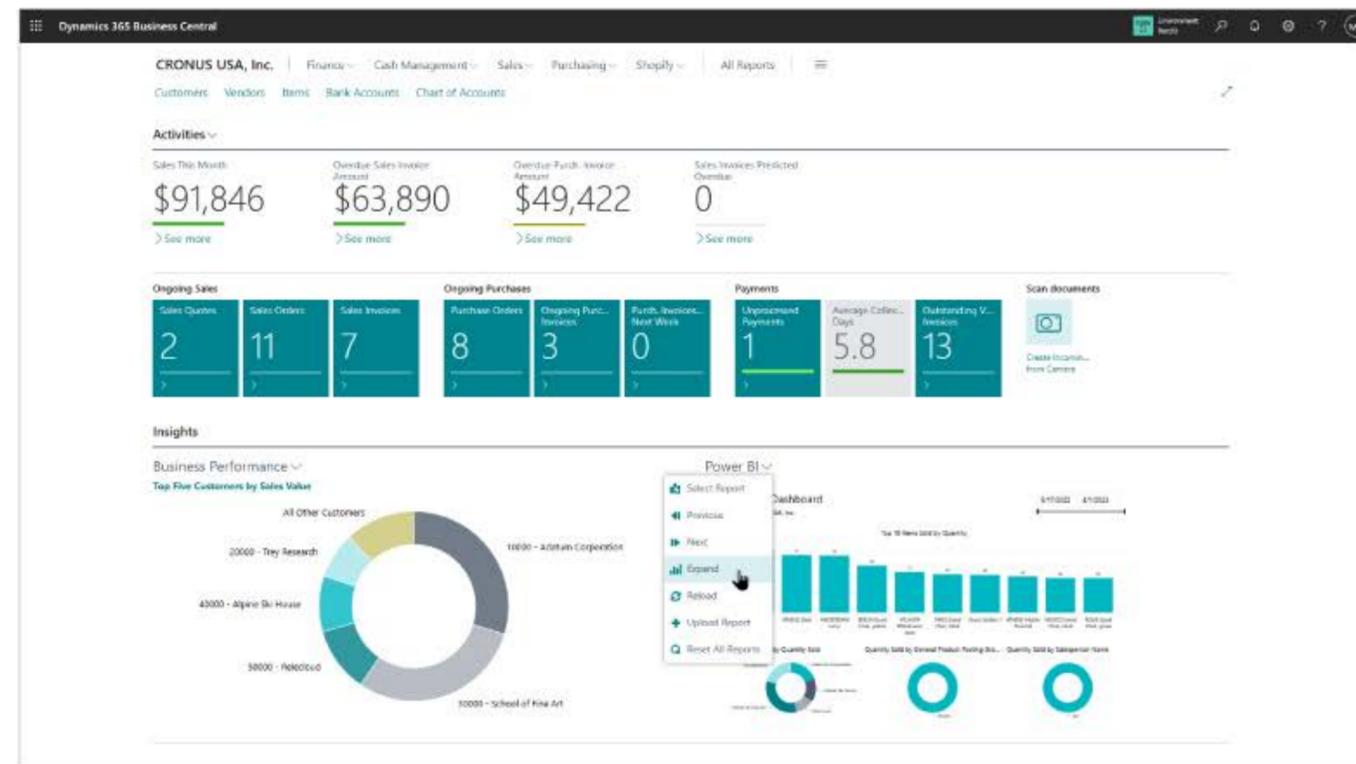
- Fill rates
- Shipping timeliness
- Downtime
- Turnover rates

Tracking profit, profitability, growth rates, and risk and returns remain the backbone of KPI tracking, which is indeed a necessity. Going a level deeper and adding the KPIs that can help your business pivot quicker is the key for SMBs to stay agile and profitable in today's marketplace.

This ebook introduced you to KPIs that can help you measure business agility and business process optimization, giving you the tools you need to continually measure your process, product, and service innovation long before they hit your bottom line KPIs.

Measuring the right KPIs can ensure your business embraces agility as more than just a concept by embedding the ability to adapt into your organization's fabric.

Using the right leading KPIs will keep everyone precision focused on the speed of doing business and delivering optimal outcomes to your customers. This is only possible if you have the right tool to track data across your entire business and measure the right leading and outcome KPIs.



# Realizing results with Microsoft Dynamics 365 Business Central

To make your business dreams a reality, you need business solutions that can keep pace with a constantly changing world. That is why successful SMBs have moved to the cloud with Microsoft Dynamics 365 Business Central.

Business Central provides SMBs with a comprehensive business management solution that connects finance, sales, service, and operations teams within a single easy-to-use application. With Microsoft Copilot in Business Central, you can harness the power of next-generation AI to boost productivity, spark creativity, and improve business performance. Give your company an edge by driving innovation backed by the world-class security, flexibility, and scalability of the Microsoft cloud.

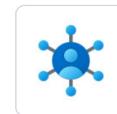
When Business Central and Microsoft 365 work together, SMBs can enhance productivity and redefine how work gets done. With data connected from Business Central to familiar apps like Excel, Outlook, and Teams, employees get the information they need without switching between applications.

Join more than 40,000 small and medium-sized businesses that have moved to the cloud with Dynamics 365 Business Central to work smarter, adapt faster, and perform better.



### Adapt faster

Transform business operations with the security, flexibility, and scalability of the Microsoft cloud solution that grows with your business.



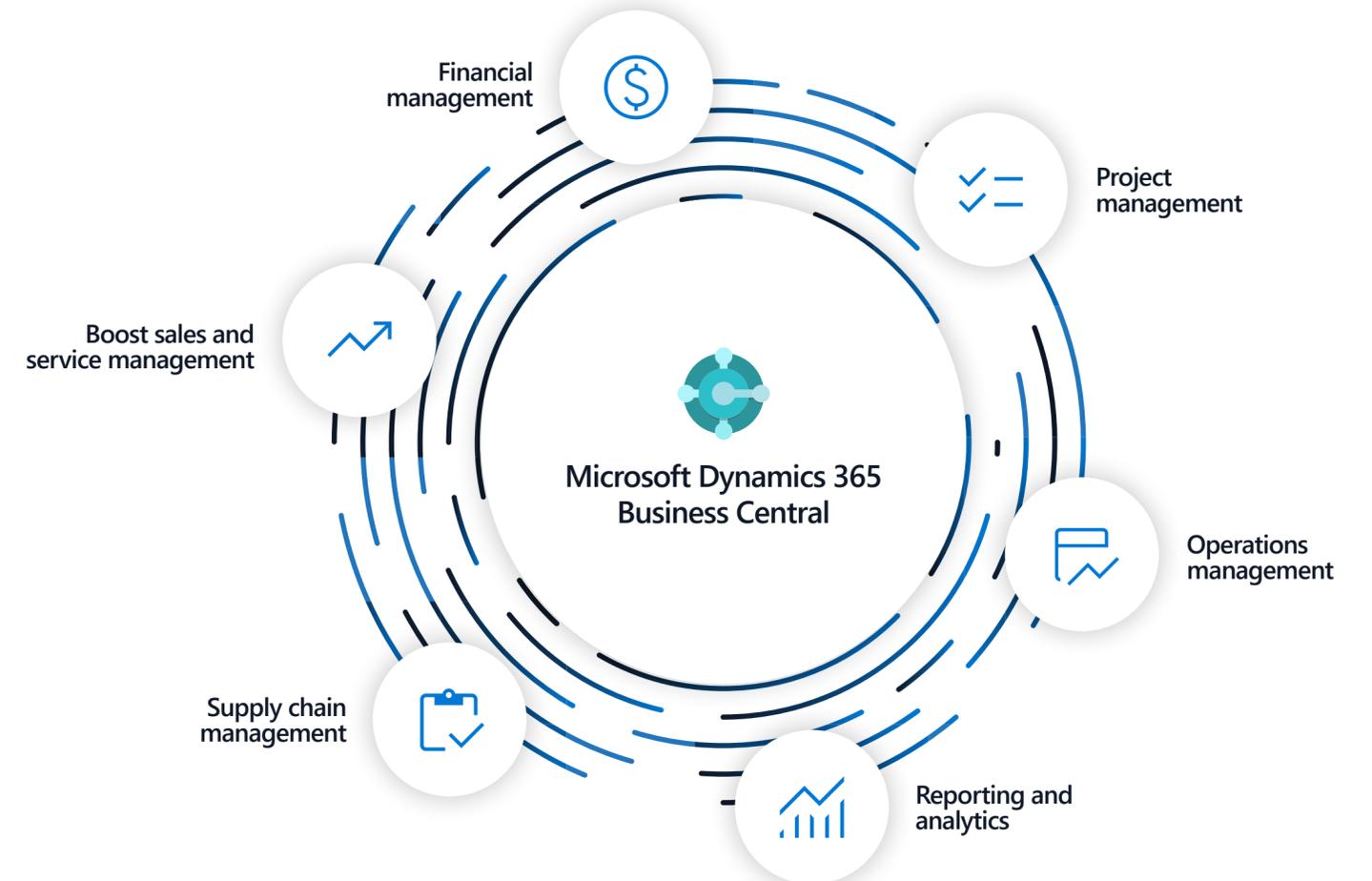
### Work smarter

Empower people to be more collaborative, productive, and impactful with Microsoft Copilot and connectivity to Microsoft 365, including Outlook, Excel, and Teams.



### Perform better

Perform better with guided workflows and timely data that drive continuous process optimization, accelerate financial close, and improve decision-making.



# Are you ready to unlock the power of key performance indicators and transform your business?



[Learn more about Business Central](#)

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