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## Business



# *Measurement of Business Success*

*The foundation of a strategic business plan involves leveraging these vital elements—employees, clients, and financial profits.*

By Amanda R. Iverson

**Amanda Iverson** is the Chief Operating Officer and a Partner at Pinnacle Plan Design, LLC, a Third Party Administration firm headquartered in Arizona. She is responsible for managing the firm's internal operations, including accounting, human resources, growth strategy, and efficiency analysis. She is a Professional in Human Resources (PHR) and SHRM Certified Professional (SHRM-CP) and a Certified Public Accountant (CPA). Ms. Iverson speaks on topics surrounding human resources and firm management matters. She received her B.A. in Business Administration with an emphasis in Accounting from Pacific University and her M.B.A. from the University of Wisconsin MBA Consortium.

Whenever I'm asked about creating, developing, and evaluating business metrics, individuals tend to jump immediately to financial metrics. Although the definition of success will differ from person to person and company to company, most Third-Party Administration (TPA) firms will agree that success is a function of three vital elements: (1) employees (human capital), (2) clients, and (3) financial profits. It is important to evaluate at least these three elements when evaluating business success.

Many closely-held business leaders do not have the luxury of being able to devote their time exclusively to any one part of their business. While every strategy discussed herein may not be feasible for your practice, the goal of this column is to provide you with practical strategies and tools that you, as a business leader, can use to enhance practice management and, ultimately, the success of your business. Strategic planning is an important tool to drive your business success. A well-designed strategic plan can help generate business goals and direct leaders towards success. Subsequently, various business metrics can provide leaders with the tools to analyze the results of that effort. Metrics can also provide focus for your organization and help you to identify potential areas of concern.

In developing a strategic plan, it may be useful to hire an outside consultant to keep the focus on objectives and to streamline the process. An outside consultant can create the accountability needed to efficiently and effectively complete a strategic plan. If you decide to develop a strategic plan without outside assistance, be sure to consider the three key components of success (human capital, clients, and profits) throughout the development stage. After a strategic plan is developed, leaders should be sure to keep the plan as a living document, using it to drive business decisions. Some things to consider when developing, and then evaluating, a strategic plan include:

- What is the overall mission of your company?
- On which areas of practice do you need to focus?
- Are there practice areas to which you need or want to devote more time? If so, how should that time be used?
- Are there practice areas that you need to improve upon or eliminate?
- Where did you experience the most success in the past, and how do you repeat that success for the future?
- Do you need to deliver more value to clients (or in an area) and how can you make that (profitably) happen?
- What marketing efforts do you have in place and are they effectively reaching the business goals?
- In which areas of the practice are you losing clients and why?
- What are the company's growth goals (both in the aggregate and by service line)?
- What changes, if any, need to be made to address client retention and growth?
- Do you have the human capital (in terms of both quantity and quality) in place to handle growth and client service goals?
- What are the business goals related to employee growth and retention?
- Is your team as efficient as you believe it should be?
- Were there unusual revenues (or expenses) in the previous year, and how will the adjustment of those items affect your planning?
- Are you adapting your company practices, marketing, sales, and technology to keep up with the ever-changing technological environment? Are there additional technical resources you should put into place to make your strategic plan successful?
- Are there other companies in the industry that you admire and aspire to be like? What about them or their perceived success can you emulate in your company?

Once you have developed a strategic plan, you should regularly revisit the plan and evaluate the progression of your corporate goals. Business metrics can give you tools to analyze business efforts, provide emphasis for your organizational development, and help identify problem areas. Metrics can and should include all aspects of your business.

Some business leaders are surprised to learn that they can incorporate human capital business metrics into their practice to help evaluate employee and corporate performance. Recently, I had the opportunity to facilitate a peer-to-peer roundtable of approximately 20 professional Human Resources Strategists. Their titles ranged from Human Resources Director to Chief Human Resources Officer; however, regardless of title, all agreed on the importance of metrics surrounding a company's people. These metrics can help to provide a more objective measurement of employee performance.

The following suggested TPA business metrics may help leaders plan and evaluate staffing needs, retention issues, and performance results. Leaders must determine what is important to their own business success. This can be driven by the strategic plan. Do you want to have employees with certain years of experience or specific subject matter experts on your team? How many plans do you intend to add in the current year? Do you know whether you will need to increase your staffing due to changing demands? Do your revenue goals agree with charge hour and/or billing trends by your staff? Metrics can assist you with finding answers to these questions. Common human capital metrics include:

- Days needed to fill various positions
- Retention rates (by year and position)
- Ratio of team members to owners
- Ratio of team members to number of plans
- Revenue per full-time employee (FTE)
- Charge hours per employee
- Billing per employee
- Utilization per employee

While calculating any of these ratios once may not provide leaders with significantly helpful data, by continually calculating the selected metrices and thereby having comparative figures, leaders can use this comparative and trend data to manage the business. Metrics will provide the information needed to determine when corporate leaders need to modify strategic plans, hiring practices, development of employee expectations, and evaluation of employee performance. As the business leader, you may want to focus on one or two metrics related to each element, rather than trying to add all to your analysis.

Most business leaders would argue that growth is a key component to any healthy business. With any TPA firm, the addition of new work is necessary to either retain current revenue figures (to make up for losses) or to grow the practice into a larger business. When developing marketing and sales goals, evaluation of the success or failure of previous efforts should be considered and adjustments made accordingly. Numerical data that will assist leaders in planning and evaluation include:

- Plan counts changes (in terms of both number of plans and revenue figures)
- Net growth by service area or plan type
- Marketing/sales expense per plan win
- Average turnaround time of proposal requests
- Ratio of plan wins compared to proposals created (by plan type and by each referral source)

These metrics may identify the need to modify your marketing and sales plans and change your approach to future efforts.

When developing an annual sales and marketing goal, it is important to use various metrics to evaluate growth areas and areas of client attrition. When establishing revenue and growth goals, you must evaluate the firm's client and plan retention trends. While the number of plans added in a year is important, you must also consider the clients lost. It is also important to consider what is being done to retain current business. To evaluate current client service and satisfaction, in addition to asking clients how your firm is doing, business leaders can evaluate plan losses and the reason for those losses. What percentage of losses are due to service complaints, fee issues, or plan terminations? Does the firm focus on a certain business service line or referral source that is no longer fruitful? Does the trend data indicate that the firm's strategic plan needs modifications? Client retention rates, lead generation analysis, and evaluation of marketing goals are important in helping to understand where the firm is headed. All this information is helpful in setting future goals and objectives and allows you to use proven historical trends to put the best foot forward.

Business leaders should provide both clients and employees with turnaround goals and then use metrics to evaluate those goals (*e.g.*, average turnaround time from the receipt of client data to the delivery of the client deliverables). Additional helpful TPA-specific measurements include determining the average time a distribution or loan payout takes from start to completion. Other helpful payout ratios include number of payouts completed during the period per team member and average time spent completing a payout per team member.

Of course, when evaluating business success, financial statements, analysis, and metrics are tools to measure financial goals. It may be easiest to start your financial analysis and development of financial goals by analyzing your previous period financial results. However, business leaders cannot simply look at the prior year financials and expect the same results in the current year. Therefore, leaders should consider whether there were unusual revenues or expenses that will not be there in the subsequent year. Additionally, as stated previously, the leaders should create reasonable growth goals for the organization and then develop a plan for achieving those goals. Leaders can use various metrics to anticipate financial targets and then evaluate whether those targets will be met. Traditional financial metrics, such as profit margin analysis, revenue per plan, and growth percentage trends, can be helpful in business management. Additional financial trends valuable for planning and evaluations include cash flow timing trends and expense trends. Furthermore, it can be very valuable to know how much of the company's revenue came from additional services not included in the firm's standard annual fee schedule. As a company, it is key to pay close attention to the firm's financial statements and information. The firm should use the growth trends, profit trends, and cash flow trends to help direct the future strategic business decisions and purchases. A thorough financial analysis is critical, as it provides a very important measure of the company's success.

While every industry professional will define success a bit differently, most can agree that having engaged employees who are productive and efficient ensures a client base that is receiving excellent service and provides the capacity for new growth. Developing plans for growth and the metrics to analyze such growth will assist business leaders with projections and guide them in making needed adjustments. This, along with a thorough analysis of the company's financials, will provide its stakeholders with the desired profit and a formula for success. ■