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business advisers

Setting targets and forecasting

A guide to choosing, measuring and using targets in your business

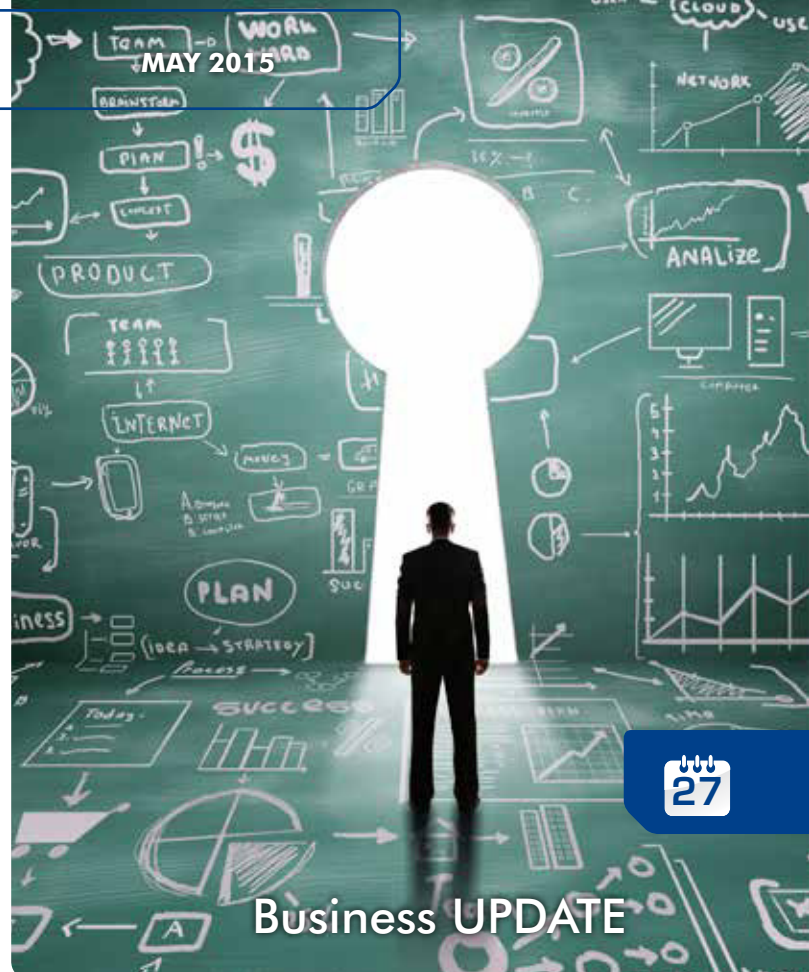
As exhilarating as it may be to set off on an adventure without a plan, any explorer, sailor or business owner will tell you that not knowing where you want to go can be a recipe for disaster. Setting targets for your business is not just a question of simply stating where you would like to be in a year's time. Giving yourself accurate targets to work towards involves knowing how you are performing now and having a good idea of how you will be performing in the future.

There is real value in taking some time to make your predictions as accurate as possible.

The importance of business targets

Setting your business accurate targets is important in a number of key areas:

- **Knowing what success looks like:** establishing what you would like to happen means you understand what you want your business success to look like. The company's subsequent performance against those targets will show you how accurate your view is in the real world.
- **Increasing team cohesion:** by setting goals that everyone in the company is working towards you can better ensure that everyone understands what they are collectively trying to achieve. These collective goals can then begin to underpin the decisions individuals make on a day to day basis.



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- **Gaining deeper organisational knowledge:** business-wide objectives can be divided into department specific ones, which get everyone on the same page about how they should be working together in theory.
- **The ability to reassess:** a by-product of setting yourself a target for a year's time is that you now also have milestones that you need to have reached in 3, 6 and 9 months' time in order to complete your goal. If by 6 months your original target looks unattainable, you can reassess based on your performance.

Accurately measuring performance

A major part of setting the right kind of business targets is having a realistic idea of how your company is actually performing. Without having detailed knowledge of your performance you won't be able to set targets or know whether or not you have achieved them.

An important aspect of performance measuring comes in the form of key performance indicators (KPIs). UK companies are required to comply with legislation regarding business reviews, meaning that they must report on a range of financial and non-financial KPIs as part of their annual Directors report.

The Companies Act 2006 classifies KPIs as factors "by reference to which the development, performance or position of the business of the company can be measured effectively."

Setting targets and forecasting

The KPIs you choose will depend on your company and your business sector. It is important to bear in mind that KPIs are not synonymous with your business goals, and have much more to do with your business processes. What is it your business does, what does it need to do it and how can your processes be changed so that you can do more?

Many people like to use the SMART criteria:

- Specific to your company
- Measurable
- Achievable
- Relevant
- Time phased.

So, an example set of KPIs for a shoe shop may include:

- capital expenditure
- sales (sales per hour or average sale)
- loss prevention
- visit to buy ratio
- customer purchase value (how much money does the average customer spend each time?).

While a website development business' list might include:

- actual delivery date vs. estimated delivery date
- number of errors per project (bugs or incorrectly implemented features)
- actual number of hours vs. estimated number of hours
- accuracy of project plan vs. actual project.

Contact us to talk about your business goals today.

Setting the right targets

Using your KPIs to set your business targets means that you understand the fundamentals of your business process and can subsequently set realistic targets. If each customer that walks into your shop spends an average of £5 per visit, it may not be realistic to set a target of increasing this to £15 in 12 months.

Some important points to remember are:

- while ambitious goals can be a good motivational tool, unattainable targets often lead to apathy
- minor tweaks to business processes can often yield more productive results than disruptive root and branch change
- make sure the burden for reaching your targets is spread evenly around the business, focusing everything on your sales team for example will probably create stress and tension
- there are some aspects of your business which are simply out of your control (such as staff illness or macroeconomic factors) so make sure you include a degree of flexibility.

The essentials of business forecasting

Business forecasting is a complex process of making statements about events that have not actually happened yet. By using your KPIs and your business targets you should be able to paint a pretty accurate picture of what kind of shape the company will be in if you hit all your targets, only some of them or none of them at all.

Forecasting is not the same as assumption. A forecast is not a picture of what will definitely happen in the future; rather the forecasted outcomes are likely to occur if targets are met and damaging externalities do not occur.

There are many different methods for business forecasting and which one is best suited for you will depend on the size, scope and sector your company is in.

There are a number of business forecasting essentials which should always be factored in:

- flexibility is key and forecasts should include a range of scenarios from the best possible performance to the worst. This way you will be better prepared for whatever happens
- understanding how your market and how your business fits into the wider macroeconomic environment is vital to successful forecasting. No business operates in a vacuum
- a forecast is not a list of your aspirations and you are going to need to be as realistic as possible to get the best results
- make sure to factor in interest rates and tax liabilities; if your profit grows you could be liable to pay more tax
- many businesses fail to take account of how the small things add up over time; paperclips, teabags and toilet paper add up to significant amounts over the course of a year.

While forecasting, target setting and performance measuring are all distinct practices, when done properly they can work effectively in tandem. Knowing where you want your business to be is not particularly useful unless you also know how you operate right now and how your company is likely to react to different situations.

Setting targets and forecasting can be complex and resource draining tasks. We can help you get right down to the core of your operations and build up an accurate and flexible set of targets and forecasts.

Get in touch with us today to discuss your business.