SEXTANT
ADVISORY, LLC

What's The Score?

Ask any avid baseball fan about how their team is doing and they are likely to give you an amazing array of data that includes standings, won/lost percentages, batting averages, ERAs, RBIs and many other stats that measure the performance of their favorite team. Other sports enthusiasts are no different. They can tell you about rebound percentage, yards per carry, pass completions, or major tournaments and earnings won by the superstars they follow.

But, if you ask them how their company is doing, many would have a hard time expressing the performance of the place where they spend most of their time and to whose success their fortunes are tied. For some reason, we do a much better (and more enthusiastic) job of measuring the team we cheer for than the organization we work with everyday. That's too bad, because things can be a lot more interesting (even exciting) if we know how we are doing compared to our goals and our competitors.

Actually, accurate and timely business metrics are more than simply interesting, they are critical to the survival of any business. Identifying, quantifying and following the key measures of performance provide the basis for effective management decisions and employee team efforts. Without them, there is little chance of knowing how to navigate in a difficult market, let alone charting, coordinating and implementing a course to success.

An Aviation Business Requires Measurement to 'Navigate'

In our years of work with business aviation, Sextant Advisory has found that our industry is far from a leader in the measurement arena. We seem to believe that a love of airplanes and good 'gut' instincts are all we need to "keep'em flyin'." Unfortunately, in this age of technology and this economy of disaster, that is not enough. **Just as a pilot must have reliable instruments and know how to respond to them, a business leader must have metrics as a guide.** Knowledge of the main indicators of your business direction and orientation, and quick, precise measures of them are required to survive. And that is just the start. To grow and prosper, we must also have command of (and measure), those things that move those indicators in the proper direction.

OK, so what to measure, and how? Effective metrics are based upon industry segment fundamentals influenced by the specific strategy and goals of the organization. Strategy and goal development are crucial and should provide the basis for all decisions and actions; however, they are beyond the scope of this discussion. So, for our purposes here, let's assume that you have already established them, and just focus on measuring appropriate business results.

We'll start with some metrics that are common to nearly all business enterprises: sales revenue, cost of goods sold, net profit, accounts receivable aging, inventory turnover. The basic company financial documents contain this information, but watching them go up and down doesn't help you much. The real value in these numbers is realized when they are compared to a goal or standard. These typically come from your business plan/forecast which is derived from industry and market benchmarks and influenced by your company's unique capabilities, strategy and goals. For example, revenue can be expressed as a % of plan, compared to the previous period, compared to same period in the prior year, compared to competitors, etc. The usefulness of this measure depends upon the validity of the chosen benchmark. At Sextant we've developed a proprietary model, called *Pathfinder*, which is specifically suited to business aviation firms to aid our clients in this process.

Some important indicators are determined by your business type and the way you earn most of your revenue. In an MRO activity for example, your largest revenue source (and expense) is labor. Therefore, labor productivity is a vital number. In a maintenance service department, a glance at billable hours vs. downtime/rework can often tell you more about your success for the period than the income statement. Charter operators rely on cost per flight hour. The devil here is in the details of computing that cost. Ignoring some cost items, using broad averages and inaccuracies all contribute to 'bad' numbers. Future plans and new routes based on an erroneous metric can reveal a financial disaster when the real results come in. *Financial IQ* is a tool developed by Sextant Advisory, which offers answers to the most critical questions in a flying organization. Where am I making money and where am I losing money? The answer to this question, including exactly *how much, where and why,* adds critical insight into a charter operation directly benefiting the operator and the aircraft owner.

In another example, the success of an FBO can be measured by the net profit margin per gallon of fuel sold. But watch out for a trap that we saw a major chain fall into recently. On the one hand, this is a simple and valid measure of facility performance, which is a good thing. But, maximizing one key indicator while ignoring others, such as customer satisfaction, can be the road to ruin. Narrow focus on too few indicators can provide short-term benefit at the expense of long-term success. In this example, if customer satisfaction is invisibly moving in the opposite direction from margin, a run of good profitability could be followed by a dramatic decline in revenue that threatens survivability. (Of course, this is not unique to FBOs)

The Whole Story—A Balanced Scorecard

This pitfall highlights the need for 'balanced scorecard' approach. This concept simply measures a variety of important areas to ensure that the full performance picture is monitored and that some key aspects are not ignored as others are given undo attention. The original concept by Kaplan and Norton suggested that any business unit should be measured from four perspectives: Financial, Customer, Internal Process and Employee Learning and Growth. These can be enhanced by adding areas relevant to an industry such as Safety, Regulatory Compliance, Innovation and others. Each perspective has several metrics that indicate performance in that area. And, each metric is assigned a target value. Since not all areas are of equal importance, the various measures may be weighted to reflect its impact on the organization. **The completed scorecard enables the periodic calculation of an overall company performance measure along with a view of the areas where targets were met, or not.**

Once you are convinced that you need to measure a variety of areas, the next questions are: *What do I measure? And, where do I get the data?* The key is to measure things that really matter to your business. Examine your 'visionary' goals and your 'what it takes to get through the month' goals. Then ask, 'How do we know if we're getting there? By quantifying the answer to that question for each major goal, you identify your most important metrics.

Sources of Data

Your data comes from both structured and unstructured sources. The structured sources include your financial, payroll, OSHA reports, surveys, etc.—those things that are routinely kept in your database. Unstructured sources are less formal, originate at the desktop level, and include information contained in spreadsheets, word processing documents and presentations. While the structured data is more readily available, don't overlook the unstructured sources which often contain the 'real knowledge' of the organization. Combining the two provides the whole story on a given topic.

The information needed is often easier to identify than to routinely collect and analyze. Business information software is available to link and coordinate the various sources, and savvy staff can be used to interpret and communicate the results. However this is a level of expense and sophistication that is elusive for most small and mid-size businesses. *It is very important not to let these facts discourage the entire metrics process.* The data for the basic, and most important, indicators of the main perspectives are usually readily available or can be made so with a little attention or system manipulation from the internal 'experts'. **Quality and validity of measurement matter much more than quantity.** Once begun, it is inevitable that additional measures and sub-measures will be desired. They can be added as expertise and budgets allow. The important thing is to establish the basics that guide your business. You don't give up driving simply because you can't afford a Ferrari as your first car.

Metrics are good for *Your* Business

Being convinced of the need for metrics and having established them along with a reliable collection process, it is fair to ask: *Now what?* This is the best part, because metrics are valuable to your business in at least three different ways:

First, since as previously mentioned, every measure needs to have a corresponding target identified in order to be a useful tool, setting these targets provides a wonderful opportunity for your team to engage in the process and work together. Because the targets are based upon your company-specific strategy and goals, deriving the targets instigates examination, discussion and a better understanding of them. By helping to establish the targets, the team 'buys into' and validates their importance. **The teamwork starts when setting the bar is done 'by them' and not 'to them' and continues into the framework of accomplishment.**

Once targets are set, the process of establishing a plan to achieve them provides a second big benefit of using metrics. Reaching the targets requires planning, coordination and communication within and across the various disciplines of the organization. Again, this encourages teamwork, common purpose and united efforts-- all aimed at achieving the company's vision. These are the very things that define a successful company. Who would have thought that a simple measurement system could produce a cohesive, synergistic team?

A third major plus of metrics use is its contribution to the basic management function of 'control'. The results provide feedback as to what is working and what is not. A little analysis of the data provides clues to identify areas that need attention and what actions to take. Over time, the data provides the big picture regarding the direction of the company. The team can use this information to fine tune the course, or completely re-think the business. **Without a reliable metric system, what would you use to make these decisions?**

Get in the Game

So, just as a baseball team's place in the standings is determined by the collective success of the pitching, hitting, and fielding functions, a company's progress toward its goals is determined by its ability to measure and respond to the results of its various functions. Everyone in the organization should know how their role contributes to the overall effort and most importantly, be able to follow their progress in a timely and meaningful way—that's what measurement is all about.

It may not be quite as exciting as this year's wild card race, NASCAR standings or Tiger's come from behind victory, but tracking your company's performance can be more rewarding. After all, it's your real home team and, unlike a spectator sport, your actions have a real impact on its success. Who knows? You just might 'knock one out of the park'.