

Managing by the Numbers

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The numbers reveal the business. Managing by the numbers drives the business.

The Management Cycle

1. Identify desired results: strategic goals translated into annual goals and priorities
2. Know your capabilities: staff, board, expertise, knowledge, systems, equipment.
3. Know your market: competitor/collaborator analysis, demographic analysis, other external forces – what will help or hinder your financial success?
4. Plan to achieve the results – budget
5. Implement – work plans in place at beginning of fiscal year
6. Track progress
7. Identify gaps
8. Problem Solve – in this sequence
 - a. Return to 5: are you taking the intended actions; make adjustments; experiment.
 - b. Return to 4: change the plan
 - c. Return to 1: change the goals (resist temptation to immediately change goals)
9. Celebrate successes

It takes 2 to 3 years to ingrain the management cycle into your organization

Preparing the Budget Use the Qm² workbook: *Strategic and Inclusive Budgeting*

Strategic: *first* set your strategic goals and priorities for the year, *then* allocate resources according. Ensure that you budget sufficient money and time to achieve the priorities.

Inclusive: make budget decisions in a group process, not individually or in one-on-one meetings.

- Budget is examined, not imposed
- Increases financial literacy
- Staff commits to budget, not just complies

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- Commitment comes from conflict, not consensus
- Commitment leads to accountability (to one another, not just to the director)

Using the Budget to Manage the Work

The budget *must* be in place before the start of the new fiscal year; otherwise you can't manage, nor can you expect your managers to manage.

KPIs: select a limited number (max 10) of key performance indicators. These should account for at least 80% of revenue and expenses. These are the numbers to watch closely. You may want to include some non-financial measures that indicate long term financial health, such as board participation or staff training.

1. What drives revenue
 - a. Visitors and admissions revenue
 - b. Users and participants
 - c. Sales
 - d. Members (treat as a strategic function, not administrative)
 - e. Contributions
 - f. Grants
 - g. ??
2. What drives costs
 - a. Staffing
 - b. Cost per acquisition of a new donor or member
 - c. ??
3. What drives value – long term health
 - a. Endowment growth
 - b. Base of support
 - i. Number of new donors and members
 - ii. Number of retained donors and members
 - c. Record of achievement
 - d. Reputation in the community
 - e. Collections growth
 - f. Staff expertise
 - g. Board strength or health

Assign Responsibility: who manages each number? Who is responsible for making sure you achieve the goal? Who measures? Who takes action? Who acts to close the gap?

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Cash Flow: create *monthly* projections for the KPIs on a spreadsheet that will make it easy to see the gap between where you are and where you should be.

Manage the Gap: monitor cash flow regularly and address gaps as they occur.

- The CEO must ask about the numbers regularly; this reinforces how important the numbers are.
- Keeping a close eye is important from the beginning of the year: the first week, first month, first quarter are most important
 - The earlier you act, the more time you have to make up a gap; smaller changes will be needed early on; the longer you wait the more drastic the action needed to close the gap.
- Close gaps quickly – use everything you have: brains, intuition, experiment
 - Involve the appropriate group of people to solve the problem
- The more managers who manage by the numbers, the better the results
 - Top of the agenda for each management meeting at all levels
 - Everyone should know the numbers: what they are, what they mean, and how an individual's work impacts them.

Drastic Action

When your remedial actions do not close a growing gap, or when something unexpected causes a significant gap, use a 1-2 punch:

1. Cut expenses immediately; better sooner than later; cut enough to create a reserve
2. Use the reserve to invest in revenue generation; choose activities that have a good chance of financial success