Managing by the Numbers

By Will Phillips and John Durel

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 Qm^2 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

- 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?

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