RESOURCE GUIDE · HERMIT BUSINESS SOLUTIONS

KPIs: Why They Matter and How to Get Them Right

A short guide to measuring what actually moves your business forward ***and avoiding the numbers that quietly lead you astray.***

Why this matters

A Key Performance Indicator (KPI) is simply a measure of how well something important is going. It sounds obvious, but most businesses track far more numbers than they need and often not quite the right ones. There is an old saying in performance management: "what gets measured gets done." It works both ways. Track the right things and people naturally start improving them. Track the wrong things and you can end up driving the wrong behaviour without realising it. Getting your KPIs right is less about more data and more about clarity on what really matters.

What makes a good KPI

- It is clear and specific: everyone reading it understands exactly what is being measured
- It is genuinely measurable, using data you can collect consistently and trust
- It is realistic and achievable, so it motivates rather than discourages
- It is relevant to a real objective, not just something that happens to be easy to pull from your software
- It is time bound, with a clear period attached (weekly, monthly, quarterly)
- It links clearly to an action: someone should be able to look at it and know what to do next

Common mistakes to avoid

Headcount is a good example of a measure that gets reported everywhere but rarely earns its place. On its own, a rising headcount number does not tell you whether the business is growing healthily or simply becoming less efficient. The context (what those people are doing and why) matters far more than the figure itself.

Allocated overheads are another common trap. Splitting shared costs across products, customers or teams often triggers long debates about fairness rather than useful decisions and can even make a perfectly good product look like it is losing money once overhead is added on. It is usually clearer to report direct costs and contribution first and deal with overheads separately.

It also helps to report ratios and trends rather than raw totals wherever you can. A single absolute figure, like sales for the month, rarely tells the full story on its own. A ratio such as days sales outstanding or a trend over several months usually explains far more about what is actually happening.

Leading and lagging, in plain terms

Every KPI technically measures something that has already happened, even if only a second ago. What makes a measure "leading" or "lagging" is simply its relationship to your goal. If your goal is more website visitors, then visitor numbers are the lagging result. If your goal is more sales from the website, those same visitor numbers become a leading indicator, because without visitors there can be no sales. A good set of KPIs usually mixes both, a few that confirm the end result and a few earlier ones that give you time to act before the result is locked in.

A USEFUL NOTE

We would rather help you track five numbers that you actually use than fifty that sit in a spreadsheet nobody opens. If you are not sure which KPIs matter for your business, that is exactly the kind of conversation we enjoy having. Book a free chat and we will help you find them.

Example KPIs by area of the business

A useful starting point is to pick two or three from the areas that matter most to you right now, rather than trying to track everything at once.

Area	Example KPIs
Sales	Revenue growth, customer acquisition cost, average order value
Marketing	Conversion rate, website traffic, return on marketing spend
Financial	Gross margin, net profit margin, days sales outstanding
Operations	Cycle time, productivity rate, inventory turnover
Customer service	Customer satisfaction score, first response time, resolution rate

What to do next

- Write down the two or three objectives that matter most to your business right now
- For each one, ask what good performance would actually look like
- Pick one or two measures per objective, rather than one per spreadsheet column you already have
- Review them on a set schedule, monthly is usually a good starting point
- Drop or replace any KPI that has not changed a single decision in the last three months