WEBINAR

Setting goals for the new year with Glew

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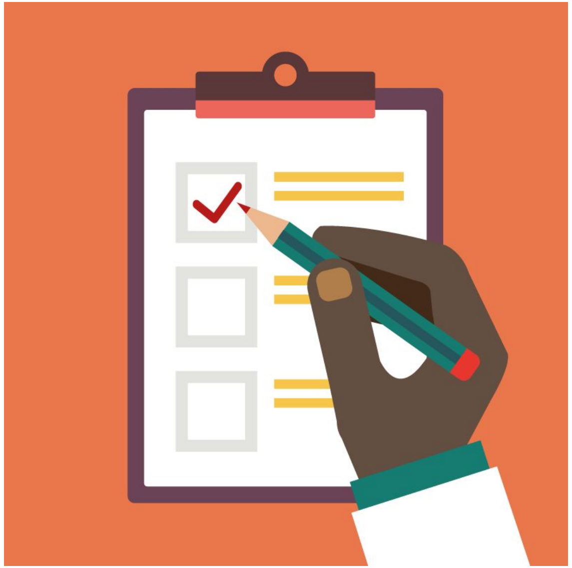
Agenda

- Why is accurate goal setting important?
- Where do you begin?
- The “Give and Take”
- How to measure and what to look for



Why is accurate goal setting important?

Key to activating and optimizing finite resources (physical capital, cash, employee time, etc.)

Necessary if there is a plan to raise external capital from outside investors

Overall, vital to master so that management can make the most profitable business decisions

Example: CEO of a company selling granola bars plans to sell 10,000 units of chocolate granola bars and 5,000 units of peanut butter granola bars. But he was way off. He ended up only selling 1,000 units of chocolate and ran out of peanut butter on the first day!

Result: Now his cash is tied up in the chocolate granola bars that no one wants and he cannot invest those resources into peanut butter bars, advertising, etc.

Where to begin

1. Look at company's past performance over time PoP and YoY (start with a year and PoP = YoY)
2. Take into account **(a) current size of company (b) industry standards and (c) company vision**
3. Pick the KPIs that make the most sense for your industry given the above
4. Suggesting starting your forecast with % and ending with an absolute number

Example 1

Situation: A company selling fashionable clothing has been in business for 2 years. In its 1st year it made $250,000. In it's 2nd, most recent year, it just cracked the $1,000,000 in revenue mark. It has zero outside investment.

Questions: What should the goal be for the upcoming, 3rd year?

High Level Points to Consider:

- The growth rate from Y1 to Y2 is 300%! Wow. Is that sustainable though?
- Maintaining that growth rate would mean the forecast for Y3 would be $4,000,000 in revenue (!)
- It's easier to grow fast when a company is smaller.
- Maintaining that growth rate would require either (1) acquiring new customers at an accelerated rate AND (2) developing and offering new products to sell back into the customers already acquired
- The industry standard for fashionable clothing growth is ~13% (Google it!)

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Example 1 continued...

Constraints: The CEO of this fashionable clothing company has not taken on any outside investment, limiting his cash and therefore ability to do both of the necessary things needed to sustain that 300% growth (acquiring customers at an accelerated rate while coming out with new products to sell back into the customers he already has acquired).

Summary: Knowing the industry average is ~13%, his fantastic year last year, and his unwillingness to take on outside investment / resource constraints, CEO is comfortable forecasting a 100% growth rate this year, making the revenue forecast for Y3 $2,000,000 in annual revenue.

Example 2

Situation: A non-perishable food company has been in business for 5 years. Y1 was $100,000 in annual revenue. Y2 was $200,000. Y3 was $400,000 and Y4 was $450,000. The company has taken on outside investment in Y4. That outside investment is being used to double the amount of SKUs offered to the current and future customer base.

Questions: What should the goal be for the upcoming, 5th year?

High Level Points to Consider:

- The growth rate from Y3 to Y4 is 12.5%.
- Maintaining that growth rate would mean the forecast for Y5 would be $500,000 in revenue (!)
- But the product line is doubling! So shouldn't the growth rate be expected to rise faster than 12.5%?
- The global, industry standard for growth in the food industry is ~5% (Google it!)
- The brand has a strong repeat customer rate, strong past growth and a vision to accelerate that growth

Example 2 continued...

Constraints: The CEO of this non-perishable food company and its investors have an aggressive vision for growth. Knowing the size of the business and the solid plans to source and offer 2x the SKUs, they're ready to take on some risk.

Summary: Knowing the industry average is ~5%, his outside investment and vision as well as his strong repeat customer rate, the business is ok forecasting 20% growth.

The KPIs that go into smart goal setting

Now that we’ve covered some high level exercises, let’s get more specific on the KPIs that you need to take into account during the meetings references to just now. ALL SHOULD BE BENCHMARKED Period over Period (PoP) and Year over Year (YoY)

Profit KPIs

Revenue
Gross Profit
Net Profit
AOV

Customer Metrics

Lifetime Value (LTV)
Customer Acquisition Cost (CAC)
LTV:CAC Ratio
Purchase Frequency
New vs. Repeat Customer Rate
Conversion Rate

Product Metrics

Sell Through Rates
Inventory Velocity
Depletion Days
Holding Costs

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The “Give and Take”

The expectation shouldn’t be to improve EVERY KPI. When you’re forecasting, you have to understand that when you change your behavior it will have consequences on other KPIs.

Example 1: A company selling B2B, offering parts for different water systems has decided to stop focusing on small, local business and to go upstream to serve larger manufacturers.

The AOV is going to increase. BUT THE CONVERSION RATES ARE SURE TO FALL!

There are fewer, larger corporations. So the time spent in landing a larger deal will have an opportunity cost of a lower order velocity.

The “Give and Take”

The expectation shouldn’t be to improve EVERY KPI. When you’re forecasting, you have to understand that when you change your behavior it will have consequences on other KPIs.

Example 2: A company selling make-up has discovered that, via Glew’s First Purchase Attribution Model, that it has saturated cpc-google with too much advertising spend and there are efficiencies to be gained by moving some advertising spend to cpc-bing (yes, many people buy off of Bing).

To be more specific, it discovered that customers who convert first from cpc-google spent $50 each with them and customers that convert first from cpc-bing spend $200 each with them.

However, it’s a make-up company so it will take time for those new customers bought from bing to become profitable (for that LTV to build up).

Assuming that this company has a finite amount of advertising resources, it has to be ok with seeing its performance of cpc-google suffer in the short term to see its profits increase over the long term.

Summary

Predicting the future is not easy. It’s more of an art than a science.

Forecasting and goal setting are essential to keep the business not just “in business” but to push it to its full potential.

Helps ensure a plan is put into place to grow AND that the stakeholders responsible for executing on that plan are held accountable to a grander, company vision.