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BUSINESS GUIDE

5 Fresh Metrics Every CFO Should Be Measuring

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The finance world is not what it used to be. New technologies, competition, and even customer demands have changed the outlook of the finance world. There has been a shift, and there will continue to be shifts in how a company's finances are processed.

Throughout this guide, we'll focus on five fresh metrics that can help provide CFOs and finance leaders with both financial and non-financial metrics around people, partnership, and performance that are critical during times of uncertainty. These metrics allow CFOs to keep a pulse on the people and profits which, as the CFO role continues to evolve, have direct bottom line results.

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1. Employee NPS

Employee NPS means Employee Net Promoter Score. It is a way to measure employee engagement, happiness, and insights around employee experience. Many businesses measure NPS for customer or external partners but leveraging for employee has many advantages. Employees can make or break a business, so finance leaders must know how inspired their employees are.

Are they willing to promote the company as a place to work or promote the company to their network? These are questions that finance leaders need to answer. And it is a metric to measure periodically, best case is semi-annually. CFOs must be current with their employees' willingness to recommend their role, team, or company to others.

You can do this by sending out surveys with questions like:

- How likely would you recommend your team to your friends and family?
- How likely would you recommend this company as a place to work?
- How likely would you recommend your role to your friends, family, or network?

Note that to get honest answers, make the survey anonymous. And once you get your answers, measure your Employee NPS by subtracting the percentage of detractors from that of promoters and that is your Employee NPS score.

Use Case

A company's growth is commensurate with the commitment of the employees to its growth. So, you can use Employee NPS to determine how dedicated the employees are to the growth of the company and overall getting a great pulse around your most valuable asset which is your people.

2. Costs of Attrition

Besides Employee NPS, you also need to measure employee turnover, which is basically what attrition is. As you likely already know, the higher the employee turnover, the higher the company's costs. This is because — unless the position becomes redundant — you would have to hire to fill the position and hiring costs for a new employee in the current labor market could be significant.

Every company needs to know how much that is costing them. And they need to do this at least semi-annually — preferably in the middle and end of the year.

To calculate the cost of attrition, you need to first calculate the attrition rate, which is done by dividing the number of employees by the number that leaves within a specific period. And then multiplied by 100.

Attrition rate = (No. of employees who left / Total no. of employees) x 100

After that, you can calculate the cost. To get the final cost, calculate all direct costs associated with hiring a single employee, including the salary, the salary of the HR officer or recruitment agency, training cost, benefits, variable compensation, equity, job placement, and so on. Then multiply the total cost of hiring a single employee by the attrition rate, and you'd get the organization's attrition cost.

Knowing the attrition cost will help you understand how much the company might be losing with employee turnover.

However, you must also consider certain other factors such as what kind of employees are leaving, industry standard turnover rates, competitors, or if the business is downsizing would automatically result in a high turnover rate.

Use Case

Cost of attrition helps you see one area where financial leakage can be blocked. It can also give you an idea of the Employee NPS. This is because, usually — except in certain cases mentioned above — high turnover rate could mean that there is something wrong in the employee experience which most definitely has a bottom line impact that CFO's need to know.

3. EBITDA Margin

EBITDA is short for Earnings Before Interest, Tax, Depreciation, and Amortization, and it has been popularly used to measure profit. However, to measure a company's profitability, you must measure the EBITDA margin. This metric helps a company realize its real performance compared to other companies in its industry.

EBITDA margin is important for CFOs to know because it can help them to:

- Measure business performance.
- Buy/lease/invest/finance decision-making.
- Identify under or over business performance.

EBITDA margin is a true representation of a company's financial health as it focuses on its operational portability and cash flow without considering the costs of depreciation and amortization, taxation, and interest on debts. It calculates a company's operational cost in relation to its revenue. So, it helps you, as the CFO, determine the operating expenses.

EBITDA margin is calculated by EBITDA/Revenue and depending upon your forecasting, planning, and other requirements you should at least be measuring this quarterly.

Use Case

EBITDA margin can be used to compare the profitability of different companies. As the CFO, you can use it to measure the profitability of your client's company in relation to other companies.

4. Net Operating Cash Flow

Net Operating Cash Flow (NOCF) is simply the cash flow a company has left after expenses. It is an indicator of whether a company can generate cash flow from its operations or not. And it helps a company realize their ability to pay vendors, employees, and cover other operational expenses. NOCF is a good indication of a company's financial health and a leading indicator for measuring future cashflows.

The NOCF helps CFO's decide on what cash decisions to take, decisions such as the kind of investment to make or the areas they might need to cut down on costs. NOCF is an important metric for CFOs to know because it can help them to:

- Evaluate the company's financial health.
- Make better cash decisions.
- Provide visibility into future problems or opportunities.

NOCF is calculated by subtracting the all-operating expenses — including interest, depreciation, and amortization — from income. Given the economic climate, you should be measuring this quarterly, and, in some businesses, this should be measured more frequently.

Use Case

As the CFO, you can use NOCF to determine how financially healthy a company is, that is how much cash reserves can be utilized to either invest, grow, or scale the business.

5. Cash Runway

Cash runway is a metric that measures the number of months a company has before it runs out of cash. Cash runway is more important for startups to check because they are in the building stage and may be running on saved cash without making much to offset it.

This metric is usually estimated by determining the burn rate; how much cash the company is burning in relation to how much it is making. Cash runway is important for CFOs to know because it can help them:

- Identify cash problems early.
- Make better short and long cash decisions.
- Proactively communicate with investors, leadership, and financing partners earlier.

For instance, if a company is burning approximately $5,000 every month and has $50,000 available to spend, the cash runway would be estimated to be 10 months. Also, in terms of frequency, you should be measuring this quarterly at a minimum, while for high growth businesses you should measure monthly.

Use Case

Cash runway can be used to determine how likely a business will fail or succeed, and gold standard is 24-30 months of cash runway for most high growth businesses.

Conclusion

Remember that CFOs should focus on navigating the continued uncertainty and challenges inside and outside the finance organization.

> Therefore, if you can help guide the business by providing actionable insights to bring clarity for operations, you can position as a trusted partner.

But it starts with knowing the metrics you should be measuring and providing your business partner with the necessary clarity.

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