BEST PRACTICES

6 Workforce Planning KPIs accountants need to know

By Martin Zych

“Our people are our greatest asset.”

That saying may have become a cliché in the corporate world, but for the vast majority of businesses, it’s true. In the lifetime of a single generation, the United States economy has shifted from one driven by machinery, supported by labor, to an economy powered by the knowledge of our workers, supported by technology.

These days, employees, not machines, make up as much as 80% of total costs. Buffer, for instance, spends 82% of their operating budget on “teammate expenses,” which includes compensation and payroll taxes.

This means that if you want to succeed, you have to hire the right people at the right time. Hire too many people too soon, and you’ll run out of capital. Don’t hire enough, and you’ll be unable to serve your customers or achieve your revenue goals.

Business owners need help figuring out who and when to hire, and accountants are perfectly positioned to provide this service, which I like to call “Workforce Planning”.

One way you, as a CPA, accountant, or bookkeeper, can get started with people advisory services is by providing your clients with a set of people-focused financial metrics every month.

You probably already provide your clients with an income statement or P&L statement. The income statement consists of numbers, but behind all those numbers are people.

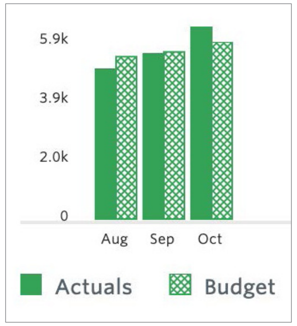
The following Workforce Planning Key Performance Indicators (KPIs) will help you translate the income statement into ‘Workforce’ terms for your clients. Something they probably understand a whole lot better than your traditional financial statements.

Protip: Consider dividing revenue by your sales & marketing department headcount to get an idea of how much additional revenue to expect from each new S&M hire.

Revenue per employee

When average revenue per employee rises quickly, does it mean that your people have gotten more efficient, or does it mean you're working your people too hard? Perhaps it's time to hire?

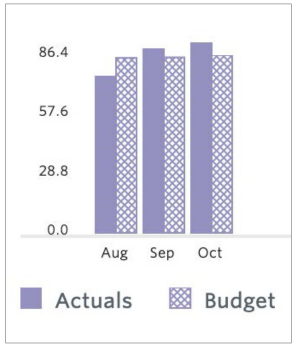
Avg rev per HC



Operating profit per employee

Congrats! You've built a business and you're making money. Divide net income by your total headcount each month and you'll get the number that, on average, each of your employees has contributed to your profit.

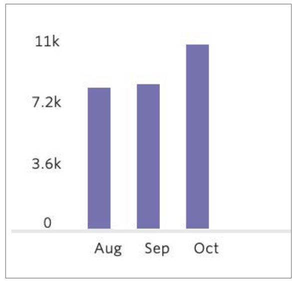
Margin per ops HC



Contribution margin per operations employee

In a professional services firm, this number is key. This is the amount of gross profit that each operational employee generates for the business. In other words, if we hire another professional, this is, on average, what we can expect them to generate in revenue, minus their own cost (salary, benefits, and overhead).

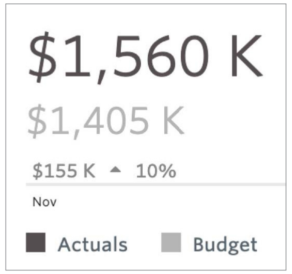
Profit per HC



Salary Run Rate

Now let's talk about controlling costs. When 80% of your costs are salaries, it's important to watch how much you're spending on wages. Salary Run Rate is exactly that — your recurring wage expense, annualized. Everyone should run their hiring plan using a salary run rate to avoid overhiring.

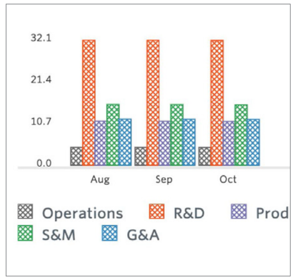
Annual comp run rate



% Spend by department

Compare this to industry benchmarks to get an idea if you're spending the right amount on functions, especially administrative ones, such as accounting & finance. For instance, general & administrative costs are typically 10% of revenue. Average Expense per Employee As with revenue, keep tabs on how your average expenses per employee is trending on a monthly basis to understand if your operating expenses are in line with headcount. If OpEx per head is rising quickly, it might be a sign that you need to exercise greater budgetary oversight.

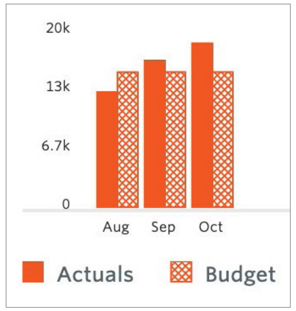
% spend by dept



Average expense per employee

As with revenue, keep tabs on how your average expenses per employee is trending on a monthly basis to understand if your operating expenses are in line with headcount. If OpEx per head is rising quickly, it might be a sign that you need to exercise greater budgetary oversight.

Avg expense per HC



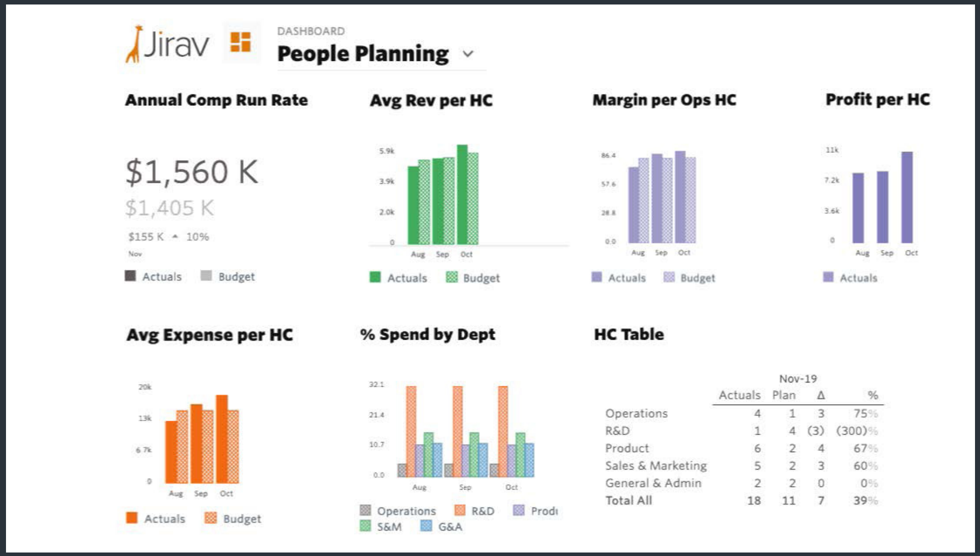
Besides to keeping an eye on total headcount, these KPIs can help you and your clients keep tabs on which departments may be over- or understaffed.

This is important because changes in these ratios can mean several things: 1) you've improved efficiencies within that team (which is great!) or 2) the opposite: that one part of the business has started pulling on the other too much.

For instance, if sales take off because of a new product feature — that's awesome! But if this sales growth outpaces your support team headcount, your support team won't be happy next month.

But if you're looking at your Workforce Planning KPIs every month, you can expect the need for more support personnel and staff up before the onslaught of support tickets begins. You can even get ahead of them if you're also doing forecasting.

By keeping tabs on Workforce KPIs, you'll have advanced notice whether your people need more work or more help and if the various areas of your business are operating at peak performance.



Workforce Planning with ADP + Jirav

Now that you understand the key Workforce Planning KPIs you should be analyzing every month and sharing with your clients, the question becomes, how do you do it?

You could copy and paste data into a dashboard you've built in Excel every month— but that's not a scalable solution when you've got dozens or hundreds of clients.

That's why Jirav and ADP have partnered to support forward-thinking accounting firms and advisory services in offering workforce planning services to their clients. Seamless integration between ADP Accountant Connect℠ and Jirav pull headcount and financial data directly into Jirav automating reports and updating workforce planning models so it takes just seconds to update and share data with your clients.

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About the Author

Martin Zych is the CEO and co-founder of Jirav. He's a career finance & accounting professional, specializing in high-growth tech companies. He founded Jirav to build the tool he wished he'd had available for him during his whole career as a Controller / Finance Director at high-growth companies.