

# The Critical Number: A Beginner's Guide

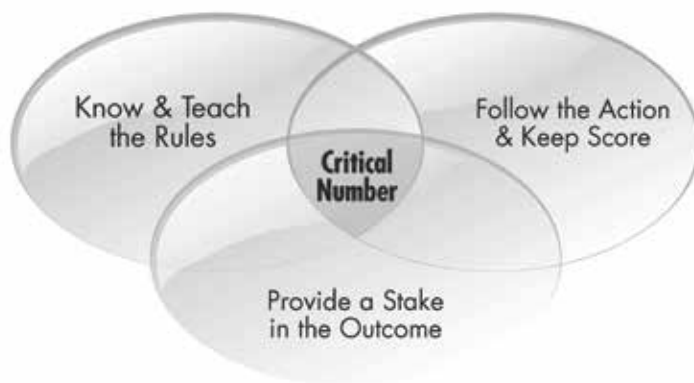


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# Critical Number - The What

Every individual at every level of the company should understand the big picture and the importance of planning the business. But planning is one thing; execution is everything. Focusing on the Critical Number is an important step to getting everyone focused and accountable for results.

The Critical Number defines winning. It rallies people around a common goal and provides a focus on what's most important and critical to the company's success. When the Critical Number is correctly identified, targeted, and tied to a reward – the rules of The Game have been set. The Critical Number becomes the focus of The Game.



The Critical Number

## The Critical Number (the classic definition)

An operational or financial number that represents a weakness or vulnerability that, if not addressed and corrected, will negatively impact the overall performance and long-term security of the business.

### ‘The One Thing’

- It's ‘The One Thing’ that, at any given time, is going to have the greatest impact on your business.
- It's ‘The One Thing’ you must achieve – or nothing else you achieve really matters much.
- It's ‘The One Thing’ that clearly defines winning!

# Critical Number - The Why

## Why is it Important?

- Provides a **Focus** around what's important and critical to success
- Rallies everyone around a **Common Goal**
- **Educates** the Team

## Focus

*"If everything is important, then nothing is important."* Giving people a long list of goals is like not having any goals at all. Having dozens of performance measures and targets, and driving hard to achieve them all won't help you get results.

One of the most important jobs a leader has is to set the agenda by communicating the top priorities of the company. We simply can't do everything. In our experience-and research tends to back it up-**those who prioritize with a focus on less rather than more will achieve far more of their goals, and far bigger goals.**

## Common Goal

We should give everyone the same set of goals. We don't want to send people mixed messages on what's most important. Turn success into a team effort by giving everyone the same big objectives, and be sure they have to work together to achieve them. This way, we either win together or lose together.

## Education

We want goals that keep people focused on the fundamentals of business: making money and generating cash. We also want goals that make the company stronger, by eliminating our weaknesses and growing strategically. Finally, we want goals that *educate* people about the different aspects of the business, that teach people exactly what it takes to be successful. The Critical Number provides a learning opportunity that becomes part of our everyday process of running the business.

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# Critical Number - The How

Get a line of sight:

	Inspiration	My Ideas
Revenue	Revenue: Face Time Renewals New Product Launch	
	Direct Labor: Time Sheet Compliance Reduced Overtime Time off Prime	
COGS	Material Cost: Waste / Scrap Rework Shrinkage	
	C Suite: Diversification CS: Client Satisfaction Mktg: Web Visits	
Gross Profit		
Expenses	Accounting: AR Days HR: Retention IT: Data Input/Cleanup Maint: Uptime	
	Office Supplies Housekeeping Communication	
Net Profit	Culture: Morale Wellness Recruitment	

# Critical Number - Examples



Critical Numbers vary from business to business and will change depending on business conditions and strategic goals. Here's some examples to help get you started.

## Examples of Critical Numbers:

- Gross margin
- Rework %
- Conversion rate
- Return on assets
- Cash conversion cycle
- Diversification
- Billable hours
- The list goes on...

## Regen Technologies Critical Numbers:

- 2003: Earnings
- 2004: Return on Assets
- 2005: Earnings & Sales per employee
- 2006: Earnings & On-time delivery
- 2007: Earnings & Net Promoter Score