

# Knowing Your Numbers

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Business numbers and key ratios every business owner should know



## About Your Coach

**HARLAN HAMMACK** is a Business and Leadership coach working with executives, entrepreneurs, and small business professionals. Whether you are a start-up business or an existing business looking to expand, Harlan's proven coaching methods and expertise will help you grow and thrive by focusing on and improving the three key areas that challenge every business: TIME, TEAM, and MONEY.



Harlan is the President and Managing Partner of iB4e, a management consulting firm based in Atlanta, Georgia, and specializing in Organizational Change Management and Business Transformation. Harlan is an expert in organizational effectiveness and change management with over 25 years of experience providing coaching, facilitating, training, and leadership services to businesses in the US, Canada, Mexico, Europe, and the UK.

A highly sought-after coach, author, and speaker, Harlan has worked with hundreds of clients helping to achieve significant cost reductions, increased profitability, and process improvements. Harlan has helped individuals and organizations to identify and achieve their career and business objectives.

Harlan received his bachelor's degree from California State University, Northridge. He is active in his community, offering his time and talent to support the Newnan-Coweta Chamber of Commerce and volunteers with the Newnan Habitat for Humanity, and serves as the Chairman of the Board of Directors for The Eden Project.

Harlan is the author of two books: ***FLIGHT PLANNING: A Pilot's Guide to Business Success*** and ***BARNSTORMING: A Pilot's Guide to Growing Your Business***. Both books are available on [Amazon](https://www.amazon.com).



## What are your numbers?

If you're an athlete, you probably know your stats; fastest time, longest drive, heaviest lift, etc. You know those numbers, you track those numbers, and you're always looking for ways to improve those numbers.

It's the same for business.

Your business – every business – produces a set of numbers that are critical to the success of the business. Sure, everyone is interested in REVENUE and that's certainly one of the important numbers, but there are also things like PROFIT MARGINS, FIXED COSTS, BREAK-EVEN POINTS, and different ratios that inform the business owner of the financial health of the business.

If you know your numbers and track them on a regular basis, you'll have the tools and information to make decisions to improve your business and attain the success you've worked so hard to achieve.

In the following pages are numbers and calculations to help you know where you are in your business. Review these numbers periodically as checkpoints along your path to success.



## Key Business Numbers

1. **Revenue or Total Sales:** This is the amount of money your business generates through normal business activities – sales of products or services. It's not only important to know how much revenue you are bringing in, but also where that revenue is coming from.
  - a. What are your revenue streams? This could be things like sales, service, products, training, consulting, etc.
  - b. What is your top selling – by volume – product or service?
  - c. Which product or service has the highest profit margin?
2. **Customers:** What is your current customer base? How many of those are repeat customers and how many are newly acquired customers?
3. **Leads:** These are the people that you talk to that are in your ideal target market, people who meet your demographic requirements as a potential customer. Everyone you meet is a Prospect, but once you qualify them as being part of your target market, they become a lead. How many Leads do you talk to in an average week, month, or year?
4. **Conversion Rate:** Of the Leads you calculated in the previous step, how many of those people (expressed as a percentage) do you bring on as an actual paying customer? If you talk to 100 leads and 10 become customers, your conversion rate is 10%. If you get 35 customers your conversion rate is 35%. What is your current conversion rate?



5. **Revenue per Customer:** How much is the average customer purchase? How often do they buy from you? Can you increase the average customer purchase amount? Can you increase the number of customer transactions per year?
6. **Profit Margins:** One of the most commonly used profitability ratios to gauge the company's ability to make money. This figure indicates how many cents of profit are generated for every dollar of revenue.
7. **Fixed Costs:** These are costs that do not change with an increase or decrease in goods or services produced or sold. They are expenses paid by the company for things like rental/lease payments, insurance, salaries, taxes, etc.



## Key Business Ratios

1. **Current Ratio:** Also known as the Working Capital Ratio. This ratio shows your current financial strength. It represents how many times bigger your current assets are compared to your current liabilities. This is also called a working capital ratio.

a. **Current Ratio = Total Current Assets to Total Current Liabilities**

- b. For example, a 2:1 ratio shows you have twice as many assets as liabilities

2. **Quick Ratio:** This ratio shows whether you can meet financial obligations, even if something unexpected happens.

a. **Quick Ratio = (Total Current Asset – Total Current Inventory) / Total Current Liabilities**

- b. A healthy ratio is 1.0 or higher

3. **Accounts Payable Turnover:** This activity shows how quickly a company pays money owed to its suppliers.

a. **Accounts Payable Turnover = Cost of Goods Sold (COGS) / Accounts Payable**

- b. For example, a ratio of 5 suggests that the company used and paid off credit 5 times per year or once every 73 days. A high ratio means a company is paying off creditors quickly.



4. **Accounts Receivable Turnover:** Similar to the Accounts Payable Turnover, this ratio shows how quickly a company is collecting on debts owed.

a. **Accounts Receivable Turnover = Sales / Accounts Receivable**

b. For example, a higher ratio means the company is efficient in collecting on its bills while a lower ratio means the accounts are tying up working capital.

5. **Gross Profit Margin:** This is a profitability ratio and is used to measure the difference between what you can sell your product for and how much it costs to make.

a. **Gross Profit Margin = Sales – COGS / Sales**

b. For example, companies with higher results typically have a competitive advantage over others in their industry

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Want to learn how to use these key figures to improve your business? Want to learn simple ways to double your net profit? The schedule a time to chat. Go to my website [www.TimeWithCoach.com](http://www.TimeWithCoach.com) and schedule a free, 20-minute Discovery Chat.

