

Bonus Material for:
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Some Good KPI's (Key Performance Indicators)
for a Small Business

Key performance indicators are used by businesses of all sizes. KPI measurement uses data to show how well your business is performing.

Reference from:

<https://quickbooks.intuit.com/r/financial-management/the-7-most-important-kpis-to-track-as-a-small-business/>

1. Cash flow forecast

[Cash flow forecasts](#) let businesses assess whether their sales and [margins](#) are appropriate, and are consequently one of the most critical KPIs for small companies to track. To make your cash flow forecast, add the total cash your business has in savings to the projected cash value for the next four weeks, then subtract the projected cash out for the next four weeks.

Savvy business owners perform regular cash flow forecasts so they can identify problems in the early stages and make necessary adjustments. Cash flow forecasts can help businesses anticipate future surpluses or shortages. They can also help with [tax planning](#) and loan applications.

2. Gross profit margin as a percentage of sales

No business can achieve success if it's paying out more to suppliers than it's netting in sales. Gross profit margin as a percentage of sales demonstrates total profits compared to revenue.

First, find your business's gross profit margin (GPM) by dividing your gross profit amount by your sales. Divide that value by your sales amount to find out how much of your GPM makes up your overall sales. Multiply that by 100 to express your gross profit margin as a percentage of sales.

The benefit of tracking this KPI over time is that you can easily quantify how much money you're keeping against the amount paid out to suppliers. As businesses retain more money, gross profit margin increases. But a decrease in gross margin as a percentage of sales could indicate that a company is overspending on its supplies. Owners would need to reduce [overhead](#) costs or increase prices on goods and services to compensate.

3. Funnel drop-off rate

Your funnel drop-off rate assesses the number of visitors who abandon a conversion process — or sales funnel — before completion. To calculate funnel drop-off, start by finding the number of visits for a particular conversion step in the funnel. Then, subtract the number of visits that occurred during the first step. Divide the value from the specific conversation step by the visits that took place during the first step to find the number of customers that you lost along the way.

By identifying when prospective buyers abandon the conversion process, companies can identify problems and make necessary adjustments to boost sales. With so many small businesses relying on the internet as a sales tool and with face-to-face interaction declining, funnel drop-off rate has become one of the most crucial performance indicators to track.

4. Revenue growth rate

Revenue growth is a financial KPI that refers to the rate at which a company's income, or sales growth, is increasing. To find revenue growth rate, begin with your business's total revenue for the current year. Next, divide current income by total revenue from the previous year to find the rate of growth. By calculating the revenue growth rate regularly, you can assess whether growth is increasing, decreasing, or plateauing, and by how much.

5. Inventory turnover

Inventory turnover measures the number of units sold or used in a given period and is valuable because it reveals a business's ability to move goods. Inventory turnover can be found by adding up the cost of sold inventory, then dividing that total by the value of the inventory remaining at year's end. Businesses should want to pursue a high turnover rate, but not by slashing prices significantly.

6. Accounts payable turnover

A company can't keep its doors open for long if it fails to pay suppliers. Accounts payable turnover is a measure of the rate at which your business pays for goods and services in a given period. To find accounts payable turnover, add up the cost of total supplier purchases, and divide by average accounts payable. Once you know how much you spend on suppliers, you can determine if you need to take steps to reduce spending.

Notes from Joyce:

- This ratio (KPU) tells you how quickly you are paying your vendors
- Calculated by taking the average number of days that an amount that is due to a creditor remains unpaid and then Dividing that average number by 365
- $\text{AVERAGE NUMBER OF DAYS CREDITOR(S) UNPAID} / 365$

7. Relative market share

One of the most crucial performance indicators, relative market share shows you how much of a given market your company controls. Unlike internal metrics, relative market share reveals how a company is performing relative to its competitors in the same space. A small bump in profits may matter less if your company is falling behind its competitors. Once you calculate your relative market share, you can make strategic adjustments to your product and service offerings to improve long-term profitability for your business.

Some additional KPIs I would also suggest you consider

Accounts Receivable Turnover

- To show how quickly you receive payment from your customers that pay you on account (if you allow that/have Accounts Receivable)
- Calculated by dividing net sales by average accounts receivable
- $\text{NET SALES} / \text{AVERAGE ACCOUNTS RECEIVABLE}$

Net Income (or Profit) as a percentage of Sales

- To see what your profit percentage is of your sales
- Calculated by taking dividing net profit into total sales
- $\text{SALES (TOTAL INCOME)} / \text{PROFIT}$

Revenue per client

- If you have specific clients that you work with, you may want to look at each client in comparison to your total revenue to see which clients are those who bring in the most - or least - of your revenue. (and consider

- do you spend the most time on those clients who are paying you the most?)
- Calculated by dividing Total Revenue by the revenue for each client. The total of all clients added together should equal 100%
- $\text{REVENUE PER CLIENT} / \text{TOTAL REVENUE}$

Debt/Equity ratio

- How much debt does your company have in relationship to the amount that the owners have invested in your company.
- It is used to evaluate a company's financial leverage. It is a measure of the degree to which a company is financing its operations through debt versus wholly owned funds.
- It is calculated by dividing a company's total liabilities by its shareholder equity.
- $\text{TOTAL LIABILITIES} / \text{SHAREHOLDER EQUITY}$

Consider looking at some of the KPI's monthly and at least quarterly. Set up a DASHBOARD and see how you are doing month to month, quarter to quarter.