



**SCALE WITH PROS**

**Reading Financial  
Data**



**Why is this important?**

**-School Bus Analogy**

**-What do you need to focus on IN your financial data?**



# Best Practices on a Financial Packet

Your financial packet needs the following information:

- A metrics dashboard with 4-6 graphs on key operational/accounting metrics
- A profit and loss statement that shows the following:
  - -The current month
  - The year to date activity
  - The current month last year
  - The year to date activity for the previous year
- Any applicable divisional profit and loss
- A last 12 months financial statement with graph showing you the revenues and the net income trends.





# As a business owner, what should I focus on?

- Focus on comparisons, look at the last twelve months of company activity. Make sure each account is a percentage of income. That is the key.
- Gross Profit as a percentage of income = Gross Margin Percentage
- Net Income as a percentage of income = Net Margin Percentage.
- Every industry is different but as a rule, you want at least a 40% gross margin and a 12% Net Margin.
- If you aren't getting those margins, ask why? Is it my company or is the industry?

# As a business owner, what should I focus on?

Next, you will need to evaluate what are the main drivers of profitability in your company:

Is it your labor hours?

Is it labor efficiency?

Is it machine hours?

Is it revenues / employee count?

Is it gross profit / employee count?

Is it the customer value / customer acquisition cost?

-Whatever it is that is driving your business, have a graph included in your dashboard.

-“Only one story per graph”





# FOCUS

## As a business owner, what should I focus on?

In your comparative analysis, look at the percentage of income by month:

When revenues are stable, everything will be a range. Focus on what that range should be.

- For example, you may have wages as an expense item. Some months might be larger than others, but look to see if the range percentage of income is reasonable. It might be 11% to 15%. Find your range. When wages goes outside of those numbers, you key on why and make a decision based on that data.

- Office expense is more of a fixed expense item. As revenues increase, that percentage of revenue should decrease. This should make sense as you look at your percentages month to month.



# Other Ratios to include in your metric dashboard:

- Inventory Turnover: Inventory turnover measures how efficiently a company uses its inventory by dividing the cost of goods sold by the average inventory value during the period
- Current Ratio: Current Assets over --Current Liabilities. You want this over 1.5x
- Debt Service Ratio:  $(\text{Net Income} + \text{Debt Service Interest}) / \text{Monthly Debt Payments}$ . Needs to be over 1.2x for banks and other financial companies to want to lend money to you.





**Are you ready  
to master your  
business  
through  
financial  
data???**

