



How Healthy is Your Business?

By Linda Campbell, Partner
January 2010

You've just received the 2010 financial statements for your business. The first thing you look at is how much profit did the business earn. Most of a business owner's focus is on that number. But is there other information in your financial statements that will tell you just how healthy your business is? Are there other numbers **not** in your financial statements that can help you find ways to make your business even stronger? [Linda Campbell, CPA](#), has a few ideas to help you keep your business healthy.

Just as you monitor your health by making sure all of your medical test results are within normal range, you can also keep your business healthy by understanding, measuring and monitoring the key factors that drive your business.

The first step is to understand the key factors in your business. Every business is unique, and you know more about your business than anyone else. By sitting down with you, asking questions, looking at your financial statements, and understanding your industry, an adviser helps you identify the key factors that are important for you to measure. While some things like inventory levels, days sales outstanding, and current ratio might be obvious key factors for your business, some other examples might be:

- Pounds of goods shipped per day
- Gross profit percentage on your main product line
- Percentage growth of sales to existing customers
- Percentage of sales and gross profit by product lines
- "Cushion" available on debt covenants
- Sales per dollar of advertising spent
- Sales per dollar of employee cost

After you've identified the key factors, the next step is to set clear goals and expectations. Examples of goals you might set are:

- Raise the gross profit percentage on your fastest growing product line by 0.5%
- Decrease days sales outstanding by 3 days
- Increase sales per dollar of employee cost by 15%
- Maintain a ratio of advertising to sales of less than 2%

Each goal should be measurable, achievable, and should be designed to improve your bottom line.

The final (and most important) step is to monitor the key factors you've identified. Setting up a monthly "dashboard" or one page Executive Summary is a great way to let you know how you're doing. Your adviser should set a meeting each month to look at the report, discuss results with your leadership team, and find ways to stay on track to meet the goals you've set.

Just like with your medical test results, you'll know that if you achieve your targeted goals, you'll have a healthier business. And that means more profit to your bottom line. For more information, contact Linda Campbell, CPA, at lcampbell@marksnelsoncpa.com.