The Most Important Financial Indicators Every Business Needs to Know

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Navigating Change, Creating Results

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Company leaders must maintain a pulse on their company's status and how it trends. The more they know, the better they can direct their financial future, but they must know where to start.

Though all performance indicators offer the best information when specifically tailored to a company's strategies and goals, we believe in a constant understanding of a handful of important performance indicators to fully grasp the financial health of your organization:

- Profitability
- Stability
- Liquidity

Profitability Ratios

Return on Equity (ROE): Return on equity indicates the amount of profit generated by a company with the money invested by the shareholders. This ratio usually skews high for growth-oriented companies although it differs by industry. This ratio helps you understand the expectations of your shareholders.

ROE is expressed as a percentage and computed with the following formula: Net Income/Shareholder's Equity

Gross Profit Margin Percentage: This ratio helps identify a competitive advantage for your company. The percentage describes the amount of total sales your company retains after accounting for all the direct costs needed to produce your product or service. A higher gross profit may indicate that your company can charge more than its competitors or demand better pricing from its vendors and/or labor force because it keeps more of every dollar of sales. Your industry and the product or service you provide highly influences this percentage.

Use the following formula to compute this ratio: Gross Profit/ Net Sales

Stability

Debt-to-Equity Ratio: This ratio indicates your company's financial leverage. It describes the debt and equity needed to finance or cover assets. A high ratio usually means a company financed growth with debt. A high ratio may also signify somewhat volatile and lower than their potential earnings due to interest expenses. The type of business you operate influences the way this ratio looks (e.g. more capital intensive has a higher ratio)

Use the following formula to compute this ratio: Total Liabilities / Shareholders Equity.

Liquidity

Current Ratio: A liquidity ratio estimates the ability of a company to pay back short-term obligations. It can also be referred to as a cash asset ratio, cash ratio or liquidity ratio. A higher current ratio indicates your company's solvency and a higher probability that you can pay debts due within the next twelve months.

Use the following formula to compute this ratio: Current Assets / Current Liabilities

Trilogy Partners offers this type of one-on-one education not only to business owners but to employees at all levels. For more information and guidance contact us at 609.688.0428 or visit us at www.GetTrilogyPartners.com.

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