

Business Key Financial Metrics

Tracking key financial metrics is essential for understanding the health and performance of a business. Here are the most important ones every business owner should monitor:

1. Revenue (Sales)

- **Why it matters:** It shows how much money your business brings in before expenses.
- **What to watch:** Track total sales, sales by product/service, and sales growth over time.

2. Gross Profit Margin

- **Formula:** $(\text{Revenue} - \text{Cost of Goods Sold}) / \text{Revenue}$
- **Why it matters:** Measures the profitability of your core business operations before overhead costs.
- **Target:** Higher margins indicate better efficiency and pricing strategy.

3. Net Profit Margin

- **Formula:** $\text{Net Profit} / \text{Revenue}$
- **Why it matters:** Shows how much of your revenue is actual profit after all expenses, including taxes and interest.
- **Target:** A healthy net margin varies by industry, but consistently positive margins are crucial.

4. Cash Flow

- **Why it matters:** It indicates whether your business has enough cash to meet obligations.
- **Types to track:** Operating cash flow, investing cash flow, and financing cash flow.

5. Operating Expenses

- **Includes:** Rent, utilities, salaries, marketing, etc.
- **Why it matters:** Helps identify areas where you might be overspending and opportunities to cut costs.

6. Accounts Receivable & Payable

- **Why it matters:** Indicates how well you manage your incoming and outgoing payments.
- **Watch for:** Aging reports and days outstanding (DSO & DPO).

7. Inventory Turnover

- **Formula:** $\text{Cost of Goods Sold} / \text{Average Inventory}$
- **Why it matters:** It shows how quickly you're selling inventory. High turnover is good; low turnover may signal overstocking or weak sales.

8. Customer Acquisition Cost (CAC)

- **Formula:** $\text{Total marketing} + \text{sales expenses} / \text{Number of new customers}$
- **Why it matters:** Helps determine the cost-efficiency of your marketing and sales efforts.

9. Customer Lifetime Value (CLTV)

- **Why it matters:** Shows the long-term value of a customer. Comparing CLTV to CAC helps ensure profitability.

10. Break-even Point

- **Formula:** $\text{Fixed Costs} / (\text{Price per unit} - \text{Variable cost per unit})$

- **Why it matters:** Tells you how much you need to sell to cover all expenses.

11. Debt-to-Equity Ratio

- **Formula:** Total Liabilities / Shareholders' Equity
- **Why it matters:** Indicates how much leverage your business is using. Too much debt increases risk.

12. Return on Investment (ROI)

- **Formula:** $(\text{Net Profit} / \text{Investment Cost}) \times 100$
- **Why it matters:** Measures the efficiency of investments in the business.

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