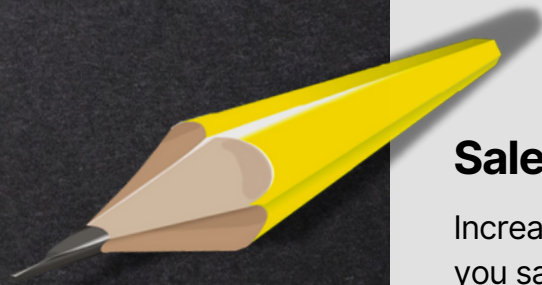


Sales growth rate / revenue growth rate =

$$\frac{(\text{sales at end of period} - \text{sales at start of period})}{\text{sales at start of period}} \times 100$$



$$\frac{\$550,000 - \$500,000}{\$500,000} \times 100 = 10\%$$

What is it?

Sales growth rate **measures the ability to increase revenue over a fixed period of time.**

Why measure it?

Sales growth is directly connected to revenue and profitability, and is a goal for any organisation looking to achieve higher profit.

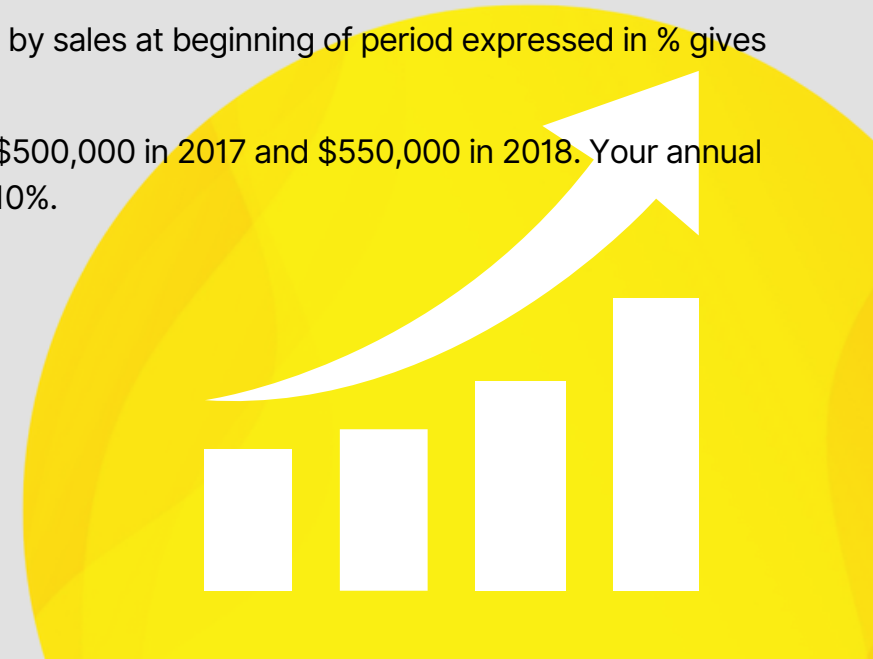
It usually indicates how well an organisation is achieving its strategic objectives.

Without sales growth, business is at risk of being taken by competitors.

Sales growth rate / revenue growth rate in practice

Increase in your sales divided by sales at beginning of period expressed in % gives you sales growth rate.

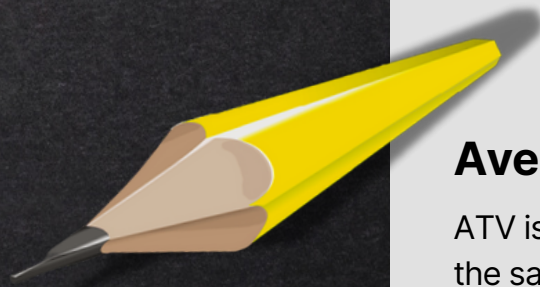
If your business had sales of \$500,000 in 2017 and \$550,000 in 2018. Your annual sales growth rate for 2018 is 10%.



Average transaction value (ATV) =

$$\frac{\text{sales}}{\text{number of transactions}}$$

$$\frac{\$200,000}{250} = \$800$$



What is it?

Average transaction value **measures the average value of transactions in the period**. It can be calculated by dividing the total value of sales for a given period by total number of transactions or sales from the same period.

Why measure it?

It is a very useful indicator, especially in retail to adapt marketing strategies.

If you can achieve a higher ATV with each customer without reducing your prices, you'll end up with a higher return on your sales & marketing costs.

ATV should be monitored over the year to see the trend in consumer spending.

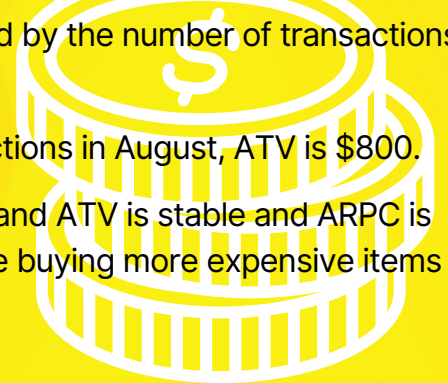
In conjunction with average revenue per client (ARPC) and average units per transaction, you'll be able to adapt a fitting marketing strategy.

Average transaction value (ATV) in practice

ATV is calculated by dividing sales for the period by the number of transactions in the same period.

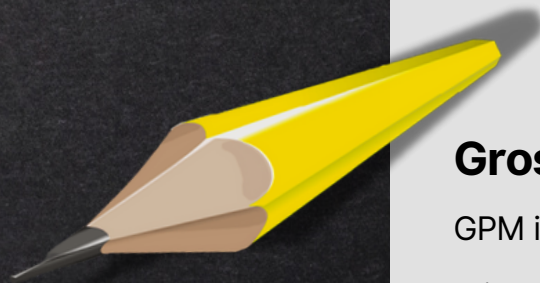
With \$200,000 of sales raised from 250 transactions in August, ATV is \$800.

If average units per transaction are decreasing and ATV is stable and ARPC is decreasing, it would suggest that customers are buying more expensive items but are buying less.



Gross profit margin (GPM) =

$$\frac{\text{gross profit}}{\text{sales}} \times 100$$



$$\frac{\$100,000}{\$250,000} \times 100 = 40\%$$

What is it?

Gross profit margin (GPM) measures how much each dollar of sales is left as profit after deducting cost of goods sold.

Why measure it?

GPM is a very useful indicator for profitability. Increasing GPM means you're making sales more efficiently than before.

The objective of most business is to increase net profit, and to do that, they must either increase sales, decrease costs, or do both.

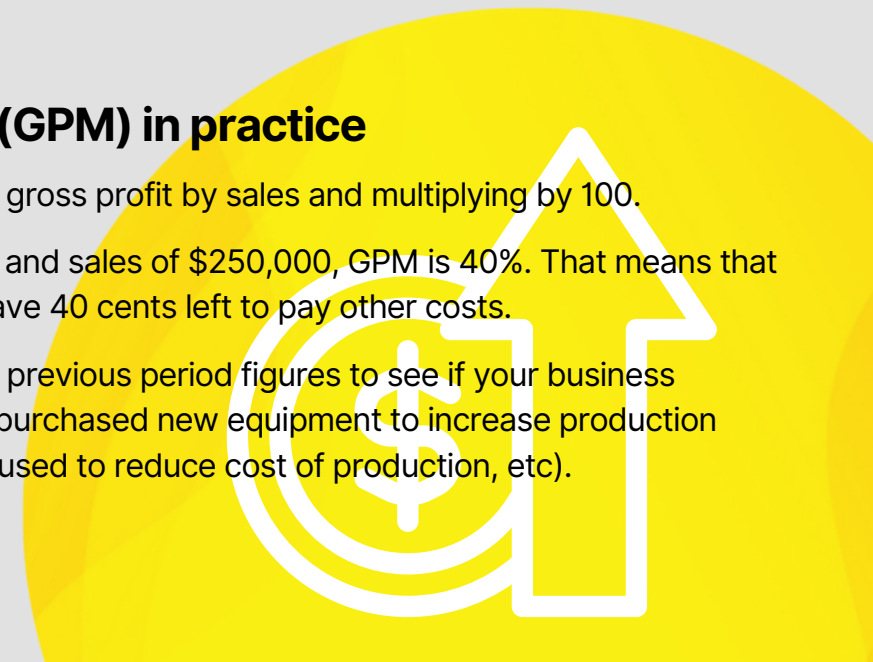
Comparing GPM from different periods, along with gross profit and other costs will be a great indicator to analyse which costs must be reduced, which products are not profitable, which services are most profitable, and so on.

Gross profit margin (GPM) in practice

GPM is calculated by dividing gross profit by sales and multiplying by 100.

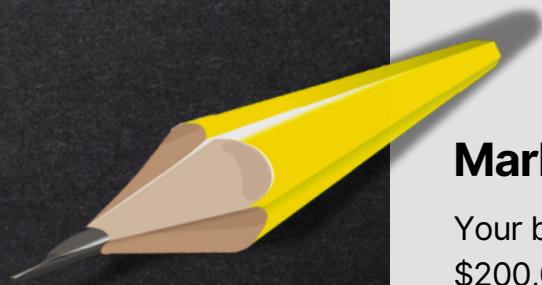
With gross profit of \$100,000 and sales of \$250,000, GPM is 40%. That means that every dollar you make, you have 40 cents left to pay other costs.

You can then compare this to previous period figures to see if your business decisions were effective (i.e. purchased new equipment to increase production efficiency changed materials used to reduce cost of production, etc).



Markup percentage =

$$\frac{(\text{sales price} - \text{unit cost})}{\text{unit cost}} \times 100$$



$$\frac{\$5\text{M} - (\$500\text{k} + \$200\text{k} + \$2\text{M} + \$100\text{k} + \$50\text{k})}{(\$500\text{k} + \$200\text{k} + \$2\text{M} + \$100\text{k} + \$50\text{k})} \times 100$$

= 75%

What is it?

Markup percentage is the **increase on the original unit cost**. While gross profit margin measures percentage of profit compared to sales, markup percentage compares against unit cost.

Why measure it?

Markup percentage is most commonly used in the retail industry. It is a simple and easy way for wholesalers and retailers to ensure their business is run at a profitable level.

With a markup pricing model, it is essential to correctly determine the costs. Cost is not just the cost of materials or unit purchase price, it should also include labour, factory overheads, delivery fees, etc.

Markup percentage in practice

Your business had sales of \$5,000,000 and you spent \$500,000 on materials, \$200,000 on factory rent, \$2,000,000 on labour, \$100,000 in production costs, \$50,000 in delivery fees, \$250,000 wages for sales and admin staff, and \$500,000 for other non-production related expenses.

In this scenario, your markup percentage is 75%.



Operating margin =

$$\frac{\text{EBIT}}{\text{revenue}}$$

$$\frac{\$1,000,000}{\$8,000,000} = 0.125 \text{ or } 12.5\%$$

What is it?

Operating margin is a profitability measure indicating **how much each dollar of sales is left after both costs of goods sold and operating expenses are considered.**

Why measure it?

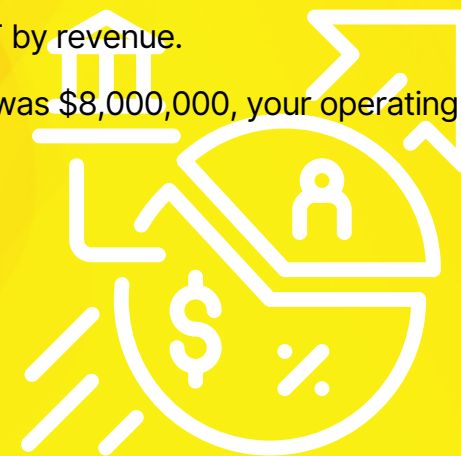
Operating margins are important because it measures profitability. The higher the operating margin, the more profitable business is.

Looking at a trend of operating margin is also a good indicator of how well a business is being managed and how risky it is. It is also important to note that comparing operating margins with different industries is usually useless as different industries have different margins. As a general rule larger businesses will have a lower operating margin.

Operating margin in practice

To calculate operating margin, you divide EBIT by revenue.

So, if your EBIT was \$1,000,000 and revenue was \$8,000,000, your operating margin is 0.125 or 12.5%.

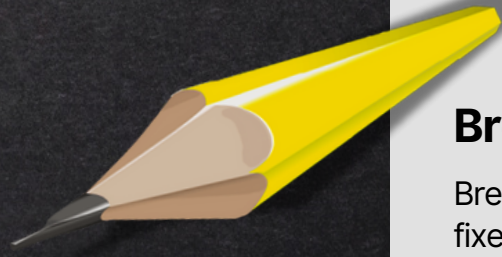


Break-even point (BEP) =

$$\frac{\text{fixed costs}}{\text{contribution margin ratio}}$$

Contribution margin ratio (CMR) =

$$\frac{\text{revenue} - \text{variable costs}}{\text{revenue}}$$



$$\text{BEP} = \frac{\$600,000}{0.25} = \$2,400,000$$

$$\text{CMR} = \frac{\$2,000,000 - \$1,500,000}{\$2,000,000} = 0.25$$

What is it?

Break-even point (BEP) is **the point at which total revenue equals total expenses** - at the break-even point, there is no profit or loss.

Why measure it?

When running a business, the business can turn over a huge amount of money, but still make a loss. Knowing the break-even point can be extremely helpful to determine pricing, sales budgets, and preparing a business plan.

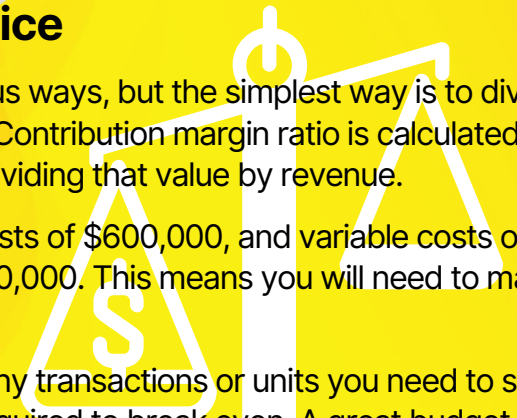
Break-even point calculation will force you to look at your costs and what the drivers of your business are. By having a good understanding of your break-even point, you should be able to work out how profitable your current business model is, how many transactions you need to make before you make a profit, and how reducing price or volume of sales will impact your profits, etc.

Break-even point (BEP) in practice

Break-even point can be calculated by numerous ways, but the simplest way is to divide fixed costs by contribution margin ratio (CMR). Contribution margin ratio is calculated by subtracting variable costs from revenue, then dividing that value by revenue.

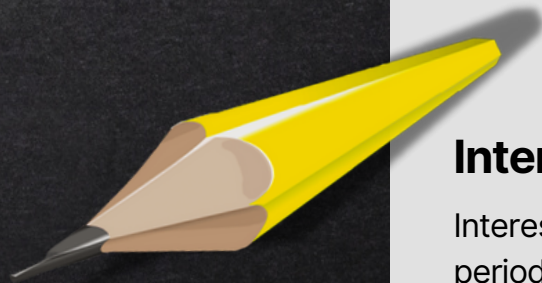
So if you had a revenue of \$2,000,000, fixed costs of \$600,000, and variable costs of \$1,500,000, your CMR is 0.25 and BEP is \$2,400,000. This means you will need to make \$400,000 more in sales to break even.

From here, you will be able to work out how many transactions or units you need to sell to break even, or how much price increase is required to break even. A great budget strategy is to choose a target level of profit and add this to your fixed costs. This will give you a sales target to achieve your desired profit level.



Interest coverage ratio / times interest earned =

$$\frac{\text{EBIT}}{\text{interest payments due}}$$



$$\frac{\$900,000}{(\$30,000 \times 3\text{mth})} = 10$$

What is it?

Interest coverage ratio, sometimes called times interest earned, **measures how many times over a company could pay its current interest payment with its available earnings**. In other words, it measures the margin of safety a company has for paying interest during a given period, which a company needs in order to survive any future financial hardship that may arise.

Why measure it?

A company's ability to meet its interest obligations is an aspect of solvency and is thus a very important factor to the lenders and shareholders. It is one of the ratios lenders will check before making its lending decisions.

Lenders like to see a minimum interest coverage ratio of 1.5 however 2.5+ is the preferred number to keep within most covenants.

Trend is also important. Inclining or stable trend is preferred than declining or unstable trend.

Interest coverage ratio / times interest earned in practice

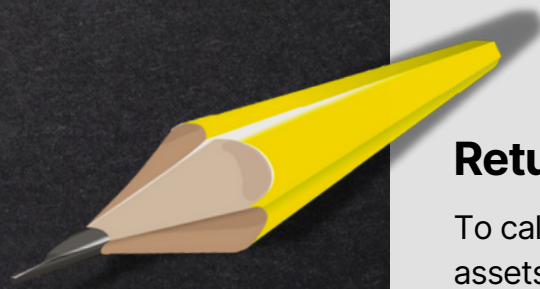
Interest coverage ratio is calculated by dividing a company's EBIT during a given period by interest payments due within the same period.

Suppose that a company's EBIT for last quarter was \$900,000 and that it has interest payments of \$30,000 every month. Interest coverage ratio would be 10.



Return on assets (ROA) =

$$\frac{\text{net income}}{\text{average total assets}}$$



What is it?

Return on assets (ROA) is a **metric that expresses how efficiently a company can manage its assets to produce profits during a period.**

Why measure it?

Return on assets is a useful number for comparing with competing businesses in the same industry.

Reviewing trend can also show business owners how well they are utilising resources compared to previous years.

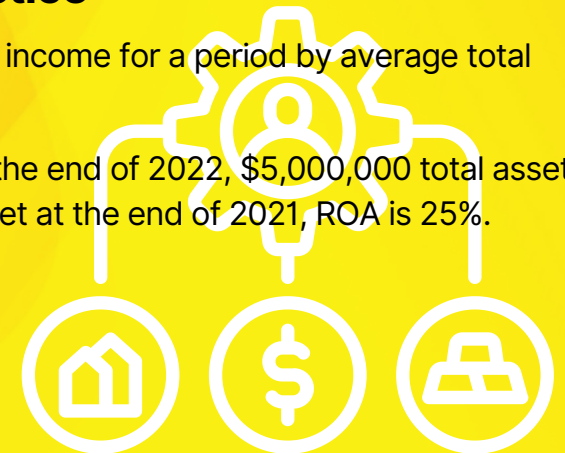
ROA is only comparable with similar business entities, as different industries use assets differently. For example, capital intensive businesses have lower ROA while service oriented firms will have higher ROA.

Return on assets (ROA) in practice

To calculate return on assets, you divide net income for a period by average total assets for the same period.

If a company has \$1,000,000 net income at the end of 2022, \$5,000,000 total assets at the end of 2022 and \$3,000,000 total asset at the end of 2021, ROA is 25%.

$$\frac{\$1,000,000}{(\$5,000,000 + \$3,000,000) / 2} = 25\%$$



Customer retention rate =

$$\frac{(\text{total clients at end of period} - \text{new clients during period})}{\text{total clients at beginning of period}}$$

$$\frac{(3010 - 30)}{3150} = 94.6\%$$

What is it?

Customer retention rate **measures the ability of your organisation to retain customers**. It is easier to get accurate figures on monthly clients and is a critical KPI to track for subscription based businesses.

Why measure it?

This metric is correlated strongly to recurring revenue, customer satisfaction, referrals, and growth of business.

Research shows that a 5% increase in customer retention can increase profits anywhere from 25% to 95%.

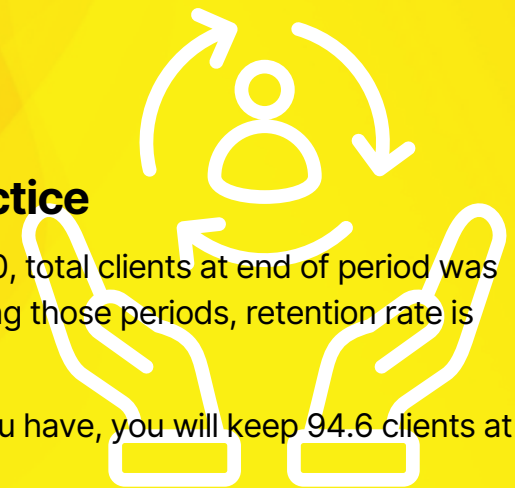
It is also a lot less expensive to generate revenue from loyal customers than acquiring new customers.

If you know your target client or customer, it makes more sense to calculate your retention rate using the number of target clients only as opposed to all clients. The retention of these is critical, whereas the retention of non target clients is not – that is why they are not target clients.

Customer retention rate in practice

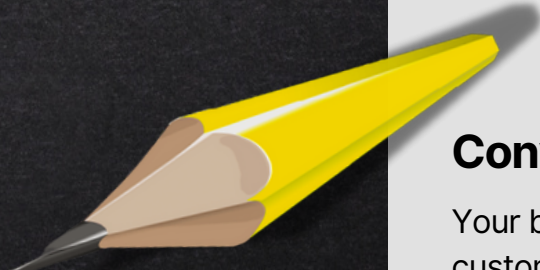
If total clients at beginning of period was 3150, total clients at end of period was 3010, and 30 new clients were acquired during those periods, retention rate is 94.6%.

This indicates that out of every 100 clients you have, you will keep 94.6 clients at the end of the period.



Conversion rate =

$$\frac{\text{clients onboarded}}{\text{number of leads}}$$


$$\frac{10}{20} = 50\%$$

What is it?

Client conversion rate is the **percentage of leads that are turned into customer.**

Why measure it?

This metric is very useful when you want to measure the effectiveness of your marketing campaigns.

You will be able to compare what type of lead has higher conversion rates.

By following conversion rates on different campaigns, it will help to determine what motivates a potential client to convert to an actual client – meaning that you'll be able to make better decisions as to what kind of marketing plans should be implemented and how much resources should be allocated.

Use your target customer leads and target customer onboards to calculate your conversion rate as opposed to all leads and customers. This is the real test of your conversion – converting those who you have identified as **what you are looking for** from prospects to customers.

Conversion rate in practice

Your business had 20 enquiries from Google Ads and 10 of them became a customer. Your client conversion rate is 50%.

