Financial Metrics

- What is Gross Profit Margin? The gross profit margin calculates the percentage of revenues after deducting the cost of goods sold. It is derived by subtracting the Cost of Goods Sold from Revenue and dividing the results by the Revenues. The formula is (Revenue - Cost of Goods Sold) / Revenues. A high gross profit margin tells us that a business manages its production costs effectively. For instance, if a company generates $500,000 in revenue and incurs $250,000 in the Cost of Goods Sold, the gross profit margin would be 50%.

- The Net Profit Margin calculates the percentage of revenue that remains after deducting all expenses, including taxes. Just divide the Net Income by Revenue. The formula is (Net Income / Revenue). A high net profit margin demonstrates that a business has its expenses under control. If a company generates $1,000,000 in revenue and has a net income of $300,000, the net profit margin would be 30%.

- Return on Investment (ROI) calculates the return on investment as a percentage of the initial investment. You must subtract the cost from the gain and divide the results by the cost. The formula is (Gain from Investment - Cost of Investment) / Cost of Investment. A high ROI indicates a profitable investment. If a company invests $10,000 and earns $15,000 in return, the ROI would be 50%.

- Return on Assets (ROA) calculates the net income earned per dollar of assets. The formula is (Net Income / Total Assets). A high ROA indicates efficient utilization of assets. When a company generates $100,000 in net income and has $500,000 in total assets, the ROA would be 20%.

- Return on Equity (ROE) calculates net income earned per dollar of shareholder equity. The formula is (Net Income / Shareholder Equity). A high ROE indicates effective management of shareholder investments. If a company generates $50,000 in net income and has $250,000 in shareholders' equity, the ROE would be 20%.

- Debt-to-Equity Ratio calculates the amount of debt used to finance the business relative to shareholders' equity. The formula is (Total Debt / Shareholders' Equity). A high debt-to-equity ratio indicates high leverage and financial risk. If a company has $500,000 in total debt and $1,000,000 in shareholders' equity, the debt-to-equity ratio would be 0.5.

- Working Capital Ratio measures a business's ability to meet its short-term financial obligations when they become due. The formula is (Current Assets / Current Liabilities). A ratio of 1 or higher indicates sufficient working capital. If a company has $500,000 in current assets and $250,000 in current liabilities, the working capital ratio would be 2.

- The Current Ratio like the working capital ratio, measures a business's ability to meet its short-term financial obligations. The formula is (Current Assets / Current Liabilities). A

ratio of 1 or higher indicates sufficient current assets to meet current liabilities. If a company has $750,000 in current assets and $325,000 in current liabilities, the current ratio would be 2.

- Quick Ratio measures a business's ability to meet its short-term financial obligations using only its most liquid assets, excluding inventory. The formula is (Current Assets - Inventory) / Current Liabilities. A ratio of 1 or higher indicates sufficient liquid assets to meet current liabilities. If a company has $500,000 in current assets, $100,000 in inventory, and $250,000 in current liabilities, the quick ratio would be 1.2.

- Net Working Capital measures the difference between a business's current assets and current liabilities. The formula is (Current Assets - Current Liabilities). A positive net working capital indicates a business has sufficient short-term assets to meet its obligations. If a company has $300,000 in current assets and $150,000 in current liabilities, the net working capital would be $150,000.

- The Cash Conversion Cycle (CCC) measures the time it takes for a business to convert its investments in inventory and other resources into cash flow. The formula is (Days Inventory Outstanding + Days Sales Outstanding) - Days Payable Outstanding). A shorter CCC indicates better cash flow management. Example: If a business has 50 days in inventory outstanding, 30 days in accounts receivable outstanding, and 20 days in accounts payable outstanding, the CCC would be 60 days.

- Revenue Growth Rate measures the rate of change in a business's revenue over a specific period. The formula is (Current Revenue - Previous Revenue) / Previous Revenue). A high revenue growth rate indicates increasing revenue and market share. If a company had $1,000,000 in revenue in the previous year and $1,500,000 in revenue in the current year, the revenue growth rate would be 50%.

- Gross Revenue measures the total amount of revenue generated by a business before deducting any costs or expenses. If a company generates $1,000,000 in revenue, the gross revenue would be $1,000,000.

- Net Revenue measures the total amount of revenue generated by a business after deducting any returns or discounts. The formula is (Gross Revenue - Returns and Discounts). If a company generates $1,000,000 in gross revenue and has $200,000 in returns and discounts, the net revenue would be $800,000.

- Expenses are the total costs incurred by a business to produce its goods or services. If a company generates $1,000,000 in revenue and has $200,000 in expenses, the net revenue would be $800,000.

- Cost of Goods Sold (COGS) measures the direct costs of producing a product or service. If a company incurs $500,000 in direct costs to produce a product or service, the COGS would be $500,000.

- Operating Expenses are the costs of running a business, including rent, salaries, and utilities. If a company incurs $100,000 in expenses to run its business, the operating expenses would be $100,000.

- Fixed Costs are costs that do not vary with production levels, such as rent or salaries. If a company incurs $50,000 in fixed costs, the fixed costs would be $50,000 regardless of production levels.

- Variable Costs are costs that vary with production levels. If a company incurs $10 in variable costs per unit produced and produces 1,000 units, the variable costs would be $10,000.

- Break-Even Point measures the production level at which a business covers all its costs and begins to generate profits. The formula is (Fixed Costs / (Price per Unit - Variable Costs per Unit). If a company incurs $50,000 in fixed costs, sells a product for $100 per unit, and incurs $10 in variable costs per unit, the break-even point would be 1,000 units.

Operational Metrics

- Customer Acquisition Cost (CAC) measures the cost of acquiring a new customer. The formula is (Total Sales and Marketing Expenses / Number of New Customers). A lower CAC indicates efficient sales and marketing efforts. If a company spends $50,000 on sales and marketing and acquires 100 new customers, the CAC would be $500.

- Customer Lifetime Value (CLV) measures the estimated value of a customer over the lifetime of their engagement with the business. The formula is (Average Purchase Value x Number of Purchases per Year x Average Customer Lifespan). A high CLV indicates the business can retain customers and generate recurring revenue. If a customer makes an average purchase of $100 twice a year and has an average lifespan of five years, the CLV would be $1,000.

- Churn Rate measures the rate at which customers stop doing business with a company. The formula is (Number of Lost Customers / Total Number of Customers). A lower churn rate indicates higher customer satisfaction and retention. If a company has 1,000 customers and loses 100 customers, the churn rate would be 10%.

- Customer Satisfaction Score (CSAT) measures the level of customer satisfaction with a business's product or service. If a business conducts a customer satisfaction survey and receives an average score of 8 out of 10, the CSAT would be 80%.

- Net Promoter Score (NPS) measures the likelihood of customers recommending a business's product or service to others. If a business conducts a survey and 50% of customers would recommend the product or service, while 20% would not, the NPS would be 30%.

- Employee Turnover Rate measures the rate at which employees leave a company. The formula is (Number of Employees Who Left / Average Number of Employees). A high employee turnover rate indicates problems with employee satisfaction and retention. If a company has 100 employees and loses 20 employees, the employee turnover rate would be 20%.

- Employee Satisfaction Score (ESAT) measures the level of employee satisfaction with the company. If a business conducts an employee satisfaction survey and receives an average score of 8 out of 10, the ESAT would be 80%.

- Production Capacity measures the maximum amount of goods or services a business can produce over a given period. If a company produces 1,000 units of a product per day, the production capacity would be 1,000 units per day. If the company produces 800 units on any given day, it means the company operated at 80% of full capacity.

- Lead Time measures the time it takes to fulfill a customer's order. If it takes a business two days to fulfill an order, the lead time would be two days.

- Return on Capital Employed (ROCE) measures the amount of return a business generates on the capital employed in the business. The formula is (Earnings Before Interest and Taxes (EBIT) / Total Capital Employed). A high ROCE indicates effective use of capital. If a business has an EBIT of $120,000 and $500,000 in total capital employed, the ROCE would be 24%.

- Inventory Turnover Ratio measures the number of times a business's inventory is sold and replaced over a period. The formula is (Cost of Goods Sold/Average Inventory). A higher inventory turnover ratio indicates efficient inventory management. If a company has $500,000 in cost of goods sold and an average inventory of $100,000, the inventory turnover ratio would be 5.

- Days Inventory Outstanding (DIO) measures the average number of days it takes for a business to sell its inventory. The formula is (Average Inventory / Cost of Goods Sold x Number of Days in the Period). A shorter DIO indicates better inventory management. If a business has $100,000 in average inventory and $500,000 in cost of goods sold over a 365-day period, the DIO would be 73 days.

- Accounts Payable Turnover Ratio measures the number of times a business pays its accounts payable over a period. The formula is (Total Supplier Purchases / Average Accounts Payable). A higher accounts payable turnover ratio indicates efficient payment management. If a company has $1,000,000 in total supplier purchases and an average account payable of $200,000, the accounts payable turnover ratio would be 5.

- Days Payable Outstanding (DPO) measures the average number of days it takes for a business to pay its suppliers. The formula is (Average Accounts Payable / Cost of Goods Sold x Number of Days in the Period). A longer DPO indicates better cash flow

management. If a business has $200,000 in average accounts payable and $500,000 in cost of goods sold over a 365-day period, the DPO would be 146 days.

- Accounts Receivable Turnover Ratio measures the number of times a business collects its accounts receivable over a period. The formula is (Net Credit Sales / Average Accounts Receivable). A higher accounts receivable turnover ratio indicates efficient payment collection. If a company has $1,000,000 in net credit sales and an average accounts receivable of $200,000, the accounts receivable turnover ratio would be 5.

- Days Sales Outstanding (DSO) measures the average number of days it takes for a business to collect its accounts receivable from customers. The formula is (Average Accounts Receivable / Net Credit Sales x Number of Days in the Period). A shorter DSO indicates better cash flow management. If a business has $200,000 in average accounts receivable and $500,000 in net credit sales over a 180-day period, the DSO would be 72 days.

- Website Traffic measures the number of visits to a business's website. If a website receives 10,000 visits per month, the website traffic would be 10,000.

- Conversion Rate measures the percentage of website visitors who take a desired action, such as making a purchase or filling out a form. The formula is (Number of Conversions / Number of Website Visitors). A high conversion rate indicates an effective website design and marketing plan. If a website receives 10,000 visits per month and generates 500 conversions, the conversion rate would be 5%.

- Bounce Rate measures the percentage of website visitors who leave a site after viewing only one page. A lower bounce rate indicates engaging content and great website design. If a website receives 10,000 visits per month and has 2,000 single-page visits, the bounce rate would be 20%.

- Social Media Engagement measures the level of engagement on a business's social media channels, such as likes, comments, and shares. If a business's Facebook post receives 500 likes and 100 shares, the social media engagement would be 600.

- Email Open Rate measures the percentage of email recipients who open a business's email. If a business sends an email to 10,000 subscribers and 2,000 subscribers open the email, the email open rate would be 20%.

- Click-Through Rate (CTR) measures the percentage of email recipients who click on a link in the business's email. If a business sends an email to 10,000 subscribers and 1,000 subscribers click on a link in the email, the CTR would be 10%.

- Return on Advertising Spend (ROAS) measures the revenue generated by a business's advertising campaigns compared to the cost of the campaigns. The formula is (Revenue from Advertising Campaign / Cost of Advertising Campaign). A higher ROAS indicates

effective advertising campaigns. If a business generates $10,000 in revenue from an advertising campaign that costs $2,000, the ROAS would be 5.

- Customer Retention Rate measures the percentage of customers who continue to do business with a company over time. The formula is (Number of Customers at End of Period - Number of New Customers) / Number of Customers at Start of Period). A higher customer retention rate indicates higher customer loyalty. If a company starts the year with 1,000 customers, acquires 100 new customers, and ends the year with 900 customers, the customer retention rate would be 90%.

- Employee Productivity measures the output per employee over a specific period. The formula is (Output / Number of Employees). A higher employee productivity indicates efficient use of labor resources. If a company produces 10,000 units of a product with 100 employees, the employee productivity would be 100 units per employee.

- Employee Absenteeism Rate measures the percentage of scheduled work hours that employees are absent. The formula is (Number of Hours Missed / Number of Scheduled Hours) x 100. A lower employee absenteeism rate indicates better employee attendance and engagement. If a company has 10,000 scheduled work hours in a month and employees miss 500 hours, the employee absenteeism rate would be 5%.

- Safety Incidents Rate measures the number of safety incidents that occur per number of employees or hours worked. A lower safety incidents rate indicates a safer work environment. If a company has 100 employees and experiences 10 safety incidents in a month, the safety incidents rate would be 0.1 per employee.

- Production Efficiency measures the ratio of actual output to expected output. The formula is (Actual Output / Expected Output). A higher production efficiency indicates more efficient use of resources. If a company expects to produce 1,000 units of a product but produces 900 units, the production efficiency would be 90%.

- Quality Rate measures the percentage of products or services that meet quality standards. If a company produces 1,000 units of a product and 950 units meet quality standards, the quality rate would be 95%.

- Innovation Rate measures the percentage of revenue generated from new products or services. A higher innovation rate indicates a more innovative and dynamic business. If a company generates $1,000,000 in revenue, and $300,000 is from new products or services, the innovation rate would be 30%.