

# THE RUTHER GROUP

GUIDANCE YOU CAN COUNT ON

Monitoring Your Business Health		
Profitability Ratios (measures business growth, management success/stewardship)		
Gross Margin %	$(\text{Sales} - \text{Cost of Goods Sold}) / \text{Sales}$	The firm's ability to optimize purchasing or direct manufacturing costs relative to sales, and/or to increase selling prices relative to purchase or manufacturing costs.
Net Income as a % of Sales	Net Income/Sales	The firm's ability to control expenses relative to sales, and/or increase selling prices relative to expenses
No. of FTE's per \$ of Revenue	Sales/Number of Employees	The firm's ability to generate sales from its personnel, or controlling the amount of personnel needed to generate sales
Return on Equity (ROE)	Net Income/Avg. Owners' Equity	Measures the firm's performance in using and financing assets to generate earnings
Return on Assets (ROA)	Net Income/Avg. total Assets	How well has management done in conducting operations regardless of financing (efficient use of assets)
Liquidity Ratios (measures ability to pay debts, capacity to expand or pay for new assets)		
Current Ratio	Current Assets/Current Liabilities	The firm's ability to meet short term obligations, converting short term assets into cash to pay for short term liabilities
Days Receivable Outstanding	$365 / (\text{Sales} / \text{Avg. Accounts Receivable})$	These ratios show the number of days in the operating cycles. Indicates sources and uses of operating cash flows. How fast do customers pay the firm, how fast does the firm pay its suppliers, and how fast does the firm sell its inventory items?
Days Payables Outstanding	$365 / (\text{Purchase} / \text{Avg. Accounts Payable})$	
Inventory Turnover	Cost of Goods Sold/Avg. Inventory	
Debt to Equity Ratio	Long Term Debt/Owners' Equity	This is a measurement of how much suppliers, lenders, creditors and obligors have committed to the company versus what the shareholders have committed.
Non-financial Metrics (measures customer satisfaction)		
Customer Complaints	Number of customer complaints/total orders	Although these are called non-financial metrics, they all have a financial impact on your business. Each one reduces your firm's efficiency and takes time, effort, and potential additional expense to fix. In the long run, left uncontrolled these may result in lack of customer confidence and lost business.
Back Orders	Number of back orders/total orders	
Corrected Invoices	Number of corrected invoices/total invoices	
On Time Deliveries	Number of deliveries <u>not</u> on time/total deliveries	When measuring, each instance should be recorded and assigned a reason code. The firm will need to review and develop ways to address long term preventative solutions as well as short term resolutions.
Returns/Lost Orders	Orders customer do not place or return/total orders	