

Keep Score in Your Business with Financial Dashboard Reports

By Lori Durden

While talking with a group of friends, a novice golfer claimed that he had more fun playing golf when he didn't keep score. Many small business owners may feel the same way about their finances. Often they are afraid to keep score, afraid of what the numbers may say. Ultimately, it's just more comfortable to ignore them. The problem with that approach is that companies rarely make progress without planning and goal setting. And like playing golf, ten years go by and they're not any better at the game than when they started.

Keeping score in your business doesn't have to be complicated or intimidating. Instead of burying yourself in complex details, consider creating a "Financial Dashboard" for your company. Compared to lengthy profit and loss and balance sheet reports, a dashboard is a one-page report where you can see all relevant financial information at a glance. Simplified but powerful, this report makes it easy to identify trends, spot problems, and focus on important financial issues. Financial dashboards are concise, easy to understand, and help you monitor the financial health of your business in less time.

There's no right or wrong format to use when creating a dashboard report for your business. Consider these steps:

- 1. Identify your KPIs (Key Performance Indicators)**

In other words, identify what key financial information and metrics are important to your company. These will vary among industries, but some of the more common ones are sales, gross margins, net income, and current ratio. If you extend credit to your customers, then accounts receivable balances and/or average collection period would be important as well. If you are a retail store, inventory turnover ratio would be a good KPI to include in your dashboard.

- 2. Calculate and Chart**

Learn how to extract the information you need to track and calculate the KPIs you have identified. Some information will come directly from the income statement or balance sheet, such as sales or net income. Other KPIs are "ratios" which are calculated using a combination of data, such as the Current Ratio ($\text{Current Assets} \div \text{Current Liabilities}$) which measures a company's ability to meet their short term financial obligations. Chart your KPIs monthly using the same reporting format. This format can be as simple as keeping a manual list on the same notepad or as complicated as designing an Excel spreadsheet with

built in formulas. The point is to keep this information in the same place so that you can easily identify trends, both good and bad.

- 3. Take Action**

You'll be surprised how simply paying attention to these few indicators will motivate you to take action. Monitoring your Key Performance Indicators will not only encourage you to investigate and correct the red flag areas in your business, but will also give you a much needed sense of accomplishment tracking your successes. Kind of like a kick in the pants and a pat on the back all at the same time!

- 4. Seek help**

Most small business owners are experts at what they do, not at understanding or calculating financial ratios. For help, schedule a free consultation with your local Small Business Development Center office. Many good resources and financial ratio "glossaries" are available on the web as well. Check out "Defining Key Financial Ratios" from the October 2000 edition of *Inc. Magazine* at www.inc.com. Another list is available at www.mrdashboard.com/FinancialRatios.htm.

Grasping the financial dashboard concept and applying it to your business will require a little set up time. However, isn't it time you started keeping score in your business?



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