



ACCOUNTING

Most Small Business Owners Fail to Track These Three Metrics

How to plan and forecast key financials for growth



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As a small business owner, you understand your business' financials inside and out. You probably lose sleep at night worrying about your sales. You're passionate about your business succeeding, and you've invested your life's work into it. But, there are several metrics that

small business owners often overlook and fail to track effectively, which ultimately prevents them from taking their businesses to the next level.

As the economy recovers and businesses hire and grow faster than ever, it's important that small business owners carefully manage all of their business' financials. Here are three metrics that most small business owners fail to track and manage:

Profitability per Product or Service

Small business owners often make the incorrect assumption that their most expensive product or service is best thing to sell. But, sometimes they might be better off selling something cheaper. Tracking profitability per product or service is the only way to determine which products or services are making your company the most money.

If you're a product-based businesses, determine the true cost of each product compared to how much you're selling it for and then make note of the average price for similar products among competitors. You might need to raise prices in order to make a profit or stop selling that product overall. Products with the highest gross margin are your most profitable products. You need to make sure you track the gross margin (revenue of product minus cost of goods) accurately in order to understand which products are your "best" products.

For service-based businesses, this can be a bit more tricky. If you're not charging clients by the hour, it can be difficult to determine if your services are profitable. Some companies charge on a project or monthly retainer basis. To determine if you're optimizing your time spent, it's important to carefully track your service, break down the amount of hours you and your team have spent, and factor in employee salary and the cost of other resources. You need to have a clear picture of what it takes to offer the service, and understand which services are money makers, and which services are losers. You may still offer services that lose money if they help bring in customers that you can eventually sell on your more profitable services. People often call these types of service loss leaders.

Seasonality

Even if your business isn't completely tied to a certain season, every business owner sees some sort of fluctuation over seasons. You might see increases during holidays or when the weather is particularly hot or cold, or wet or dry. For example, a fitness consulting company might see an increase in customers right around the New Year as people make resolutions, or maybe during the summer when customers want to get in better shape.

Understanding seasonal fluctuations helps you properly plan for big expenses. Business owners should look at 2-5 years of trends to truly understand when they can expect slow or busy times. They should then plan accordingly. Maybe they need to hire more employees during certain seasons or reduce inventory in anticipation of lower demand. They might want to have a credit line to help them with cash flow when sales are slower.

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All Expenses

Most small businesses owners do understand that they need to track expenses, and usually do so to a certain extent. But, are they doing it accurately and correctly? Probably not. It's not just

about reconciling your bank and keeping a box of receipts. You need to accurately track expenses and know what part of the business to apply the expense. Is it a marketing expense? A human resources expense? Is it operational or promotional? Furthermore, small business owners often pay for business expenses out of their own pockets and fail to report them.

Small business owners might not think they need to keep track of every dollar spent, and most probably feel that they have a handle on expenses in their heads. But, it's difficult to see the impact of your expenses until you see them all in one place. Business owners should also take advantage of affordable SaaS tools like accounting software and small business dashboards to keep track of expenses. Tools that automate the process, and also help track and manage expenses accurately will make sure a business owner understand all the expenses for their business.

We interviewed a group of accountants on this subject and most noted that small business owners could improve upon their metrics tracking processes to better plan for their business' future. Karine Woodman, CEO of 24Hr Bookkeeper said:

"Clients don't always recognize the importance of tracking or recording (in general) until it's too late. We want to stay ahead of the game, and there are many tools available to help us do that. We want to get away from just entering data and never looking at it. We want to use LivePlan as our main tool--to help the business grow, find out where they are losing and evaluate better options."

Planning, tracking and managing all of your financial metrics is crucial to your business' long-term success. Without an understanding of what normal and healthy fluctuations in your business' financials look like, it's difficult to spot problem areas quickly, and fix them before they get too big and threaten the health of your business. If you're consistently tracking all of the right metrics, you can make necessary changes and even pivot your business before it's too late. You want to create a process and embrace tracking and managing your financials in order to push your business to the next level. The right financial management, with proper right-sized planning, will put your business in a position to thrive and not just survive.

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