5 Numbers Every Business Owner Should Watch

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Introduction

Business is all about the bottom line, right?

While it’s true that profit and loss are what ultimately makes or breaks your small business, revenue and expenses aren’t the only numbers that can give you a sense of the health of your business. In fact, digging into the data a little deeper can help you get a more complete picture of how your business is doing. Track the right numbers, and you may be able to spot potential problems before they get too big to fix. Data can also help you identify what’s working for your business, so you can double down on those products or strategies.

Thanks to modern technology, tracking and analyzing data about your business is easier than ever. You don’t have to be a techie or a math whiz to understand which products sell best on Thursday afternoons in the summer–you just have to have the right tools.

Here are five numbers every business owner should watch, and some strategies for putting those numbers to work for you.

Profit Margin

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Your net profit margin shows you how much money you're making. To find it, take your total sales and subtract your total expenses, then divide the answer by your total revenue. For example, if your lemonade stand made $10 in sales and spent $5 on lemons, your profit margin would be 50%.

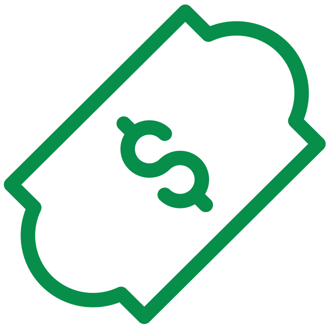
Tracking your profit margin should be easy–any accounting software should help you find this number. Clover's system makes it even easier by linking your POS system directly to common accounting software like **QuickBooks**, so you don't have to update the numbers yourself.

Obviously, you want your profit margin to be as high as possible, but there are some situations where lower profits are acceptable or even desirable. If your coffee shop is competing with a chain store across the street, for example, you might be willing to spend more on your beans to provide a superior product. Or, if you're expanding to a second location, your margins will likely be lower while you deal with the expenses of opening the new shop, like the upfront cost of buying or leasing new equipment. The key is to understand why your margins are squeezed and have a plan to recover.

If you find your margins are too thin, it's time to look for ways to reduce costs, push your higher-margin products, or both. Just keep in mind your core value proposition–if your salon's brand identity is all about high-end organic hair care, then you can't switch to cheaper products without damaging your brand. But maybe you can start offering some little extras like walk-in bang trims that don't cost much to provide and help encourage your best customers to come in more often.

Average Ticket Size

Average Ticket Size



Your average ticket size tells you how much a typical customer spends each time they visit your store. Find it by dividing your total sales for a month by the total number of customer visits for that month. If that lemonade stand made $10 from five visitors, the average ticket size was $2.

A modern POS system makes this number easy to track, too. Clover's **Main Street Insights app** will automatically track your average ticket size and show you how your numbers compare to similar businesses in the area.

Knowing how much money your customers typically spend when they visit is great. For example, if your restaurant's entrees cost about $15 each, and your average ticket size is close to $15, then you know you're not selling very many extras like appetizers, desserts, or drinks. This data is even more useful when combined with other numbers like revenue by product, which would show you which menu items bring in the most (and least) money, and average daily or weekly transactions, which could tell you when your busiest times are. Put all that information together, and you have a great picture of your customers' habits–when they visit, what they buy, and how much they spend.

If your average ticket size is low, it's time to push more products. For a restaurant, try a promotion to sell higher-margin items, like a buy-one-get-one deal to encourage appetizer sharing, or half off bottles of wine on Wednesdays. Staff training can also make a huge difference–teach your staff to politely encourage customers to spend more by talking up the weekly special or asking tables if they want desserts or another round of drinks. Staff training can also help in a retail store (this shirt would look great with that sweater!), as can placing small, fun items near the register to encourage impulse buys. Every dollar helps!

Customer Acquisition Cost

Customer Acquisition Cost

This number tells you how much it costs you to bring in a new customer–in other words, it tells you how effective your advertising is, dollar for dollar. The simplest way to calculate this is to take the total amount you've spent on marketing in a year and divide it by the total number of new customers who came through your doors that same year. If you spent $100 to put up a billboard advertising your lemonade stand, and you got 10 new customers, then your customer acquisition cost was $10–it cost you $10 to attract each new person.

If you work in a service business, or you sell just a few high-ticket items, it's easy to keep track of how many new customers you're bringing in. For a high-volume business like a sandwich shop, it can be a little trickier. You could estimate the number of new customers by comparing last year's average daily transactions to this year's–if you're making a lot more sales, you can assume you're bringing in new customers. Clover Main Street Insights can also help you track how many individual customers come through your doors.

Once you know how much it's costing you to attract a new customer, consider how much they're likely to spend in total over the whole course of their relationship with you. If you're running a pizza shop in a college town, for example, your typical customer might order pizza from you twice a month, during the school year, for four years. In that case, you don't want to spend more than the cost of 72 pizzas to attract each individual student, or you're in the red.

If you're spending too much to attract new customers, look for lower-cost advertising methods. Online and social media marketing can be relatively inexpensive, and it's also very easy to track the results of each individual post, so if Instagram drives more traffic to your website than Twitter, you can put more staff time into Instagram. Of course, word of mouth is still the cheapest and most effective marketing strategy. Try offering a referral discount for your loyal customers to incentivize them to tell their friends about you.

Revenue Growth Rate

Revenue Growth Rate

Your revenue growth rate tells you how much your business is growing year to year. To find it, subtract last year's revenue from this year's revenue, and then divide the difference by last year's revenue. Multiply your answer by 100 to see your growth as a percentage. If your lemonade stand made $12 this year and $10 last year, you're up $2, or 20%.

This number should be easy to find in your accounting system–all you need is this year's sales and last year's. You can also dive deeper into the numbers and find your year-over-year revenue growth for a specific quarter or month. The calculation would be the same–find the difference between this December's sales and last December's, and divide by last year's number.

Say, for example, that your home goods store saw year-over-year revenue growth of 20%, but your year-over-year growth for December was only 15%. That tells you that your growth wasn't coming from holiday shoppers. Depending on your goals, you might want to push holiday sales harder next year, or save money on advertising during the holiday season and focus on months when you tend to see more sales. Tracking other data like average ticket size or revenue by product, and doing year-over-year comparisons, can also help fill out the picture of what's really driving your business. Are you seeing more transactions per week, but lower average ticket sizes? Have your most popular products changed? Understanding where your growth is coming from can help you streamline your inventory and staff time.

If your revenue is down year to year, dig into the numbers to find out why. If sales were slow during a particular month, think about what was going on that month–did weather keep foot traffic low? Were you having staffing issues? Was there a specific product that just didn't sell this year? Once you know what's causing the dip in revenue, you can figure out a plan to improve sales. Maybe you can run a seasonal promotion to help turn around a slow month. Maybe you can eliminate a product line that isn't selling well. Maybe your staff training needs a refresh, so you can be sure your salespeople understand your products and know how to sell them. Knowing where the problem is coming from is the first step towards solving it.

Customer Satisfaction

Customer Satisfaction

Business isn't all about dollars and cents. Some key numbers are "softer." But even something as fuzzy as customer satisfaction eventually translates to your bottom line. Happy customers are loyal customers!

To track customer satisfaction, you'll need to conduct customer surveys. Digital surveys are great because they make the numbers easy to crunch. If you're using a Clover POS system, you can use the built-in **customer engagement suite** to communicate with your shoppers directly.

When customer satisfaction is high, your customers are more likely to be loyal, and to keep coming back. Think about your customer acquisition cost. No matter how effective your marketing is, it's always more cost-effective to retain customers than it is to advertise and try to gain new customers. In fact, customer acquisition can cost **up to five times more** than customer retention.

If your customer satisfaction is low, it's time to dig into the numbers. See if survey results vary at all by the time of day or the day of the week. See if customers seem to buy less at certain times or on certain days. Talk to your staff–are they noticing any difference in customer attitudes day to day? For example, if customer satisfaction dips during the morning rush, the problem may be that people are waiting too long for their coffee. Consider getting a handheld POS device like a **Clover Flex** so you can have an employee take orders and process payments while people are waiting in line. Is there a particular employee who's getting poor reviews? Consider having them shadow one of your best workers–or think about letting them go. After all, if your customers aren't happy, they won't be your customers for long.

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