Your Target Ratio: Metrics That Matter

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Benchmarking studies, like those done by PIA/GATF or other industry specific studies, are valuable management tools in assessing how your company is doing compared to printers of similar size, geographic location, product line, or other comparative factors. Such metrics can help you assess your market position and identify industry trends so you can respond appropriately. But how do you use such information in the best and most effective way as you make day-to-day management decisions for your business? How do you know what the appropriate Target Ratio is for your unique business needs, capabilities, and goals?

What Is a Target Ratio?

Your Target Ratio is a way to quantify whether you are on track for the best financial management of your specific resources and goals. Target ratios are "Now" numbers, reflecting what you should be able to achieve within your company's particular set of circumstances at this moment in time. As your circumstances change, so will your ratios -- underscoring the need to constantly track and compare your numbers. As shown on the sample ratios calculation chart below, your target numbers may not match the national benchmarks. You therefore need to understand not only that a difference may exist, but why that difference exists; and whether, as a practical matter, it should be an achievable benchmark or not for your company.

So What Should My Company's Target Ratio Be?

Let's look now at our example of important indicators for a $10 million company. Take special note of the **bolded** indicators as these are the ratios that should regularly be assessed from your financial statements. Of these, Cash Flow Coverage is certainly one of the most important -- if not the most important -- ratio to track on a regular basis.

(Continued)

"How do you know what the appropriate Target Ratio is for your unique business needs…?"

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Example: Target Ratio for a $10 Million Company

			ACTUAL RATIO	TARGET RATIO	PROFIT LEADERS INDUSTRY BENCHMARK
CASH FLOW COVERAGE:					
Pre-tax Income	$100,000				
Depreciation	$250,000				
Interest Exp.	$75,000				
Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA, or Cash Flow)		$425,000			
Principle payment on Long-term Debt	$300,000				
Interest Exp.	$75,000				
		$375,000			
RATIO:			1.13 to 1	1.25 to 1	1.5 to 1
SALES PER EMPLOYEE:			$115,000	$125,000	$135,000
VALUE ADDED PER EMPLOYEE:			$74,700	$84,500	$95,000
EBITDA AS A % OF SALES:			4.25%	7.5%	12.5%
SPOILAGE AS A % OF SALES:			1.0%	.0675%	.005%
DEBT TO EQUITY:			3.75 to1	2.75 to 1	2.00 to 1
RECEIVABLE DAYS OUTSTANDING:			52 Days	45 Days	40 Days

As we have previously noted, the use of target ratios will determine what changes need to be implemented now to put the company in an acceptable financial position. Often, it is too much of a stretch to reach the profit leaders' benchmark. But, that does not mean you can't be successful for your own needs at this time.

Moving your current ratios to the carefully determined targets will not only be rewarding for you, but also for financial improvement, especially cash flow.

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If you have any comments or questions, you may reach us at: 888-577-1717 or talk.to.us@margolisbecker.com