



Columinate

Catalysts for Common Good

Field Guide: Definitions of Key Financial Indicators

The CBLD template Financial Conditions policy and sample report suggest that boards and managers regularly monitor a number of key indicators of financial health. Here are definitions and/or formulas for many of those indicators as they are typically used by food co-ops. Using common definitions makes it easier to compare your co-op's performance to others. Many of these metrics are expressed as a % (not a \$) also to make it possible to compare your co-op's performance with other similar businesses or suggested benchmarks.

- Sales Growth
 - A measure of business growth
 - $\text{sales growth \%} = (\text{sales this period} - \text{sales for the same period last year}) / (\text{sales for the same period last year})$
- Gross Margin (aka Gross Profit)
 - A measure of the amount or percent of funds remaining from sales after paying for the cost of products that were sold
 - $\text{gross margin} = \text{sales} - \text{cost of goods}$
 - $\text{gross margin \%} = \text{gross margin} / \text{sales} \times 100$
- Margin Minus Labor (MML)
 - The percent of revenue available to pay all other expenses after paying for the cost of goods and all labor expense
 - $\text{MML} = \text{gross margin \%} - \text{labor \%}$
- Current Ratio
 - A measure of the business' ability to pay its short term and long term obligations
 - Current assets are cash or things that typically convert to cash within 12 months. Current liabilities are payments due within 12 months.
 - $\text{current ratio} = \text{current assets} / \text{current liabilities}$
- Quick Ratio
 - A measure of the business' ability to pay its bills with its most liquid assets
 - $\text{quick ratio} = (\text{current assets} - \text{inventory}) / \text{current liabilities}$
- Debt to Equity Ratio
 - The relationship between total equity (including capital invested by the owners, income generated by the business, retained patronage dividends and other sources of equity) and the funds provided by lenders and other creditors
 - Total debt is the same as total liabilities.
 - $\text{debt to equity ratio} = \text{total debt} / \text{total equity}$
- Sales/Labor Hour
 - A measure of labor efficiency
 - $\text{SPLH} = \text{sales for the period} / \text{labor hours for the period}$



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- Inventory turnover
 - A measure of inventory liquidity, the number of times the business sells inventory during the year (always expressed as an annualized number)
 - $\text{inventory turnover} = \text{cost of goods} / \text{average inventory}$
 - $\text{average inventory} = \text{last 5 physical inventories} / 5$
- EBITDAP
 - Earnings Before Interest, Taxes, Depreciation, Amortization, and Patronage rebates
 - A measure of the of the business' core operational efficiency and profitability
- Debt Service Coverage Ratio
 - A measure of the business operations' ability to generate adequate cash flow to service debt payments
 - $\text{DSCR} = \text{EBITDAP} / \text{total debt service}$ (Your lender may specify a variation for how this ratio should be calculated.)
 - $\text{total debt service} = \text{principal repayment} + \text{interest payments} + \text{lease payments}$

Further resources:

Berdon, Lucinda, and Paige Lettington. "Eight Key Financial Indicators for Co-op Boards to Monitor." *LEADer #10*, winter 2010.

CBLD sample Financial Conditions monitoring reports, in the [GM Report Support](#) section of the Columinate Library.

Goehring, Mark. "Balance Sheets: Getting the picture of your co-op's financial position." *Cooperative Grocer*, Sep-Oct 2007.

Healy, Michael. "Context Matters: Using trends and comparisons to monitor the financial health of your cooperative." *Cooperative Grocer*, Jul-Aug, 2014.

Mayer, Bruce, Peg Nolan and Steve Wolfe. "Accounting Best Practices for Food Co-ops: A Primer." www.grocer.coop

Tracy, John A. *How to Read a Financial Report: Wringing vital signs out of the numbers*, 4th ed. John Wiley & Sons, 1994.