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UA62/3 April Newsletter

Kentucky Small Business Development Center

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Greetings!

Folks, every entrepreneur should be able to review and analyze their financial statements as well as leverage key financial ratios to increase business performance. Below is a brief summary of pertinent business ratios. Additionally, we will be presenting a free workshop on this topic next Thursday at noon at the Housing Authority of Bowling Green. Register [here](#).

Additionally, sign up for free one-on-one counseling [here](#) to learn more about small business ratio analysis.

Also, we have some great news below. The CEI (Center for Entrepreneurship and Innovation) took home a large bounty at last weekend's statewide business plan competition. Read below for the details and congrats to all of the winners!

Have a great day!

Adam Brownlee

Director, WKU SBDC

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Center for Entrepreneurship and Innovation (CEI)



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GORDON FORD
COLLEGE OF BUSINESS



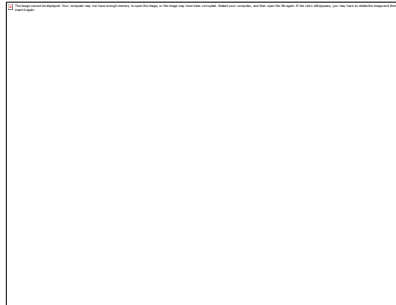
Cash Flow Day

Get Rich on Your Lunch Break

Join us at noon on Thursday, on the hill, (Garrett

Business Plan Teams win over \$23,000 in the Kentucky State-Wide "Idea U" competition

Taking 2nd place in the Graduate Business Concept Division was Y&C Silks winning over \$2100. Y&C Silks is an International venture to import high quality silk textiles from Vietnam. The team's members were Thang Le, Anh Nguyen, Julie O'bryan, Phuong Vu.



In the Graduate Business Plan Division, Top Shelf Wine & Spirits, LLC won over \$21,000. This venture looks to begin operations in coming months offering well priced wines and liquors with weekly wine tastings and networking sessions for the Bowling Green area. The plan was presented by MaryAnn Bokkon, seeking a graduate degree in Folk Studies.

Winners of the Undergraduate Plan were New Grounds Energy, a venture to create and sell electricity from kinetic energy (University Kentucky). Winning the Graduate Plan Division was CALMSenior, a venture to provide web based interface for seniors and their families, taking home over \$43,000 (University Louisville).

Presenting from WKU-CEI in the Undergraduate Plan Division was Nerd Rage Games, a venture to develop and publish a new line of interchangeable table-top role-playing games. The plan was presented by Richard Green.

These WKU-CEI Business Teams are one of the outcomes of the cross disciplinary program developed by the CEI and the teams were supported by the Center. The WKU-CEI teams were developed by the continuing efforts of Dr. R. Wilburn Clouse, Executive Director of the Center for Entrepreneurship and Innovation & Mattie Newman Ford Professor of Entrepreneurship, J. Krirst Schell, Director, of the Center for Entrepreneurship and Innovation and Adam Brownlee, Director of the Small Business Development Center.



The WKU participants were all selected through a campus wide competition sponsored by the Center for Entrepreneurship and Innovation.

R. Wilburn Clouse, Executive Director of the Center for Entrepreneurship at WKU said "this is by far the best Business Plan Competition in the

Conference Center Room 100) for a franchise workshop.

The following week, join us at the Housing Authority for Small Business Financial Ratios.

Click

[here](#) to register and for further workshop info.



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Funded in part through a cooperative agreement with the U.S. Small Business Administration.

three years and the WKU-CEI Teams were very strong in the competition--winning 2 out of the total 8 awards.

Other Universities competing in the Competition were University of Louisville, Murray State University, Kentucky State University, Morehead State University, University of Kentucky and Eastern Kentucky University.

The Business Plan Competition is one of the events sponsored by the Kentucky Cabinet for Economic Development and the Department of Commercialization and Innovation. In the Business Plan Program Deborah Clayton, Commissioner, Department for Commercialization and Innovation, Cabinet for Economic Development stated "The Competition demonstrates the tremendous potential that exists among our student population to generate marketable ideas and take their business concepts and plans to the next level. The experience that the students are gaining will benefit them as they compete in the real world".

At the Competition, Mo Miller (One of Business Plan Judges), Founder--Lincoln Trail Venture Group and Principal of Stone Works, Inc. stated "The IDEA STATE U program provides a wonderful opportunity for the Academic Community to connect with real life experiences and I am pleased to have a part in the type of transition-from idea to reality.."

As part of the continuing programs of the Economic Development process in the Kentucky, the IDEA STATE U is expected to continue in the future to help foster creative and entrepreneurial thinking in the University system in state of Kentucky.

For more information Contact:

Dr. Wil [Clouse...wil.clouse@wku.edu](mailto:wil.clouse@wku.edu)

Key Small Business Ratios

Why Use a Screw Driver When you can Use a Power Drill?

Below are some of the key ratios that can be used to analyze your business. We have analysis software that can provide the average ratios for your industry and we can compare how your business is doing. Contact us if you wish to conduct this analysis.



All opinions, conclusions, or recommendations are those of the author(s) and do not necessarily reflect the views of SBA.

Reasonable accommodations for persons with disabilities will be made if requested at least two weeks in advance. Contact Adam Brownlee, 1906 College Heights Blvd., #61086, Bowling Green, KY 42101. 1-270-745-1905.



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Current Ratio

= Total Current Assets / Total Current Liabilities

Explanation: Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company is.

Quick Ratio

= (Cash + Accounts Receivable) / Total Current Liabilities

Explanation: This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the company has to pay the amount listed in the denominator (current liabilities). The higher the number, the stronger the company.

Inventory Days

= (Inventory / COGS) * 365

Explanation: This metric shows how much inventory (in days) is on hand. It indicates how quickly a company can respond to market and/or product changes. Not all companies have inventory for this metric. The lower the better.

Accounts Receivable Days

= (Accounts Receivable / Sales) * 365

Explanation: This number reflects the average length of time between credit sales and payment receipts. It is crucial to maintaining positive liquidity. The lower the better.

Accounts Payable Days

= (Accounts Payable / COGS) * 365

Explanation: This ratio shows the average number of days that lapse between the purchase of material and labor, and payment for them. It is a rough measure of how timely a company is in meeting payment obligations. Lower is normally better.

Gross Profit Margin

= Gross Profit / Sales

Explanation: This number indicates the percentage of sales revenue that is paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it indicates how many cents of gross profit can be generated by each dollar of future sales. Higher is normally better (the company is more efficient).

Net Profit Margin

= Adjusted Net Profit before Taxes / Sales

Explanation: This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts. The higher the better.

Advertising to Sales

= Advertising / Sales

Explanation: This metric shows advertising expense for the company as a percentage of sales.

Rent to Sales

= Rent / Sales

Explanation: This metric shows rent expense for the company as a percentage of sales.

G & A Payroll to Sales

= G & A Payroll Expense / Sales

Explanation: This metric shows G & A payroll expense for the company as a percentage of sales.

Interest Coverage Ratio

= EBITDA / Interest Expense

Explanation: This ratio measures a company's ability to service debt payments from operating cash flow (EBITDA). An increasing ratio is a good indicator of improving credit quality. The higher the better.

Debt-to-Equity Ratio

= Total Liabilities / Total Equity

Explanation: This Balance Sheet leverage ratio indicates the composition of a company's total capitalization -- the balance between money or assets owed versus the money or assets owned. Generally, creditors prefer a lower ratio to decrease financial risk while investors prefer a higher ratio to realize the return benefits of financial leverage.

Debt Leverage Ratio

= Total Liabilities / EBITDA

Explanation: This ratio measures a company's ability to repay debt obligations from annualized operating cash flow (EBITDA).

Return on Equity

= Net Income / Total Equity

Explanation: This measure shows how much profit is being returned on the shareholders' equity each year. It is a vital statistic from the perspective of equity holders in a company. The higher the better.

Return on Assets

= Net Income / Total Assets

Explanation: This calculation measures the company's ability to use its assets to create profits. Basically, ROA indicates how many cents of profit each dollar of asset is producing per year. It is quite important since managers can only be evaluated by looking at how they use the assets available to them. The higher the better.

Fixed Asset Turnover

= Sales / Gross Fixed Assets

Explanation: This asset management ratio shows the multiple of annualized sales that each dollar of gross fixed assets is producing. This indicator measures how well fixed assets are "throwing off" sales and is very important to businesses that require significant investments in such assets. Readers should not emphasize this metric when looking at companies that do not possess or require significant

gross fixed assets. The higher the more effective the company's investments in Net Property, Plant, and Equipment are.

Thanks for taking the time to read our newsletter and for passing it along to folks who might be interested in its content and our services. Please contact us at wkusmallbiz.com if you are starting a small business or if you need a tune-up.

We look forward to serving you.

Sincerely,

Adam Brownlee
Director, WKU SBDC

adam.brownlee@wku.edu

wkusmallbiz.com

**Save
100%**

Our one-on-one coaching is free, always.* If you would like to discuss the above topics, develop a business plan, franchise prototype manual, financial projections or web site or attend one of our workshops, go to wkusmallbiz.com, click on "Contact Us," enter your information and a special little message that preferably comments on how cool we are.

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*There is no catch to this. We are grant funded. Our services are free. This is not a teaser rate in which we bait you to sign you up for fee-based services. We do not force you to look at time shares for hours on end in order to receive admission to Disney World. We do not have a water park, animatronic pirates nor a jolly, rodent mascot. We have coffee, and if there is any left, we will offer you a cup.

Offer Expires: Never