Key Ratios For Small Business Owners Preparing For Sale

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Kerry Boulton is Australia's most respected Exit Strategy Advisor and CEO of the Exit Strategy Group. Welcome to this week's segment.

KERRY BOULTON: Doctors in the developing world measure their progress not by the aggregate number of children who die in childbirth, but by the infant mortality rate. That's a ratio of the number of births to death. Similarly, taking a sporting analogy, cricketers measure their run rate by the number of runs they make per over again, a ratio. So buyers also like tracking ratios, and the more ratios that you can provide a potential buyer, the more comfortable they'll become with the idea of actually buying a business.

So a ratio is much better than a blunt measuring stick of an aggregate number, and so the relationship between the two numbers gives them their power. So if you're planning to sell your company one day, here's a list of six ratios to start tracking in your business from now. Now, not all these will apply, of course, to every single business, but it gives you a really, really good basis from which to start.

Number one, employees per square foot or per square meter. So by calculating the number of square feet or square meters of office space you rent, office space that you rent, and by dividing it by the number of employees that you have, you can judge how efficiently you've designed your space. Commercial real estate agents use the general rule of 14 to 23 square meters, or 150 to 250 square feet of usable office space per employee. Good metric to start with.

Number two, the ratio of promoters and detractors. Now, you might have heard of the Net Promoter Score. Well, that's what this is all about. Fred Rakeld and his colleagues at Bain and Company and Sat Metrics developed the Net Promoter Score methodology, and it's based on asking customers a single question that's predictive of both the repurchase and referral from you. And you may even recall having answered a few surveys where this question's been part of the process.

Here's how it works. You survey your customers and you ask them the question on a scale of zero to 10, how likely are you to recommend your company name to a friend or colleague? You figure out what percentage of the people surveyed give you a nine or a 10, and you label that your ratio of promoters. Next, you calculate your ratio of detractors by figuring out the percentage of people surveyed who gave you a score of zero to six, and then calculate your net promoter score by subtracting your percentage of detractors from your percentage of promoters.

Now in the US, the average company has a net promoter score of between 10 and 15% and very likely, no different here in Australia. Reichheld found that companies with an above average net promoter score grow faster than

the average scoring businesses. That's a really good metric to be able to put in place, and very easy to implement.

The third one is sales per square meter, or per square foot. If you're like me, you probably still think in square feet. Most of the numbers today are in metrics in Australia, anyway. So by measuring your annual sales per square meter, you can actually get a sense of how efficiently you're translating your real estate into sales.

Most industry associations have a benchmark. For example, annual sales per square meter for respectable retailer might be around $3000 to $3,500 and with real estate usually ranking just behind payroll as a business's largest expense. The more sales you can generate per square meter of real estate, the more profitable you're likely to be.

So number four, revenue per employee, payroll is usually the number one expense for most businesses, which explains why maximizing your revenue per employee can translate quickly to the bottom line. As a global example, Google, for instance, they have revenue per employee of more than a million dollars in step, more than a million dollars per employee, and that was in 2015. So more traditional people dependent company may struggle to surpass $100,000 per employee. Again, it's an important ratio.

Number five, customers per account manager. How many customers do you ask your account managers to look after? Finding a balance can be tricky. In the banking industry, some account managers are forced to juggle more than 400 accounts, and you know, they don't actually know each of their customers, whereas in that the other end, high end wealth managers may have only say 50 clients to stay in contact with.

It's hard to say what the right ratio is, because it's so highly dependent on your industry. But if you slowly increase your ratio of customers per account manager until you see the first signs of deterioration, in other words, slowing sales or dropping customer satisfaction, that's when you know you've probably pushed it a little too far, and you might need to pull back.

And lastly number six, prospects per visitor, what proportion of your website's visitors opt in by giving you permission to email them in the future, Dr Carl blanks and Ben Jessen, who are the co-founders of conversion rate experts, which advises companies like Google and Apple and Sony on how to convert more of their website traffic into customers, they state that there's no such thing as a typical opt in rate, because so much depends on the source of the traffic.

They recommend rather than benchmarking yourself against a competitor that you benchmark against yourself by carrying out tests to beat your site's current opt in rate. Anyone who's interested in buying your business is going to have a healthy appetite for data, so the more data that you can give them in the ratio format which they're used to looking at, the more attractive your business will be in their eyes.

If you don't have a copy of Kerry's new book, ***The Uncensored Truth About Exit Strategy***, please visit https://freeexitstrategybook.com.au/