Small business series

Growth metrics at-a-glance

These are the 5 key performance indicators you should be tracking to ensure your business is on the path to profitability.

1. Gross profit margin

Your gross profit margin indicates how much of your revenue is profit after factoring in the costs of production. As a rule of thumb, your gross profit margin should be at least 10%.

(Revenue - COGS) / Revenue = Gross profit margin

2. Accounts receivable turnover ratio

Your accounts receivable turnover ratio helps you understand how well you collect cash from credit sales—in other words, how quickly your customers pay their credit debts. A higher ratio indicates that your customers are paying faster.

Net credit sales / Average accounts receivable = Accounts receivable turnover ratio

3. Customer acquisition cost

Understanding your customer acquisition cost (CAC) helps you determine if you're getting your money's worth out of your customers.

Total customer acquisition costs / Total customers acquired = Customer acquisition cost

4. Customer conversion rate

Your customer conversion rate helps you determine how many prospects you're reaching that don't convert to paying customers.

(# of people who made a purchase / # of visitors) X 100 = Customer conversion rate

5. Customer churn rate

Customer churn rate measures how frequently customers stop buying your products or services over a given time frame. A low churn rate is an indicator that your customers return to your business time and time again, increasing their lifetime value.

(Customers at the beginning of the month - Customers at the end of the month) / Customers at the beginning of the month = Customer churn rate