

AdvanceMe's Tip of the Week: March 12, 2008

Knowing Your Numbers

Most small business owners have multiple opportunities to collect data on business performance. The raw numbers from web traffic reports, customer profiles, inventory statistics and sales trend analyses will often tell you quite a story.

However, while collecting this data may be fairly easy for many businesses, accurately interpreting the numbers might be just the opposite. The following are some general tips that can help you take a better look at how you should actually look at your numbers.

- **Question your data.** Data is not always perfect. If you uncover an anomaly, exhaust all probable causes. Drastic swings in either a positive or negative direction should send up a big red flag. Sometimes an explanation might be simple, like a mechanical failure or an improper SKU that causes an inventory discrepancy. Other times the answers might require a little more digging to get a full understanding. Look beyond the obvious, and don't be afraid to reevaluate your methods of data collection. Don't be fooled into thinking there is safety in numbers—make sure you understand what they are saying to you, and why.
- **Identify trends.** It is important to look at your business from multiple vantage points. Start with a broad picture and drill down into the daily details. Measure and compare the results year-over-year, quarter-over-quarter, month-to-month and even day-to-day. You might see that while sales in February are much lower than January's numbers, this is consistent with previous trends and nothing to really worry about. Similarly, if you see a spike or a swing in a positive direction, make sure that this is not a typical response if you were to look at the business from a larger perspective. Properly identifying trends can help you to budget, plan and balance important decisions.

Most businesses do not have a magic formula for success. However, every successful business owner is definitely collecting and properly analyzing pertinent data. If you are already collecting data about your own business, you need to also make sure you are spending enough time to get a better understanding of what the numbers actually mean.

THIS IS NOT INVESTMENT, TAX OR LEGAL ADVICE. Consult with a financial advisor, accountant or attorney before making important decisions in these areas.