



The 4 Questions

CEOs Need to Answer About Their Company's Finances



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Introduction

CEOs certainly have a lot on their mind. Is my product as good as it can be? Am I gaining market share? Am I building a strong team? Is my sales team closing deals? And this is just the tip of the iceberg.

With so much on their minds, CEOs must effectively prioritize their time and stop devoting energy to anything that is not absolutely critical to the success of their business.

But there is one topic that no CEO should let slip from the forefront of her mind: **her company's financial situation**. An understanding of your company's financial KPIs – at least on a fundamental level – is critical for making the business decisions (new hires, R&D, marketing budget) that you face on a daily basis.

But the question still remains: How can CEOs, with their limited time and bandwidth, stay on top of their company's financial situation? The solution is for the CEO, the CFO and the other financial stakeholders to **boil down their company's financial performance to the handful of KPIs essential for managing their business**.

And that's where this eBook comes in. We talked to many CEOs and CFOs to find out which finance KPIs time-strapped executives should monitor in order to analyze their company's financial performance. These metrics aren't meant to provide an exhaustive understanding of your company's situation, but they are perfect for staying on top of financial performance without a huge investment of time or financial expertise.

Together, the 4 easily understandable metrics laid out in this eBook will give you the information you need to make the right decisions for your company and ensure your ongoing financial health. Importantly, the collective value of these 4 individual metrics is much more powerful than the insights offered by each one on its own. These are the 4 metrics we will be focusing on:

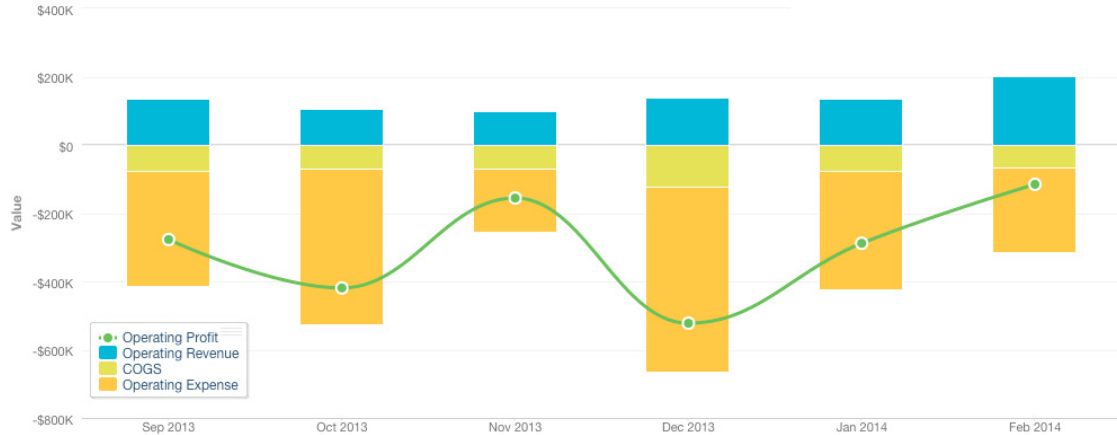
1. Profitability trends
2. Key cost drivers
3. Cash position
4. Incoming Cash

We selected these 4 metrics to shed light on all of the major financial issues that data-driven CEOs need to understand for a quick but complete overview of their company's financial health. So if you're a CEO looking for quick (but not threadbare) insight into your company's finances – or a CFO hoping to anticipate your CEO's questions – read on to start improving your company's decision-making.

1. How Profitable Are We?

How profitable are we?

-\$1,797,107 in net profit from 01 Sep 2013 to 28 Feb 2014



"Are we making a profit?" There is probably no question more top-of-mind to a CEO. Before they make important decisions about budget, product updates and hiring plans, CEOs must be sure they have a solid grasp on their company's overall profitability.

To get to the bottom of this issue, CEOs must be able to quickly identify how much revenue they are bringing in as well as have a fundamental understanding of their company's operating expenses and how those expenses relate to operating revenue. With this information, data-driven CEOs can tell at a glance whether their organization is financially healthy or if their operating model needs to be tweaked (or even overhauled).

Every decision a CEO makes is closely connected to the profitability of his company, so it is no wonder that most CEOs wish they had more insight into their profitability trends.

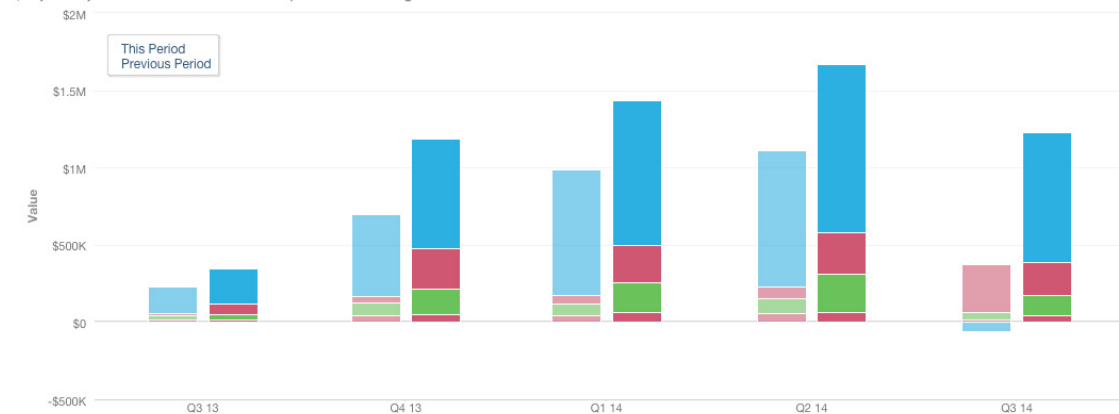
2. How Are Our Biggest Cost Drivers Changing?








What costs have we incurred?

\$6,515,260 total cost from 01 Sep 2013 to 31 Aug 2014

Custom Last This To Date Trailing

09/01/2013 – 08/31/2014



SELECTION		LEVEL		INTERVAL					
All	Top 15	None	1	2	3	4	 Quarter	 Filtering	 Export
G/L Account				Cost	Previous Period Cost	Change vs Previous Period			
	▶ Salaries & Benefits			\$3,805,669.05	\$2,335,715.36	163%			
	▶ Cost of Goods Sold			\$1,062,011.39	\$489,126.14	217%			
	▶ Sales & Marketing Expense			\$776,483.01	\$333,698.22	233%			
	▶ Facility Costs			\$234,269.38	\$181,423.53	129%			

A big part of achieving profitability is minimizing your company's expenses, which means knowing how much you're spending, and where. This is where your cost drivers come in: **Where are you spending most of your money, and is this breakdown changing over time?**

To answer this question, most CEOs track a metric like "total expenses" to see if they're spending more this quarter than they did last quarter. But the truth is that this is far too blunt an instrument to provide anything more than a bird's eye view of your company's finances. Business spending is far from monolithic, and for a clear understanding of your expenses you must break your costs into your key buckets and analyze how these buckets are trending over time.

Luckily, this is easier than it sounds. Most companies have only a handful of true cost drivers – payroll, cost of goods sold (COGS), sales and marketing expenses, and facili-

ties are a few common examples – so with the right data it's easy to see how your main cost drivers are changing over time.

Not only will the answers to these questions give CEOs a more granular understanding of their company's financial situation, it will help them spot areas of concern and opportunity as early as possible. Are there ways to rein in sales and marketing expenses without impeding growth? Are there painless ways to cut back on infrastructure costs? CEOs who stay up to speed on their company's expense breakdown can answer these questions and make the right decisions.

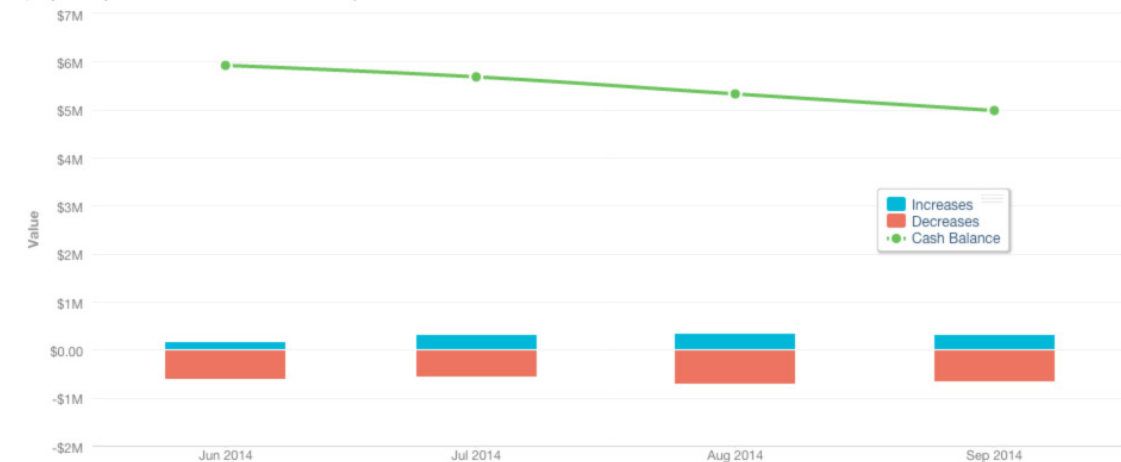
3. How Is Our Cash Position Changing?

How has our cash on hand changed over time?

-\$1,093,152 decrease in cash in the previous 12 months

Custom Last This To Date Trailing

7D 30D 90D 12M



SELECTION

INTERVAL


All

Top 15

None

☐

Default

 Export

Month	Cash In	Cash Out	Net	Ending Balance
<input checked="" type="checkbox"/> Sep 2014	\$323,424	-\$669,505	-\$346,081	\$4,978,313
<input checked="" type="checkbox"/> Aug 2014	\$351,871	-\$706,657	-\$354,786	\$5,324,394
<input checked="" type="checkbox"/> Jul 2014	\$332,406	-\$572,358	-\$239,951	\$5,679,180
<input checked="" type="checkbox"/> Jun 2014	\$192,883	-\$621,744	-\$428,861	\$5,919,131

Once a CEO understands how much profit his company is earning and how his expenses are trending, he will need to answer one more question: How are these inflows and out-flows affecting the amount of cash his company actually has in the bank?

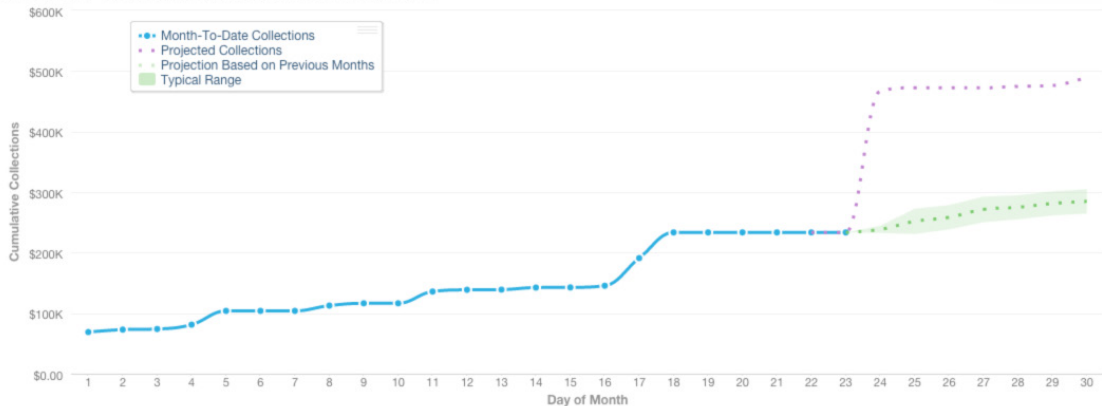
While your CFO sweats the details, one of the most important jobs of a CEO is to **make sure his company doesn't run out of cash**. This is a fundamental piece of information, but it is also a frustratingly difficult one to come by in many organizations, especially if you want to see exactly how your cash position is split between cash inflows and out-flows. Cash ins and outs (not to mention one-time and yearly expenses that are spread over 12 months) are typically siloed, which makes it hard for CEOs to create a coherent picture of their company's overall cash-flow health.

For this, CEOs must have a single way of evaluating how much cash their company has available, and how that amount is trending over time. Unlike the other KPIs shown in this eBook, this is a zoomed-out view: one that shows only the most fundamental components: cash in, cash out, and, summarily, cash balance over time.

4. How Much Cash Are We Collecting This Month?

What is our collections forecast?

\$457,899 this month (September) based on open invoices



Sent Date	Estimated Days to Collect	Collection Date	Document #	Status	Customer	Invoiced
22 Aug 2014		01 Sep 2014	20140381	Paid	Client 397	\$670
22 Aug 2014		01 Sep 2014	20140283	Paid	Client 378	\$99
22 Aug 2014		01 Sep 2014	20140282	Paid	Client 72	\$945
22 Aug 2014		01 Sep 2014	20140382	Paid	Client 404	\$642
22 Aug 2014		01 Sep 2014	20140354	Paid	Client 303	\$636
22 Aug 2014		01 Sep 2014	20140353	Paid	Client 264	\$180
22 Aug 2014		01 Sep 2014	20140384	Paid	Client 133	\$99
22 Aug 2014		01 Sep 2014	20140325	Paid	Client 153	\$560
22 Aug 2014		01 Sep 2014	20140390	Paid	Client 201	\$953

Understanding your company's cash-position trends is essential, but it is ultimately incomplete without being able to predict how incoming cash will affect it over time. Ultimately, the success of your company hinges on the right balance between incoming cash and expenses, so you must stay on top of the first half of this equation: pinpointing **exactly how much cash is coming in as the month unfolds**, and how much you can expect to bring in by month's end.

While many CEOs feel like they are already wearing too many hats to worry about something else, the benefits of being able to quickly understand your company's month-to-date cash collection are undeniable. Is your company's cash collection on track to hit your monthly targets? Are you bringing in enough cash to cover your expenses? Are your collections this month in line with your average (or most recent) month?

Not all companies need to bring in enough cash each month to cover their expenses (like early-stage, venture-backed startups, for example), but all companies and their CEOs should know how their cash inflow is progressing and understand the context that surrounds this important KPI. A steady stream of cash is important, and the best CEOs understand this, even if the necessary information isn't always easily accessible.

Conclusion

Most CEOs find themselves caught between two conflicting realities: They need to understand their company's financial situation but they have neither the time nor access to do so. Facing this dilemma, they often settle for quarterly updates from their CFO or they go the other way and spend far more time than they should digging into their company's financials.

But there's a better way. Identifying the handful of essential finance KPIs and creating a process that reports those KPIs in easy-to-grasp terms is the best way for CEOs to easily stay on top of their company's financial performance.

In this eBook we laid out the 4 KPIs that all CEOs should monitor wherever and whenever they want:

1. Profitability trends
2. Key cost drivers
3. Cash position
4. Incoming Cash

We hope that this eBook helped CEOs identify the few, important questions about their company's financials that they should be able to answer on their own.

Powerful QuickBooks Analytics

About InsightSquared

InsightSquared offers best-in-class finance, sales and marketing analytics for small and midsize businesses (SMB). Unlike legacy business intelligence platforms, InsightSquared can be deployed in less than a day without integration costs and comes preloaded with reports that real business people can use. Hundreds of companies and thousands of users around the world use InsightSquared's award-winning analytics to maximize performance, increase productivity and grow revenue. Based in Cambridge, Mass., InsightSquared was recently named one of the "Best Places to Work in Massachusetts" by the Boston Business Journal. For more information, visit www.insightsquared.com.

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