

**Industry:** 541511 - Custom Computer Programming Services  
**Sales Range:** All Sales Ranges  
**Data Source:** Private Companies  
**Location:** US - West [What's my region?](#)  
**Prepared On:** 10/29/2010

## INDUSTRY FINANCIAL DATA AND RATIOS

### Average by Year (Number of Financial Statements)

Financial Metric	Recent 12 Months (32)	2009 (36)	2008 (68)	All Years (340)
Current Ratio	3.09	3.20	3.11	2.52
Quick Ratio	2.23	2.37	2.28	1.91
Gross Profit Margin	70.04%	66.73%	73.04%	71.88%
Net Profit Margin	8.41%	8.64%	10.38%	8.24%
Inventory Days	4.79	4.26	4.70	4.01
Accounts Receivable Days	30.85	35.90	30.03	35.73
Accounts Payable Days	20.88	23.61	19.88	21.93
Interest Coverage Ratio	13.04	10.14	14.27	10.06
Debt-to-Equity Ratio	1.65	1.05	1.06	1.92
Debt Service Coverage Ratio	N/A	N/A	0.37	4.16
Return on Equity	16.66%	13.38%	17.46%	16.04%
Return on Assets	14.99%	13.01%	9.08%	11.12%
Fixed Asset Turnover	11.08	16.02	12.02	13.84
Sales per Employee	\$139,846	\$182,683	\$190,670	\$168,663
Profit per Employee	\$20,692	\$20,692	\$10,995	\$20,981
Growth Metric	Recent 12 Months (9)	2009 (9)	2008 (20)	All Years (103)
Sales Growth	-5.49%	-5.49%	10.79%	11.04%
Profit Growth	4.89%	-11.60%	-22.96%	6.75%

## Average by Year (Number of Financial Statements)

Income Statement	Recent 12 Months (32)	2009 (36)	2008 (68)	All Years (340)
Sales (Income)	100.00%	100.00%	100.00%	100.00%
Cost of Sales (COGS)	29.96%	33.27%	26.96%	28.12%
Gross Profit	70.04%	66.73%	73.04%	71.88%
Depreciation	1.30%	1.25%	1.38%	1.98%
Overhead or S,G,& A Expenses	48.54%	48.53%	39.62%	50.50%
Payroll	26.60%	27.11%	27.55%	30.98%
Rent	4.58%	4.30%	3.80%	3.71%
Advertising	1.00%	1.55%	2.02%	2.38%
Other Operating Income	0.00%	0.07%	0.08%	0.05%
Other Operating Expenses	10.01%	8.37%	25.29%	12.07%
Operating Profit	10.20%	8.65%	6.80%	7.35%
Interest Expense	0.62%	0.53%	0.65%	0.74%
Other Income	0.19%	0.53%	0.51%	0.55%
Other Expenses	0.23%	0.14%	0.25%	0.28%
Net Profit Before Taxes	9.54%	8.51%	6.41%	6.88%
Adjusted Net Profit before Taxes	9.76%	8.72%	6.66%	6.97%
EBITDA	12.59%	11.59%	9.50%	10.56%
Taxes Paid	0.57%	0.65%	0.53%	0.47%
Net Income	8.97%	7.85%	5.88%	6.41%
Balance Sheet	Recent 12 Months (32)	2009 (36)	2008 (68)	All Years (340)
Cash (Bank Funds)	22.89%	21.73%	28.45%	21.97%
Accounts Receivable	25.02%	21.81%	25.75%	26.99%
Inventory	2.41%	2.15%	2.69%	1.54%
Other Current Assets	4.99%	5.86%	4.64%	5.88%
Total Current Assets	77.83%	84.00%	80.56%	80.06%
Gross Fixed Assets	50.12%	29.88%	41.18%	31.09%
Accumulated Depreciation	30.94%	17.68%	25.51%	14.80%
Net Fixed Assets	19.17%	12.20%	15.68%	16.30%
Other Assets	3.00%	3.81%	3.76%	3.64%
Total Assets	100.00%	100.00%	100.00%	100.00%
Accounts Payable	6.35%	7.38%	13.94%	14.20%
Notes Payable / Current Portion of Long Term Debt	4.17%	4.04%	5.02%	2.52%
Other Current Liabilities	18.89%	16.93%	68.81%	66.95%
Total Current Liabilities	48.36%	33.20%	96.64%	95.88%
Total Long Term Liabilities	43.12%	37.82%	35.52%	38.62%
Total Liabilities	91.48%	71.02%	132.16%	134.50%
Ending Retained Earnings	-54.14%	-48.86%	-105.79%	-64.38%
Total Equity	8.52%	28.98%	-32.16%	-34.50%

## LIQUIDITY

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*What are some potential ways to improve the company's ability to meet obligations as they come due?*

- ▶ Collect secure down payments from clients. This will ensure that their money is funding operations as opposed to the business's money.
- ▶ Sell any unnecessary/unproductive assets the business may have to increase cash. These are assets that are not contributing sufficiently to the generation of income and cash flow.
- ▶ Prepare yearly forecasts that show cash flow levels at various points in time. Consider updating these forecasts on a monthly or even bi-weekly basis. This can help predict/prepare for potential cash shortfalls that may occur in the future.
- ▶ If cash is a constraint, try to establish a sufficient line of credit from the bank. The business should obtain, but not necessarily use, as much financing as possible from the bank. If you decide to obtain external financing, structure as long-term rather than short-term in order to decrease monthly payments.
- ▶ Monitor accounts receivable on a weekly basis, and charge interest on invoices that are past due.
- ▶ Speed up the billing of customers (even three days earlier each month) in order to accelerate the collection process which can significantly improve the firm's cash position.
- ▶ Rent rather than buy resources where appropriate. In the long term, this can help achieve an acceptable level of Balance Sheet obligations relative to liquid assets. Current Balance Sheet obligations (such as debt on purchased assets) are uses of cash.
- ▶ Monitor invoicing procedures to help ensure correctness. Nothing will delay payment from a customer more than sending out an incorrect invoice. This will extend Accounts Receivable collections and hurt cash flow.
- ▶ If the business is having difficulty meeting obligations, term out some short-term debt if necessary and possible by moving some short-term debt down the Balance Sheet to long-term debt. This usually requires refinancing from the bank.
- ▶ Monitor the impact tax payments may have on cash. Keep enough money aside to be able to meet future tax obligations based on earnings.
- ▶ Monitor the amount of money that is being used for activities unrelated to the business. An example could be money taken out of the business on draws to principals.
- ▶ Set longer terms for Accounts Payable when possible. For example, increase a 30 day payment window to 60 days.
- ▶ Increase prices selectively where possible. Done effectively, this can boost cash flow and liquidity. Good Income Statement management helps Balance Sheet performance.

## PROFITS & PROFIT MARGIN

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*What are some things the company might do to develop favorable profitability trends?*

- ▶ Consider using parametric equations, in combination with personal experience and work factors, to estimate programming time and cost. This can help you improve planning and pricing, increasing profits.
- ▶ Offer additional services, such as face-to-face meetings and free consultation for current customers, in

order to compete with emerging global competition.

- ▶ Offer a menu of pricing options based on the scope of the engagement. This will help prevent you from losing money on particular jobs.
- ▶ Create good monthly budgets with cost reduction goals, broken down by account, that are put right into an accounting system (chart of accounts). This should allow management the ability to pull "variance reports", which compare budgeted revenues and expenses with actual revenues and expenses.
- ▶ Obtain internal reports that identify the business's key performance indicators (KPIs). KPIs help managers make good decisions by identifying the figures that are critical to performance.
- ▶ Search out multiple qualified vendors to get the best prices through competition, while maintaining quality. If the business is not continually reviewing/updating its existing and potential vendor lists, it may overspend on supplies/inventory.
- ▶ Invest in activities that can yield positive returns. For example, advertising and employee training can often improve performance for the business.
- ▶ Obtain an annual business check-up. Meet with an accountant or banker to review financial statements and get advice on how to improve performance.
- ▶ Generate accurate financial reports on a timely basis -- within 40 days of the end of the financial period. This will help ensure the usefulness of the data for examination purposes. Good financial reports are the backbone of management decisions.
- ▶ Monitor the costs going into all office supplies. With more important costs being monitored closely, many businesses forget to look at this smaller cost, and often allow it to be higher than necessary.
- ▶ Enroll the business in the right insurance program at a good cost. Evaluate alternative insurance carriers that may be able to serve the business at a cheaper cost.
- ▶ Be sure to track how much return (additional sales) the business gets from increases in advertising. Advertising methods should be dictated by effectiveness.

## **SALES**

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### ***What are some things the company can consider to encourage sales growth?***

- ▶ Be sure to subscribe to and READ the trade journal of the industry in which the business competes, such as Computerworld. Typically, there is no greater source of good operational information than a trade journal and there are many ideas that can help managers increase sales and keep clients.
- ▶ Establish a niche that the business is known for, such as software installation or disaster recovery. Develop the niche in relation to the target audience the business is trying to reach in order to maximize revenues from that group.
- ▶ Clearly define the mission of the business and make it visible to potential clients. This can be done through strategically placed advertisements and serves to let potential clients know what services they can expect from the business.
- ▶ Use client surveys. Send confidential surveys to clients and ask them how the business might better meet their needs. The surveys should ask both specific and general questions around how to improve services. By getting information from clients, the business will be able to better meet needs, which will increase sales/revenue over time.
- ▶ Work to consistently meet the expectations of clients. Clarify client expectations up front when necessary. Effectively meeting client expectations is often central to obtaining repeat business.

- ▶ Keep open communication with clients to help ensure quality service. Many clients will return to a business that takes the time to answer questions promptly and knowledgeably.
  - ▶ Compare the business to others in the industry and work to meet and exceed industry standards. This can help improve the business's competitive position and maintain clients who might be seeking an alternative provider.
  - ▶ Leave business cards with clients at the onset of work. This provides clients with contact information to quickly reach the business. In addition, these cards have the potential to help with referral business by being passed around to clients and potential clients.
  - ▶ Make it known to clients that their business is appreciated. For example, thanking clients for their business after each interaction is often a simple act that can help make clients feel valued.
  - ▶ Set up a referral network. Be sure that all clients are satisfied with the work the business is doing. Then, leverage that positive effect by asking clients to refer over other possible clients. "Word of mouth" advertising is truly the most powerful (and least expensive) way to build a business. Be sure to keep track of all past clients and stay in touch with them periodically.
  - ▶ Ensure that marketing materials are consistent throughout the business. Sometimes, marketing and advertising materials send different messages, which may confuse potential or existing clients.
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