

FVG's 3–Minute Briefing on:

Key Financial Metrics for Software Companies

Software company executives often ask us, what are the most important financial metrics (Performance Measures) for them to monitor in their companies? Although every company could have key metrics that vary from the next software company, we have compiled a generic list that every company should monitor.

If you do not regularly monitor your performance measures, start with the core metrics and then quickly add the secondary metrics as you become accustomed to monitoring them. Remember that they should be monitored in three ways:

1. Over time – to look for trends (improvements and declines),
2. Against your competitors (if this information is available) – to identify your strengths and weaknesses and areas for improvement, and
3. Against industry studies – to identify your strengths and weaknesses and areas for improvement.

Generally, if you are not already monitoring various metrics, it is advantageous to use the assistance of a consultant to select the appropriate metrics and to assist you with understanding how to manage based on your firm's performance measures.

Key software company performance measures are:

- Core metrics
 - Sales growth
 - Size of user base
 - Profit margins
 - EBITDA
 - Size of market place
 - Market penetration
 - Free cash flow
 - Return on equity
- Secondary metrics
 - Return on equity
 - Return on R&D
 - Receivables
 - Debt to net worth
 - Interest coverage
 - Percentage of R&D to sales
 - Percentage sales and marketing to R&D
 - Asset turnover



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