

Software Publishing

Industry Financial Data and Ratios

12/31/08



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Industry: 51121 - Software Publishers
Sales Range: All Sales Ranges
Data Source : Private Companies
Location: All Areas
Prepared On: 5/14/2009

INDUSTRY FINANCIAL DATA AND RATIOS

Average by Year (Number of Financial Statements)

Financial Metric	Recent 12 Months (56)	2008 (64)	2007 (147)	All Years (769)
Current Ratio	2.95	2.37	1.83	2.28
Quick Ratio	2.19	1.84	1.44	1.60
Gross Profit Margin	67.58%	70.90%	75.74%	73.22%
Net Profit Margin	8.57%	7.48%	7.09%	9.34%
Inventory Days	18.42	14.87	8.90	11.17
Accounts Receivable Days	47.47	48.04	42.74	42.79
Accounts Payable Days	25.95	26.11	32.70	30.15
Interest Coverage Ratio	4.54	4.44	5.41	4.28
Debt-to-Equity Ratio	0.94	1.09	2.17	1.61
Return on Equity	22.85%	21.98%	12.68%	13.76%
Return on Assets	11.74%	8.39%	10.83%	8.58%
Fixed Asset Turnover	12.59	13.69	14.17	12.81
Sales per Employee	\$156,644	\$157,370	\$129,445	\$150,732
Profit per Employee	\$6,957	\$1,379	(\$211)	\$10,897
Debt Service Coverage Ratio	1.47	1.47	1.55	1.26
Growth Metric	Recent 12 Months (26)	2008 (28)	2007 (61)	All Years (296)
Profit Growth	-17.34%	-21.29%	15.96%	6.10%
Sales Growth	8.37%	9.05%	14.14%	10.58%

INDUSTRY DATA COMMON SIZE
Average by Year (Number of Financial Statements)

Income Statement	Recent 12 Months (56)	2008 (64)	2007 (147)	All Years (769)
Sales (Income)	100.00%	100.00%	100.00%	100.00%
Cost of Sales (COGS)	32.42%	29.10%	24.15%	25.53%
Gross Profit	67.58%	70.90%	75.74%	73.22%
Depreciation	1.00%	1.04%	1.47%	1.77%
Overhead or S,G,& A Expense	39.96%	39.74%	41.08%	40.79%
Other Operating Income	0.00%	0.06%	0.06%	0.05%
Other Operating Expenses	2.39%	1.87%	40.29%	12.96%
Operating Profit	8.33%	7.33%	7.54%	8.84%
Interest Expense	0.79%	0.74%	0.98%	0.95%
Other Income	0.74%	0.62%	0.38%	0.39%
Other Expenses	0.17%	0.14%	0.15%	0.14%
Net Profit before Taxes	6.87%	6.00%	6.73%	8.47%
Adjusted Net Profit before Taxes	8.57%	7.48%	7.09%	9.34%
EBITDA	9.92%	9.30%	9.80%	11.30%
Taxes Paid	0.20%	0.42%	0.83%	0.55%
Net Income	7.57%	6.76%	5.39%	6.54%
Balance Sheet	Recent 12 Months (56)	2008 (64)	2007 (147)	All Years (769)
Cash (Bank Funds)	22.37%	20.19%	19.38%	20.59%
Accounts Receivable	31.01%	29.97%	27.59%	28.27%
Inventory	3.41%	2.74%	2.16%	2.75%
Other Current Assets	6.28%	6.50%	8.36%	7.43%
Total Current Assets	79.54%	74.28%	73.05%	73.77%
Gross Fixed Assets	30.98%	29.33%	31.46%	32.13%
Accumulated Depreciation	20.86%	20.75%	12.76%	15.73%
Net Fixed Assets	11.49%	10.92%	12.96%	15.26%
Other Assets	5.74%	6.74%	7.47%	6.59%
Total Assets	100.00%	100.00%	100.00%	100.00%
Accounts Payable	27.01%	26.94%	20.47%	17.95%
Current Portion of Long Term Debt	2.77%	3.93%	4.28%	3.50%
Other Current Liabilities	56.96%	56.78%	89.64%	56.57%
Total Current Liabilities	102.17%	101.58%	149.28%	89.12%
Long Term Liabilities	65.64%	69.93%	66.85%	42.65%
Total Liabilities	161.81%	166.16%	213.50%	130.30%
Ending Retained Earnings	-428.00%	-360.48%	-170.50%	-133.86%
Total Equity	-61.81%	-66.16%	-113.51%	-30.25%

LIQUIDITY

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

- ▶ Set up electronic methods for collecting payments -- allow customers to pay online when applicable. This can enable the business to collect on receivables faster.
- ▶ Pull frequent (weekly) accounts receivable reports in order to examine how effective the business is at collecting funds. Take action on any accounts that are overdue.
- ▶ Avoid pre-paying expenses or Accounts Payable. The reason is to keep funds inside the business (potentially earning interest) for as long as possible. It is generally not a good idea to pay bills earlier than the terms agreed upon -- utilize trade credit fully. Discounts may be an exception.
- ▶ Increase prices selectively where possible. Done effectively, this can boost cash flow and liquidity. Good Income Statement management helps Balance Sheet performance.
- ▶ Eliminate or reduce some overhead or fixed costs to reduce monthly expenses. Small decreases in overhead will typically yield large cash savings over time, especially if fixed costs can be reduced (those costs which tend to stay the same over time).
- ▶ Sell things that can boost cash such as unproductive assets. These are assets that are not contributing sufficiently to the generation of income and cash flow (possibly because they are under-utilized).
- ▶ 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.
- ▶ Borrow some long-term money (if necessary and possible) and put the funds into a liquid (cash) account.
- ▶ Term out some short-term debt if necessary and possible -- move some short-term debt down the Balance Sheet to long-term debt. This will usually require refinancing from the bank. The point of this is to relieve pressure from cash flow by lowering short-term payments. This is typically most appropriate when a business is having chronic difficulty meeting obligations.
- ▶ Use a monthly or bi-monthly payroll schedule if possible -- so long as morale will not be adversely affected. This will allow funds to stay in the business longer. Even labor outlays are a form of short-term financing.
- ▶ Try to establish a sufficient line of credit from the bank. There are methods to determine the amount of short-term credit needed to run the business. Talking with the bank can be helpful in this area. The business should obtain, but not necessarily use, as much financing as possible from the bank.
- ▶ Finance over the long term rather than the short term when financing is possible and necessary. This can help reduce per period cash outflows.
- ▶ Accept multiple forms of payment, such as credit and debit cards, to help cut down on the number of denied payments (bad checks). This helps to ensure that a business is collecting all of the money it is owed.
- ▶ Watch the payment terms of credit cards, if they are accepted by the business. For example, some credit cards have payment terms of ten days as opposed to the one day terms of others. Longer terms prevent the business from collecting actual payments until much later.

- ▶ 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.
- ▶ Obtain external financing if necessary and possible. Locate investors who may be interested in supplying funds to the business.

PROFITS & PROFIT MARGIN

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

- ▶ Defer or reduce salaries through non-cash plans, such as offering employees stock options or other benefits.
- ▶ Examine the benefits and costs of having employees work remotely. The most obvious benefit is the possible reduction of office costs; however this can make communicating more difficult.
- ▶ Make sure to turn off the lights and air when the business is closed. This can help save on utility expenses.
- ▶ Take advantage of/negotiate for volume discounts or other concessions with current suppliers.
- ▶ 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". These reports compare budgeted revenues and expenses with actual revenues and expenses and can help managers keep costs down.
- ▶ 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. Net profit is not a KPI -- profits are a result of managing KPIs well.
- ▶ Focus on hiring quality employees, specifically for more important positions. Take measures that can help determine their character and performance history. Call previous employers to help assess these criteria as needed.
- ▶ 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.
- ▶ Reward the employees who perform best. To do this effectively, the business needs to monitor labor performance.
- ▶ 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.

- ▶ Establish expense accounts using excess funds not dedicated to taxes. Use these accounts to grow revenues and increase earnings -- marketing expenses, equipment purchases, and employee training can be considered. Remember, this has the dual benefit of lowering present tax burdens (these expenses will lower taxable earnings) and driving long-term profits.
- ▶ Be sure to track how much return (additional sales) the business gets from increases in advertising. Advertising methods should be dictated by effectiveness. Many businesses don't track how they get incoming business so they cannot track the effectiveness of advertising. Try to determine where new business comes from through surveys and even more informal ways. Talking to customers is never a bad idea.
- ▶ 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. Meet with insurance agents to determine ways to reduce costs by evaluating coverage and deductibles.

SALES

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

- ▶ Consider delivering your software over the internet via ASP (Application Service Provider) delivery, if not already doing so. This reduces losses due to copyright violation and software piracy and eliminates the cost of shipping software CDs.
- ▶ Watch trends in the marketplace to determine where a tool might be needed. Many times, offering more in depth solutions to problems that a particular industry may have is the greatest differentiator that the business can bring to the table.
- ▶ Use email solicitations as a way to create brand awareness. It is not always an extremely effective way of bringing in new customers, but in the long run it can create a lot of visibility for the business.
- ▶ Monitor the level of customer service in the business, as this can typically be a real challenge in the software industry. It can be easy to lose valuable brand by not servicing customers well. In order to combat this, some firms may pay higher than normal wages/salaries for customer support and service positions to attract the best employees possible. The business can also consider having extensive training programs and putting good procedures in place to be sure that customers receive good service.
- ▶ Attend trade shows and conferences to present the software to potential customers. This can also allow for feedback for potential improvements.
- ▶ Have an attractive web presence. This will potentially increase revenue by providing an extra forum for the business to feature its offerings. Consider consulting a marketing/design firm to get tips for improvement.
- ▶ Establish uniqueness in the product or service the business offers -- a unique selling feature. By doing so, the business can generate increased demand for its offering and potentially increase prices as well.
- ▶ 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 customers who might be seeking an alternative provider.
- ▶ Work to consistently meet the expectations of customers. Determine what the customer expects and if those expectations are being met. Assessing performance is often central to maintaining business.
- ▶ Establish a niche that the business is known for. Develop the niche in relation to the target audience the

business is trying to reach in order to maximize revenues from that group.

- ▶ Incorporate the suggestions of customers into product releases. Regularly canvass and survey customers for feedback on how to improve the products and/or services. Consider going out and talking with customers in their environment. Also, consider using focus groups to gather customer feedback.
- ▶ Gather customer information and suggestions right within the website of the business or, better, within the products themselves. Customers should see feedback/suggestions links throughout the business's website or product. Basically, make it easy for customers to give you information on products or services.
- ▶ Use industry experts and consultants to help you improve your business. This is particularly helpful if you feel like you want to concurrently keep and get more customers. People with long experience in an industry can save you years of time by leveraging their knowledge. Industry consultants can be found in trade journals and magazines.
- ▶ Be sure to subscribe to and READ the trade journals that are relevant to the business. 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 customers.
- ▶ Set up a referral network. Be sure that all customers are satisfied with the work the business is doing. Then, leverage that positive effect by asking clients to refer over other possible customers. "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 customers 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 customers. Layouts in materials should be the same and "messaging" on main themes should be consistent as well. Look across all materials at one time to be sure that main themes are consistent and that layouts (including colors) are similar. The goal of sales and marketing materials is to build an image and a brand so that people will recognize the business and be attracted to it.
- ▶ Make it known to customers that their business is appreciated. For example, thanking customers for their business after each interaction is often a simple act that can help make customers feel valued.
- ▶ Display the achievements of the business where appropriate. For example, obtain and display testimonials and/or awards won. This can help establish the business as a quality provider to potential customers.
- ▶ Evaluate service and support fee agreements, which can sometimes cause bad will with customers. Consider adding projected service/support costs into license agreements as appropriate.
- ▶ Keep customers regularly informed about product updates and releases. Touching customers lightly with relevant information on products can be helpful in maintaining good relationships.
- ▶ Reward customers for great ideas on how to improve products and/or services. Offer appropriate incentives for product and service ideas. This can help build loyalty and boost energy around the business.