# The ABCs of Financial Performance Measures and Benchmarks for Canada's Tourism Sector

## Financial Planning: Key to Maximizing Your Bottom Line

Guide 1

*Discover our true nature*

Canadian Tourism Commission
Commission canadienne du tourisme

Canada

# The ABCs of Financial Performance Measures and Benchmarks for Canada's Tourism Sector

## Financial Planning:
## Key to Maximizing Your Bottom Line
## Guide 1

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Scott Meis
Executive Director, Research

# Preface

The tourism sector has recently experienced a slower growth in sales activities due to the slowdown in economic activities, the September 11, 2001 tragedy, the Iraqi War and most recently the outbreak of Severe Acute Respiratory Syndrome (SARS). Whether this slower growth pace will continue over the next years is still a question mark. However, one thing is certain; to stay competitive and increase profitability, tourism operators will have to be more vigilant in managing their business establishments.

We are pleased to make available *The ABCs of Financial Performance Measures and Benchmarks for Canada's Tourism Sector* Guides. There are six guides in the series:

- Guide 1 – Financial Planning: Key to Maximizing Your Bottom Line
- Guide 2 – Profiling Your Financial Statements
- Guide 3 – Financial Performance Measures and Benchmarks for Canada's Tourism Operators
- Guide 4 – Decision-making Tools for Canada's Tourism Operators
- Guide 5 – Linking Your Financial Performance Measures to Your Business Plan
- Guide 6 – Industry Financial Averages and Benchmarks for Canada's Tourism Operators.

These six financial planning guides were written for tourism operators who have little or no experience in the area of finance. These guides can be used as reference documents by tourism operators who wish to better understand the language of accounting and finance, maximize the utilization of the financial planning spreadsheet, and discuss with more self-assurance their financial plans with investors. These guides become progressively more sophisticated, ranging from the principles of finance and culminating with cutting edge performance measures and financial analysis and decision-making techniques.

In addition, to help tourism operators in improving the analysis of their business establishment and the effectiveness of their decisions, we will also be introducing a new tool; a customized tourism operators' financial planning spreadsheet in the near future. This practical and user-friendly tool can help tourism operators analyze quickly the impact of their decisions on the financial destiny of their business establishments. After taking just a few moments to input their financial statement data on the spreadsheet, tourism operators will be able to view the financial profile of their businesses from different angles: liquidity, profitability, productivity, overall financial health, growth rate, financial stability and shareholder value. The financial planning spreadsheet will not only calculate the more critical financial performance measures of their business, but will also compare them to industry averages and financial benchmarks. This way, tourism operators will be able to determine how well they are doing and what needs to be done to improve their performance in order to remain profitable and competitive. This spreadsheet also offers tourism operators several decision tools that will help better assess the viability of their investment decisions.



These six guides and the financial planning spreadsheets will be made available on the CTC's website: www.canadatourism.com

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## Introduction

This series of six *Financial Planning Guides* is designed to help owners and managers of tourism-related businesses plan more effectively and operate more profitably. The guides explain how to apply accounting principles and financial planning concepts to improve decision-making.

The information becomes progressively more sophisticated from one guide to the next, beginning with fundamental principles of accounting and culminating with cutting edge analytical measures such as industry averages and financial benchmarks. Each operator must decide where to start the series based on his or her knowledge of finance and accounting.

The first guide, *Financial Planning: Key to Maximizing Your Bottom Line* gives an overview of the importance of financial planning for tourism operators and covers the following topics:

- accounting, bookkeeping and financial statements;
- the goals of financial management;
- how to use financial statements to plan effectively;
- the importance of analyzing financial statements;
- which financial performance measures to focus on; and
- how to use financial benchmarks to maximize profit.

Guide 2, *Profiling Your Financial Statements*, describes how to use income statements and balance sheets to set performance measures.

Guide 3, *Financial Performance Measures and Benchmarks for Canada's Tourism Operators*, describes measures, benchmarks and industry averages, and explains how they help analyze liquidity, debt coverage, asset management, profitability, growth, and financial health.

Guide 4, *Decision-making Tools for Canada's Tourism Operators*, details how to use financial data to make decisions that can improve profitability.

Guide 5, *Linking Your Financial Performance Measures to Your Business Plan* describes how well prepared business plans and investment proposals can help improve business performance.

Finally, Guide 6, *Industry Financial Averages and Benchmarks for Canada's Tourism Operators*, details how the Canadian Tourism Commission (CTC) calculates industry averages and performance measures using:

- tourism satellite accounts (templates for the tourism industry); and
- a comprehensive business registry – an inventory of businesses in Canada.

Many of the guides include appendices; the number for each appendix describes its location. The first number refers to the guide, the second to the location within the guide. For instance, Appendix 3.2 refers to the second appendix of Guide 3. Throughout these guides, the term 'operator' is used to describe all decision-makers, including owners and managers.

## Who's Piloting Your Business?

Managing a business is much like piloting an aircraft: in both cases, the operator has to make regular adjustments to stay on course and ensure smooth performance. In an aircraft, the pilot consults cockpit instruments to determine which adjustments are needed and when to make them. A business operator uses financial statements in much the same way, relying on them for guidance. Financial statements – records of past, current and projected performance – provide the information needed to manage a business successfully.

Operators make decisions that influence the profitability of their businesses on a daily basis. These decisions might include hiring a new employee, purchasing equipment or increasing the selling price of a service or product. Every decision has an impact on performance, measured by a profit-and-loss statement, and financial structure, recorded on a balance sheet. Operators unable to read or interpret financial statements are, in essence, flying blind – unable to gauge how their business is doing, or where it's headed.

A successful operator:

- understands his or her operating environment;
- has a clear plan for the future of the business; and
- recognizes what must be done to execute that plan.

A savvy operator makes all final decisions, but may turn to others for advice. Accountants and business consultants, for example, can provide valuable assistance to operators with a limited knowledge of accounting and finance. These consultants, however, can have a negative impact on a business if they don't have a clear understanding of the operator's business environment.

Financial matters are far too important to be left to specialists and consultants alone. With the help of these guides, operators can learn how to pilot their businesses successfully.

## Accountants and Operators

In most cases, managing a successful business requires operators and accountants to perform separate yet complementary roles. Bookkeeping and accounting are the responsibility of accountants; financial analysis and decision-making are the responsibility of operators. It is important to recognize the differences between these tasks.

***Bookkeeping*** involves the collection, classification, and recording of all relevant information. This information typically describes sales, purchases and accounts receivable. Transactions are recorded initially in books of original entry known as *journals* and subsequently logged in books of final entry known as *ledgers*. Each transaction is entered into one of five accounts:

- *Assets*: what a business owns.
- *Liabilities*: what it owes to creditors.
- *Equity*: what it owes to shareholders.
- *Revenue*: how much it earned as a result of selling its goods or services.
- *Expenses*: the cost to produce and sell its goods or services.

***Accounting*** arranges the above information into four standardized financial statements:

- an income statement (also known as a statement of operations or earnings);
- a statement of retained earnings;
- a balance sheet (also known as the statement of financial position); and
- a statement of cash flows (also known as the statement of changes in financial position).

Each financial statement is a report card describing how well a particular aspect of the business is performing. These statements are prepared according to *generally accepted accounting principles* (GAAP). Accounting is a regulated profession, with standards of education, accreditation, and conduct that include GAAP. Thanks to these standards and principles, financial statements are easily read, understood and analyzed. A stakeholder wondering about the value of what a business owns, for instance, knows that assets will be listed on its balance sheet. These standardized statements make it easy to compare different businesses, sectors and industries.

***Analysis*** involves the interpretation of financial statements. Once an accountant produces a set of financial statements, they must be analyzed and interpreted by the business operator. Properly interpreted, the statements can suggest ways to improve productivity, profitability and potential.

Most operators want to know how well the business is doing in terms of:

- Profit performance (How much profit is the company generating? What is the return on sales and assets? What can be done to improve return?)
- Accounts receivable and inventories (Are they at reasonable levels?)
- The relationship between current assets and current liabilities (Can the business pay its current debts on time?)
- Long-term debt (Is it in line with the amount invested in the business?)
- Growth objectives (Is the business growing too quickly? What can be done to manage growth?)
- Overall financial health (Which strategies can improve financial health?)

***Decision-making*** involves using financial information and analysis to manage a business effectively. Experienced operators rely on established decision-making techniques to improve the performance and structure of their businesses. These techniques enable operators to:

- set appropriate prices for products and services;
- improve profitability by accelerating the cash-conversion cycle;
- establish an effective credit policy;
- maintain an appropriate inventory;
- assess the financial viability of capital investments such as new projects, expansions and renovations; and
- identify appropriate sources of financing.

## Financial Statements and Planning

Every decision, big and small, has an impact on financial statements. When operators make changes in marketing, operations, administration, human resources, and research and development, financial statements reveal the impact of those changes. To manage a business effectively, an operator must recognize how each action is likely to affect the bottom line. While planning is important to success in business, interpreting results is crucial. Guide 5, *Linking Your Financial Performance Measures to Your Business Plan*, provides more detail on successful planning.

The adage "he who fails to plan, plans to fail" is particularly true for entrepreneurs in Canada, where only one business in five survives its first few years. Why do so many operators fail to plan? Typical reasons include:

- The operator doesn't have enough time – the 'one-man band' problem.
- The operator has succeeded in the past without planning, why start now?
- The future is too unpredictable; planning won't solve problems.
- The operator is uneasy about what the plan might reveal.
- The operator is unfamiliar with the language of business, accounting and finance.

These guides can help entrepreneurs overcome these obstacles – particularly the last one – with practical, hands-on tools.

## Objectives of Financial Management

The primary goal of financial management is to promote the efficient and effective use of resources. To achieve this objective, financial management focuses on *raising funds*, and on *purchasing and utilizing assets* to gain the highest possible return. If a business borrows money to purchase an asset, for instance, that asset should yield a rate of return higher than the cost of borrowing.

Financial management helps answer questions in four critical areas:

***Profitability*** Is the business profitable? What return does it provide investors? Is the business efficient? Are costs under control? Is the business providing added value for its shareholders? Financial statements provide answers to all these questions and help operators find ways to maximize profits.

***Liquidity*** How much cash does the business have access to? Can the business meet payroll, pay suppliers and service its debt? How much cash can be generated within the coming months or years? To determine whether to borrow money and how much to borrow, an operator needs a clear understanding of the business' liquidity.

***Investing*** Money can be spent on: operating activities such as salaries, advertising, supplies and insurance; working-capital assets such as inventories and accounts receivable; and capital assets such as machinery and equipment. Operators must recognize the efficiencies and inefficiencies of a business to spend wisely. Will money spent on automation and expansion, for instance, yield a higher return than the cost of capital? Of equal importance is the issue of risk. Higher-risk investments usually generate larger returns – when and if they pay off at all.

***Financing*** Once an operator recognizes that the business needs an infusion of money, the question becomes where to get it. Suppliers, bankers, shareholders, venture capitalists, insurance companies – each provider of funds comes with its own set of advantages and disadvantages.

## Why Analyze Financial Statements?

Tourism operators analyze financial statements for four principal reasons:

- to determine how to maximize profitability,
- to measure liquidity,
- to ensure solvency, and
- to identify strategies that can lead to long-term prosperity.

### Profitability

In business, profit is synonymous with survival. A business must earn enough profit to repay creditors and investors, finance its working capital requirements and buy capital assets. Guide 3, *Financial Performance Measures and Benchmarks for Canada's Tourism Operators*, explains how performance measures such as return on sales, return on assets, and return on invested capital can readily demonstrate whether a business is profitable enough to satisfy its operating requirements and long-term plans.

There are several ways to improve profitability:

- increase sales volume or unit selling price;
- trim operating expenses (e.g. cost of administration and overhead);
- reduce interest charges on borrowed capital; and
- sell non-productive assets.

Guide 3 describes how to use advanced analytical techniques known as financial performance measures. In the example below, a method known as common-size ratio has been applied to an income statement. Each dollar amount in the original statement has been converted to a percentage of total sales. Once these percentages have been calculated, performance can be readily compared to that of previous years, of competitors, and to industry-wide statistics. This analysis can help operators plan growth effectively.

Percentage of sales revenue

| | 2001 | 2002 | 2003 |
|---|---|---|---|
| Sales revenue | 100.0 | 100.0 | 100.0 |
| Cost of sales | 80.0 | 79.0 | 78.0 |
| Gross margin | 20.0 | 21.0 | 22.0 |
| Operating expenses | 13.0 | 12.0 | 11.0 |
| Income before taxes | 7.0 | 9.0 | 11.0 |

The table presents a common-size ratio analysis of a fictional firm's income statement prepared near the close of fiscal year 2002. The table's three columns list actual performance for 2001, anticipated performance for 2002, and projections for 2003 – estimates based on planning assumptions.

The table shows that income before taxes is expected to increase from seven to 11 percent between 2001 and 2003. A scan of the table reveals that efficiencies in cost of sales and operating expenses will be responsible for this increased profitability.

This simple analysis enables the operator to estimate how much revenue the business is likely to generate in 2003. If the sales objective for 2003 were $10 million, an 11 percent return would generate $1.1 million. If the return on sales performance were maintained at the 2001 level of 7.0 percent, however, only $700,000 would be generated.

## Liquidity

Liquidity, a measure of accessible cash, is often as important as profitability, particularly in tourism. Cash is required to pay employees and creditors and protect against contingencies. Liquidity also has a big impact on growth. If a business were to suffer a decline in return on sales, for instance, and if it had few liquid assets, it would have to borrow money to expand. Interest charges, of course, tend to reduce profit margins – and might contribute to further declines in the firm's return on sales.

Successful operators maintain enough liquidity to meet day-to-day expenses and repay loans on schedule. While it is usually possible to defer payments on certain obligations – such as bank loans – this practice can quickly spiral out of control and lead to financial ruin.

An important measure of liquidity is the relationship between current asset accounts, such as accounts receivable and inventories, and current liability accounts, such as accounts payable and accrued expenses.

There are a few basic strategies to improve liquidity:

- accelerate billing and collection processes;
- delay disbursements;
- reduce working capital requirements, such as inventories and accounts receivable; and
- shorten the sales cycle – the time it takes to convert inventory into sales.

## Solvency

Solvency – the ability to pay debt – is crucial in business. Defaulting on a loan can not only ruin a company's credit rating, but also lead to expensive lawsuits. A careful analysis of solvency will determine a company's ability to meet its financial obligations on time.

A business can be technically insolvent and remain profitable, as when long-term debts exceed equity. To establish whether a business is creditworthy, investors and lenders rely on two measures of solvency: *financial structure*, which compares liability to equity; and *debt-paying ability*, which examines how well a business can service its debt.

A common-size statement analysis is an effective way to demonstrate financial structure. In the example below, every line on the balance sheet is expressed as a percentage of total liability and equity. This technique helps reveal long-term changes in financial structure and enables ready comparisons with other businesses or sectors.

Percentage of liabilities and equity

| | 2001 | 2002 | 2003 |
|---|---|---|---|
| Current liabilities | 20.0 | 23.0 | 21.0 |
| Long-term debt | 40.0 | 42.0 | 39.0 |
| Total debt | 60.0 | 65.0 | 60.0 |
| Shareholder equity | 40.0 | 35.0 | 40.0 |
| Liabilities and equity | 100.0 | 100.0 | 100.0 |

In this example, the firm's structure changed between 2001 and 2002: total debt increased while shareholder equity declined. The projection for 2003 calls for a return to the old levels.

## Prosperity

Prosperity – the ability to grow smoothly – is a constant concern for operators and owners. There are many factors that can influence a company's ability to grow, such as market size, market share and employee attitudes.

To grow a business, an operator needs to answer the following questions:

- Does the business have the resources – physical, financial and human – to grow?
- How can the business fund growth?
- Does the business have enough credit to finance growth?
- Does the business have the cash to service new debt?
- Will growth increase the return on sales and earnings, and if so, by how much?

Growth costs money; there are four principal ways to raise this money:

- Use cash from operations.
- Borrow from lenders and shareholders.
- Decrease dividends.
- Reduce the amount invested in capital assets.

Performance tracking – in several categories – is an effective tool for planning growth. The table below describes a company's performance over three consecutive years. For each line, growth is expressed as a percentage of the previous year's tally.

Percent change over previous year

| | 2001 | 2002 | 2003 |
|---|---|---|---|
| *Income statement accounts* | | | |
| Sales revenue | 11.5 | 25.0 | 25.3 |
| Cost of goods sold | 12.1 | 19.5 | 10.4 |
| Operating expenses | 8.8 | 12.6 | 17.5 |
| Income after taxes | 10.4 | 93.2 | 81.4 |
| *Balance sheet accounts* | | | |
| **Assets** | | | |
| Current assets | 9.5 | 17.8 | 3.2 |
| Capital assets | 21.3 | 38.2 | 32.4 |
| Total assets | 14.3 | 26.3 | 17.0 |
| **Liabilities and equity** | | | |
| Current liabilities | 8.5 | 14.4 | 2.4 |
| Long-term debt | 14.6 | 41.0 | -14.0 |
| Total debt | 12.1 | 24.8 | -5.4 |
| Shareholders' equity | 15.3 | 27.8 | 40.9 |
| Total liabilities & equity | 14.3 | 26.3 | 17.0 |

This illustration reveals that a 25.3 percent increase in sales revenue generates an 81.4 percent increase in income after taxes and involves a 17 percent increase in total assets. Most of the funds for this growth come from shareholder equity. This type of analysis gives operators and investors the information they need to analyze a firm's pattern of growth.

## Financial Performance Measures

Financial performance measures take much of the guesswork out of decision making. They are valuable analytical tools that enable meaningful comparisons with other businesses and sectors, and with industry averages and financial benchmarks.

A quick glance at a balance sheet or income statement can reveal how much profit a business has made, how much debt it owes, and how much capital is invested in it. To evaluate business performance, however – to determine liquidity, debt, coverage, asset management, profitability and overall financial health – financial performance measures are needed. The study of a business' performance measures can reveal which decisions need to be made to sustain long-term prosperity.

A financial performance measure is a ratio that compares one account with another. Guide 3 describes three types of comparisons:

- *Balance sheet performance measures*, which compare two balance sheet accounts.
- *Income statement performance measures*, which compare two accounts on an income statement.
- *Combined performance measures*, which compare components of a balance sheet to components of an income statement.

To analyze specific components of financial performance, the measures are divided into five categories:

- *Liquidity financial performance measures* that gauge a firm's ability to meet its cash obligations.
- *Debt/coverage financial performance measures* that evaluate a firm's capital structure – the amount a business borrows to purchase assets and its ability to service debt.
- *Asset-management financial performance measures* that evaluate how efficiently a business uses its assets.
- *Profitability performance measures* that compare profit level to sales revenue, assets, and equity to determine the operating efficiency of a business.
- *Growth and financial health performance measures* that analyze the overall health of a business – the wealth it creates and the maximum rate that its sales revenue can increase without depleting resources.

## Benchmarking

Benchmarking is a management technique that was pioneered by Xerox during the late 1970s in response to increased competition in the photocopier industry. Essentially, it involves comparing the processes and policies of one business with those of other businesses – often in other countries or industry sectors. Benchmarking often reveals new ways to improve operating efficiencies.

An effective management tool, benchmarking can help operators identify and solve problems, find creative and innovative solutions, and formulate and implement strategies to improve performance. It is not necessarily a complicated process; benchmarking can be as simple as studying the practices of businesses considered to be the best in a particular industry. A benchmark is a standard – usually one worth emulating. There are four types of benchmarks:

- *Process benchmarks* describe specific work processes or operating systems, such as billing procedures or employee-recruitment programs.
- *Performance benchmarks* focus on policies related to products and services, such as pricing, technical quality, features and reliability.
- *Strategic benchmarks* (also known as outside-of-industry benchmarks) compare business processes in one sector to another, such as hotels versus restaurants. These benchmarks tend to help operators improve the long-term competitiveness of their businesses.
- *Internal benchmarks* describe processes within a business. For example, a restaurant with five locations might determine that one location has a better method of baking bread. That method would then be designated as an internal benchmark – the standard against which other locations will be measured. Internal benchmarks can also be used to compare systems in different departments, such as marketing and human resources.

The process of benchmarking involves nine steps*:

1: Identify the process that requires a benchmark (e.g., a service, a method).

2: Pinpoint where the benchmark will come from (e.g. a company, a sector).

3: Research the process, sector and business, and create a meaningful method for comparison.

4: Identify any gaps between the benchmark and your firm's performance.

5: Establish short and long-term performance goals.

6: Identify and implement realistic strategies to achieve the goals.

7: Communicate the goals and strategies to all employees.

8: Monitor progress regularly and devise new solutions if goals are not realized.

9: Re-evaluate and update the benchmarks based on more recent performance data.

## Financial Benchmarks

Financial benchmarks are statistical standards of excellence achieved by leading businesses and recorded on their income statements and balance sheets. These benchmarks measure liquidity, debt coverage, asset management, profitability, growth and financial health.

Caution should be exercised when comparing individual financial benchmarks of different companies and sectors. An excellent return on sales for one company, for instance, may be marginal to another. To enable useful comparisons, financial benchmarks are divided into three categories: soft, hard and self regulated.

Most financial benchmarks are *soft*; they describe statistics that vary from industry to industry. Acceptable liquidity ratios, for instance, vary widely among sectors. If considered in isolation, soft benchmarks can be misleading. *Hard financial benchmarks* are targets that apply to all businesses. The ability to service debt, for example, is important in every sector and business. *Self-regulated financial benchmarks* are internal targets based on a firm's past performance. Guide 3 includes detailed descriptions of 29 financial benchmarks.

*For interesting reading on this subject, refer to Robert Camp, *Benchmarking: The Search for Industry Best Practices That Lead to Superior Performance*, Quality Press, 1989.

## Glossary for This Guide

**Accounting**: Process of recording business transactions on a company's financial statements.

**Assets**: Resources that a business owns to produce goods and provide services; there are tangible assets, such as cash, inventory, land, and buildings, and intangible assets, such as patents and goodwill.

**Balance sheet**: A financial statement describing a company's financial condition (assets, liabilities, and equity) at a specific moment in time.

**Benchmarking**: Process of identifying potential improvements by comparing one company to another.

**Benchmarks**: Best practices, processes and achievements to be emulated.

**Bookkeeping**: Activity that involves collecting, classifying and reporting accounting transactions.

**Common-size statement analysis**: Method of converting all numbers on an balance sheet to a percentage of total assets, and all numbers on an income statement to a percentage of sales revenue.

**Cost of capital**: The cost of borrowing from investors (lenders and shareholders).

**Current assets**: Balance sheet accounts such as cash, accounts receivable and inventory.

**Current liabilities**: Debts that a business must pay within one year (i.e., accounts payable).

**Equity**: Funds provided by shareholders; on a balance sheet, owners' equity equals total assets minus total liabilities.

**Financial benchmark**: Financial performance measures that can be calculated by using dollar figures shown on financial statements (income statement and balance sheet) for the purpose of pinpointing excellent financial performance.

**Financial management**: Activities related to raising funds and buying assets to generate the highest return.

**Financial performance measure**: Comparison between numbers recorded on financial statements.

**Financial statements**: Financial reports including income statements, statements of retained earnings, balance sheets and statements of cash flows.

**Financial structure**: The way a company's assets are financed by all short-term and long-term debt.

**Financing decisions**: Decisions related to borrowing from lenders and shareholders.

**Generally Accepted Accounting Principles (GAAP)**: A broad set of rules delineating how various transactions are reported on financial statements.

**Hard financial benchmark**: Financial targets that can be applied to any business or industry to gauge financial performance.

**Horizontal analysis**: A method of tracking how individual accounts change between consecutive financial statements; measured as a percentage.

**Income statement**: Financial statement that summarizes revenues and expenses for a specific period of time.

**Investing decisions**: Decisions related to the acquisition of assets (current and capital).

**Ledgers**: Books of final entry; record of accounts based on data drawn from journals.

**Liabilities**: Debts of a business.

**Liquidity**: Ability to meet short-term financial obligations.

**Long-term debts**: Amounts owed by a business to creditors for more than one year; includes bonds and mortgages.

**Operating decisions**: Decisions related to accounts appearing on the income statement (e.g., sales revenue, cost of goods sold, selling expenses).

**Operating income**: Difference between gross margin and operating expenses.

**Owners' equity**: Total assets minus total liabilities; also known as equity capital or net worth. Funds invested in a business by the owners.

**Return on sales**: Amount of profit generated from each sales dollar.

**Self-regulated financial benchmark**: Financial targets that are determined by a business' own policies and practices and other financial measures.

**Soft financial benchmark**: Most financial benchmarks fall in this category and should be used with some degree of interpretation.

**Statement of cash flows**: Financial statement that shows where funds come from and where they went.

**Statement of retained earnings**: Financial statement that shows the total amount of income retained since the business was created.

**Vertical analysis**: The process of reducing all items in a balance sheet and income statement to a percentage of total assets or sales, respectively; common-size ratio.

**Working capital**: Total current assets and total current liabilities.

**Working capital management**: Managing individual current asset and current liability accounts to ensure proper interrelationships among them.