



Water Street Insights

Success Matters

WATER STREET ADVISORS

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Statistics – Not Just a Baseball Thing Anymore

July has to be the best month for anyone in any part of the world that has some interest in sports. Whether it be World Cup futbol (soccer for us in America), or Wimbledon tennis or the Tour de France for cyclists, or the upcoming British Open for golf fans, there is something for everyone. These are some of the best events the world can offer. While watching the various sports in July you may (or may not) agree that there is no more 'American' pastime than Major League Baseball. It was especially inspiring to see the very patriotic respect that was given to our armed forces during the games on July 4th.

It is amazing how the baseball announcers can quickly access and quote statistical nuances about the game including the drop distance of a pitcher's sinker ball when it is 93 degrees on a relatively humid day as it compares to the rest of the games that he has pitched sinkers in this year. And from that they postulate that if, in the first two innings, his sinkers are averaging a 4-5" drop, then he will likely pitch a good game from that point on. While part of this is due to the accumulated baseball knowledge of the announcers, the major contributor is the technology that enables exacting measurements of the strike zone and instantly computes statistical data from each pitch, then delivers these meaningful tidbits in real time to the announcers calling the game live.

If this technology is readily available to make watching our favorite team more enjoyable, what can it do for your business? One of the first things a Credit Analyst is taught is how to analyze a business by looking at its financial statements and calculating ratios from those statements that tell a story or illuminate a trend, whether good or bad, about the business. If lenders use this information to understand your business, perhaps you will also find the information insightful.

Financial information, including information about trends, and ratio calculations are the 'statistics' used in business. While you may not be deciding which player to bring up from the Minor Leagues, or to trade, you do need to have an idea of what direction your business is going. Ratios such as the Current Ratio can tell you where you stand from a working capital perspective and may help you predict a time of tight cash flow availability before it happens. The Fixed Charge Coverage ratio is a favorite ratio used to monitor whether a business is generating enough cash flow to meet its 'fixed' (contractual) payment obligations. Knowing these numbers and where they may be headed is critical to managing a well-run business.

It is not necessary to have a team of statisticians to have this knowledge, a businesses statistician can be its accountant, CFO or bookkeeper, or even its QuickBooks program. These statistics are available to any business generating a financial statement. The important part is to generate them in the first place and learn how to analyze and interpret them to help you run your business on a day-to-day basis. A well-run business is a more valuable business.

If you would like to discuss how to get more from your financial reporting and value for your company, please give us a call.

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