

BENCHMARKING AND TREND ANALYSIS



A vital part of owning a Business is managing the performance of the Business. A vital part of assessing the performance of your Business is by the use of Benchmark Analysis.

Benchmark Analysis is the process of comparing the performance of your business to that of similar businesses. It is only after such analysis that you can properly understand where your business is performing well and where it is underperforming.

Once you have this information you can 'make informed decisions' about where the best opportunities are to improve the performance of your business.

When Benchmark Analysis is coupled with Trend Analysis you are able to really understand how your business is performing and, importantly, you can identify worrying trends BEFORE they become a problem for your business.

Quite frankly, it is impossible to manage the performance of a business without Benchmark Analysis and Trend Analysis.



A critical stage in Benchmark Analysis, Trend Analysis and Variance Analysis is having a decent 'chart of accounts'. Your chart of accounts is the categories you use to record various incomes and expenditures. If these are not set up properly then all three of Analysis is impossible. Too many businesses simply dump all their incomes into one category and 'assume' they know which product lines are most profitable. That is a very bad management practice

Also, when you come to your business, you can command a higher price if you demonstrate a history of accurate, detailed management reporting.

One of our specialist services is helping businesses set up their appropriate reporting structures so call us for a free assessment of your chart of accounts.



Unfortunately, in Australia, the document most commonly used to manage businesses in the private sector is not related to Trend Analysis, Benchmarking nor Variance Reporting. The document most commonly used to manage businesses in the private sector is the Bank Statement. Bank statements do not tell the business owner anything about how the business is performing.

Businesses that are 'managed by bank statement' will not be operating as successfully as businesses that are managed via a more formal, structured means.

In order to effectively conduct Benchmarking you need a reliable dataset against which you can compare performance. Larger businesses may decide to use Internal Benchmarking where they compare performance against internal departments or divisions (eg a retail chain may compare margins etc between its various different stores).

More common is External Benchmarking but to do this you need a reliable database. **Most firms do not have direct access to one of these use firms such as ours.** Our database includes KPIs of almost 4,000 businesses spread over around 100 different industries.

Our Benchmarking Service enables us to benchmark businesses in these 100 industries to their peers. Whilst we recognise that benchmarking is not an absolute science, it does highlight notionally underperforming areas. Business owners need to investigate these areas to understand the causes of the apparent underperformance. These reasons will either be 'justifiable' (eg having an office in Townsville and one in Mt Isa) or 'non justifiable' (eg having an inefficient advertising strategy). Non justifiable causes will be costing the business money, causing unnecessary business stress on the owners, cause cash flow problems and could be a potential threat to the business.

Benchmarking and Trend Analysis are also vital tools for when you are looking to sell your business, buy a business and/or approach a bank for finance. You should never buy/sell a business without conducting some Benchmarking or Trend Analysis. Also, most banks would be able to offer better terms and/or quicker 'approvals' if the business can demonstrate superior benchmarking performance and improving trends (which basically indicate lower degrees of risk)





BUSINESS SNAPSHOT DATASHEET

We have developed a Business Snapshot Datasheet that can be used as an introduction to Trend Analysis. This datasheet is free to use and should not take more than five minutes to complete—assuming that you have reliable and accessible financial records!

Once completed we would be happy to discuss the results with you—also complimentary.

Go to www.macleanspartners.com.au for more details



**Bringing all the pieces of you
financial life together**

Benchmark and Trend Analysis are vital elements of Business Management. Benchmark Analysis identifies which areas of a business are performing well and which areas are underperforming; Trend Analysis identifies which areas of a business are getting worse.

One key consideration when conducting Benchmarking and/or Trend Analysis is identifying the relevant ratios. These relevant ratios are often called Key Performance Indicators (KPIs) and it is critical to identify which of these you wish to consider each, say, month. Once you've identified them, Benchmarking Analysis helps in identifying 'performance'

Common examples include Monthly Sales, Debtor Days, Bank Balance and Profit Margins. However, many other KPIs exist and every business should be that they have identified all the KPIs that are relevant to their business.

Regular reporting against KPIs, and their targets, enables business owners to drive the performance of their business. Without such measures a business will generally 'float around, responding to one off opportunities'.

Proper identification of your KPIs enables you to effectively manage your Business. You don't have to spend hours each month interpreting pages of financial statements—the KPIs give you a snapshot of the month's performance.

Further, the Trend Analysis will tell if things are steadily getting worse or not.

To be useful, Benchmarking requires some experienced analysis. No two businesses are the same and there may be bona fide reasons for a particular benchmark to be above or below 'industry average'. For example, a business with an office in Townsville and one in Mt Isa will have higher travel costs than a business in the same industry that just has one office. The fact that this business has a high level of travel costs is not necessarily a 'negative sign'

Examples where benchmarking may identify an area that requires further investigation may include (note that this list is by means exhaustive):

- Higher than average advertising expenditure coupled with lower than average sales growth indicates ineffective advertising
- Higher than average wages/income indicates labour force inefficiencies
- Lower than average net profit margins
- Higher than average stock days
- Higher than average debtor days
- Lower than average sales per square meter of floor space
- Lower than average 'Profit Per Owner Working Hour'

The need for further investigation becomes significant where Trend Analysis shows that these ratios are getting worse.

Finally, from an American business website...

'You know you need to benchmark, but you are just too busy. Well if you don't benchmark, and then implement improvement based on it, you will find yourself out of business. Then you will have plenty of time to benchmark, but it won't matter'.



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