

The Basics of Benchmarking

Is there any way I can improve our product, service, or operations? Is there a more efficient way of conducting business?

These are some of the questions a business owner should be constantly asking and evaluating, particularly in this challenging economic environment. Identifying such improvements can lead to better products or services and more efficient operations.

One of the easiest ways to identify areas of improvement or inefficiencies is by the use of benchmarking. Benchmarking is a tool that can be used on a daily basis to help make important decisions. A benchmark is simply defined as a standard by which something can be measured or judged.

If someone wants to buy or sell a used car, the benchmark would probably be the value listed in the Kelly Blue Book for the particular year, make and model. If someone wanted to see the kind of year their favorite major league baseball player was having, the benchmark used would probably be the league averages for batting, home runs and runs batted in. Benchmarking for business purposes is comparing your company results with industry averages.

Suppose a contractor wants to determine an objective measure of profitability for his or her business during the past year. The benchmark to use would be the construction industry operating and profit margin data for his or her particular trade and size of business.

For example: The contractor calculates a gross profit margin of 15% this past year. Is this a good number? The contractor could benchmark (compare) the results of his business with those from a national construction association yearly survey. If the benchmarked gross profit margin in the survey was 25%, he would need to determine the reasons for averaging 10% less in gross profit. There could be a number of reasons including the type of work performed, cost structure of labor and materials, or the economic conditions within his market. The solution could be as simple as renegotiating the pricing of materials from suppliers or the wages paid for labor, or as complex as becoming qualified to compete in a different market.

Being able to measure your company's performance against the industry average or best in class will help you determine how other companies are performing, and what improvements should be made to your company to improve your company's overall performance and bottom line.

If you would like to learn more about benchmarking and the industry data available for your particular business, please give us a call.