

## **How Well Did We *Really* Do?**

A CEO sits at her desk, smiling as she reviews the company's financial reports for the past year. Sales were up 6% and profit was up 4.5%. Why shouldn't she be happy? Her company had obviously grown in the past year and that is an indication of success, right? Well, maybe.

On closer examination, how truly successful was this company if its industry saw sales growth of 9% and watched profits jump 11%? In truth, the CEO's company increased its sales and profit, but actually lost ground to its competitors in the industry.

If the CEO had benchmarked her company's performance against that of its peers, she would have been less impressed with her company's financial report and seen the need for even greater improvement. The utilization of benchmarking tools can reveal performance trends and also reveal areas where competitive improvements should be made.

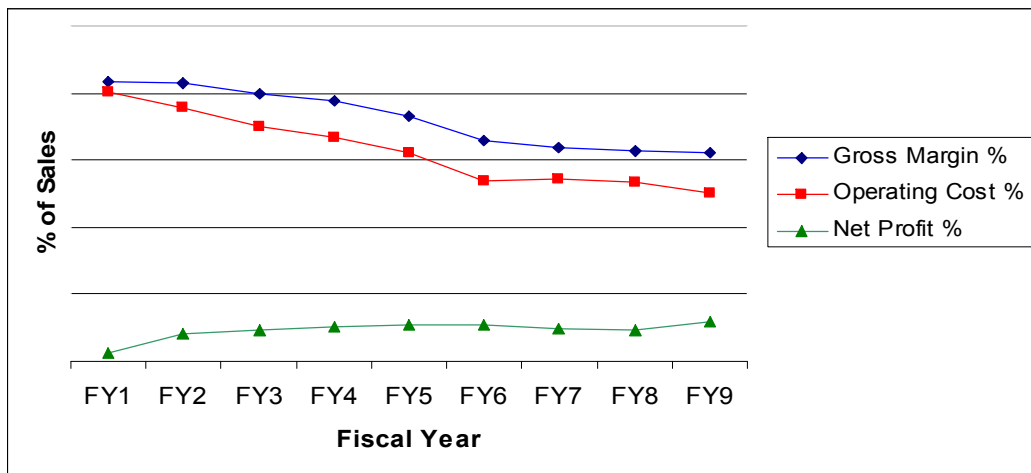
One of the major long-term benefits of benchmarking one's company against peers is to identify the specific areas that may keep the company from receiving an attractive offer from a potential acquirer. Business owners should manage a business as though it were always for sale and keep the performance measurements above those of the industry. Keeping a company positioned as a competitive "going concern" can help build profit for the owner(s) in the near term and can also help optimize the equity value received from a potential purchaser of the business. Nobody wants to pay top dollar for a business that isn't performing competitively in its industry.

Being able to demonstrate that a company is both profitable and competitive in its industry, management may also be able to earn the most favorable treatment offered by its bank. Banks like lower-risk loans and compete for the business of successful companies. Thus, a favorable competitive industry position can mean ultra-competitive interest rates and increased operating capital approval.

By benchmarking all areas of a business, including performance ratios, that same CEO previously mentioned can take calculated steps to grow profitability and get a

clear picture of her company's competitive standing. By comparing the company's results only with its prior year's report, a false sense achievement can be the result. On the other hand, if she had benchmarked the company's performance against its peers, and found that it was performing at least as well as the industry norms, that would truly be a reason to celebrate!

The graph below is the actual experience of a Gerke & Associates client group. Over time, the client group's Gross Profit declined steadily, due to supplier price increases over which they had no control. But by focusing on benchmarking data that showed operating costs in need of improvement, the group increased their Net Profit as % of Sales by nearly 100%!



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