# Driving business profitability through benchmarking

By Richard Mukheibir

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Benchmarking is a vital component in your management tool box. It is about a lot more than just collecting numbers for the sake of some vague historical record.

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Benchmarking starts with collecting specific numerical indicators. But after that, you need to harness the power of benchmarking by making use of these numbers to evaluate specific business areas against the standards that you have set for them. That evaluation and the insights it offers make up a major step in your journey to building a sustainable business.

## Start with the end in mind

At Cash Converters, benchmarking is core to the financial pillar of our business. Your benchmarking is only as good as the numbers on which it is based so choose your Key Performance Areas carefully. These choices will dictate the Key Performance Indicators that you can distil from these figures and allow you to check them across your business – or, in our case, across our whole Cash Converters group.

Benchmarking your departments or franchisees against each other reveals who is performing in the top quartile and why. It allows you to identify the gold standard and then export it across the business or group, benefiting the business as a whole.

## Raise the hurdles

Top-quartile success is something to be celebrated with those responsible – but it is also something to be shared. This success has been achieved by individual managers or franchisees who found an ingredient to boost the oxygen in a flame so high that it becomes as bright and powerful as an arc-welding torch!

Make sure you harvest the creativity and insights that make them outperform the rest of their peers and then retrain everyone else to leap this higher hurdle as well. It is successes such as these that also enable you to refine your business model continuously.

## Don't move in the wrong direction

The management truism is that you can’t manage what you don’t measure. So measuring and benchmarking put the power of management in your hands. You need to establish basic values that you will track in your benchmarking, such as the number of sales and their value. Gut instinct for this simply is not enough.

When you want to analyse your sales, for instance, to a greater granular degree you are shooting in the dark if you do not have the numbers. Your decisions would not be well informed but based on assumptions that are invalid to a lesser or greater degree. That could lead you to take the business in the wrong direction, usually with incrementally disastrous results.

## What to benchmark

Guesswork is lazy management. Taking a flyer when you are dealing with other people’s money – the livelihoods of employees or the investments of franchisees, for example – is irresponsible. On the other hand, benchmarking does not mean measuring absolutely everything. Key Performance Areas are just that – sectors of the business that are important. Choose them carefully.

Actively using your numbers and benchmarks regularly then also has the useful effect of reminding everybody involved in their collection just why it is important that the data is accurate and timeous. In the Cash Converters’ world, for instance, we have benchmarked spending on infrastructure, including rentals at 8%. So we know at a glance that spending less than 6% of turnover on this Key Performance Indicator is very good indeed. That is a prompt to find out more.

## Building your Business Information System

What you need to monitor in your Business Information System will be age and stage appropriate to your business. At Cash Converters, we have expanded our business information to mirror the expansion of our business to three threads: retail sales, secured and unsecured lending.

Build your Business Information System so that it collates the relevant data that you need across the business. This should be summarised on a dashboard that tells you at a glance how your business is trading by highlighting your Key Performance Indicators.

## How often to benchmark

The type of benchmarks set up at different levels of your business will vary and so will the need for a manager to check the benchmarks. A CEO focuses on business strategies that bear fruit two to five years down the track – but may need to tweak these depending on results in the here and now.

That is why it might be too often for a CEO to check benchmarks weekly. Monthly or quarterly often works better. A general manager, on the other hand, would definitely need to check the benchmarks weekly and a regional manager every second or third day perhaps.

In store, a franchisee has to have a much closer grip on the business and needs to check the numbers every day. For the store's retail manager, ideally the number and value of transactions hour by hour need to be tracked so that anything below target can be corrected and above target indicators can be capitalised on.

## Take considered action

Business information is interesting but fundamentally useless and time-wasting if you do nothing with it. Start by drilling down into the outliers. Why does one store have double the group's average turnover? Why is another store's transaction volume 50% up on the same time last year?

Be open to the possibility that the answer might be circumstantial, for example, a store has relocated and doubled its size. In that case it would, in fact, be a great surprise if the store were not getting those results. Keep monitoring to be aware whether turnover stays at those levels or dies back after a flurry of interest. It is vital to interpret what the numbers are telling you responsibly so that you can decide whether or not there is an X Factor that needs to be shared across your business.

## The secret of perspective

A well-structured set of management accounts help executives analyse a business speedily and accurately. It is your guide to a good and complete perspective on the business

Ideally, the management pack should be lean, containing all the basics you need but nothing that you do not need. At Cash Converters, we include: dashboards for each revenue stream; balance sheet; income statement; actual to budgeted variance; stock age summary report; and creditor age analysis.

## Keep it going

I am often asked what the secret of management accounts is. To me, the fundamental secret is that they just need to be! I have often seen small-business operators who are very front-end focused – on their products, their staff and their customers. They need to be. However, that is not the whole picture.

No matter how well your business operates at the front end, no matter how good your customer service is, no matter how much margin you succeed in receiving, you will not succeed in building a sustainable business of scale without paying attention to management accounts, financial statements and their relation to your benchmarked Key Performance Indicators.


## ABOUT RICHARD MUKHEIBIR

Richard Mukheibir is MD at Cash Converters. Mukheibir co-founded Cash Converters and personally opened its initial pilot store at Parow in the Cape.

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