Use Financial Benchmarks to Improve your Business!

Dr. Ralph Williams Jr.
Associate Professor of Management
Jones College of Business
Middle Tennessee State University

About eight years into my first printing business, things were going well. We were growing at about 25% a year, adding new equipment and quality members to our team, and we had just moved into a great building. Our profits were good, but they could have been better. Our "good" performance led me to look at industry financial benchmarks, seeking ways to improve and become one of the top performers.

After analyzing related financial benchmarks, I set up a meeting with our management team, about five leaders. In that meeting, I wrote our financial benchmarks and those from the industry on the board. After explaining what those numbers meant, I looked at our leadership team and asked, "What do we need to do?" After a few moments of thinking, they said, "We need to do this, this, and this." They were all nodding, agreeing with each other's points. After that, they got up, walked out of the room, and did what they proposed …they did it! And these weren't easy things to do; it involved moving some folks around, changing some shifts, and parting ways with a couple of employees. That put us on a path to substantial performance improvement. After that experience, I continued using financial benchmarks in that business and the two others I led.

My experience shared above is supported by the printing industry research we conducted in 2016 and again in 2022. Both studies found a strong relationship between financial analysis and financial performance. However, it's interesting that other research indicates that only a few small business leaders analyze their financial data using ratios and benchmarks. It's also interesting that with the advancements we've seen in accounting technology, it appears the proportion of small business leaders who analyze financials has not grown over recent decades.

My experience and research prompted a desire to provide printing association members with financial benchmarks that would help build a strategy for improving performance and developing a competitive advantage.

Financial numbers tell a "story."

- Where are we now?
- What trends are present?
- Are the trends consistent with the path we desire?
- In what areas should we change to improve?

Here are examples of benefits financial benchmarking can provide:

- Improve efficiency… do more with less.
- Increase sustainability… mitigate business threats.
- Focus on the right problems… should we focus on selling more or attacking costs?
- Make your business attractive to investors and lenders.
- Improve owner return… that's your return!
- Improve profits and cash… what you take home!

We conducted our first financial benchmarking survey this past spring (2023). Below, I provide key takeaways from our study, but I strongly encourage you to read our study and start developing the process of using this performance-enhancing tool annually.

Key Takeaways

Below I provide the differences we found between high-performing printing firms and all printing firms. What causes these differences? …we don't know! But we provide some possibilities.

- ***High-performing firms spend less on "total materials and outside services."***
    - When this happens, more revenue transitions to profit after "in-house" costs, such as wages, building expenses, and others, are paid. That has a positive effect on the bottom line.
    - Higher-performing printing firms may charge higher prices, resulting from an effective estimating/pricing approach.
    - Higher pricing may result from printing firms identifying their target market and the value they provide for those customers… they are providing a value for which customers will pay more.
    - Related to the point below, higher-performing printing firms may provide services that complement their printed product, such as logistics, fulfillment, marketing consulting, website design, design, photography, and others.
- ***High performers spend less on "total factory costs."***
    - Certainly, this could result from a focus – a culture – producing more efficiency and less waste.
    - It is possible that higher-performing printing companies are achieving "economies of scale" – producing more from their investment in equipment and/or building. That may result from less "downtime," operating multiple shifts, or increasing revenue without expanding production capacity.
    - Interestingly, we found that higher-performing printing firms incurred a bit more depreciation expense. Higher performers may invest in new equipment or automation.
- ***High performers incur less "administrative costs."***

    - Possible reasons include the following: staff members taking on multiple roles, increasing revenue without increasing admin staff, applying technology to replace manual tasks, or higher-quality admin staff members.

- ***High performers spent more on "total sales and marketing costs."***
    - I will say this differently; they *"invest"* more in sales and marketing. From other research we've done in our industry, it appears that marketing planning is vital to generating a return for an investment in sales and marketing. Marketing planning involves the following: identifying your target market, determining and delivering a value that is important to your target market, and having an effective plan for connecting with your target market.

- ***Providing related services enhances financial performance.***
    - If done right! That includes choosing the right related services to provide (a few are mentioned above) and producing them effectively and efficiently. We've seen multiple printing companies do this well, and we've seen multiple printing companies fail at this. But if done right, it helps!

- ***It appears that higher performers manage cash better – "days in inventory," "days in accounts receivable," and "days in accounts payable."***
    - As mentioned above, in other printing industry studies we've found a strong relationship between financial analysis and performance. Those findings reinforce what we saw in this study …higher performers better manage cash.
    - Better cash management prepares your company for surprises by building a war chest. Also, cash management can help you see coming problems before they surprise you. There are good cash management details and suggestions in our report.

- ***There are high performers in our industry, and they ROCK!***
    - We were astounded by some of the EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) and ROA (Return-on-Assets) we found among high performers!
    - Average EBITDA of about 19% and average ROA of 34.5% among high performers. And these weren't the product of a few outliers.
    - There are winners in our industry. Use financial benchmarks to help move your firm into that chorus!

We hope these key takeaways prompt good thinking for you and your leadership team. There is much, much more in our report… a lot more numbers and explanation of how to calculate and use those numbers. Furthermore, our report provides numbers for various industry segments. We would have liked to have provided more information related to industry segments, but we needed more survey participants. Hopefully, you will see value in our report and participate in next spring's PIPI – Financial Benchmarking Study. If you have any questions or suggestions, please email me at *ralph.williams@mtsu.edu*.