External Benchmarking Opportunity

KEVIN BELZ

MASTERCRAFT KITCHENS

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How Does My Business Perform?

- Do you know these things about your business?

  - Is my gross profit where it needs to be?
  - Is my net profit acceptable?
  - Is my costs of goods sold too high?
  - Is my wages bill too high for my total sales?
  - Is my business productivity good enough?
  - Are my overheads too high?
  - How does my cash solvency compare?
  - How is my equity compared to other businesses?

External Financial Benchmarking

- What is financial benchmarking?
- The process of comparing your business's financial performance against other similar businesses

- What are the benefits of financial benchmarking?
  - to evaluate your business's **true performance**
  - to assess a business's **financial health**
  - to uncover hidden **inefficiencies**
  - to identify areas for **improvement**
  - to transform rear facing accounting data into **forward looking strategies**

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Key Financial Metrics

Profitability & Efficiency:

gross & net profit margins, cost of goods sold, return on total assets (ROA) & return on total equity (ROE), interest coverage ratio

Liquidity & Liability:

Current Ratio: enough short-term assets to cover short-term liabilities

Quick Ratio (Acid-Test): excludes stock from current assets to measure immediate cash solvency

Productivity & Labour:

revenue/gross profit per person, wages to turnover, overhead per person

How Does My Business Compare?

- If you don't know those metrics, where do you start to make changes to improve performance???
- Without knowing how your metrics compare to others, you are flying blind
- Benchmarking opportunities are hard to find
- The knowledge derived is invaluable
- Strongly recommend you participate

Financial Benchmarking Opportunity

- Rules....
  - Benchmarking carried out by an Accountant
  - It's voluntary
  - It's confidential
  - You don't see anyone else's results
  - Support Office don't see anyone's results
  - We need a minimum of 12 business to participate
  - Use a traffic light system for results
  - Online consultation with Accountant

- Cost: $500 - $750 + GST

Financial Benchmarking Opportunity

LIQUIDITY & CAPITAL STRUCTURE RATIOS

Performance Measure	Calculation	Meaning	Performance Strength	Improve By:
Current Ratio	Current Assets / Current Liabilities	Measures the ability to meet current obligations in a timely manner. A healthy ratio is greater than 2.		Improving and retaining earnings. Borrowing additional long term debt. Disposing of unproductive assets. Avoid financing long term assets with current/short term debt.
Quick Ratio	Current Assets - (Stock + Work in Progress) / Current Liabilities	The ratio between all assets quickly convertible to cash and current liabilities Generally a ratio of 1:1 is considered good.		Same as above; and Improve stock turnover/reduced stock holdings.
Debt to Equity Ratio	Total Liabilities / Total Equity	Shows the ratio between capital invested by the owners and the funds provided by lenders.		Increasing retained earnings. Reducing short and term debt. Recapitalising the business where necessary.
Interest Coverage Ratio	EBITDA / Interest Expense	Indicates the number of times interest is covered by the profits available to pay interest charges.		Increasing the businesses earnings. Reducing interest costs.