

## **Is There Anybody Out There?**

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Being the owner of an SME can be lonely. Even if you are surrounded by capable employees, you must make all of the difficult decisions within your business. This requires access to information, and often information is difficult to find.

For example, how would you answer this simple question from a friend: “Has your business had a good year?” Whether or not you think the year has been good, your answer will likely be “Yes!” However, if you are to answer this question with any degree of accuracy (and honesty) you must define the meaning of a “good year”.

“Good” is a relative concept. For example, good profitability is where your business performs better financially than at least 50% of similar businesses. Good sales and marketing results in a net gain in customer numbers.

The only way to determine relative performance is to benchmark your business against others. A useful resource is the NZ Business Benchmarking Survey, compiled annually by the Management Research Centre of the University of Waikato. The survey contains financial information about numerous businesses within New Zealand, summarised by ANZSIC business classification.

The survey enables you to compare key expenditure categories (expressed as a percentage of revenue) to your business, to determine areas of poor and good performance. Employee numbers are also available, enabling efficiency comparisons with your competitors. Also included are useful balance sheet indicators such as return on capital, debt collection period, and inventory turnover.

Your benchmarking process may be performed annually, although monthly results can be evaluated against benchmarks set at the beginning of the year. Benchmarking will allow you to decide upon areas of focus for the forthcoming year, and actual results can be measured against targets throughout the year. Start by focussing upon (say) a single profitability measure, and a single balance sheet measure, where your business appears to be performing poorly. E.g., this year, you will improve profit per employee, and reduce your debtor collection period from 45 to 30 days.

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