

Do I Need to Benchmark This Year? Yes!!

By John R. Mackay, Benchmarking Analytics

The last two months have changed everything. March was a month like we have never seen and April was more of the same “stay at home”. We entered March riding the wave on an 11 year economic expansion that began in 2009. The biggest worry for many companies was finding workers to fill positions.

There are similarities between the financial crisis of 2008-2009 and the coronavirus pandemic of 2020 — A sudden jarring breakdown in the economy, followed by a massive response from policy makers to prevent a depression.

The problematical times we are facing right now may actually be a strong reason for businesses to participate in an annual financial benchmarking study. What we learned from 2008/2009 was that even in challenging times some companies survive better than others. The present-day environment will be just as important to track those companies that persist vs. those that struggle.

Industries will need reliable benchmarks for what happened in 2019 and how performance is impacted in 2020. Some will get through these difficult times better than others.

Lessons learned

In 2009 price cutting was rampant. When sales volume is soft, firms almost instinctively resort to reducing prices in an effort to “keep things going” even if they are going poorly. In a down market cutting prices only makes things worse. For every \$1 million in sales, a 1% gross margin reduction means a \$10,000 profit reduction.

The current crisis, however, is not caused by a lack of demand as was the case in 2009. Rather, it is caused by a pandemic. When the economy is ready to resume, there is no reason to cut price.

Don't lower the investment in inventory. First, you can't sell what you don't have. When demand does re-emerge, you need to have an adequate in-stock position.

What lessons will we learn as the nation re-emerges from the pandemic? — This is a business environment we have never experienced before. Benchmarking industry results will provide at least some of the answers.

About the author — John Mackay is a managing partner at Benchmarking Analytics, a company that provides financial benchmarking for manufacturing and distribution industries.