



Providing the Retail Community with Strategic, Analytical, and Operational Consulting Assistance

Properly Utilizing Retail Benchmarks

Retailers relate to benchmarks. Continuous business review is the norm in retail, particularly after a period of disappointing sales. One method that retailers utilize to find weaknesses in their business model is to compare themselves to their competitors at every opportunity in as many ways as possible. While this process can be rigorous, it is actually quite a wise move and more organizations (particularly outside of retail) would be well served to consider doing the same.

The notion of benchmarking is very much in alignment with this ongoing review process and it is no surprise that retail has one of the highest incidences of benchmarking comparison. While we applaud retailers for pursuing the benchmarking process with the exuberance they typically display, we also offer a few notes of caution as this exercise can be as misleading as it can be enlightening.

A benchmark is simply a reference point, or a standard against which other performance may be measured. The application of appropriate benchmarks has been proven to assist retailers to increase performance, and profits, by:

- Identifying internal weaknesses and providing guidance in the development of improvement plans
- Verifying internal strengths so they can be further exploited
- Pointing out how best practices may improve the operation of your organization
- Spurring innovation and the development of new concepts

Types of benchmarks:

Benchmarks can exist in a number of different forms, each offering a differing perspective and usefulness. Perhaps the most common of these Benchmark types are: Industry General, Industry Segment Specific, Operating Metrics, and Operational Technique Metrics.

**345 Woods Lane
Alpharetta, Georgia 30005
Phone (O) 770-754-5008 (C) 678-895-7171
E-mail: pcf @ atlantaretailconsulting.com**

Atlanta Retail Consulting

Industry General Benchmarks (e.g. a hard-goods retailer benchmarked against retail in general) are typically high level benchmarks that offer a “macro perspective”. These metrics are typically derived from averaging performance information representing a broad industry segment that may include numerous similar *and* differing business types. This type of benchmark information normally offers only a general perspective on where and how you compare to the broad group of benchmarked firms. Detailed metrics may not be available for a given retail segment even when additional detail may be more valuable due to the additional inherent specificity. For example, a softgoods retailer may not benefit as greatly from a comparison to all retailers (hard and soft) as they might to only those who sell softgoods.

Industry Segment Specific Benchmarks (e.g. C-Store retailer benchmarked against a pool of like C-Store operations) offer the next level of benchmark specificity as these metrics represent data from “like firms” that operate in the same business environment (segment) and generally in a similar manner as your firm. These benchmarks are typically considered much more valuable and have a higher level of credibility attached to them as they usually represent a much more comparable database. The inherent accuracy in the comparisons breeds credibility and tends to permit a more complete level of gap analysis and ensuing corrective action.

Operating Metrics (e.g. % labor to net sales) offer very specific, typically financial line item level detail comparisons that can be very valuable to the retailer. P&L line item data comparisons can generate an eye-opening perspective when significant variances are discovered. The nature of this type of benchmark promotes credibility and tends to prompt corrective action.

Operational technique (e.g. zone coverage is not employed) benchmarks are created by asking about and/or observing how a business unit “actually operates” (note, not what the procedures manual says should be done). While not as specific as a financial ratio, this type of benchmark can create valuable insight into the specific operational business model employed by others whom you may compete against and who may be performing better than your firm. This form of benchmarking is best utilized when combined with operating metrics in a specific industry segment and the data derived from this effort can often suggest specific, actionable operational improvement ideas.

Points often overlooked while benchmarking:

- One performing benchmarking should be aware that benchmarks can be in-exact for a multitude of reasons. One of the most challenging steps in the benchmarking process is to insure that the data you are collecting represents the operation of other firms in the same manner as you expect it to.

Atlanta Retail Consulting

As an example, the simple request of gathering store labor cost as a % of net sales can become inaccurate if one party adds employee benefit cost to that number and another does not. Sometimes that request includes salaried labor and sometimes not. The challenge of insuring an apples-to-apples comparison is paramount and quite often under-estimated and sometimes not recognized at all.

- During the benchmarking interpretation process, one must recognize that each firm's performance is unique and a reflection of its operating style, management expertise, leadership ability, and operating tools employed. Some of these factors may not easily be recognized in the ensuing variance explanations. One recent client of ours exhibited an average transaction time that was almost exactly twice the average of their competitors. It was a function of their legacy systems, not store operating procedures.
- One should also be aware if the benchmark data collected for comparison purposes reflects another firm's performance before or after a performance improvement effort. It would be natural to expect that your competitor's performance would be improved after a performance improvement process was completed and variances to your performance levels may be large.
- The proper interpretation of performance variances is critical. The more data and perspective that can be gathered during the benchmarking process the more likely a thorough and accurate explanation of performance differences will occur. Often retailers attempt to benchmark their firms against others rapidly and then attempt to make important business model altering decisions without sufficiently accurate variance explanations. This process often leads to serious missteps and potentially reversed procedural changes that can be costly and very disruptive to the associates.
- Properly performing a benchmarking effort takes a lot of time and effort. We suggest that the retailer have a conversation internally before any effort is begun to determine if the level of commitment exists to permit a complete process to occur. Improperly collected information leads to misinformation and poor management decisions down the road. It is usually better not to undertake a benchmarking effort unless you can commit the time, money, and effort required to execute it correctly. Poor benchmarking information could potentially cost your firm much more in the long run than the actual cost to collect the data.

The most important benchmarking recommendation of all:

Having worked with many of the largest, best known, and most respected retailers we long ago learned that one of the reasons they achieved that status was the stance they took on business process improvement and the concept of benchmarking.

Atlanta Retail Consulting

In a nutshell, they differentiated themselves in the benchmarking process by creating insightful internal metrics that they employed to benchmark themselves against themselves. Sometimes this was accomplished without regard to any external benchmark information at all.

The level of attention typically placed on gathering and analyzing external comparative information was replaced with a focused effort to develop and employ quantitative metrics internally (that were consistently applied from year to year). While this approach may sound as if it exhibits an unhealthy exclusion of external data points, we observed that over the long run the organizations that followed this model achieved significant gains and typically outperformed their competitors by a wide margin.

Basically, by their actions, these retail establishments were making the statement that “the only real benchmarking that counts is how we are performing now compared to a previous period and we plan to keep doing better each time we measure ourselves.”

In summary, we would like to offer that we believe the process of benchmarking can create invaluable insight into previously unseen performance variances. In order to do so we recommend that your team:

1. Properly plan the benchmarking process to be employed, being sure to recognize the time and effort required to make the process worthwhile
2. Understand that various types of benchmarks exist and decide in advance what level of detail will best suit your needs and how to obtain and interpret it
3. Carefully structure your benchmark questions and be overly clear in communicating how you account for the data you are requesting for comparative purposes
4. Supplement financial information with operating technique input to increase the likelihood of your team being able to explain variances with confidence
5. Finally, when undertaking a benchmarking project, we strongly recommend that the retailer get professional guidance to properly plan and structure the data gathering effort. Assistance in planning and executing the benchmarking effort will go a long way toward assisting the retailer to properly structure their benchmarking categories and the questions they ask to reduce confusion in the interpretation of the data collected. The more clarity that can be created, the greater the chance of future improvement.

Atlanta Retail Consulting has decades of benchmarking experience spanning a multitude of retail formats. Please contact us if we can be of service in assisting your organization to properly prepare for and execute a successful benchmarking effort.