

Step by Step to Using Industry Benchmarks

Using industry benchmarks is simple and the secret is you have to have your data available.

The use of industry standards (KPI's – Key Performance Indicators) has been in use for many decades in a variety of industries.

Those industries have understood the power of finding a formula that works, then asking each and every day about ways to improve the formula. The HVAC industry, until consolidation, really had no way of getting every contractor's financial data compared on a similar format. ACCA and many other groups did a good job, but the data didn't make it out into the main stream.

Now the Benchmarks are here!

The benchmarks that came from consolidation are real, and they not only exist, they have been proven. So many excellent companies, all forced to report all revenues and profits on a common accounting platform has allowed a set of "TOP" performing benchmarks to emerge. There are no poor performing companies blended in here, strictly the top performing model companies.

How you use it:

1. Compare your company across the board against the double-digit model companies.
2. Then, focus your priorities on what you want to change.
3. Determine what if anything needs to be reviewed.
4. Operations may need to be adjusted for you to attain certain goals.
5. Always look at KPI's in groups. Never get focused too much on one number.
6. If more than one KPI number points to a problem, then you likely have that problem.

Example:

- Labor percentage of residential replacement is supposed to be at 9% of replacement sales. Materials are supposed to be between 7-9% of sales.
- Gross margin % of replacement sales are to be between 42-45%.
- If materials are acceptable in the range at 7%, and labor is high at 12%, and margins are low at 38%, then one needs to conclude that prices are acceptable, but labor is too high, meaning we are not running our jobs properly. These 3 KPI's help focus operational attention.

While this is a simplified example, it sends the message – USE KPI's

What should I do?

1. Compare your company using the KPI charts.
2. You'll need to get your data in order to do this.
3. Be sure you understand the basis for the KPI's from the Profit & Loss Statement models.
4. Get your data and compare it to the KPI's.
5. Make your assessments.
6. Decide on a list of issues that are creating the poor company performance.
7. Prioritize this list.
8. Consider meeting and reviewing the list with employees, before you make changes, since these changes will no doubt affect them as well.
9. Make the list public first, allow for commentary.
10. Attain buy-in.
11. Make the changes happen.

It takes courage, and an attitude to take risks to make changes occur. This is part of the price for a successfully run contracting company.

Why is this critical to your success?

- Industry Benchmarks create validity to our goals.
- Industry standards allow us to "ASK" Why we do things, and have a good reason to challenge the norm.
- Benchmarks help focus our company on the task at hand, which is to get better at a given area.
- Managing mix definitely impacts profits, and having a pricing strategy that identifies certain types of work the company is targeting can help you **make more Profits & STAY OUT OF TROUBLE!**