



# THE BUSINESS ADVISOR'S VIEW



INSIGHT ■ INNOVATION ■ EXPERIENCE

ASSURANCE & TAX ADVISORS ■ BUSINESS ADVISORS ■ CORPORATE FINANCE ADVISORS ■ TECHNOLOGY ADVISORS ■ WEALTH MANAGEMENT ADVISORS

## Benchmarking Your Profit Margin: What You Should Know

by Rich McKenna ©2009

Senior Manager, Business Advisory Services

Have you ever asked yourself, “Are my profits as good as they can be?” The answer may lie in a management tool called benchmarking. Benchmarking is a process by which firms objectively compare a set of their performance criteria (profits, turnover, scrap, etc.) to similar organizations or industries.

One of the best indicators to benchmark is profit margin. In order to effectively benchmark profit margin, you must first calculate profit margin. The accounting profession calculates profit margin as: beginning inventory plus purchases, certain taxes, certain labor charges, etc. less ending inventory equals cost of goods sold (C.O.G.S.). Sales less cost of goods sold equals your profit margin, which is reflected as a percentage of sales. For example, if sales were \$1 million and C.O.G.S. was \$700,000, then the profit margin would be \$300,000, or 30%.

Now that you have calculated profit margin, you can compare your margins with your industry. The steps that must be followed in the benchmarking process are:

1. Identifying what to benchmark
2. Identifying similar companies
3. Determining data collection method and collecting data
4. Determining if there is a gap between your organization and the others
5. Establishing future performance levels
6. Educating employees
7. Establishing functional goals
8. Developing action plans to improve
9. Implementing action plans
10. Re-calculating benchmarks (Do it over again.)

A company can only benefit from benchmarking by committing to improve the operation based on the benchmarking results.

Most industry groups collect information about the industry and publish the results. Also collecting and reporting industry data are: Standard and Poor's, ValueLine, Robert Morris Associates, and the federal government. This information is readily available at most libraries.

*Benchmarking Your Profit Margin: What You Should Know  
Continued from Page 1*

If you would like to discuss the benchmarking possibilities at your organization, please feel free to contact Joel Rosenthal, Shareholder and Director of Schneider Downs Business Advisors, at 412-697-5387 or email him at [jrosenthal@schneiderdowns.com](mailto:jrosenthal@schneiderdowns.com).



**Insight** is information filtered through experience. Schneider Downs' interdisciplinary teams understand the complex issues businesses face. Using the latest technology and in-depth resources, we help you make the most of your opportunities. **Innovation** occurs when creative ideas are tempered by study and vision. Clients trust Schneider Downs to stay current with new regulations and changing economic conditions. We aggressively seek a range of integrated, innovative solutions to each business situation. **Experience** results from applying lessons learned to new situations. Our shareholders have directed corporations, owned small businesses and managed nonprofits. They can understand your business and offer flexible paths to success.