

## Marketing

# Benchmarking adds value to farm



## Family Business

By GREG WOLF

**M**ANY tools are available to business managers — in our case farm operators — to provide assistance in making good decisions. One of them is benchmarking. As the name implies, it simply involves a comparison of some feature of your operation to some standard.

Effective benchmarking involves a couple of basic requirements to be relevant. First, be sure the data and the standard to which that data is compared are accurate. Second, the standard chosen to compare the operation against should be appropriate. In other words, it must offer enough similarity and favorability to have meaning.

### Examples

Some farm operators have used benchmarks for years without even knowing it. An example is comparing your yields with that of your neighbor's at the coffee shop. (See comment above regarding accuracy!)

Some benchmarks relate only to physical production, some relate only to financial relationships, and some com-

### Key Points

- Comparing your operation to industry standards can offer insight.
- This concept — called "benchmarking" — may include production or finances.
- Benchmarking can give farmers an objective evaluation of their farm.

bine the two — for example, bushels per acre, asset turnover and revenue per acre.

The first is a pure measurement of physical production, the second expresses the financial relationship between revenue generated and a corresponding asset value, and the third

expresses revenue generated by a specific asset, an acre of land. Each of these calculations in an operation, when compared with some relevant standard, represents benchmarking.

### Comparability

The essential purpose for benchmarking in an operation is comparability. You can compare the performance of your farm business with other farms, other areas and even other industries.

In so doing, you get an objective evaluation of your own business. That's why it is so important to use an accurate and appropriate benchmark. Through this objective evaluation, you can begin to identify your strengths and weaknesses

— both financial and production — and direct your management attention to those areas that most need it.

Some benchmarking will reveal results that only seem intuitive, but can still bring value by quantifying the degree of weakness in an area. In other cases, however, benchmarking may reveal things about your performance that were either not obvious or even counterintuitive. For this reason, there is value in using a variety of relevant benchmarks.

Another beneficial use of benchmarking is to compare the performance of your operation against itself. In other words, benchmark your current performance against historical trends. This allows insight into the direction different aspects of your operation are moving, as well as whether that direction is strengthening or weakening over time.

Farm operators face many management challenges and have at their disposal many tools with which to face them. Benchmarking is a tool that provides insight into those areas and decisions that need particular management attention. In light of the old saying "knowledge is power," benchmarking is a powerful tool for a business manager to use.

*Wolf is a consultant in Kennedy and Coe's Pratt office.*



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