

# Benchmarking

Measuring your business to manage performance



National Vegetable  
Extension Network

VICTORIA - NORTHERN,  
WESTERN & SOUTH EASTERN

## Meeting your needs

A recent survey of Victorian vegetable producers identified profitability and cost of production as high priority issues for growers, second only to water. Knowing your cost of production is critical to help make the best management decisions for your business, as it provides a measurable way of assessing the cost of producing a product, and the price you are willing to accept for that product. One effective way of assessing your business profitability is to participate in a business benchmarking and cost of production exercise.

## What is benchmarking?

Benchmarking is a management tool that you can use to measure how your business is performing. Growers can use the results of a benchmark to identify the strengths and weaknesses of their enterprises and, therefore, target management changes to build on strengths, as well as eliminate weaknesses. This can assist in achieving higher profits by providing an insight into what makes the top producers cost competitive.

To properly understand the drivers of vegetable production, benchmarking can be undertaken as a whole of business analysis. This enables financial data to be fully reconciled and avoids the trap of providing a report showing high performance in production, and missing the challenges that exist across the business as a whole. Collecting part information often misses key cost inputs and income inputs that are relevant to the business.

Benchmarking is typically used as an indicator to compare a farm business with the performance of the same farm across previous years or other similar businesses. It can be also used to compare similar businesses in a region. The performance areas generally include:

- Physical performance indicators, such as production and productivity efficiency; and
- Financial performance indicators relating to whole farm profitability, revenue generation and ability to repay debt.

## Benefits of benchmarking for growers include:

- Understanding how your business is performing, to support decision making.
- Support understanding of business principles, evaluating and comparing cost and income performance.
- Developing links between productivity, market and business management.
- Encourage adoption of more effective business planning based on the knowledge of individual business strengths and weaknesses, using realistic performance targets for the future (both individual and industry wide).
- Creating an improved understanding of key components that determine production costs and returns, encouraging the adoption of best practice in growing to maximise profitability.
- Identify industry required benchmarks, including the required property size for commercial viability.

## Cost of Production

In addition to benchmarking, there is also value in undertaking an accompanying cost of production assessment, to drill into the performance of individual varieties. The objective of the cost of production assessment is to show:

- Income - derived from yield and average price.
- Costs - both operating and capital.
- Profit - assuming a standardised approach to costing capital and owners labour costs.
- Differences in varieties performance to your business.

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Measuring cost of production is fundamental to determining where costs can be reduced to improve profit. In vegetable production, this is not straightforward, as most costs can be spread over a range of varieties that the business produces. However, this can be addressed through allocating different cost inputs by variety to enable consistent comparisons across different businesses.

It needs to be emphasised that cost of production gives no feedback on the total health of a business. Thus the combination of benchmarking total business performance and cost per unit of production are both important factors when benchmarking the overall health of your business.

## Why benchmark?

On their own, benchmarks are of limited value to a business. So why do them?

Where benchmarks are really useful is when they become part of a planning process. They can help gauge how your business compares against other growers, and be useful in determining the impact of making changes to your business – such as should you lease an additional farm? Can you bring another family member into the business? Should you develop a new product line?

## How do you benchmark?

Vegetable production involves considerable expertise in the management of:

- Physical resources such as land and water,
- Production system such as mix of crops, varieties, operating costs, marketing, technology and management practices,
- Human resources such as family labour, permanent employees, picking labour and contractors,
- Capital items such as debt management and depreciation, and
- Off-farm interests.

Business profitability depends on the combined performance of all these items, but it is not always easy to work out which areas need to be changed. Like all business managers, growers are faced with an enormous range of decisions that can increase (or decrease) the health of your business. Recognising which areas are performing well and which ones are not, is important for making better decisions. Benchmarking business performance helps growers learn about their own

performance in key aspects of their business. It also assists in learning how other businesses operate. Most importantly, it aims to encourage you to take action based on what you see in the results.

To undertake the benchmarking of the vegetable businesses, we recommend using the “BizCheck” method, developed by RMCG from economic and financial farm surveys carried out over a range of agricultural and horticultural industries. Data collection is based on annual financial statements (tax return data) and physical farm information. This information is combined to provide performance indicators that are comparable between businesses.

The basis of ‘BizCheck’ is to measure and understand how your vegetable business system works. The process uncovers the main components of the business and how they combine to determine the farm profit per family.

By measuring and comparing performance, ‘BizCheck’ is designed to identify particular areas for action in each individual business, making planning more effective. This is achieved by participating growers considering their results against industry averages and determining which benchmarks can be address.

## Interested in doing a BizCheck on your business?

Data collection for BizCheck and cost of production is based on tax returns and physical farm information. The process of data collection and collation for benchmarking is straightforward, cost effective and confidential.

Benchmarking and cost of production of vegetable businesses in Victoria is provided as a no cost service to vegetable levy payers through the VegNET program.

### For further information to undertake a BizCheck, contact your relevant field officer

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