

NY97014

**Financial Performance Benchmarking for
Retail and Wholesale Nurseries
throughout Australia**

Ian Brown

The FMRC Benchmarking Team Pty Ltd



Know-how for Horticulture™

NY97014

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**HORTICULTURAL
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Partnership in
horticulture

FINAL REPORT

Arising from
HRDC Project NY 97014
(June 2000)

**Financial Performance Benchmarking for
Retail and Wholesale Nurseries Throughout Australia**

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HRDC Project NY 97014
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This is the final report arising from Project NY 97014, dealing with a series of financial benchmarking studies of Australian retail and wholesale nurseries. The report will summarise the methodologies used during the project.

The FMRC Benchmarking Team wishes to thank the Horticultural Research and Development Corporation and The Nursery Industry Association of Australia for their support in endorsing, promoting and funding this project. In addition several 'groups' within the nursery industry also assisted by distributing promotional materials among their members. Some of the activities covered by this Project were partially paid for by the businesses that participated.

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Industry Summary

The estimated value of industry sales and production is in the order of \$1.2 billion.

The industry features many small ventures, mostly owner-operated, where those owners also play a key role in the day to day operations, as well as in the financial and marketing management of an individual business. In some cases (eg at the 'micro' end of the market), some very small-scale operators might be considered to be 'hobbyists', while others are genuinely building up a genuine business, albeit from a small initial turnover level.

Consistent with this ownership structure, and with general observations about small business operators, it is likely that many of the owners have strong 'technical' or 'horticultural' backgrounds, and in the main, relatively weak financial backgrounds. There will be exceptions to a generalisation such as this, of course.

This project set out to identify the current cost structures, profitability and personnel productivity levels in the 'retailing' and for the 'wholesale' segments of the industry. This information can then be applied within an individual business to help improve its profitability by changing work practices or other aspects of a firm's operation.

Technical Summary

Introduction (incl literature review)

The initial literature search revealed no Australian-based financial studies available to show business operators target levels for certain key performance indicators.

The only information to be highlighted from the initial literature search has in fact been produced by this organisation, but was not in sufficient depth to distinguish between the performances of 'retailers' as opposed to the 'wholesale' operators.

Materials and Methods

This project comprised a number of different elements, including:

- Three distinct financial benchmarking comparisons, for the financial years ended 30 June 1997, 1998 and 1999
- A series of training activities designed to show business operators how to apply the figures within their business as a diagnostic tool. These were run throughout Australia in major population centres, with different presentations typically being made to retailers and to wholesalers

- Training activities for Nursery Industry Development Officers, to familiarize them with the concept, results and the application of the benchmarking, so that they could assist operators to use the information
- Presentations at industry conferences
- Several 'Nursery Papers' were written, using some of the average results. One of these Nursery Papers was able to compare the performance of Australian nurseries with their counterparts in New Zealand, thanks to the agreement from University of Waikato to exchange this information with us. The Nursery Papers can be found on the NIAA website, www.niaa.org.au
- Other reports were produced including spreadsheets that perform calculations and comparisons for individual operators; lists of possible corrective actions were compiled, to help start or refine the thought process for business operators; and some Charts of Accounts were developed to run under three accounting/management packages.

Each benchmarking comparison was promoted widely through the industry, using a mix of advertising or direct mail (several options were used here in the course of the three comparisons); personal invitation to former participants; addresses and promotions at annual conferences; the seminars were also used to both inform and promote. These efforts were supplemented in other ways, for example through the state-based Nursery Industry Development Officers who encouraged industry members to participate; several of the retail-based 'buying groups' or 'marketing groups' distributed promotional material to their members, and so on.

When firms decided to enrol in a Comparison, they were sent a questionnaire which sought details about the firm's performance in the relevant financial year. These questionnaires were developed and subsequently refined as a result of a consultation process between FMRC Benchmarking personnel and a range of industry members. Feedback from individual firms (some of which was directly expressed to us) was also incorporated into this process. Sections of the questionnaire which were either not filled in by many of the contributors, or which were filled in poorly, were reviewed and a decision to either refine/improve, or the scrap the section was made on a case-by-case basis.

Firms returned their completed questionnaires to us. Reminders were sent, encouraging business owners to return the information. Deadlines were extended to maximise the total participation rate. Details about participation rates are outlined in each report.

When questionnaires arrived in our office, they underwent a series of checking routines prior to data entry. We created the necessary processing files (a series of utility programmes which run under our special-purpose programmes) that:

- Checked additions of the key information
- Performed a calculation of every key indicator for every firm, then ranked the results for every indicator
- Screened the data to identify any aberrant results, which were then followed up with a personal discussion with the client if necessary, in order to arrive at an accurate result

which reflected the trading situation of each firm. If a piece of data was considered 'accurate' but 'aberrant' and it had a material impact on the average, then it could be removed from the data, via a 'non-response'; if the entire firm's result was considered to be unrepresentative of the industry at large (eg exceptionally high profits or high losses, or incomplete data, or a 'different' type of underlying activity), then that entire firm could be removed from the final data set. In each of the samples, some firms' results were removed for these reasons.

- Sub-divided the firms into a series of sub-groups based on (eg) turnover size, or profitability level, or location, or type of firm/product, and so on.
- Created average results for each of the sub-groups so identified. These averages became the basis of the written reports.

Reports highlighted the major factors which varied between the different types of firms – trends were identified to help firms (eg) predict what might happen if their turnover level rose, or which helped firms to structure their firm to be more like (eg) the highly profitable firms.

The reporting package for individual operators also contained customised printouts that showed the calculated results for an individual firm, together with averages for firms considered 'similar' – eg by virtue of location, size, etc.

These reports were sent by mail to each firm which contributed data to the Comparison.

After the third comparison, a number of one-off 'reports' or other methods of communicating the results were produced, with the aim of helping to 'extend the life' of the final set of averages.

We approached each sample as a discrete set of data, and have not at this stage attempted to correlate or summarise the trend-type information obtained from each comparison. Nor have we at this stage tracked specific changes for any firm which participated on two or more occasions. This could be an avenue for further work, but merely looking at movements in the results would not give a complete explanation as to the value of the benchmarking exercise – an individual firm's results may have been affected not only by their management decisions taken after participating in the Comparison, but factors such as (eg) weather; the actions of competitors etc may well have affected the financial results too. So to draw valid conclusions from this type of analysis would require (among other things) discussions with business owners about their decisions and actions, the motivation or 'spur to action' and the role of the benchmarking itself.

In essence, we have treated each data set as a standalone exercise, capable of delivering valuable management and financial information that provides a sound basis for action.

Results

The results of the three different benchmarking comparisons have been circulated to the firms that contributed data. A total of six reports were written (three years of comparisons, with two reports per year – one for Retailers and the other for Wholesalers).

It is not proposed to reproduce those reports in this outline (they have separately been provided to HRDC and NIAA personnel). Refer to the Nursery Papers for summaries and analyses of the results, as detailed in Materials and Methods above.

Discussion

There is no doubt that ‘isolation’ is a common complaint among members of the small business community. The fact that key operating, marketing, financial and personnel decisions all fall on the shoulders of a small number of people (who often have ‘horticultural’ experience moreso than ‘management’ experience) is a real problem area affecting most small businesses. Nursery operators are no exception to this.

In particular, business operators are often unwilling to share information with competitors in the same industry, so this feeling of isolation is hard to break down. This fear of exchanging information could be one of the reasons why relatively few firms decided to provide information to us through the benchmarking processes.

However, creating new information about the profitability and financial structure of the two segments of the Nursery Industry in Australia has helped and will continue to help to break down some of this isolation. Operators did not have information available to them to show how the better firms are performing; our reports covered the key factors which made a difference in actually delivering the better results; our additional reports also show some of the strategies – the operational or management approaches - that might help a firm to lift its profits, or improve efficiency, or enhance liquidity.

Recommendations – scientific and industry

Following the completion of the Project, I would offer the following recommendations:

1. The clear need exists for the industry to persevere with efforts to improve the financial management of individual businesses. To date, we have come into contact with perhaps 15% of members, so there is a lot of untapped potential to expand the reach of this work. The various ‘products’ created towards the end of this project will provide practical tools to help this to happen. I recommend that HRDC and NIAA should create a marketing plan to make these available throughout the industry – the revenue so obtained could either repay some of HRDC’s current investment or create

a 'training and development pool' of funds for (eg) NIAA to spend for managerial training of business operators.

2. The creation of some 'self-paced learning' activities or tools to cover basic management issues such as (eg) gross profit margins, pricing, personnel productivity etc is also recommended. Such tools would allow individuals to target any specific area of weakness, and learn at flexible times that suit themselves. The training modules could build on the results from the Benchmarking studies, by using the latest results at key stages in the course.
3. As an interim measure to gauge the potential support for further Benchmarking studies, HRDC and NIAA should consider a limited funding approach to the first, user-paid, comparison. Such support could take the form of investment in communicating the benefits, and developing case studies of businesses who have made financial gains from changes as a result of previous involvement in financial benchmarking, to encourage greater industry involvement in the survey, or perhaps a revenue-sharing arrangement once the number of participants reached a pre-agreed minimum level. In this way, funding would be relatively modest, or if numbers were large enough, could even return a net surplus to investors.

Acknowledgments

During the life of this project, considerable support has been received from several organisations and individuals, including:

- The Nursery Industry Association of Australia, with special mention to the initial discussions and interest expressed by the Victorian Division.
- The Nursery Industry Development Officers who assisted with technical background into the industry's operations, and who also supported and promoted the Comparisons when dealing with industry members. In particular, the co-operation received from the Nursery Industry Development Manager in both technical and project-management areas was invaluable.
- Retailer-groups also assisted by promoting the Comparisons to the member-base.
- HRDC's assistance through the funding of this exercise was a very important part of its success.

And of course,

- My thanks go to the many business operators who spent time completing questionnaires and reviewing their results. This project was designed for these people, and could not have been possible without their support.

