



Farm Management Fact Sheet

Benchmarking



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Do you ever wonder how your farm business is doing, or how it measures up to other, similar farms? The process of benchmarking can help you find out.

What is Benchmarking?

Benchmarking compares your farm business performance to a standard. You might benchmark internally, comparing your farm's performance year-to-year; or externally – often called “competitive benchmarking” – comparing your farm's performance to others in the same sector. You can compare your business to larger farms, farms similar in size to yours, or to overall averages for the sector.

Benchmarking goes beyond making comparisons to find out where you stand by identifying areas where you may lag behind so you can take steps to improve performance in those areas.

Using Benchmarking on your Farm

Benchmarking requires good production and financial records. A complete set of financial statements will be required, adjusted to an accrual basis and accurate production, including cost of production data for the farm.

With financial and performance data in hand, you can identify **Key Performance Indicators (KPIs)** that will be used to make comparisons. A KPI has some unit of measure descriptor: either physical data, such as yield/unit (i.e. lambs per ewe, pounds per acre, or litres per cow); or financial data such as price per unit (i.e. cost per acre or revenue per acre) or other standard financial ratios.

There are many KPIs to choose from, but it is important to select key indicators or areas where you suspect there is room for improvement, and where you are reasonably able to make improvements.

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Most performance measures are ratios or comparisons of one number against another, expressed either as a percentage or “to one.” Ratios do not provide answers – but they do help you ask better questions. For example, you may begin by looking at certain financial ratios, perhaps one of the measures of financial efficiency.



The most common of these use gross revenue, or total revenue resulting from the normal sales of goods or services from your farm. If you discover you lag behind in one or more of these measures, that may indicate your farm's profitability is lagging.



Once you identify key indicators and make comparisons, the next important step is making changes. Benchmarking is pointless if you don't use the process to improve your farm's performance. If profitability is an area requiring attention, a review of factors affecting it will be required to identify changes that can improve it. Since farm profit is related to quantity of product marketed, price, production costs, cost to service debt, and overhead, these areas will need to be explored for areas of improvement.

Benchmarking Pitfalls

Benchmarking is an important and useful management tool, but there are factors to consider when using this approach. First, you must know where the data is coming from. Is it an industry or sector average, or does it represent the best of the best? What commodity or commodities are included? How was data collected? Is financial data based on cash or accrual, market value, or cost less depreciation?

When using benchmarking, it is important to compare apples to apples, and to know that lag time affects benchmarking data. Know when data was compiled – is it recent or historical? Even if compiled recently, the data might be a year old; by the time you have implemented changes and realized results, producers included in the data set may have also moved ahead.

It is important to benchmark internally and compare your own farm's performance from year to year, as well as externally comparing your farm's performance with other similar operations. Keep in mind that you can also use your own goals for the farm business as benchmarks.

Data Sources

Benchmark data is available from a variety of sources. Cost of production data and financial performance data from jurisdictions other than Newfoundland and Labrador may vary widely. With producer participation, an Agriculture Business Development Cost of Production Study will be able to provide good financial and production data for participating farms. Well-established and widely accepted benchmarks are available for certain financial performance measures and ratios. These are discussed in more detail in the **Using and Understanding Financial Ratios and Benchmarks, Benchmarking, and Farm Efficiency Analysis** factsheets.

The Agriculture and Lands Branch of the Department of Fisheries, Forestry and Agriculture offers resources to assist with farm management, including short courses, consultations, publications, and financial assistance for eligible applicants.

For more information, please contact the Agriculture Business Development Division Farm Management Specialist in your area.

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