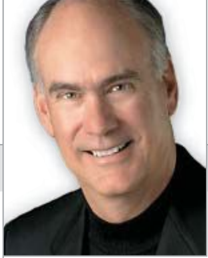

THE**BENCHMARK**

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Growing net profit

Last month, my good friend and partner Kevin Kehoe wrote about the trends in revenue growth from 2011 to 2012. (See **goo.gl/lKoWM** for the column.) He referenced a random sampling of 30 companies from the collective client base of 3PG Consulting. This month we'll look at those same firms, honing in on my favorite line item on the income statement—net profit.

Table 1 shows the result of the benchmark analysis. The average revenue growth rate from 2011 to 2012 was 8 percent, while the growth in net profit over the same period was a whopping 27.6 percent. Wow. Let's see if we can surmise why.

Table 2 breaks out the growth in net profit by revenue size and shows that no matter the size of company in the sampling, every volume group grew, and grew substantially, in net profit from 2011 to 2012. Just what can we make of these statistics?

1 My personal interpretation begins with a **psychological opinion**. We all have experienced the economic downturn for about four years. I believe we have collectively come to the conclusion that the only way things are going to get better is if we accept the realities, understand that no one is coming to our rescue (but us) and focus on making improvements to not only survive in these markets, but thrive in them.

2 Speaking on behalf of those companies for which we have an intimate knowledge, every one has a strong **information system**. No matter the size, all have an effective customer relationship management (CRM) system; all have a detailed estimating system and employ a pricing method that tells them when to walk away from lousy jobs; all have job controls, the information from which cycles daily or weekly; all produce a departmental income statement monthly; and all use a budgeting process that's updated monthly and constantly informs the management team of rough waters ahead so course corrections may be made promptly.

3 **Tough decisions** are now common. We've seen many examples of management constantly evaluating the value of past decisions and measuring their benefits for the company. For example, if a market you serve doesn't add value to the momentum and direction of the company, make the tough call and refocus attention to the markets that do. If a profit center isn't making money, and if its problems cannot be corrected quickly, jettisoning it should not be out of the question. If people in critical positions aren't producing results, analyze why. If a turnaround cannot be realized quickly, a career change may be in the offing. In the past, we may have hung on.

Gratuitous spending is all but eliminated. Compensation and benefit structures are being retooled. All of these are examples of the tough decisions we've seen companies make to improve profits.

4 More than ever, we're seeing companies **benchmark** themselves against other strong organizations. The use of qualified industry consultants has exploded. Peer group interest is on the rise. The drive is to compare oneself against the best, analyze the differences and strive to become the best.

It's been fascinating to watch the industry transform over the last four years, and there's every reason to believe the next four will smoke that experience.

TABLE 1: NET PROFIT GROWTH OVERALL

	2011	2012	Average growth	Highest growth	Lowest growth
Revenue	230,565,723	249,090,541	8%	32.4%	-17.3%
Net profit	12,750,284	16,265,577	27.6%	800.5%	-243.9%

TABLE 2: NET PROFIT GROWTH BY REVENUE SIZE

Under $3 million	$3 million - $5 million	$5 million- $10 million	$10 million-plus
26.9%	32.4%	38.5%	19.6%