

Northlake Bookstore: Benchmarking for Performance Evaluation

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INTRODUCTION

In September 2004, Wendy Wiley, the Northlake Bookstore manager, was considering the implications of a shocking development. For the first time in her seven years as the Bookstore manager, textbook sales for this fall had decreased from the prior fall sales. The sales decrease was approximately \$180,000, or 3% of annual textbook sales. Wendy wanted to address this problem before it got worse. She found that this sales decrease was due to two emerging technology problems, possibly of equal magnitude: 1) the students' increasing use of online textbook vendors, and 2) the professors' increasing use of online textbook publishers.

Wendy reported the bad sales news to her boss, Chuck Irwin, the Vice Chancellor of Finance at Northlake University. After commiserating with her, Chuck told her that he was not surprised by this sales problem and that she should consider how to deal with these emerging technologies in her next performance evaluation report by comparing the performance of the Northlake Bookstore against competitors using benchmarking analysis. This analysis would help Wendy find the strengths and weaknesses of the Bookstore. Additionally, Chuck wanted Wendy to develop a few key related short-term performance goals and related measures that could be used in future performance evaluations. He wanted to discuss the situation at their meeting next week, which was the annual review

of the Bookstore's performance for the prior fiscal year 2004 (July 2003 through June 2004). A benchmarking analysis was required by Chuck for the annual review of all the non-academic departments under his management.

Northlake is a private university, located in a major metropolitan area in the Midwest, with an annual enrollment of 12,700 students, mostly undergraduates. Northlake is quite dependent upon student tuition, which typically accounts for 60% of its total revenues. However, the Chancellor was concerned because donations and gifts to the University were down, possibly due to uncertain economic conditions and erratic stock market performance.

Prior to becoming the Northlake Bookstore manager, Wendy had spent 15 years in retail sales, most recently as a Wal-Mart sales manager. She was an outgoing, supportive individual who really liked being a retail sales manager and enjoyed working with her employees. She strongly believed in continuous improvement of any sales department that she managed. Despite her extensive retail experience in the for-profit sector, this was her first experience working in an academic environment. Wendy occasionally became frustrated working with faculty due to their late or inaccurate book orders. However, she liked helping students and enjoyed working in an academic environment without all the pressures of a for-profit business with aggressive sales and earnings targets like Wal-Mart.

NORTHLAKE'S HISTORICAL PERFORMANCE MEASURES

To prepare her benchmarking analysis report required for the upcoming annual performance evaluation of the Bookstore, Wendy had collected income statement, product line, and other performance measures for the last three fiscal years. To aid evaluation, she summarized the various Bookstore operations into five product lines: textbooks, supplies and sundries, clothing, software and accessories, and computers.

The textbook product line included new texts, used texts, class notes (course packs), and general reference books. The supply and sundry line included school and office supplies, electronics, food, sundries, greeting cards, and miscellaneous campus department sales. The clothing line included all insignia clothing, gifts, and memorabilia.

Wendy knew she needed to act fast to thoroughly analyze all the information needed for the Bookstore's annual benchmarking analysis that Chuck and the Chancellor required. She had a lot of historical information and was

Table 1
Northlake University Bookstore Income Statements

	2004		2003		2002	
	Actual	Sales %	Actual	Sales %	Actual	Sales %
Sales	11,110,607	100.0%	9,201,132	100.0%	8,765,163	100.0%
Cost of Goods Sold	8,052,260	72.5%	6,760,730	73.5%	6,616,751	75.5%
Gross Margin	3,058,347	27.5%	2,440,403	26.5%	2,148,413	24.5%
Labor Expenses	1,398,996	12.6%	1,168,313	12.7%	1,091,193	12.4%
Operating-Utilities	50,477	0.5%	73,982	0.8%	35,466	0.4%
Maintenance	38,441	0.3%	35,019	0.4%	33,959	0.4%
Rent	132,129	1.2%	136,085	1.5%	132,632	1.5%
Postage & Printing	25,724	0.2%	23,988	0.3%	25,097	0.3%
Telephone	9,429	0.1%	8,970	0.1%	9,530	0.1%
Outside Services	21,855	0.2%	13,599	0.1%	13,170	0.2%
Insurance	6,713	0.1%	6,672	0.1%	6,245	0.1%
Consumables	182,028	1.6%	154,110	1.7%	133,983	1.5%
Travel	15,944	0.1%	21,627	0.2%	3,509	0.0%
Total Oper. Expenses	1,881,734	16.9%	1,642,364	17.8%	1,484,781	16.9%
Operating Income	1,176,614	10.6%	798,039	8.7%	663,632	7.6%
Other Income	163,034	1.5%	79,853	0.9%	79,176	0.9%
Net Income	1,339,647	12.1%	877,895	9.5%	742,808	8.5%
Other Performance Measures	2004	2003	2002			
Faculty Overall Satisfaction Survey	4.05	3.92	3.73			
Customer Queing Time at Registers (in minutes)	1.2	2.1	2.3			
% of Coursepacks Available First Day	97%	96%	95%			
% of Textbooks Available First Day	99.6%	99.5%	99.4%			
Textbook Sell-Through (Total Sold/ Total Available)	78%	76%	74%			
Gross Margin Return: Inventory (GMROI)	2.5	2.0	1.8			
Cartons Processed per Employee Hour	3.3	3.7	3.8			
Days textbooks in Receiving Area	10	8	7			

Table 2
Northlake University Bookstore Sales, Cost of Goods Sold (CGS) and Gross Margins (GM) by Product Lines

Sales	2004		2003		2002	
	Sales	Sales %	Sales	Sales %	Sales	Sales %
New Texts	5,185,712	46.7%	4,100,486	44.6%	4,080,462	46.6%
Used Texts	1,488,414	13.4%	1,266,066	13.8%	1,112,628	12.7%
Class Notes	518,235	4.7%	498,095	5.4%	533,166	6.1%
General Books	332,519	3.0%	109,008	1.2%	93,050	1.1%
Supplies & Sundries	698,426	6.3%	634,677	6.9%	612,036	7.0%
Clothing	1,295,043	11.7%	919,151	10.0%	810,761	9.2%
Computers	869,481	7.8%	1,032,966	11.2%	971,819	11.1%
Software & Accessor.	722,778	6.5%	640,685	7.0%	551,243	6.3%
Total Sales	11,110,607	100.0%	9,201,132	100.0%	8,765,163	100.0%
Cost of Goods Sold	CGS	GM %	CGS	GM %	CGS	GM %
New Texts	3,969,948	23.4%	3,162,516	22.9%	3,248,727	19.9%
Used Texts	947,651	36.3%	808,577	36.1%	737,618	35.0%
Class Notes	401,411	22.5%	387,414	22.2%	377,456	24.0%
General Books	229,710	30.9%	78,411	28.1%	66,461	30.0%
Supplies & Sundries	436,121	37.6%	383,828	39.5%	395,493	35.4%
Clothing	686,562	47.0%	486,788	47.0%	434,528	46.4%
Computers	829,308	4.6%	928,598	10.1%	924,587	4.9%
Software & Accessor.	551,550	23.7%	524,599	18.1%	431,883	21.7%
Total Cost of Sales	8,052,260		6,760,730		6,616,751	
Gross Margins	3,058,347	27.5%	2,440,403	26.5%	2,148,413	24.5%

wondering how to analyze this financial information for her benchmarking analysis report.

BENCHMARKING

Benchmarking is the process of identifying superior performance of other organizations for products, services, and processes, and then attempting to improve necessary areas with the goal of achieving similar excellence. The benchmarking process first became popular in 1989 after Xerox advertised its success with the tool; however, the tool was initially employed by Xerox in 1972. In fact, more than 70% of the Fortune 500 companies—which includes AT&T, Ford Motor Company, IBM, and Eastman Kodak—reported using benchmarking regularly.

Benchmarking is useful in countless decision-making settings including performance evaluation, health and safety management, and supply chain management. At Northlake,

benchmarking was a useful tool in evaluating the annual performance of non-academic units because it gave the administration a tangible, unbiased standard against which those units could be evaluated. Benchmarking was also useful at Northlake because it encouraged employees to adhere to the underlying notion of benchmarking, which was to strive for continuous improvement by looking externally to what competitors were doing.

Benchmarking is typically performed using data collected from organizations in a similar industry. For example, Ford Motor Company would likely begin the benchmarking process by comparing its performance against other U.S. automobile manufacturers such as General Motors and Chrysler. To reach for greater standards of excellence, Ford would likely consider foreign automobile manufacturers that have been well known for high efficiency and quality, such as Toyota, the current world-wide leader in automobile sales. Wendy currently benchmarked the performance of

the bookstore against other college bookstores and major booksellers.

In performing a benchmarking analysis, it was imperative for Wendy to benchmark processes that were aligned with organizational strategic objectives. Since the Bookstore was a profit center, it was imperative that she compare the profitability of the various product lines with other universities. The Bookstore also had an objective to provide service excellence. Thus, if available, it would be beneficial for Wendy to benchmark customer satisfaction data with other universities. Once processes that were consistent with strategic objectives were identified, it was necessary to collect and analyze internal information vis-à-vis external information from competitors.

The benchmarking process did not stop once areas of excellence and inferior performance were identified. Rather, it was imperative for Wendy to identify how to sustain the areas of excellence and improve the areas of inferior performance. In determining how to improve poor performance, she needed to understand the reason behind the poor performance. Once that was attained, it would be possible to determine a long-term plan for improvement.

NORTHLAKE'S BENCHMARKING INFORMATION

In her years as the Bookstore manager, Wendy had developed various financial performance measures to help assess the performance of the Bookstore. Over the last few years, she had used these measures as part of her benchmarking analysis. She felt fortunate to have a fairly comprehensive benchmarking database available to her. It was provided annually to all bookstore members free of charge by the National Association of College Stores (NACS). The only requirement was that each bookstore had to contribute its own data to the benchmarking database in order to use it. The NACS database included income statement, product line, and other types of benchmarks.

With the looming threat from online textbook vendors, Wendy had started to benchmark Northlake's textbook prices against the major online textbook vendors. She also tracked mail orders and Web orders from Northlake's own website (started in 2000). Her task now was how best to use this benchmark information. She believed that her first step was to compare her current financial and operating results with the benchmark data to pinpoint areas in need of improvement. This analysis would likely uncover some areas that needed her attention, which would be useful in identifying areas in need of improvement.

NORTHLAKE BOOKSTORE: ROLE AND STRATEGIC OBJECTIVES

A key role of the Bookstore was to supply the Northlake University community--which included but was not limited to faculty, students, alumni and parents--with textbooks, supplies, clothing and gifts, computers and software, and much more. The Bookstore's formal mission statement was as follows:

The Northlake Bookstore is an academic resource for the students, faculty, staff, alumni, and guests of the University. The Bookstore serves the University with a business presence dedicated to providing service excellence that meets or exceeds the needs of each customer and University department.

The Bookstore played a significant role in enabling parents of freshmen to participate in getting their children ready for the first day of class. Additional temporary staff was hired to ensure there was adequate assistance available for new students and returning students who were purchasing their textbooks. These staff members were readily available and happy to answer any question that new parents or students might have regarding textbooks or the University in general. Also, congruent with the University laptop requirement for all students, the Bookstore sold computers and software. This was a great way for parents to enjoy one-stop back-to-school shopping.

Additionally, the Bookstore tried to promote the University as a brand name by selling clothing and accessories with the University logo and/or name. Availability of clothing and accessories was also a service provided to students, parents, and alumni who wanted to show their support for the school. Sales of merchandise with the University logo indirectly promoted the University, but the Bookstore did not try to formally create alumni support nor was that a formal goal. This was the function of the University Alumni Advancement (funding) office.

As indicated by the mission statement, by the role taken to familiarize new parents and students, and by the sale of merchandise with the University logo, the Bookstore operated in a manner aimed at achieving high customer satisfaction. To measure customer satisfaction the Bookstore conducted an annual customer satisfaction survey and a separate faculty satisfaction survey. Customer suggestion forms were also readily available on the Bookstore website.

Recently, a key area of customer (student) concern had been the significant increase in textbook costs due to the increase in the average price of a textbook from \$50 to

Table 3
NACS Benchmarks: 2004 Income Statement versus Northlake Bookstore

% of Sales	Average	25th Percentile	Median	75th Percentile %	Northlake
New Course Books	47.5%	41.1%	46.3%	52.6%	46.7%
Custom Materials	2.0%	0.0%	0.0%	1.9%	4.7%
Used Course Books	20.7%	14.1%	20.8%	29.6%	13.4%
General Books	2.5%	1.1%	2.4%	3.6%	3.0%
Total Book Sales	72.7%	56.3%	69.5%	87.7%	67.8%
Computer Hardware	3.3%	0.0%	1.2%	3.4%	7.8%
Software & Accessor	3.3%	0.6%	2.5%	5.9%	6.5%
Supplies & Sundries	12.5%	10.5%	12.3%	23.4%	6.3%
Clothing	8.2%	3.4%	6.8%	14.0%	11.7%
Sales	100.0%				100.0%
Cost of Goods Sold	74.2%	71.3%	74.3%	75.7%	72.5%
Gross Margin	25.8%	24.3%	25.8%	28.8%	27.5%
Labor Expenses	12.9%	10.3%	12.4%	15.0%	12.6%
Operating-Utilities	0.3%	0.1%	0.0%	0.5%	0.5%
Maintenance	0.6%	0.1%	0.4%	0.7%	0.4%
Rent	1.9%	0.0%	1.5%	2.5%	1.2%
Postage & Printing	0.4%	0.2%	0.4%	0.6%	0.2%
Telephone	0.3%	0.1%	0.2%	0.3%	0.1%
Outside Services	0.3%	0.0%	0.2%	0.5%	0.2%
Insurance	0.1%	0.0%	0.0%	0.1%	0.1%
Consumables	3.1%	1.5%	2.0%	4.9%	1.6%
Travel	0.2%	0.1%	0.1%	0.2%	0.1%
Total Oper. Expenses	20.1%	20.1%	23.9%	25.3%	16.9%
Operating Income	5.7%	0.3%	2.6%	6.7%	10.6%
Other Income	2.1%	0.2%	0.8%	1.7%	1.5%
Other Expense	1.3%	0.0%	0.1%	1.1%	0.0%
Net Income	6.5%	2.6%	8.4%	11.5%	12.1%
Departmental Gross Margins					
New Course Books	21.4%	19.5%	22.4%	25.0%	23.4%
Custom Materials	23.7		Not Available		22.5%
Used Course Books	33.7%	30.7%	34.9%	38.0%	36.3%
General Books	28.5%	22.0%	28.3%	34.0%	30.9%
Total Book Sales	25.5%	23.4%	25.7%	28.0%	28.3%
Computer Hardware	7.3%	3.3%	7.2%	10.0%	4.6%
Software & Accessor	21.3%	14.5%	21.7%	27.5%	23.7%
Supplies & Sundries	33.2%	27.0%	34.7%	41.3%	37.6%
Clothing	36.7%	32.3%	38.6%	44.6%	47.0%
Total Net Sales	26.2%	23.4%	26.7%	29.6%	27.5%

Table 4
Other NACS Benchmarks for 2004 versus Northlake Bookstore

	Average	25th Percentile	Median	75th Percentile %	Northlake
Shrinkage as a % of Sales	1.20%	0.36%	1.07%	1.89%	1.00%
Sales per FTE Student	\$1,025	\$861	\$1,026	\$1,187	\$1,338
Sales per FTE Employee	\$444,665	\$350,385	\$440,618	\$536,855	\$383,124
Sales per sq.ft. of Total Space	\$1,229	\$618	\$954	\$1,323	\$741
Sales per sq.ft. of Selling Space	\$1,587	\$792	\$1,119	\$1,881	\$1,112
Total Space in Square Feet	\$23,495	\$14,993	\$20,006	\$32,025	\$22,500
Square Feet per FTE Student	\$2	\$1	\$2	\$2	\$3
Ratio: Selling to Storage Space	3.4:1	3.0:1	4.3:1	5.8:1	3.3:1
Number of FTE Employees	30.1	22.5	27.9	37.1	26.4
Average # of Full-time Employees	30	24	30	36	30
Average# of Part-time Employees	23	3	9	41	9
Used Text Sales:					
as a % of New Text Sales	41.49%	32.31%	45.24%	52.45%	28.70%
as a % of Course Book Sales	28.23%	19.88%	30.00%	37.93%	20.70%
Sales Change from Prior Year	6.4%	2.5%	6.7%	11.8%	20.8%
Online Sales as a % of Total Sales	3.1%	1.0%	1.7%	4.5%	1.9%
Campus Contrib. as a % of Sales	6.7%	3.9%	7.0%	8.8%	12.1%
# of Hrs Store is Open per Week	55.0	51.0	54.5	58.0	52.0
Average Inventory (000)	\$1,919	\$1,494	\$1,865	\$2,226	\$1,376
Average Sales per Store (000)	\$12,357	\$11,289	\$12,305	\$12,984	\$11,111
Average # of FTE Students	19,788	14,237	18,203	21,336	12,708
Inventory Turnovers:					
New Course Books	5.4	3.6	5	7	9.1
Used Course Books	5.8	4	5.6	7.3	9.5
Total Course Books	5.7	4.1	5.3	6.7	9.4
General Books	1.6	1	1.4	2	1.8
Total Books	5.2	3.7	5	6.3	9.1
Hardware	9.2	4	8.6	20.8	13.7
Software & Accessories	5.5	2.6	4	6.5	3.9
Supplies & Sundries	2.7	1.8	2.3	3.3	1.9
Clothing	2.6	1.6	2.3	3.2	3.1

Table 5
Northlake University Bookstore Quarterly Textbook Benchmarking Average Prices, September 2004 Fall Quarter

Text Title, Author & ISBN	Northlake	Amazon	Ecampus	Barnes&Noble	WalMart	Average Cost
History of Human Rights Ishay; 0520234979	\$ 18.50	\$ 16.97	\$ 17.68*	\$ 19.96	\$ 15.27	\$ 17.68
Organizing for Power Mondros; 0231067194	37.00	34.50	30.88	31.00	30.88	32.85
Dogmas & Dreams Love; 1566430437	48.00	44.95	42.70	44.95	36.86	43.49
Modern Real Estate Practice Galaty; 0793144280	37.25	49.70	42.26	50.69	44.73	44.93
Human Resources For Non HR Kulik; 0805842969	34.75	32.50	30.88	32.50	32.66*	32.66
Ecology Molles; 0072951710	99.00	92.81	94.05	98.75	88.17	94.56
Contemporary Financial Mgmt Moyer; 032416470X	124.50	96.98	113.00	125.95	119.65	116.02
Pocket Guide To Writing History Rampolla; 0312403577	13.50	13.95	15.27	13.75	13.49	13.99
Cosmic Perspective Bennett; 0805387382	92.75	96.00	93.24*	93.00	91.20	93.24
Calculus & Its Application Bittinger; 0321166396	103.00	103.00	97.85	103.00	97.85	100.94
September, 2004 Fall Quarter	\$ 60.83	\$58.82	\$ 57.78	\$ 61.36	\$ 57.08	\$ 58.76
* Textbook currently unavailable online. Average textbook price was used for comparative purposes.						
Prior Benchmarking Studies:						
March, 2004 Spring Quarter	\$ 63.99	\$ 62.12	\$ 61.24	\$ 63.77	\$ 64.06	\$ 63.04
January, 2004 Winter Quarter	\$ 79.03	\$ 80.03	\$ 76.87	\$ 79.94	\$ 78.28	\$ 78.83
September, 2003 Fall Quarter	\$ 78.02	\$ 81.07	\$ 74.66	\$ 79.12	\$ 79.30	\$ 78.43

Table 6
Northlake University Bookstore Fiscal Year 2004 Mail and Web Sales

Mail Orders	First	Second	Third	Fourth	YTD Totals
Text	\$ 1,533	\$ 1,253	\$ 2,580	\$ 895	\$ 6,261
Non-Text	1,405	7,023	1,589	6,344	\$ 16,361
Mail Totals					
FY2004	\$ 2,938	\$ 8,276	\$ 4,169	\$ 7,239	\$ 22,622
FY2003	\$ 5,326	\$ 6,134	\$ 3,781	\$ 4,033	\$ 19,274
Web Orders					
Text	\$37,866	\$23,647	\$27,620	\$12,186	\$101,319
Non-Text	4,034	11,166	4,490	16,454	\$ 36,144
Web Totals					
FY2004	\$41,900	\$34,813	\$32,110	\$28,640	\$137,463
FY2003	\$36,802	\$26,263	\$28,476	\$21,587	\$113,128
Mail and Web Orders					
FY 2004	\$44,838	\$43,089	\$36,279	\$35,879	\$160,085
FY 2003	\$42,128	\$32,397	\$32,257	\$25,620	\$132,402

\$150 over the last five years. Significant contributors to this increase were publisher updates to textbooks, which were occurring more often (about every two years versus the prior standard of about every five years). Given the increase in textbook costs, as a profit center the Bookstore had not been able to subsidize this change in cost. As a profit center, the focus of the Bookstore was to contribute to the overall profitability of the University as well as being efficient and controlling costs.

NORTHLAKE BOOSTORE: BENCHMARKING ANALYSIS

Wendy and Chuck had agreed that the Bookstore benchmarking should include the Bookstore's income statement, five product lines, and financial and operating performance measures. These items were to be benchmarked against the National Association of Collegiate Stores' (NACS) benchmarking information. In completing this analysis it was imperative for Wendy to identify performance gaps between the Bookstore results and the NACS averages and develop tactics to correct such gaps.

FINAL THOUGHTS

Wendy had a significant amount of financial and operating information to use in the Bookstore's annual performance review. From past experience, she knew that benchmarking analysis was a very useful tool for such performance evaluation. She also thought that these analyses could help develop strategies for dealing with the threat of reduced profits due to emerging technologies.

She realized that she had a significant amount of work to do in order to analyze all the available historical and benchmarking information. She hoped to summarize such information in the Bookstore's benchmarking analysis report. Also, she had to quickly develop this report for her upcoming meeting with Chuck and the Chancellor.

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