

## Benchmarking

### What is benchmarking?

The term 'benchmarking' comes from land surveying where a mark – a cut in the rock – would act as a reference point.

In 1979, the Xerox Corporation used the term 'competitive benchmarking' describing it as a process used by the manufacturing function to revitalise itself by comparing the features, assemblies and components of its products with those of its competitors.

Since then, benchmarking has broadened:

- ◆ Applied to other functional areas beyond operations e.g. purchasing, marketing
- ◆ Used in services as well e.g. hospitals, banks
- ◆ Involves all staff, not just experts/consultants
- ◆ Competitive taken to mean gaining competitive advantage so value in comparisons even with non-competitive organisations

Benchmarking can perhaps be most briefly described as a tool that highlights opportunities. A more pragmatic definition could be a practical way of measuring and improving efficiency, performance and competitiveness.

### The three objectives of benchmarking

1. Setting realistic performance standards
2. Searching out new ideas and practices to adapt
3. Stimulating creativity and provide stimulus to change



*Benchmarking is a tool that highlights opportunities because it offers a practical way of measuring and improving efficiency, performance and competitiveness. This article takes you through the benefits and common pitfalls. It also provides you with an understanding of the different types of benchmarking to enable you to select the one most relevant to you and ends with a step-by-step guide to doing a benchmarking exercise.*

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## Benefits

The continued interest in benchmarking as a management tool is driven by the benefits it offers. Undertaking a well-planned benchmarking exercise with management commitment usually:

- ◆ Increases awareness of what you do and how you do it
- ◆ Increases understanding of processes
- ◆ Generates credible targets
- ◆ Focuses attention on finding out what needs changing and why
- ◆ Enables an organisation to learn from outside itself

*Benchmarking can generate credible targets*

## Common pitfalls

However, all benchmarking exercises are not successful and many organisations have committed resources to benchmarking without apparently reaping the benefits. Common pitfalls that these organisations' stories reveal are:

- ◆ Insufficient commitment
- ◆ Lack of planning
- ◆ Seen as a one-off activity
- ◆ Comparing apples and pears
- ◆ Measuring easy factors rather than significant factors
- ◆ Relevance unclear to those involved or affected
- ◆ Failure to prioritise

## Types of benchmarking

There are a number of different types of benchmarking and they are not necessarily mutually exclusive. The main types are:

- ◆ Internal benchmarking: comparing operations within the same organisation.
- ◆ External benchmarking: comparing operations in different organisations.

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- ◆ Non-competitive benchmarking: benchmarking against external organisations that do not compete directly in the same markets.
  - ◆ Competitive benchmarking: comparison directly between competitors in the same or similar markets.
  - ◆ Performance benchmarking: comparison between levels of achieved performance in different operations with other organisations' performances. Performance objectives are usually related to quality, speed, dependability, flexibility and cost.
  - ◆ Practice benchmarking: comparing an organisation's operations practices (the way they do things) and those adopted by another operation.

The different types of benchmarking occur because of what is being benchmarked, as well as whom you are benchmarking against. The content of benchmarking is explored in detail below but fall into a few main areas:

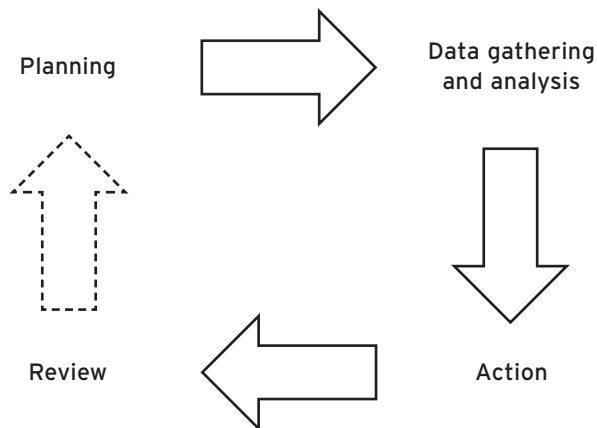
- ◆ The simplest form of benchmarking is to compare costs such as salaries or telecomms costs. Costs which are higher than the industry norms may provide opportunities for savings.
- ◆ Most benchmarking compares key performance indicators (KPIs) beyond straightforward cost comparisons. KPIs tend to focus on productivity and efficiency. Some KPIs can be expressed as straightforward statistics e.g. sales per employee. Other KPIs require qualitative as well as quantitative analysis e.g. assessing the effectiveness of training activities or levels of customer satisfaction.
- ◆ Benchmarking is also used to compare processes used within the organisation. Processes are concerned with things like the technologies and techniques used in the offer of the organisation.
- ◆ Benchmarking is also used to compare businesses at a strategic level looking at strategic objectives, where resources are focused and what standards are sought.

*Cost comparisons  
can show  
opportunities for  
savings*

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## The benchmarking process

It can be helpful to think of the benchmarking process in four distinct phases:



### Planning

1. Set up a project team, ideally from different areas of the organisation
2. Define what is to be benchmarked  
Keep your research focused – the more focused it is, the more useful it is likely to be. Select a few processes that are central for success, account for significant cost, and make a significant impact on customer satisfaction
  - ◆ Select subject area, ensuring focus on core areas, not peripherals
  - ◆ Analyse internal detail
  - ◆ Understand performance indicators or practice focus

*A project team from different areas of the organisation is ideal*

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## *A traditional perspective*

1. What business are we in?
2. In which aspect of our business do we have to excel in order to gain market place advantage?
3. What would make the most significant improvement in our customer relationships?
4. Which single area, if improved, would make the most significant contribution to our bottom line results?
5. How will improvements in this area impact on other parts of the business?

## *A customer perspective*

1. Establish what makes a difference in the customers' eyes between an ordinary supplier and an excellent one.
2. Set standards for those things according to the 'best' practice that can be found.
3. Learn how the 'best' organisations meet those standards.
4. Adapt and apply lessons to meet and exceed customer requirements.
5. Ensure the best practices are share across all parts of the company.

*It is vital to define what is to be benchmarked*

## *An objectives perspective*

1. What is the prime goal of the organisation?
2. What has to be done to achieve this?
3. What are the key processes in each of these areas?
4. Which are the priorities – short-, medium- and long-term – to achieve the objectives?
5. Which processes should effort therefore be focused on?

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**3. Identify potential benchmarking partners and start to discuss collaboration**

Is it most relevant to benchmark against industry leaders or lesser players (perhaps a small but more focused organisation), or other industries for specific activities e.g. a mail order company if you want to sort out your order processing?

Ensure all partners understand the objectives of the study and its mutual benefits. Develop a benchmarking agreement that includes:

- ◆ The information you want to exchange
- ◆ How it will be collected
- ◆ How you will use it
- ◆ Who will use it
- ◆ When you need it

**4. Select benchmarking partners**

## **Data gathering and analysis**

**1. Collect data**

- ◆ Simple operational data can be exchanged using questionnaires.
- ◆ For more qualitative information, site visits with shared visit reports are useful.
- ◆ Readily available published sources should also be used e.g. company reports, trade reports, industry studies and surveys (government or trade association).
- ◆ Some data may be available through informal rather than formal contacts.
- ◆ Interviews with customers, distributors, industry experts, former employees of competitors etc. may be relevant to your benchmarking project.

*Working with others is central to many benchmarking exercises*

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## 2. Determine the performance gap

Summarise where you differ from your benchmarking partners e.g. differences in performance indicators, individual processes, or strategy.

## 3. Establish the differences in detail, including reasons for those differences.

Investigate why you differ e.g. poor cost control, outdated processes, just a different trade off is taking place, different focus e.g. target market, different constraints e.g. financial resources to invest in new technology.

## 4. Target future performance

Decide what action to take and what this looks like in terms of specifying performance levels or practices. In some situations, you may conclude to do nothing. In others, you will adapt processes or introduce a completely new process. Where change is needed, specific targets and specific timeframes are needed.

## Action

### 1. Communication and commitment

Like all business improvement tools, success depends on management commitment as well as good communication with all who are directly involved or affected by the project.

### 2. Adjust targets and develop correctional improvement plan

Communication usually leads to additional information and the adjustment of targets in the light of it.

### 3. Implement and monitor

*Success depends on management commitment and good communication*

## Review

Review progress and learn for next or continuing benchmarking exercise.

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## Using external expertise

Many benchmarking projects are undertaken with internal resource alone. This is good for establishing ownership. At times, however, external expertise may be sought, usually for one or more of the following tasks:

- ◆ Establishing internal data and organisational processes
- ◆ Identifying and contacting benchmarking partners
- ◆ Project management
- ◆ Overcoming resistance to change

*External input can help overcome resistance to change*