



Benchmarking : A tool for Profit Re-engineering

CMA Dr. S. K. Gupta

E-mail: cbst.skgupta@gmail.com

The business world today is highly volatile, uncertain, complex and ambiguous. Companies are testing and adopting newer business models to grab markets and ensuring sustainable growth. In order to get where we want to go in the long haul, it's important to take a look at where we stand today. It's even more important to put together smaller goals to make sure we're getting there in the most productive way possible. Think of it as if you're running a marathon - at each mile you'll want to perform a quick check to see how you're doing on hydration, nutrients and body performance. The same idea holds true for your online business.

This is what we call benchmarking. While there are several definitions and variations of the term, it ultimately boils down to setting a long-term goal and using specific indicators and metrics to track your progress.

David T. Kearns, Chief Executive Officer of Xerox Corporation, defined benchmarking as "the continuous process of measuring products, services, and practices against the toughest competition or those companies recognized as industrial leaders." Benchmarking is a way to go backstage and watch another company's performance from the wings, where all stage tricks and hurried realignments are visible.

Companies use benchmarking as a way to compare key metrics to other businesses in the industry. This allows companies to see how well they are performing and identify ways they can become more competitive in the industry. In the business world, companies use benchmarking as a point of reference as well. But instead of having physical benchmarks carved in stone, they use benchmark reports as a way to compare themselves to others in the industry. Benchmarking is the practice of a business comparing key metrics of their operations to other similar companies.

You can also think of a benchmark report as a dashboard on a car. It is a way you can quickly determine the health of the business. Much like a dashboard, where you can check your speed, gas level, and temperature, a benchmark report can examine things like revenue, expenses, production amounts, employee productivity, etc.

Benchmarking occurs across all types of companies, including private, public, nonprofit, and for-profit, as well as industries e.g., technology, education, and manufacturing

Companies use benchmarking as a way to help become more competitive. By looking at how other companies

are doing, they can identify areas where they are underperforming. Companies are also able to identify ways they can improve their own operations without having to recreate the wheel. They are able to accelerate the process of change because they have models from other companies in their industry to help guide their changes.

Why Should Your Firm Benchmark?

The case for benchmarking suggests that a particular process in your firm can be strengthened. Some organizations benchmark as a means of both improving discrete areas of their business and monitoring competitor's shifting strategies and approaches. Regardless of the motivation, cultivating an external view of your industry and competitors is a valuable part of managing in this world of change.

There are a number of core drivers of benchmarking initiatives in a firm.

- The most common driver for benchmarking comes from the internal perspective that a process or approach can be improved. Organizations will collect data on their own performance at different points in time and under different circumstances and identify gaps or areas for strengthening.
- Many organizations compare themselves to competitors in an attempt to identify and eliminate gaps in service or product delivery or to gain a competitive edge. The data gathered in a competitive benchmarking initiative offers specific insights into a the competitor's processes and thinking.
- **The term:** strategic benchmarking, is used to describe when a firm is interested in comparing its performance versus the best-in-class or what is deemed as world-class performance. This process often involves looking beyond the firm's core industry to firms that are known for their success with a particular function or process. Benchmarking is a continuous process of :

Comparison

- Comparing the organization and its parts with the best in class organizations
- Comparing business processes with similar processes in best in class organizations all
- Comparing operational processes with the similar processes in best in class organizations
- Comparing the organization's products and services with those of the best competitors

- Comparing different types of capital to with the best in class organizations.

Projection

- Projecting future trends in best practices and proactively leading to these trends
- Meeting and exceeding customer expectations

Implementation

- Implementing defined best practices
- Making improvements systematic, repeatable and reliable

Types of Benchmarking

1. Internal

One of the easiest benchmarking investigations is to compare operations among functions within your own organization. This type of investigation is applicable to multidivisional or international firms. Data should be readily available and reportable on a consistent basis

2. Competitive

Direct product or service competitors are the most obvious to benchmark against. Although this information may be difficult to obtain, its value is high

3. Functional

It is not necessary to limit comparison to direct competitors. In fact, a narrow focus may risk missing potential breakthroughs. Functional benchmarking investigates leaders in dissimilar industries. The relevance of comparison is maintained by defining the performance characteristics that must be similar to your own functions.

4. Generic

It extends functional benchmarking by removing the constraints imposed by limiting the investigation to practices with similar characteristics. It holds the potential for revealing the "best of the best". It requires broad conceptualization.

Benchmarking Process

- Determining benchmark focus - During this phase, the company determines the specifics of the research project. (e.g., which companies will they include in the research and what types of metrics they will compare).
- Planning and research - During this phase, the company puts the resources together to implement the project (e.g., develop surveys, seek cooperation from other companies, and find databases already available).
- Gathering data - During this phase, the data is collected through the methodology determined in the planning and research phase.
- Analysis - After gathering the data, the company uses statistical techniques to examine and create the

findings.

- Recommendations - After analyzing the data and areas where the company can improve, recommendations are developed.
- Implementation - After reviewing

Some of the important performance measures that can be used are

- operating cost / sales per employee;
- product development time;
- rejection ratio
- capacity utilization;
- number of new products developed;
- queuing time
- customer complaints;
- service responsiveness; and
- percent of returned orders.

Figuring out a company's relative performance is ferociously problematic. It depends on which other companies are included in your comparison. Just change the peer group, and a laggard becomes a leader, or vice versa.

- When comparing a ketchup plant that fills small bottles with one that fills large bottles, a company should scale to a common unit and calculate the additional cost per liter of filling smaller bottles.
- One CPG company found that its process for filling small package sizes cost 20 percent more than its process for filling large ones.
- A milk powder manufacturer might have a highly efficient packaging process, but it might also have an outdated, energy-guzzling drying machine. These two factors can offset each other, resulting in reasonable production costs. Only with a detailed examination of every step in the production process will the company realize that it ought to replace its milk-drying machine.

Benchmarking Case studies

1. Xerox

Benchmarking against Japanese competitors, Xerox found out that it took twice as long as its Japanese competitors to bring a product to market, five times the number of engineers, four times the number of design changes, and three times the design costs. After an initial period of denial, Xerox managers accepted the reality.

Xerox collected data on key processes of best practice companies. Xerox identified ten key factors. Each of these then became a target for improvement. Xerox zeroed in on various other best practice companies to benchmark its other processes. These included:

- American Express (for billing and collection),
- Cummins Engines and Ford (for factory floor layout),

- Florida Power and Light (for quality improvement),
- Honda (for supplier development),
- Toyota (for quality management),
- Hewlett-Packard (For product development),
- Fuji Xerox (for manufacturing operations)
- DuPont (for manufacturing safety).

Results of Benchmarking efforts in ZEROX

- Highly satisfied customers for its copier/duplicator and printing systems increased by 38% and 39% respectively.
 - Customer complaints to the president's office declined by more than 60%.
 - Customer satisfaction with Xerox's sales processes improved by 40%, service processes by 18% and administrative processes by 21%.
 - Inventory costs reduced by two-thirds.
 - The financial performance of the company improved considerably.
2. One of the most famous examples of best-in-class benchmarking is that of airlines improving their turnaround times by benchmarking themselves against Formula 1 racing car pit-stop operations. In both cases there are both routine operations and occasional emergency repairs / replacements to be carried out efficiently. Also load factor (what percentage of seats are occupied) can be benchmarked for different Airlines
 3. A European company embarked on a benchmarking effort involving six of its production plants. Data was gathered on more than 100 operations-related key indicators. The analysis showed that two of the company's plants were among the best performers in the industry, and two were among the worst. The breakdown analysis revealed that :
In one case, a plant's material cost was too high
 - In another, a plant had a disproportionately large staff
The plant down time was significant in one plant
 - Energy consumption analysis revealed two inefficient plants, and since both were located in regions with low energy costs, savings potential was huge
 - The team calculated that if all the six plants could improve performance to the level of the top performing quartile, the resulting savings would amount to tens of millions of Euros every year.
 - By applying detailed break down of cost levers, and deploying a cross functional / cross plant team the company realized significant savings
 5. A quick service restaurant chain dependent upon speedy, accurate service in the drive-thru to maximize efficiency, cut costs and increase profits will study the drive-thru practices of key competitors. Every second gained without sacrificing customer quality

allows the firm to increase profits. Over the years, competitors have consistently innovated in their drive-thru operations with configuration, number of windows, menu and speaker boards and ordering approaches in an attempt to improve in this area. They are constantly watching and benchmarking against each other.

6. One firm, Pal's Sudden Service, a small hamburger and hot dog chain and a Baldrige Quality Award winner, is so successful at achieving best-in-class performance for drive-thru and overall restaurant operations, that it opened an educational institute to train other organizations. Many companies in the fast food market use Pal's as a best-in-class benchmark for their own firms.

Examples of bad benchmarking

- Many companies set targets for operational metrics without proper analysis whether target is really what the customer wants or is really in the best interest of the company.
- The worst example is where the target is 80% of calls answered in 20 seconds when the data suggests that most customers will wait in queue for 60 seconds, if, when their call is answered, they can get complete answer for their question
- HP invests up to two minutes of educational time on calls where the customer asked a simple question that could have been self serviced on the Website. While talk time is longer, future calls are prevented because the customer is educated on self-service.

What Benchmarking is not

- A way to justify headcount reductions without changing the accompanying processes
- A form of industrial tourism
- A training ground for new and/or inexperienced employees
- A tool for a quick fix
- A tool to impress top management only
- A tool to use up some idle time if there is nothing better to do with it
- A tool for merely competitive comparison
- A tool for spying or espionage

The Bottom Line:

Benchmarking is the practice of being humble enough to admit that someone else is better at something and wise enough to try and learn how to match and even surpass them at it. Benchmarking is a potentially powerful tool to promote continuous improvement in your organization. As discussed, relying on internal-only measures breeds a myopic perspective. High performing organizations strive to identify processes, functions or offerings important to their business and evaluate their efficiency and effectiveness versus leading competitors or leading innovators. Care should be taken to define benchmarking initiatives deliberately and scientifically, or, the results can be misleading.