# Benchmarking

Learning from Others' Success

# Some Questions

What markets offer attractive profit potential?

How will your industry evolve over time?

What are the key success factors in your market(s)?

What segments exist, what strategy is required?

What are your competitors' strategies, strengths &
weaknesses?

How do your competitors' capabilities map against a market
key success factors?

Benchmarking is a

| Continuous<br>Ongoing<br>Long-term | Systematic<br>Structured<br>Formal<br>Analytical<br>Organised | Process | for | Evaluating<br>Understanding<br>Assessing<br>Measuring<br>Comparing |

the
| Organisations<br>Companies<br>Institutions | that<br>are | Recognised<br>Acknowledged<br>Identified | as | Best-in-class<br>World-class<br>Representing<br>best practices |

for the
purpose of

Organisational comparison
Organisational improvement
Meeting or surpassing industry best practices
Developing product/process objectives
Establishing priorities, targets, goals

# General Principles for Involvement

- The more people involved, the more different views and perspectives brought to bear
- The more ideas generated, the better the chance of making significant changes
- The more people in the benchmarking process, the less difficult it is to sell the concept and any results to the workforce.

# Types of Benchmarking

- Internal benchmarking
- Competitive benchmarking
- Industry or Functional benchmarking
- Process or Generic benchmarking

# Internal Benchmarking

- Similar activities in different locations, departments etc

- Advantages:
  - "Sharing" - Communication
  - Data easy to get
  - Good results, immediate benefit
  - Good practice

- Disadvantages:
  - Limited focus
  - Internal bias
  - "Miss the boat"

# Competitive Benchmarking

- Direct Competitors, same customer base
- Advantages:
  - Directly relevant
  - Comparable practices & technologies
  - History of information
- Disadvantages
  - Data collection difficulties
  - Ethical issues
  - Antagonism

# Industry or Functional Benchmarking

- Leaders in Similar Industry
- Advantages
  - Willing partners
  - Readily Transferable
- Disadvantages
  - Cost
  - Some "willing partners" not so willing!

# Process or Generic Benchmarking

- State of the art Processes/products/services
- Break the company into generic functions
- Advantages
  - Breakthrough ideas
  - Network development
  - High potential for innovation
- Disadvantages:
  - Hard to do!
  - Transferring practices (learning!)
  - Some information not transferable
  - Time consuming

# Efficacy of Benchmarking: 580 Companies

| Performance (ROA) | Benchmarking effect |
|---|---|
| High: >6.9% | High impact |
| Medium: 2% - 6.9% | No compelling positive impact |
| Low: <2% | Negative impact |

# Before you Start

- Clear about key issues
- Clear strategic plan
- Know your key customers
- Key suppliers
- Management commitment to improvement
- Commitment to participation
- Prepared to restructure

- Analytical skills
- Will to implement (courage!)
- Ability to lead & develop teams
- Employees able to work in teams
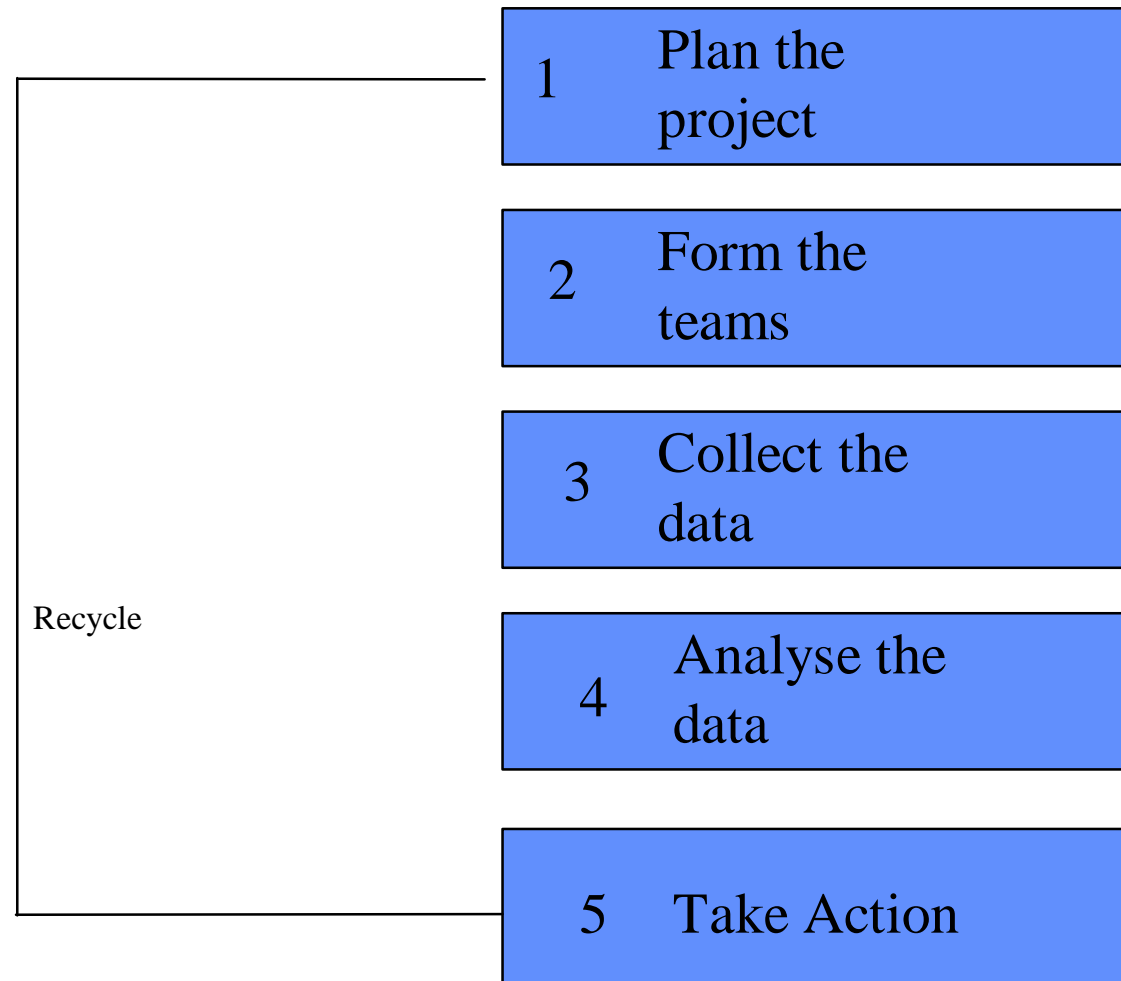- Commitment of resources
- Project management

# A Model for Benchmarking: Requirements

- Simplicity, logic  (PDCA)
- Clarity - explainable
- Emphasis on organisation & planning
- Customer focus
- Consistent approach throughout the organisation

# Style of Benchmarking

- Data-driven - eg from an industry database
- Process-driven - follow the steps of the model
- People-driven - designed by the participants
- Strategy-driven - each step deployed from the strategic plan
- Strategy/people driven - a hybrid

# A Simple Benchmarking Model

| | |
|---|---|
| 1 | Plan the project |

| | |
|---|---|
| 2 | Form the teams |

| | |
|---|---|
| 3 | Collect the data |

| | |
|---|---|
| 4 | Analyse the data |

| | |
|---|---|
| 5 | Take Action |

Recycle

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# Plan the project

- Identify the strategic intent
- Select processes to benchmark
- Identify customers' profiles and expectations
- Select critical success factors
  - Balanced Scorecard

# Forming the Benchmarking Teams

- Select the Team Members
  - Consult with stakeholders
  - Balance the roles and skills
  - Company background
- Train the Teams
  - The model
  - Knowledge of tools, techniques
  - Leadership & communication skills
  - Project management

# Collect the Data

- ## How <u>you</u> perform the process
  - Flow charts
  - Customer feedback
  - Balanced Scorecard or Wheel

- ## How <u>they</u> perform the process

- ## Getting the Data
  - Interview guide
  - Post-site visit debrief
  - Synthesize & Share

# Analyse the Data

- Find the Benchmark
    - May be you!
    - Assign an ideal, or take the maximum

- Compare Performance
    - Graphical presentation - current situation
    - Graphical presentation - historical & future

- Find the Gaps
    - Watch for NIH
    - Identify "process enablers"

# Example: Two Consulting Companies
# (Transformed data)

| | Us | Benchmark Partner |
|---|---|---|
| Employee Satisfaction | 1.00 | 0.94 |
| Direct/Indirect | 1.00 | 0.86 |
| Learning hours/employee | 1.00 | 0.78 |
| Dollars billed/employee | 0.84 | 1.00 |
| Billing Hours/employee | 0.86 | 1.00 |
| Hours R&D | 0.80 | 1.00 |
| Overheads/employee | 1.00 | 0.60 |
| Salaries/employee | 0.90 | 1.00 |
| ROA | 1.00 | 0.72 |

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# Comparing Performance: Radar Chart



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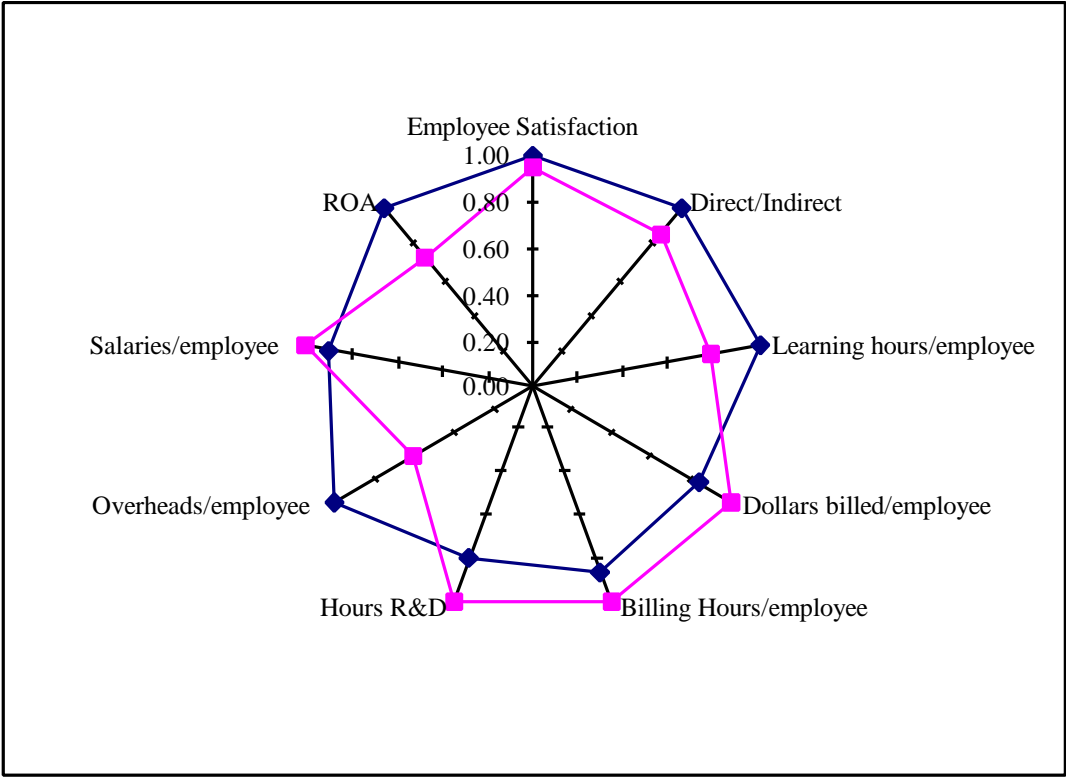
# Take Action

- ## Set Goals

  - Close the performance gaps -meet, exceed

- ## Decide Change Processes

  - Adapt to match company culture

- ## Prepare Budget

  - Commit the resources

- ## Implement

  - Train, gain acceptance, support

- ## Monitor Performance

  - Fine-tune

  - Futures

  - Recycle through the model

# Benchmarking: Is/Is Not

| IS | IS NOT |
|----|--------|

- Continuous process
- Provides valuable information
- Learning
- Time-consuming
- Viable tool, generically applicable

- One-time event
- Provides simple answers
- Copying, imitating
- Quick & easy
- A buzzword, or fad

# Ten Pitfalls

- Lack of Sponsorship
- Wrong people for the Team
- Team doesn't fully understand their own work
- Taking on too much
- Managers don't understand level of commitment

- Focusing on metrics
- Not relating benchmarking to strategy
- Misunderstanding mission
- Assuming every project needs a site visit
- Failure to review

# Five Final Tips

- Do It Quickly or Don't Do It.
  - Resources
  - Use experts
  - Do the groundwork

- Broad and Shallow, or Narrow and Deep
  - What?, or How?, but not what? and how?

- Integrate CSFs
  - Critical, not Important
  - Guide to partner selection
  - Guide to question selection
  - Guide to analysis

- Best-in-class Fallacy
  - Best in Country? Best in Auckland? Best in Penrose?

- Manage the Change from the Start
  - The <u>Purpose</u> is Change!