Seven steps in the benchmarking process business essay

Benchmarking is the process of comparing ones business processes and performance metrics to industry bests or best practices from other industries. Dimensions typically measured are quality, time and cost. In the process of benchmarking, management identifies the best firms in their industry, or in another industry where similar processes exist, and compare the results and processes of those studied (the " targets") to one's own results and processes. In this way, they learn how well the targets perform and, more importantly, the business processes that explain why these firms are successful.

Benchmarking is used to measure performance using a specific indicator (cost per unit of measure, productivity per unit of measure, cycle time of x per unit of measure or defects per unit of measure) resulting in a metric of performance that is then compared to others.

Also referred to as " best practice benchmarking" or " process benchmarking", this process is used in management and particularly strategic management, in which organizations evaluate various aspects of their processes in relation to best practice companies' processes, usually within a peer group defined for the purposes of comparison. This then allows organizations to develop plans on how to make improvements or adapt specific best practices, usually with the aim of increasing some aspect of performance. Benchmarking may be a one-off event, but is often treated as a continuous process in which organizations continually seek to improve their practices.

BASICS OF BENCHMARKING

Indian organizations are becoming world class both in terms of size and performance. Therefore, there is a greater need to become superior in performance consistently. Quality is becoming the hallmark for both products and services. Indian and multinational organizations are increasingly becoming quality conscious and try to deliver high quality products and services to customers.

Quality delivery which was the property of General Electric, Ford, General motors, Xerox and AT&T had become the buzzword in many corporate circles in India as well. From Software major Infosys to Automobile giant Mahindra are adopting best in class technologies, borrows and adopt best ideas, incubate and implement them as part of their corporate strategy.

As individuals do swot analysis, companies have to do swot analysis for their competitive advantage and for long term survival. The external competitive pressure on the system had made its absolutely necessary to benchmark with similar organizations or organizations of different breed.

However, benchmarking cannot cure all diseases of the company. Why the companies benchmark? Instead of being inward looking companies, large corporations are more outward looking nowadays. Liberalization and globalization had made the industries very competitive. Equally the transfer and adoption of technologies are more easier nowadays.

The other advantage of benchmarking is the lowest cost associated with the process. The companies do not invest sizeable investments in research and development and there is no threat of any sunk cost. The process or practice or technology are readily available and easily be plagiarized.

A company that decides to undertake a bench-marking initiative should consider the following questions: When? Why? Who? What? and How?

WHEN

Benchmarking can be used at any time, but is usually performed in response to needs that arise within a company. According to C. J. McNair and Kathleen H. J. Leibfried in their book Benchmarking: A Tool for Continuous Improvement, some potential “ triggers” for the benchmarking process include:

quality programs

cost reduction/budget process

operations improvement efforts

management change

new operations/new ventures

rethinking existing strategies

competitive assaults/crises

WHY

This is the most important question in management's decision to begin the benchmarking process. McNair and Leibfried suggest several reasons why companies may embark upon benchmarking:

to signal management's willingness to pursue a philosophy that embraces change in a proactive rather than reactive manner;

to establish meaningful goals and performance measures that reflect an external/customer focus, foster " quantum leap" thinking, and focus on high-payoff opportunities;

to create early awareness of competitive disadvantage; and

to promote teamwork that is based on competitive need and is driven by concrete data analysis, not intuition or gut feeling.

WHO

Companies may decide to benchmark internally, against competitors, against industry performance, or against the " best of the best." Internal benchmarking is the analysis of existing practice within various departments or divisions of the organization, looking for best performance as well as identifying baseline activities and drivers. Competitive benchmarking looks at a company's direct competitors and evaluates how the company is doing in comparison. Knowing the strengths and weaknesses of the competition is not only important in plotting a successful strategy, but it can also help prioritize areas of improvement as specific customer expectations are identified. Industry benchmarking is more trend-based and has a much broader scope. It can help establish performance baselines. The best-in-class form of benchmarking examines multiple industries in search of new, innovative practices. It not only provides a broad scope, but also it provides the best opportunities over that range.

WHAT

Benchmarking can focus on roles, processes, or strategic issues. It can be used to establish the function or mission of an organization. It can also be used to examine existing practices while looking at the organization as a whole to identify practices that support major processes or critical objectives. When focusing on specific processes or activities, the depth of the analysis is a key issue. The analysis can take the form of vertical or horizontal benchmarking. Vertical benchmarking is where the focus is placed on specific departments or functions, while horizontal bench-marking is where the focus is placed on a specific process or activity. Concerning strategic issues, the objective is to identify factors that are of greatest importance to competitive advantage, to define measures of excellence that capture these issues, and to isolate companies that appear to be top performers in these areas.

HOW

Benchmarking uses different sources of information, including published material, trade meetings, and conversations with industry experts, consultants, customers, and marketing representatives. The emergence of Internet technology has facilitated the bench-marking process. The Internet offers access to a number of databases-like Power-MARQ from the nonprofit American Productivity and Quality Center-containing performance indicators for thousands of different companies. The Internet also enables companies to conduct electronic surveys to collect bench-marking data. How a company benchmarks may depend on available resources, deadlines, and the number of alternative sources of information.

ADVANTAGES OF BENCHMARKING

Lowering Labor Costs

One advantage of benchmarking may be lower labor costs. For example, a small manufacturing company may study how a top competitor uses robots for several basic plant functions. These robots may help the competitor save a significant amount of money on labor costs. Company managers may obtain information on these robotics systems through the competitor's website or online articles. They may also identify the company that sold the competitor the robots. Subsequently, the company using benchmarking may call the robot manufacturer to help set up its own system.

Improving Product Quality

Companies may also use benchmarking to improve product quality. Engineers sometimes purchase leading competitors' products. They may then take them apart, study them and determine how the competitors' products outlast or outperform others in the industry. Chemical engineers may study food or cleaning products in a similar manner. They can then compare various elements contained in competitive products to their own product line. Subsequently, improvements can be made to product quality.

Increasing Sales and Profits

A company that uses benchmarking to improve its functions, operations, products and services may enjoy increases in sales and profits. Customers are likely to notice these improvements. The benchmarking company may also promote is improvements through company brochures, its sales reps, magazine and television ads. These efforts are likely to increase sales, especially among core customers. Companies that operate more efficiently due to benchmarking can drastically lower their expenses. These savings can be lead to greater profits.

Considerations

Some organizations use internal benchmarking to improve performance in different departments. Department managers may study and emulate the best practices of one particular department. These changes may spark improvements among all departments. Internal benchmarking has its limitations, however. The company's top department may not be functioning as efficiently as others in the industry. This means the other departments were not truly benchmarking against the best departments out there.

PROCESS OF BENCHMARKING

When it comes to Competitive Intelligence, there are a few simple tools that can provide for sophisticated comparisons of business functions between organizations that can help firms " benchmark" the constituent processes of the company with direct or indirect competitors, allowing a company to gain the upper hand in a marketplace. But, what is the process for setting the metrics, methodologies, milestones and comparisons which might be used to measure the success of a CI/benchmarking function, or the success of a Strategic Planning department as a whole?

Benchmarking is best used and described as a framework for strategic planning in that, once elements of study are identified, metrics can be applied to the key success factors (KSFs) of the industry or marketplace and these measures or " benchmarks" are then used to develop future quality and market initiatives for the firm to enhance its overall competitive position.

It is generally considered that there are seven steps to this process, as explained below. However, this analysis of intra- and sometimes inter-industry competitors can form the foundation for future competitor analysis when the emphasis is placed upon the goals and financial capabilities of the competitor.

Seven Steps in the Benchmarking Process:

1. Determine which functional areas within your operation are to be benchmarked — those that will benefit most from the benchmarking process, based upon the cost, importance and potential of changes following the study.

2. Identify the key factors and variables with which to measure those functions — usually in the general form of financial resources and product strategy.

3. Select the best-in-class companies for each area to be benchmarked — those companies that perform each function at the lowest cost, with the highest degree of customer satisfaction, etc. Best-in-class companies can be

your direct competitors (foreign or domestic), or even companies from a different industry (parallel competitors with replacement or substitute products or services; latent competitors which might backwards- or forwards-integrate into your market; or,

out-of-industry firms with whom you do not compete, but which have best-in-class areas to be studied such as FedEx or Wal-Mart in logistics).

4. Measure the performance of the best-in-class companies for each benchmark being considered — from sources such as the SEC, companies themselves, articles in the press or trade journals, analysts in the market, credit reports, clients and vendors, trade associations, the government or from interviews with other organizations willing to share their prior research or “ swap” it with you.

5. Measure your own performance for each variable and begin comparing the results in an “ apples-to-apples” format to determine the gap between your firm and the best-in-class examples. Always feel free to estimate results, as exact measures are usually disproportionately difficult to obtain and often do not significantly add value to the study.

6. Specify those programs and actions to meet and surpass the competition based on a plan developed to enhance those areas that show potential for compliment. The firm can choose from a few different approaches — from simply trying harder, to emulating the best-in-class, changing the rules of the industry or leapfrogging the competition with innovation or technology from outside the industry.

7. Implement these programs by setting specific improvement targets and deadlines, and by developing a monitoring process to review and update the analysis over time. This will also form the basis for monitoring, revision and recalibration of measurements in future benchmarking studies.

DIFFERENT MEASURES OF BENCHMARKING

One of benchmarking's cardinal questions is that of what to measure. That depends on the nature of the business. The point is that you cannot chase 50 benchmarks at the same time. One macro benchmark is required which then might be broken down into a series of supporting micro measures.

Although it is fine to circulate such a measure, the most worthwhile aspect of the benchmarking process can be the opportunity for people in an organisation to see at first hand how other organisations go about their business. It is the process itself which is valuable; the voyage that is more educational than the reaching of the destination. Nevertheless, measurable performance falls into the three broad areas:

- time;

- cost; and

- quality.

Time measures should incorporate the process from start to finish. For example, from when a customer places an order to the time of receipt of goods and payment, thereby accounting for total lead time, product development time and productive time.

Cost measures are the traditional basis of comparison between firms and, because of this, we are often most comfortable with these measures. Two which can be useful in benchmarking are total process cost per unit of output and return on assets.

Quality measures should capture the errors, defects and waste attributable to processes. Some measures which should be used in achieving this include process variability, defects, process yields, customer perceived quality, cost of quality and quality improvement efforts.

TYPES OF BENCHMARKING

There are a number of different types of benchmarking, as summarised below:

Type

Description

Most Appropriate for the Following Purposes

Strategic Benchmarking

Where businesses need to improve overall performance by examining the long-term strategies and general approaches that have enabled high-performers to succeed. It involves considering high level aspects such as core competencies, developing new products and services and improving capabilities for dealing with changes in the external environment.

Changes resulting from this type of benchmarking may be difficult to implement and take a long time to materialise

Re-aligning business strategies that have become inappropriate

Performance or Competitive Benchmarking

Businesses consider their position in relation to performance characteristics of key products and services.

Benchmarking partners are drawn from the same sector. This type of analysis is often undertaken through trade associations or third parties to protect confidentiality.

Assessing relative level of performance in key areas or activities in comparison with others in the same sector and finding ways of closing gaps in performance

Process Benchmarking

Focuses on improving specific critical processes and operations. Benchmarking partners are sought from best practice organisations that perform similar work or deliver similar services.

Process benchmarking invariably involves producing process maps to facilitate comparison and analysis. This type of benchmarking often results in short term benefits.

Achieving improvements in key processes to obtain quick benefits

Functional Benchmarking

Businesses look to benchmark with partners drawn from different business sectors or areas of activity to find ways of improving similar functions or work processes. This sort of benchmarking can lead to innovation and dramatic improvements.

Improving activities or services for which counterparts do not exist.

Internal Benchmarking

Involves benchmarking businesses or operations from within the same organisation (e. g. business units in different countries). The main advantages of internal benchmarking are that access to sensitive data and information is easier; standardised data is often readily available; and, usually less time and resources are needed.

There may be fewer barriers to implementation as practices may be relatively easy to transfer across the same organisation. However, real innovation may be lacking and best in class performance is more likely to be found through external benchmarking.

Several business units within the same organisation exemplify good practice and management want to spread this expertise quickly, throughout the organisation

External Benchmarking

Involves analysing outside organisations that are known to be best in class. External benchmarking provides opportunities of learning from those who are at the “ leading edge”.

This type of benchmarking can take up significant time and resource to ensure the comparability of data and information, the credibility of the findings and the development of sound recommendations.

Where examples of good practices can be found in other organisations and there is a lack of good practices within internal business units

International Benchmarking

Best practitioners are identified and analysed elsewhere in the world, perhaps because there are too few benchmarking partners within the same country to produce valid results.

Globalisation and advances in information technology are increasing opportunities for international projects. However, these can take more time and resources to set up and implement and the results may need careful analysis due to national differences

Where the aim is to achieve world class status or simply because there are insufficient” national” businesses against which to benchmark.

SUCCESSFUL BENCHMARKING

There are several keys to successful benchmarking. Management commitment is one that companies frequently name. Since management from top to bottom is responsible for the continued operation and evaluation of the company, it is imperative that management be committed as a team to using and implementing benchmarking strategies. A strong network of personal contacts as well as having an open mind to ideas is other keys. In order to implement benchmarking at all stages, there must be a well-trained team of people in order for the process to work accurately and efficiently. Based on the information gathered by a well-trained team, there must also be an effort toward continuous improvement. Other keys include a benchmarking process that has historical success, sufficient time and staff, and complete understanding of the processes to be benchmarked.

In almost any type of program that a company researches or intends to implement, there must be goals and objectives set for that specific program. Benchmarking is no different. Successful companies determine goals and objectives, focus on them, keep them simple, and follow through on them. As in any program, it is always imperative to gather accurate and consistent information. The data should be understood and able to be defined as well as measured. The data must be able to be interpreted in order to make comparisons with other organizations. Lastly, keys to successful benchmarking include a thorough follow-through process and assistance from consultants with experience in designing and establishing such programs.