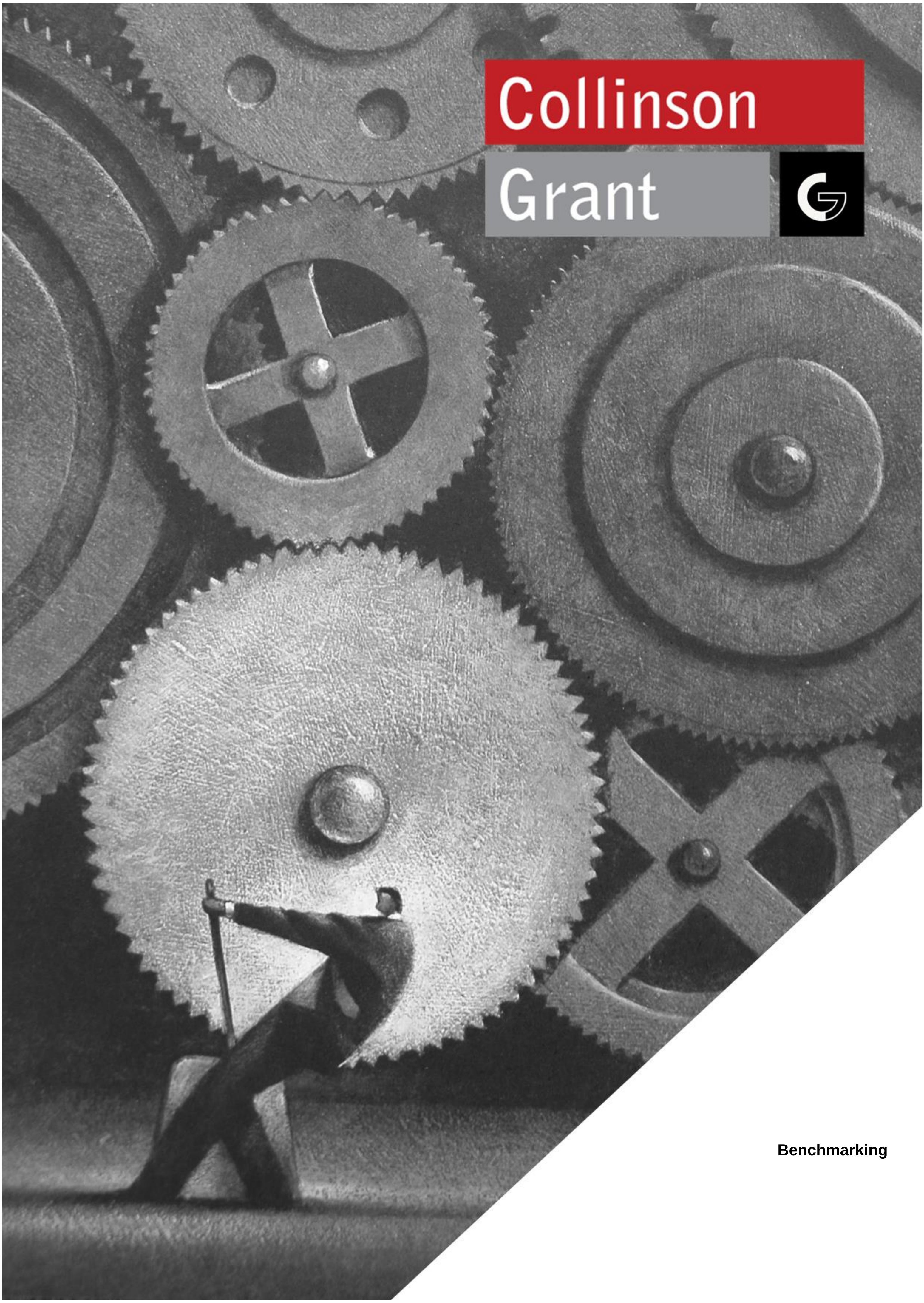

Collinson Grant

Benchmarking

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1 Why benchmarking?

No organisation is the best at everything it does. And being second in most activities can add up to coming first overall. All managers recognise that it is up to them to improve continuously the operations that they are responsible for. But that aspiration is blunted because they don't know how much better their performance *could* be.

Benchmarking is the structured comparison of an organisation's products, services, processes or activities with those of an external organisation that is believed to have better performance. The goal is to pinpoint the factors that contribute to that superiority, and to adopt them.

Effective benchmarking will:

- improve the understanding of customers and competitors
- reduce complaints and increase customers' satisfaction
- reduce waste and reworking and improve quality
- reduce complacency
- enhance the understanding of the external environment, and
- for commercial organisations, improve profit.

Though benchmarking can be a 'one-off' exercise, it is often a continuous activity. Many organisations approach benchmarking individually, though for some it can be a collaborative pursuit. For example, the UK construction industry has a continuous benchmarking initiative, Constructing Excellence.

2 What is benchmarking?

Organisations usually compare themselves with the leaders in their own industrial sectors. But comparison can also be made with processes that, although in other sectors, have similar characteristics – such as shared service centres. An airline compared the processes in the 'turnaround time' for planes with those used in pit stops for racing cars. Benchmarking with non-competitors can increase the quality and quantity of the information available.

Almost any strategy, function or process can be benchmarked:

- order processing - costs and speed
- on-time, in-full delivery
- employees' or customers' loyalty
- unit costs in manufacturing and service industries
- the outcomes of different marketing strategies
- costs of facilities.

Benchmarking is not:

- industrial espionage
- a solution for all problems

- a substitute for good management and organisational strategy
- a comparison of data that ignores the factors that shape them.

Types of benchmarking include:

Type	Description	Goals
Strategic benchmarking	Businesses improve overall performance by examining the long-term strategies and general approaches that have enabled high-performers to succeed. High-level aspects are examined, such as core competences, and ways of developing new products and services and improving capabilities for dealing with changes in the external environment. Resulting changes may be hard to make and take a long time to put into effect	To re-align business strategies that have become inappropriate To achieve improvements in the medium term
Performance or competitive benchmarking	Businesses consider the performance of their principal products and services. Benchmarking partners are usually drawn from the same sector. This type of analysis is often done through trade associations or third parties to protect confidentiality	To improve performance compared with competitors
Process benchmarking	Analyses specific, crucial processes and activities. Benchmarking partners are sought from the best organisations that do similar work or offer similar services. Invariably produces process maps to facilitate comparison and analysis. This type of benchmarking often results in short-term benefits	To improve the main 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 functional processes and activities. Results can be innovative	To improve functions and think laterally
Internal benchmarking	Entails benchmarking businesses or operations from within the same organisation (such as similar business units in different countries). Access to sensitive data and information is easier and data are often standardised, reducing the time and effort needed. Barriers to implementation are fewer and practices may be relatively easy to transfer in the same organisation	To spread quickly, throughout the organisation, the good practice and expertise that several business units in the same organisation exemplify

3 Implementation

Approach

Successful benchmarking requires the support of senior managers. It is not an 'academic' exercise, but one that can demand organisational change if the lessons learned are successfully implemented. Some managers may feel threatened by benchmarking and unduly question the validity of comparisons. They must be included in the planning, organisation and management of the work.

Performances to benchmark

Almost any activity that can be measured can be benchmarked. In practice those activities that are crucial to the organisation's success are usually chosen. They fall into two groups:

- activities that could make the most significant improvements in relationships with customers
- activities that make the largest contribution to profitability.

Benchmarks important for customers' satisfaction could include:

- consistency of product
- correct invoices
- on-time delivery in full
- frequency of delivery
- speed of service (including time to resolve queries in contact centres).

To find out what is important for customers, ask them. Use interviews, questionnaires or specialist research. Analyse complaints and warranty claims, or take part in industry-wide surveys.

Benchmarks important for direct impact on the bottom line include:

- waste and rejects
- inventory
- work in progress
- cost of sales
- sales per employee.

Those processes that account for most expenditure, or which tie up most cash, may be the first for benchmarking. However, it is not possible to benchmark effectively unless an organisation is able to measure accurately its own performance. Is it possible to calculate an accurate cost of sales, or the cost of waste? Contemplating what to benchmark often highlights factors where more effective managerial controls could produce major improvements in financial performance, without making comparisons elsewhere.

Avoid benchmarking vague measures. For example, 'delivery performance' must be expressed in a precise statement such as 'percentage of goods delivered on time/complete/with correct documentation', and so on.

Other performances to benchmark will be suggested by specific problems faced by the organisation. For example, many retailers suffer rapid turnover of employees - in some sectors, they stay for an average of four months or less. Persuading people to stay longer will have an impact on service, on volume of sales, and on the costs of training and recruitment.

Other issues:

- The most important factors of performance may change. For example, in the production of semiconductors, the key benchmark was the percentage of perfect components produced in each batch. When failure rates were high throughout the industry, the company that made the fewest faulty components made the greatest profit. Now the most important benchmark is the time from the customer's order to delivery.

- Avoid benchmarking too many factors initially. Begin with the two or three highest priorities, and then gradually add others as the first priorities become an established part of benchmarking.

- Do not waste effort benchmarking factors that are merely 'nice to know'. Every benchmark should be aimed at improving performance in an area that contributes to profits or customers' satisfaction. Benchmarking can be labour-intensive: the results must justify the cost.

Before starting a comparison with other organisations, test the benchmarks within your own to make sure they are accurate, and that managers regard them as important. If the wrong factor is measured, or the information is not readily available inside the organisation, benchmarking will be potentially damaging to performance, or pointless.

Comparative organisations

There are four types of organisation that can be benchmarked against:

- Internal Divisions: these may simply be different factories or contact centres in the same company, or different ministries in government.

- Direct Competitors: few will co-operate, unless it is done 'anonymously' through trade associations.

- Parallel industries: for example, BAA has compared performance with UK companies that manage large numbers of people, including Wembley and Ascot, and has also benchmarked UK airports against others internationally.

- Disparate industries: mobile telephone companies have benchmarked their performance against organisations in fast moving consumer goods industries such as clothing or food manufacturers. This type of benchmarking exercise is often the most constructive because participants do not view others as a threat, and it can lead to the most innovative outputs.

Choosing a comparative organisation requires first-class research. Benchmarking is time-consuming and outputs must justify the investment. Desk research is an essential first step, but suggestions can also come from customers, analysts, auditors, management consultants and suppliers. Comparative organisations will also be influenced by the factors to be benchmarked.

Important considerations for choosing comparator organisations also include:

- what is in it for them? (customers and suppliers should already have a good relationship and may be interested in co-operating for the greater benefit of their relationship)

- is their experience really relevant?

- are they still good at the activity to be measured? An organisation can live off a reputation for a long time

- is it legal to exchange this kind of information with this organisation? (The exchange of certain types of information is forbidden by UK or European Union law).

Case study

Channel 4

Reducing costs quickly in a publicly-owned television company

Channel 4 is a public corporation created by Act of Parliament in 1982. It receives no public funding. It is financed entirely by its own commercial activities.

Channel 4 had consolidated its position in an increasingly competitive market, but it lacked adequate financial and managerial controls. Our earlier restructuring of a number of regional television companies led to an invitation to review operations and their related costs at Channel 4. Trading conditions were difficult. Advertising revenues were disappointing, production costs had risen and there were too many staff.

We were initially authorised to review working practices and processes and the structure and related costs in three principal departments - Finance, Human Resources and Information.

Systems

We used benchmarking to compare the staffing and operational performance in similar media and non-media organisations.

We concentrated on establishing the appropriate managerial framework, reducing layers, simplifying processes and eliminating duplication. By examining the overlap between departments, we found further opportunities to reduce the size and number of non-productive activities. Annual savings of £1.8 million (17% of operating costs) were achieved.

We then reviewed six other departments: business affairs and programme finance, commissioning, facilities management, marketing, market research and planning and press publicity. Annualised savings of £12 million were found. We recommended a reduction of approximately 100 jobs, nearly a quarter of the total. This was done promptly. Further annual savings of £3-4 million were realised from a rationalisation in the number of sites occupied.

Banana skins

Benchmarking the wrong measure	Inadequate knowledge of own organisation and processes	Further research to set appropriate measures
Benchmarking the wrong organisation	Inadequate research	More intensive research, and better communication with comparative organisations to understand their business more fully
Failure to obtain support from senior managers	Failure to inform, or align the benchmarking activities with strategic and operational goals	Link benchmarking to the business goals
Lack of resources for benchmarking	Senior managers not fully engaged	Obtain their visible support. Use the techniques of project management to recognise and manage the stakeholders and sponsor
Data not meaningful	Inadequate knowledge of own organisation and processes, or too many/too few data	Test assumptions about processes and specify the data essential to measure them
Failure to sell benchmarking to comparator organisations	Scepticism and protective instincts	Define the potential benefits clearly, and ensure that prospective partners are well chosen – there must be something in it for them
No productive changes from benchmarking	Senior managers not fully engaged	Obtain their visible support. Use the techniques of project management to recognise and manage the stakeholders and sponsor

Collinson Grant

Collinson Grant is a management consultancy with a history of profitable growth. We help large organisations in Europe and in the United States to restructure, merge acquisitions, cut costs, increase performance and profit, and manage people. We build long-term relationships and have worked for some clients for over 30 years.

Our emphasis is on implementation, results and value for money. We expect to give a substantial return on the investment in us. So, we do not recommend action unless we are sure that the outcome will be worth it. We are not afraid to give bad news, or to champion ideas that may not be welcome.

Most of our work is on three themes – organisation, costs and people. We use this simple framework to manage complex assignments – often with an international dimension – and to support managers on smaller, more focused projects. We help them:

- to restructure and integrate – after acquisitions or to improve profits
- to improve the supply chain - we examine every process and interface to improve efficiency and service
- to set up financial and managerial controls - we create robust systems to improve decision-making and reduce risks
- to refine business processes and introduce lean manufacturing - we analyse and improve how work is done, and use new ways to create change and make it stick
- to cut costs - we make systematic analyses of overheads, direct costs, and the profitability of customers and products. This helps managers to understand complexity, and to take firm steps to reduce it
- to manage people - we draw up pay schemes and put them into effect, guide managers on employee relations and employment law, get better performance from people, and manage redundancy.

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