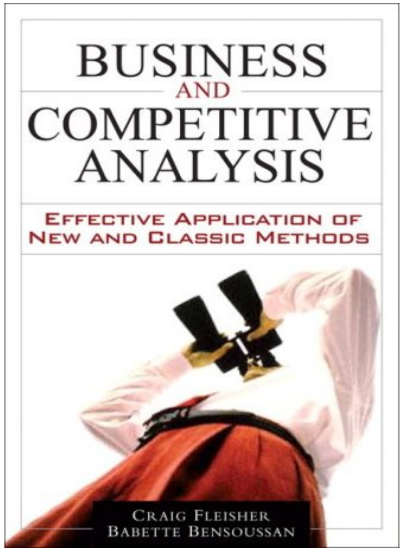
FT Press
FINANCIAL TIMES



Chapter 11

Benchmarking

Ch11. Benchmarking

- Short Description
- Background
- Strategic Rationale & Implications
- Strengths & Advantages
- Weaknesses & Limitations
- Process for Applying Technique
- FAROUT
- Related Tools and Techniques

Ch11. Benchmarking

Short Description

- Benchmarking is a **method by which an organisation identifies and examines key facets of another entity** and then implements the learning from the examination into its own operations.
- It can be a **powerful learning tool** and help the benchmarking organisation to gain advantages over competitors, such as reducing costs, increasing productivity, and better aligning product/service features to customer needs.

Background

- Its commencement was during the 1950s with competitive financial ratio analysis.
- Industry tours were conducted by Japanese business interests – Honda and Toyota early users.
- Xerox was the major adopter in the USA in late 70s and early 80s as competitors took its market share.
- It focused early, on products, and moved more recently into processes.
- Has moved from a tactical technique to a more strategic focus.

Ch11. Benchmarking

Strategic Rationale and Implications

- Benchmarking is not only performed on competitors but can be across departments, or an un-related industry.
- An issue, practice, policy, product/service, process, or strategy, can all be benchmarked.
- Benchmarking should be employed proactively to stay one step ahead of the competition.

Ch11. Benchmarking

Strategic Rationale and Implications

- Benchmarking allows for realistic targets and goals to be defined.
- It quantitatively validates the strengths and weaknesses of a firm.
- It assists in deciphering future trends.
- Provides an efficient and effective means of a firm to take the ideas from competitors and implement them into their own strategies.
- Helps identify the strengths and weaknesses of your own firm.

Taxonomy of Benchmarking

- There are 4 types of benchmarking:
    1. Internal Benchmarking
    2. Competitive/external Benchmarking
    3. Other Industry Benchmarking
    4. Global Best Practice Benchmarking

Taxonomy of Benchmarking

1. Internal Benchmarking

- Measures and compares best practices within a firm.
- A firm should benchmark internally primarily because:
  - It's relatively easy, and co-operation is attainable.
  - Serves as a pilot for future external benchmarking.
  - Helps a firm understand their own value-chain and in turn compare competitors against.
  - Provides the firm with information to trade to other firms for their benchmarking data.
- Beware: Internal benchmarking should not be an ongoing process.

Taxonomy of Benchmarking

2. Competitive/External Benchmarking

- Benchmarking of competing firms in the same industry.
- Difficult to perform as firms will not divulge their competitive advantages to competitors.
- Supplement collected data by:
  - Supplementing hard data with softer data.
  - Use anonymous benchmarking studies.

Taxonomy of Benchmarking

3. Other Industry Benchmarking

- Evaluating best practices of non-rival and potential rival firms.
- **Advantage:** Non-competing firms are much more willing to share information. Often the best practices on a process are not found in your own industry.
- **Disadvantage:** Information shared by non-competing firms may not be relevant to the benchmarking firm or may require too much adaptation to be valuable.

Taxonomy of Benchmarking

4. Global Best Practices Benchmarking

- Benchmarking against world leaders in relevant parameters.
- This type yields the largest gains as it benchmarks against the ‘best’ rather than settling for the ‘good’.
- Offers radical innovation as opposed to incremental improvements.
- Requires management to think laterally outside of the firm’s industry.

Taxonomy of Benchmarking

- Benchmarking at **three levels** of the firm's hierarchy:
  - **Strategic:** The critical success factors (efficiency, economic returns, value) that a firm must perform well in.
  - **Functional:** Areas of the firm including: marketing, finance, and operations (etc.).
  - **Operational:** Labour and processes on the 'shop floor' – the day-to-day work of the firm.

Ch11. Benchmarking

Strengths and Advantages

- Excellent tool for finding opportunities to maintain the relative competitiveness of the firm.
- Objective stretch goal setting and performance measurement.
- Flexible, in that it supports other strategic change initiatives within the firm.
- Removal of blind spots.

Strengths and Advantages

- Improves cost efficiencies and quality.
- Allows for incremental gains, not just radical changes.
- Best practices are often publicized.
- Creates a workplace that is innovative and open to new ideas.

Weaknesses and Limitations

- Is not considered strategy, but rather a tactical management tool.
- High failure rate.
- Best practices may not be transferable.
- Can require significant amounts of resources.
- Firm may benchmark processes that are not ‘outstanding’ or ‘best practice’.
- Benchmarking may negatively impact low-performing firms.
- Companies may not be willing to share information.

Ch11. Benchmarking

Process for Applying the Technique

- **Step 1:** Identify the processes to be benchmarked:
  - Anything that can be observed or measured can be benchmarked.
  - Common areas for benchmarking include:
    - Products / services
    - Work processes
    - Support functions
    - Organizational performance
    - Strategies

Process for Applying the Technique

- **Step 2:** Identify performance measures
  - Establish performance indicators that allow for comparisons to be made.
  - Identify the measures that will have the greatest impact.
  - Use critical success factors to identify key drivers of performance.
  - Ensure the data collected can be compared despite the source; apples to apples

Process for Applying the Technique

- **Step 3:** Evaluate Own Firm's Capabilities

Three important reasons:

- The extent for improvement opportunities may not be fully realized.
- Own capabilities may be overestimated or underestimated.
- Allows for greater productivity when collecting data from the benchmarking partner.

Process for Applying the Technique

- **Step 4:** Identify Firms to Be Benchmarked
  - Important to select firms that are world-class leaders in a particular area.
  - Create a list of potential partners by looking at media releases, professional literature, speaking with experts, and so on.
  - Various methods can be used to select a firm, such as a pass/fail system, or a weighting system.
  - Most important criteria is a firm's willingness to share.

Process for Applying the Technique

- **Step 5:** Conduct Research of Selected Firms
  - Major concern is that data is reliable, accurate, timely, cost efficient, useful, and usable.
  - Secondary data should be used first, as it is much cheaper than collecting primary data.
  - Secondary data includes: publications, archived research, annual reports, industry journals, etc.
  - Primary data collection through: personal or onsite visits, interviews, surveys, focus groups, etc.

Process for Applying the Technique

- **Step 6:** Analyze Data and Develop an Action Plan
  - Identify gaps between firm's performance and benchmark partners.
  - Causes of gaps need to be understood and solutions developed.
  - Creating visuals, such as the matrix in Table 11.3 can assist in analysis.

- **FAROUT Summary**

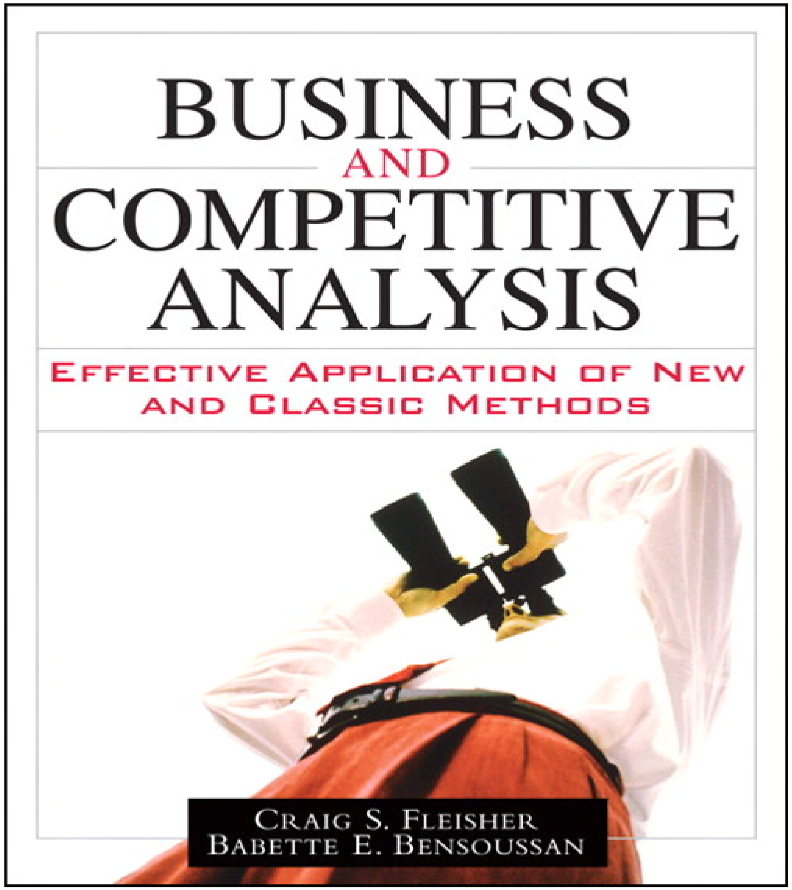
	1	2	3	4	5
F					
A					
R					
O					
U					
T					

Ch11. Benchmarking

Related Tools and Techniques

- Competitor Analysis
- Customer Segmentation and Needs Analysis
- Customer Value Analysis
- Comparative Cost Analysis
- Functional Capability and Resource Analysis
- Industry Structure Analysis
- Strategic Groups Analysis
- SWOT Analysis
- Value Chain Analysis

Ch28. Analysis of Competing Hypothesis



For More About Benchmarking and 23 Other Useful Analysis Methods, see:

Fleisher, Craig S. and Babette E. Bensoussan

Business and Competitive Analysis: Effective Application of New and Classic Methods

FT Press
FINANCIAL TIMES

Upper Saddle River, NJ
2007