



TenStep Supplemental Paper

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The Art of Benchmarking - Demystified!

Competitiveness and high performance are inseparable - one does not exist without the other. Therefore, measuring performance is critical. Ensuring a performance standard above or on par with competitors is imperative. Benchmarking is one effective way of achieving this objective.

What is benchmarking?

Benchmarking is the process of improving performance by continuously identifying, understanding, and adapting outstanding practices and processes found inside and outside the organization. Benchmarking is therefore an ongoing process.

In simpler words, benchmarking is the process of comparing an organization's performance to a best-in-class performance.

Why benchmarking?

Benchmarking allows organizations to improve process/service/product performance with best-in-class performers. Given that benchmarking is critical, ensuring that the benchmarking technique is reliable is equally crucial. Hence, organizations must work toward this goal.

Benchmarking – Not just comparing!

If a company were to compare its performance with a competitor, is it always possible to get the details of from the best-in-class performer?

The answer to this is that companies will not always willingly reveal their business secrets, especially with their competitors. Therefore, it is recommended that organizations look for the best in any class and not just the best in their particular classes. This is called cross-functional benchmarking.

Cross-functional benchmarking - the process of comparing organizational, process, system, and product performance with that of a world-class performer.

According to industrial gurus, the biggest myth among organizations is that they believe they should seek comparisons with performers in their field and not other fields. It is not often that organizations attempt to benchmark their processes and not their business. If high performance is desired, then organizations must look beyond their business paradigms. Benchmarking must depend upon the processes that need to be revamped.

Examples of cross-functional benchmarking

An airline company observed a Formula One racing pit crew to see how a race car is put back on track in a short time. Later, the same technique was used to get planes back in the air quickly. The more quickly the airliner takes off, the better! Who better than a racing car pit crew to learn from?

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Benchmarking does not always mean comparing with the best in your class. It is comparing with the best in general (not necessarily in the same class).

Towards successful benchmarking

Successful benchmarking demands a paradigm shift from conventional business benchmarking to process or cross-functional benchmarking. The definition of benchmarking must thus be “a process of comparing organizational, process, system, and product performance with that of a world-class performer.”

Not espionage!

For many organizations, benchmarking is nothing more than espionage – copy ideas from the same field, implement them and then claim to be world-class. Benchmarking does not mean just comparing. Instead, it must be used as an organization learning tool.

Organizations must focus on cross-functional benchmarking

For instance, insurance companies can look at any company (in any industry) where purchase/sales orders are processed more quickly and apply the same process to improve their own processing of insurance policies. This is cross-functional benchmarking.

Customer-based benchmarking

Organizations display a varied approach towards benchmarking. One such approach is benchmarking based on customer satisfaction. Few organizations benchmark their processes, services or products based on customer feedback and level of customer contentment. Such an approach is worthwhile since it focuses on the customers’ needs.

Today, many organizations follow this approach to benchmarking. However, certain precautions must be taken if successful customer-based benchmarking is desired. Some common pitfalls to customer-based benchmarking are:

- Incomplete information/data regarding customer feedback
- Improper process orientation
- Failure in devising proper performance metrics

Pitfall 1: Incomplete information/data regarding customer feedback

Such problems arise from inconclusive analysis of the issue at-hand. Often, organizations do not accurately measure the requirements and necessities for customer benchmarking, making many assumptions about the information. The result is inconclusive data encompassing customers. This in turn leads to improper customer benchmarking.

How can you avoid this?

The best method of effective customer benchmarking is to keep a check on the improvement programs. Given that benchmarking aims at performance enhancement, ensuring a compact, comprehensive and simple improvement program is critical. Therefore, the size of the operation is critical.

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If the improvement program is massive, then it must be divided into simpler steps to improve the clarity and relevance of the ongoing operation. However, if this is not done, then the improvement program will become a huge undertaking.

Since customer benchmarking is based on the customer, improvement must focus on the product, process or service based upon the customer's requirements/preferences.

Pitfall 2: Improper process orientation

Benchmarking aims at comparing performance with best-in-class or better performers. Based on the results from benchmarking, organizational guidelines need to be devised for relevant improvements. Consequently, two aspects are critical:

- The information required to achieve higher performance
- The factors that distinguish the best-in-class organization from your organization

Benchmarking results might be based on a scale. Achieving that extra bit to reach optimum performance demands many things. The analogy of customer benchmarking is no different. Ideally, 100% customer satisfaction would be enthralling. However, the bigger question is, "Is it possible?" Perhaps!

100% customer satisfaction could mean that the product or services have to be given free of cost. This is obviously impossible. Ultimately, organizations must strike a balance between customer satisfaction and fixing the price tag of a product. There is no point in aiming at an unreasonably high level of customer satisfaction.

Pitfall 3: Failure in devising proper performance metrics

Organizations often devise new processes. However, new processes are seldom successful, owing to lack of a reliable process performance metrics that help monitor process performance. Customer benchmarking is no different.

Benchmarking based on the customer is advisable. However, what good is customer benchmarking if it cannot fuel improvement? A process without metrics is like an examination without a scorecard. This explains the need for reliable performance metrics.

Measuring customer satisfaction is tricky. Achieving 100% customer satisfaction means selling the best possible/highest quality product at the lowest affordable price. This means that profit margins have to be good enough for return on investment and thin enough to attract the customer.

According to industrial gurus, one efficient customer benchmarking metric is inclusion of customer feedback and views in top management reports. This drives more interest in customer benchmarking, thus providing a better platform for improvement. Moreover, top management gets to interact with the customers.

Reliable metrics require clear goals and objectives. Once clear goals are defined, it is easy to devise relevant performance metrics. Metrics, such as number of customers involved in feedback sessions, are an efficient way to measure customer benchmarking. More customers providing feedback implies that improvements can be viewed

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holistically. This in turn helps convince more customers to buy company merchandise. Such metrics help achieve higher levels of customer satisfaction.

Above all, benchmark what is possible. Benchmarking the impossible is a waste of time and money.

Benchmarks and comparisons – are they different?

Benchmarking varies by organization. Some use metrics like profits and customer satisfaction levels to enhance performance, while others look at how other companies (benchmarking partners) have achieved high performance.

What did others do?

In order to select a suitable benchmarking partner, a few areas must be considered:

- **What are we looking for?** A benchmarking partner does not always need to be the best. Besides, given the competition today, the best in class insignia may not remain for too long. Therefore, do not select benchmarking partners based on the best in class tag.
- **Is this process critical?** Often, organizations commit the mistake of not checking the criticality of the process they are comparing.

For instance, if Organization A is comparing a process followed in Organization B, then it must do so only if the process was critical for Organization B's existence. Otherwise, the comparison is not worthwhile.

Internet – What can you find?

With the World Wide Web, information is plenty and easy to access. If you go to Google and type the keyword "benchmarking," reading through the content would take ages. Therefore, use the web as a tool for benchmarking. The following guidelines will help cull out the most useful information.

- Search for online journals and business publications that detail case studies featuring companies that recorded phenomenal success through benchmarking.
- Use e-mail as a source to interact with and seek feedback from customers and business partners.
- Create intranet hubs with organized professionals, reputed organizations and industrial experts as a platform for a healthy discussion on benchmarking.
- The intranet hubs also provide a perfect breeding ground for external expertise, seminars and presentations.
- Create web-based advertisements to invite benchmarking partners.
- Use the web to collate information on potential benchmarking partners.

Since selecting the perfect benchmarking partner is crucial, certain appropriate measures must be taken.



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- The benchmarking partner must be reliable, efficient, honest and possessing business ethics.
- Knowledge regarding the concerned process must be profound.
- The potential partner must be well-known.
- Often companies post their success stories on the web. Check for such publications and surveys.
- Consider the insights of business gurus and professional experts.
- The potential benchmarking partner must be innovative

Pursue reality

- Create a plan to execute the desired aim/improvement.
- Companies cannot be best-in-class in all areas.
- Interact with as many companies as possible. This improves knowledge and exposure to the areas under consideration.
- Pursuing reality aimed at the unreal is not benchmarking

The following step-by-step process details the best practices involved in benchmarking. Given that benchmarking varies from one organization to another (based on their goals), clearly defining the goal is critical.

Step 1: Ask the question - How is my performance?

Answer this question by gathering all information regarding the process that needs to be improved. Then, define the team that will set out to realize the desired improvement. The team must then determine the key metrics for the process. Devise plans to achieve the desired aim. Follow the plan in detail and re-engineer the process as desired.

By the end of step 1, you should have determined your current performance and established a clear target.

Step 2: Ask the question - Who can I benchmark/compare with?

Answer this question by looking at how companies have achieved phenomenal success in a process. Accordingly, select the process whose ability impresses you the most. Study the process in detail by gathering all possible information, thereby realizing its capability and efficiency.

By the end of step 2, you must mark the impressive features in the process and then set out to achieve them.

Step 3: Ask the question – How far am I?

Answer this question by comparing the performance of your process with the benchmarked process. Conduct a gap analysis and determine the jump required to achieve the desired goal. Subsequently, lay down rules to reduce the gap and improve process performance.



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By the end of step 3, you should have created a framework for achieving the desired goal and then prioritized your objectives.

Step 4: Ask the question - What must be done to reduce the gap?

Answer this question by devising a clear framework/path to achieve all the desired goals. Once the framework is ready, reduce the gap by implementing all the improvement programs. At the same time, monitor the progress of the programs to facilitate continual improvement.

When a goal is achieved, recalibrate benchmarks to foster the accomplishment of the next goal/improvements.

By the end of step 4, you should have achieved the results desired and set up a system that initiates a continual improvement of such programs.

Since benchmarking depends on the efficiency of the benchmarking business partner, the selection criteria are critical.

Selecting a benchmarking partner - some tips

- Consider what you are looking for in a benchmarking partner.
- Examine the enthusiasm of potential benchmarking partners.
- Consult the proceedings with the benchmarking partner to understand their involvement and contribution to the benchmarking program.
- Conduct feedback sessions with the benchmarking partner.
- Look for enthusiasm and a sincere urge to improve in the business partner.

Learning and summary

- Always involve top management before embarking on a benchmarking study.
- Fully understand the process(es) that needs to be benchmarked.
- Explore various companies to select the best possible business partner.
- Involve all those who can contribute to accomplishing a successful benchmarking program.
- Always interact with the benchmarking partner and the team involved.
- Devise performance metrics that are relevant to the process being revamped.
- Implement all possible improvements that emerge from the benchmarking program.
- Benchmarking must be viewed as a forum for learning and not as just another improvement program.
- Ask about information that you are also willing to provide. Benchmarking is a two-way information exchange process between companies.
- Always be honest.



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- Publish information only with the authority to do so, i.e. maintain confidentiality.

Benchmarking cautions

- Thorough understanding of the process is not always possible; therefore, do not rule out the possibility of a benchmarking exercise.
- “Sightseeing” at another company or establishment is not benchmarking.
- Do not forget the main aim of a benchmarking exercise. (Often while visiting other companies, one can see many potential improvements, so much so that the purpose of benchmarking is lost.)
- Benchmarking information/learning must not be published or sold without the benchmarking partner’s consent.

Summary

Realizing improvements is no walk in the park. It requires a dedicated effort and a process that will help achieve the desired improvements. Efficient and reliable benchmarking is one way of achieving this objective. Through benchmarking, companies can look at how top performers actually perform. Later, the same methodology can be used to infuse similar improvements.