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The Perils of Benchmarking

Picture this - The CEO of a company comes across an article on benchmarking and how this process saved one of his competitors nearly \$10 million. Upon reading this, he instructs one of his top managers to use a benchmarking process to compare the organization with other 'world-class' competitors in terms of customer satisfaction. Where should the manager begin and what errors should he avoid?

Every organization wishes to be customer-centric, and many believe that benchmarking helps in discovering best practices. So, why not benchmark customer satisfaction? Unfortunately, many managers possess an inadequate understanding of benchmarking. They believe that gathering and comparing simple measures can easily help them make breakthrough improvements in performance. Organizations commit three common errors during the process of benchmarking customer satisfaction. These are:

- Inadequate study definition
- Failure to take a process orientation
- Failure to define suitable performance metrics

Inadequate study definition

The first phase of any benchmarking effort is planning. A crucial step in this phase is limiting the scope of the study to a realistic size. The focus of the benchmarking should be on obtaining detailed and useful information. However, defining the scope is not a simple task. Often, a manager who sets upon a benchmarking initiative has several internal customers. Consider the manager who has been asked to benchmark customer satisfaction by his CEO. This manager finds that his internal customers include:

- The person in charge of company budgets who wants to know how the competitor links customer satisfaction to strategic planning.
- The director of customer service who wants details on how the competitor handles complaint resolution.
- The head of market research who wants to know what questions the competitor asks his customers to track satisfaction, the sample size, and other relevant information.
- The human resources head who wants details on how competitors link customer satisfaction to employee rewards and recognition.
- Brand managers who request information on other competitive brands.

The manager who has to do the benchmarking finds that what initially looked like a simple task has now become a major undertaking. Suddenly, a large part of his organization has a stake in the benchmarking project.

Managers have to handle such situations tactfully. Rather than giving in to the pressure of internal customers and broadening the scope of the benchmarking, they should convince

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some of the internal customers that their particular interests might be better served by a future benchmarking project. By conceding to the requests of all the internal customers, a manager may end up conducting a benchmarking initiative that sheds a little light on a multitude of topics but provides no in-depth information on any of them. This is a wasted effort.

The best solution in such a situation would be to have a discussion with the internal customers at the beginning of the benchmarking initiative. Let them know that benchmarking studies with a very broad scope might not bring in the desired results for anyone.

Failure to take a process orientation

Many organizations believe that benchmarking is about comparing ratings on a fixed scale between themselves, their competitors, and world-class organizations. However, there is a lot more to benchmarking than just comparing ratings.

Organizations must ensure that the time spent on benchmarking is worth the effort by looking beyond numerical comparisons and focusing on the type of information required to make the best changes.

The attitude is often, 'My company ranks 4 on a 5-point scale; what about my competitors?' This is the wrong question to ask. In the race to compare ratings and performance, information that may help to achieve superior levels of performance is often missed. Moreover, the actual differences between the company conducting the benchmarking and its benchmark company may not be captured.

Consider the following situation: A company discovers that on a 5-point customer satisfaction scale, it is rated at 4, whereas its competitor rates a perfect 5. What should the organization do? It may first consider working harder to improve the ratings. However, chances are that the solution lies in working smarter, not harder. Asking crucial questions can lead to the breakthrough the company is looking for.

This can be illustrated by a simple case. Consider an athlete who is gauging his performance in the long jump. He finds that he is jumping one foot less than the best performer. Can he be sure that working harder with longer practice sessions will help him raise his score and beat the best performer? Not necessarily. He has to ask vital questions such as, 'What does the best jumper do differently? How can I improve?' Chances are that while the athlete has corn flakes, the best jumper might eat wheat flakes. Alternatively, the former may be jumping off one foot while the latter jumps with both feet. There may also be differences in the shoes worn or in the training process. Hence, the athlete should find ideas to improve his performance by looking beyond the simple measurement of 'distance jumped'.

Another point to be remembered is that every organization has to figure out its own optimum level of customer satisfaction. It must analyze the true costs associated with customer dissatisfaction and the cost of avoiding them. The cost associated with customer dissatisfaction generally varies from one organization to another. Consider the case where one organization has an overall satisfaction score of 4.2 while the competitor ranks 4.4.



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Analysis conducted by the first organization reveals that in order to increase its customer satisfaction by 0.2, it has to build nearly 20 new offices at a cost of \$50 million. However, the expected increase in revenue is only \$10 million. This implies a loss of \$40 million just to match its competitor.

On the other hand, the competitor could increase its customer satisfaction rating by about 0.3 by training its front line employees. The training cost might touch \$1 million for expected benefits of \$20 million, a gain of \$19 million. In short, an organization is wrong to assume that it is exactly the same as the one it benchmarks. It should instead look at processes by which other organizations make decisions. How do they prioritize issues, evaluate costs versus benefits, take action plans, and listen to their customers? These are questions that will help an organization to truly understand 'world-class' performance in customer satisfaction.

Inability to define appropriate performance measure

This is the third commonly committed mistake while benchmarking customer satisfaction. Benchmarking customer satisfaction in reality differs significantly from theory. Benchmarking theory demands that an organization define a set of performance measures that will indicate top performers, and then try to better understand the processes used to achieve superior performance. Often, performance measures for customer satisfaction are confusing. Looking at basic performance measures like profitability may not be the best indicator, since the financial impact of customer satisfaction is long-term. Likewise, measures such as customer retention are complex because it is very difficult to compare retention rates across industries. It would be better to break down the process of customer satisfaction and identify measures that indicate 'best' in each sub-process.

Summary

When benchmarking customer satisfaction, organizations have to keep in mind the goals they hope to accomplish. It is also important to realize that the amount of information that can be collected and assimilated in one benchmarking study is limited. The first step in any benchmarking project is to have a clear idea of what information an organization needs to make the best changes. In today's fast paced world where time is a scarce resource, the extra time spent on benchmarking is well worth the effort if the study is well focused, and if the program is set up so that meaningful insight is provided that backs up the "best-in-class" designations.