

# Benchmarking: Scorecard for Success

Supply chain professionals are always looking for ways to improve their performance and provide their companies with a competitive edge. However, if they do implement changes, big or small, to their existing operations, how will they know whether those changes have improved their supply chain operations or hampered them?

The only way to know is by benchmarking, so it's no wonder that supply chain professionals today are devoting time and budget — two very scarce resources — to the task. So what is benchmarking? One definition reads as follows:

***Benchmarking** is the process of improving performance by continuously identifying, understanding, and adapting outstanding practices and processes found inside and outside the organisation. Benchmarking [seeks] to improve any given business process by exploiting “best practices” rather than merely measuring best performance. Studying best practices provides the greatest opportunity for gaining a strategic, operational, and financial advantage.*

In fact, a recent research study by ARC Advisory Group (USA) found that benchmarking and performance metrics are today the number one priority for logistics executives. They realise that benchmarking, when used properly, can make a huge difference to their companies' bottom lines and to their competitive positions. Research from private benchmarking consultancies such as The Performance Benchmarking Group (USA) support the cost savings, estimating that best practice companies spend 35-to-50% less on supply chain management than median performers.

The aim of this article is to explore how benchmarking can be used by companies to gain

insight into how the best-in-class performers have achieved their status. There are two types of benchmarking — *Performance/Quantitative* and *Process/Qualitative*. Each serves a different purpose.

**Performance or quantitative benchmarks** are used to compare the *results* or competitiveness of a given *product* or *service* against those offered by other companies. The outcome generally provides a comparative ranking and often is used to highlight those areas of performance that need improvement and further study.

Participants in a quantitative benchmarking study are usually drawn from the same sector (industry or functional group). Hence, trade associations or consulting companies are often the sponsors of this type of benchmarking studies and promise to protect the information obtained from individual companies. For example, the US based Warehouse Education Research Council (WERC) hosts an annual warehouse benchmarking study where they examine 55 key warehousing metrics such as fill rate and order cycle time. Participants agree to provide the results for their operations under a promise of confidentiality, and they in turn receive summarised reports that share overall distribution centre benchmarks.

**Process or qualitative benchmarks** are used to improve specific processes and operations within the business. Well managed companies do not simply use benchmarks to set targets. Instead, they look behind the quantitative data to understand *how* the best-in-class companies have achieved their enviable results. They try to identify the unique processes, tools, and methods used to achieve a high level of performance. For best results, both kinds of benchmarking should be

used together.

## Alternative Standards of Comparison

External benchmarking uses “outsiders” as the standard of comparison. Generally, other companies within the same industry are used in this capacity. But customers or companies in different industries are also excellent sources of comparative information.

Typically the selection of an external benchmarking partner depends on the type of benchmarking that one wishes to do. For the most part, companies that want to do comparative/quantitative analyses will participate in a benchmarking survey or pool (usually sponsored by an industry trade group or professional organisation) while companies that want to do qualitative/process benchmarking will work with one (or a very small group) of other companies. Each of the three sources is explored below.

1. **Benchmarking against Pools or Surveys:** The easiest way for companies to conduct an external benchmarking study is to participate in a pool or survey. Participants usually enter their data into a survey or questionnaire. In return, they receive reports that show how their companies’ performances rank in relation to those of other companies, although participants may have to pay a fee to get access to the data. Today, many companies are able to access reliable industry-wide benchmark data without breaking the bank.
2. **Benchmarking against Individual Companies:** Companies may also compare themselves against an individual company or a handful of select companies to see how they perform certain processes. Usually, the other companies that are selected are from different, non-competitive industries. Every company has its own unique competitive processes, but there are also a few core processes or operations that are common across many or even all industries. A company

in one industry may well find that the best practice for one of these core processes resides in another company in a totally different industry.

3. **Benchmarking against Customers:** Companies also can benchmark themselves against their customers’ expectations. After all, a company’s success depends critically on how well it measures up to its customers’ expectations. Moreover, many companies report “disconnects” in customer satisfaction — i.e., the companies perceive that they are doing a good job, yet they are still hearing frequent customer complaints.

Customer benchmarking is especially important for companies that provide services to other businesses and in industries where the cost of losing a customer is substantial. Companies such as third party logistics providers, contract manufacturers, and shippers supplying product to retail stores or distributors should all consider doing customer benchmarking.

In today’s competitive business environment, it is simply not enough for companies to outperform the industry average. Rather, they have to meet or exceed their customers’ expectations — and customer benchmarking enables companies to assess how well their performances measure up to this standard.

## Internal Benchmarking — Looking in the Mirror

The advantage of internal benchmarking is that it is easier to implement, and much less expensive, than conventional best-practice discovery. As the name suggests, internal benchmarking simply involves looking inside one’s own company for best practices that can be leveraged across the organisation rather than looking to other companies or other industries.

Any company with multiple business units, divisions, warehouses or locations can use internal

benchmarking. It's not just for big companies with multiple locations. Even small companies with a single location can internally benchmark by comparing how individual employees approach similar tasks.

One of the best rationales for internal benchmarking is that it creates a culture of continuous improvement — i.e., a culture of learning and innovation spurred by internal competition. A company that can foster healthy rivalry between divisions is more likely to experience innovation at all levels. Internal benchmarking is also a powerful mechanism for focusing that competitive spirit on strategic objectives.

## Keys to Benchmarking Success

Following is a list of key factors that will help ensure payback in benchmarking projects:

- Senior management unqualifiedly supports the project.
- Scope of the benchmarking effort is clearly defined.
- Objectives are well defined.
- Company has developed a solid foundation of data in the areas to be benchmarked, and the evaluation team understands the company's historic performance in these areas.
- Communication is broad, regular and frequent, and also targeted to many levels within the organisation.
- The benchmarking team has adequate resources and training
- Recommendations are consensual, with participation by all affected operating processes and with agreement of as many stakeholders as possible.

As in all internal projects, the importance of senior management support and participation to the success of a benchmarking effort cannot be overstated. Numerous studies have identified a very strong correlation between the success of benchmarking efforts and the degree of management and financial support behind the

effort. It was found that the payback from benchmarking was far greater at companies that provided adequate management and financial support than it was at those companies that didn't support the effort with both executive sponsorship and funding.

Benchmarking projects cannot be successful, however, unless companies take the next step and apply the lessons learned from the exercise. According to ARC Advisory Group, those that do apply the lessons learned were rewarded with an average first year payback of over 120 times the amount realised by companies that were less successful at their benchmarking efforts. Indeed, companies that do not participate in rigorous benchmarking exercises are destined to become second rate performers — and lose their way in the competitive fray.

Adapted from an article by Kate Vitasek, Managing Partner, Supply Chain Visions and Karl Manrodt PhD,

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