

Benchmarking

There are many methods used by companies in an effort to improve quality in both their products and services. In the fast paced environment that surrounds industries today, they find themselves faced with the pressure to discover fail proof ways to run their businesses. Techniques that do not turn out successful can harm the company and also result in losses in costs and time.

A popular tool used today by many companies is benchmarking. It is a process that involves continuously comparing and measuring against other companies to gain information and learn from their experiences, processes and practices. It provides companies the opportunity to assess their own procedures and helps them to understand their industry better which leads to innovative thinking. It also helps them to identify what changes are essential to improve performance. Some benefits of benchmarking are a better understanding of customers and competitors, reduction in waste, quality problems and reworking, quicker awareness of important innovations, a stronger reputation within the market, and increased profits and sales turnover. Benchmarking is usually done with top performing companies in both the service and the business sectors. Many of these companies are Fortune 500 companies such as Ford, Nissan, or Motorola. However, others include smaller businesses that are only a fraction of the size. These firms looking to benchmark all recognize that success and advancement come from a clear understanding of how the business is doing, not just against last year's performance, but against the best they can measure. There are two parties in the benchmarking

process. The initiator is the firm that initiates contact and studies another company in an attempt to improve their own processes. The target firm, or the benchmarking partner, is the one being studied.

Of all the benchmarking tactics, the two most popularly used are competitive benchmarking and process benchmarking. Competitive benchmarking compares the performance of one organization to that of its competitor. This method is useful for estimating a company's position in the industry. Process benchmarking evaluates business processes or practices that are vital to a firm's performance. It involves the identification of the best practices used by an organization, regardless of what industry they are in. The practices are then studied and implemented by the initiator firm. The four most common types of benchmarking are process, performance, strategic, and internal benchmarking. Process benchmarking focuses on work processes and operation systems and tries to identify the most effective approaches used by other firms that perform similar work or deliver similar services. Performance benchmarking is competitive benchmarking and allows assessment of a company's competitive position through the comparison of products and services and the analysis of statistics. Strategic benchmarking observes how others compete and usually moves outside of a company's industry to look for best practices. This method is widely used by Japanese corporations. Internal benchmarking looks for internal winning strategies and tries to establish them equally throughout the company. Using this strategy, all the functions of a business's operations are compared and measured against the best in class for competitiveness. The key advantage of internal benchmarking is its ease of implementation and also the minimal requirement of time and resources.

The benchmarking process is not an easy one. It requires more time and effort than most managers think. There are a series of steps to follow to ensure that the process is successful. The first step is to identify what is to be benchmarked and then determine what firm(s) to benchmark against. They should be a leader or “best in class” in the area that is being benchmarked. The next step is to establish how data will be collected and measured in order for it to be a meaningful comparison. Then, the company should analyze current performance levels and find the gaps between them and the target firm. Future performance levels should also be forecasted so that goals can be set. Next, the benchmark findings should be communicated to everyone concerned in order for them to understand what improvements need to be made. Specific actions should be implemented and progress should be continually monitored to determine whether or not the plan was really effective. The last step is to recalibrate benchmarks to ensure that the firm can react to and keep up with others’ improvements.

One example where benchmarking is used is Rank Xerox. Rank Xerox is part of Xerox Corp. who found itself in trouble when its market share went down fifty percent in 1980. Competitors were moving into the market and beating them out in price and quality. Xerox decided to benchmark such things as how their photocopiers were built, the cost of each state of production, selling costs, and service quality against both competitors and any other firms that it could learn from. Benchmarking is an everyday activity for Xerox and Rank Xerox. Their guiding principle is: “Anything anyone else can do better, we should aim to at least do equally well”. Their distribution was compared against such companies as 3M in Dusseldorf, Ford in Cologne, Volvo in Gothenburg and IBM’s international warehouse and French warehouse. By comparing

with these best in class firms, Xerox was able to discover that warehouses were not efficient through a high level of automation but rather through efficient manual routines. Among many other findings, they also realized that they needed to update their systems because they took one extra day in information flow between the field and center. Through benchmarking, Xerox was able to improve its financial position, stabilize its market share, and increase customer satisfaction by forty percent in the past four years.

Xerox is just one example of the many companies that have grown more successful from using benchmarks. They were able to use the information they collected correctly and also keep the process a daily routine. Benchmarking is only a great tool for gaining knowledge and experience if it is employed properly.

More information on benchmarking can be found at the Department of Trade and Industry's website: <http://www.dti.gov.uk/support/index.htm>. Information can also be found by reading *Competitor Intelligence: How to Get It, How to Use It* by L.M. Fuld or *Benchmarking for Best Practices* by Christopher E. Bogan.