

MANAGEMENT ISSUES-Benchmarking

A benchmark is defined as a “surveyors mark . . . of previous determined position . . . and used as a reference point . . . standard by which something could be measured or judged”. The computer industry uses the term to mean a standard process for measuring the performance capabilities of software and hardware systems that serves as a basis of choice between alternatives, each of which can have different features and functions but meets the overall requirement by a different mix of capabilities.

The management use of the term is related to both of these, and a working definition is “the search for industry best practices that lead to superior performance”. Benchmarking is a process that aims to change operations in a structured way to achieve superior performance, based on an understanding of a company’s performance and how it compares with the best in the world. The basic philosophical steps of benchmarking, which are fundamental to success, are:

Know your operation – you need to assess the strengths and weaknesses of the internal operation, keeping in mind that competitors will in turn be analysing your operation, and that if you don’t know your own strengths and weaknesses you will not be able to defend yourself. You need to know your strong points, to be able to promote them in the market place, and to identify areas that require strengthening.

Know the industry leaders or competitors – this helps you both to compare yourself with industry best practices and also to differentiate you from the competition.

Incorporate the best. Learn from the companies who are leaders in your industry or who are particularly good in functions that are important to your operation – for example, you should compare your distribution operation with the best available mail order or service company.

Gain superiority. Install the best of the best practices found, capitalise on your existing strengths and bring your weaknesses up to strength.

Benchmarking is the formalised and disciplined application of these basic steps to improving operations, as described in Figure 1.

Figure 1: Benchmarking process steps

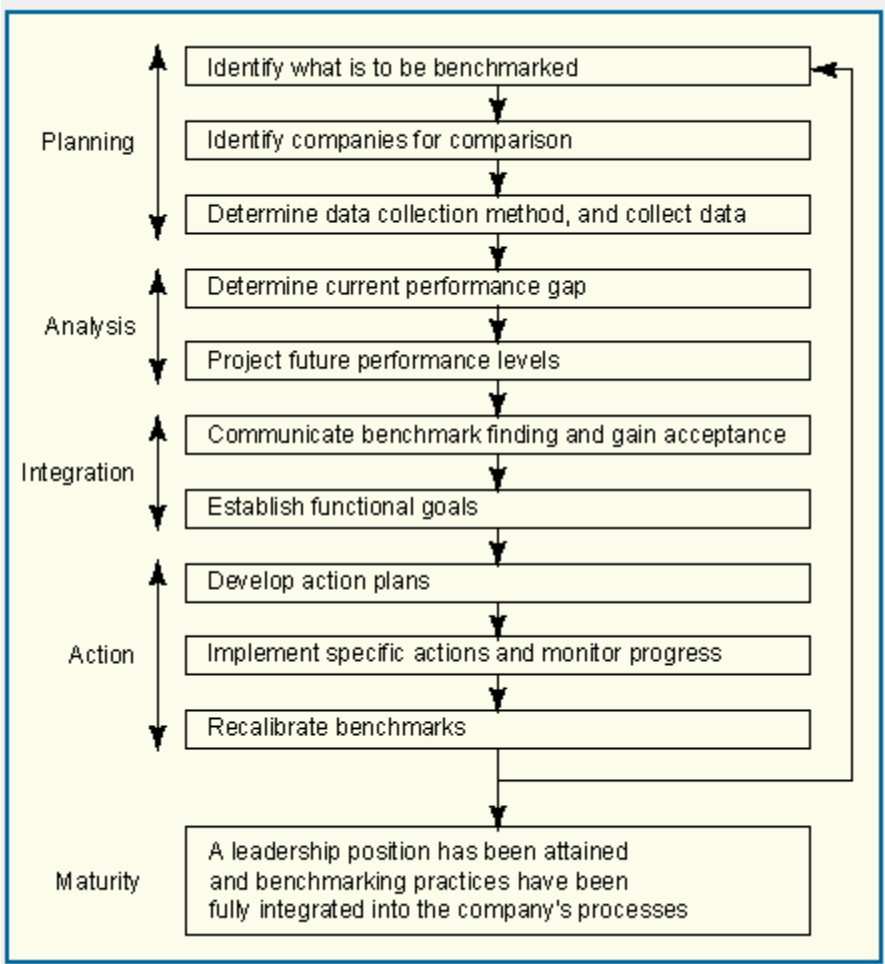


Table 1 shows some of the key reasons for benchmarking and the contrasting approaches with and without a benchmarking view.

Without benchmarking	With benchmarking
Defining customer requirements	
Based on history or gut feel Perception Low fit	Market reality Objective evaluation High conformance
Establishing effective goals and objectives	
Lacking external focus Reactive Lagging industry	Credible, unarguable Proactive Industry leading
Developing true measures of productivity	
Pursuing pet projects Strengths and weaknesses not understood Route of least resistance	Solving real problems Understanding outputs Based on best industry practices
Becoming competitive	
Internally focused Evolutionary change Low commitment	Concrete understanding of competition New ideas of proven practices and technology High commitment
Industry best practices	
Not invented here Few solutions Average of industry progress Frantic catch-up activity	Proactive search for change Many options Business practice breakthrough Superior performance
Table 1: Key reasons for using bench-marking	

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Industry practices change. We have not only to establish the performance gap between our practices and the best in the industry, but also to project future performance levels; will the gap widen, narrow, or stay the same? By projecting the gap, we can define the goals and targets that have to be achieved to close the gap and to meet or exceed desired or competitive performance, as shown in Figure 2. This shows the differences between the internal metric and that projected for industry best practices plotted against time, starting at the time of the benchmarking investigations. The analysis phase then identifies best practices and determines how they can be applied directly, or else modified and adapted for use within the company. This needs a thorough understanding of the practices and why they are superior.

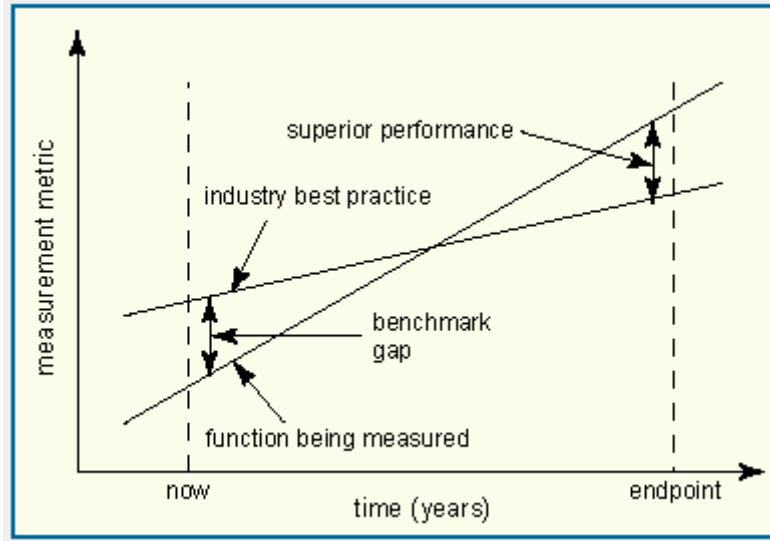


Figure 2: Conceptual projection of the benchmark gap

As always, a graphic portrayal is helpful in showing relative positions or analysing what is required. The type of 'Z chart' used for this purpose is shown in Figure 3, which graphs a ten-year logistics productivity trend. Both immediate strategic actions and continued operational improvements are necessary.

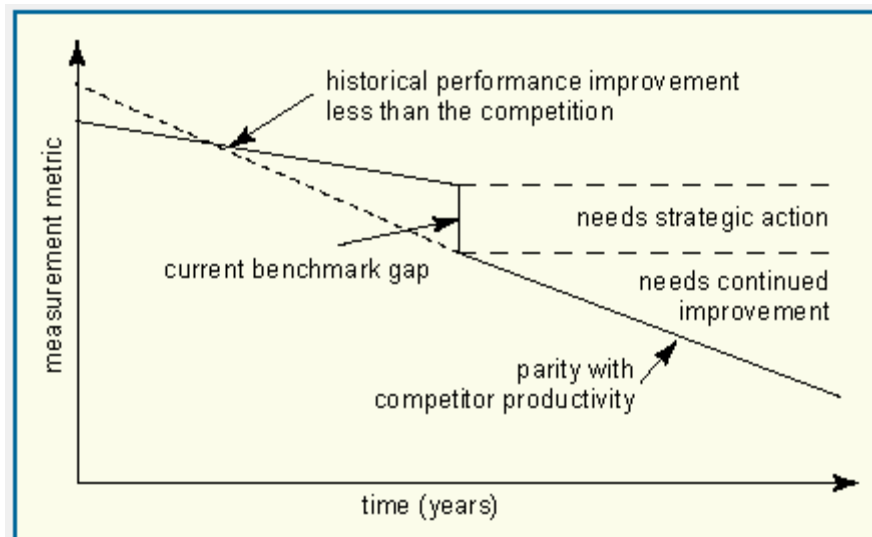


Figure 3: 10-year logistics productivity trend - the 'Z' chart

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Source: http://www.ami.ac.uk/courses/topics/0177_bnch/index.html