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Benchmarking

Every business can use benchmarking. At its simplest, it helps you to compare statistics and control costs. More sophisticated benchmarking looks at process design and business strategy.

Benchmarking is a process that compares your business activities to similar companies. It questions what you are doing, identifies opportunities for improvement and often provides the momentum necessary for implementing change.

This briefing outlines:

- The opportunities benchmarking offers.
- How to select benchmarking partners.
- How to use benchmarking.

1 The opportunities

Benchmarking simply involves comparing your business activities and processes with those of other organisations (see 3).

1.1 The simplest form of benchmarking is to compare **costs**.

- For example, utility bills or salaries.

Costs which are higher than the industry norms may provide opportunities for savings (see **Cost control**).

1.2 Most benchmarking compares **key performance indicators**.

This tends to focus on productivity and efficiency.

- Some indicators can be expressed as simple statistics.

For example, sales per employee, gross profit margins or wastage levels.

- Others may require qualitative, as well as quantitative, analysis. For example, to assess the effectiveness of training activities or levels of customer satisfaction.

Indicators which show that the company is underperforming represent opportunities to improve.

1.3 Benchmarking often proves particularly successful when comparing **processes**.

This involves looking in detail at how other organisations carry out the same or similar processes.

- For example, what technologies and production techniques they use.

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You may be able to apply some of these ideas to your business.

1.4 Benchmarking can also be used to compare businesses at a **strategic** level.

- For example, what strategic objectives organisations have, where resources are focused and what standards they work to.

Again, there may be an opportunity to incorporate lessons learnt from successful organisations into your own strategy. (See **Writing a business plan.**)

However you use benchmarking, it is only a tool which highlights opportunities.

Benchmarking at your desk

Valuable benchmark information can be obtained without approaching an external benchmarking partner.

A You can benchmark key statistics against widely available **industry norms**.

- For example, published information on key financial ratios for your industry, or salary surveys.

B You can assess yourself using a **benchmark package**.

Benchmark packages may include:

- A model of how businesses should operate. For example, standards such as ISO 9000 and Investors in People.
- Quantitative data covering specific activities, based on a sample of companies. Find out if the sample used is relevant to your business, and find out if the data has been validated.
- A 'facilitator' to help you collect and analyse data about your business.

C You can get involved in a **collaborative study** of your industry.

- Your trade association may run a benchmark study.
- A benchmarking consultancy may already be running a study, or be able to arrange for you (and other companies) to share the costs of one.

D You can use the **Internet** as a primary source of data.

Contact Business Gateway and your trade association to see what is available.

Benchmarking does not tell you what to do about them (but see **5**).

2 Planning

2.1 Establish a **project team** from different parts of the business.

- Select influential people who will have the power to see changes through. Unless your company is prepared to change, the project will lead to nothing.
- A team of six people, at most, will find it easier to reach consensus.
- Provide any training necessary for the team to understand the benchmarking process (and project management skills).

2.2 Link the benchmarking activity to your company's **objectives**.

- Identify which activity you want to benchmark and what the key performance measures are. Benchmarking models (see box, opposite) or consultants (see **6.1**) can help you.
- There is little point in benchmarking peripheral activities. Focus on the key areas of your business.

2.3 Benchmarking will not work unless you **know yourself**.

Be clear about the 'cultural' factors which influence your performance. These will include:

- The business environment you operate in. For example, your market and your customers' requirements.
- Your management structure and style. For example, if your company has highly centralised management control, it will be difficult to introduce processes which work in more decentralised organisations.

A typical benchmarking project will take three to four months, up to the point of implementation. Unless you purchase external services, the only significant cost is the time of the employees involved.

3 Benchmarking partners

Use the aims of your project to establish the kind of benchmarking partners you want.

3.1 You can use **internal** partners (eg different departments or sites) in order to standardise and improve your operations at the level of your best performers.

➔ For more information on Investors in People or ISO 9000, see **Investors in People** or **ISO 9000**.

“ It is always easier to benchmark functions that have quantifiable outcomes.”
Derek Burn, DLA-MCG Consulting

“ Benchmarking is an ideal tool for measuring performance, using objective criteria. It is particularly valuable for indentifying problem areas, letting you address issues ranging from poor productivity to low staff morale, absenteeism and cashflow shortfalls.”
Adrian Davies, Winning Moves Ltd

- If you only do internal benchmarking, you run the risk of complacency.
- Internal benchmarking is unlikely to lead to any dramatic insights.

3.2 Most benchmarking involves **external** comparisons.

- Aim to compare yourself against businesses of a similar size and structure, with similar objectives. Understanding how their objectives, constraints and cultures differ from yours is important if you are going to make meaningful comparisons.
- You can also compare separate processes which are going to be similar across different companies. For example, the operation of the mail room is likely to be similar for most companies.
- Competitors usually provide a direct comparison. It may be difficult to collect detailed information from them.
- There may be legal or ethical constraints which prevent a free exchange of information.

3.3 Benchmarking against **outstanding** businesses is one of the best ways to bring about a quantum leap in performance.

- It can be more difficult to make comparisons if they operate in a very different business environment.

3.4 Identify and select three to six **individual partners**.

- Your Business Gateway and trade association can suggest potential partners.
- Business publications and other information sources can provide ideas.
- Talk to colleagues, customers and suppliers to establish who leads the field in the area you are benchmarking.
- If you are searching in a broad or unknown area, contact a benchmarking clearing house or club (see **6.3**).

4 Collecting information

4.1 Approach those organisations with whom you want to make **comparisons**.

- Use any existing contacts to make the initial approach, or contact your opposite number.
- Explain the objectives of the study and emphasise its mutual benefits.

4.2 Draw up a **benchmarking agreement** or use a standard agreement. This should include:

- What information you want to exchange. Never ask for information that you are not prepared to share in return.
- How you will use the information.
- Who will use the information.
- How and when you will collect the information.

The more focused your research is the more useful it is likely to be.

4.3 Decide how you want to **collect data**.

- Simple operational data can be exchanged by using a questionnaire — either by post or through a phone survey.
- A site visit will give you a much better feel for the environment in which your partner operates. Use a checklist and visit in pairs. (Two people may find it easier to get complete, objective information and impressions.)

4.4 Send copies of your **visit reports** to the partner organisations so that they can verify the facts and figures.

Invite your partners to conduct similar visits.

- They can collect information on you.
- You can hear their views on how you operate.

5 Managing improvement

5.1 Summarise where you **differ** from your benchmarking partners.

Depending on your objectives, you may identify:

- Differences in performance indicators. For example, higher staff turnover or lower gross margins.
- Differences in individual processes. For example, how you recruit or how your production processes work.
- Differences in strategy. For example, what your human resources policies are, or what quality standards you have for your products.

5.2 Investigate **why** you differ.

Typical reasons include:

- Your cost control is poor.
- Your processes are outdated or inefficient.
- You have made a different trade-off. For example, if you choose to recruit low-

“Benchmarking studies always throw up more questions than answers. A consultant with a relevant database is best positioned to address the issues raised.”
Derek Burn,
DLA-MCG
Consulting

grade (and inexpensive) employees in the knowledge that they will soon leave.

- You have a different focus from your benchmarking partners.
For example, if you have a different target market.
- You have different organisational constraints.
For example, if you do not have the financial resources to invest in new technology.

5.3 Decide what **action** to take and implement the changes.

There will normally be several options open to you:

- You may decide to do nothing.
You may accept that there is a good reason for the difference, or that it would be impossible to make changes.
- You may feel that you should adapt your processes.
If your benchmarking partners are similar to you and achieve better results with a different process, you may want to adopt elements of that process in your business.
- You may target specific areas for improvement and further investigation.
For example, if it is clear that your marketing is underperforming but unclear what you can or should do about it. See **Planning your marketing**.
- You may realise that you need to redefine elements of your strategy eg changing your objectives or standards.

Like all business improvement tools, the success of benchmarking depends on management commitment.

The more complex and far-reaching the change, the more time and effort you will need to devote to developing and implementing action plans.

5.4 **Review** how well the benchmarking study went and what impact the changes had.

- Did the benchmarking study achieve its objectives?
What went well and what would you do differently next time?
- How well is your business performing now?
Did the actions you took lead to incremental improvements or to a step change in performance?

Benchmarking is not a one-off activity. Even if you have achieved best practice today, regular benchmarking is essential to keep you up to date and ahead of the competition.

6 Where to get help

6.1 You may want to involve a **consultant**.

Although many benchmarking studies are conducted without external help, a consultant can help with:

- Establishing internal data and organisational processes.
An external consultant may find it easier to be objective about your business.
- Identifying and contacting benchmarking partners.
- Project management.
- Overcoming resistance to change.

Only use a consultant for the parts of the study you require help with.

(See **Using a consultant**.)

6.2 Other sources of **information** and help include:

- Your trade association (020 7395 8283 or www.taforum.org).
- The Benchmark Index (08700 111143 or www.benchmarkindex.com).
- The Best Practice Club (0800 435399 or www.bpclub.com).
- The Public Sector Benchmarking Service (020 8929 6887 or www.benchmarking.gov.uk).

Expert contributors

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Further help

There are other Directors' Briefing titles that can help you. These briefings are referred to in the text by name, such as **Cost control**.

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