

What is benchmarking?

Benchmarking is the process of identifying best practice in relation to both the product and the processes by which those products are created and delivered. This study note introduces the benchmarking process and types of benchmarking.

The search for best practice can exist inside a particular industry and also in other industries - are there lessons to be learned from other industries?

The objective of benchmarking is to understand and evaluate the current position of a business or organisation in relation to best practice and to identify areas and means of performance improvement.

The Benchmarking Process

Benchmarking involves looking outward (outside a particular business, organisation, industry, region or country) to examine how others achieve their performance levels, and to understand the processes they use.

In this way, benchmarking helps explain the processes behind excellent performance. When lessons learned from a benchmarking exercise are applied appropriately, they facilitate improved performance in critical functions within an organisation or in key areas of the business.

The application of benchmarking involves four key steps:

1. Understand in detail existing business processes
2. Analyse the business processes of others
3. Compare own business performance with that of others analysed
4. Implement the steps necessary to close the performance gap

Benchmarking should not be considered a one-off exercise. To be effective, it must become an integral part of an ongoing improvement process, the goal being to abreast of ever-improving best practice.

Types of Benchmarking

This is a summary of the different types of benchmarking:

Strategic Benchmarking

- Used when businesses need to improve overall performance, strategic benchmarking examines the long-term strategies and general approaches that have enabled high-performers to succeed
- It involves considering high level aspects such as core competencies, developing new products and services, and improving capabilities for dealing with changes in the external environment
- Changes resulting from this type of benchmarking may be difficult to implement and take a long time to materialise

Most appropriate for...

Re-aligning business strategies that have become inappropriate

Performance or Competitive Benchmarking

- Used when businesses wish consider their position in relation to performance characteristics of key products and services
- Benchmarking partners are drawn from the same sector
- This type of analysis is often undertaken through trade associations or third parties to protect confidentiality

Most appropriate for...

Assessing the relative level of performance in key areas or activities in comparison with others in the same sector, and finding ways of closing gaps in performance.

Process Benchmarking

- Focuses on improving specific critical processes and operations
- Benchmarking partners are sought from best practice organisations that perform similar work or deliver similar services
- Involves producing process maps to facilitate comparison and analysis

- Often results in short term benefits

Most appropriate for...

Achieving improvements in key processes to obtain quick benefits

Functional Benchmarking

- Businesses look to benchmark with partners drawn from different business sectors or areas of activity to find ways of improving similar functions or work processes
- Can lead to innovation and dramatic improvements

Most appropriate for...

Improving activities or services for which counterparts do not exist.

Internal Benchmarking

- Involves benchmarking businesses or operations from within the same organisation, for example business units in different countries
- Three main advantages of internal benchmarking are: (1) access to sensitive data and information is easier (2) standardised data is often readily available and (3) usually, less time and fewer resources are needed
- Fewer barriers to implementation as practices may be relatively easy to transfer across the same organisation.
- Real innovation may be lacking, and best in class performance is more likely to be found through external benchmarking

Most appropriate for...

Several business units within the same organisation exemplify good practice, so management want to spread this expertise throughout the organisation, quickly.

External Benchmarking

- Involves analysing outside organisations that are known to be best in class
- Provides opportunities of learning from those who are at the "leading edge"

- Can take up significant time and resources to ensure the comparability of data and information, the credibility of the findings and the development of sound recommendations

Most appropriate for...

When examples of good practices can be found in other organisations, and there is a lack of good practice within internal business units.

International Benchmarking

- Best practitioners are identified and analysed elsewhere in the world, perhaps because there are too few benchmarking partners within the same country to produce valid results
- Globalisation and advances in information technology are increasing opportunities for international projects. However, these can take more time and resources to set up and implement, so the results may need careful analysis due to national differences

Most appropriate for...

Where the aim is to achieve world class status, or simply because there are insufficient "national" businesses against which to benchmark

10 aspects of your practice for benchmarking

Benchmarking provides a means to compare your practice against other practitioners, and identify areas where you can improve your performance.

1. Focus on your key enterprise practice drivers. These are the processes that underpin the success of your creative practice, and will vary from sector to sector and business to business. If you provide a service, client relations are likely to be a key enterprise practice driver; if you are a general product design practitioner, skills and speed will be a key enterprise practice driver.
2. Decide who to benchmark against. Pick practitioners of a similar career intent and with similar objectives to help work out industry yardsticks; but also compare with practitioners outside your sector who excel in areas you want to measure - importing their approach could help you leapfrog career competitors.
3. Compare strategic objectives. Can you learn strategic lessons from benchmarking partners? Does a focus on quality standards give them an edge, for instance? Are they developing online design services? Think what other practitioners' strategic objectives would bring to your own practice, if anything.
4. Assess the efficiency of your processes. Look at the mechanics of your practice - the production techniques, quality controls, project management and so on. How effective are they? How well are you using your technology? Are other practitioners benefiting from new ways of doing things?
5. Analyse your allocation of resources. Are you putting resources into the same areas as your benchmarking partners? Do they have offer more types of design services, or fewer? In which aspects of design practice? Have they invested more in IT and other equipment? Are they spending more on marketing?

6. Weigh your cost/benefit/value ratio against design industry norms. These might include the pace at which you can deliver design practice. If you can highlight areas where your time / processes are higher than the average, you may be able to make savings.

7. Reflect on your productivity, value and quality of design practice. Understand how your competitor delivers a more effective and thereby competitive balance of these enterprise factors. Gauge how your productivity / value balance can be developed to measure more competitor against your partner benchmarks.

8. Work out your profit margins. Your gross profit margin (direct profit on the cost of goods and services sold) will tell you how efficient your production processes are. Comparing this with your net profit margin (profit after all your costs have been taken off, including marketing and administration) will tell you how effectively you earn profits from sales. But how do you compare with other businesses? Should you streamline your operation?

9. Measure your customer service standards. Customer service is a key battleground for businesses with similar products or services. Working out the proportion of sales accounted for by returning customers will give you a picture of your service levels, as will the number of complaints you receive and the time it takes to fulfil an order.

10. Refer to broader reference points to gauge not only your comparison against your partner benchmarks but how you and they sit within market competition as a whole.