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Benchmarking is the process through which a company measures its products, services, and practices against its toughest competitors, or those companies recognized as leaders in its industry. Benchmarking is one of a manager's best tools for determining whether the company is performing particular functions and activities efficiently, whether its costs are in line with those of competitors, and whether its internal activities and business processes need improvement. The idea behind benchmarking is to measure internal processes against an external standard. It is a way of learning which companies are best at performing certain activities and functions and then imitating—or better still, improving on—their techniques.

Benchmarking focuses on company-to-company comparisons of how well basic functions and processes are performed. Among many possibilities, it may look at how materials are purchased, suppliers are paid, inventories are managed, employees are trained, or payrolls are processed; at how fast the company can get new products to market; at how the quality control function is performed; at how customer orders are filled and shipped; and at how maintenance is performed.

Benchmarking enables managers to determine what the best practice is, to prioritize opportunities for improvement, to enhance performance relative to customer expectations, and to leapfrog the traditional cycle of change. It also helps managers to understand the most accurate and efficient means of performing an activity, to learn how lower costs are actually achieved, and to take action to improve a company's cost competitiveness. As a result, benchmarking has been used in many companies as a tool for obtaining a competitive advantage.

Companies usually undertake benchmarking with a view towards the many improvements that it may offer. These benefits include reducing labor cost, streamlining the work flow through reengineered business processes and common administrative systems, improving data center operations through consolidation and downsizing, cooperative business and information technology planning, implementing new technology, outsourcing some assignments and functions, redesigning the development and support processes, and restructuring and reorganizing the information technology functions.

BENCHMARKING BASICS

The goal of benchmarking is to identify the weaknesses within an organization and improve upon them, with the idea of becoming the "best of the best." The benchmarking process helps managers to find gaps in performance and turn them into opportunities for improvement. Benchmarking enables companies to identify the most successful strategies used by other companies of comparable size, type, or regional location, and then adopt relevant measures to make their own programs more efficient. Most companies apply benchmarking as part of a broad strategic process. For example, companies use benchmarking in order to find breakthrough ideas for improving processes, to support quality improvement programs, to motivate staffs to improve performance, and to satisfy management's need for competitive assessments.

Benchmarking targets roles, processes, and critical success factors. Roles are what define the job or function that a person fulfills. Processes are what consume a company's resources. Critical success factors are issues that company must address for success over the long-term in order to gain a competitive advantage. Benchmarking focuses on these things in order to point out inefficiencies and potential areas for improvement.

A company that decides to undertake a bench-marking initiative should consider the following questions: When? Why? Who? What? and How?

WHEN.

Benchmarking can be used at any time, but is usually performed in response to needs that arise within a company. According to C.J. McNair and Kathleen H.J. Leibfried in their book *Benchmarking: A Tool for Continuous Improvement,* some potential "triggers" for the benchmarking process include:

- quality programs
- cost reduction/budget process
- operations improvement efforts
- management change
- new operations/new ventures
- rethinking existing strategies
- competitive assaults/crises

WHY.

This is the most important question in management's decision to begin the benchmarking process. McNair and Leibfried suggest several reasons why companies may embark upon benchmarking:

- to signal management's willingness to pursue a philosophy that embraces change in a proactive rather than reactive manner;
- to establish meaningful goals and performance measures that reflect an external/customer focus, foster "quantum leap" thinking, and focus on high-payoff opportunities;
- to create early awareness of competitive disadvantage; and
- to promote teamwork that is based on competitive need and is driven by concrete data analysis, not intuition or gut feeling.

WHO.

Companies may decide to benchmark internally, against competitors, against industry performance, or against the "best of the best." Internal benchmarking is the analysis of existing practice within various departments or divisions of the organization, looking for best performance as well as identifying baseline activities and drivers. Competitive benchmarking looks at a company's direct competitors and evaluates how the company is doing in comparison. Knowing the strengths and weaknesses of the competition is not only important in plotting a successful strategy, but it can also help prioritize areas of improvement as specific customer expectations are identified. Industry benchmarking is more trend-based and has a much broader scope. It can help establish performance baselines. The best-in-class form of benchmarking examines multiple industries in search of new, innovative practices. It not only provides a broad scope, but also it provides the best opportunities over that range.

WHAT.

Benchmarking can focus on roles, processes, or strategic issues. It can be used to establish the function or mission of an organization. It can also be used to examine existing practices while looking at the organization as a whole to identify practices that support major processes or critical objectives. When focusing on specific processes or activities, the depth of the analysis is a key issue. The analysis can take the form of vertical or horizontal benchmarking. Vertical benchmarking is where the focus is placed on specific departments or functions, while horizontal bench-marking is where the focus is placed on a specific process or activity. Concerning strategic issues, the objective is to identify factors that are of greatest importance to competitive advantage, to define measures of excellence that capture these issues, and to isolate companies that appear to be top performers in these areas.

HOW.

Benchmarking uses different sources of information, including published material, trade meetings, and conversations with industry experts, consultants, customers, and marketing representatives. The emergence of Internet technology has facilitated the bench-marking process. The Internet offers access to a number of databases-like Power-MARQ from the nonprofit American Productivity and Quality Center-containing performance indicators for thousands of different companies. The Internet also enables companies to conduct electronic surveys to collect bench-marking data. How a company benchmarks may depend on available resources, deadlines, and the number of alternative sources of information.

TYPES OF BENCHMARKING

There are a number of different types of bench-marking, which are driven by different motivating factors and thus involve different comparisons. Some of the major types of benchmarking are as follows: Metric benchmarking is the use of quantitative measures as reference points for comparisons. Best-practice benchmarking focuses on identifying outstanding techniques. Information technology benchmarking includes data processing, systems analysis, programming, end-user support, and networks. Infrastructure benchmarking includes data centers, networks, data/information, end-user support, and distribution remote centers. Application benchmarking includes system analysis, development and maintenance programming, and functionality. Strategy benchmarking includes skills assessment, information technology strategy, business-technology alignment, and delineation of roles and responsibilities.

There are many motivators that drive the different types of benchmarking. Application benchmarking and infrastructure benchmarking, for example, use such motivators as cost, quality, competition, and goal setting. An advantage of benchmarking is that it facilitates the process of change, clearly laying out the types of solutions external organizations have used and providing a global perspective on how part of the company affects the whole. It further helps focus improvement in the areas where actual gains can be made, which translates into value added to the company as well as its employees.

SUCCESSFUL BENCHMARKING

There are several keys to successful benchmarking. Management commitment is one that companies frequently name. Since management from top to bottom is responsible for the continued operation and evaluation of the company, it is imperative that management be committed as a team to using and implementing benchmarking strategies. A strong network of personal contacts as well as having an open mind to ideas is other keys. In order to implement benchmarking at all stages, there must be a well-trained team of people in order for the process to work accurately and efficiently. Based on the information gathered by a well-trained team, there must also be an effort toward continuous improvement.

Other keys include a benchmarking process that has historical success, sufficient time and staff, and complete understanding of the processes to be benchmarked.

In almost any type of program that a company researches or intends to implement, there must be goals and objectives set for that specific program. Benchmarking is no different. Successful companies determine goals and objectives, focus on them, keep them simple, and follow through on them. As in any program, it is always imperative to gather accurate and consistent information. The data should be understood and able to be defined as well as measured. The data must be able to be interpreted in order to make comparisons with other organizations. Lastly, keys to successful benchmarking include a thorough follow-through process and assistance from consultants with experience in designing and establishing such programs.

THE FUTURE OF BENCHMARKING

Although early work in benchmarking focused on the manufacturing sector, it is now considered a management tool that can be applied to virtually any business. It has become commonplace for companies to use in order to compete in and lead their respective industries. It has helped many reduce costs, increase productivity, improve quality, and strengthen customer service.

In his book *Benchmarking the Information Technology Function,* Charles B. Greene noted that companies are increasingly interested in benchmarking for a number of activities, including:

- cost of supporting business driver (transaction costs, or cost per order)

- systems development activities, including maintenance, backlogs, development productivity and project management
- end-user support
- data centers/communication networks
- skills management
- business strategy alignment
- technology management
- customer/user satisfaction

According to a 2003 Bain and Company survey quoted in Financial Executive, benchmarking received the second-highest usage score (84 percent) among more than two dozen management tools used by senior executives around the world. The survey also reported that users tend to be highly satisfied (rated 3.96 on a 5-point scale) with the results benchmarking provides to their companies.

SEE ALSO: Competitive Advantage ; Continuous Improvement ; World-Class Manufacturer

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