

Benchmarking and Learning

By Praveen Gupta

It's an age-old truism: you can't improve it if you don't realize you need to. Benchmarking is the path to best-in-class processes.

Benchmarking is a comparative analysis of business practices across divisions within a company, within an industry, or across industries. It's a time-tested way to identify proven-good practices. One finds best-in-class examples of products, services, or operational systems, then draws a comparison with one's own products or systems. And it's a tool that can be applied to all functions (accounting, manufacturing, quality, purchasing, human resources, sales, management, etc.) and at all levels.

Over time, business processes reach a plateau and, in the absence of new ideas or innovation, begin to slide. Benchmarking is an excellent way to generate new ideas to achieve dramatic improvement. Organizations like Motorola, Xerox, GE, Ford, and even the Internal Revenue Service have applied benchmarking techniques successfully. Indeed, it is a winning business strategy, with results measurable in market share and improved profitability.

Benchmarking can be internal, competitive, or functional in nature. Internal benchmarking involves comparing procedures and practices with the best ones within one organization. Say, for instance, one manufacturing process achieves consistently high yields while another does so sporadically. By learning from the former, the latter can be adjusted to achieve similar results. Competitive benchmarking is the comparison of your company's products or processes with those of your top competitors. This comparison could be based on design, manufacturing, complexity, usability, appearance, parts count, cost, quality, or service. Most businesses engage in some form of competitive benchmarking; companies buy their competitors' products, dismantle them, and analyze the products for fit, form, and function. This way, benchmarking reveals two sides: strengths and weaknesses. For example, Motorola's competitive benchmarking revealed anticipated product releases and subsequently led to its personal telephone in the '80s, increasing profitability significantly and launching the cell phone industry.

Once success is achieved, however, benchmarking must not be ignored; it is an ongoing process, not a one-time exercise. Competition continually increases; thus, improvement must be ongoing and at a faster rate. The fact that Motorola was the market leader for cell phones for years did not deter Nokia from introducing its own line. And Nokia was rewarded handsomely for its efforts.

Functional benchmarking involves comparing certain functions in one company with similar functions of another company, regardless of industry. Functional benchmarking requires understanding how processes are developed, optimized, monitored, and maintained at high levels of performance. For example, if a company wants to benchmark the billing process, it would examine how billing is performed at companies like American Express. A manufacturer that needs to improve distribution would benchmark how successful distributors execute logistics and inventory management.

Know What to Look For

Some key factors for successful benchmarking:

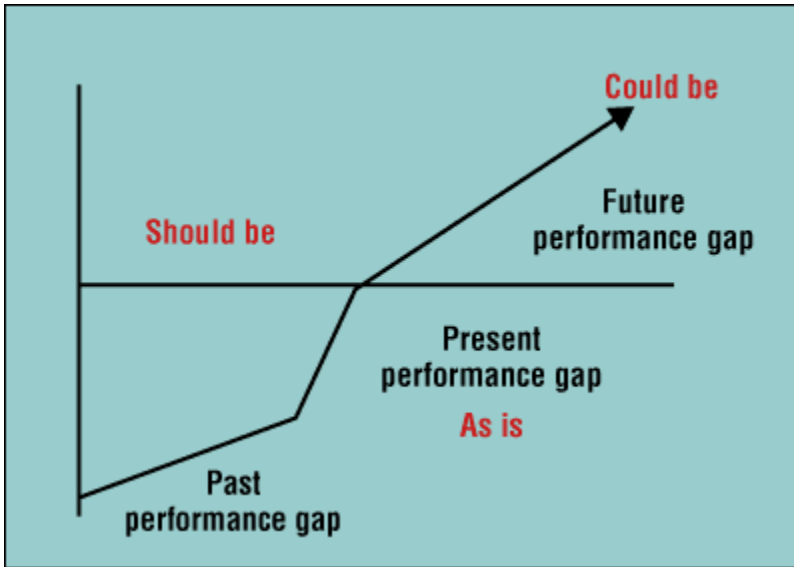
- Management commitment to excellence and to achieve best-in-class.
- Comparisons are made with best, not just comparable, companies.
- Willingness to let go of old habits and implement best practices.

To successfully implement benchmarking, one must know what to benchmark, what companies to benchmark against, and what to look for during the process. The first step is to establish a baseline for key characteristics to be improved. Thorough understanding of your process, including its strengths and weaknesses, is critical: you can't improve that which you don't realize needs improving. The baseline must be established using process performance data including measurements of critical process parameters that have a direct impact on customer satisfaction or an adverse effect on process output.

This raises two subsequent issues: when to benchmark, and who to do it against. Benchmarking for the sake of visiting other companies may not be an effective way to realize benefits. One must understand the performance levels (figure), called "as is," "should be," and "could be." A baseline defines the "as is" level. "Should be" represents what is expected from the current process. Naturally, improving "as is" to "should be" requires process improvements. Once the "should be" level is realized, the "could be" performance level must be defined using benchmarking. To achieve the optimum level, "could be," a company may need to acquire new equipment, skills, or resources, or a combination of them. Simply investing in new resources may not be the best solution.

Managers often wonder, "Who should my company benchmark against?" There are many sources for identifying benchmarking partners and practices: Industry trade associations, journals, quality associations, benchmarking institutions (including certain universities), and benchmarking conferences are good sources to identify partners and practices. Sometimes, customers are the best resources as they may deal with best-in-class suppliers. Even government resources are available to identify best practices and companies. Moreover, the Internet has become an excellent tool for quickly researching the subject and learning about best-in-class companies.

Finally, after understanding best practices of the benchmarking partner, the clearly defined practices that are applicable to your company must be identified. An action plan must be developed in order to implement new processes, and these changes must undergo trials prior to being introduced in the production environment.



REACHING THE IDEAL

Baselines establish the gaps between a company's current performance ("as is") and the ideal ("could be")