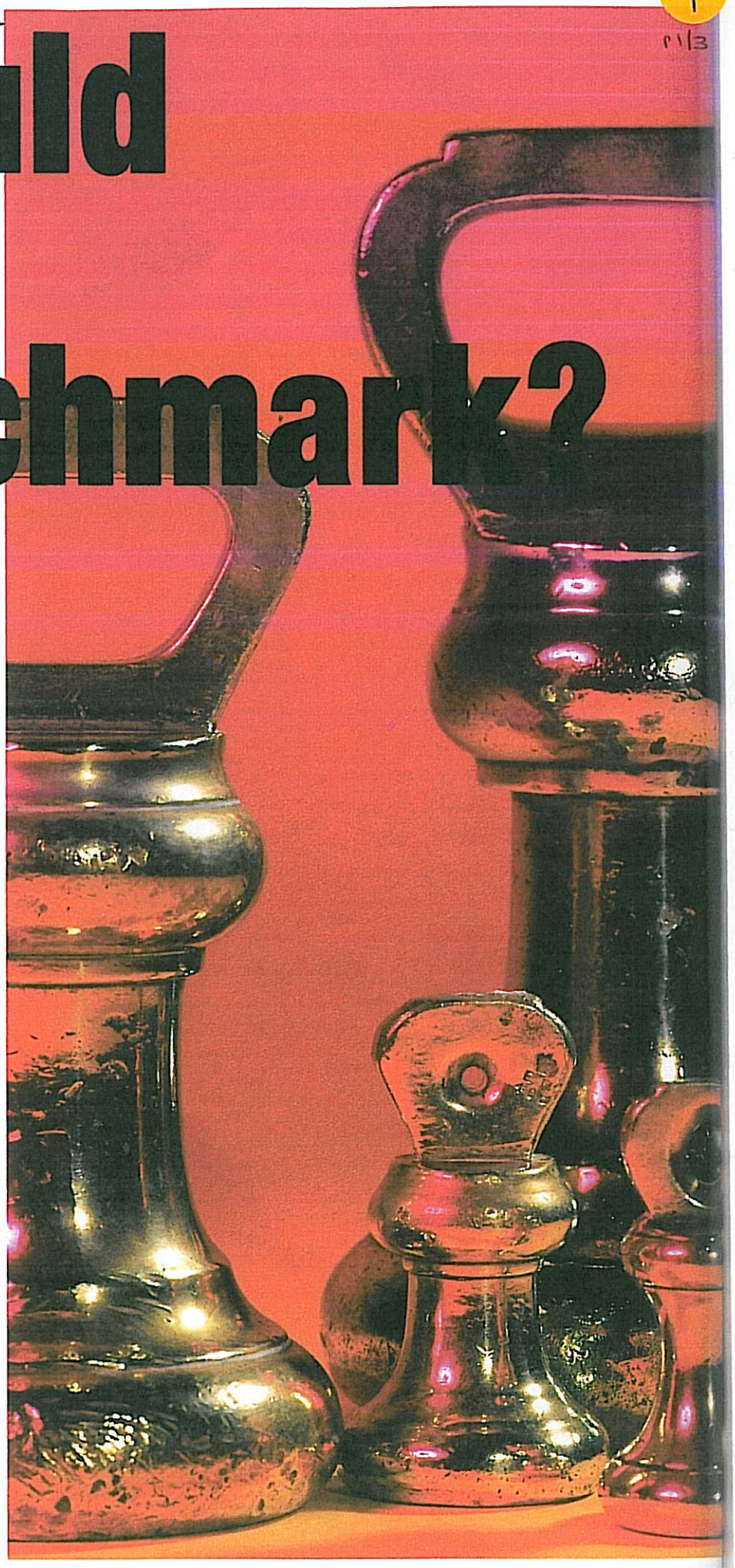
Should You Benchmark?



Business improvement processes move in and out of fashion. Tom Peters, in the pages of this magazine, recently said that "Benchmarking is Wrong", suggesting it may become as unfashionable as Downsizing and the like. Not so, argues Clifford Jamison. Benchmarking your customer service is a competitive tool that belongs firmly in the 21st Century.

Let me remind you of the death of an industry in the UK and the near-death of an industry in the US. In 1965, the **Honda** 50cc motorcycle was launched in the UK. The market leaders, **Triumph** and **Norton**, were unperturbed because they specialised in the larger machines and as such, were not aware of the threat posed by the smaller version. The Japanese had out-flanked the British by launching their product into an uncontested area and achieving dominance of the smaller bike market. By the end of the 1970s, the British motorcycle industry was dying, a victim of superior technology and strategy. The US motorcycle industry experienced the same phenomenon, until **Harley-Davidson's** resurgence, as described in the pages of this magazine (*Editor's note: See "How to be a loved company. The Harley-Davidson story" in issue 26 of this journal*).

This happened neither overnight nor by chance. The Japanese had benchmarked their

products in markets across the world to create motorcycles with superior quality but at affordable and competitive prices. By contrast, the British and, initially, the US bike-makers, relied on the strength of their brand names to retain their market position, rather than investing in new technology or product innovations. For example, the Japanese were the first to introduce electronic ignition, although the British were in a position to introduce this earlier had they seen the need to.

Benchmarking is now a popular topic in the quality toolbox. But unlike many of the "fads", benchmarking has its roots in fundamental business practices going back many decades. Manufacturing was the first to reap the benefits, however, benchmarking is now successfully applied by companies in most industry sectors, and has proved invaluable for major service providers such as **Federal Express, Marriott, McDonalds** and **Wal-Mart**. It is not simply a matter of copying someone else's product or service. As the quality guru Dr Deming has stated: "It is a hazard to copy. It is necessary to understand the theory of what one wishes to do."

The **Westinghouse Productivity & Quality Centre** defines benchmarking as: "A continuous search for and application of significantly better practices that lead to superior competitive performance".

It is not necessary to identify the very best practices; finding significantly better practices is sufficient to drive the improvement efforts. Although benchmarking is a measurement process and results in comparative performance measures, it also describes how exceptional performance is attained. The practices that lead to exceptional performance are called enablers. The process of benchmarking, therefore, results in two types of outputs: benchmarks, or measures of comparative performance, and enablers, or theory behind the process performance.

Japanese industry in the 1960s was accused of imitating competitive products. This is both unjust and untrue. Japan's manufacturers were expert at adapting and improving other products, not adopting. Taiichi Ohno, former vice-president of manufacturing of **Toyota**, developed the "just-in-time" stock control system after observing shelf re-stocking in American supermarkets. The supermarket analogy provided Ohno with an example of an enabling process from which he developed the kanban system for inventory flow management.

Japanese manufacturers apply the practice of benchmarking in order to shortcut the time it takes to implement improvements and reduce the time it takes to launch products and services. As Paul Howell wrote in the *Houston Chronicle*.

"The Japanese excel at benchmarking, at exhaustively analysing the best companies in each industry, then continually improving on their performance until the Japanese products and services then become the best."

Benchmarking first began as reverse engineering, tearing down and evaluating technical product characteristics and undertaking financial analysis (*Figure 1*). The next phase, competitive benchmarking, was developed by **Xerox** between 1976 and 1986 and included comparisons of competitive processes. The catalyst for this initiative was the discovery that **Canon's** retail sales price equalled Xerox's manufacturing cost.

During the early to late 1980s a new area of activity became popular as the realisation grew that more could be learnt from companies outside a particular industry sector than from competitive studies within a sector - co-operation is more readily given if a soap power manufacturer asks a motorbike maker if they can benchmark their processes than if they ask a direct competitor. Process benchmarking is the identification of particular business processes that are the target for analysis. For example, Xerox compared the shipment of copier products with **L. L. Bean's** shipment of fishing boots and equipment, while a hospital benchmarked its preparation process for incoming trauma victims with the home delivery process of a major pizza chain.

Finally came strategic benchmarking, which refers to a systematic process for evaluating alternatives, implementing strategies and improving performance. This is achieved by understanding and adapting successful strategies from external partners who participate in an on-going business alliance. This can fundamentally transform the business, rather than just merely improving processes.

Whilst benchmarking has gone through an evolutionary process, each of the above categories is still applicable, dependant on the needs of the particular company. Having selected the appropriate type of benchmarking required, the next stage is implementation.

Each benchmarking project has a four-step approach - plan, do, check and act - which follows the quality method described by Deming (*see Figure 2*). This approach requires answers to simple questions: What should we benchmark? Whom should we benchmark? How do we perform the process? How do they perform the process? While the answers will be anything but simple, this approach will result in a systematic analysis of the issue.

First, in planning the benchmarking study, it is necessary to select and define the process that is to be studied; identify the measures of process performance; evaluate one's own capability at this process and determine which companies should be studied.

The second step is to conduct primary and secondary research. Learn as much as possible about the target company's particular process through public disclosures in press and trade publications. Direct communication may include telephone interviews, written surveys or site visits.

The third step is the analysis of all the gathered information to determine study findings and recommendations. Identify the process gaps and the enablers that contribute to improved performance.

The final step involves adapting, improving and implementing appropriate benchmark process enablers. The objective of benchmarking is to change an organisation in a way that improves its performance. Thus, benchmarking is a process with a built-in bias for action.

Benchmarking can be applied both inside and outside an organisation. Competitive benchmarking involves reviewing competitors' practices and product costs by analysing their performance, safety, operation, technology and estimating their costs of manufacture. The incoming CEO of **IBM**, Louis Gerstner, used competitive benchmarking to turn the company around. In a recent speech in Korea he commented: "Everything we do is measured against the best-of-class in our industry or, in some cases, other industries...The benchmarking process told us we had to take $8 billion out of our cost structure."

Best-in-class benchmarking entails searching the entire commercial spectrum for the most efficient process and discovering the best

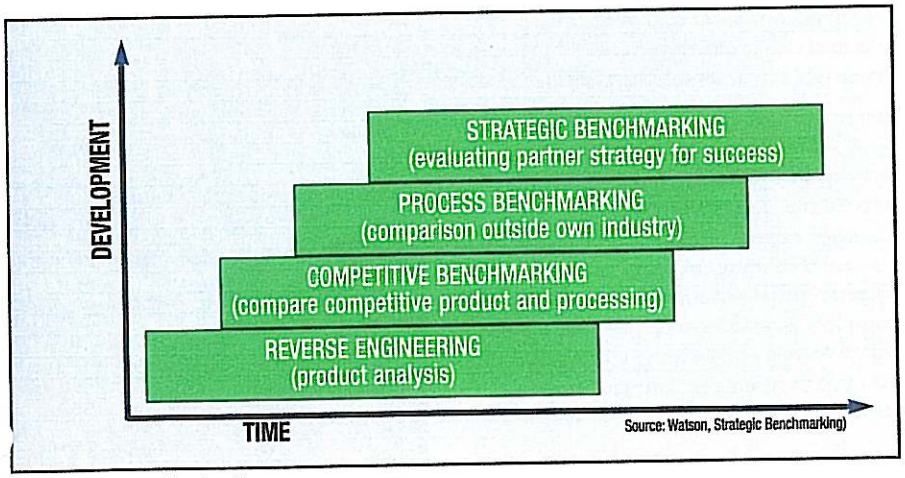
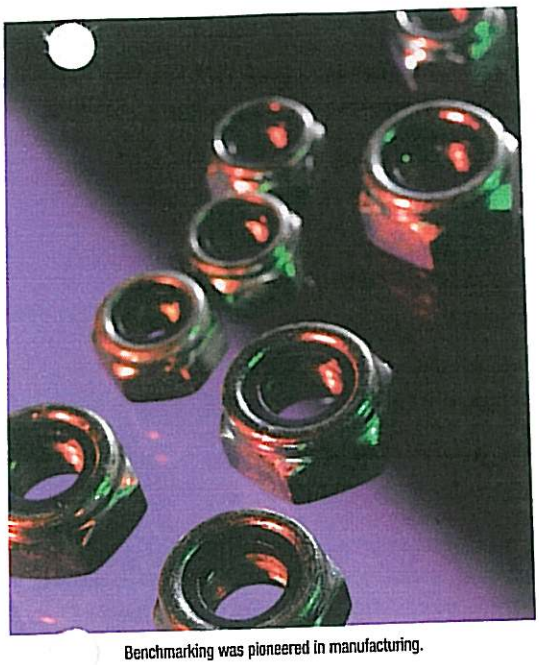


Figure 1: The Process of Benchmarking



Benchmarking was pioneered in manufacturing.

practices. It may neither be commercially feasible nor necessary to always discover the world's best. If a company is in severe financial difficulty, time may not be on its side so the objective should be to significantly improve current performance. Improvements can be implemented annually and may eventually result in a world-class standard.

It may not be necessary to explore outside the organisation but rather to find best practices within the company. For example, my firm conducted an internal benchmarking study for a major telecommunications operator, with representation in over 140 countries. Internal benchmarking involved reviewing a number of internal processes to identify those subsidiaries that represented "best-in-class". These processes were then adapted across the organisation with consequential improvement in performance.

Similarly, a car manufacturer may wish to identify the "best" franchise in terms of customer satisfaction ratings and review how this is achieved to improve the performance of the others. A conglomerate may wish to identify those divisions that provide the best customer service and adapt best practices across the group.

Functional benchmarking is another form of internal study focusing on a function or particular operating activity.

Benchmarking is not a one-off initiative to be undertaken this year only to be abandoned for the next "flavour of the month". Neither is benchmarking a strategy for companies to follow. Benchmarking is a tool or methodology for improving business performance and should be embedded in company philosophy as part of a continuous improvement program. It is a tactic to achieve a means to an end. It is not an end in itself. In a recent issue of this magazine, Tom Peters said, "Benchmarking is wrong". He argued that excellent service is about surprise; adversely comparing **McDonald's** consistency with the way that the **Ritz Carlton** hotel chain continually surprises its customers. This analogy has as much relevance as comparing the Eastern European car manufacturer **Skoda** with **Rolls Royce.** McDonald's is a Global Fortune 500 company. Consistency is certainly one of the values that has enabled it to dominate the world's fast food market. The cost to McDonald's of trying to achieve the surprise factor would drive down profits in the short term, without necessarily increasing turnover.

Peters misses the point that benchmarking is about improving business performance, not the pursuit of service excellence. It is a means, not an end. What is right for one company (e.g. "consistency" for McDonald's) is clearly not right for another (e.g. "surprise" for Ritz Carlton). The aim of commercial enterprises is to make profit. Service excellence is only required if it meets this objective. One of the most important aspects of service strategy and planning is to ensure that the service is always of sufficient quality to encourage customers to prefer it to the competition - hence, why McDonald's is the undisputed leader in its market.

Benchmarking should be a component of a continuous improvement strategy supported by senior management. Senior management buy-in may mean starting at the financial level, so could entail selecting those operations where improvement will have the greatest impact on the bottom line.

The application of the four step approach - plan, do, check and act - has resulted in many service providers becoming leaders in their respective fields. It has enabled Federal Express to be successful in its goal of providing next-day package delivery. Benchmarking has allowed Wal-Mart in to outperform rivals such as **Sears** and **K-Mart** on almost every important measure of business success. The **Marriott** hotel chain consistently receives high marks from satisfied customers - who return time after time - as a consequence of their benchmarking program.

Each of these service companies follows practices that result in superior performance. These practices can be observed, measured and often transferred through the benchmarking process.

Whilst the popularity of benchmarking has been attributable to manufacturing companies, most of the studies are applicable to any company in any sector. Quality practices and management, employee empowerment, process improvement, functional comparisons, team building and working, are initiatives as relevant to service providers as manufacturing companies. Since benchmarking is the search for best practices that lead to superior performance, this is hardly surprising.

Invariably though, the examples of benchmarking proliferate in the manufacturing industry.

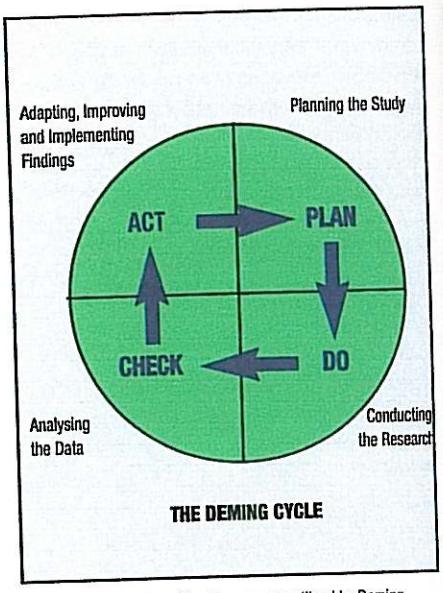


Figure 2: The Benchmarking Process, as outlined by Deming

In 1981, having destroyed the British motorcycle industry, the Japanese market leaders turned their attention on each other. **Yamaha** attacked **Honda** by attempting to be the leader in product variety. After losing market share Honda responded by introducing 113 product models over 18 months, while Yamaha made 37 changes to its product line. Honda's had identified through benchmarking that its process of product introduction was superior to Yamaha's and used this strength against its competitor. More recently, in 1993, **IBM** recorded the largest loss in corporate history of almost $8 billion. The CEO, Louis Gerstner, changed the orientation of the company from product to service, using benchmarking as one of the quality tools. The following year IBM recorded profits of over $3 billion, doubling to over $6 billion in 1997. Try telling Gerstner that "benchmarking is wrong"!

Knowing how to make your company successful is not merely desirable. In the intensely competitive world of the year 2000, it is essential. Understanding the critical success factors of both your company and major competitors, and identifying and improving the enablers, are essential ingredients for business survival. Be warned: "survival of the fittest" applies not only to Mother Nature.

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