Benchmarking

Introduction:

Benchmarking is defined "as the continuous, systematic process of measuring one's output and/or work processes against the toughest competitors or those recognized best in the industry."

Benchmarking is an approach of setting goals and measuring productivity based on best industry practices. Benchmarking helps in improving performance by learning from best practices and the processes by which they are achieved.

Benchmark:

A "benchmark" is a reference or measurement standard used for comparison.

"Benchmarking" is the continuous activity of identifying, understanding and adapting best practice and processes that will lead to superior performance.

The evolution of benchmarking

- The benchmarking processes may have evolved in the 1950s when W. Edwards Deming taught the idea of quality control to the Japanese.

- The method was rarely used in the United States until the early 1980s, when IBM, Motorola and Xerox became the best-known example for using benchmarking processes.

Concept

Benchmarking is a systematic and continuous measurement process. It is a process of measuring and comparing an organization's business processes against business process leaders anywhere in the world, to gain information which will help the organization to improve its performance. It is basically a quality practice.

Benefits of Benchmarking

- Helps organisations understand strengths and weaknesses

- Helps better satisfy the customer’s needs by establishing new standards and goals
- Motivates employees to reach new standards and to be keen on new developments
- Allows organisations to realise what level(s) of performance is possible by looking at others
- Documents reasons as to why these differences exist Helps organisations
- improve their competitive advantage
- Is a cost-effective and time-efficient way of establishing a pool of innovative ideas.

Benchmarking process

- **Planning**

  The planning phase determines the need for benchmarking and the area which requires it. The competitors and means to collect the relevant data arealso decided at this particular stage.

- **Analysis**

  The Company then analyzes the data so gathered to find out the strengths of the competitors, list out its weaknesses and ways of improvement.

- **Integration:**

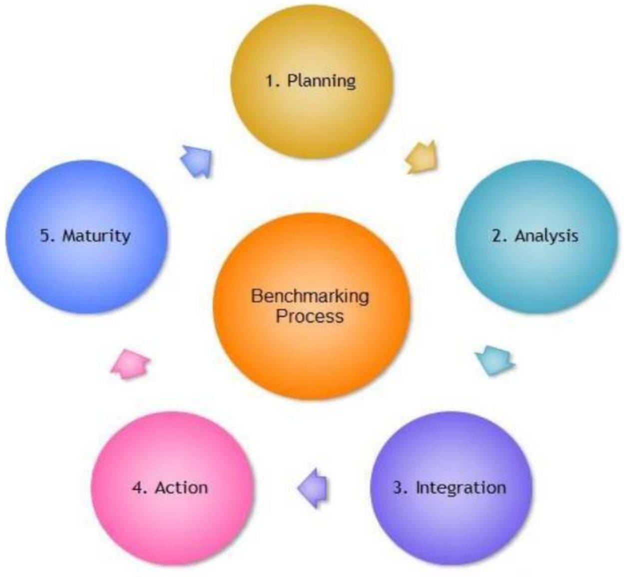
  At this phase, the analysis is reported to the top management, and after their approval, the desired action plan with a well-defined strategy, is developed.

- **Action:**

  Now, the management has a workable plan; at this stage, the employees execute the benchmarking plan.

- **Maturity:**

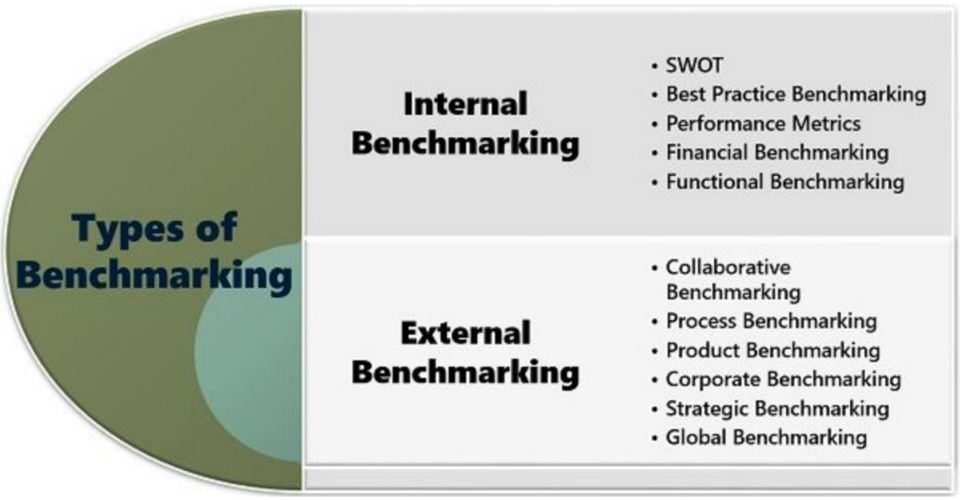
  The final stage is maturity; it is at this phase, where the result of using benchmarking to improve the business operations can be observed. A successful application of benchmarking will lead to the attainment of market leadership.



Types of Benchmarking

Benchmarking is a strategic activity. It requires a lot of research and analysis. To make it efficient, the company must be clear about the type of related strategy it must adapt to treat a specific problem area.

It is bifurcated into the following two categories each of which holds some strategies:



Internal Benchmarking

The internal benchmarking refers to the comparison of the organizational performance internally. Either with its previous performances or with that of its competitors, i.e., the companies belonging to the same industry. Here, the information is usually gathered and circulated within the organization itself.

Following are the various strategies falling under this category:

SWOT:

In this benchmarking strategy, the strengths, weaknesses, opportunities and threats of the company are listed out and analyzed by the management.

Best Practice Benchmarking:

The management themselves studies and identifies the strategies and practices of the other companies who are the market leaders, to plan the desiredcourse of action.

Performance Metrics:

This strategy is based on the statistical metrics derived through the analysis of the client's preference and the comparison made with competitors. The company can find out the loopholes in its performance and work over it.

Financial Benchmarking:

The management conducts a comparative study of the financial forecast with the actual results or financial reports to find out the areas of shortcomings and take corrective actions.

Functional Benchmarking:

The company compares its performance and products with that of other related industries to innovatively improve its functionality.

External Benchmarking

In external benchmarking, the companies compare their performance with that of its competitors in the industry or across the globe. Usually, by the data collected through associations or third party.

Collaborative Benchmarking:

To improve the performance standards, the companies belonging to a particular industry collaborate with the industrial associations. These associations provide the benchmarking data on best practices and a comparative analysis of allthe companies, to facilitate the improvement of the underperforming companies.

Process Benchmarking:

In process benchmarking, the company analyzes the competitor's methods, tasks, techniques of production, means of distribution, etc. It also studies the standard mechanisms of performing a particular function, to modify its ways accordingly.

Product Benchmarking:

This strategy focuses on the in-depth analysis of the competitor's product to know its features and composition. The company uses this strategy to improve andredesign its products.

Corporate Benchmarking:

The company compares its various departments like finance, production, distribution, marketing, human resource, etc. with those of its competitors to enhance the efficiency of each division.

Strategic Benchmarking:

This strategy is usually adopted when the company plans toimplement a new policy or idea or modify the existing one. The team compares the company's approach with that of the other successful companies in the industry before bringing it into practice.

Global Benchmarking:

It is similar to strategic benchmarking, the only difference is that herethe company compares its strategies with those of its other branch or the various competitors spread across the globe, to take corrective actions.

Cost of Benchmarking

There are three types of costs

- **Visit Cost:** these include hotel rooms, travel costs, meals, token gift and lost labor time
- **Tank Cost:** the members of the benchmarking team will be investigating time in

researching problems

- **Benchmarking Data Based Costs:** organizations that institutionalized benchmarking into their daily procedures find it is useful to create and maintain a data base of best practices and the companies associated with each best practice.