
UNIT 12 BEST PRACTICES & BENCHMARKING IN SCM

Objectives

After reading this unit you would be able to:

- understand the role of benchmarking in business
- empathize reasons why benchmarking is required.
- recognize the process in which benchmarking can effectively be brought about
- address the challenges faced in bringing about benchmarking process
- comprehend what elements are involved in bringing about change management.

Structure

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12.1 INTRODUCTION

David T Kearns, CEO: Xerox Corporation once said, “Benchmarking is the continuous process of measuring product, services and practices against the toughest competitors, or those companies recognized as industry leaders”. Benchmarking is an *external* focus on *internal* activities, functions or operations in order to achieve continuous improvement. Starting from an analysis of existing activities and practices within an organization, the objectives are to understand existing processes, or activities and then to identify an external point of reference, or standard, by which each activity can be measured or judged. A benchmark can be established at any level of the organization, in any functional area. The ultimate goal is to be better than the best i.e. to attain a competitive edge.

Organization that introduces benchmarking correctly can use it to make a quantum leap in their performance, and develop a culture in which managers and staff constantly searches for improvements. Within logistics and supply management, benchmarking can be used for a number of different purposes, from assessing the performance of the entire operation, through prioritizing improvements, to searching for the off-the-shelf improvement strategies in a specific area of a logistics or supply chain activity. In some senses, benchmarking is imitation and stealing – “creative swiping”! At its best it is skillful appropriation and adaptation requiring imagination and innovation; at its worst it can be an expensive and time – consuming piece of corporate tourism. It is a long-term process, requiring senior management’s commitment, with the emphasis upon continuous improvement and organizational learning. The focus is primarily upon the role, strategic issues, processes and

practices, rather than on the bottom line and numeric measure of performance. The mere comparison of operations and costs is not sufficient; considerable attention must be paid to how the activities are organized and performed. This will provide good understanding of how superior performance has been achieved, rather than just the magnitude of the performance gap.

Benchmarking targets the *critical success factors* (CSF's) of a specific organization. What needs to be done to ensure long-term success? Where do management see the potential for competitive advantage? Benchmarking helps to identify those features critical to ongoing success, as well as those parts of the organization that are less important and from which resources may be diverted. In Benchmarking, a "role" describes in essence what a person or function does for an organization. What responsibilities, services and tasks are offered to a customer or client by the organization? How do these compare with other organizations in terms of process architecture, structure or capability? Roles, in this instance are bundles of services provided either to external customer or to an internal customer. Questioning the roles within an organization leads to the question, "Are we doing the right things?" – in other words, the question of effectiveness – while assessing processes raises concerns about whether things are being done right – in other words, the question of efficiency. Every process within any organization consumes resources. To leverage the most value from processes, an organization must eliminate Non-Value-Adding Activities (NVA) in the process itself. Benchmarking supports the targeting of processes or process elements, that are of high importance to the business, but are perceived to be operating sub-optimally. While every process can be improved, an often-overlooked issue is getting the most value out of every rupee spent on process improvement. Only through the process of continuous benchmarking a process against itself, and with other external sources, can this be truly assessed.

The identification and the setting of new goals, projects or ventures are fundamental to the long-term success of any business. The environment within which any organization operates changes rapidly; cost reduction targets that were deemed aggressive months ago can quickly become the Industry norm. Benchmarking then can be used to target strategic issues, gain enough information to prioritize competing projects and establish an overall program of events geared towards achieving optimum economic value added.

12.2 IMPORTANCE AND ROLE OF BENCHMARKING

Benchmarking provides the basis for meeting and exceeding stakeholder expectations. Understanding its potential benefits requires understanding the type of benchmarking to be deployed and the purpose of conducting such an exercise. While benchmarking can be performed at any time, it is often undertaken as a response to an information need associated with a project or issue within the organization. The situations that may trigger the benchmarking process are:

- Operations / Logistics and Supply Chain improvement efforts.
- Management / Organizational changes
- Merger & Acquisitions
- Competitive Threats
- Cost Reduction Initiatives

Benchmarking in any of these situations is a logical step in developing new objectives, setting new performance standards and metrics and redesigning process and procedures.

A company benchmarks because it wants to be the best. To this end, benchmarking should not be considered as an optional activity. It is more so a call of the day for companies to maintain their competitive advantages.

Internal Benchmarking is the analysis of existing processes and practices within various departments or divisions of an organization. The objective is to identify and analyze best performance within the confines of the organization's own boundary, and drive performance to this level or beyond. The process will facilitate an understanding of the basic activities that constitute the processes within the organization and the drivers associated with these. Drivers are the causes of work, the triggers that set in motion a series of activities. In conducting Internal Benchmarking, the management is looking at itself first before thinking about comparisons outside. Significant improvements are often made through Internal Benchmarks and these are often the first steps in a benchmarking process.

While Internal Benchmarking focuses on specific functions or processes, *Competitive Benchmarking* looks outwards in order to understand how direct competitors are performing. Knowing the strengths and weaknesses of competitors is important to strategic decision-making. Competitive benchmarking helps to level the playing field, but it is less likely to provide that innovative, step-out improvement that so many organizations are searching for today. *Industry Benchmarking* looks beyond the competitive relationship and looks for trends.

The technique of benchmarking can be focused on specific processes, activities or functions, but this is only part of the answer. An associated issue is the depth to which the analysis is to be performed. Studies can be focused vertically upon functions and department, or horizontally upon specific processes or activities. While early forays into the world of benchmarking might be constrained to functional or departmental performance, the goal has to be a cross-functional view of the value chain needed to meet customer expectations in an efficient and effective manner.

A well-planned, systematic and structured benchmarking program can provide organizations with a number of important benefits. In essence, the search for industry best practices and subsequent efforts to maintain competitive superiority effectively provide the basis for superior performance. Almost any study that requires detailed examination of the organization's operations results in a greater understanding of how the business works; its critical success factors (CSF's) and the key performance indicators (KPI's). But here again it is important to bear in mind that any form of continuous improvement in one part of the business does not just push to another area of operation – a phenomenon known as the “*waterbed effect*”.

Most organizations can learn from the experience of others, even though they may have very different customer requirements and competitive environments. Much can be gained by making comparisons with organizations that have to adopt a fundamentally different approach to the same or a similar task.

12.3 METHODOLOGY FOR BENCHMARKING

In most companies traditional measures are based on fiscal and legal requirements. These are then often used for planning purposes to facilitate comparison. The problem with these measures is that they are based upon derived information and have no clear relationship to the organization's operational data. On the other hand, operations develop their own set of KPI's and measures – that may be unrelated to the financial results – to identify levels of customer satisfaction and market needs. This division often leads to conflict in the evaluation of performance. This has led to the development of the Balanced Score Card Concept (Kaplan & Norton, 1996)

Cost and Performance Measurement in SCM

Measurements can either be quantitative (numeric) or qualitative (opinion based). Quantitative and qualitative benchmarks are not being viewed as isolated categories, though.

At one end of the continuum are highly qualitative measurements, for example assessment of customer or employee satisfaction. At the other end of the range are highly quantitative measurements such as cost per unit, or productivity measures. There are many tools for approximating qualitative characteristics with numbers, but these techniques will never have precision to back them up. As part of the continuum of measures it is important to recognize that qualitative measures are a mid-point in terms of 'hardness' or reality. Hard measures make the user feel as though they are real. Facts with numbers attached to them take on a life of their own; they appear to possess certain "magic" and people tend to believe these hard numbers. But, with each gain in precision, relevance is sacrificed. Therefore in developing benchmark measurement the goal is to develop a metric that is as "hard" as it can get without losing vital insights provided by the "softer" more intuitive qualitative indices.

A Systemic Approach

Many organizations have developed their own process. All approaches are fundamentally the same and are based on Deming's *Plan-Do-Check-Act (PDCA)* cycle.

Step 1: Prioritize what to Benchmark

The first step focuses on the processes and activities that the organization believes will yield the maximum benefit. In any supply chain there are too many activities and processes to benchmark all of them in one go, therefore improvement effort cannot be spared too thinly, and all areas cannot be addressed simultaneously.

Step 2: Identify Comparable Companies

Benchmark partner selection can be determined by a benchmarking mechanism, for example through an existing benchmarking network or through an industry trade association. When this is not done, a number of issues need to be considered:

- Should competitors be approached? If so, how will confidentiality be addressed? Are they likely to have significantly better activities and operations?
- Can best-in-class organization be easily identified and what can be offered to them in exchange which is of interest to them?
- How many benchmark partners are required?
- Which organizations have similar requirements for operational processes, but are likely to have developed better processes to deal with them?
- How should the different areas of interest of partner organizations be accommodated within the process?

Step 3: Data and Information Collection

Once it has been decided what to benchmark, and the organization is identified and gained agreement from partners, the next step is to determine the process for data and information collection. The key here is to achieve commonly agreed understanding of the activities, processes, definition, terminology and time periods. Failure to achieve this will result in major problems in both the analysis and comparison activities, which ultimately may lead to rejection of the output by key managers.

All the participants must sign off the common understanding and a forum needs to be established to discuss and resolve any queries that arise during the process.

Deadlines for each stage of the data and information collection need to be set, monitored and adhered to otherwise it would be considered a lengthy process.

Step 4: *Determine current performance gap*

Once the data and information have been collected, the analytical stage needs to be converted into useful outputs. High-level analysis should be used to sense-check the data and information provided. Queries should be addressed to the supplying organization and resolved quickly. Data might be aggregated and particular attention should be paid to the following:

- Data normalization methods;
- Root cause analysis;
- Best practice characteristics identification;
- Identification of relevant process enablers.

When all the data and information have been accepted and analyzed, comparisons need to be made and gaps analyzed. The analysis should utilize an agreed framework, focusing on the key areas of interest. These could be points of greatest difference or similarity and should be presented in a way that will focus the recipients upon the required actions. The output should:

- Assess the overall comparisons in the areas of interest;
- Seek to explain whether there are broader business reasons for some of the differences;
- Identify the major performance gaps where the real opportunities for major improvements lie;
- Set targets and realistic time-scales;
- Outline what is required to close the gaps.

Step 5: *Project future performance levels*

Analyzing the benchmark performance gap can be done as a snapshot or as a trend over a period of time. Either method may be appropriate for the function or process being studied. Indeed, both may be applied simultaneously. When cost, productivity or quality is the metric under study, sometimes it is useful to look at the historical trend as well as the current gap. Additionally, projecting future performance levels of productivity within your own organization against that of the benchmark partner's – given the current rate of improvement for each creates projected targets for improvement. This approach helps the intent to increase the rate of innovation and improvement within the organization.

Step 6: *Communicate findings and gain acceptance*

It is a known fact that people do not like change, especially change that appears to be for 'change sake'. In order to ensure the success of any benchmarking program it is imperative that a detailed communication plan is created and revised regularly during the course of the initiative.

Even with the support of senior management, there may be resistance to change from lower organizational levels. This resistance to change primarily stems from fear; fear of job losses, loss of status, control, resources and so on. In order to plan for and mitigate against such events, a stake-holder or field analysis might be used to identify potential areas of resistance and methods of overcoming any such concerns.

Step 7: Establish functional goals

Once outline targets have been drawn up, detailed functional (or cross-functional) goals can be established. The secret in using benchmarking to achieve breakthrough change is to synthesize key actions taken after consideration of all information available, to generate innovative approaches. After the enablers of performance within a specific organization environment have been assessed, careful consideration should be given to the adaptability of these enablers to the organization's circumstances.

Step 8: Develop action plans

The action plans describe each of the key actions at a functional level required to achieve the desired goals. Action plans can be as detailed as required; in some instances they can even identify the core tasks, the desired levels of performance required, and the changes in the process, behavior or systems required to support their achievement.

Step 9: Implement and monitor

All the time and effort expended to this stage is worth very little if the output does not provide clear plans for change, and these are not implemented in real and lasting improvements. Having achieved a successful implementation, the organization must continue to monitor the operational performance, and assess whether there are other organizations that have now developed superior processes or practice.

Step 10: Recalibrate benchmarks

The continuous search for improvement will inevitably result in further development of the processes and practices, and some revisiting of benchmarking efforts.

Activity 1

Many organizations have developed their own methodology for benchmarking process. Visit an organization of your choice and study its benchmarking process. Do their process is also based on Deming's *Plan-Do-Check-Act (PDCA)* cycle?

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12.4 CHANGE MANAGEMENT AND BENCHMARKING

Clearly the process of benchmarking focuses on customers and performance improvement with the potential for significant advances in efficiency and effectiveness. Benchmarking is used extensively by many organizations to help understand their relative positioning and efficiency of operations. Benchmarking networks; full time benchmarking manager and consulting assignments are evidence of the continuing interest in this area.

Benchmarking raises an organizations consciousness. It provides an external focus on the internal activities and derives an organization to the conclusion that there are

always opportunities within every organization to learn something new. To achieve operational excellence an organization needs to experiment in all parts of the business. Everyone – from top management to down below – has to be willing to roll their sleeves up and get their hands dirty, constantly asking ‘why?’ The role of benchmarking in this environment is to provide the creative spur and to unearth a path that has worked for others in achieving operational excellence.

Benchmarking is about learning from others as well as learning by doing. It cannot be learned from a book or a seminar; it has to be practiced. The more the practice the greater is the potential for innovation within your business.

As described earlier Benchmarking has four distinct phases:

- **Phase 1: Planning**

Identifying what to benchmark, selecting comparative companies or indeed parts of your business and determining how the data collection activities are to be performed.

- **Phase 2: Analysis**

Analyzing internal levels of performance and comparing these with the target organization’s performance. Also, projecting future performance levels and setting targets in order to attain less time–perishable levels of competitive advantage.

- **Phase 3: Integration**

Communicating benchmark findings and helping the organization come to terms with what needs to change in order to achieve new and lasting levels of performance. Developing realistic and achievable functional goals to enable this vision.

- **Phase 4: Action**

Managing Change and developing specific action plans in order to make the desired levels of change a reality. Once implemented, the monitoring of progress via a set of clear KPI’s is of paramount importance, allaying any drift back to old habits. Finally a recalibration of benchmarks is required in order to lead the business to the next level of operational excellence.

Good benchmarking is about managing continuous improvement strategically; identifying stakeholders and ensuring their interests are being met by any benchmark based initiative and managing change. Benchmarking is a tool for enacting change. The critical success factor for any change is the creation of additional value in the eyes of the stakeholders of the business. Benchmarking is all about finding new ways of enacting business processes and using companies precious resources to serve its stakeholders needs in a better way. To achieve this change benchmarking studies have to be very specific, comparable and have a predefined set of performance drivers and KPI’s. Without any one of these a benchmarking study cannot hope to be effective.

In putting benchmarking to work in the supply chain it is worth keeping in mind that change will occur once the process has started. By its very nature it will cause participants to look at their new world with a new set of eyes. Problems will be uncovered and new and creative solutions will be developed.

Benchmarking removes some of the politics and guesswork out of the development of continuous improvement targets within organizations. This is due to the external, politically neutral, nature of the analysis. Some people like to know exactly where they stand and what is expected of them. If measures are used to guide or assess

performance these must not be vague or non-descript. Metrics without clarity can lead to individuals incorporating these into a workable framework of their own. The problem is that this framework might not be what management had in mind!

Effective continuous improvement starts with a rigorous analysis of process flows – what work is done where and why is it done in way it is done. Report outputs are analyzed and the ‘why’ question is repeated many times. Continuous improvement must be managed strategically with all those involved clearly understanding why a particular course of action is being followed, where improvement targets have come from and how and by whom it is expected that the improvements will be implemented.

Benchmarking solves this problem. It develops a set of objective measures within an organizational framework, stabilizes the improvement program and provides all parties with a clear understanding of why a particular course of action is being followed, customer surveys, completed as a part of a benchmarking exercise, will point specifically to the areas that need improvement. Benchmarking if managed effectively holds the key to unlocking an individual’s defenses. It creates a logical, prioritized and importantly achievable path to good practice and operational excellence. Unlocking the power vested in individuals and teams in this fashion is the catalyst for organizational creativity and innovation.

12.5 CHALLENGES FACED IN IMPLEMENTATION OF BENCHMARKING

Irrespective of the type and scope of benchmarking, the critical factors that are needed to be ensured are as follows:

- Senior management supports the process of benchmarking and are committed to continuous improvement.
- The objectives are clearly defined at the outset.
- The scope of the work is appropriate in the light of the objectives, resources and time available and the experience levels of those involved.
- Sufficient resources are available to complete projects within a given timeframe and that projects are selected based upon a prioritization linked to the achievement of competitive advantage.
- Benchmarking teams have a clear picture of their organizations performance before approaching others for comparisons.
- Stakeholders, particularly staff and their representatives are kept informed of the reasons for benchmarking and the progress made throughout the course of projects. Wherever practical, staff should be involved in undertaking benchmarking to make most of the opportunities for learning from other initiatives.

As with many management techniques and processes, benchmarking provides organizations with problems as well as benefits. These occur as consequence of:

- The existing organizational culture
- Incorrect application of the techniques
- The nature of the process

Benchmarking applications may be limited by the management culture.

Benchmarking takes a normative approach to the management – there are industry

best practices that can be generalized between sectors and organizations. As with most programs that require major organizational change, considerable inertia may be experienced from individuals and departments, especially those with the most to lose. These are inevitable issues around the identification of best practices and the adoption of processes that are not valued by that particular organization's customers. There is however difficult judgment calls to make around the introduction of new practices where quantum jump is required. Incorrect benchmarking can often lead to wrong conclusions. Benchmarking may lead to a culture of imitation rather than innovation; to adopt rather than adapt and to achieve parity rather than superiority. This type of approach will never result in competitive advantage.

When the process is approached for the first time, it is worthwhile learning from others who have built up experience of applying benchmarking within their own operations. This is where membership of benchmarking clubs and network proves invaluable.

In general it is important to avoid:

- Benchmarking for benchmarking sake.
- Focusing entirely on comparisons of 'hard' performance measures rather than the 'softer' processes and activities that enable the attainment of good practice
- Spending too long on one part of the process at the expense of others
- Expecting that benchmarking would be quick or easy
- Expecting to find benchmarking partners comparable in all respects to your own organization
- Asking for information and adapt without being prepared to share it with others at conversely expecting organizations to share information that is commercially sensitive

12.6 CASE-STUDIES – BENCHMARKING IN ACTION

- **Case 1: Supply Chain structures and responsibilities**

As a part of the broader organizational change program, a multinational fast moving consumer goods (FMCG) manufacturer, XYZ Inc. wanted to investigate different approaches to the management of its supply chain activities across the country. The company had developed a country-based structure but recognized that there were significant opportunities to be gained from changing at least some of this structure. The company wanted to look at how businesses in different sectors approached the fundamental management issues that were key to their success. These included:

- Division of responsibilities
- Central versus regional management structures
- Support for customer facing operations
- Information systems
- Implementation and change management

Given the sensitivity of the area of interest and the need to assure potential partners of confidentiality, a consultancy was engaged to act as the intermediary and run the process. Initial discussions produced a preliminary document; this was then developed into a questionnaire that could be used in face-to-face interviews. A number of potential partners were identified, approached and subsequently engaged. All participants were taken through the same interview

process to ensure consistency of approach, terminology interpretation and response. At the conclusion of the process, all data was analyzed, comparisons were drawn and the key finding identified. The summary report was then circulated to all participants and a presentation given to the FMCG manufacturer's management group of XYZ Inc.

This process allowed the company's management group to compare and gain insights into how companies with similar challenges had developed different roles, responsibilities and structures. The management group then prepared an evaluation of strategic options and gained agreement to conduct follow-up. Face-to-face benchmarking meetings with the two most benchmarking partners.

The output of this second stage process formed major part of the proposals to change the supply chain responsibilities and structures. The proposal was accepted and gradual implementation process provided for progressive centralization of responsibilities.

- **Case 2: Outsourcing logistics – Benchmarking for success**

A major sportswear and accessories manufacturer was considering outsourcing its logistics operations to a third party logistics (3PL) service provider. One of the key concerns held by the management team was the achievement of improved levels of operational performance at lower cost. How was this going to be assessed, how should the 3PL service provider be selected and how could its performance be measured on an ongoing basis? In order to gain answers to these questions the manufacturer engaged a consultancy to develop an assessment framework. The brief was to design a set of processes to enable the organization to construct and manage a sourcing relationship based on a number of balanced, benchmarkable, metrics. Initially a model describing the logistics function and its associated activities was developed. This covered activities such as:

- Goods receiving inspection
- Warehouse operations
- Dispatch inspection
- Shipping
- Distribution planning and control
- Transportation management
- Support
- Management and administration

Data was then requested internally covering cost drivers, resources consumed – including FTEs (full time equivalents), capital equipment and volumes – and quality and performance metrics. This data, once harvested and validated, enabled development of detail set of performance metrics characterizing the organizations current logistics function performance. These measures were both quantitative and qualitative, covering unit costs, productivity, cycle times and quality and performance metrics.

The next step was to compare these data with a reference group of data from organizations with a similar set of operational characteristics. The consulting organization engaged to support this initiative already had a significant database from previous engagements and was therefore able to provide reference group data to support this phase of the project.

The analysis that followed identified the areas where the organizations performance was better than that of the reference group mean and where there was opportunity

for improvement. This latter set became improvement challenges for the chosen 3PL service provider. This exercise also provided the base case upon which to assess and select the appropriate 3PL service providers offering. It also enabled a framework upon which a set of ongoing, balanced performance metrics could be developed in order to manage the sourcing relationship over time.

Negotiations with the selected 3PL service provider led to a three-year sourcing contract, with clearly identified performance improvement objectives agreed between both parties at the outset. The manufacturer also had a management framework in place that could be used to assess the competitiveness of the service providers offerings on an ongoing basis, providing information to ensure full value was achieved from the service provider / service recipient relation they had created.

12.7 SUMMARY

Benchmarking is designed for action, rather than just to answer the question “How are we doing?” It is a means to an end and not the end itself and is most powerful when used as a tool to develop best practices rather than to solve a specific problem.

To benefit from this approach, organizations must first recognize that always there are others who can perform activities and tasks better than they currently do and that lessons can be learnt from how they do this. Ultimately the greatest benefits may come from a better understanding of the business and a change in culture to a proactive, creative organization that strives for supply chain excellence and continuous improvement.

When used correctly, benchmarking is a powerful management tool that provides a much-needed external view of the organizations environment and especially the requirements of its customers. Above all else, the application of benchmarking process can lead to competitive advantage through cost-leadership and differentiation based upon excellent customer service.

12.8 SELF ASSESSMENT QUESTIONS

- 1) Define Benchmarking. Define it's role in improvement of organizational efficiencies
- 2) What are various kinds of challenges faced during the process of benchmarking?
- 3) Benchmarking is a continuous process. Express your opinion in favor or against it giving reasons.
- 4) What the various challenges especially in the area of Human Resources faced during Benchmarking process?
- 5) Highlight the Key issues in Benchmarking Case 1.
- 6) Highlight the Key issues in Benchmarking Case 2.

12.9 REFERENCES AND SUGGESTED FURTHER READINGS

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