



Benchmarking

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The purpose of benchmarking

As part of strategy definition and implementation, a firm identifies certain business processes as fundamental to the success of its business model. For example, for an online retailer, these “key internal business processes” are likely to include website traffic generation, customer order fulfilment, and secure payments handling. If these things are “not done well” then the business model is likely to fail. Benchmarking involves comparison of key internal business processes with equivalent processes in other organisation (or the same organisation) in order to identify and emulate “best practice”. In this article the four main types of benchmarking are identified and their feasibility and usefulness are considered in the context of a particular example.

Types of benchmarking

- **Internal benchmarking:** This involves comparison of one business unit with another unit of the same organisation, especially as part of “rolling out” of process improvements or of a highly structured business model. The expansion of a fast food restaurant chain into a new territory is an example of applying this type of benchmarking. However, this is arguably less about benchmarking in a true sense (which by definition involves “trying to improve”) than about trying to replicate an existing process which is already perceived as optimal.
- **Competitive benchmarking:** This involves benchmarking against a direct business competitor. While the potential benefits are obvious and significant, the question arises as to why the competitor would want to provide access and share the secrets of its success with another firm. For this reason competitive benchmarking is most usual in situations where there is potential for mutual gain. An example would be the research and development functions of competitor companies working together to share their experiences of the limitations of a certain type of raw material (e.g., cotton) and to jointly develop a substitute raw material (e.g., a new type of synthetic fabric) which both companies would be free to use in their respective manufacturing processes.
- **Functional benchmarking:** This type of benchmarking is carried out with another business partner where there are common business processes but no competition between the firms involved because of the markets they serve. For example, an online retailer of physical and digital consumer products (such as books and DVDs) may benchmark with an online seller of travel and accommodation services. The potential for benchmarking arises because the two firms have much to learn from each other because of the key business processes which they have in common. For example, both need to: attract website traffic, provide a rich experience for website visitors, and provide secure payments handling procedures. The two firms pose no competitive threat to each other because of the differences in the types of products and services offered.

- **Generic benchmarking:** This arises in situations where one organisation is the recognised leader in relation to some process and is happy to share its expertise. This may arise in situations where a nationalised industry is being privatised and prospective bidders need to acquire the specialised expertise needed to provide the service in place of the previous nationalised provider. For example, private security firms seeking to win contracts to run private prisons need specialist management expertise which they can only really acquire by benchmarking themselves against the “market leader” (the public sector prison system).

An example of benchmarking: Megaton Ltd.

Megaton Ltd. is a subsidiary company within a large media group. Megaton consists of two profit centres (referred to here as **Megaton A** and **Megaton B**). Megaton A produces and distributes bulk quantities of DVDs based on back catalogues of various TV programs owned by other companies in the media group. Megaton B offers its customers the opportunity to commission small batches of tailor-made DVDs. A typical customer of Megaton B would be a corporate client which wants to publicise a major event such as the launch of a new product family. These tailor-made DVDs typically include some specially commissioned material and some clips taken from the archive of material owned by Megaton B.

The following is a representative example of the business model in Megaton B.

1. The corporate communications director (CCD) of Perfumery Ltd. recently contacted Megaton B with a view to commissioning a DVD for distribution to retailers encouraging them to give prominent shelf space to Perfumery's forthcoming new cosmetics range.
2. Megaton B then provided the CCD with passwords and search terms which enabled him to access and search Megaton B's archive material for items potentially suitable for inclusion in the DVD.
3. An editor at Megaton B then had an initial meeting with the CCD to review the selected archive material and identify supplementary material which could be sourced elsewhere (or supplied by the CCD) for inclusion in the DVD.
4. The editor then collated all of the chosen material and used Megaton B's professional editing facilities to prepare a draft of the DVD which was submitted to the CCD for consideration.
5. The draft went through a number of iterations (involving addition and deletion of some material, and technical changes such as onscreen fonts and colours) before the CCD approved the final version of the DVD.
6. In accordance with its legal obligations as the publisher, “Megaton B” then carried out final checks to ensure that the finished DVD did not breach any copyright or other laws.
7. The required copies of the DVD were then manufactured and delivered to CCD.
8. Megaton B accepted payment by cheque after delivery of the physical DVDs.

Megaton Ltd.: Potential benchmarking partners

Let's now consider whether it would be **useful** and / or **feasible** for Megaton B to engage in various types of benchmarking exercise. Specifically, let's consider the possibility of Megaton B benchmarking itself against each of the following organisations, illustrating the discussion in each case by reference to the benchmarking of at least one specific business process. The hypothetical benchmarking partners are:

- **Megaton A;**
- **MP Film Ltd.**, a fully online subscription-based service which enables users to develop and edit their own films using material from MP's archives and users' own video clips;
- **Pair Ltd.**, a supplier of premium-quality wedding photography and video services (including wedding DVD production and editing);
- **OPHS Ltd.**, A major online payments handling service.

Benchmarking with Megaton A

- **Feasibility:** This is an example of internal benchmarking. It would certainly be feasible since both profit centres are part of the same company and are not in competition with each other.
- **Usefulness:** Benchmarking would be useful in this case since the two profit centres are likely to have several business processes in common. This commonality arises from the fact that both profit centres are engaged in DVD editing and production (albeit catering for different market needs). For example both centres physically manufacture DVDs and they could benchmark this process (in terms of physical error rates in production, production run set-up times, etc).

Benchmarking with MP Film Ltd.

- **Feasibility:** Megaton B and MP Film Ltd. are not "form competitors" but they are "need competitors". In other words, their respective products are physically different from each other but in practice they provide alternative means for satisfying the same fundamental customer need. Therefore this is an example of competitive benchmarking. It is unlikely to be feasible because there is no obvious reason for MP Film Ltd. to provide information or access to a market competitor.
- **Usefulness:** The two organisations are different in the nature of the product development processes (even though they fulfil similar customer needs). For example Megaton B's product development process involves significant input from a Megaton editor whereas MP Film offers its customers an apparently self-service operation. These differences would reduce the scope for benchmarking. However the two entities seem to carry out *some* of the same processes and these "common" processes could usefully be benchmarked. An example is the quality of the facilities for online searching of archives by customers; this has a very significant effect on the quality of the finished product in both cases.

Benchmarking with Pair Ltd.

- **Feasibility:** Pair Ltd. caters for a completely different market from Megaton B (i.e., personal rather than corporate) so the two entities are not in competition with each other. However the two entities carry out many of the same processes (e.g., editing of bespoke video footage). Therefore functional benchmarking is likely to be feasible.
- **Usefulness:** Several processes are common to both organisations (e.g., DVD editing, involving multiple iterations), and both can learn from benchmarking these common processes.

Benchmarking with OPHS

- **Feasibility:** It seems likely that OPHS would refuse to engage in a benchmarking exercise with Megaton B and therefore the proposed benchmarking exercise would not be feasible. The reason for OPHS's likely refusal is that OPHS will perceive Megaton B as a potential customer for its payments-handling facility. Accepting payment by cheque (as Megaton B does at present) is administratively expensive and OPHS will want to sell Megaton B the expertise and technology required in order to switch to accepting online payments. OPHS's revenue stream comes from its role as a service provider and it therefore would have no desire to provide Megaton A with free benchmarking access which might enable Megaton B to switch to online payments handling without purchasing any services from OPHS.
- **Usefulness:** In a very narrow sense, it might seem that Megaton B would have nothing to learn from benchmarking against OPHS, since "Megaton B" accepts payment by cheque. However benchmarking is intended to facilitate process *improvement* and it is more useful to define the process more broadly as "payments handling" rather than "cheque payment handling". Transaction costs could certainly be saved by switching from cheques to online payments. In this sense, knowledge of OPHS's processes would provide Megaton B with insights into cheaper ways to process payments. This is an example of generic benchmarking since all businesses do some form of payments handling and OPHS is recognised as having particular expertise in this area. However, for the reasons explained above, it is unlikely that OPHS will want to provide Megaton B with free benchmarking access.