

HANDBOOK

Benchmarking Explained— A Guide for Undertaking and Implementing Benchmarking

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F O R E W O R D

This Handbook was prepared by Standards Australia to provide guidance to those seeking a basic understanding of benchmarking, the benchmarking process and the applications of benchmarking.

It is not intended to provide detailed and comprehensive information on the subject but does indicate some references for those seeking a more extensive treatment of the topic.

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OVERVIEW

Benchmarking is something we have all done at some stage of our lives. When we competed against others, for example at, sport, in exams, at work or in any other activity, one of the questions we were asking was ‘how do I compare with the others?’

This Handbook aims to provide a basic introduction to the subject of benchmarking and is not intended to provide an in-depth treatise on the subject. Additional information is available from the literature listed in References.

Benchmarking in its simplest sense is comparing one thing against another. It may be how well your latest product is selling compared with competing products or finding out if your manufacturing processes are competitive. However, simply knowing that you are doing well or badly is of little help unless you are prepared to act on the information. It is what you can achieve with the information gained by benchmarking that makes it such a potentially powerful tool.

Benchmarking is one of many tools that businesses can use to evaluate their performance and to identify the need for improvements. It is important to recognize which is the right tool to be used in each particular circumstance. Some areas where benchmarking might be used include:

- business practices;
- products;
- services;
- work processes;
- operations.

Benchmarking in itself is not a magic tool that will bring about instant solutions to problems. Properly applied, it can be used to provide information on ways and means of doing things better or faster or more economically.

Generally, it should not be a ‘one-off’ process. Organizations successfully using benchmarking regard it as an ongoing management tool that can be used to provide information to be acted upon.

Benchmarking complements a quality system, since it can provide the basis for improvement. It should not be regarded as copying what others do, but rather learning from others and adapting practices that work for your business.

There are many texts written on the subject. While there are many approaches and systems described in the literature, they all can be summarized into a few key operations:

- Decide on what is to be benchmarked and plan the operation.
- Decide on the benchmarking partners.
- Agree on the program; what is to be measured and how.
- Carry out the actual benchmarking.
- Analyse the results, decide on actions and implement them.
- Measure the effectiveness of the actions taken.
- Decide on the next phase of benchmarking program.

In this Handbook, each of the above operations are describe with examples and applications.

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WHY BENCHMARK?

There are many reasons why benchmarking should be carried out. Some of the more obvious ones include being able to—

- become more competitive to retain or expand market share;
- define more accurately customer requirements;
- develop measures of productivity;
- improve competitive advantage;
- improve products, processes or both.

There are some less obvious reasons for benchmarking and these include:

- the development or confirmation of strategic plans;
- the setting of performance goals in relation to ‘state-of-the-art’ practices;
- the recognition of new business opportunities.

When reading the literature on benchmarking, or attending seminars or lectures on the subject, you will find that heavy emphasis is placed on benchmarking ‘against the best’, since this is ‘the only way’ to maintain a competitive edge. The ‘best’ is most often described as ‘the world’s best’.

There seems to be a case for a more pragmatic approach. There are many reasons for benchmarking, not all of these include maintaining a competitive edge against the world’s best.

However, if your organization is a large, multinational company, benchmarking against the world’s best in order to maintain a competitive position may be a sensible business practice. If, however, your organization is a small supplier to local industry, the benefits of knowing how well you rate against the ‘world’s best’ are of little use if your competition is just down the road.

Of course, if you can approach the ‘world’s best’ level, your competition may have considerable trouble catching up with you! However, the costs of the exercise also need to be considered.

Some areas of business activity where benchmarking could be applied are:

- information handling and dissemination;
- manufacturing processes;

- market research, marketing and sales;
- warehousing and distribution;
- human resources practices;
- multi-skilling programs;
- product evaluation;
- communication systems;
- use of new technology and innovation;
- use of automation;
- workplace participation and involvement;
- inventory control;
- customer enquiry and complaint handling;
- customer perceptions;
- finance practices;
- work flow systems and materials handling.

In summary, the basic reason for carrying out a benchmarking operation is to provide information that can be used to help you in your business operations. Figure 1 shows three basic sources of ideas for improvement. The improvement may relate to products, operating processes, marketing strategies, in fact any type of business operation.

Benchmarking can be used as a source of information in each of the three input streams shown in Figure 1.

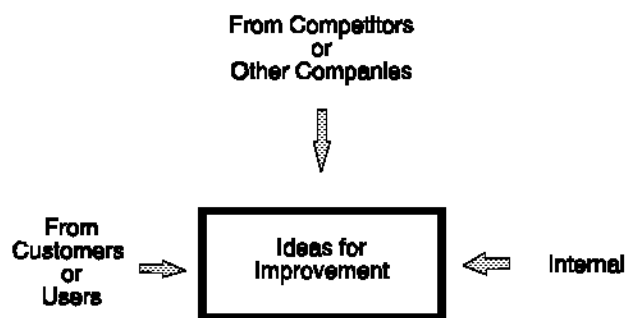


FIGURE 1
THE THREE INFORMATION SOURCES
WHERE BENCHMARKING CAN BE USED

You need to realise that quality management should be as focussed on obtaining and developing competitive advantage as it is on providing quality goods and services to the customer. Clearly, in the long run, the two go hand-in-hand.

Not only do you need to develop the capability to assess your products and services against those of your competitors, but also you also need to learn how to assess your processes against those used by our competitors.

Otherwise, you may find that you are supplying a satisfactory product or service, but doing it by outmoded processes, which in the long term, will prove more costly. This affects your competitive situation.

WHAT IS BENCHMARKING?

Many definitions have been proposed for benchmarking. Some are listed below:

- ‘The continuous process of measuring our products, services and practices against either our toughest competitor or those companies renowned as leaders.¹’
- ‘Benchmarking is the search for industry best practices that lead to superior performance.¹’
- ‘Benchmarking is comparing your organization against another organization on some aspect of performance — process, product or service, in which the other organization excels — with the objective of finding ways in which you can improve your performance²’.

Spendolini³ has produced a very elaborate definition, reproduced as Figure 2.

What really needs to be understood is that comparing how your company carries out a particular operation with how others carry out the same or similar operations, can give you information on how competitive you are and perhaps, how you might improve your own operation. This is the essence of benchmarking.

Spendolini³ has produced a concise table showing what benchmarking is and is not. This table is reproduced as Figure 3.

One aspect of Figure 3 that must be strongly emphasized is that benchmarking is not copying or imitating what others do. There is abundant experience to show that simply incorporating someone else’s practice into your own operations, without all the supporting processes and infrastructure, does not work!

Benchmarking then, is a process of investigation and learning to enable your organization to compare and perhaps, improve activities.

To be effective, it should be an ongoing or periodic process. This does not mean that your organization must be continually benchmarking, but that there is an ongoing commitment and plan. It may well be that one benchmarking project per year may suit some organizations, while others may consider that several such projects during the course of a year to be appropriate.

¹ Xerox Corporation (see References—3)

² The Australian Quality Council

³ The Benchmarking Book (see References—6)

You also need to understand that benchmarking is neither a quick nor an easy process. It requires dedication and persistence if worthwhile results are to be achieved.

The concepts of what benchmarking is, shown in Figure 3 indicate that, like any worthwhile management tool, the quality of the input will be seen in the quality of the results.

For it to be successful, the enthusiastic support of executive management is essential. Without this, a typical reaction to benchmarking could be—‘we tried benchmarking, but it didn’t do a great deal for us so we gave it away.’

It is important to realise that benchmarking requires a structured methodology be developed and applied to ensure a successful outcome. It also needs the involvement and commitment of personnel to understand the implications and benefits that can accrue.

The whole operation also requires proper management if the maximum benefits are to be achieved.

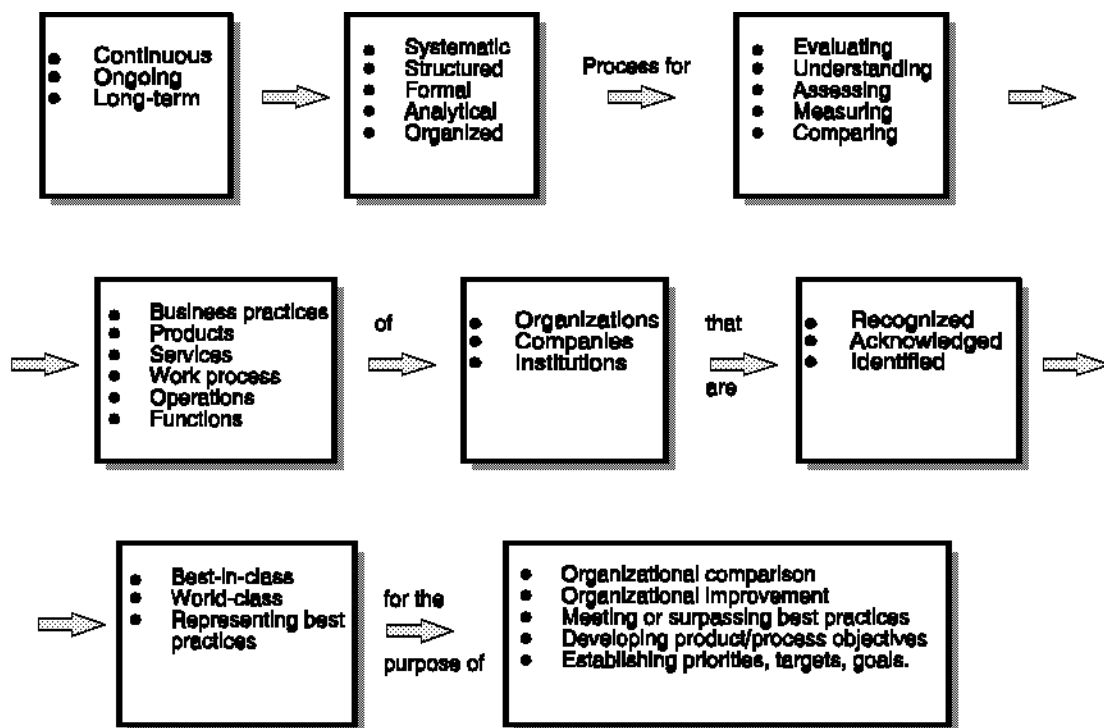


FIGURE 2
DEFINITION OF BENCHMARKING
ACCORDING TO SPENDOLINI

(see References—6)

BENCHMARKING IS	BENCHMARKING IS NOT
■ A continuous process	■ A one-time event
■ A process of investigation that provides valuable information	■ A process of investigation that provides simple answers
■ A process of learning from others; a pragmatic search for ideas	■ Copying, imitating
■ A time-consuming labour-intensive process requiring discipline	■ A fad
■ A viable tool that provides useful information for improving virtually any business activity	

FIGURE 3
BENCHMARKING: WHAT IT IS AND IS NOT
ACCORDING TO SPENDOLINI
 (see References—6)

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TYPES OF BENCHMARKING

There are a number of different types of benchmarking, which are generally broken up into the following categories:

- internal;
- external—which can be sub-divided into—
 - competitor;
 - functional;
 - industry;
 - customer;
 - supplier;
- best practice;
- generic.

INTERNAL BENCHMARKING

Many organizations already carry out some form of internal benchmarking. Comparisons between departments, divisions or subsidiary companies are a form of benchmarking. However, these comparisons may not be carried out with specific objectives in mind and using a strict methodology.

Internal benchmarking assumes that there are at least two locations, operating divisions, workshops or some other physical or geographical differences. It also assumes that in one or more parts of these organizational differences, some operations are perceived to be more efficient than in the other parts.

One objective of internal benchmarking may be to establish the internal standards of performance for the organization. Another may be to ensure that all parts of the organization operate at the same performance level.

Another objective might be for an organization to hone its benchmarking skills before venturing into the external benchmarking sphere. This exercise can also help to establish an understanding of your own processes. This alone might give you ideas for improvement without going outside your own organization.

The advantage of internal benchmarking is that data is easy to collect, and can be readily analysed.

The disadvantages include the possibility of a limited focus on what has been achieved and internal bias affecting the outcome.

For example, it can be very comforting to know that only one customer complaint is received for every 'x' units sold. This is the inside view. The view from the outside may well be that for every customer who complains, there are 30 who do not. They simply buy your competitor's product next time.

EXTERNAL BENCHMARKING

COMPETITIVE

Benchmarking your competitors would seem to offer attractions. Certainly, any information would be directly relevant to your business. Comparisons would be made on relevant technologies and practices.

There are obvious data collection difficulties, and your competitors are not likely to be sympathetic to you improving your business at their expense.

However, there may well be some common ground, where all can benefit. For example, manufacturers of timber framing for housing face competition from the metal frame industry. Benchmarking on methods of combating such competition helps all manufacturers of timber framing.

Market surveys, either by yourself or by an external marketing organization, can also give useful information on relative market share and position. Many organizations are already doing this, without recognizing that this is a form of benchmarking.

Many trade associations collect data for their members, which enables comparisons with the competition to be made.

FUNCTIONAL

Functional benchmarking can be more productive than competitive benchmarking. Here, specific operations are benchmarked between organizations that are not necessarily in the same industry.

If the partners are not in the same industry, the threats associated with competitive benchmarking are removed.

For example, packaging, warehousing and distribution are problem areas in many industries, and inter-industry comparisons can generate new ways of tackling old problems.

Many service industries have a common problem in that the total dealings with customers occur on a face-to-face level. Staff training issues on handling such situations may be an ideal area for benchmarking.

INDUSTRY

Industry benchmarking generally has a different purpose to competitive benchmarking. Industry trends, new developments and technology, competing products, market research and market potential are all suitable subjects for industry benchmarking.

For example, car manufacturers try to analyse future trends for their industry. For each manufacturer, this involves not only what the customers are seeking, but also what the competitors are doing. Overseas trends also are important.

Apparently unrelated areas can have a profound effect. For example, the general public demand for clean air and the associated environmental considerations can have an enormous impact on engine design and performance. Given the long lead times in tooling up for a new automotive engine system, very good forecasting is essential.

Benchmarking in this general 'industry area' calls for different strategies compared with inter-company benchmarking.

To some extent, there is an overlap between industry and generic benchmarking. This will become apparent in the discussion on generic benchmarking.

CUSTOMER

It is surprising how many organizations do not know what their customers really want. There is frequently a tendency to rely on the opinion that 'we know what the customer wants, so we don't really have to carry out any surveys'.

Customer benchmarking is essential if an organization intends to improve its competitive position. Market research is part of the answer to understanding customer needs and expectations.

However, other tools such as customer surveys and complaint analysis may also be used.

SUPPLIER

Some organizations use benchmarking to assess the performance of their suppliers. One very well known organization uses a number of suppliers for its incoming materials and assemblies. For each product, 90% of the orders are distributed equally amongst the suppliers; the remaining 10% is allocated, on a monthly basis to the supplier who has the best 'performance score', based on criteria set by the organization.

BEST PRACTICE BENCHMARKING

Best practice benchmarking can be on either a national or an international basis. It may be based on any of the other types of benchmarking described here. The aim is to ensure that operating practices are comparable with the 'best', thus maintaining a competitive market position.

Decisions need to be made regarding the areas where the level of operations is to be lifted to the 'best practice' standard. For example, does the target apply to all the organization's practices, or are only certain specific practices to be considered.

This is a very demanding form of benchmarking, since the 'best' is a moving target. As soon as the best is ascertained and benchmarked, someone else has improved beyond that.

GENERIC BENCHMARKING

This form of benchmarking is not necessarily related directly to your organization's activities but the information can be useful for developing strategic plans.

For example, if you are a software developer, the future directions of the computer industry are of great concern for you to establish directions for your future work.

The future of the automotive industry, particularly in relation to public transport, electric cars, low lead petrol and other factors, would be of vital concern to those organizations who are suppliers to that industry.

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HOW TO BENCHMARK

There are many views on what are the steps in benchmarking. Different authorities proclaim—

‘The seven (ten, nine, five) essential steps in benchmarking are’

When these are analysed, they finish up being variations of each other.

Figure 4 shows benchmarking steps, loosely based on a model by King, Moran and Niall⁴. This approach is based on the organization carrying out the benchmarking project itself. There would be minor variations for other approaches.

While the steps in Figure 4 may seem obvious, much thought must go into each stage, if benchmarking is to be used effectively.

It is not sufficient to say ‘let’s benchmark our operations against XYZ Company. They operate in a similar manner to us.’ Such an approach is doomed to failure. It is essential to consider the fundamental questions:

- What is to be benchmarked?
- What are is to be measured, observed, recorded, etc? (These details are generally included in a generic title of metrics.);
- How are the results to be analysed and used?.

There are a few ways in which benchmarking can be carried out. These include:

- carry out benchmarking yourself on a one-on-one basis with another organization;
- carry out multiple respondent benchmarking by mailout, telephone survey, and similar;
- use a specialist organization or a consultant to do the actual benchmarking (this includes market survey type approaches);
- use a Benchmarking Clearing House.⁵

⁴ King Moran and Niall (see References—5)

⁵ A Benchmarking Clearing House is an organization providing information on industry ‘norms’ for a wide range of products and processes. While this simplifies information gathering, it is usually necessary to become a subscriber and to provide your data from your own organization for inclusion in the database.

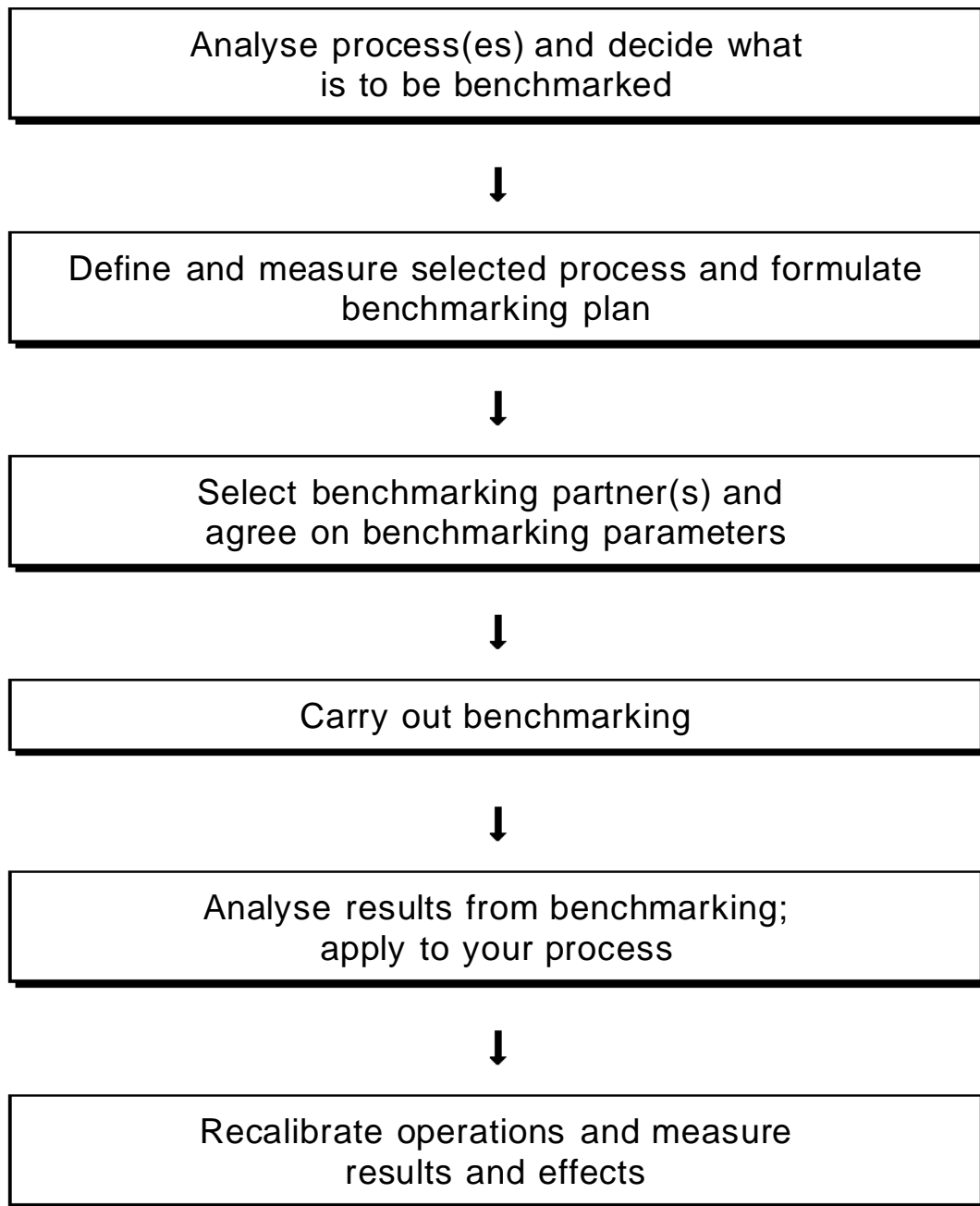


FIGURE 4
BASIC STEPS IN THE
BENCHMARKING PROCESS

PROCESS ANALYSIS

A prerequisite to successful benchmarking is a good understanding of your organization's operational practices and procedures. Included in this understanding is an appreciation of the strengths and weaknesses of your organization. A SWOT analysis is a useful tool for this purpose.

NOTE: SWOT analysis is based on analysis of **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats.

However the analysis is carried out, the main purpose of the analysis is to enable you to decide where you believe improvement is required and therefore to select the process(es) to be benchmarked.

It is a common belief in the non-manufacturing industries that they do not have 'processes or products'. Nothing could be further from the truth. A definition of 'product' from the very well known quality system Standard ISO 9001:1994, *Quality systems—Model for quality assurance in design, development, production, installation and servicing* is —

product: result of activities or processes.

A motel has a product, or even several products. One is the provision of temporary accommodation to customers. Another may be the provision of meals in the motel's restaurant.

The internal mail distribution in a large multi-divisional company is a process. The writing and posting of correspondence is a process. The selection of a paper supplier is a process.

If the broad picture is taken of processes and products, there are many operations which occur within any organization. Not all of these are being carried out at maximum efficiency and minimum cost. The scope for benchmarking is indeed great.

Once the process or product to be benchmarked is established, the benchmarking method can be decided upon.

If benchmarking is to be carried out by the organization, a benchmarking team can be formed. There are no hard and fast rules on how many should be on the team. This will obviously be dictated by the size of the organization, the complexity of the process to be benchmarked, and the availability of staff. Another factor, may well be how many the benchmarking partner is willing to allow on their premises.

If a consultant is used, the process of engaging the consultant can begin. Consultants should ideally:

- be knowledgeable in the industry, process or product to be benchmarked;
- have had previous experience in benchmarking;
- be acceptable to prospective benchmarking partners.

A similar approach could be considered if the benchmarking is to be carried through a market research organization, a Benchmarking Clearing House or other similar organizations.

DEFINE AND MEASURE THE PROCESS

Irrespective of whether the benchmarking is to be carried out by the organization, a consultant, a market research organization or by other means, it is critical that the organization establish how to measure the process in their own organization.

Without the understanding of how the process in question works within its own organization, the organization's ability to use the results of the benchmarking project will be severely restricted. Without appropriate measurements, the interpretation of results will be limited.

The type of measurements to be made will, of course, be dependent on the nature of the process. For example, if the customer complaint handling process is being considered, some measurements might be:

- time from receipt of customer complaint to initial action taken;
- time to investigate complaint;
- time to get response from any subcontractors involved;
- time from receipt of complaint to reply to customer;
- percentage of complaints resolved satisfactorily.

There may well be others, but these give a picture of what the organization is currently achieving, and depending on the measurements taken, the nature of any improvement to be sought can be determined. It may be to reduce the overall time taken to handle a complaint, or to increase the percentage of complaints resolved satisfactorily.

SELECTION OF BENCHMARKING PARTNERS

For one-on-one benchmarking, the selection of the benchmarking partner is crucial.

The benchmarking partner should be an organization, that has demonstrably better performance, practices or processes in the area which you propose to benchmark. Obviously, that organization must be prepared to be cooperative with respect to the proposed benchmarking.

Frequently, the initial approach needs to be made at the topmost managerial level to establish a rapport. However it is done, the initial approach must be handled with sensitivity.

The option of providing information in return should not be overlooked.

It is also essential that the benchmarking project be considered on a joint basis, with both parties having access to the results.

Once the partner has been established, the details of how the project is to be handled can be established. There are a number of critical items where complete accord needs to be reached before the project can begin. These include:

- extent of access by the benchmarking team;
- number of visits duration of each;
- the personnel to whom the team reports in the benchmarking partner's premises;
- the personnel within the benchmarking partner's organization with whom the team can consult;
- whether the benchmarking operation will be by the team alone or in conjunction with a similar group from the benchmarking partner's organization;

- what is to be measured, how, by whom, how is it to be reported and to whom?—these questions are critical and apply to both the team and the benchmarking partner's organization.

There also needs to be agreement on any sensitive issues or results, in that some of the information may need to be considered on a restricted or confidential basis.

There also needs to be agreement on how the results are used by your organization.

Once all these preliminary agreements are established, the actual benchmarking can take place.

Where benchmarking with a number of organizations by say, mail-out questionnaires or by telephone enquiry, a different approach has to be made to selecting the partners. Trade or professional organizations can be approached for advice on suitable contacts. Trade journals and magazines can also be useful sources of information.

BENCHMARKING PROCESS—DATA COLLECTION

There are a number of ways the information being sought can be collected. These include:

- questionnaires;
- personal or panel interview;
- site tour/study.

Each of these methods has its particular merits and drawbacks.

QUESTIONNAIRES

For straightforward comparisons, questionnaires are very useful tools. They are particularly useful in a one-to-many benchmark situation, such as market surveys. In these cases, the questionnaire can be distributed via a mail out or can be the basis for a telephone survey. This particular method has the attraction that the involvement of experienced staff can be limited to preparing the questionnaire. For the actual telephone surveys, the staff requirements are far less demanding.

The use of questionnaires requires considerable thought on the type of question and the possible answers. Consideration then has to be given on how the results are to be analysed.

Multi-choice questions need to be phrased with considerable care. It would be wise to consider how many different ways a multiple choice question might be answered and what do you do with the unexpected answers. The best solution may well be to rephrase the choices into two or three simpler questions.

There are, of course, skills involved in making telephone surveys. If your organization intends to conduct regular telephone survey benchmarking projects, it would pay to have the staff suitably trained.

Alternatively, there are organizations who specialize in conducting telephone surveys, and it may be more appropriate to use the services of one of these.

PERSONAL/PANEL INTERVIEWS

When conducting an interview (as distinct from a telephone survey) either on a panel or personal basis, it pays to be very open about the interview.

The purpose of the interview should be clearly stated, together with a statement that the interview is being conducted with the knowledge and approval of the benchmarking partner's management. What your organization hopes to achieve should also be clearly identified.

Usually, with such a frank and upfront approach, the interview can be very productive with the interviewee being helpful and cooperative. If such an attitude is not forthcoming, it is best to terminate the interview very quickly.

When conducting an interview, it is essential to have the main questions planned beforehand.

One of the advantages of an interview is the ability to depart from the prepared script, so to speak if a response leads to interesting data not considered in the preliminary plan. However care must be taken to remain within the agreed bounds and not intrude into areas not included in the initial agreements.

SITE TOUR/STUDY

A site tour or site study can be productive if the benchmarking team are knowledgeable in the process being benchmarked.

Tours are probably less productive, in that they are generally a once through operation with limited opportunity to observe and learn.

Studies can be very productive, if team members are given the opportunity to study the process in depth. It would be very rare that this would happen in a competitive benchmarking situation but may well be the case in a cross-industry situation.

For example, manufacturers of cardboard and paper packaging products for say, the pharmaceutical industry, may well find that techniques developed for food packaging using a variety of materials (e.g. metal cans, plastics, paper and cardboard) could be applied to their particular production lines.

OTHER METHODS

There are several other methods that can be used to gather data. These include:

- library searches;
- seminars, expositions, trade days and similar industry displays;
- published surveys;
- company annual reports.

These approaches are perhaps more applicable to generic or industry benchmarking. However, properly used they can yield a surprising amount of information.

ANALYSIS OF RESULTS

Having carried out the benchmarking exercise, the question now arises of what to do with the results. One thing that should not be done is to simply try to apply the findings directly to your process or product.

Every organization has a particular way carrying out operations. Within any organization, operations are mutually dependent and supporting. To try to adapt another organization's methods to the corresponding area in your organization without the support of the prior and post operations may be courting disaster.

What needs to be established is why what you have observed works in the other organization. If you understand why, you can then see how the principle might apply to your organization if certain conditions are met.

For example, say you are concerned about the need to speed up communications with subcontractors or suppliers but must have written confirmation of the communication. Instead of writing letters, you may find that telephone calls, followed up with a facsimile may prove effective. This was an outcome of a benchmarking study by one major service provider.

Say you are having trouble with inventory control and the benchmarking exercise shows that the benchmarking partner has minimised this problem by using a 'just-in-time' approach.

To adopt this practice will require that you completely reorganize your whole approach. The entire organization has to be geared to ensure that incoming materials are delivered just as they are needed. This requires reorganization and close cooperation from the purchasing operation through to manufacturing and delivery stages. The finance department may need to be aware, since it may have to alter accounting procedures to accommodate this approach.

It may well be that your decision is to tighten the controls on inventory and purchasing to provide say a week or two weeks buffer. This is using the results of benchmarking to improve your own process in a manner that is consistent with your operations.

There may be some unexpected findings. For example in the legal profession, clients are frequently unable to assess the quality or expertise of the legal service they receive. As a result, clients tend to base their assessment of a legal practice on such considerations as:

- if the lawyer is not available, are their telephone calls returned promptly;
- are letters acknowledged and promptly replied to;
- are they kept waiting past the scheduled appointment time.

As a consequence, a survey of legal practices from the client's perspective could give misleading results on the legal service actually received. Answering the telephone within three rings does not guarantee a high quality of legal advice.

If a consultant has been used to carry out part or all of the benchmarking project, the findings are usually presented in a report. Depending on the brief given to the consultant, recommendations may be included in the report.

You will need to consider these recommendations and decide if any of these are appropriate to your business, remembering that the consultant may not necessarily have the same view of the business that you do.

RECALIBRATE OPERATIONS

The final part of any benchmarking project is to recalibrate the product/process which has been benchmarked and to establish the new metrics.

The decision then has to be made as to when this particular product/process is to be benchmarked again. Some very competitive industries are continually benchmarking, although they might not recognize it as such. Service stations, with the fluctuating price of petrol are a good example.

Television and radio stations via the ratings periods, are continually benchmarking their performance. The sudden death of television shows is ample proof of the power of the ratings benchmark.

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