

Why Benchmark Your Organization's Operations?

If you cannot measure it, you cannot improve it.

—Lord Kelvin

Companies are experiencing tighter budgets, longer sales cycles, and declining revenues. A focus on reducing costs and improving efficiencies and effectiveness throughout the organization may provide a growth path, if not survival. As a result, strategic initiatives such as benchmarking are on the rise, providing business executives with valuable information that will help them remain at the forefront of their industry.

Benchmarking provides the quantitative method by which companies measure functional improvements, operational efficiencies, and cost reduction opportunities. It serves as an objective measuring stick used by business managers to make informed business decisions, develop strategy, create initiatives, as well as improve business processes and systems. Benchmarking can also help identify where gaps or inefficiencies exist and provide insight for improving that process.

Finally, benchmarking is critical for developing a business case for change and providing a quantitative baseline analysis of existing processes, technology, as well as other key performance indicators while becoming the measurement against which ongoing efforts are compared. Essentially, benchmarking provides a reference point for implementing and managing change.

What is Benchmarking?

Benchmarking is the process of comparing the cost, cycle-time, productivity, or quality of a specific process/method to another that is widely considered to be an industry standard or leading practice. Similar to a balance sheet, benchmarking provides a snap-shot of performance measurement at a point in time, and needs to be re-measured on an ongoing basis.

How is Benchmarking Used?

Strategically, benchmarking provides a baseline today for growth tomorrow. Executives use this business data and analysis to drive strategic decisions and initiatives. The continuous monitoring of the metrics associated with the strengths and deficiencies of business processes or systems allows organizations to focus on the right levers for growth. Benchmarking shows the value associated with any improvements, efficiencies and cost reductions gained, which can translate into increased profit.

Organizations also use benchmarking for trend analysis and target setting as part of their annual strategic planning process. Established baseline measurements enable decision makers to better plan and align business initiatives with corporate strategy. The metrics and insights derived from benchmarking provide the quantitative evidence into the effectiveness of critical business processes or operations. This information enables managers to proactively craft solutions to address issues which

increase efficiencies and reduce cost. Benchmarks become the visible line in the sand against which incremental improvements are measured, as managers drive toward their targets.

Benchmarks can also be used to improve employee performance. While process improvement and benchmarking sometimes have a negative connotation for employees (such as layoffs resulting from efficiency gains), they provide an educational opportunity if communicated correctly. The baseline data serves as a report card for employees letting them know how processes and systems are performing while also setting expectations for future improvements. In addition to inciting a competitive desire to improve, employees should also be encouraged to work smarter, not harder. Employees tend to respond better with a deeper understanding of the root cause and quantitative value derived from the data, thus allowing emotions and egos to remain in check.

What Do Companies Benchmark?

So, what do companies measure? Typically, organizations measure the business metrics which are important indicators of the business' operational and financial health. Because of its strategic use, benchmarking offers organizations and decision makers the ability to measure critical business functions and operations closely tied to revenues and profits. For example, a technology company with an established product may focus on its sales-cost-per-lead whereas a retail company may gain insight from cost-per-transaction metrics. Another example would be a company trying to break into a new market; measuring its engineering or manufacturing costs, as well as sales and marketing investments.

Other business functions like finance and accounting may not be deemed critical for benchmarking because they are perceived as standard processes that are performing "on par". However, it is imperative for businesses to take a closer look at these function's metrics. Benchmarking is critical to improving the performance of the finance function and ultimately defining a sound, cost-effective financial strategy for the organization.

Most areas of an organization can be benchmarked and to do so would seem quite daunting. When initiating a benchmarking strategy within your organization, it's important to focus on areas where efficiency, effectiveness improvement, or reduction of costs would have the greatest impact on the business, as measured by dollars or value. Essentially, focus on areas where you can get the "biggest bang for your buck".

Selecting Benchmarks

When benchmarking processes, it is important to keep an open mind about the alternatives or non-typical solutions for your business. Why? The comparison between leading practices for certain functions versus your industry's best practices may be eye-opening for most executives. Benchmarking can point to several opportunities for improvement or investigation, and that's the point. Managers must focus on the quantitative evidence and objectively address issues.

When selecting metrics and their components, the SMART metric guideline, as outlined below, ensures your metrics are simple and straightforward. If you have to define, explain, or defend the metrics, then

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collecting and translating data will be a challenge. By using SMART metrics, the measures are easier to sell and have a stronger impact on the process and people who use them.

The SMART guideline:

- **Specific:** *metrics are specific and targeted—they answer who? what? where? when? why? which?*
- **Measurable:** *the data is accurate and complete*
- **Actionable:** *metrics are easy to understand and are clear when charting performance, so the appropriate action can be taken*
- **Realistic:** *metrics should represent an objective that you are both willing and able to work towards*
- **Timely:** *you can get the data when you need it*

Benchmarking is more than simply selecting the right set of numbers and watching them change over time. The real insight comes from comparing these numbers to those outside of the organization. There are a few methods organizations can use when comparing metrics. An organization usually compares their measurements against:

- top organizations (best-practices method)
- relative peer groups (competitive method)
- a combination of these two methods

Which method is best for your organization and the process? That depends on what you are benchmarking and on your organization. The comparison to top organization benchmarks works well for certain business functions that are similar enough in any organization, regardless of size or industry. For example, accounts payable metrics may warrant comparison to leading practices. Alternatively, comparing the transaction process and technology spend of an organization with limited volume versus those of a transaction-heavy organization would be comparing apples to oranges. As such, the better method may be to use the relative peer groups.

The Benchmarking Lifecycle

The benchmarking lifecycle is ingrained with the idea of continuous improvement. Improvements occur incrementally, thus metrics need to be monitored, analyzed, and recalibrated periodically. There are some best practices to consider before undertaking a project.

Focus on the people, process, and technology.

Analyzing these three items individually and how they relate to each other will focus the improvement effort on the correct areas of the operation. Spending time with as well as interviewing or observing the key process owners gives the benchmarking team a deeper understanding of existing business workflows and relevant business operations. Therefore, managers can develop the optimal solution to address current and potential issues.

Uncover the overarching strategic objectives governing the initiative.

Interview key stakeholders to clarify the vision and direction of the organization. Relating these objectives to the benchmarking effort provides context for the baseline evaluation while ensuring that an effective plan aligned with the business' short- and long-term objectives can be created.

Don't underestimate the value of communication.

A project's success is inherently dependent on the indelible support from the organization's executive management team. Without executive support, projects are often not viewed as critical to the organization's success, and employees will treat the benchmarking effort as such—not critical.

To diffuse any resistance or resentment associated with analyzing a specific business function, be sure to distribute and share benchmark best practices and results willingly and on a consistent and timely basis. Withholding information only raises suspicions and creates unnecessary delays. Creating cooperation and buy-in as well as gathering data from key stakeholders is crucial to a successful benchmarking process.

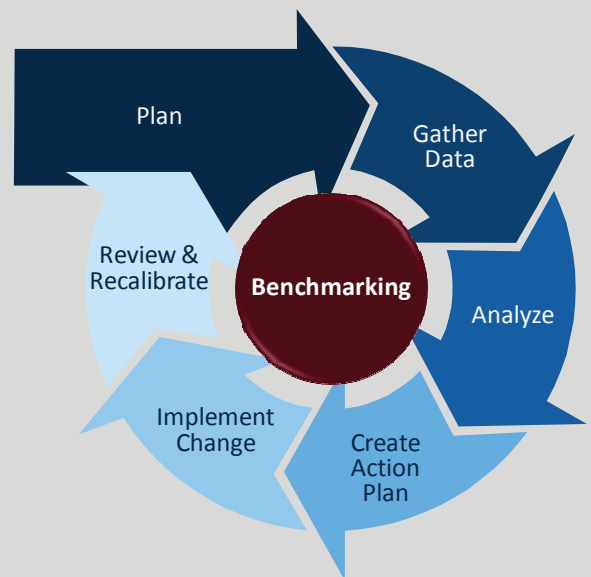
With these concepts in mind, the benchmarking lifecycle is outlined below.

Figure 1 — The Benchmarking Lifecycle

Benchmarking is not a finite process. It is a continuous, evolving cycle with six distinct phases:

- 1) planning and setting scope and goals
- 2) gathering the relevant data and information
- 3) assessing and analyzing the data
- 4) creating an action plan based on the analysis and desired changes
- 5) executing and implementing the action plan
- 6) reviewing results and recalibrating metrics based on expected vs. actual results

The process does not end after reviewing and recalibrating, but returns to the planning phase for the next iteration.



- 1) Planning and Setting the Scope and Goals.** Success comes in the planning. When deciding which benchmarking projects to undertake, a cost-benefit analysis (see figure 2) is useful. Again, benchmarking identifies which processes and systems need attention and provides both data and metrics used to calculate savings. While the cost may be based on a technology solution or process improvement, the savings are based on improved performance—for example; the cost to process an invoice is reduced from \$25 to \$15 for an estimated savings of \$1.2M annually (\$10 x 120,000 invoices processed). The information contained in the chart provides a useful

visualization of the data and helps facilitate discussion and decision making when developing a plan.

Additionally, be sure to set the scope by determining the metrics, the people involved, the systems used, and steps involved in the process. Detailed planning enables the benchmarking team to develop the right recommendations that lead to cost reductions and increased control over the process.

- 2) **Collect the Data.** The best approach towards business improvement services starts by understanding the existing processes and systems. The data collected includes any quantitative data specific for the business function, the steps involved in the process, and who in the process executes the steps, including when and how. In addition, the data must be collected in a manner consistent with the benchmarking data and guidelines. For example, the procurement function can be performed as a centrally managed function within a single department; however, the benchmarking data may include company-wide efforts in the procurement process and not just the procurement department's effort. If the organization's data and the benchmarking data are inconsistent, then results will not be relevant and the analysis may prove contradictory.
- 3) **Analyze the Data.** With an understanding of the existing people, processes, and technology involved in the process being analyzed, the metrics are analyzed and compared against different peer group benchmarks. The analysis should answer the following questions: What do the metrics mean? How do these findings relate to similar findings? What do the results mean? What conclusions can be drawn? Where should improvement resources be devoted to receive the largest impact?

Analyzing and understanding your data will help develop a roadmap detailing solution alternatives with the appropriate steps and best practices to achieve the recommended state. With these answers in hand, a visual cost-benefit analysis can be drawn to help show how to prioritize projects.

- 4) **Create an Action Plan.** The data collection and analysis phases provide team members the quantitative evidence and prioritized projects it needs to develop the business case for change. The comparison between the "as is" and the desired "to be" state drives the action plan and roadmap of initiatives and milestones that will help the company realize its goals. It is important to set objectives for both near- and long-term solutions in order to achieve the desired outcome. Ultimately, the action plan or roadmap details feasible alternative solutions and the steps to achieve the recommended state during a specific time period.

Figure 2 – Cost Benefit Analysis



- 5) **Implementing the Action Plan.** Project management and change management are key components to ensure the project success. It is critical that all key stakeholders are apprised of the progress of the initiative. While a clear and effective communication process is vital for raising issues and opportunities in a timely and efficient manner, open communication and solid project management ensures the support from the organization's executive management team and employees.

- 6) **Review and Recalibrate the Process.** Very simply, this phase in the lifecycle entails reviewing the results of the implemented change and identifying the opportunities or additional recommendations to improve the process or system. This analysis is then incorporated into the plan and the process begins the next iteration in its lifecycle. It is important to note that when maintaining a long-term commitment to a roadmap, a one-time benchmarking effort is not enough. As the organization changes, it needs to re-measure and compare those results to ensure the implemented changes drive the process towards the intended results.

Key Benefits of Benchmarking

In addition to the points made above, benchmarking can help your organization in other ways. Some of these include providing:

- **Actionable information to help companies grow.** Organizations that regularly benchmark their operations use these insights to map their strengths and weaknesses. With continuous monitoring and data in hand, organizations can react faster and make the appropriate adjustments.

- **Quantitative information drives strategic decisions and initiatives.** Insight into the business processes or systems allows organizations to focus on the right levers for growth. Knowing what waste to cut or where investments need to be made based on data-driven evidence gives executives confidence in their decisions.

- **Reduced uncertainty.** Benchmarking provides quantitative evidence that helps companies measure any change in performance. A significant benefit of benchmarking is the insight into critical business processes it provides thereby enabling managers to proactively craft solutions to address issues.

- **Tactical Action Plan.** Misallocation of resources is often a result of an inefficient or ineffective process. Comparing the process, staff, and systems involved in relation to a peer group allows managers to address laggard processes with less effort and greater knowledge.

- **Enhanced understanding of cost structure relative to others.** Comparing relative business costs to top organizations and peers can drive the initiative to improve processes, systems, or staff functions to gain a competitive advantage.

Where to Apply Benchmarking

Anything that can be measured can be benchmarked. Some common applications include:

✓ Financial Management <ul style="list-style-type: none">▪ <i>Accounts Payable and Expense Reimbursement</i>▪ <i>Accounts Receivable</i>▪ <i>The Finance Organization</i>▪ <i>General Accounting and Reporting</i>▪ <i>Internal Controls</i>▪ <i>Order to Invoice</i>▪ <i>Payroll</i>▪ <i>Planning and Management Accounting</i>	✓ Human Capital Management <ul style="list-style-type: none">▪ <i>The HR Organization</i>▪ <i>Create and manage HR strategy</i>▪ <i>Source, recruit, and select employees</i>▪ <i>Develop, train, and counsel employees</i>▪ <i>Reward and retain employees</i>▪ <i>Salary, report time, and process payroll taxes</i>▪ <i>Redeploy and retire employees</i>▪ <i>Manage employee information</i>
✓ Supply Chain Management <ul style="list-style-type: none">▪ <i>Supply Chain Planning</i>▪ <i>Procurement</i>▪ <i>Manufacturing</i>▪ <i>Logistics</i>	✓ Business Process Management <ul style="list-style-type: none">✓ Customer Service✓ Innovation✓ Knowledge Management✓ Product Development

The only real limitation of areas to benchmark is the availability of peer group data for comparison.

Conclusion

Organizations seek ways to reduce costs and increase the effectiveness and efficiencies to grow. Organizations can use benchmarking results to justify business initiatives and investigate potential solutions by verifying process performance against competitors. The quantifiable performance points provide a strong business case for such initiatives and investments. Defining a roadmap with measurable targets and goals further supports the argument for change and improvement.

While some companies may seek to take on benchmarking projects internally, there are benefits in using outside consultants.

- **Objectivity:** often, third-parties remain objective and enable clients to have greater confidence in the results and recommendations
- **Expertise:** consultants often have specific benchmark training and client experience across different types of industries, company sizes, and geographic locations
- **Credibility:** with proven tools and methodology for managing projects, consultants can provide consistent, predictable results utilizing open communication methods for sharing of information and insights

In short, benchmarking business functions and processes provides a credible reference point and helps analyze the areas needing improvement. And as quoted by Lord Kelvin above, "if you cannot measure it, you cannot improve it."

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