The Role of Benchmarking

'Benchmarking' is a widespread but often misused management practice. Benchmarking can be over-valued by leaders who want quick, easy answers and under-valued by leaders who believe they have nothing to learn from outside.

As an organisation which has specialised in benchmarking for over 20 years, The Customer Framework (TCF) have evolved SCHEMA® benchmarking methodologies to maximise the benefit to large organisations. Here, TCF Director Professor Neil Woodcock provides an expert view on what good benchmarking looks like.

In summary, TCF's extensive experience shows that if benchmarking is poorly executed, at best it can be a waste of time and money and at worst it can mislead the organisation into implementing ideas that are counter culture or which have little impact on business performance. However, if the purpose and method are clear, then the benchmarking process will act as a stimulus for strategic thinking, accelerate innovation and enable 'good practices' to be fast-tracked for earlier ROI.

Purpose of benchmarking

Objectives

Benchmarking is defined as 'the process of comparing performance or practices between two entities'. Up front, define why you want to benchmark. Typically, benchmark data can be used to:

1. Look at high level KPIs versus others and understand possible areas for improvement
2. Sense-check your current digital, marketing, or customer experience programme to see if anything is missing, or can be removed from the programme.
3. Provide an external input to help design an 'end state' (what you want to look like in the future)
4. Identify where best practices exist across the organisation, and encourage wider adoption of them
5. Feed external ideas into existing Innovation, Quality, Lean or similar processes
6. Identify ineffective processes and capabilities.
7. More strategically, if can be used to define your organisation's 'current state' (e.g. vs a best practice model and the benchmark base), input to the 'desired state' and deliver a prioritised transformation plan and an engaged, mobilised transformation team
8. Sense check an organisations ambition and the timeframe it has set to achieve it by understanding what others have done and how long it took them to do it

One of more of these may apply to you, but set the objective(s) at the outset for a clearer focus during the project.

Scope

Define the scope of the benchmarking exercise. Below are some examples of the scope of benchmarking projects we have been involved in over the last few years:

- ✓ Digital transformation
- ✓ The role of data in a customer planning, execution and analytics
- ✓ A review of the customer experience programme
- ✓ Stimulus for a strategy debate / review
- ✓ Data driven marketing
- ✓ Customer service
- ✓ Taking learnings from the private sector into the public sector

Types of benchmarking

Next, think about what type of benchmarking you want to do. There are three main types:

Organisation performance KPIs

Organisation level indicators such as income, cost, profit, market capitalisation, dividend, share price can be compared across organisations both within and across sectors. These are usually published figures, and provide at an overall organisation level; an immediate snapshot of relative performance and, over time, the underlying trends within the organisation, across organisations within a sector, and can provide useful comparisons across sectors. Although the annual snapshot may be misleading because of special accounting treatments in any given year, the trends are a good indicator of relative performance.

Operational performance KPIs

Operational performance indicators can be compared in areas across functions (e.g. income per FTE) or within functions (e.g. manufacturing, logistics, sales, service, HR). For example, consulting companies may measure and compare '% chargeability' of their consultants and contact centre managers may look to compare outbound calls per hour, inbound calls handled/person, % service contacts carried out by digital/voice channels. These can be useful comparison measures to stimulate thought in your own organisation, but don't take them too seriously. Beware comparing apples with pears as the measurement criteria and method for each organisation will be different. Is income included for all products, is it net or gross income, does the figure include income from third party partners? Does 'FTEs' include all or just customer facing employees, does it include contractors not directly employed but still a cost, does it include third party costs? We've seen this simple ratio calculated in all these ways. As long as the organisation is consistent over time, they will be useful ratios to check performance, but comparing them across organisations can be misleading.

Organisational capabilities

The most difficult type of benchmarking, but one where perhaps the greatest rewards can be achieved, is in comparing what *great* companies do which you could copy, or improve. It is difficult but definitely not impossible to do this and the pitfalls and ways of mitigating against these in your benchmarking programme are listed in the table below.

Watch outs	Description	Learning
Don't send out or rely on a survey asking people what they do and how well they do it	Dunning and Kruger [ref] and others have shown that self-assessment is totally unreliable. Typically, good performers mark themselves down and poor performers mark themselves up! Whatever results you see from this will be incorrect.	Don't use results from self-assessment Use an independent assessor (from another function, or from an external party)
Don't benchmark against things that don't matter	Don't chase the 'shiny new penny' – a new technology or trendy management practice. Focus on the business outcomes you want to achieve that will make a difference strategically, and how others are achieving them.	Use a benchmarking model which is proven to be business performance focused and not just a theoretical hypothesis of 'what good looks like'
Be wary of the claim that '80% of top performers do this'.	80% of best performing companies may well do this…but maybe 90% of companies who went out of business did this too!	Treat claims like this sceptically unless the claim is from a respected source and the research analysis has looked at the discriminators between good and bad performers.
Ignore benchmarking surveys from companies with something to sell	They are in-vogue right now and every day there is a new survey about how to improve profitability. However, these types of survey naturally have an inherent bias and often skewed methodologies.	A company selling dashboard solutions is going to present data about the importance of dashboard solutions! Use an independent approach where this bias is removed.
Don't just benchmark against your sector	Why would you benchmark against your peers to be 'best' in what might be an under-performing sector in the area you are benchmarking (e.g. customer service). Your	Choose a benchmark base where you can benchmark against a subset of organisations – maybe

Watch outs	Description	Learning
	customers will seldom limit their comparison of your performance in the area you are looking at to just your direct competitors.	your peers and a world class group from other sectors in the area you are benchmarking
Having 'capabilities' in place does NOT correlate with business performance	Most large organisations have all the capabilities required, but they are not necessarily joined up into a 'business outcome'. Extensive research has shown that it is not 'capabilities' that correlate with business performance but the way the capabilities are *applied* to deliver a 'business outcome', consistently. For instance, in benchmarking customer experience, you might look for a capability at board level - 'is there a board level sponsor of CEX'. However, our experience is that this may or may not lead to a good outcome. Instead, look for the Outcomes that this capability is supposed to achieve. For instance, 3 of the outcomes of a good CEX leader are; 'Functions work together collaboratively to deliver the desired customer experience'; 'employees say that leaders and managers always model, support and reinforce the behaviours required'; 'employee/functional targets recognise the end to end experience outcome rather than individual performance wholly within the control of the person/department'	Firstly, and importantly, choose a benchmarking model which is not a theoretical hypothesis about what drives business performance, but has proven correlations with business performance. i.e. you are benchmarking capabilities and Outcomes which will actually impact on business performance. Secondly, benchmark Outcomes, not capabilities. Thirdly, ensure the scope includes all parts of the ecosystem that combine to deliver the experience.
Just because the company you admire does this, should you?	What works for one strategic proposition, or in one culture, is not necessarily right in another. *Strategic proposition*: A low price/low cost retailer should beware comparing themselves to one with a 'customer intimate' proposition, and vice versa. *Culture*: Having female staff cross sell to male customers in retail is common in Western retailers (e.g. banks) but would be offensive in Korean and some other Asian cultures.	Be careful if you are comparing yourself to a benchmark of organisations with a different strategic proposition or culture. There may well be learnings you can apply from this, but they will need careful thought.
What you read in the press is rarely the reality in practice	Press articles and PR are typically written with a bias. Articles, interviews and books have little basis in reality. Conference presentations are a great vehicle for managers to market themselves. The content can exaggerate the achievements and/or omit key failings.	Use evidence based benchmarking where you know that what you are comparing yourself to is a reality
Because everyone in your sector does this 'thing', then I should...	If everyone in the industry has been doing one thing for ever, maybe you could do something else to differentiate? For instance, if all consumer banks close at 4pm, then maybe you should stay open until 6pm or even 8pm. All your competitors may have a complex charging structure for customers based on certain criteria which is the 'accepted norm' in the industry. You may consider a completely different basis for charging (an annual fee) based on a new way of doing business, or a digitised process simpler or more attractive to customers.	Look for the benchmarking process to identify widespread industry practices or pricing policies which customers find irritating or which they don't understand.
Don't assume you have to look outside for best practices	The bigger the organisation, the greater the likelihood that part of the business has already solved a problem other parts are grappling with. Understanding what is already being done that is yielding results and breaking down barriers to rolling it out across the business yield better and/or faster results than identifying external best practices and trying to apply them to your business	Use a consistent benchmarking model and approach to enable you to identify differences between business units, brands and geographies that could be rapidly scaled.

If you are clear on your objectives, scope and type of benchmarking, and take into account the 'success' points in the third column above, then the benchmarking process will act as a stimulus for strategic thinking, accelerate innovation and enable 'good practices' to be fast-tracked for earlier ROI.

What to do with the results

This depends on your purpose. Firstly, you should understand how you score against the benchmarking model and the peer groups you have chosen to benchmark against. Secondly, you should understand the relative importance of each area (particularly those where you compare poorly with your chosen comparison peer group). Then understand why you have scored that way. Armed with this information, you can do useful things with the results.

Tactically (benchmarking as part of ongoing business improvement)

- Critically examine the important areas where your scores were weakest and identify what you can improve from the benchmarking. Fast-track the good practice ideas coming from the benchmarking process into your innovation 'triage' process for evaluation, along with other ideas.
- If the benchmarking is carried out across business units or brands, identify and then share best practices across the business. This can have a major impact on performance, if leaders within business units *are encouraged to learn from others* (this must be supported by recognising people for documenting and sharing learning & best practice, otherwise there will be little for people to learn from).
- Consider meeting with 'best practice' organisations to exchange ideas and find out more detail about common points of interest (this typically requires a two way sharing, so you will need to identify what you can offer in return that will be of interest to the organisations you want to meet).

Strategically (benchmarking underpinning transformation)

- Use the benchmarking model to understand your *current state* and areas to improve
- Use the findings to help define your *desired state* – where you need to be in 2-3 years in order to deliver your vision?
- Use the inputs on current state and desired state to develop a *prioritised transformation plan* to move from current to desired state.
- Ensure relevant leaders are involved in the process: The plan will only work if it is developed by the leadership team, and the guiding coalition of influencers [ref other article] facilitated by the people doing the benchmarking. If input to a transformation plan is an objective of the benchmarking, leaders and influencers should be involved in the benchmarking process.
- Define what you will measure to track the success of your transformation. Ensure your plan provides a link between capability improvement and quantifiable outcomes to provide the justification that will maintain momentum and facilitate widescale roll-out.

Conclusion

If the leader of the benchmarking process considers these points, then it will be a useful exercise (the leader can be a person on the board or a middle manager willing to challenge the status quo). They can benchmark just their area (e.g. marketing, finance, logistics) or the cross functional way the organisation is set up to deliver say, 'a profitable customer experience'.

The most effective benchmarking processes involve understanding both the current state (starting point) and the desired state (where you want to be in 2-3 years) and the *development of a transformation work plan*. If you are clear on your purpose and method, then the benchmarking process will act as a stimulus for strategic thinking, accelerate innovation and enable ‘good practices’ to be fast-tracked for earlier ROI.

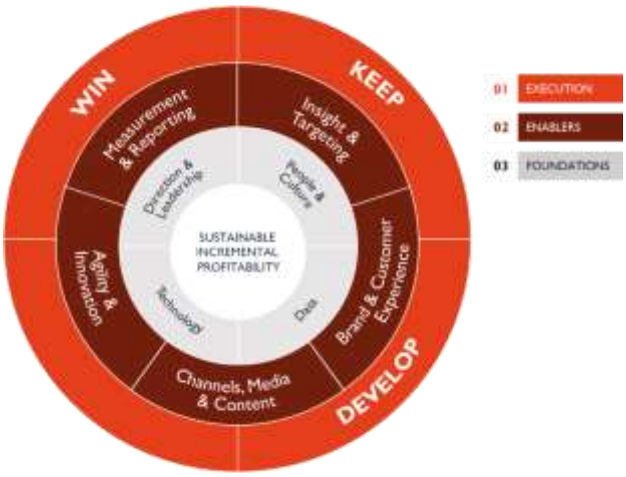
Critically, ensure the model and approach you use will yield accurate and impartial results and does not come with a hidden agenda of proving you need to buy what is being sold.

About SCHEMA®

SCHEMA® is an independent benchmarking methodology designed to help large organisations engage with customers or consumers in a data driven, digital world.

There are over 300 benchmarks of large organisations on the SCHEMA® system, all of which have been independently assessed and qualified. The SCHEMA model contains multiple ‘good practices’ across sectors and geographies.

The model is shown in the graphic and contains around 100 Outcomes hundreds of capabilities. The whole model is focused on business performance – *sustainable, incremental profitability* is at the heart of the model. Designed to help large organisations win more or better quality customers, keep the ones you want to keep, develop their value and advocacy and do this cost effectively, SCHEMA has been evolved over the years to strongly correlate with business performance. This implies that if you benchmark using SCHEMA, and act on the recommendations (which are totally independent) you are more likely to improve the bottom line.



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