

THE ULTIMATE BENCHMARK WHAT DO YOUR CUSTOMERS THINK?

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It has taken some time for benchmarking to be considered as more than just another fad of the management gurus. However, with more and more practical examples being publicised, many managers in manufacturing companies have come to recognise that benchmarking business activities can be a potentially useful management tool.

Clearly, benchmarking has the potential to help organisations understand more about their levels of performance, how they compare with other companies in the same line of business and also how they compare with other companies generally regarded as world-class or as exhibiting best practice.

But therein lies a problem. While it can be a revealing exercise to identify specific business functions and processes where performance is adversely at variance to that in other companies, the actual benchmarking initiatives themselves rarely reveal the underlying reasons for the variances.

These have to be ferreted out by successive rounds of review and analysis. And this often brings to light local factors which the unconverted can seize upon to shed doubt on the original results.

There can be as much variety to these factors as there are to different company cultures, but some of the more common would be where the business processes, core skills, organisation structure, or product mix are thought to be unique. Others can be encountered where the business processes are non-repetitive, or where a high level of customisation is involved, or where the business is operating in a regulated environment.

Moreover, the credibility of the results can be further tested by the nature and sources of the reference data. This can be particularly marked where the data appears to be out of date, not comparing like with like, or not relevant directly to the business.

Attempts to achieve real quantitative improvements to performance can also be frustrated by a combination of circumstances, including:

- the base benchmark data keeps changing as other organisations re-engineer their own business processes
- the direct impact of process improvements on business volumes, margins and bottom line can be difficult to measure

- there may be no obvious quick wins that demonstrate the benefits and generate support and buy-in throughout the company.

What this means is that benchmarking is not a management tool which can be wielded easily and effectively. Identifying appropriate business processes to be measured and closing the gaps in performance is not a straightforward matter.

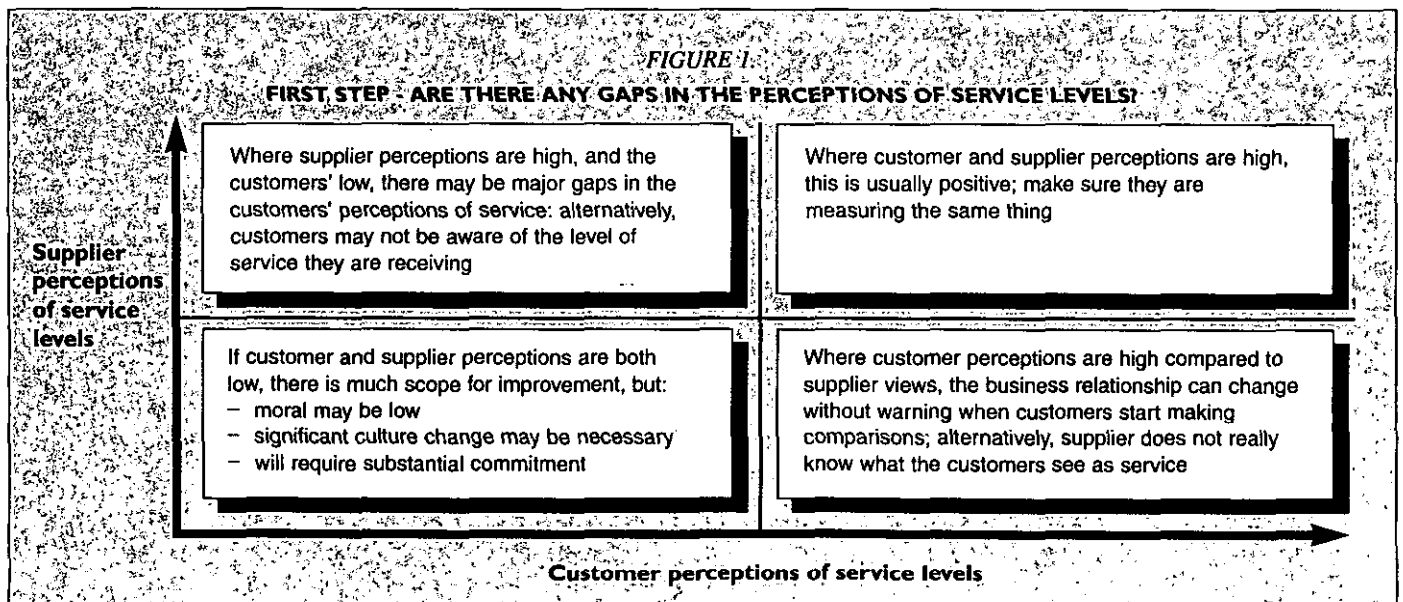
On the other hand, there are some business processes where performance can be benchmarked in a way which does not involve comparisons against best practice reference data. Consequently, many of the issues associated with the classic approach to benchmarking can be avoided, allowing the results to be used directly to improve business and bottom line performance.

For example, a fundamental measure of performance which many companies consistently overlook or get wrong is their customer service levels. That is not to say that they do not attempt to measure service performance. On-time deliveries, order fill, quality, reliability in service are all measures which are kept under review in many organisations. Performance against these measures may even be benchmarked against that being achieved in other companies, where reference databases are available.

But these are all measures of customer service which are internal to the organisation supplying the service. And they can be totally misleading. Whether the actual results are good or bad, it does not necessarily follow that customers' perceptions of service levels will coincide with those being measured by their suppliers. Different perceptions may occur simply because some customers do not have formal supplier rating systems, or where they have different systems to those of their suppliers, which give different results.

There may be other issues stemming from the use of information technology for processing or communicating results, from customers own internal processes, particularly in how they go about goods receiving and recording deliveries, or from communications and response times between individual members of staff.

In short, the surest way to find out how customers perceive their suppliers' performance is to go and ask them. And more



than that, to ask them to rank their suppliers relative to their perceived performance.

These are the ultimate benchmarks for every business manager. The questions that need to be asked must include the following:

- what do your customers think of you as a supplier?
- how do you rate compared to their other suppliers?
- what are the key features they are looking for in a supplier?
- why have they given you this rating?

One other vital piece of customer information must be considered before rushing into resolving any of the issues raised by these benchmarks, namely:

- what is the incentive for suppliers to improve their rating?

Clearly defined incentives, if there are any, such as retaining business, increasing business or increasing margin, make a powerful argument for changing the processes which are having a direct impact on customer perceptions of service levels.

Another attraction of this approach to benchmarking performance is that the impact of the results is not diluted by the issues associated with using the classic approach. For example:

- the reference data, 'how you rate as a supplier' is direct, timely and has been agreed with the people who really count, the customers
- identifying the incentives means that the direct impact of making business process changes and improving the rating can be seen clearly by both customer and supplier
- where customers can be persuaded to prioritise the areas for improvement which will improve their ratings, these areas can be resolved first, potentially achieving the quick wins which help to get the buy-in of the whole organisation.

Alternatively, some customers may be completely unaware of or have the wrong perceptions of service levels they are receiving. Once this has become obvious, it provides a good opportunity to educate customers, improve supplier ratings, and even develop more business.

There is a clear message here. Benchmarking is a powerful tool, but it is not just about measuring performance. Equally, it is about identifying the processes which are critical to the success of the business and getting the organisation to buy-in to that concept. But above all, it is about managing and pushing through the changes necessary to achieve sustainable performance improvement.

About the Author

David Galbraith has worked in manufacturing for almost 30 years, across a range of industry sectors including electronics, textiles and apparel, food and beverage, pharmaceuticals, aerospace and engineering. He has been a consultant with KPMG since 1981, specialising in manufacturing and logistics.

David has extensive experience of helping clients implement best practice and improve business performance, through re-shaping their business processes, managing cultural and procedural changes, developing management information systems and selecting and implementing integrated business systems.

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