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Many companies are sitting on undiscovered collections of their own best practices. Internal benchmarking can unlock those valuable practices to help drive significant supply chain performance improvements.

FINDING BEST PRACTICES in Your Own

A.C.K.Y.A.R.D.

In the late 1970s, when Xerox executives first made the trip to L. L. Bean in Maine, their goal was to learn how the catalog company had mastered such speedy order fulfillment. Ultimately, the search for best practices took Xerox far beyond Maine. And today the company is credited with popularizing benchmarking,¹ defined as the process of drawing meaningful comparisons between a company's performance and the performance of identified best practices.

Since then, benchmarking has become an important and familiar management tool. A study by consultants Bain & Co. shows that 84 percent of business leaders use benchmarking and most are fairly satisfied with their efforts.² Many leading practitioners believe that the unrelenting search for best practices lights up beacons for continuous improvement.

However, while externally oriented benchmarking is now widely used, little attention has been paid to the potential of internal benchmarking. In fact, an extensive literature review reveals scant mention of companies that have benchmarked their internal operations. Moreover, in our consulting and research activities, we've seen only a handful of companies actively using internal benchmarking for competitive advantage.

Yet just as Xerox benefited by going beyond the conventional practice of comparing itself to industry peers, complex businesses today can discover improvement opportunities in another nontraditional place—namely, their own backyards. The issue is more important than it has ever been because the competitive stakes are higher. Shareholder mandates for growth require continuing insights into best practices in product development, marketing effectiveness, customer service, and operational excellence. As such, supply chain operations are on the front lines of operational benchmarking.

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There's another good reason to revisit the benchmarking issue at this time. The Council of Supply Chain Management Professionals (CSCMP) (the new name of the Council of Logistics Management) has recently published its Supply Chain Process Standards, which offer excellent guidance for companies to benchmark their key processes.³

A few companies already have learned how they can benefit from their own latent best practices. One high-tech manufacturer we know has developed a global process framework to better unify its business processes worldwide. By standardizing its global processes, the company can more easily identify areas of improvement that will create more positive benefits for its customers. The results are impressive: 35-percent reductions in inventory costs and more than 60-percent cuts in order turnaround time—and in working capital.⁴ Unfortunately, this manufacturer is far from typical. At most companies, internal best practices remain undiscovered simply because methods for extracting and communicating them don't exist.⁵ Today there can be no excuse for not finding and cultivating these pearls of wisdom.

The What and Why of Internal Benchmarking

As the name suggests, internal benchmarking simply means looking inside your own company for best practices that can be leveraged across the organization rather than looking to other companies or other industries. The beauty of internal benchmarking is that it can be accomplished quickly relative to conventional best-practice discovery.⁶ Internal best practices can often be borrowed more easily because of the greater commonalities—particularly the objectives and cultural guidelines—between groups within one company. Additionally, it is often far easier to gain access to layers of information from a sister division or group than from an outside company.

One of the best rationales for internal benchmarking is its positive impact on building a culture of continuous improve-

ment—a culture of learning and innovation spurred by internal competition. In our experience, a company that can demonstrate healthy rivalry between divisions will experience innovation at all levels. Internal benchmarking is also a powerful mechanism for focusing that competitive spirit on strategic objectives.

This is not to say that internal benchmarking is a casual exercise—or a simple one. It must adhere to the same kinds of business disciplines that other initiatives do. It must follow pre-

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planned steps to identify best practices across a spectrum of processes regardless of geographic location. And processes have to be prioritized by ease of implementation or degree of impact. At the same time, managers must take care to properly communicate the objectives to employees and to translate best practices to other environments. Benchmarking efforts, internal or otherwise, fail when employees have difficulty translating practices to their own organizations. Although it is easier for employees to buy into an unfamiliar practice when they can see it demonstrated in their own company, there are still many ways in which the benchmarking concept can be misunderstood.

The companies that can benefit most from internal benchmarking are large enough to have multiple instances of the same process in use. Further, these processes will have some level of complexity to them. It is highly unlikely that a single factory or business unit will showcase best practices in all things. One plant may excel in on-time shipping while another may be unbeatable in quality control.

But size and complexity alone don't guarantee success. If key processes are centralized—if there is a centralized procurement group, for example—internal benchmarking of purchasing obviously won't work. Conversely, sharing ideas in a decentralized company can be difficult. (Here, it is all the more necessary to have a central database or other medium that can house best-practice ideas and make them available—preferably via an intranet—to all interested employees.⁷) Cultural norms are a factor, too. Where two or more divisions are rigidly separate or compete against each other, the opportunity to absorb and learn from the other's experiences will naturally be limited.

It's important to remember, too, that the benchmarking context is just as important a “metric” as hard measurements alone. Real improvement will not happen without a solid understanding of the context in which the internal bench-

marking is conducted. For example, warehouse performance is often gauged using a host of single-factor performance and productivity metrics. Suppose the value for product lines picked per hour this month was 67 and last month was 64. Has performance improved? The answer is “it depends.” It is necessary to know something about the nature of the orders picked and the hours worked, the SKU spread, the proportions of fast movers and slow movers picked, and so forth. In other words, to interpret a particular single-factor metric or to compare two values, you need additional information that represents the context in which single-factor measures are made.

We have outlined a framework of five steps that can help institutionalize internal benchmarking. The steps are described as follows:

Step 1: Identify Key Processes and Process Attributes to Benchmark

To ensure acceptance and eventual success, internal best practices must support the organization's strategic goals. Prioritizing processes for improvement is akin to strategic planning; if the key strategic outcome for the company is market expansion, for example, management might identify product development as an area for improvement. If the goal is to reduce cost, the emphasis might be on identifying best practices and improving supply chain processes.

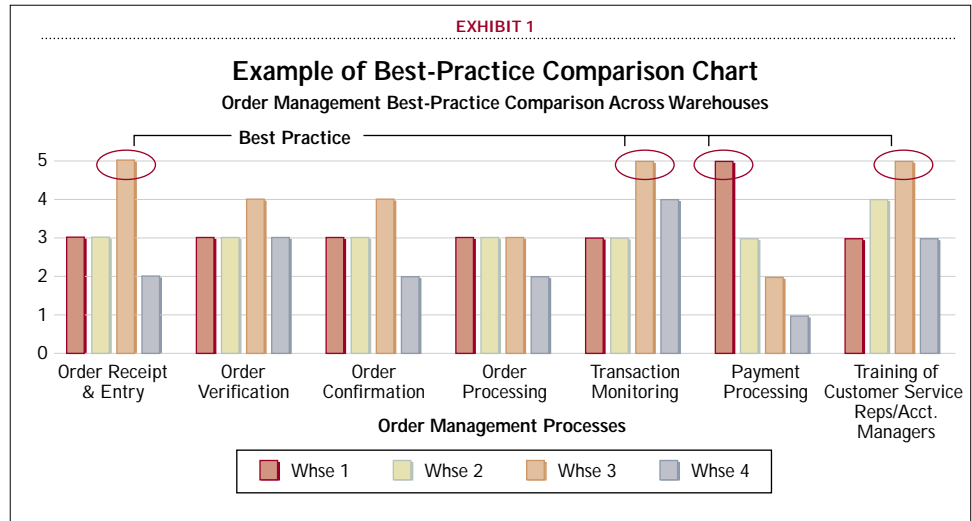
So managers must first decide what's most important to benchmark. Which processes are most critical to the business? What attributes within each process matter most? This exercise can be much harder than it appears, and it changes with technology and with accepted practices in an industry. For example, a decade ago most software companies considered production, kitting, and distribution to be critical to expanding their markets. Today, development and marketing are their competitive differentiators.

Several techniques can be used to identify and map processes, including the Supply-Chain Council's SCOR (Supply-Chain Operations Reference) model.⁸ But the set of Supply Chain Process Performance Standards published recently by CSCMP offer more opportunity for comparisons of actual best practices. Developed to enable organizations to evaluate their own logistics and supply chain processes, these standards leverage the SCOR model by adopting the SCOR framework for studying supply chain processes. From there, the standards break down SCOR's plan, source, make, deliver, return, and enable processes into more than 200 “process attributes.” Assessing those attributes, a company can determine likely minimum practice standards as well as what is considered a typical best practice. The standards documents are already proving popular.

Step 2: Benchmark and Determine Which Areas are “Best Practice”

Once the company has determined which processes and

attributes are key to achieving its strategic goals, it should begin by planning to measure the performance of each process in every department or division in which the process is used. Then it must identify the best practice for each process, and gauge the size of the gap between that practice and the practices of all other facilities or departments that apply it. The data from this exercise can then be presented in a summary gap analysis or a simple comparison chart. (Exhibit 1 shows an example comparing order management practices across warehouses based on a zero-to-five scale, with five being “best practice” level.)



Step 3: Assess Priorities for Improvement

One subjective but systematic means of assessing priorities is to graphically plot the impact of business processes on both the customer and the company. (See Exhibit 2.) It quickly becomes clear which processes lend themselves to benchmarking and improvement.

Step 4. Finalize Key Processes for Improvement

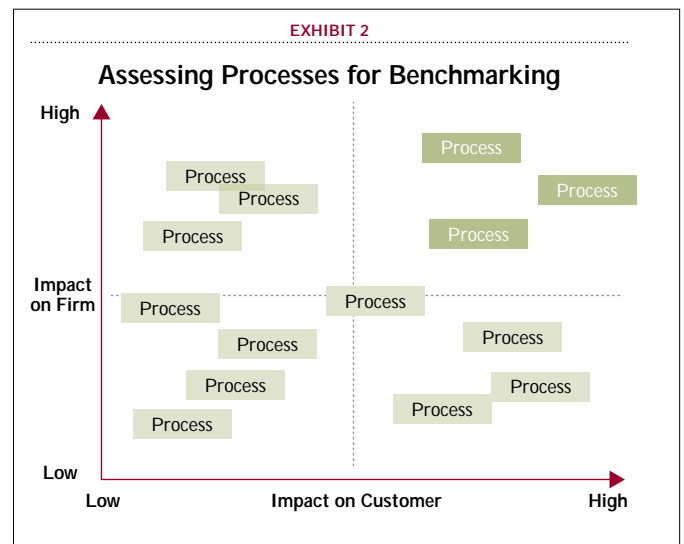
The overall improvement opportunity is determined by gauging the size of the gap (as noted in step 2), the strategic importance of benchmarking and improvement, and the projected impact of a successful benchmarking effort. If, say, strategic importance is medium but impact and gap between current and best practice are significant, then the benchmarking initiative should be a “go.”

Managers must now communicate the plan and ensure support for adoption. Best practices proliferate most successfully when they allow for local customization—and when employees get to hear about them in advance. All common best-practice elements should be consistent companywide while accommodating local features such as language, geography, or statutory policies. This “translation” of best practices must not be omitted.

Step 5. Leverage Best Practice and Rollout

Leveraging the results of best-practice learnings depends heavily on commitment, communication, and training. Few companies of any size will have reached this step if their executive teams are not fully behind the benchmarking efforts. Crucially, managers from both the benchmarked facilities and the facilities where the new benchmarks will be implemented need to be fully on board.

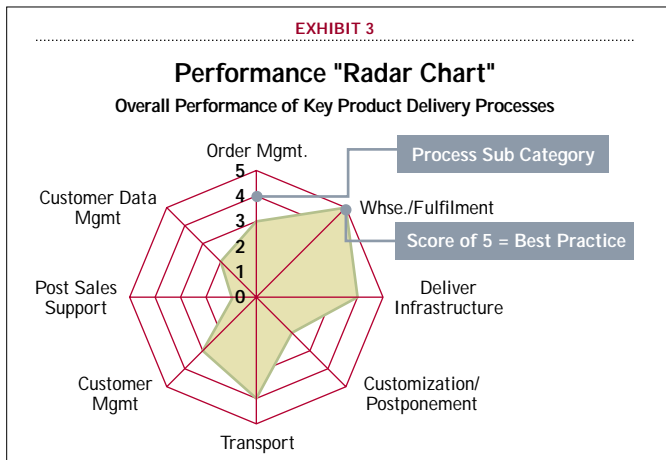
We suggest appointing a process owner who will be responsible for the rollout—a manager who will likely come from a best-practice division and will be closely involved with the planning of the improvements. The role may be full-time,



at least for the implementation period. The role almost certainly calls for skills in change management because adopting a benchmarked practice also requires recognizing and overcoming the cultural differences that can impede implementation. The change itself can take more time than the actual benchmarking project.¹⁰

Completing the Cycle

Once the firm has completed one cycle of process identification, benchmarking, prioritization, and improvement, it has a great opportunity to review the results on a companywide scale. This review will allow it to assess strategic opportunities for the next areas of improvement and plan for the next cycle of benchmarking. A radar chart is an excellent tool for summarizing performance clearly. Exhibit 3 gives an example of a performance chart for the deliver process and its eight subcategories. This chart shows a hypothetical company’s performance in eight product-delivery processes. It reveals that the company has best practices to share in its warehousing area, but it needs to benchmark assertively in post-sales support.



Choosing the Most Suitable Data Types

There are two primary types of benchmarking information: quantitative results (data) and qualitative process information. Both types must be used together. Quantitative benchmarks work well for straightforward side-by-side comparisons—say, your goal of 93-percent on-time delivery against a best-in-class number of 98 percent. Qualitative benchmarks help a company understand how its core practice operates at a more fundamental level. Exhibit 4, excerpted from CSCMP's *Supply Chain Process Performance Standards*, shows qualitative information for typical order-confirmation practices.

To repeat: It is vital to use quantitative and qualitative inputs together to get an accurate view of the bigger picture. In one case, a *Fortune-500* distributor was achieving on-time

shipments in the best-in-class range of 98 percent-plus. However, qualitative investigation showed that the outcome came with heavy penalties. Relying on rudimentary warehousing techniques, the company was muscling through the shipping process with lots of overtime and too much inventory.

Art vs. Science

Successful benchmarking efforts drive meaningful change as a result of meaningful comparisons. Too often, companies measure for the sake of measurement. If the measurement is the science, then the art of benchmarking is interpretation and context. It is about knowing which results mean the most in which circumstances.

Even today, very few companies are aware that some of the best ideas—diamonds in the rough—may be right in their own backyards.¹¹ For those companies with some experience in external benchmarking, now is the time to turn those techniques inward. For those without such experience, external benchmarking is not a prerequisite. What is crucial is that the systematic search begins soon. Discovering internal best practices is only the start. The real prize is in putting them to work throughout the company. ☞

Footnotes

- ¹Francis Gaither Tucker, Seymour M. Zivan, and Robert C. Camp, "How to Measure Yourself Against the Best," *Harvard Business Review*, January 1987.
- ²Darrell K. Rigby, *Management Tools 2003: An Executive's Guide*, Bain & Co., 2002.
- ³Council of Supply Chain Management Professionals, *Logistics and Supply Chain Management Process Standards*, Oak Brook, IL, 2004.

EXHIBIT 4

Qualitative Benchmark Information

	Main Process Section	Process Sub Category	Suggested Minimum Process Standard	Typical Best Practice Process
	4.0 Deliver			
	4.1 Order Management			
4.1.1	Order receipt and entry	<ul style="list-style-type: none"> Capability to receive and process customer orders by phone, fax, e-mail, and EDI Orders entered into single database for all operators at a given region (Europe, Asia Pacific, etc.) Price lists updated regularly for manual price confirmation Web-based order entry for select trading partners Export orders check for denied parties Key performance indicator: 98-percent data accuracy at order level 	<ul style="list-style-type: none"> Product priced accurately at time of order entry including adjustments for configurations Use of EDI and/or Web-enabled order management to allow remote order entry, configuration management, order-status updates, etc. Online order entry systems have multi-language and currency capabilities Linkage to point-of-sale systems in the case of retailers to create releases as target inventory levels are met Outbound transportation options and pricing included at order entry Automated cross-sell/up-sell capability 	
	Process Attribute	Descriptions of Suggested Minimum Standard for the Process Attribute	Descriptions of Typical Best Practices for the Process Attribute	

Source: Council of Supply Chain Management Professionals "Logistics and Supply Chain Process Standard"

- ⁴Karl B. Manrodt and Kate Vitasek, "Global Process Standardization: A Case Study," *Journal of Business Logistics*, Vol.25, No.1, 2004.
- ⁵Tad Leahy, "Extracting Diamonds in the Rough," *Business Finance*, August 2000.
- ⁶Tad Leahy, "High-Velocity Benchmarking," *Business Finance*, November 2000.
- ⁷Leahy, "Extracting Diamonds in the Rough."
- ⁸The SCOR model consists of six broad process areas into which all company activities can be categorized (plan, source, make, deliver, return, and enable). More information about the SCOR model can be found at: www.supply-chain.org.
- ⁹Leahy, "High-Velocity Benchmarking."
- ¹⁰Leahy, "Extracting Diamonds in the Rough."
- ¹¹Leahy, "Extracting Diamonds in the Rough."