ATTAIN BEST IN CLASS STATUS
AND A COMPETITIVE ADVANTAGE
THROUGH CROSS-INDUSTRY BENCHMARKING
THE ROAD TO STRATEGIC ADVANCEMENT

SUSTAINING A COMPETITIVE ADVANTAGE IS A STRATEGIC OBJECTIVE FOR MOST COMPANIES WITH A VISION TOWARDS ONGOING SUCCESS AND PROFITABILITY.

To gain this edge, businesses must operate at maximum efficiency and effectiveness, offering products and services with prices and unique value that differentiate them from the competition. A strong market competitor has a complete vision of the operational lifecycle, extending from an efficient supply chain and nurtured supplier relationships, to thorough risk management and post-contract evaluation.

Without accurate insight into operations and appropriate market data, companies cannot know if they are operating at maximum potential or just maintaining the status quo. Understanding how your organization compares to other businesses within your industry is a critical element in staying ahead of the curve. To remain competitive and profitable, while ensuring processes are performing optimally, companies of all industries should periodically assess their performance.

By comparing processes, services, products, and especially suppliers, companies can evaluate their performance against industry standards and best practices. In addition, an internal assessment can support future planning and change management for more streamlined operations and cost reductions.

SUPPLIER BENCHMARKING is the strategic tool that measures business performance, supply chain efficiency, and supplier relationship adeptness against established best practices in the industry. Through benchmarking, a company can evaluate its pricing, workflows, contractual relationships, spend profiles and other parameters against the marketplace to gain insights on current operations and recommendations for continuous improvement. Actionable intelligence outlined in a benchmark report allows a company to develop strategies focused on operational, financial, customer service, contract and other improvements.
Before delving into benchmarks, companies must understand its components, benefits, process and how the involvement of stakeholders is critical for the benchmark to provide the most value. The American Productivity and Quality Center defines benchmarking as “the process of identifying, understanding, and adapting outstanding practices and processes from organizations anywhere in the world to help your organization improve its performance.”

Benchmarks provide a company with a synopsis of what they are doing today, evaluate programs (including processes and workflows, contractual relationships and spend profiles) against the marketplace, and offer conclusions and recommendations. Companies can use benchmarks to assess specific activities within departments or operations that affect the entire enterprise.

From an analysis of company operations against market data, benchmarks can identify gaps in business practices and the need for continuous improvement. Ongoing benchmarks can assess the success of changes to ensure companies are attaining the results needed to sustain long-term goals and best practices.

Let’s say, for example, a company uses benchmarking to optimize its sourcing strategy related to spend on temporary staffing providers. An internal assessment reveals that different suppliers are used throughout the organization at various spend levels. Comparing this information to market data on best-in-class practices utilized within its industry, findings indicate that it is more cost effective to utilize a bench of staffing suppliers and establish a corporate policy that all staffing requirements are managed by Human Resources rather than fragmented individual departments. By incorporating this action item as part of the sourcing strategy, the company is equipped to save thousands in revenue each year, obtain greater service from a core set of suppliers and gain more control over spending.

In another scenario, a business benchmarks the activities of external creative and advertising agencies to assess if these suppliers are being utilized effectively by their marketing departments. Focusing on agency expenditures, the benchmark can show if one or more creative agencies are charging more than the industry average, providing transparency and leverage for the company to renegotiate contract terms to more competitive rates.

**A 2008 STUDY BY THE GLOBAL BENCHMARKING NETWORK INDICATED AN AVERAGE FINANCIAL RETURN OF $100,000 TO $125,000 PER BEST PRACTICE BENCHMARKING PROJECT WITH OVER 20% REAPING BENEFITS OF MORE THAN $250,000 PER PROJECT.**

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WHY BENCHMARK?

85% OF PROFESSIONALS REPORTED CURRENTLY HAVING SOME TYPE OF CONTINUOUS IMPROVEMENT INITIATIVE. WHEN PROFESSIONALS WHO TOOK THE “METRICS THAT MATTER” SURVEY WERE ASKED ABOUT THEIR PARTICIPATION IN BENCHMARKING PROJECTS, THERE WERE SOME DIFFERENCES IN THE RESULTS. JUST 34% OF RESPONDENTS SAID THEY HAD PARTICIPATED IN A BENCHMARKING PROJECT, WHILE 66% HAD NOT. ²

Benchmark studies are executed for a variety of reasons:

RELEVANT MARKET DATA: Companies are often challenged to find real-time market intelligence that provides the necessary insights into their specific industry and supplier relationships. Benchmark studies can provide access to an up-to-date data set that offers the potential for meaningful and customizable analysis. Unfortunately, many outside resources, such as those offering subscription services, provide benchmark reports that do not provide the in-depth data or actionable intelligence to support continuous improvement. If not conducting research internally, businesses should look to third-party benchmarking consultants with experience and access to relevant market data in their industry.

CONTRACT EVALUATIONS: Benchmark studies help prepare companies for negotiations with suppliers and provide insight into how existing contracts and pricing align to similar companies in their industry.

FEEDBACK ON KEY PERFORMANCE INDICATORS AND SERVICE LEVELS: Benchmark studies are used to evaluate current service levels and determine how they compare to others in the industry. Should benchmarking reveal that company growth, revenue, or supplier relationships are consistent with the industry, business can continue to grow based on the current strategies, with periodic evaluations using benchmark studies.

IDENTIFY GAPS: Through an internal assessment, benchmarking serves as a tool to identify potential gaps in business operations, supplier relationships as well as irrelevant activities that drain resources. With these findings, companies can concentrate efforts on making operational improvements in these areas.

GAIN STRATEGIC ADVANTAGE: Recommendations and specific observations in a benchmark report help companies understand important issues and develop strategies to address them based on what is happening in the industry.

UNDERSTAND RELATIVE COST POSITION: Whether using a competitive RFP or sole-sourcing process, companies need to know they are getting the best pricing. Benchmarking can identify competitive rate structures that encourage proper behavior by both parties regarding costs.

INCREASE RATE OF ORGANIZATIONAL LEARNING: Benchmarking is a learning process that continues to keep companies – and participants - motivated while generating new ideas that can be shared and facilitated by the company. Working hand in hand with benchmarking, organizational learning can enhance business performance and competitiveness in the industry.
1. Current State

A. Establish a Plan of Action

The first step of a benchmark study is establishing parameters that support a basic plan of action (see Figure 1). Will the benchmark be used to evaluate current contract terms and pricing for an upcoming negotiation to better understand the industry before investing in a large capital purchase or to evaluate how efficiently and effectively current suppliers are utilized?

Figure 1: Define a Plan of Action during the initial stages of benchmarking. For example, companies may opt to evaluate current supplier pricing, contract terms, spend levels, key performance indicators and other business parameters.

B. Identify Engaged Owners

Parties involved in the benchmark study are also defined at this stage. Benchmarking is only successful when supported by engaged stakeholders. Input and involvement by the company or department throughout the benchmark process is essential to gather the correct information, understand the current state and determine the future state of a company, department or supplier relationship. (Read Why Stakeholder Involvement is Key to Successful Benchmarks)

C. Identify Baseline of Current Activities

Once the plan of action has been established along with the stakeholder(s) of the engagement, the next step in conducting a benchmark study is to create and identify a baseline of current activities for assessment. For example, if benchmarking will focus on evaluating supplier contract terms, pertinent information should be collected and reviewed relating to current contracts, statement of work, pricing structures and other parameters. Information must be very specific to the benchmark study and offer robust, in-depth details on current activities.

While the stakeholder is often the main resource for data, other team members utilizing the same service or supplier (as well as the independent benchmark company, if contracted), are involved in the data collection process to provide a better understanding of current relationships and the services currently utilized by the company.

Without taking the time to clearly outline current processes as they operate today, the benchmark study will not provide any benefit to a company’s success. This critical step serves as the foundation of the benchmark, highlighting key areas that will be evaluated in the final report.

D. Gather Market Intelligence

As market intelligence should support the process, industry or criteria of the benchmark, data sources must be relevant to the scope of work. The most fitting competitor organization(s) must be chosen for comparison. Sources should be validated to ensure their reliability while providing a true “apple to apple” comparison.

Rather than solely rely on subscription services for benchmark reports that often offer high level data too general in scope to provide true insights, companies should conduct hands-on research using industry associations, publications and internal data to cultivate insight. To gain real-time access to relevant market intelligence, companies should consider contracting third-party resources specializing in conducting benchmark studies.
2. Benchmark Analysis

Once the current state of the company and/or department has been defined, findings are evaluated against market intelligence. For example, when assessing a supplier, benchmarking should elaborate on how the supplier’s offerings and terms compare to best in class market data by examining, for instance, rates and contract terms. KPIs and service level agreements can also be evaluated.

The benchmark analysis should be objective and based completely on data. It should serve as a fair comparison in assessing companies or suppliers that provide similar services and products in a target market or similar industry.

The results of the benchmark analysis can be presented in different ways such as charts, tables, spreadsheets (see Figures 2 and 3) for easy interpretation by different decision makers. The adjacent charts are results from a benchmark analysis that shows market comparisons of different information in two formats.

### Table 1. Market Data

<table>
<thead>
<tr>
<th>Level/Role</th>
<th>Supplier Baseline Rate</th>
<th>Supplier External Rates*</th>
<th>Supplier X</th>
<th>Supplier Y</th>
<th>Supplier Z</th>
<th>Variance From Lowest Rate</th>
<th>Variance From Highest Rate</th>
<th>Variance From Average Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1 - Partner</td>
<td>$743</td>
<td>37%</td>
<td>18%</td>
<td>-3%</td>
<td>58%</td>
<td>58%</td>
<td>-3%</td>
<td>24%</td>
</tr>
<tr>
<td>Level 2 - Senior Manager</td>
<td>$555</td>
<td>27%</td>
<td>16%</td>
<td>-14%</td>
<td>40%</td>
<td>40%</td>
<td>-14%</td>
<td>14%</td>
</tr>
<tr>
<td>Level 3 - Manager</td>
<td>$430</td>
<td>11%</td>
<td>3%</td>
<td>-7%</td>
<td>28%</td>
<td>28%</td>
<td>-7%</td>
<td>7%</td>
</tr>
<tr>
<td>Level 4 - Senior</td>
<td>$301</td>
<td>7%</td>
<td>-8%</td>
<td>-9%</td>
<td>31%</td>
<td>31%</td>
<td>-9%</td>
<td>3%</td>
</tr>
<tr>
<td>Level 5 - Staff</td>
<td>$174</td>
<td>-16%</td>
<td>-18%</td>
<td>-36%</td>
<td>-9%</td>
<td>-9%</td>
<td>-36%</td>
<td>-21%</td>
</tr>
</tbody>
</table>

*Supplier rates provided to other companies

### Figure 2:

**Key**
- **Red**: Rates for Functional Role are higher than market rates.
- **Green**: Rates for Functional Role are lower than market rates.

### Figure 3:

**Baseline Rates vs. Market Rates**

- **Lowest Market Rate**
- **Highest Market Rate**
- **Average of Market Rates**
- **Supplier Baseline Rate**
3. CONCLUSION

A final report will present all the information gathered during a benchmark – data, visuals and qualitative observations. To properly report findings, metrics must be used that help reveal insights. Having a clear picture of the data at hand will optimize usage across the organization.

By summarizing information presented in the analysis and identifying crucial findings, the conclusion serves to provide closure to any and all information brought to the table in the current state and benchmark analysis. If done efficiently and effectively with the right components – including real-time market intelligence, knowledge of best practices, and stakeholder involvement – these reports can bring significant value to any company.

4. RECOMMENDATIONS

From insights derived from the final report, recommendations will be formulated that will provide companies with suggestions on strategies and tactics to improve their current state (see Figure 4). Properly conducted benchmark studies can produce clear and actionable recommendations that provides a focus and allow the company or stakeholder to look at their own actions to understand where there may be issues and develop strategies to address them based on what is happening in the industry.

**Figure 4:** The recommendations portion of the benchmark study will provide suggestions on strategies and tactics to better improve the current state of business.
Why Use a Third-Party Benchmarking Consultant?

With limited internal data and a lean resource model, companies may not be equipped to conduct benchmark studies on an ongoing basis. In these situations, a company should consider using the services of a third-party benchmarking consultant that provides the expertise necessary to conduct the analysis and develop robust benchmark reports.

Consulting companies possess the dedicated resources and time to collect all the relevant information to create a benchmark report that can be easily understood and used effectively. They also offer objectivity when evaluating company data, access to data and market information as well as their own industry and category knowledge.

As online benchmarking subscription services offer generic ranking systems that limit analysis to percentiles and grades, companies should consider utilizing a third-party benchmarking consultant with the resources and capabilities to create customized benchmark analysis reports. Leveraging the market intelligence of thousands of sourcing events across a variety of industries, third-party consultants can properly customize reports to the industry and parameters of the benchmark study. As a result, benchmark conclusions will reveal not only if a company is competitive, but give very specific advice on areas of continuous improvement.

Choosing the right type of benchmarking services offered by an outsource should also be considered. Third-party benchmarking consultants may use different benchmarking methods to help clients develop their market intelligence. Some of these methods include:

**Process Benchmarking:** focus on business processes, applying best practices from benchmark

**Financial Benchmarking:** use financial analysis to measure competitive success

**Strategic Benchmarking:** focus on competitors and best-in-class organizations outside industry

**Best-In-Class Benchmarking:** compare operations to leading competitors within same market

Instead of just offering one approach to benchmarking, the ideal third-party benchmarking consultant will combine all of these methodologies (see Figure 5) into their processes to customize the findings to company needs, providing not just data but actionable suggestions for improvement.

*Figure 5:* When reviewing the services of a third-party benchmarking consultant, the ideal firm should combine different methodologies into a benchmark approach instead of just one.
OTHER BENEFITS OFFERED BY AN INDEPENDENT BENCHMARKING FIRM

**Best Practices:** An organization dedicated to performing benchmark analyses for clients already has established processes and procedures for performing evaluations and creating reports from which clients can derive actionable intelligence. The most qualified third-party benchmarking consultants have established best practices in their methodology, enabling them to perform benchmark studies efficiently and effectively, alleviating company time and resource requirements.

**Database Accessibility:** In addition to established best practices, independent firms maintain real-time databases of data collected from previous work, research, subscriptions to data resources, and partnerships with other independent firms that can be easily accessed and used as part of benchmarking.

**Industry-Specific Knowledge:** Third-party benchmarking consultants may specialize or have significant experience with a particular industry or business category. Specific industries, such as healthcare or pharmaceuticals, require a certain level of industry expertise to deliver an effective benchmark report. Firms that offer industry specialization also are aware of the latest trends and have an understanding of the competitors in that market.

**Multiple Category Expertise:** Many independent firms do not specialize, but, instead, provide a diverse service offering that addresses different operational categories—such as telecom, IT, or marketing. With access to a variety of information, third-party benchmarking consultants can offer cross-category practices not previously analyzed.

**Objectivity:** Lack of objectivity is one of the biggest downfalls for companies evaluating their own performance. Without using an objective point of view when looking at internal operations, personal biases may come into play that could affect end results. Independent benchmarking firms offer an outside perspective needed to get the most honest and unbiased results and recommendations.

**Competitive Advantage:** Properly conducted benchmark studies can produce clear and actionable recommendations that drive results to companies. If executed efficiently and effectively, with the right components—including real-time market intelligence, knowledge of best practices, and stakeholder involvement—these reports can bring significant value to any company.
BENCHMARK CASE STUDIES

BENCHMARKING IS USED BY COMPANIES FOR VARIOUS REASONS. HERE ARE TWO EXAMPLES OF HOW DIFFERENT COMPANIES USED BENCHMARKING TO IMPROVE SPECIFIC ASPECTS OF THEIR OPERATIONS:

BENCHMARKING SUPPORTS OPTIMIZATION AND COST REDUCTION OF WELLNESS PROGRAM FOR HEALTH INSURANCE CORPORATION

A large health insurance provider seeking ways to reduce costs while increasing membership levels associated their wellness program contracted a third-party benchmarking consultant to compare the pricing structure and model of their existing wellness program against those deemed best in class within the industry. From the benchmark study, the health insurance provider sought to obtain insights on pricing rationalization and identify potential savings opportunities in order to lower monthly operational cost while increasing program utilization.

At the time of the benchmark study, the compensation structure to the wellness services provider was complex and based on a compound pricing model inclusive of a monthly administrative fee known as “Per Member, Per Month” (PMPM) fee, and a “Per-Visit” fee. The monthly PMPM fee total was determined via a stepped calculation, which applied a tiered rate to the amount of eligible members per threshold. Based on these fees and total membership volume, the client was given an allowance of monthly member visits to participating facilities at no additional cost. However, once this monthly allowance was surpassed, the Per-Visit fee was paid for every member visit in excess of that allowance. This pricing model was both complex and uncommon.

Market intelligence gathered from a preliminary pricing review and research demonstrated that a tiered PMPM fee model generated tens of thousands of unwarranted fees annually. The current pricing calculation did not follow a typical pricing model observed by other health insurance providers and indicated that PMPM rates were higher than fees given to providers with similarly sized memberships.

During the market analysis phase of the benchmark study, the benchmarking firm established that the Per-Visit fee was, in fact, substantially lower than industry fee averages. However, the Per-Visit fees did not represent any portion of the client’s monthly or annual spend as the utilization allowance was never exceeded. In fact, utilization levels were assessed at less than 20% of the monthly visit allowance.

Based on this information, the third-party benchmarking consultant recommended shifting from a stepped PMPM monthly calculation to a straight calculation solely based on total membership. The benchmark study indicated that a reduction in the PMPM fee would directly decrease the program’s monthly cost. More importantly, benchmark findings presented a case for shifting to a lower/reduced PMPM fee to below market levels, a higher Per-Visit fee as well as the removal or substantial reduction of the utilization allowance.

Recommendations were based on the premise that an expected increase in program utilization due to reduced fees, would, in turn, result in improve the health of members. Consequently, the number of claims would decrease and the health insurance company would ultimately see improvements to their bottom line.

Insights on current market conditions provided the necessary platform to the insurance company to execute these recommendations and conduct effective negotiations with the wellness services provider during contract renewal.
A Fortune 500 company, looking to cut costs by 20%, identified print services as a significant spend category that had grown stagnant. A lack of time and category knowledge prompted the Fortune 500 to contract a third-party benchmarking consultant who possessed the resources and subject matter expertise to conduct a benchmark study.

To benchmark the client’s $6 million+ print services category, the strategic sourcing expert initially conducted a full spend analysis to determine the extent of the client’s actual print spend, collecting all of the client’s invoices and purchasing data, then sorting it by market category. Utilizing market intelligence to compare the client’s current agreements to market rates, the benchmarking outsource identified potential savings and value-add opportunities with regards to warehousing, design, and form services as well as various order process improvements.

Following the thorough spend analysis and benchmarking exercise, the third-party benchmarking consultant focused on a single print service provider that was supplying a substantial portion of the client’s print requirement. With the approval from client stakeholders, the consultant conducted a RFP and identified three alternate vendors capable of satisfying the same print requirements. After presenting findings to the Fortune 500, a qualified resource was identified that could offer a 31% savings over current spend while addressing the same print requirements. Using this market intelligence, the Fortune 500 negotiated substantial concessions from the incumbent service provider, realizing savings faster and removing any costs associated with a vendor change.
RESOURCES


Source One Management Services, LLC is one of the oldest and most experienced procurement services providers in the world. Source One offers a full suite of strategic sourcing, supplier relationship management and supply chain services to a roster of Fortune 500 and mid-market clients. Source One helps supplement our clients’ time, expertise, and resources with experience, market intelligence, technology, and people to deliver tangible results and maximize value received from their suppliers. For more information on Source One, visit us on the web.