

Benchmarking for Continuous Improvement

In this sheet, we discuss the need for businesses to review areas of their business and compare them with other businesses that essentially successful businesses who are competitors of yours. We will discuss:

1. What is benchmarking
2. How to benchmark

Click through to the ATO link at the end of this sheet for more information and a short video which discusses small business benchmarking and provides an excellent easy to use application so you can commence your benchmarking exercise.

What is Benchmarking?

Benchmarking helps an organization identify performance gaps, enabling it to set the right goals and priorities to sustain and improve its competitive position.

Benchmarking is the measurement and comparison of existing enterprise performance with that of:

- The market leader (that is, the best in the field)
- A successful company – a competitor or a non-competitor
- The average for the industry

Even the smallest of businesses can benefit from some form of benchmarking. Knowing where you stand in relation to the competition and the expectations of customers is valuable information that will enable a business owner to improve performance and grow a sustainable revenue stream.

How to benchmark

Step 1 – Process identification

Identify the management or business function, and the specific processes, which need to be examined/improved.

Focus on the key processes. As with most things the 80:20 rule applies; there are a small number of functions and processes that will be responsible for the majority of the performance.

Step 2 – Identification and selection of the best practice entity

The most difficult step in benchmarking is to identify the best practice entity performing similar processes in an outstanding manner. This entity may be in your industry but they may not.

Step 3 – Examination (study) and measurement of the best practice organization

Once you have selected the practices to be benchmarked and identified similar processes in best practices companies, the next step is to study the performance comparisons with those in your own business.

The four primary comparison areas are:

- Costs
- Profitability
- Quality
- Time is taken to perform the functions being examined

Step 4 – Evaluating the results of benchmarking

Take care to identify any material differences in operating environment, industry or other identified differences between the benchmarking enterprise and the entity being examined.

You will likely need to adapt what you have learned to your own specific situation.

Step 5 – Follow up

When relationships are developed between the entities, follow up visits and ongoing contact can usually be established, often leading to strong relationships and networking to the benefit of both businesses.

The ATO has some [excellent resources](#) on benchmarking and a tool for you to benchmark your business with a range of others in most industries.