Strategic accounting

Benchmarking analysis and management accounting

Piotr Modzelewski, Ph.D.
Introduction

• Define what is benchmarking
• Identify what benchmarking analysis has to offer
• Discuss various types of benchmarking
• Illustrate the benchmarking process
• Understand the role of management accounting in benchmarking
Advantages of benchmarking

- Provides direction and motivation for continuous improvement
- Indicates early warning of competitive disadvantage
- Promote competitive awareness
- Identifies the „best practice”
- Links operational tactics to corporate vision and strategy
- Exposes performance gaps
- Help companies redefine their objectives
- Allows realistic stretch goals
Types of benchmarking

- **Internal benchmarking** – is a process of comparing performance within the company or division. A comparison is made across internal operations and parameters, such as purchasing, marketing, research and development, administration and so on.

- **External benchmarking** – focuses on external comparisons, that is performance is compared with a spread of look-alike businesses in similar positions experiencing similar market growth, fluctuations and circumstances.

- **Best-practice benchmarking** – requires seeking out the undisputed leader in a particular process that is critical to the entire business process – regardless of sector, industry or location – and comparing it with your own.
What to benchmark?

- Business processes
- Equipment
- Manufacturing (production) processes
- Products and services
Phase I: Planning the benchmarking process and characterization of the item(s)

1. Identify what to benchmark
2. Obtain top management support
3. Develop the measurement plan
4. Develop the data collection plan
5. Review plans with location experts
6. Characterize your benchmark item
Phase II: Internal data collection and analysis

7. Collect and analyze internal published information
8. Select potential internal benchmarking sites
9. Collect internal original research information
10. Conduct interviews and surveys
11. Form an internal benchmarking committee
12. Conduct internal site visits
Phase III: External data collection and analysis

13. Collect external published information
14. Collect external original research information
Phase IV: Improvement of the item’s performance

15. Identify corrective actions
16. Develop an implementation plan
17. Gain top management approval of the Future State Solution
18. Implement the FSS and measure impact
Phase V: Continuous improvement

19. Maintain the benchmarking database
20. Implement continuous performance improvement
Benchmarking database

• The item’s characterization results
• Survey results
• Summary of data collected from external and internal publications
• The data matrix
• List of improvement opportunities
• Root cause/corrective action analysis
• Gap/trend analysis graphs
• Simulation model
• Flowcharts of the benchmark item
• Measurement interaction charts
Benchmarking Initiation Team should define which performance measurement should be compared:

- Product performance
- Service quality
- After-sales service
- Costs
- Product features
- Product technology
- Internal quality
- Advertising
- Return on assets
- Customer satisfaction
- Selling price
- Reliability
- Growth in a market segment
- Product line breadth
- Product cycle time
The Team should then discuss the following questions (1/2):

1. Are we having problems with the products we are delivering to our customers?
2. Are the major problems related to the support functions and overhead costs?
3. Is our equipment obsolete?
4. Is the manufacturing process the source of our biggest problems?
5. What has the biggest negative impact on customer satisfaction?
The Team should then discuss the following questions (2/2):

6. Where is the biggest opportunity for reducing waste?
7. What is the root cause of the problems we are facing?
8. Where have we lost ground recently in comparison to our competition?
9. Where will we potentially lose ground in the future compared to our competition?
Select manufacturing processes to be benchmarked

- Packaging
- Automotive body assembly
- Internal parts transportation
- Oil/water separation
- Waste filtration
- Oil drilling
Select products and services to be benchmarked

- How is the product designed?
- Who are the competitors’ suppliers?
- What are the competitors’ limitations?
- How is the product manufactured?
- How much does it cost to service?
- How is it packaged?
- How good is its documentation?
- How good does it perform?
- How fast can it be delivered?
- How user-friendly are the competitors’ processes and/or equipment?
Examples of measurement

Cost
- Cost per unit/order
- Cost per service call
- Labor overhead rate
- Ratio of customer administration to revenue
- Ratio of service to revenue

Equipment reliability
- Run time between repairs
- Capacity utilisation
- Planned maintenance
- Unplanned maintenance
- Equipment age
Examples of measurement

**Layout**
- Travel distance between workstations
- Repeat visits to a process
- Operation size
- Space for growth
- Percentage of floor space devoted to stock

**Organizational considerations**
- Turnover rates
- Average annual training time (hours per employee)
- Number of autonomous work teams
- Average span of control
Examples of measurement

**Processing time**
- Total lead time
- Backlog time
- Value-added vs. non-value added activities
- Employee hours per unit
- Percentage of overtime worked

**Production procedures**
- Maximum production capacity
- Number of schedule changes per month
- Compliance with daily scheduling
- Average inventory value
Examples of measurement

**Quality**
- Process variability
- In-process errors
- Customer satisfaction index
- Warranty costs
- Service calls
- Customer complaints
- Poor-quality costs
- Elapsed time to solve a problem

**Sales**
- Advertising budget as percentage of sales
- Percentage of repeat sales
- Percentage of sales force time with customers
- Market share
Examples of measurement

Service
- Service response time
- Repeat visit on service call problem
- Percentage of spare parts available when required

Supplier management
- Number of suppliers
- Average cost to maintain a supplier
- Cost per procurement cycle

Unused machining capacity
- Number of problem-free machines
- Rework lost time

Miscellaneous
- Number of open doors per year
- Number of grievances per year
Discussion questions

• Why is benchmarking important for an organisation? Explain.
• What are the relations between benchmarking and performance measurement?
• Explain how organisations can use benchmarking as a weapon to survive in today’s competitive business environments.
References

- D.N. Chorafas, Strategic Business Planning for Accountants. Methods, Tools and Case Studies, Elsevier, USA 2007
Thank you for your attention

E-mail: pmodzelewski@wne.uw.edu.pl