BEST PRACTICE
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Benchmarking

Benchmarking is a vital tool, aimed at driving performance and value through creating and developing a comparable standard. Benchmarking, while not a new tool within outsourcing having become uniform within large outsourcing contracts, has become increasingly used to drive tight margins and has been driven by technology innovations and increasing economic necessity. Organisations however are still failing to effectively benchmark and reap the full benefits on offer.

This best practice guide will look at how benchmarking is being employed, how it should be implemented and the dangers of its incorrect usage during outsourcing.

Benchmarking over recent years has been driven by typical drivers including value and increased cost savings. Developments in technology such as Big Data, data centres and cloud analytics have allowed benchmarking to become a major force in driving performance. Technology is becoming key to increasing the value of benchmarking in outsourced projects. Rather than employing benchmarking artificially at quarterly or annually periods, technology is allowing services to be dynamically analysed allowing supplier and end-users to focus on achieving improvement.

Benchmarking, while helping to develop standards and shift services, its use as a tool has yet to reach a breakthrough in thinking where its full potential is correctly utilised. According to a 2010 Gartner IT Key Metrics Data survey, 24 percent of firms still have no benchmarking clauses at all, while increased spending in analytics over the last two years have yet to produce a benchmarking.

Benchmarking for success

Benchmarking is vital in ensuring that outsourcing contracts remain competitive during their lifetime, designed to provide information and establish data normalisation. Establishing benchmarking within the contract can help the longevity of the supplier/user relationship and promote increased stability alongside value.

Benchmarking has been at the centre of the UK Government's drive to increase standardisation. Standardisation has been promoted particularly within IT to increase efficiency and allow the public sector to be placed in a strong position in procurement negotiation. The use of benchmarking allows the government to drive the standardised model from suppliers, while increasing cost-savings and performance. Benchmarking is routinely divided up into the following categories:

- Performance benchmarking: focused on the efficiency of delivery and looking at cost, service quality and driving KPIs
- Strategic benchmarking: aimed at driving standards in long-term strategies including the analysis of core service performance
- Process benchmarking: looking at the performance of critical processes with a focus on short term benefits
- Financial benchmarking: looking at the performance of finances compared with productivity of the service
- Informal benchmarking: on-going comparison with a range of practices through a unplanned process
- Best practice benchmarking: looking at how particular organisations with a proven record of high performance in the desired service areas to benchmark against and establish a strong standard

Initial implementation

Benchmarking entails the measuring of different services, products, vendor agreements and technology implementations against each other, with the goal of pinpointing the most efficient routes to achieving the businesses goals. Benchmarking provides an organisation with a comparative view of their own business processes against the best in class standard, allowing them to manage processes optimisation. This may include cost cutting, compliance or further procurement. By matching up products, costs and goals an organisation can make informed decisions about development and focus. When done well, it

can provide a solid business case for whichever option is taken and give an organisation a much clearer view of how projects are contributing as a whole.

Benchmarking can only be successful if the correct metrics are selected, these should be based on the parameters which truly impact overall business outcomes. Business processes should be analysed from the perspective of these metrics, facilitating the discovery of the right levers to achieve the desired strategic goals.

Service Transparency

In carrying out benchmarking, the contract should set out a transparent overview of what exactly the benchmarking clauses will entail. Both supplier and user need to understand the methodology behind the benchmarking in order to prevent disruption to service and damage to relationships. In its application as a tool benchmarking should consist of multiple metrics. Martyn Hart, NOA Chairman, describes how the toolset should be used: "Benchmarking needs to incorporate a detailed normalisation process, employing a wide range of parameters, to allow for like-for-like comparison against other outsourcing contracts."

Eileen Milner, Executive Director for Business Strategy, Northgate Public Services describes how benchmarking truly comes into its own when it stimulates the: "fundamental and intelligent redesign of services based upon the understanding of what inputs need to be made and what outcomes need to achieved."

Benchmarking can also allow the employment of a popular tactic in driving cost savings and performance in outsourcing projects in the carrot and stick approach. Contracts have increasingly become viewed with a long term strategy in mind rather than as a short term goal. This has meant that providers have become more willing to sacrifice revenue in the form of the carrot to increase margins.

"Those who have the data are all masterful."

Mike Hunter, VP Cognizant Business Consulting, Cognizant

Planning for benchmarks in contracts should be balanced in order to create fair benchmarked clauses to drive rather than hinder services. A balanced benchmarking clause should push an incumbent vendor to increase services in areas where benchmarks have not been met. Suppliers should be allowed to retain their existing position rather than being heavily penalised, and resulting in detrimental effect to service delivery so that the project can still be delivered.

When benchmarking, Harry McDermott, CEO of Hudson & Yorke says, "it's very important to have a fair benchmarking clause, one that allows the incumbent vendor the best opportunity of retaining their existing position, but also feeling a sense of pressure to remain incumbent." Examples of best practice in getting the most from outsourced services include giving suppliers a control in the stake of the service they've been charged with. In giving the supplier more freedom, clients can stimulate the

promotion of alternative delivery models. This can have the effect of driving positive behaviour and promotes the supplier to increase efficiency. Benchmarking should then be employed to analyse the newly promoted models in order to select those that can be carried forward.

Benchmarking has matured in recent years tied to the development of analytics. It truly becomes invaluable as a tool when trends can be observed. This is achieved through convergence of benchmarking with analytics. In order to increase the effectiveness of benchmarking, analytics should be brought up to the same specification. To meet this requirement more and more organisations are investing in analytics including data centres, software and cloud analytical capabilities.

Mike Hunter, VP Cognizant Business Consulting, Cognizant, said: "I think more and more organisations will be investing in analytics, it's a key area that Cognizant is focused on and making sure that we can use the analytical tools and the benchmarking information we have to differentiate ourselves in the market, but more importantly create value right from the very beginning." When benchmark data is correctly applied through programs and predictive analytical tools, end users when in discussion with a client, can drive home innovative practices supported by solid metrics.

Benchmarking should be implemented based on what clients require rather than being based on varying delivery models. The client's objectives should be at the forefront of any project, to this extent the type and scope of benchmarking should be focused on driving the project.

Northgate Public Services employs benchmarking to gain outcome measures in the work in carries out in the health sector. The data collected provides details on input costs, outcomes achieved and patient feedback on their experience. Eileen Milner of Northgate Public Services: "the NHS is a world leader in gathering information, creating, in effect, the benchmarking practice and nowhere else in the world do you have that working at the scale that we have."

Northgate has carried out positive action from the use of benchmarking. A pattern of implant rejection, particularly hip joints was analysed and acted on through the analysis of benchmarking data. Eileen describes how in: "going through the data that we collected, a benchmark of acceptable, good practice and of failure in the joints were created. So we were able to say there is a failure rate here which is unacceptable which falls beneath the benchmark. This triggered an investigation which led to the withdrawals and changes in practice."

For Northgate Public Services and its work within the health sector, benchmarking needs to provide metrics not only on commonly tested areas including cost and input benefits, but in case specific areas like patient experience and quality of outcome in order to develop new standards.

During the contract planning phase, users should establish when and if benchmarking should be used, benchmarking can both be positive and negative. Benchmarking should be relevant and users should be aware not to include too many parameters.

Drivers of benchmarking should be careful to avoid the risks of focusing too heavily on its employment. Benchmarking can inhibit vital project processes including communication. A failure of

understanding between users and suppliers can be triggered. A common misunderstanding can revolve around the supplier being unaware of how they are being assessed and what areas they're being benchmarked on.

Users must take care to ensure the quality of their benchmarking criteria. Mike Hunter described how a Cognizant pitch had been hindered by a narrow benchmarking focus in which the users wished to make comparisons against a small range of similar suppliers: "sometimes people are too narrow in what they're benchmarking against." When employing benchmarking there exists a fine line in creating an overly detailed and cumbersome benchmarking toolset to one that is narrow and vague. Employing the correct benchmark avoids time-wasting and the loss of resources while generating cost savings and visible opportunities to develop increased growth.

Opportunities for benchmarking development

The UK public sector has the opportunity to learn from practices carried out in other countries, however a shift in department attitudes is required. Eileen Milner: "lots of other countries come to the UK to look, study, understand and create benchmarks and they're very open minded to learning. We need to have an open mind to actually looking outside of our own confines or otherwise we'll become a little bit self-centred." This attitude is often reflected in many organisations. In promoting best practice, particularly within the public sector, organisations needs to become more open to standards developed in other industries and countries to identify and leverage applicable process best practices.

Many organisations have myopic view, choosing only to use industry specific benchmarks. This is usually an error, as it can prevent them from identifying and leveraging applicable process best practices from outside their sector.

Benchmarking as an obstacle

As a tool benchmarking can help to increase the agility of a project. By driving standards and revealing areas of concern, benchmarking can create a dynamic project that reacts to the data gathered, driving progress in successful areas and signposting areas that require a refocus to improve. Benchmarking can also have the reverse effect of removing agility from a project if poorly employed. There is a danger of complacency when benchmarking is tightly enforced and lacking in flexibility.

The promotion of innovation and the use of benchmarking within a project can potentially clash, with innovation benefiting from an agile approach which can be hindered by benchmarking. "If the vendor is commercially innovative, then the vendor can come forward at any point in time, and put a revised commercial proposition on the table to their client, mid contract life-cycle, which could render a benchmarking clause completely irrelevant and unnecessary," said Harry McDermott.

If the benchmark does not recognise improvements on targets then there is no compulsion for suppliers to deliver above the standard leading to suppliers aiming no higher than the standard.

Other risks include slow delivery caused from vigorous benchmarking in non-essential areas and disruption to the supplier end-user relationship. Disruption in benchmarking between the relationships of both sides can be triggered when clients seek to drive benchmarking but refuse to realise their role in the relationship and the need for two-way compromise. An abundance of the stick and the absence of the carrot can strain the relationship and cause sides to pull back, reducing cooperation and working against the original objectives of benchmarking.

Harry McDermott, describes Hudson & Yorke's approach to benchmarking: "Our philosophy is, if the atmospherics and the culture and the business case around the outsourcing case is positive, then there's far less of a need, and potentially no need whatsoever, to trigger a negative benchmarking lever".

Maintaining the relationship

In many cases users and suppliers start off on the other side of the fence. Users normally look to enforce and increase benchmarking while suppliers usually want reduced benchmarking within a project. Currently tight margins and economic necessities have seen a heavy handed approach to the enforcement of benchmarking.

Harry McDermott described how "benchmarking is never viewed positively by a vendor – ever." Adding that, "it's the default option that gets triggered too often, and in many cases doesn't help."

Users should if possible try to avoid imposing unnecessary constraints upon the suppliers when benchmarking. Nigel Hughes, Partner, ISG, described how benchmarking is most effective when, "it's used as a relationship enhancing tool rather than a stick, it can then have significant value for both parties," adding that, "it should be seen as a value enhancing tool to be used over the life of the contract rather than something that you pull because you're not happy at a certain point."

Harry McDermott, described that from his experience benchmarking is used when "the outsourcing contract is struggling" adding that, "it tends to get used as a negative lever, with only one objective in mind, and that sole objective is to reduce the price." Mike Hunter added: "constraints have a price, which might be that you are imposing location constraints, it might be technology constraints, it may be ownership constraints, whatever it happens to be the client will be restricting the supplier's ability to leverage their estate." In some cases the relationship with reliable suppliers requires greater support than the driving of costs savings, particularly when a good relationship has a potential for even greater savings.

Conclusion

At present benchmarking is rarely highly accurate, it can give you a rough overview but it is important that benchmarking is employed alongside other methods. New technologies are increasing the potential of benchmarking however users must take care to ensure that its use as a tool does not hinder progress. Formal benchmarking should be used wisely, sparingly and jointly. An ideal application of benchmarking should be continuous without being obstructive, combined with a service openly responding to findings.