Benchmarking In The Supply Chain

**Benchmarking Overview**

Supply chain operations within an organization should be constantly reviewed to identify where improvements can be made or deficiencies eliminated. One method to help do this is to perform a series of benchmarking tests on their supply chain processes. Benchmarking or goal setting allows a company to assess the opportunities they may have for improving a number of areas in their supply chain including productivity, inventory accuracy, shipping accuracy, storage density and bin-to-bin time.

The benchmarking process can provide a company some estimate of the benefits achieved by the implementation of any improvements.

**History of Benchmarking**

Benchmarking is the process whereby an assessment of an act or performance is measured by some means, whether this is by a measurement of time, value or quantity.

For example, an assessment of moving items from one storage location to another can be measured by time for a single movement or by quantity if the performance is over a set period. A benchmarking project will gather the assessments and develop a plan of action to improve the process that was assessed. The popularity of benchmarking was spearheaded by the Xerox corporation in the 1980’s and is now used in corporations throughout the world.

**Types of Benchmarking**

Three types of benchmarking can be identified; internal which is focused on the processes of a single company, external which examines processes outside of a company’s direct industry and competitive, which examines processes at firms within the same industry.

**Internal Benchmarking**

The internal benchmarking process allows a company with a number of facilities that operate the same supply chain processes to compare and contrast the ways in which the process is performed in those facilities. For example if a company operates five distribution centers in the US and Canada, the benchmarking process can examine a number of operations that take place at each of the distribution centers and compare how they are performed and what improvements can be made by comparing the results of the benchmarking.

If a company benchmarks the processes around inventory accuracy, shipping accuracy and storage density, the results of the assessments of the facilities can help a company to improve on those processes at all of the facilities.

**External Benchmarking**

For companies that have performed internal benchmarking and want to investigate new ways in which to improve performance of their internal processes, external benchmarking can produce significant improvements. Many companies believe that their processes are as efficient as possible, but quite often, the efficiencies are limited by the knowledge within the company. The external benchmarking process takes a company outside of its own industry and exposes them to different methods and procedures. For example, a manufacturer and distributor of electrical components have internally benchmarked their warehouses for a number of years and have exhausted ideas on improving efficiencies. They approached a very successful retail company to visit their central warehouse and benchmark the processes that occur there to compare to their own warehouse processes. The external benchmarking allowed the manufacturer of the electrical components to assess the processes seen in the retailer’s warehouse and develop an improvement plan for their own facilities based on the results.

**Competitive Benchmarking**

For companies that are not performing as well as their competitors they may want to identify the reasons why their processes are not as efficient. Consulting and research firms can perform competitive benchmarking studies for companies that will identify the strengths and weaknesses of their processes based on those of their competitors. The company can then produce improvement plans based on the results of the competitive benchmarking.

**Components of Benchmarking**

There are a number of components to a benchmarking study. Not every benchmarking project will incorporate these components, but a combination of these can be used.

* Financial benchmarking – This involves a financial analysis of the operations that are assessed. For example, a company can compare the cost of storing a component in each of its warehouses.
* Performance benchmarking – This can compare the efficiency of performing a task in one company location to another, or to a competitor’s.
* Product benchmarking – This method compares the product of one company against another, or comparing between facilities in the same company.
* Strategic benchmarking – This method observes how other companies compete. This can be within the same industry or outside of the companies industry.
* Functional benchmarking – This is considered to be traditional benchmarking where a company will benchmark a single process at a location or a number of locations to identify where efficiencies can be made.