

**BENCHMARK IN PURCHASING - Are you worst-in-class?**

Wikipedia explains that the term *benchmarking* was first used by shoemakers to measure people's feet. They would place someone's foot on a "bench" and mark it out to make the pattern for the shoes. Today's definition of benchmarking: "It is the process of comparing one's business processes and performance metrics to industry's best practices".

In my last article [Metrics for Purchasing: A Framework that Works](#) I described most of performance metrics for purchasing function to drive behavior with the objective to improve performance. You can improve your own performance; however, what is the most important is to check if your organization is performing above average in comparison to the market / industry. Only the benchmark can give you this picture.

By performing a benchmark you are able to answer: Do you have a competitive advantage? What are your strengths and weaknesses in the purchasing function and where should you direct your efforts to improve?

**Framework**

Either doing benchmark one-to-one (your company with another company) or one-to-many using third party entities, you need to define the benchmark framework. A good example of framework of benchmarking for procurement performance was given by Professor Andrew Cox from [International Institute for Advanced Purchasing & Supply](#) where he also explains the difference between World-Class and Best-in-Class.

Another alternative is to use the existing or part of the framework defined by third party entities performing the benchmark. Either way, you need to define your objectives very clearly, what and why you want to benchmark.

**Third Party Entities**

My personal preference is for using third party entities to do benchmark because: they have experience in doing it, unbiased; they have historical data so you can see the evolution, and you can compare your company to the same industry or cross industries. There are several entities doing benchmarking, but I'll mention the ones with whom I have worked and who have given me permission to write about them. The comments below are related to some of their benchmark activities, and not all the services they can provide.

[AT Kearney](#) - A recognized consulting company offers two benchmark assessments: "Assessment of Excellence in Procurement (AEP)"\* and "A.T. Kearney's House of Procurement and Supply"\*.



The last AEP was titled "[Follow the Procurement Leaders](#)" and was published in 2011. The next edition of the AEP is scheduled for 2014. Participant companies should have annual revenues in excess of \$3B. The 2011 AEP included participation from 500 companies across all continents.

A.T. Kearney's House of Procurement and Supply is the framework for the AEP survey. The AEP survey is executed through an online tool and there is no cost for participation. All companies participating in the AEP survey receive a customized benchmark report showing company performance versus best practices across Sourcing and Category Management, Operating Process, Organization Alignment and other "rooms" of the House described above.

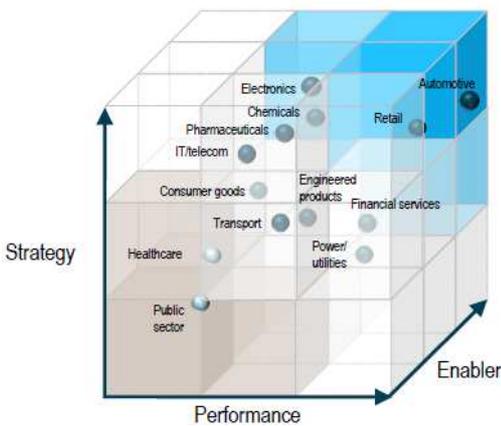
**CAPS Research** - Is a nonprofit research organization dedicated to supply and supply chain issues.

They provide several benchmark reports free of charge: [Industry](#) and [Cross-industry](#) reports, [Focused Benchmarking](#) Reports, and, [Market Basket of Goods](#) (prices paid). Some reports are available only by sponsors.

Some benchmark metrics used are: Organization design, # FTE, Spend Managed, Operating Expenses, Work Processes, Cost Savings & Avoidances, among others. To participate, you just need to send an e-mail. The next Industrial Manufacturing Industry Performance Benchmark Report will be published in January 2013.

**Roland Berger** - A recognized consulting company which provides a report called "[Purchasing Excellence Study](#)".

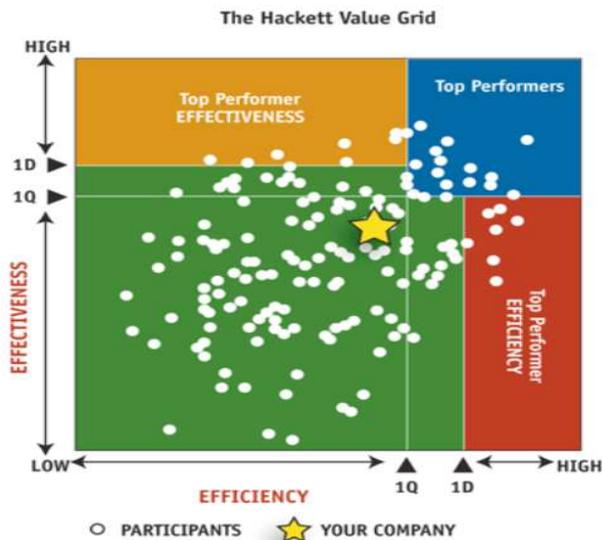
**PERFORMANCE CUBE**



More than 500 respondents worldwide help to identify trends and benchmarks cross-industry. The questionnaire and data are used to build your position in the Performance Cube\*\* composed by three dimensions: Strategy, Performance and Enabler.

The report mentioned above shows trends in each dimension and changes over past years. Companies can participate at no cost and individual results as benchmark can be tailored through their consultants.

**The Hackett Group** - A recognized consulting company which has done more than 7,500 benchmark studies.



Benchmark is a paid project where you supply information and data in a pre-formatted fashion and this information populates their database construct through a decade.

The benchmark study is plotted in "The Hackett Value Grid"\*\*\* where you are able to determine both performance gaps and capability gaps, and also compare your company to peers, cross-industry and best-in-class in terms of efficiency and effectiveness.

**Take away**

Efficiency and effectiveness in Purchasing are moving targets and only benchmark can give you the direction to pursue and identify the areas in which you need to improve, however you must define what and why you want to benchmark, and most important, have all performance metrics in place, before starting the benchmark.

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