

Benchmarking and Best Practices

“What are they and how do we use them?”

2014

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Doug Blanchard is the Managing Director of The ProAction Group. He is responsible for clients projects, recruitment and development of consultants, and serving clients directly.

Doug is an experienced executive with over 30 years of progressive management experience and has applied his leadership skills and experience in various areas of business operations, including all aspects of lean enterprise management, business and operations strategy, sales and operations planning, quality systems, new product development, cultural change and organizational development. Doug has also been a leader in acquisition due diligence assessments and the development of value creation strategies for the M&A segment of our business.

Prior to joining The ProAction Group, Doug worked for Lexington Home Brands as COO/Executive Vice President of Operations, where he was responsible for a \$450 million division with 15 plant locations. Prior to that, Doug worked for Emerson Electric, where he had P&L responsibility for a \$300 million division. Doug also has experience at Darling Store Fixtures, Tenneco Automotive, and Goodyear Tire and Rubber.

Doug has a BS in Industrial Engineering and Management from the University of Akron.

Benchmarking Defined

Benchmarking is the continuous process of comparing one's business processes and performance metrics to industry bests and/or best practices from other industries.

Dimensions typically measured are **quality, time,** and **cost**.

Improvements from learning mean doing things **better, faster, and cheaper**.

Does a Benchmarking Need Exist?

ASK YOUR ORGANIZATION THESE BASIC QUESTIONS. ..

Do you know the answers? Are the answers acceptable to you? Are you continuously improving the answers to these questions?

1. What is most critical to business success?
2. What areas are causing the most problems?
3. What are the major deliverables of these areas?
4. What products are provided to customers?
5. What factors are responsible for customer satisfaction?
6. What problems have been identified in the operation?
7. Where are competitive pressures being felt?
8. What performance measurements are being tackled?
9. What are the major cost components within the business?

Approaches to Benchmarking

METHODS

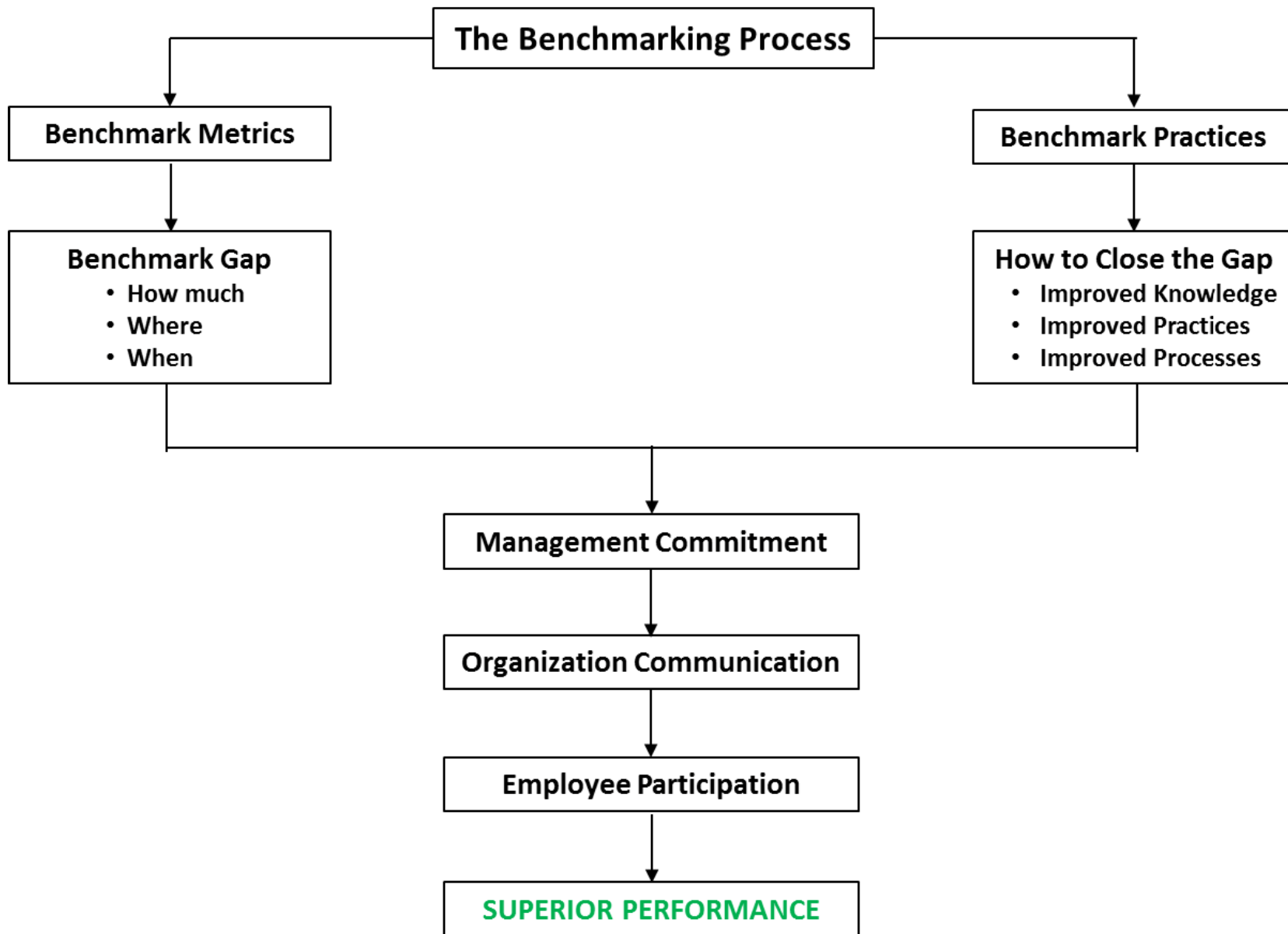
1. ***Internal Benchmarking:*** Comparison of one internal operation to another internal operation.
2. ***Competitive Benchmarking:*** Direct comparison to a competitor in the same or related industry.
3. ***Functional Benchmarking:*** Comparison of similar or identical functions across many different industries.
4. ***Generic Benchmarking:*** Comparing generic business processes across a wide cross-section of industries.

Approaches to Benchmarking

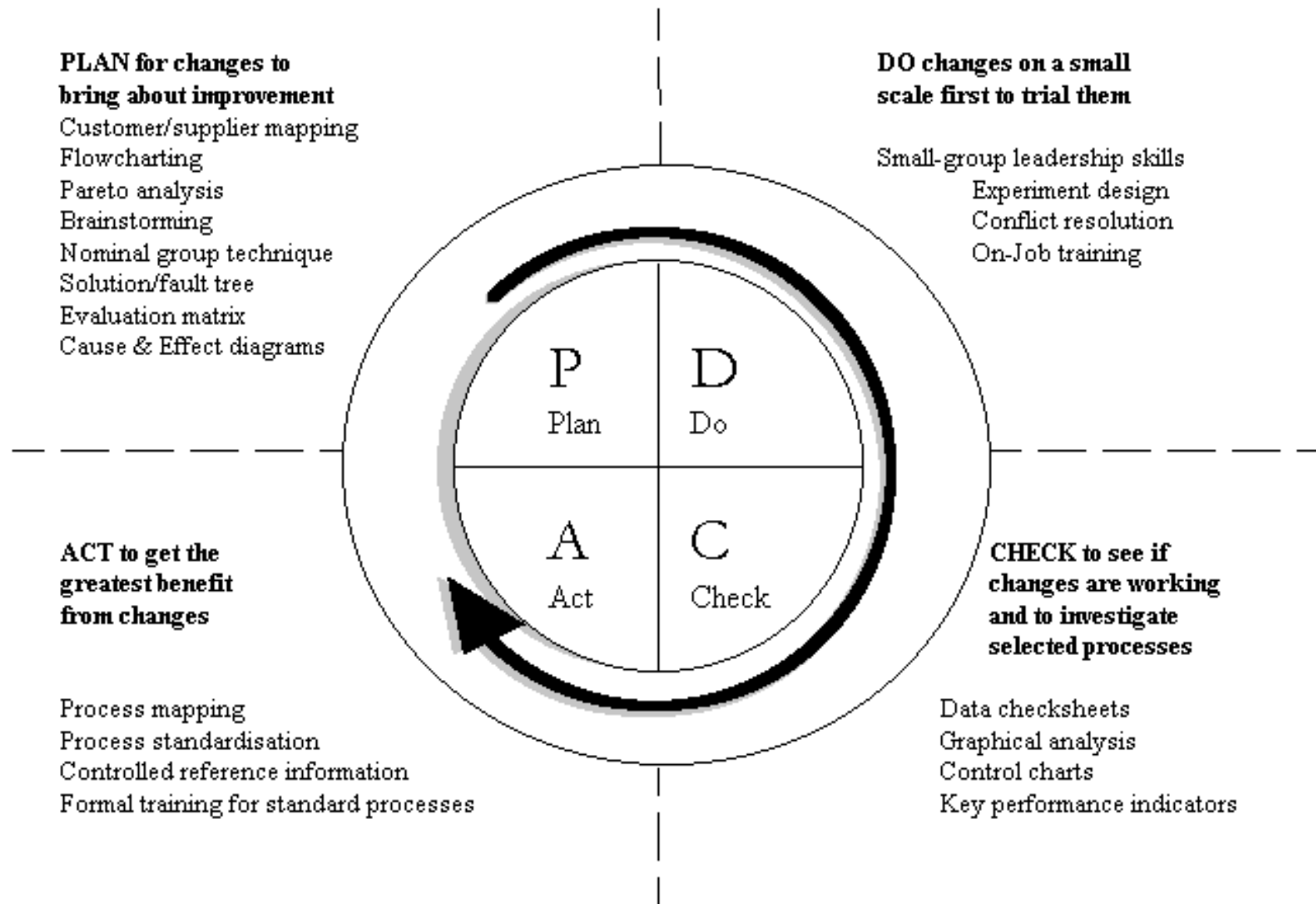
FORMS

- “**Results**”—comparative performance within and between organizations (efficiency/effectiveness)
- “**Process**”—analysis of activities and tasks that turn resources inputs into outputs and outcomes
- “**Best-Practice Standards**”—take the form of goals and benchmarks to which orgs aspire, as part of planning and continuous improvement

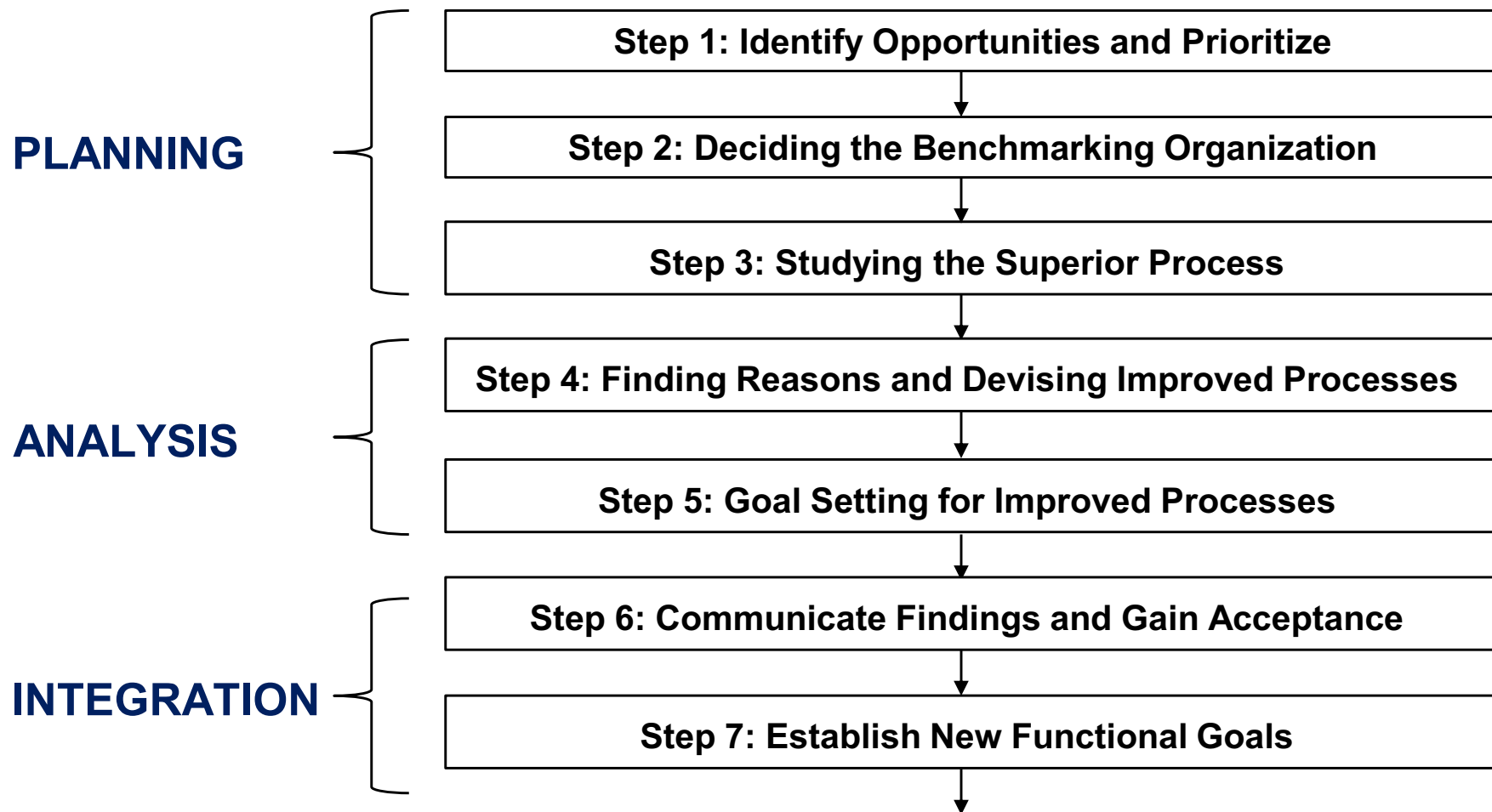
Generic Benchmarking Process



Plan-Do-Check-Act Cycle (PDCA)

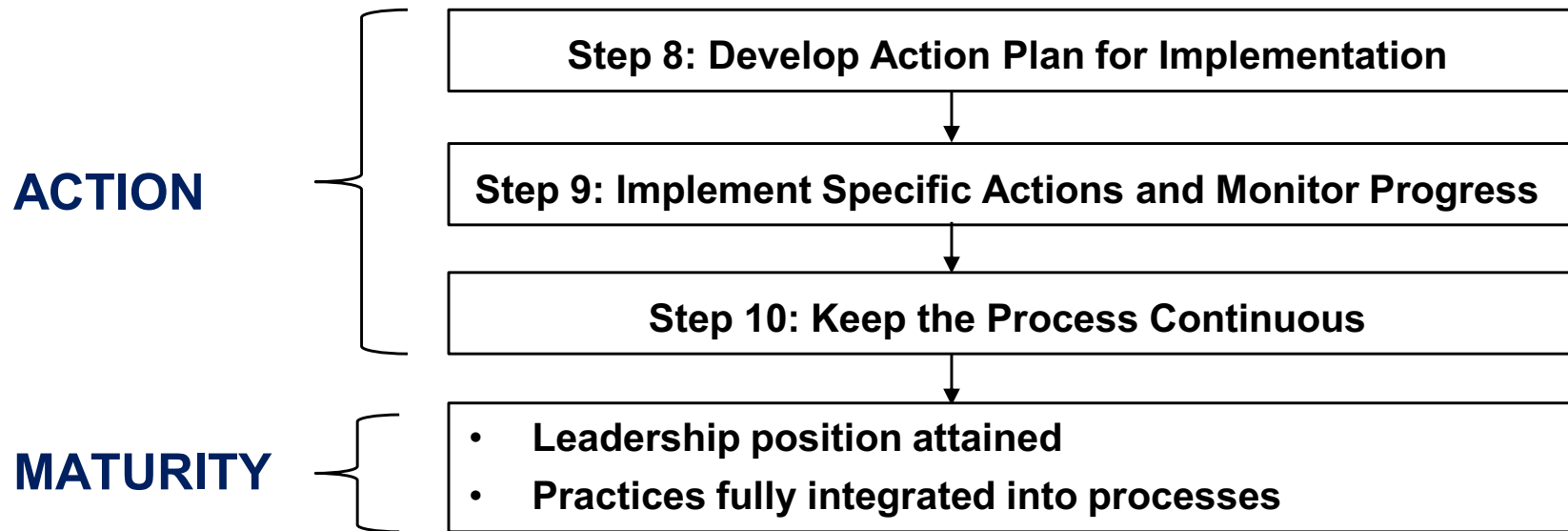


Benchmarking Process Phases/Steps



SEE APPENDIX FOR DETAILS

Benchmarking Process Phases/Steps (continued)



SEE APPENDIX FOR DETAILS

Cultural Success Requirements

1. Active **commitment** to benchmarking from management.
2. A clear and comprehensive **understanding of how one's own work is conducted** as a basis for comparison to industry best practices.
3. A willingness to **change and adapt** based on benchmark findings.
4. A realization that competition is constantly changing and therefore a need to "**shoot ahead of the duck**".
5. A willingness to **share information** with benchmark partners.
6. A focus on benchmarking **first on industry best practices** and **second on performance metrics**.
7. The concentration on **leading companies in the industry** or other functionally best operations that are **recognized leaders**.
8. **Follow the 10-step benchmarking process.**
9. On openness to new ideas, creativity and innovation in existing processes.
10. **Continuous improvement mindset** of benchmarking effort and institutionalization.

10 “Must Do’s”

“Good judgment comes from experience. And where does experience come from? Experience comes from BAD judgment...” Mark Twain

1. Get Top Management Buy-In Up Front
2. Use a Formal Program and Approach
3. Use a Process Viewpoint
4. Know your Internal Processes
5. Send Subject Matter Experts to See
6. Visit the Right Places
7. Identify Practices, Then Metrics
8. Communicate the Findings
9. Implement, Then Start Over
10. Keep Top Management Sold – ***“Nothing Succeeds like Success”***

PEO Specific Benchmarking Thoughts...

PEO Benchmarking Support Organizations

- **NAPEO – National Association of Professional Employer Organizations**
- **ESAC – Employer Services Assurance Corporation**
- **APEC – Alliance for PEO Electronic Compliance**
- **CI - Certification Institute**

KNOWN PEO Practices/Metrics for Benchmarking Consideration

- **Payroll & Tax Administration**
- **Workers' Compensation & Risk Mitigation**
- **Health & Wellness Benefits**
- **Human Resources Services & Support**
- **Profit/Margin Management**
- **New & Existing Client Management Practices**
- **Internal Operating Practices**
- **Business Ethics Practices**



PAYROLL BASED RATIOS:		
Average incurred loss as a percentage of payroll	2012: .68% 2011: .59% 2010: .57%	This ratio has consistently been in the high half percent range. The recent uptick may be due to decreased payrolls resulting from the recent recession, coupled with the reporting of non-work related injuries and illnesses.
Average cost of WC coverage as a percentage of payroll	2012: 1.54% 2011: 1.55% 2010: 1.65%	This ratio has been consistently in the 1.5% to 1.6% range, but has been trending downward over the past three years.
PREMIUM BASED RATIOS:		
Average loss ratio	2012: 37.99% 2011: 33.03% 2010: 36.32%	The loss ratio has consistently been in the mid to high 30% range and is a testament to certified PEOs' ability to control claims frequency and cost.
Average WC cost as a percentage of manual premium	2012: 86.68% 2011: 87.56% 2010: 85.14%	This ratio has continued to be in the mid 80% range with no specific trends noted in the past three years, and also continues to outperform non-certified PEOs.
Average claims per \$10,000 of premium	2012: .54% 2011: .45% 2010: .48%	This ratio provides an exposure based claims frequency rate for the PEO. Although the frequency rates had been relatively consistent, there was an uptick in the frequency rate of 9% points for the current policy valuation period.
CLAIMS BASED RATIOS:		
Average incurred indemnity per lost time claim	2012: \$10,524 2011: \$19,405 2010: \$14,386	This ratio continues to illustrate a positive trend for certified PEOs and is also a positive trend over non-certified PEOs with 13.18% fewer dollars spent on indemnity payments.
Average number of lost-time claims as percentage of total claims	2012: 31.13% 2011: 31.35% 2010: 33.20%	This ratio has consistently remained in the low 30% range over the past five years. It is 7.75 percentage points greater than for non-certified PEOs, a considerable increase over last years' 7/10 percentage point. This may be due to certified PEOs' book of business including higher risks. Anecdotal evidence points to this explanation since PEOs serving white-collar clients seem less inclined to feel the need for certification.
Average loss per claim	2012: \$8,120 2011: \$9,137 2010: \$10,066	This has been a very positive trend for certified PEOs and is considered to be evidence of the certified PEOs' ability to manage claims. It is especially positive in view of a similar trend in indemnity payments and the fact that the incidence of lost time claims has remained relatively constant.

Replication of Best Practices

What is a Best Practice?

- It must demonstrate through evidence that it yields a “better, faster, cheaper” result.
- It must successfully demonstrate that it is a superior approach in more than one setting.
- It must be able to prove it can help achieve organizational objectives.

Why is Replication Important?

- Multiply savings and performance improvements
- Minimizes risk
- Maximizes resources

Replication of Best Practices

Based on a survey of 50 Fortune 500 companies:

- 100% responded that replication of best practices was very important.
- Less than 5% responded that they had a formal process to replicate best practices.

Why is this so hard to accomplish?

Barriers to Replication of Best Practices

- “Not invented here syndrome”
- Lack of common metrics
- Lack of an impetus for leaders to adopt best practices
- Size of the organization
- Lack of robust processes
- Ignorance of best practices
- Insufficient details or resources
- Lack of a relationship between the source and recipient

Discussion Question

- Which of these barriers exist at your company?

Key Components of Replication

1. Track common metrics
2. Identify best practices
3. Create forums to share best practices
4. Review effectiveness of proposed best practice
5. Identify opportunities to improve prior to replication
6. Pilot replication at one or two locations
7. Replicate where applicable
8. Communicate successes

Replication Methodologies

- Internal Sharing of Best Practice Meetings
- Central Repository of Best Practices
- Centers of Excellence
- Strategically Targeted Processes
- Bottoms Up Nomination Methodology
- Top Down Nomination Methodology
- Communication Broadcasts
- External Benchmarking

SEE APPENDIX FOR DETAILS

Other Keys to Success

- Organizational Structure
- Sustainment

Organizational Structure

A successful replication process typically requires a supporting organizational structure:

- CPI Office
- Office of Strategy Management
- Owner / Operator

Roles and Responsibilities of Governing Body

- Clearinghouse for “best practice” recommendations
- Identify best practices
- Facilitate communication
- Coordinate funding and resources
- Champion replication efforts
- Conduct or coordinate sustainment audits

Sustainment

- Once best practices have been replicated, an auditing process must be established to ensure ongoing compliance.
- In MOST cases, without a system to ensure compliance, improvements will degrade over time

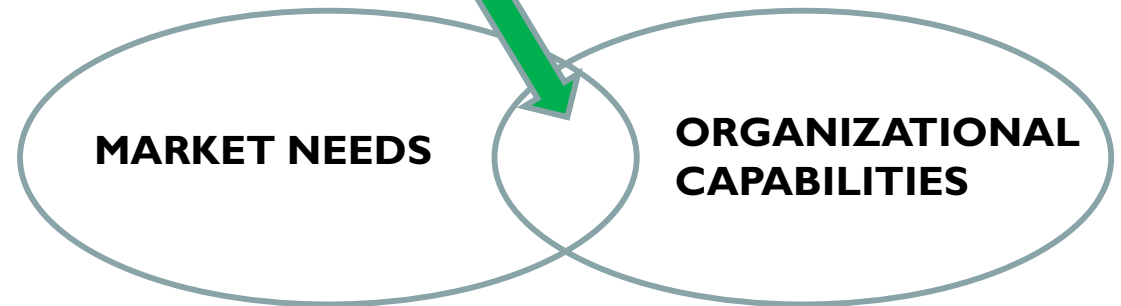
Sustainment Methodology

- Audit for compliance of established best practices
- Review process and results
- Capture and publish improvement opportunities

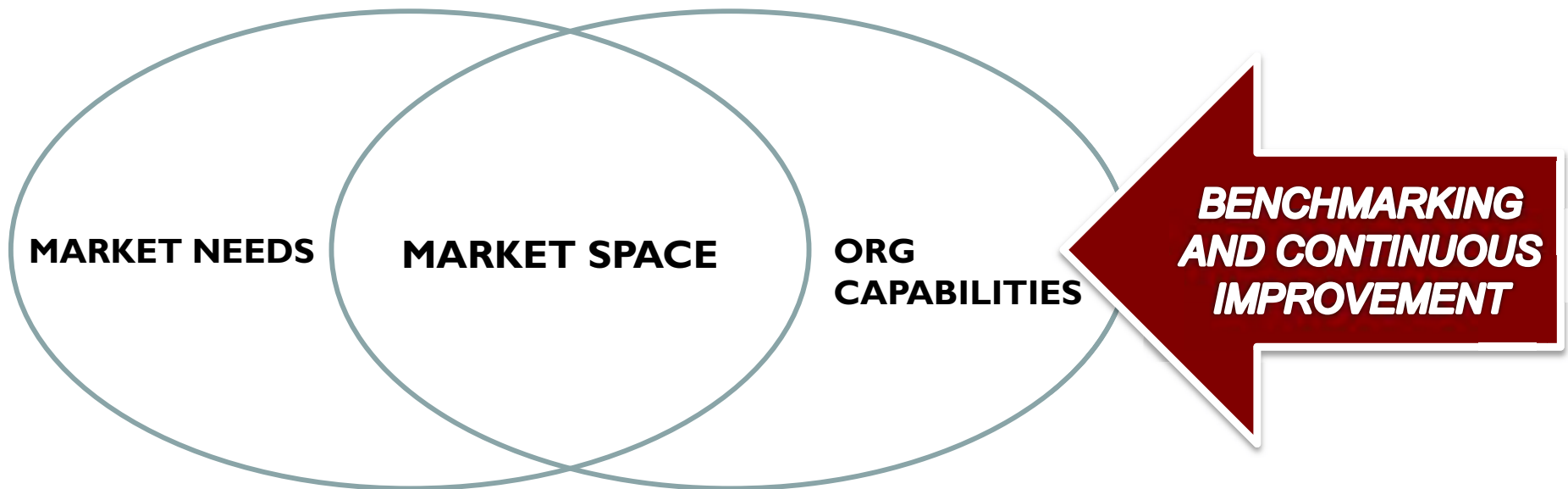
Conclusion: Impacting Value to the Customer

TODAY

MARKET SPACE



TOMORROW



Your Challenge

Organizations that have successfully implemented a system for benchmarking and best practices report significant savings and improved performance.

So.....

How can *your* organization develop a comprehensive strategy for benchmarking and best practices to improve your organization's competitive viability?

*The Competition is Fierce.
Change the Rules.™*

APPENDIX

- Benchmarking Information
- Best Practice Information

Benchmarking Information

Planning Phase Questions

1. What are the key business processes?
2. Where exactly are the greatest improvement potentials?
3. What are the functions where improvements are most essential?
4. Are all members of the benchmarking project team familiar with the vision, mission, and long-term goals of the organization, as well as its prevailing business environment and the competitive situation?
5. Have the critical success factors for the organization been identified?
6. Do all processes require benchmarking, or only the most critical?
7. Can all or some of the processes be improved without benchmarking?
8. Have the ways of measuring the process been decided?
9. Have the owners of the processes to be benchmarked been involved in the project?
10. Have the processes been prioritized based on the scope of improvement?
11. Have the set of predetermined criteria for prioritizing the processes been decided in advance, based on the company's success factors and the competitive business environment?
12. Has a level of benchmarking been decided?

Planning Phase Questions (continued)

13. Has the team compiled a list of possible organizations having best-in-class standards to be used for comparison?
14. Has the information about all possible organizations to compare been collected?
15. Is the method of collecting information systematic?
16. Will it be possible to access information about a chosen organization's best-in-class process?
17. Is the organization's best-in-class process likely to be innovative?
18. How has it been decided to collect data on the best-in-class process?
19. How superior are the results of the process of the chosen organization?
20. To what extent are the practices of the organization with the best-in-class process different?
21. Are there basic differences in the structure of the process?
22. How effectively can the process be adapted?
23. What would be the cost of changing the company's current process and what resistance can be expected?
24. What are the potential benefits if the process is modified as per the best-in-class process?

Analysis Phase Questions

1. Do the project team's members have both analytical skills and creativity and innovation?
2. Has a gap analysis been done between the performance of the company process and the benchmarked organization's process (look for effectiveness, efficiency and responsiveness)?
3. Have the performance gaps in the company's process as compared to the benchmarked process been identified and analyzed?
4. Have the reasons for better performance been brainstormed?
5. Have the process definition documents for both companies been compared?
6. After comparing the descriptive process documents, have the flowcharts of the two processes been compared and analyzed?
7. Have the work processes at benchmarked organization been studied and compared with the company's processes? Have they been observed at the operator level?
8. Have the impact of the differences in work practices been fully studied?

Analysis Phase Questions (continued)

9. Does the team have proposals for making changes in the processes?
10. Has the team been able to develop an improved process?
11. Have senior management and/or interested parties in the organization been convinced by the project team that the superior benchmarked process should be adapted by the team company?
12. Has the revised process been tried to ensure the adaptability?
13. Have the successes of the revised process been documented properly for any horizontal deployment or to replicate it in other processes?
14. To get senior management's commitment, have the improvements been converted to financial gains?
15. Has the cost-benefit analysis been conducted on the proposed revision of the process?
16. Has the team proposed new performance goals, which can be attained with the revised process?
17. Has senior management confirmed its knowledge and agreement about all of the above?

Integration Phase Questions

1. Has it been decided to whom findings are to be communicated?
2. Have findings been communicated to senior management so that its approval can be obtained for the implementation of the recommendations?
3. Have findings been shared with all the departments involved in the process so that they understand and accept the proposed changes in the process?
4. Have all suppliers of the inputs to the process been informed?
5. Has the impact of revised quality of the output of the process been communicated to the customer?
6. Have different types of communication for different audiences been decided upon?
7. Is there an effort to ensure that the communication will be understood properly by all concerned and that it has been accepted by all?
8. Have the revised process and the proposed performance goals been approved by senior management?

Integration Phase Questions (continued)

9. Have sufficient steps been taken to find out the gaps in every department that holds reservations or is concerned about difficulties in implementation?
10. Have all the issues raised been addressed properly?
11. Has there been any amendment in the proposed process that has been accepted by all?
12. Have the performance goals been converted to operational goals which are SMART (specific, measurable, aggressive [yet achievable], relevant, timely)?
13. Have operational goals been prioritized and the direction been set for implementation?
14. Has the impact of change on those elements prior to and those subsequent to the process been studied properly?
15. If there are any changes in the requirements of inputs from prior processes, has proper care been taken to change the process to meet the requirement needs?
16. Has senior management approved of all the points mentioned above?

Action Phase Questions

1. Has the team developed an action plan to implement the changes proposed?
2. Has the team written down the changes required for implementing the new process and work practices?
3. Has the team arranged the activities in sequence and decided the sequence as per the order of priority based on the importance?
4. Have the tasks and assignments been made to the right people in the organization?
5. Have commitments from the team members, their superiors and all who will carry out the assignments been secured?
6. Are there different teams for implementation and analysis of the changes (people good at analysis are not always good at implementation)?
7. Has the new process been ensured by updating all directional documents, such as specifications, standard operating procedures and work instructions?
8. Does everyone know that the improvement is permanent?
9. Has the team or senior management developed a mechanism to review the competitive positions periodically in the total implementation process?

Internal Sharing of Best Practice Meetings

How this might work:

- CPI leaders representing all locations within an organization would meet on a quarterly basis
- Each representative would have approximately 45 minutes to present their 3 “big wins” that have occurred over the last 3 months
- Host representative provides tour to see improvements
- Other representatives review data and determine feasibility at their respective locations
- Feasible ideas are submitted for review by leadership at the respective locations
- Approved concepts are added to the strategic plan for implementation

Central Repository of Best Practices

How this might work:

- CPI personnel are trained how to use system
- Successful events are entered and stored in the system
- Interested parties can search by topic to find information related to their project

Centers of Excellence (COE)

How this might work:

- A location or division is designated as a “Center of Excellence” for one of the major processes that is common across most of the locations within the company
- Common metrics are established for each of these major processes
- Each location can submit improvement ideas to the respective “Center of Excellence”
- The COE evaluates the proposal
- If designated as a “best practice”, compliance is mandatory

Strategically Targeted Best Practices

How this might work:

- At a division or corporate level, 5 to 10 processes would be identified that are common across the majority of the locations within that organization
- Common metrics would be established and tracked
- Representatives from pertinent locations would collectively develop best practices for the targeted process at a target location
- Designated teams would replicate the best practice and the other targeted locations
- Common metrics would be tracked to ensure effective execution

Bottoms Up Nomination

How this might work:

- Specific location CPI office nominates a process as a “best practice”
- Local site leader reviews and if he/she agrees, forwards on to the division/corporate level
- Division/Corporate reviews and if approved, sends to functional leader
- If approved at the functional level, attempt to replicate in another area
- If successful, replicate again
- If second effort is successful, mandate across the division/corporation to pertinent organizations

Top Down Nomination

How this might work:

- Process is selected at functional level to be recommended for replication across multiple locations
- Process is replicated at beta location(s)
- If successful, process is replicated at all relevant locations

Communication Broadcasts

How this might work:

- Division/Corporate CPI office requests “wins” from location CPI offices
- Weekly or monthly bulletins posted via email
- Links provided to contacts and central repository system

External Benchmarking

How this might work:

- CPI leader identifies key internal processes
- External partners identified with similar processes known to be best practices
- CPI representatives and process owners visit external partner and review best practice
- Replicate best practice