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Data analysis in this publication has been carried out by the Centre for Business Performance at the Cranfield School of Management, Cranfield University. The analysis has been headed by the Centre's Director, Professor Andy Neely with support from Chris Adams.

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Closing the Gap 3

BenchmarkIndex

Business Link

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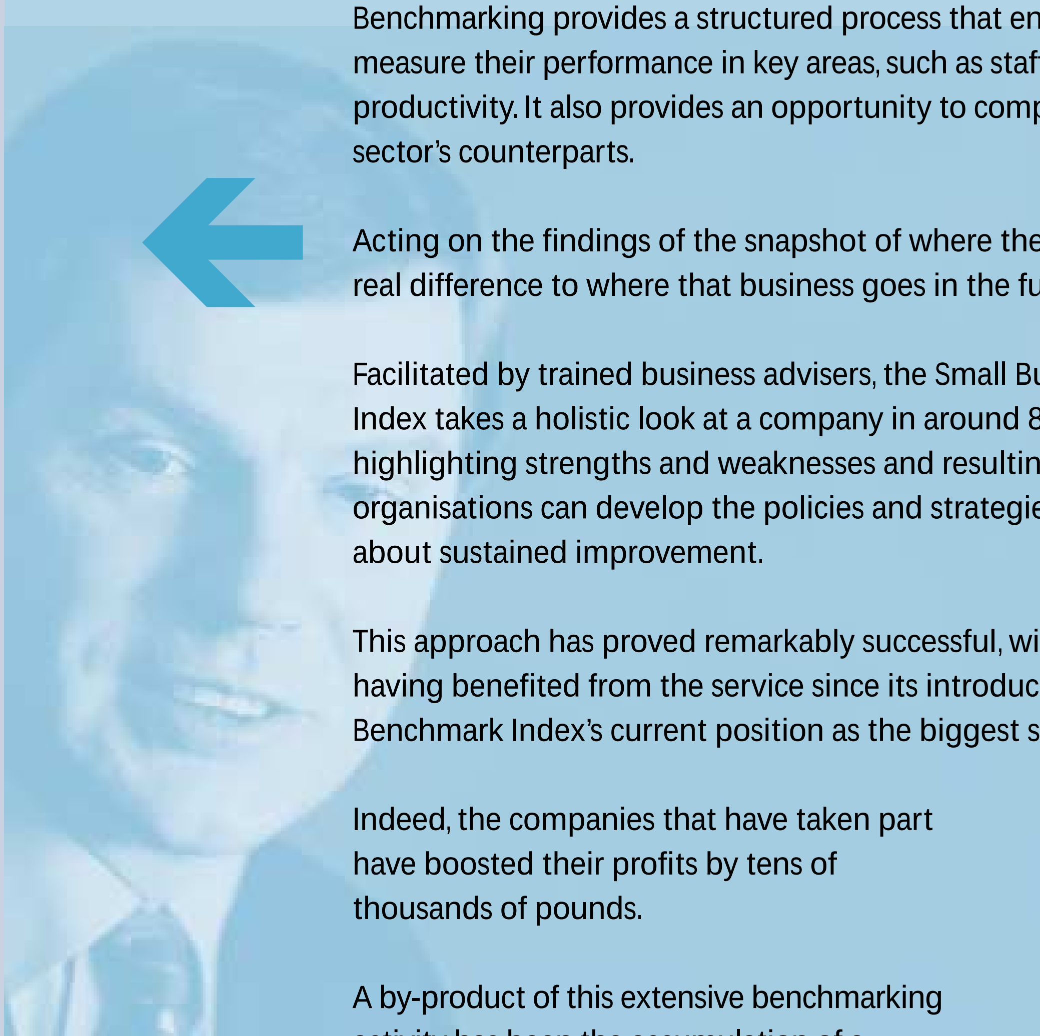
Benchmark Index



Benchmarking can play a key part in boosting business performance.

Benchmarking provides a structured process that enables individual businesses to measure their performance in key areas, such as staff retention levels and productivity. It also provides an opportunity to compare that business with its sector's counterparts.

Acting on the findings of the snapshot of where the business is now can make a real difference to where that business goes in the future.

Facilitated by trained business advisers, the Small Business Service's Benchmark Index takes a holistic look at a company in around 80 aspects of performance, highlighting strengths and weaknesses and resulting in an action plan from which organisations can develop the policies and strategies that will enable them to bring about sustained improvement.

This approach has proved remarkably successful, with over 6,000 companies having benefited from the service since its introduction in late 1996, resulting in Benchmark Index's current position as the biggest service of its kind in the world.

Indeed, the companies that have taken part have boosted their profits by tens of thousands of pounds.

over 6,000 companies having benefited from the service since its introduction

A by-product of this extensive benchmarking activity has been the accumulation of a considerable amount of performance data, which has provided a mine of information in recent years on trends in SME performance across the board.

So not only do individual businesses reap the benefits of benchmarking, but it also helps the Government to make decisions to help the small business sector.

This report draws extensively upon the invaluable information resource that Benchmark Index has amassed and provides telling insights into company performance and also presents potential lessons that managers and policy makers may utilise to set a course for future development.

It is an important contribution to the drive for improved productivity and competitiveness.

Nigel Griffiths - Minister for Small Business

Executive summary

At one point in the new economy, people were waiting for normality to return. Today, many acknowledge that they can not even define what normal is anymore. We are living today in an economy where the fast simply eat the slow! The painful upheavals in so many companies in recent years reflect the failure of one-time industry leaders to keep up with the accelerating pace of industry changes.

The painful upheavals in so many companies in recent years reflect the failure of one-time industry leaders to keep up with the accelerating pace of industry changes. Organisations need to continually re-think their structures, products, processes, and markets. They must re-establish themselves to be quicker to market, more customer focused, more innovative, nimbler, flexible and to handle rapid change. This continuous change and improvement translates into one key capability that no future organisation can afford not to excel in - continuous learning. Learning from one's own mistakes, learning from industry leaders, learning from competitors, customers, suppliers, academic partners, and other sectors. A main tool in this learning arsenal is benchmarking; Benchmarking one's performance with the world's best and adapting and adopting best practice as appropriate. This type of comparing, studying, adapting, and learning from other's best practices is not simply popular, but virtually mandatory for future success.

Moreover, this learning through benchmarking should not only relate to traditional views of performance (namely financial) but should cover a balanced portfolio of practices and capabilities that ensure both short and long term success. Managers now have to take a balanced view of the organisation and must manage and improve all aspects from shareholders' requirements to customer satisfaction to employee motivation to corporate social responsibility.

Developing best practice through benchmarking features as a critical activity in the business world. Companies across the globe have embraced these concepts, but have done so with a varied level of success. Some have managed to create huge market place advantages, whilst others have fared less favourably. In this regard, this report aims to provide some insights to help UK managers and public policy makers to set a course for future development. Relying on data gathered using Benchmark Index, the report presents performance comparisons and potential lessons from the Manufacturing and Service sectors in the UK.

The organisations that took part in the study used Benchmark Index as the main tool to submit data that allowed over 60 performance measures to be calculated under the general headings of finance, customers, suppliers, employee, growth and future investments.

Benchmarking - comparing, studying, adapting and learning from other's best practices is not simply popular, but virtually **mandatory for future success**.

The bottom 25% receive **3 times** more complaints per customer than the top 25%

In both service and manufacturing sectors, turnover per employee in the upper quartile is at least double that of the lower quartile

On average, upper quartile firms spend at least four times as much on marketing than do lower quartile firms

The average organisation in the UK is spending around **£140** per employee per annum on training & development. This is equivalent to an average employee receiving one day of poor quality training each year!

25% of firms (across all sectors) are destroying value and achieving less than half of the accepted cost of capital

The top 25% of organisations in the UK are achieving around **eight times** more return on capital than the bottom 25% This is a huge gap in value creation

Sector comparisons - financial performance

The sector comparison uses eight sectors, illustrated in the Sector Coding table below. Benchmark Index uses a series of measures to track the financial performance of companies. Clearly there are differences within the sectors when it comes to the benchmarking data and this section will show that companies in all sectors can be potentially successful with the right combination of people, product and processes.

Financial performance

Benchmark Index relies on two subcategories of measures to track the financial performance of firms. These are – (i) sales and profit performance, and (ii) value creation and asset management.

Colour coding
In the graphs throughout the this section, the various industry sectors are represented by a specific colour as indicated in the table below.

Sector coding

	Sector
■	Chemical
■	Metal products
■	General machinery
■	Electrical & electronic
■	Food, drink & tobacco
■	Transport manufacture
■	Manufacturing (all sectors)
■	Service industries (all sectors)

When looking at the sales turnover per employee, the gap between the upper quartile and lower quartile organisations in all UK industry sectors is evident. On average, and within the Manufacturing sector as a whole, sales turnover per employee in the upper quartile organisations is double that in the lower quartile ones, while in the service sector, the ratio is more than double.

Given that these firms are operating in more or less the same markets, from the same country, and thus arguably subject to similar external conditions and pressures, one can conclude that those in the top 25% are managing their operations in a way that is resulting in no less than double the sales per employee. This is a huge difference, and is only the first measure in this report that shows what a difference advanced management and operations can make.

Moreover, when comparing different sectors based on their reported sales turnover per employee, the following is noted:

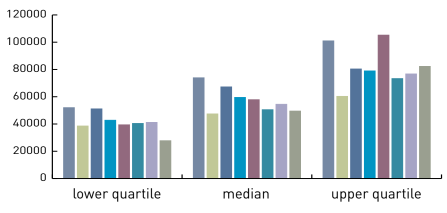
- **on average, the service sector has the lowest sales turnover per employee (less than all the manufacturing sectors)**
- **within the manufacturing sectors, there are variations between upper quartile organisations where the Chemical and Food, Drink, and Tobacco sectors have markedly higher (20% or more) sales turnover per employee than other sector averages.**

However, the sales turnover is just one aspect, and it is interesting to note who is retaining most of their sales turnover as profit. In terms of pre-tax profit per employee the service sector is ahead of all others. One reason could be to do with the fundamental differences between service and manufacturing industries where the service sector has a mush smaller cost base in terms of physical assets (and all the related fixed costs like maintenance, machine depreciation, etc.). In numbers, the service sector is making double the pre-tax profit per employee than the manufacturing sector. Within the manufacturing sector, it is interesting to note that while the Food, Drink, and Tobacco sector had the highest sales turnover per employee, it has the lowest pre-tax profit per employee levels. Within this sector, this might be explained not by the lack of good cost management practices, but by the low margins the end products in the sector command from the external customer. Food, Drink and Tobacco command premium prices in the UK market but a huge proportion of these do go to the cost base and governmental taxes. On the other hand, we note that the Electronics sector is achieving the highest pre-tax profits per employee in the manufacturing industry (and very comparable to the service results).

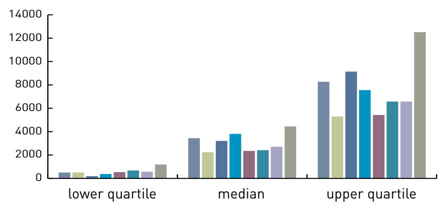
The differences between the upper and lower quartile firms in terms of pre-tax profits per employee are startling. On average, and for all sectors, the bottom 25% organisation are making 10% (or less) of the pre-tax profit per employee the top 25% organisations are making. Again, when we consider that those organisations are operating under the same regulations, same markets, and have the potential to command similar premiums, then the implications are that the upper quartile organisations either have much better cost base management, superior marketing and brand management practices for market penetration and growth, or a combination of both. Whatever it is, there are a lot of lessons that need to be learned by the median and lower quartile organisations, and fast.

These figures and argument points are again reflected in the data regarding the per-tax profit levels as a percentage of turnover, where the service sector is achieving around 6% while the average for the manufacturing sector is no more than 4%, with upper quartile organisations in both sectors achieving 16% and 10% respectively. Across all sectors, this percentage is, on average, 1% for lower quartile organisations and the variation is startling when studied in each sector between upper and lower quartile organisations. Within the manufacturing industry, the Electronics sector seems to be ahead by a comfortable margin in terms of per-tax profit as a percentage of turnover while the Food, Drink and Tobacco sector seems to be doing the worst. This is the opposite of the sale turnover per employee picture and does highlight the importance to study the cost management practices of the Electronics sector.

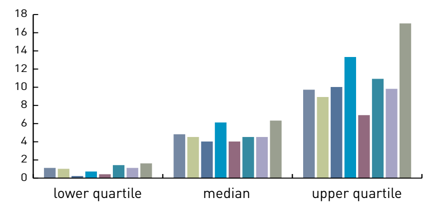
Sales turnover per employee (£)



Pre-tax profit per employee (£)



Pre-tax profit/turnover (%)



Value creation & asset management

While sales and profit performance data are useful in assessing how well a firm is performing, they do not reflect the whole picture. Indeed, their main shortcoming as measures is that they do not establish whether or not a firm is creating value. Organisations need to create value by demonstrating high returns on capital and net assets.

25% of UK organisations are **destroying value** - achieving less than half the accepted cost of capital

The key to achieving these goals is through successful asset management, which is related to the firm's strategy. Strategies vary based on the firm's sector, stage in the life cycle, external conditions and so on. Well planned and managed strategies usually have short and long terms visions and tactics. In this regard, some organisations might accept low returns in the short term if they are investing in a major project and/product for the long term. All organisations will require a form of investment at every life stage they go through. Depending on the firms' size, risk factors, and management strategies and views, the investment can come from banks, venture capitalists or private finance. A key role of management is to optimise the amount of capital that has to be invested and, more importantly, to maximise the return on that investment. In the longer term, however, it is essential that the return on capital employed and the return on net assets is driven up.

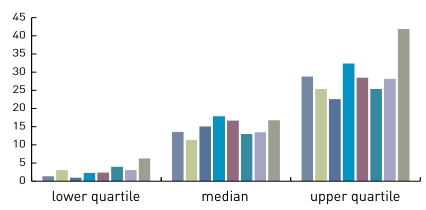
Two significant levers for driving up returns can be identified through Benchmark Index data – **cash management and overhead management.**

Cash rich investors have various options to invest in today's markets. The main options are usually investing them in firms on the stock market or simply in banks and bonds. Should one choose the latter option, the investor can achieve a guaranteed return of approximately 3-4% by placing the money in no risk bonds. However, one must consider inflation (roughly 2-3%) which will result in the money becoming worthless over time. Add to that the tax that has to be paid on any returns received (equivalent to another 3%). These numbers amount to the cost of capital being in the region of 8-10%. Therefore, if an organisation is generating less than 8-10% return on capital employed, then the capital that has been invested will effectively be worth less at the end of the investment period than it was at the start, and the firm is effectively destroying value.

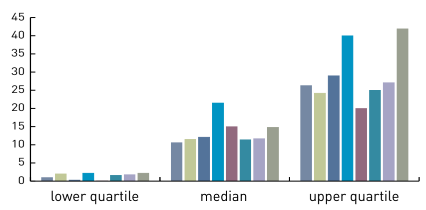
From the data we have from UK organisations, 25% of UK organisations (across all sectors) are destroying value and achieving less than half the accepted cost of capital. Moreover, the variations between upper and lower quartile firms are startling. The top 25% of organisations are achieving around eight times more return on capital that the bottom 25%. This is a huge gap in value creation. A closer look also reveals that service organisations are also ahead of all other sectors in the upper quartile results where the top 25% service organisations are achieving a return on capital of just over 40% while the average of their manufacturing counterparts and just under 30%. It is noted however that within the manufacturing industry, the Electronics sector and the Food, Drink and Tobacco are both achieving better median return on capital employed than the service, and indeed, manufacturing averages.

value

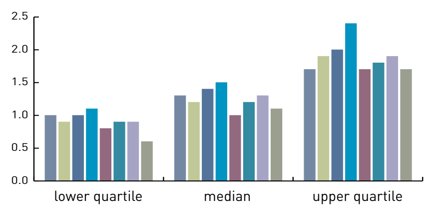
Return on capital employed



Return on net assets



Acid test



The picture for return on net assets is equally alarming, with the bottom 25% organisations all achieving percentages below 3% and the average manufacturing median is just over 10%. Again, the upper quartile firms are ahead by comfortable margin (up to 8 times more in the case of the Service and Electronics sectors). What is interesting is that while in the upper quartile Service organisations are ahead of the manufacturing average (manufacturing 27%, service 41%), one sector in manufacturing (Electronics) is achieving levels similar to those of the Service sector in the upper quartile range and is achieving higher return on net assets in the median range.

The key to achieving high return on capital and return on net assets is asset management. Clearly from the data we have, there seem to be some sectors, like Service and Electronics, that seem to be doing something better than the others. Experience shows that there are two main components to driving up these returns, namely managing the organisation's cash and its overhead.

In this context, the acid test can be a very useful indicator. The acid test compares the value of liquid assets to the value of current liabilities. If the ratio is less than 1 it means that the organisation does not have enough liquid assets to cover its current liabilities. Looking at the UK industry sectors, over 25% of them do not seem to have enough liquid assets to cover liabilities. All the lower quartile organisations, along with some median ones (such as Food, Drink and Tobacco) fall in this category. Moreover, the gap is again evident between upper quartile and lower quartile organisations. It is interesting to note here that the Service sector is among those with the worst acid test ratio amongst all sectors, lower than the manufacturing average, and far behind manufacturing sectors like Electronics.

A significant reason why so many firms have a problem with the acid test is that they have very little, if any, cash in the bank. Lower quartile firms have, on average, less than 0.5% of their sales turnover as cash in the bank. Even the median firms only have around 3% of their sales turnover as cash in the bank. Interestingly upper quartile firms are cash rich and have, on average, 10% of their sales turnover as cash in the bank. Within the upper quartile, there are also significant variations. The Service sector demonstrates a higher percentage than the overall manufacturing sector but less than specific sectors within manufacturing like Electronics and General Machinery. It is interesting to note that while the Service sector reports some of the highest percentages of cash in bank, they still reported the lowest in the acid test measure – potentially revealing higher liabilities. In fact, the more revealing numbers are the percentages reported by the upper quartile firms within the manufacturing sector. Organisations in the Electronics and General Machinery have more than 12% of their sales as cash in the bank, Chemical and Food, Drink, and Tobacco sectors have over 8%. There might be a lesson here for all the upper quartile firms as rather than simply leaving cash in the bank, some of these firms should be looking to expand their investments, most of all in high paced sectors like Electronics where research is generating daily changes.

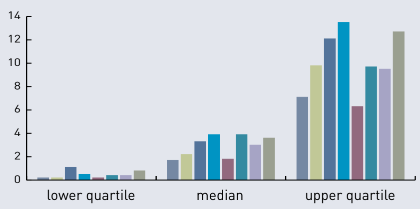
Having studied their incoming cash practices, we can now look at the organisations debts and how they manage those. Interest cover measures the proportion of profits that are required to cover interest payments. On this dimension of performance the difference between upper and lower quartile firms varies between 7 and over 22 depending on the sector. That is, some firms are spending 7 - 22 times as much of their profits as others to simply cover interest payments. The sectors particularly badly hit by this are the General Machinery, Electronics, and Services (confirming the earlier notes on its liabilities). It is interesting to note here that the same three sectors have previously scored the highest cash in bank as percentage of turnover.

On top of having to make these interest payments (resulting in the firms having such small amounts of cash), organisations are having to wait, on average, for 70 days before their debts are settled. Even upper quartile firms suffer with an average number of debtor days of just under 52.5. However, this still compares very favourably with lower quartile firms, who have to wait on average of 90 days before their debts are settled. Looking at differences between sectors, the organisations in the Service sectors upper quartile seem to demonstrate best practice and are thus the ones to learn from with an average debtor days of 24. Within the manufacturing industry, the least number of days was reported by the Food, Drink and Tobacco organisations. On the other hand, the worst performers are the lower quartile firms in the Metal Products and Electronics sectors that averaged over 100 days.

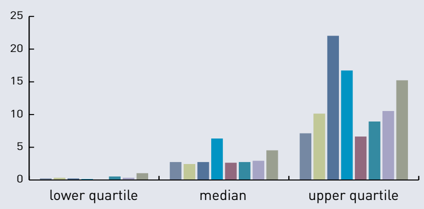
90

lower quartile companies are having to wait over **90 days** to have their invoices paid... at the same time they spend between **7-22 times** the amount of upper quartile companies simply covering interest payments

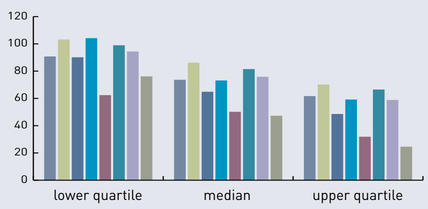
Cash in bank/turnover (%)



Interest cover



Debtor days



Value creation & asset management

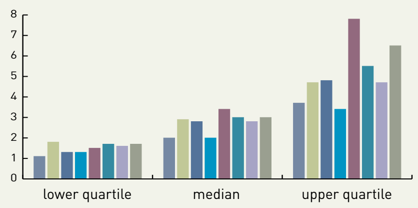
The final piece in the financial puzzle is the overhead management. In this area, the top 25% organisations across all sectors reported having at least double the ratio of directs to indirect than those in the bottom 25%. This means that the lower quartile firms require around two times as many indirect employees as do upper quartile firms with the same number of direct employees. The better performers are noted to be the Service sector along with the Food, Drinks, and Tobacco firms, while the worst performing sector is Electronics. These differences, in the ratio of directs to indirect, can stem from various reasons. They do however point to one main issue, which is that lower quartile firms require far greater management intervention to run their business process. Whether this is due to poorly designed process, lack of employee ability and skills, or management style is not clear. Quality management and Business Excellence advocates would argue that there are various practices that have been preached for some time to help organisations improve their business processes and develop performance measurement and management systems that would streamline operations and minimise management interventions (the traditional command, inspect, and control manner which is now seen as a waste of resources). Still, the data shows that while upper quartile organisations seem to have understood and implemented the better practices, median and lower quartile firms have a lot of learning and improvement to pursue.

managers in the upper quartile are responsible for at least double the amount of employees as their lower quartile equivalents

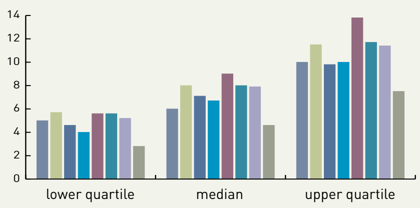
The same themes are also reflected in the data regarding the number of employees per manager, which swings from 14 in upper quartile organisations in the Food, Drink and Tobacco to just over 2 in lower quartile Service organisations. Overall, and as an average of the whole UK sample, managers are responsible for just under 8 employees. Managers in upper quartile firms are responsible for at least double the employees as are managers in lower quartile firms. This lends support to the argument that the lower quartile firms require more management intervention, because they have not taken control of their basic business processes and indeed do not trust their performance measurement systems to monitor and control the operation. Experience has shown that leading organisations have all focused on empowering employees to reduce the need for control. Employees are given the support and development they need to be able to handle larger responsibilities with less control. At the same time, leading organisations have focused on state of the art performance measurement systems to help act as means of improvement, control, warning, and navigation systems thus reducing the need for traditional managers who used to be mainly inspectors over other people's work and acting as the 'process police'.

the top 25% of organisations are achieving around eight times more return on capital than the bottom 25%

Direct to indirects



Number of employees per manager



"**Benchmark Index is a business must**. I really don't know if we would have achieved so much if we hadn't done it. But now we have been through the benchmarking process and seen how much it has to offer, it has become a regular part of our business."

Alun Ware - Managing Director, Contract Trade Frames

Contract Trade Frames started business in South Wales in 1997 with just Alun and two colleagues using a converted school as premises to make windows, doors and conservatories for sale to building contractors. Over the next four years the staff grew to 43 and the company relocated to a modern industrial estate on the outskirts of Cardiff. In 2001 the company achieved sales of more than £2m on which it made profits of 11%.

By the end of 2001, Contract Trade Frames was working regularly for 12 different house builders including Westbury, Wilcon Homes and Kings Oak Homes. At any one time its products were being supplied to more than 30 building sites, varying in size from ten to 200 homes. The value of sales ranges from £1400 to £12,000 per property, depending on the number and specification of windows and doors.

"Our rapid growth has been based on very simple principles," says Alun. "We make quality products and we deliver them promptly to our customers, exactly when and where they are required. It might sound so simple it's crass, but there are lots of rival companies that cannot even get those basics right."

Alun knew his company would have to reach greater heights if it was to achieve his sales targets of £3m in 2002 and £10m by 2004. He sought advice from business adviser John Huish of Fooks Business Development, who strongly recommended Benchmark Index as a way of quantifying the company's strengths and weaknesses against comparable firms.

"It was an easy process," says Alun. "John was able to draw on information that was readily available and came back a week later with the results and his analysis." Benchmark Index showed Contract Trade Frames was achieving a high standard in terms of production quality, internal controls and customer relations. But it was very unimpressive in having achieved no formal qualifications and its future was threatened by the fact it was under funded and over-trading.

"We took immediate action," says Alun. "We set about gaining accreditation such as ISO 9001 for design and manufacturing and ISO14001 for environmental care, as well as Investors In People and Secure by Design."

Despite increasing prices to raise money, funding remained an issue, so Alun agreed a package of financial support from UK Steel Enterprise and Welsh Fund Managers. Benchmark Index report was helpful in supporting the case for investment. "Benchmark Index has helped us in lots of ways," says Alun. "It provided a real boost for our management team in helping us identify where to focus our attentions. Doing Benchmark Index regularly – as we now do every year - is an excellent discipline."

"I really don't know why every business doesn't get benchmarked," Alun adds. "They are really missing something valuable. The only thing that can be holding some people back is a lack of professionalism – and they are the ones who are going to be the losers."

"It was an easy process, John was able to draw on information that was readily available and came back a week later with the results and his analysis."

Alun Ware - Managing Director, Contract Trade Frames

Customer perspective

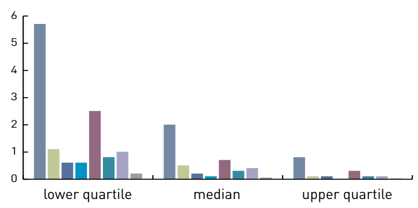
The customer is king. Without customers there are no revenues, profits or any value to the shareholders. Yet, many organisations these days seem to forget this fact and take the customer for granted. In today's competitive environment, excellent service is quickly becoming an organisation's 'licence to practice' as opposed to a competitive advantage.

> it is crucial for firms to realise that no customer dissatisfaction does not necessarily equate to customer satisfaction

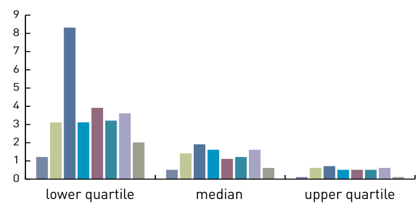
The statement that 'the customer is king' is now more valid than ever. This is an age where customers have vast choice of products and services, and the internet is giving more power to these customers by providing knowledge and the ability to compare products and services globally. In this context, customer focus is the key driver for sustainability and measuring customer satisfaction, and managing it as a process becomes crucial. It is important to realise here that various sources of research work have demonstrated that only one out of ten dissatisfied customers actually complain while each dissatisfied customer will tell of his/her experience to up to ten other people. This, in an age where even loyal customers are more liable to move to a competitor offering marginally better value propositions. Thus, it is crucial for firms to realise that no customer dissatisfaction (absence of complaints) does not equate to customer satisfaction. Moreover, zero complaints per customer might simply indicate that the firm does not make it easy for frustrated customers to complain and has no mechanism in place for capturing, and presumably resolving, complaints once they are received.

In capturing data about customer satisfaction, Benchmark Index acknowledges the fact that it is a complex and multi-dimensional issue. The data captured thus comprises various indicators of customer satisfaction and covers: complaints per customer, complaints per order, order value of complaints as a percentage of turnover, orders not delivered on time as a % of total orders and orders rejected during warranty as a % of total orders.

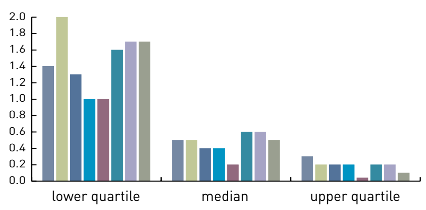
Complaints per customer (%)



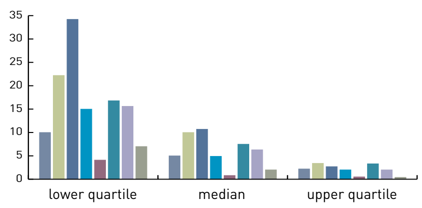
Complaints per order (%)



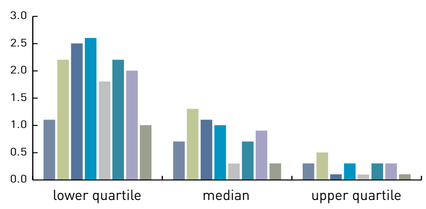
Order value of complaints/turnover (%)



Order not delivered on time (%)



Order rejected during warranty (%)



Overall, the median number of complaints per customer across the UK manufacturing industry is 0.6% (i.e. an average of 6 complaints per 1000 customers) while the service sector is averaging 0.5 complaints per 1000 customers (0.05%). The data on complaints per customer reveals three major points:

1. Although lower quartile organisations are averaging less than 2% complaints per customer, these figures are at least three times more than what the upper quartile organisations reported. Thus, again, there is a major gap between the top 25% and bottom 25% and a lot of learning and knowledge transfer can, and should, take place in either direction as the reason for this gap might be that those reporting higher percentages have better measurement systems that capture such data, cultural differences that encourage people to complain more often, or simply have more defectives in their outputs.

2. Within all sectors, the Service sector is the one reporting the least percentage of complaints per customer. It is not clear if this is due to the Service sector providing better value (less defects) or if it is that customers are more prone to complain about manufactured goods (tangible complaints).

3. Within manufacturing, the Chemical sector is reporting almost five times the average percentage of complaints per customer across all the categories (lower quartile, median, and upper quartile). The data does not reveal the causes, but it clearly points out to that either the sector needs immediate attention to this issue, or that it is more strictly regulated (due to nature of products) and thus has to capture these complaints more systemically.

From another angle, Benchmark Index collects data on the complaints per order (%). This is usually revealing as many organisations find it easier to capture complaints in this format as opposed to the previous (per customer). Indeed, the data reveals that the percentage complaints per order are slightly higher across the board which give more backing to the theory that while they cannot track complaints per customer, firms seem to be able to track complaints by orders, a reflection of most traditional accounting systems where the unit cost is the measure basis. The average for manufacturing organisations here is that they report 13 complaints per 1000 orders while the service organisations average 6. Interestingly, the Chemical sector is reporting the least number of complaints per order (possibly indicating that they do not capture their data in this format and focus on per customer basis). However, comparing service with manufacturing, the Service sector is still reporting the least percentage of complaints per order. This data might be useful for some cross learning. The numbers are not necessarily telling us that service providers have better processing capabilities, or better processes. It might be indicating that due to the nature of the service delivery process and the face-to-face engagements, issues might be quickly resolved by competent staff as they arise and before they escalate to a complaints.

For both sets of measures, the comments made earlier apply. These low percentage of complaints are not automatic symptoms of good performance. Instead they may be noting that the organisation does not make it easy for customers to complain, or potentially does not capture the data when the customer does complain.

The third customer related measure analysed is the order value of complaints as a percentage of turnover. This measure illustrates what proportion of the firm's total order value spent on resolving customer complaints and is usually a good wake up call. The bottom 25% performers receive complaints totalling about 1.5% of their orders by turnover, which comes straight off the bottom line. More worrying is the well known fact that this reflects the direct costs associated with the complaint and is usually accompanied by a substantial set of hidden costs (potentially more than the direct cost itself) – i.e. the cost of collecting the faulty goods/services, replacing them, scrapping them (if necessary) and re-building the relationship with the customer (when possible). Within the bottom 25% firms The General Machinery seems to be doing the worst (potentially due to the nature of the industry and size of the orders). Across the sectors, the better performers in this measure were the Service sector and Chemical sector. While expected in the case of the services (who reported the least complaints per customer and per order), it is interesting to see the Chemical sector in this category as firms there reported the highest complaints per customer. Upper quartile firms claim that the order value of complaints they receive is less than 0.18% on average emphasising the gap and learning opportunities.

Another measure that is incorporated in Benchmark Index is delivery on time. The definition of 'on time' can vary from sector to sector, but the benchmark definition is 'on time in full' (OTIF) – i.e. everything the customer ordered should be delivered at the time requested by the customer. The data from this measure is alarming, mostly for the lower quartile organisations who, on average, do not deliver on time for 15.6% of the orders. In an age where this customer is king and competitors are fiercely fighting to gain their business, 15.6% of the orders not delivered on time could mean 15.6% of the customers defecting to another supplier (due to lack of operational efficiency on the firm's side, i.e. 'pushing' customers away). On the other hand, upper quartile organisations reported only 2% of the orders not delivered on time. While the goal for everyone should be 100% on time delivery, there is a huge gap between the bottom 25% and the top 25%. Within the manufacturing sector, the best performers seem to be Food, Drink, and Tobacco sector (as one would expect by an industry strongly governed by product freshness and expiry dates), and the worst performers are General Machinery.

Finally, the measure of % of orders rejected during warranty is analysed. While the top 25% organisations have reported less than 0.5%, the bottom 25% have another significant gap (and thus learning) to think about, as they are averaging 1.7%.

People - the employees perspective

The new world of work is introducing flexible working hours, knowledge workers, working from home, etc. So while these patterns emerge, organisations must change the way they deal with their people to achieve maximum benefit.

It is firmly believed that the success of an organisation lies more in its intellectual and systems capabilities than in physical assets. Without altering human knowledge, skill, and behaviour, change in technology, processes, and structures is unlikely to yield long-term benefits. People are not the most important resource of the organisation, they are the organisation. Everything else is part of a 'system' that can be implemented, copied, adapted, removed, and improved by people.

Research and experience clearly note that although the statement so often articulated 'the most important resource of this business is its people' is increasingly meaningful, not merely as rhetoric but also in practice, the type of people that today's organisations require, and are dealing with, today and tomorrow, are different from a decade ago.

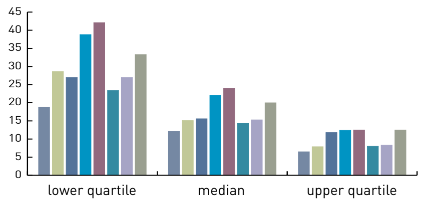
> without altering human knowledge , skill and behaviour, change in technology, processes and structures is unlikely to yield long-term benefits

In an age defined as the 'knowledge' era, organisations depend more and more on fewer people; people whose loyalty can no longer be assumed but rather must be earned and retained, then clearly they need to be concerned about how they utilise them, develop them and resource them and about the opportunities for rewards, promotion and success which they provide.

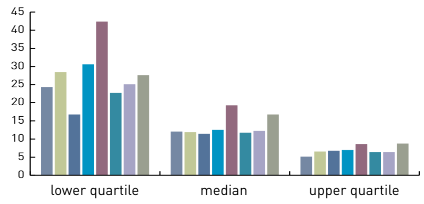
Benchmark Index collects people performance data under several different headings - new employees, total leavers, early leavers, days lost to absenteeism, accidents, number of employees per manager, directs compared with in-directs and graduates as a % of employees. Some of this data was presented early when the question was explored – are the companies featured in Benchmark Index managing overheads well? This section will concentrate on the remaining data.

Employee recruitment comes with large cost bundles including advertising, interviewing, induction and training. Thus, recruitment, ideally, must be an activity undertaken for growth. On the other hand, when employees leave the organisation, they take with them knowledge and experience that are losses to the company (losses not usually captured by the traditional accounting techniques).

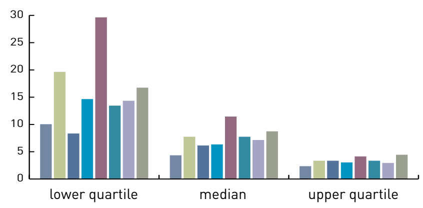
New employees/total employees (%)



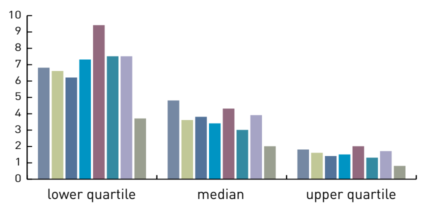
New leavers/total employees (%)



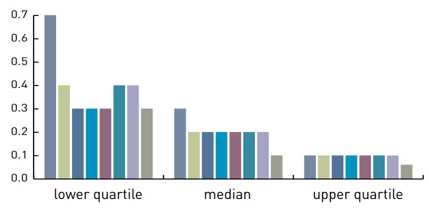
Early leavers/total employees (%)



Days lost to absenteeism per employee



Accidents per employee



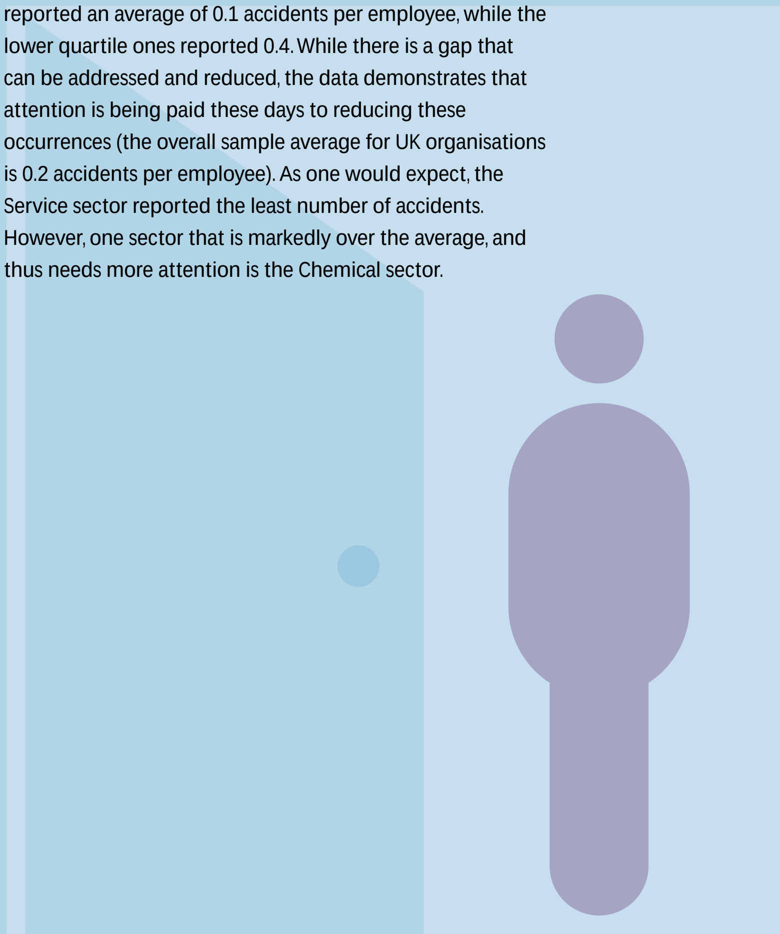
Looking at the data gathered, and on average, UK organisations seem to be recruiting around 17% of their employees annually – while this might be positive if it is done for growth, diversity, and bringing new ideas in, it is expensive, most of all if it is happening due to the organisations loosing a similar percentage. The data for total leavers does show that about 15% of the employees actually do leave annually. A certain percentage of those might fall under natural attrition (like retirement), but chances are the majority are moving between jobs for better offers. The term 'war for talent' is more true than ever in this environment where even the life span of a CEO has dropped to just over three years as some research studies revealed. A more worrying measure is the percentage of early leavers (those who joined the firm in the last 6 months). The UK organisations are averaging around 7% of their total employees falling in the early leavers category – these are people who cost the organisation all the recruitment and induction costs, and most probably did not have any time to add real value. A more detailed look at these three measures reveals:

1. The gap is huge between upper and lower quartile organisations when it comes to the percentage of their employees that they have to recruit annually. The lower quartile organisations recruit 30% of their staff annually while the upper quartile ones recruit 10%.
2. Most probably, the new employees recruited are to replace leavers. Lower quartile organisations are averaging just under 30% leavers annually while the upper quartile ones are reporting around 7%. If this is the case, then the recruitment is not taking place for ideal reasons like growth and knowledge development and acquisition. With 30% leaving the bottom 25% firms annually, these firms are required to undertake a serious rethink about the way they manage their people.
3. Again, the gap is also wide between the upper and lower quartile organisations in terms of early leavers/total employees. This percentage is more than double in the bottom 25% firms.
4. Overall, the Service sector is averaging more recruits, more leavers, and more early leavers than the Manufacturing sector. Not surprisingly as the Service sector is more focused on 'knowledge' workers who seem to be in the most demand.
5. Within the Manufacturing sector, most sectors are demonstrating around average performance expect two: Food, Drink and Tobacco and Electronics. Both are reporting new employee percentages that are higher than the average, and simultaneously more than average total leavers (markedly less so in the Electronics sector). In the Food, Drink and Tobacco sector, the percentage of early leavers is also high and it seems that this sector is most affected by staff turnover, and thus has most to learn.

In terms of measuring employee satisfaction, it has become generally accepted that one alternative measure of employee satisfaction and motivation is absenteeism. Lower quartile firms lose, on average, 6.9 days a year per employee through absenteeism. To put this in perspective, this is equivalent to a 1000 person firm losing 31.4 person years through absenteeism for every year worked! (assuming a person year has 220 working days). In the upper quartile, the days lost to absenteeism per employee come up to an average of 1.5. This is clearly far better than the bottom 25% firms (a gap that must be closed by cross learning).

Absenteeism is worst in the lower quartile performers in Food, Drinks, and Tobacco sector potentially reflecting less employee motivation than other sectors. Combining this with the total leavers/total employees percentage in this sector, we can see that there is an issue to be tackled here. Meanwhile, the service sector reports the least days lost to absenteeism across all quartiles, making it the sector to learn from.

The final measure for the employee's category is the number of accidents per employee (a measure of employee motivation and indeed the effectiveness of the health and safety procedures in the firm). The assumption here being that motivated employees are more likely to be engaged in their jobs and will be thus paying more attention while at work and suffering less accidents. The upper quartile firms reported an average of 0.1 accidents per employee, while the lower quartile ones reported 0.4. While there is a gap that can be addressed and reduced, the data demonstrates that attention is being paid these days to reducing these occurrences (the overall sample average for UK organisations is 0.2 accidents per employee). As one would expect, the Service sector reported the least number of accidents. However, one sector that is markedly over the average, and thus needs more attention is the Chemical sector.



UK firms lose about 7% of their staff within 6 months of taking them on – these people cost the organisation recruitment and induction costs, and have little or no time to add any real value

Supplier performance

The trends that are driving the new economy caused various organisations from different sectors to consider outsourcing more and more. Organisations have pursued different programmes to outsource their non-core activities for different reasons varying from cost reduction, change in strategic direction, or efficiency improvements.

However, as the trend grew and encompassed most of the firms' direct inputs and indirect support processes, it did result in firms becoming ever more reliant upon their suppliers. Organisations learned that quality, responsiveness, service, and problem solving are every bit as important as price in developing effective supplier partnerships. In parallel, there has been a lot of work and developments in Supply Chain Management highlighting how an effective approach could drive substantial costs out of the supply chain. When coupled together, these factors have caused an increasing interest in supplier management approaches and techniques.

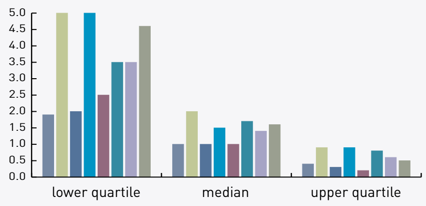
In the top 25% firms, only 0.5% of supplies are sub-standard, the lower quartile have 6 times as many sub- standard supplies.

Benchmark Index captures data about supplier performance using several different measures, most notably - % of sub standard supplies by value, % supplies delivered on time by value, turnover/number of suppliers and stock turns.

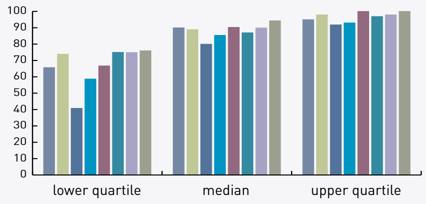
In terms of the percentage of supplies received that are found to be sub standard, the organisations in this lower quartile are reporting an average of 3.5% as opposed to only 0.5% in the upper quartile. The gap is obvious and when looking at the details of the lower quartile organisations, we find the situation clearly worse in three sectors, namely Metal Products, Electronics, and the Service sector, while the better performing sector across the board is the General Machinery. A possible explanation is the cost of supplies, which can be lower for individual components or services in the Electronics and Service sector as opposed to the General Machinery where most of the supplies would be of high value. It that respect, the General Machinery sector could have worked on better developing its supplier relationships, enforced strict service level agreements, or both.

On average, the upper quartile firms get **97%** of their supplies in on-time compared to just **66.5%** in the lower quartile

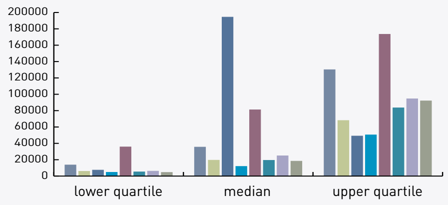
Sub standard supplies (%)



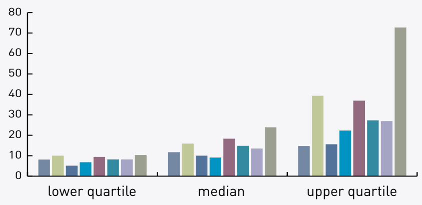
Supplies delivered on time (%)



Value of supplies per supplier (£)



Stock turns

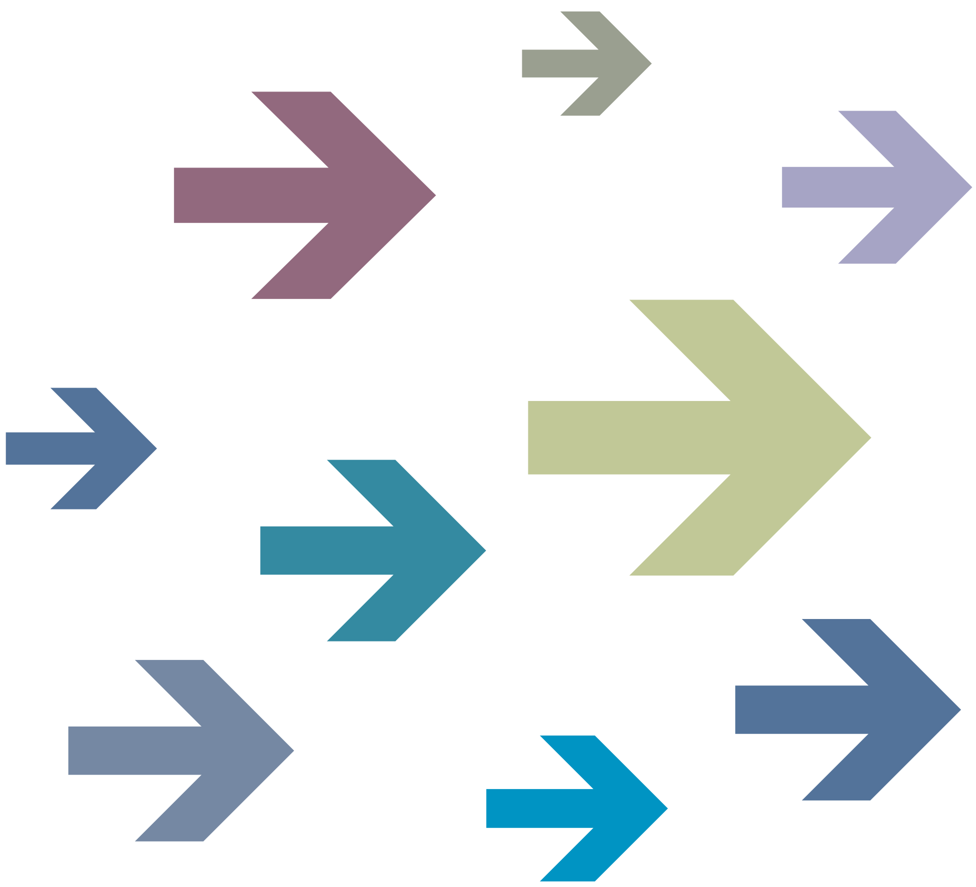


As for the other angle of supplier performance, namely on time delivery, the top 25% organisations seem to be getting an average of 97% of their supplies on time. However, the picture with the lower quartile organisations is not encouraging and reveals a huge gap as they only receive an average of 66.5% of their supplies on time. The worst performers here are the General Machinery sector potentially due to the size of orders and complexity, but this goes against the argument driven earlier on their supplier management capability as they seem to be getting the best quality of products, but mostly late! There is a lot of improvement potential for all organisations in all sectors in this regard and there is a lot to learn about supplier management in the overall framework of supply chain performance.

There are various reasons why supplier management is not ideal, and the following points highlight two potential reasons:

1. Too many suppliers to deal with. The value of supplies per supplier provides an indication of how many suppliers a company requires to support its operations. The gap in this case between the top 25% and bottom 25% firms in the sample is massive (£10,358 to £92,592 respectively). This suggests that upper quartile performers use one ninth (or less) of the number of suppliers that lower quartile performers use. Using less suppliers translates into the organisation requiring less overhead and focusing resources on building relationships with a limited number of suppliers. A close look at the sectors in the sample reveals that sector with highest value of supplies per supplier (least number of suppliers) is the Food, Drink and Tobacco sector followed by the Chemical sector.

2. Stock turns (a reflection of internal operations management). Another measure that demonstrates the large gap between upper and lower quartile organisations. The bottom 25% firms reported an average of 8 stock turns per year. The gap is obvious when this is compared top the 32 stock turns per year that the top 25% firms in the sample achieve. The highest stock turns achieved by far is reported by the Service sector most probably due to the nature of the industry. However, when we compare the performance of manufacturing sectors, it is noted that Metal products and Food, Drink and Tobacco sectors are leading. In the case of the latter, again the high stock turns is dictated by the nature of the product lifecycle. As for the Metal products, the lead might be a reflection of best practice being implemented within internal operations management, one that can prove a learning opportunity for many. In this regard, even the high performers have a scope for learning, as by applying best practice like collaborative planning and Enterprise Resource Systems, world-class organisations are achieving stockless production and Just in Time delivery levels.



One of the biggest problems facing lower quartile companies is that they simply have **too many suppliers** - up to nine times more than those in the upper quartile

Building for the future

So far, we have looked at financial performance, satisfying customers and employees. While these are excellent indicators, they are also lagging ones, i.e. they are reporting history. If an organisation decides to manage its performance by relying only on the lagging indicators, it would be like driving a car using only the rear view mirror.

the cliche that 'change is the only constant' is more true than ever and the future will be for those who invest NOW

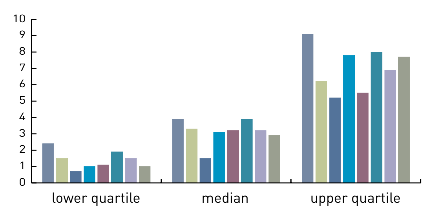
Organisations need to look to the future, prepare for it, plan how to influence it, and invest to ensure they are part of it. Sustainability is all about the long term and requires present planning and investment in new products, processes and ways of working to be made continually. The cliche that 'change is the only constant' is more true than ever and the future will be for those who invest now, based on a clear vision and well articulated, measurable, strategy to build their capabilities and strengthen their competitive advantage.

Benchmark Index data set contains significant information about the investments made by manufacturing firms in the EU countries in the sample, using the measures – capital investment, R&D expenditure, training expenditure, training days/employees, training expenditure/employees, ratio of graduates to employees and marketing expenditure.

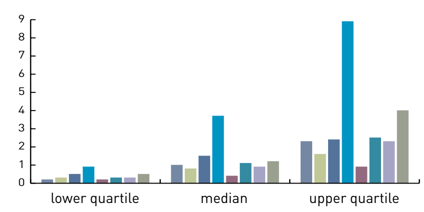
Within the whole sample of UK organisations, upper quartile organisations are investing, on average, 6 times as much of their turnover on capital investment as lower quartile firms do. A huge gap in preparing for the future, one that might be reflected in the numbers of those organisations who will actually still be there in the future. The biggest investments seem to be taking place in the Chemical and Transport sectors. Moreover, and on average, the Manufacturing sector seems to be spending slightly more of its turnover than the Service sector on capital investment. In terms of R&D spending, the gap between the upper and lower quartile organisations is still considerable. The biggest spenders on R&D are the Electronics sector and the Services sector. In the Electronics sector this is probably dictated by the nature of the industry where the life cycles of their products are shortening by the day. A similar picture can be drawn for the Service sector where the intense competition is forcing everyone to compete on new innovations in service to provide a differential offering. Having said that, other sectors are not immune against change and shortening life cycles and the low investment levels in R&D are indeed worrying (the overall UK sample average spend on R&D as a percentage of turnover is no more than 1.3%).

From R&D, we turn to find even more worrying figures for investment in developing the organisation's intellectual capital, namely employee training. On average, the UK organisations sampled spend 0.3% of their turnover training their employees (arguably their most important asset). Even with this small percentage spend, there is still a gap between the top 25% and the bottom 25% (who are averaging no more than 0.1% of their turnover on training). This in a time where most SMEs are reporting frequently they are facing a skills shortage and can not attract qualified people to work the top 25% and the bottom 25% (who are averaging no

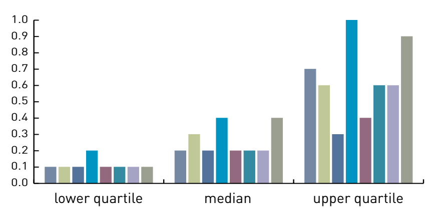
Capital investment/turnover (%)



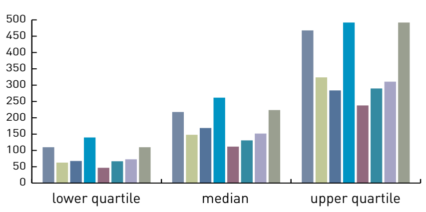
R&D expenditure/turnover (%)



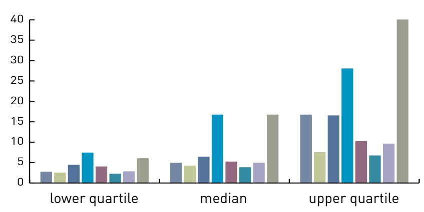
Training expenditure/turnover (%)



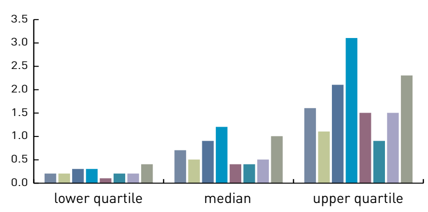
Training expenditure per employee (£)



Graduates/employees (%)



Marketing expenditure/turnover (%)



more than 0.1% of their turnover on training). This in a time where most SMEs are reporting frequently they are facing a skills shortage and can not attract qualified people to work for them. They do forget that investing in training has various benefits spanning from developing their intellectual capital which, if done well, translates into operational efficiency and improvements, to acting as an attractor for qualified people who view personal development as a key part of any job.

A similar picture is presented when studying the numbers for actual training expenditure per employee. The average UK organisation is spending around £140 per employee per annum on training. The upper quartile organisations are averaging around £350 while the lower quartile organisations are averaging less than £100. Given that an average course in the UK market costs anywhere between £450 and £1000, the data seems to be telling us that an average employee in a UK organisation is getting around one day of poor quality training per annum. Of course this caricature picture is not the case as some employees will be going to high quality (and expensive) courses, but some employees will have to be attending none to achieve these averages. These numbers are very worrying and either reflect that organisations do not realise the importance of knowledge, continuous improvements, and building for the future, or that they are under a lot of pressure from shareholders to produce short terms financial results (that they opt to cut training and other 'costs'), or indeed a combination of both.

It could be that firms employ highly trained people rather than build their skills once they have joined the firm. If this was the strategy for all the organisations in Benchmark Index database, then it would be reasonable to expect that they would employ a high number of graduates. In fact, even in upper quartile firms, fewer than one employee in 5 has a degree at best (in the Service and Electronics sectors) while in lower quartile firms, it is reported that the average is less than one in every hundred employees. This clear lack of investment in training and hiring graduate employees has serious implications for the future sustainability and competitiveness of UK firms. We are now living in 'the knowledge economy' and it is forecasted that the future will fall to those that develop, manage and exploit knowledge to its full potential. Whatever the reasons for this lack of investments, UK firms, on average, still do not seem to realise that training is an 'investment' not a 'cost', and to that end, a critical investment for long term success.

On average firms in the sample spend 0.7% of their turnover on marketing. This is less than what they spend on R&D and Training, and while this reflects a healthy balance between focusing on the present and building for the future, it still reflects low investment levels overall. Marketing is becoming more important these days as competition intensifies both from within the UK and abroad. It as noted that these days, everything is of much better quality, but at the same time becoming extremely similar. In this context, marketing and brand management could provide a powerful edge. The gap here is also huge; on average upper quartile firms spend at least four times as much on marketing than do lower quartile firms. The service sector spend more than the manufacturing sector average, but less than the Electronics sector who seem to be the leader in marketing spend (this coupled with them being the leaders in R&D spend in symptomatic of there fast moving environment and qualifies them as a main sources of best practice to learn from on managing in a fast moving world).

We are now living in the '**knowledge economy**' and it is forecasted that the future will fall to those that develop, manage and exploit knowledge to its full potential

Market growth & penetration

Customer loyalty can no longer be taken for granted. Even the most loyal customers will leave for a better value proposition.

Competition as a whole has long left the 'traditional' arena and it is now common practice for organisations (even whole countries) to try to lure customers away with 'special' offers. The markets have also changed and distance has been redefined. Geography is no longer a barrier to entry, and agreements such as the World Trade Organisation are redefining regulatory constraints. The bottom line is: globalisation is not the future, it is the present. Organisations must have strategies for growth that span opening new markets, offering new products/services, and reaching new customers. The data provided from Benchmark Index for the UK industry provides mixed messages in this regard, but clearly shows a movement in the directions discussed. On the whole, while firms seem to be reasonably successful in generating new income, there is a big gap between the top 25% and bottom 25% firms, and there are also major differences between industry sectors.

On average, around 10% of the UK sample's turnover has come from new income. The upper quartile organisations reported an average of over 25% while the lower quartile ones reported less than 5%. A huge and worrying gap that needs to be addressed if one subscribes to the ideas discussed above. The sectors that seem to be outperforming the others, and thus the ones to benchmark and learn from are the Electronics and Service sectors respectively.

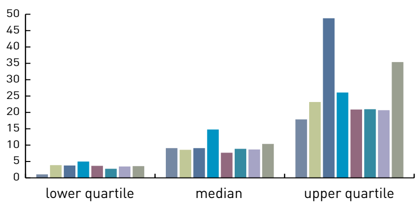
Firms are generating just over 3% of the new income from new geographies. However, this number is heavily influenced by the General Machinery sector who are generating, on average, over 10%. Whether this is due to implementation of best practices in promotion, quality of products, or taking advantage of trade shows and agreements, it is clearly a place to start learning from. The upper quartile organisations in the Service sector reported 16% of new income from new geographies, probably aided by the internet and e-commerce (which is a good indication of the take up and use of new technology if that was the actual case). Moreover, the gap is quite substantial between the top 25% and bottom 25% of firms as the upper quartile organisations seem to be generating at least 8 times more of their income from new geographies than lower quartile ones. So there is a clear opportunity to go down the path of exploring and exploiting new geographies, but the message, and indeed the practices, do not seem to have infiltrated every organisation.

A similar picture is revealed when studying the data on income from new segments. The General Machinery and Service sectors lead the pack, and the gap between upper and lower quartile firms is huge. It is interesting to note that on average, firms seem to be generating more new income by going into different segments than by going into different geographies.

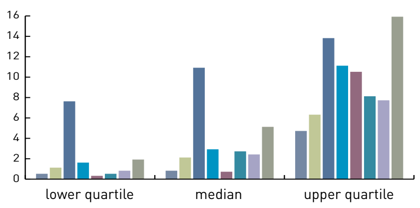
Another measure is the new income from new products. Here, firms are reporting, on average, around 6 -7%. This is an impressive and surprising percentage given the low levels of investment reported earlier on investment on R&D. However, the sectors that lead the pack in R&D expenditure (Electronics and Services) did report the highest percentage in income from new products (in their upper quartile firms, overtaking other sectors by at least 5%). A clear indication that investment does pay off.

Finally, the measure that assesses how many new customers the firms have gained (the percentage of new customers to total customers). The whole sample average is just over 16%, which clearly reflects the intense competition out there (for these firms to recruit these new customers, someone down the road must have lost them!). The Service sector is leading, especially the upper quartile firms who are reporting more than 40% new customers. The other leading sectors are the General Machinery (who seem to have a well planned and executed market penetration strategy) and the Electronics sector (where it is well known that it faces tough competition, from all over the world). This message about new customers is a coin with two faces. Are firms recruiting these customers because demand for their products is growing (growth mode), or is it because they keep losing their existing customers (survival mode)?

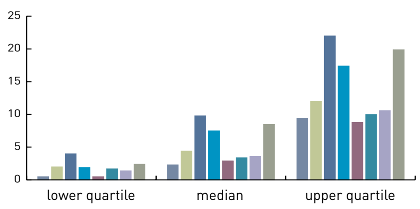
Total new income/turnover (%)



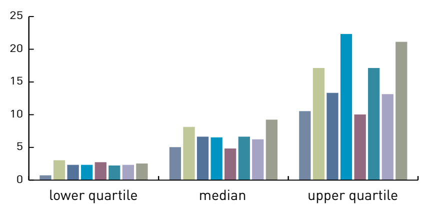
Income from new geographies (%)



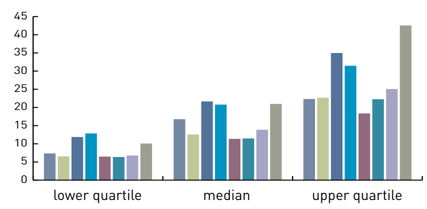
Income from new segments (%)



Income from new products (%)



New customers/customers (%)



Case Study

Linden Foods

It is true of many small firms that the only evidence they have to tell them whether they are performing above or below average is anecdotal or hearsay. Most never find the time to measure their strengths and weaknesses.

For Paul Johnston, Financial Director of Linden Foods, the problem was a familiar one: "Even though we had a good idea of what was happening around us, it was still hard to establish exactly what we were doing well or where we were falling below the mark".

Based at two sites in Northern Ireland Linden Foods is a 350-strong beef producing company formed in June 1998 from the merger of Granville Meats and Milltown Livestock & Meat Company. On average, it processes more than 80,000 cattle and 100,000 sheep a year for export to customers that include ASDA, Marks & Spencer, Somerfield, Safeway, Tesco, McDonalds and Burger King.

Even though its customer base is strong, the company is nevertheless under pressure to compete in an industry struggling with overcapacity. Its senior management, Paul Johnston included, were well aware of the need to improve the company's financial performance.

> "There's no question it has been a very valuable first step towards starting to evaluate our performance as a company. We think that repeating the process will give us a fresh insight into our strengths and weaknesses and help remind us how far we've come."
>
> Paul Johnston, Financial Director, Linden Foods

Paul was sceptical about how beneficial benchmarking could be for Linden Foods. bHis mind was changed by a call from Business Adviser Andrew Horne [of the IDB, now the INI]. "Andrew rang out of the blue. He did a good job of explaining that our problems were far from unique. But he still had to convince us that Benchmark Index could be of real value to our company. It took two attempts".

Paul describes the Benchmark Index process as time consuming, but thought-provoking. Comprehensive assessment questionnaires were handed out to all of the directors, supervisors and managers of the company - once the staff involved had been assured that their confidentiality would be protected.

The results were compiled into a detailed Benchmark Index report. "We weren't just left us to decipher the figures for ourselves. An external consultant went as far as to help us focus on an action plan that included specific areas where it was essential we started to do better". Says Paul.

Against the comparison group chosen, the company registered in the upper quartile for most operational areas and was particularly strong when it came to its customer focus. But it was a lower quartile performer in Human Resources, scoring below average for staff turnover and absenteeism.

Staff also said that communication inside the company was poor. Information wasn't being shared in the way the company would have liked, and there was a lack of understanding of one another's roles. This was identified as the root cause behind poor performance in other areas.

Now that Linden Foods has had the chance to pinpoint were changes were necessary, the benefits of benchmarking are beginning to be felt across the company.

Investment is being directed into a range of improvement projects - in Sales Planning, Production Planning and Production Systems Operations - that are already starting to bring real, tangible benefits to the business. Using a system of scorecards is helping to give staff measurable objectives against which they can see the progress being made. The structure of the company has also been reorganised to clarify individual responsibilities.

Early estimates suggest that overall operating costs have already been cut by a remarkable 20% and absenteeism rates have dropped from 12% to less than 6%. The potential savings for the company in unnecessary overtime costs could add up to in excess of £50,000 a year.

What the company had considered to be a staff recruitment problem has now been more accurately defined as a staff retention issue. In consequence, staff turnover rates among longer-serving employees fell by 11%, with further improvements anticipated. Much remains to be done, though, on the retention rates for those who move on within months of being recruited.

Even more impressive is the £250,000 a year that could be saved as productivity continues to improve and the new 'make it right first time' approach starts to eliminate costly returns.

Linden Foods is also confident of making early and substantial gains on its current turnover of just under £70 million.

Paul is planning a follow-up benchmark within 6-9 months as part of the plan to continuously drive the business forward. "There's no question it has been a very valuable first step towards starting to evaluate our performance as a company. We think that repeating the process will give us a fresh insight into our strengths and weaknesses and help remind us how far we've come".

Every indication is that Linden Foods will adopt benchmarking as part of its organisational culture adds Paul: "Had we not done it, I can only imagine we would still have been debating old problems for hours on end, without ever really getting to grips with the important issues. Now, instead of living with the status quo, our plans for growth are far more ambitious".

Closing the Gap

This section provides a look at the changes that took place over the period 1996 – 2002 in UK industry performance using Benchmark Index data. Benchmark Index has compiled data for the same set of measures in the UK industry over three distinct periods:

- 1996-1998
- 1999-2000
- 2000-201

The following analysis overviews this data and discusses whether there areas improving areas, areas showing negative trends, and whether we are actually closing the gap between the upper and lower quartile organisations. The data is presented separately for both the manufacturing and service sectors.

Sales & profit performance

The data on the sales and profit performance is concerning in the Manufacturing sector. All three quartiles in the sector have seen declining performance since 1999 (and some had the downward trend started in 1996) to date in their sales turnover per employee, pre-tax profit per employee, and pre-tax profit/turnover.

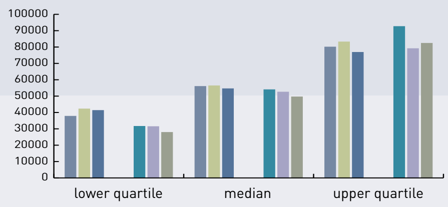
This is reflective of the tough times the manufacturing sector in the UK is going through and the recent downturn in the economy is showing its clear effects on this sector. The decline could be related also the fact that implementation of best practice and recommendations from initiatives such as Benchmark Index has not spread and was not taken to heart. The data from the service sector offers a more positive picture.

While the sales turnover per employee has declined in the past two years, as one would expect given the overall economic downturn, service organisations seem to have managed to increase the pre tax profit per employee and pre tax/turnover percentage. One reason for this could be the implementation of best practice in cost base management. There is clearly a learning opportunity from this sector.

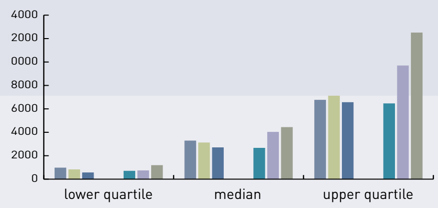
Period Coding

Manufacturing	Service
1996 - 1998	1996 - 1998
1999 - 2000	1999 - 2000
2000 - 2001	2000 - 2001

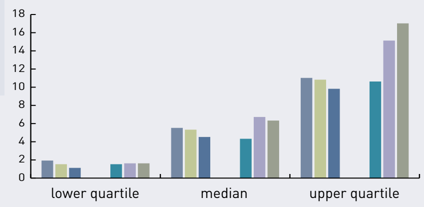
Sales turnover per employee (£)



Pre-tax profit per employee (£)



Pre-tax profit/turnover (%)



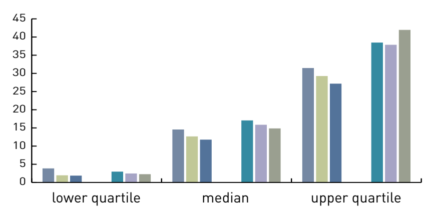
The messages from the data on value creation and asset management are mixed.

Firstly, in the Manufacturing sector, there has been a consistent decline in the return on assets generated while the Acid test ratios remained more or less the same. Cash in bank numbers have shown an increase on average, but the upper quartile organisations seem to be leaving less cash in the banks potentially following on from the messages on the need to invest such cash. The interest cover has shown positive signs in that the numbers are reflecting a downward trend as they should and a similar improvement has been witnessed in terms of Interest cover. As for Debtor days, both the average and upper quartile organisations are moving in the right direction (reducing these days) but the lower quartile are showing a slight increase. Another positive message is reflected in the Directs to Indirects ratio which is showing an increasing trend. So far, a lot of the messages seem to have been accepted and improvements implemented. The bottom line is, the average and upper quartile organisations have gone for better practice and, despite the economic downturn, they seemed to have been able to either sustain or improve their value creation and asset management practices. The same goes for the number of employees per manager which reduced in the upper quartile organisations but unfortunately increased in average and lower quartile ones. If anything, this reflects that improvement is possible, there are best practices out there being implemented, and the upper quartile organisations are all showing improvements if we look at the big picture here. That goes to strengthen the call for systemic and continual efforts to close the gap by learning from each other.

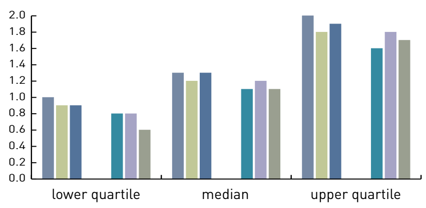
Interest cover has shown positive signs in that the numbers are reflecting a downward trend as they should

improvement is possible, there are best practices out there being implemented, and the upper quartile organisations are all showing improvements

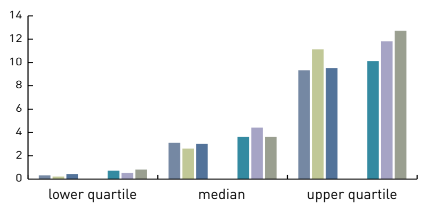
Return on net assets



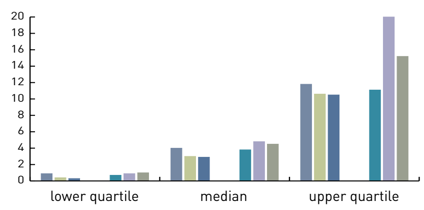
Acid test



Cash in bank/turnover (%)



Interest cover



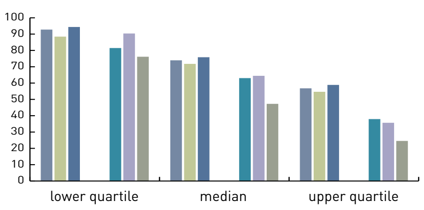
Value creation & asset management (continued)

As for the Service sector, the overall picture is again of mixed messages regarding the value creation and asset management capabilities and practices. While the return on capital increased between 1996 and 1999, it decreased in the last two years potentially due to the economic conditions. Nevertheless, there has been an increase in the upper quartile organisations' return on net assets (while the average decreased slightly). The Acid test ratios did not show any considerable changes while the cash in the bank has gone through an upward trend (service firms seem to be investing less and holding on to more cash – potentially because of the turbulent investment climate). Positive signs came from the debt management issues where the interest cover and the debtor days have both decreased consistently. However, overhead does seem to be a problem as the number of directs to in directs have shown a downward trend noting that more indirect (support) employees are involved. This, coupled with the fact that the number of employees per manager is also reducing send a strong signal for the service organisations to re-think their employee empowerment and involvement initiatives as opposed to adding more on the management layer.

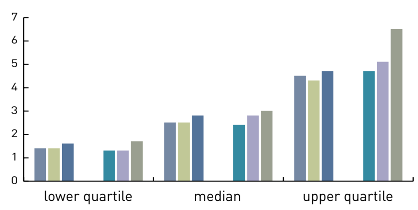
would your company pass the acid test ?

The acid test compares the value of liquid assets to the value of current liabilities. If the ratio is less than one it means that the organisation does not have enough liquid assets to cover its current liabilities. Well over 25% of the companies benchmarked are in this position

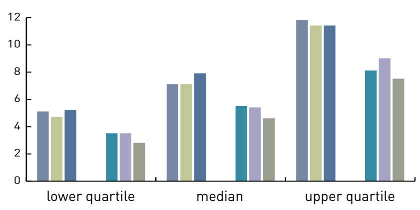
Debtor days



Direct to indirects



Number of employees per manager



The data on customer service highlights that, overall, there has been improvements over the past six years, especially in the lower quartile organisations. It seems that we are closing the gap, albeit slowly.

In the Manufacturing sector, the following is noted:

1. On average, the complaints per customer have shown an increasing trend. Whether that is due to increasing customer demands and thus higher expectations leading to more complaints or whether organisations have become better at capturing these complaints, it is not clear. However, while the upper quartile organisations maintained their low levels of customer complaints, the lower quartile have shown an improvement in the past two years.
2. The numbers on the complaints per order (%) draw a very academic picture of new theory application. Organisations started by reporting low levels of complaints at all levels, the next phase (1999-2000) reported increasing complaints, potentially due to the learning that took place and thus their improved ability to capture the customer complaint data, and the third phase saw a decrease in customer complaints, with the assumption that organisations identified the issues that needed improvement and commenced working on them.
3. The positive impact is also clear in the order value of complaints and orders not delivered on time. Both measures seem to be moving in the right direction.
4. The percentage of orders rejected during warranty has also decreased, more so in the lower quartile firms which again lends further support that we are closing the gap.

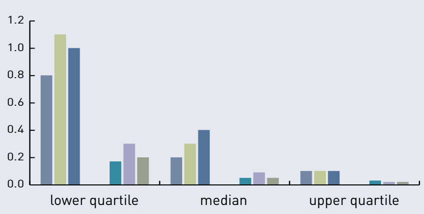
In the Service sector all the customer related measures are moving in the right direction, i.e it seems that the message is getting through and improvements being implemented. Moreover, the pace of improvements is faster (larger improvements) in the lower quartile organisations who seem to be working hard on the issues that need attention. For example, in lower quartile organisations, the order value of complaints/turnover dropped from around 3% in 1996-1998 to around 1.5% in 2001-2002; that is a 50% improvement. Similarly, The percentage of orders rejected during warranty in lower quartile organisations dropped over the same period by more than 50% (from 2.5% to 1%).

3%

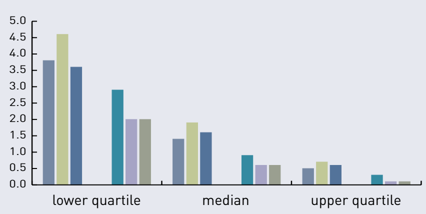
in lower quartile organisations, the order value of complaints as a % of turnover dropped from around **3%** in 1996-1998 to around **1.5%** in 2001-2002

1.5%

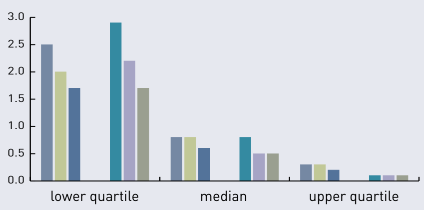
Complaints per customer (%)



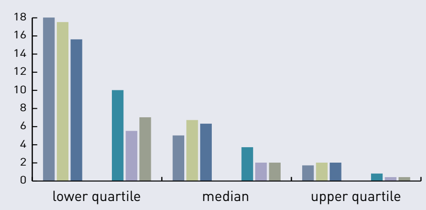
Complaints per order (%)



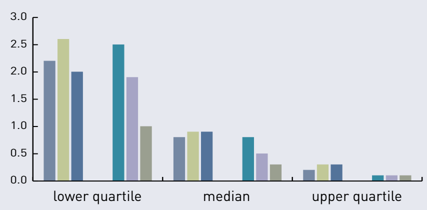
Order value of complaints/turnover (%)



Order not delivered on time (%)



Order rejected during warranty (%)



People - the employees perspective

The data on employees shows that both Manufacturing and Service sectors have not done much to change or improve. Indeed, both sectors have shown no significant change (either way) in the percentage of new employees that they take.

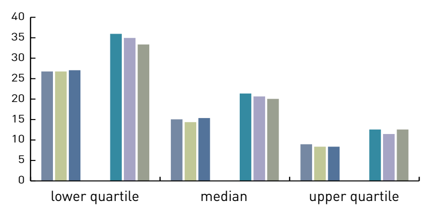
At the same time, both have reported slight increases in the total leavers and the early leavers, which goes to emphasis the new labour market and the war for talent. It also shows that no real efforts are being put in place to reduce the numbers of leavers (especially the early ones).

In terms of days lost to absenteeism (an indicator of employee satisfaction), the Manufacturing sector did not register any changes (apart from the lower quartile organisations reporting an increase), and the number of accidents per employee did not have any changes in their level either. Unfortunately, these number are a clear message that the Manufacturing sector does not seem to be paying enough attention to improving the conditions for its employees despite the messages over the past years. On the other hand, the Service sector is showing some improvements as the number of days lost to absenteeism has shown a decreasing trend, as did the numbers of accidents per employee. Still, the gap between the top 25% and bottom 25% organisations remains roughly the same.

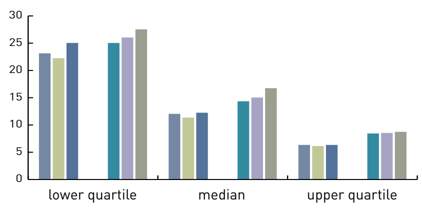
The Manufacturing sector does not seem to be paying enough attention to improving the conditions for its employees

increase in the total leavers and the early leavers goes to emphasise the new labour market and '**war for talent**'

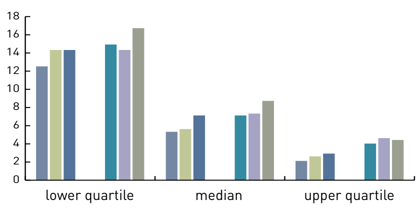
New employees/total employees (%)



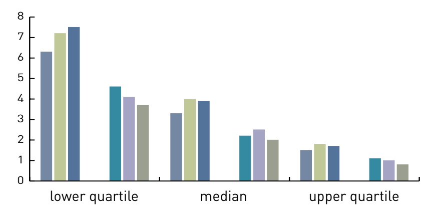
New leavers/total employees (%)



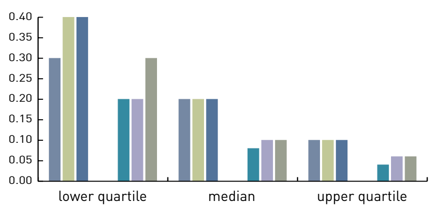
Early leavers/total employees (%)



Days lost to absenteeism per employee



Accidents per employee



Both the Manufacturing and Service sectors reported positive improvement trends in all the measures related to suppliers (apart from the value of supplies per supplier in the Manufacturing sector).

Overall, the message seems to be clear and actions put in place as improvements have occurred including reductions in sub standard supplies in both sectors, improvement of on time delivery records (by more than 30% in the lower quartile firms in both sectors), and an increase in stock turns. The only negative trends was in the values of supplies per supplier as organisations seem to have reduced those values, on average, in both sectors. While everyone has been talking about supplier partnerships and supply chain management in the past few years, the dawn of the internet (e-procurement, internet bidding, reverse internet bidding, etc.) has potentially caused organisations to go back to focusing on price at the expense of having more suppliers. The full consequences of such actions will become more apparent in the future and will strongly be related to the e-procurement rules and regulations on a global basis.

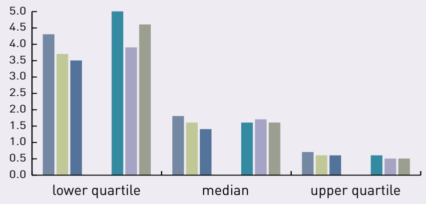
The gap between the top 25% and bottom 25% firms does seem to be reducing, albeit with small percentages and not in any major way that one would expect with the all the support on offer to lower quartile organisations.

on-time delivery of supplies has improved by

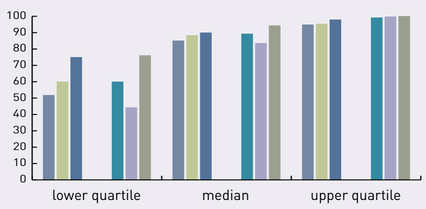
30%

in lower quartile firms in both sectors

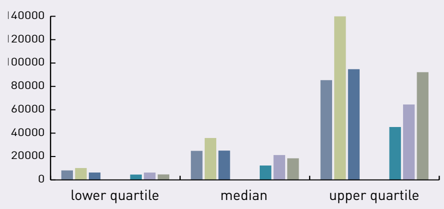
Sub standard supplies (%)



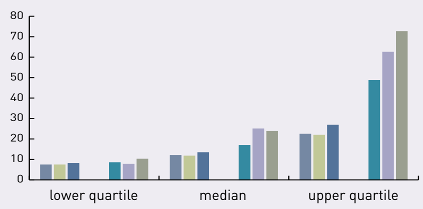
Supplies delivered on time (%)



Value of supplies per supplier (£)



Stock turns



Building for the future

From the trends revealed by the data, it seems like building for the future has given way to focusing on the shorter term for organisations in the manufacturing sector.

The numbers reveal that over the period 1996-2002, manufacturing firms in the UK are:

- Spending less on the capital investment as a percentage of turnover
- Spending less on R&D expenditure as a percentage of turnover
- Not increasing their spending on training as a percentage of turnover and spending less on training per employee.
- Investing less on hiring graduates.
- Spending less on their marketing activates as a percentage of turnover.

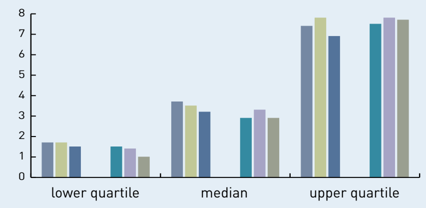
These are extremely alarming messages and while the short term pressures and the economic unrest are understandable, firms potentially need some help in being able to balance their approaches to address the short term with acceptable success levels, and still build for the future to make sure they are part of it.

As for the Service organisations, a close picture is drawn. They do not seem to be spending less on building for the future, but none of the investment measures captured by Benchmark Index is increasing. They are at best maintaining the same levels.

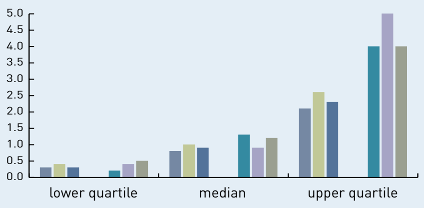
Moreover, the gap between the upper and lower quartile organisations remains the same and has not changed in any significant way which shows that the learning in this perspective has not taken place.

alarming messages are emerging from the benchmark data with most companies concentrating too much on the short term at the expense of longer term planning and investment

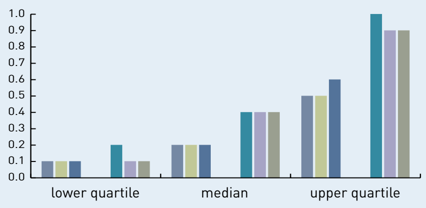
Capital investment/turnover (%)



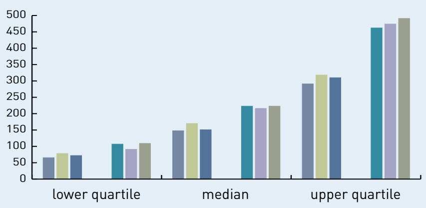
R&D expenditure/turnover (%)



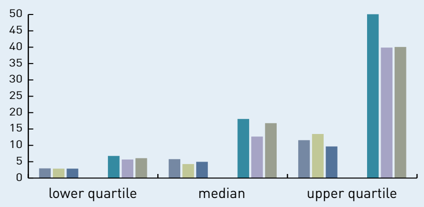
Training expenditure/turnover (%)



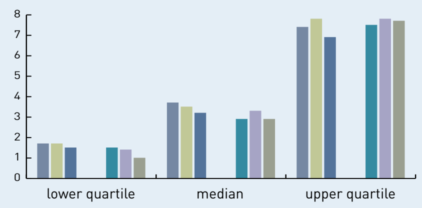
Training expenditure per employee (£)



Graduates/employees (%)



Capital investment/turnover (%)



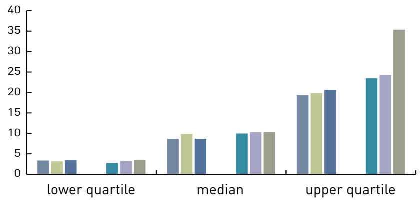
The growth perspective is one with some positive messages. The upper quartile organisations in the manufacturing sector are showing a slow, but steady increase in the total new income/turnover and a percentage point increase in the income from new geographies.

Unfortunately, for both measures, the UK average is reducing. A similar picture is drawn by the income from new segments, while the income from new products is on a downward trend (unsurprisingly after we saw the trends in the investment in R&D). Still, the overall ratio of new customer/total customers in on the increase. Overall, the leading upper quartile organisations seem to be improving their performance while the lower quartile are moving in the opposite trend and thus widening the gap.

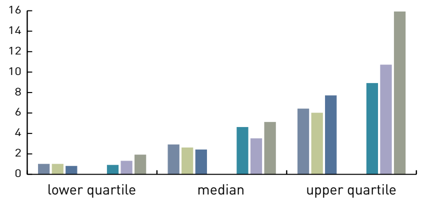
In the service sector, the picture is much more positive as all the growth measures are showing a positive trend and while the gap remains the same, at least everyone is moving in the positive direction. A lot of learning and knowledge exchange still remains to be done to reduce the gap.

the overall ratio of new customers/customers is on the increase

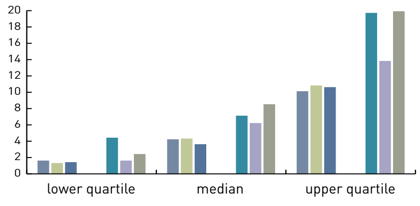
Total new income/turnover (%)



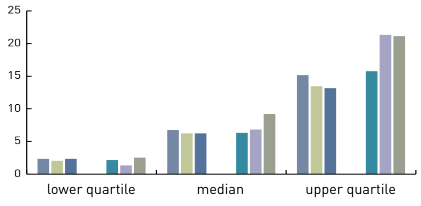
Income from new geographies (%)



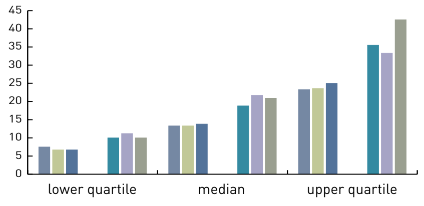
Income from new segments (%)



Income from new products (%)



New customers/customers (%)



Benchmarking Impact

Are organisations following the advice they get from Benchmark Index? Are they improving as a result?

In this section we explore the impact that Benchmark Index has had on organisations in the UK - specifically those that have been benchmarked twice. The data provide presents the results for one set of companies who have taken part in two benchmarks with a minimum gap of six months between them.

▲ Improving performance ▼ weakening performance ■ no significant change

Variable	1st Benchmark	2nd Benchmark	
Sales turnover per employee (£)	63054	687661	▲
Pre-tax profit per employee (£)	408071	233489	▼
Pre-tax profit/turnover (%)	10.6	12.5	▲
Return on capital employed	25.2	33.7	▲
Return on net assets	18.5	22.5	▲
Acid Test	1.6	1.7	▲
Cash in bank/turnover (%)	9.2	6.9	▲
Interest cover	13.3	10.9	▲
Debtor days	65	67	▼
Direct to indirects	3.7	3.1	▼
No. of employees per manager	7.9	8.0	■
Complaints per customer (%)	1.2	0.8	▲
Complaints per order (%)	3.1	2.9	▲
Order value of complaints/turnover (%)	1.1	0.9	▲
Order not delivered on time (%)	16.8	13.4	▲
Order rejected during warranty (%)	3.1	3.4	▼
New employees/total employees (%)	23.4	22.6	▼
Total leavers/total employees (%)	23.8	24.3	▼
Early leavers/total employees (%)	18.3	21.7	▼
Days lost to absenteeism per employee	6.1	4.5	▲
Accidents per employee	0.4	0.3	■
Sub standard supplies (%)	3.3	3.2	▲
Supplies delivered on time (%)	81.3	82.4	▲
Value of supplies per supplier (Euro)	3250118	1905502	▼
Stock turns	35.9	40	▲
Capital investment/turnover (%)	5.9	6.3	▲
R&D expenditure/turnover (%)	1.0	1.1	▲
Training expenditure/turnover (%)	0.4	0.6	▲
Training expenditure per employee (Euro)	20027	18943	▼
Graduates/employees (%)	12.7	14.9	▲
Marketing expenditure/turnover (%)	1.7	1.4	▼
Total new income/turnover (%)	25.5	27.5	▲
Income from new geographies (%)	5.9	5.4	▼
Income from new segments (%)	8.7	11.2	▲
Income from new products (%)	15.6	14.6	▼
New customers/customers (%)	29.4	28.7	■

From the data presented in the table, the overall effect of using Benchmark Index on participating organisations has been a positive one.

Various areas like sales & profit performance, asset, customer and supplier management have all shown general improvements. It can be concluded that organisations are benefiting from the insights and recommendations provided by Benchmark Index. However, there are some areas where performance has declined; these are the 'trouble' areas like cost base management, people management, and investing in building for the future. The following is a brief description of the impact of benchmarking as reflected by the above data.

Sales and profit performance

The picture here is mixed as organisations seem to have been able to improve their sales turnover per employee as well as their pre-tax profit as a percentage of turnover, but their cost base management has been poor. The actual pre-tax profit per employee has almost halved which means organisations are either using double the employees to achieve the increase in sales turnover, or they are not handling their internal cost management issues well, probably giving them less priority while focusing externally on generating sales. Whatever the reasons, there is a need to re-focus efforts on achieving a balanced focus on external *and* internal activities.

Value creation and asset management

Again, there are significant improvements in value creation as the ROCE improved from 25.2% to 33.7% and the RENA has jumped by almost 4% while at the same time improving the Acid Test ratio and reducing the cash in the bank as a percentage of turnover (the assumption is that they followed the advice on the need to invest this cash as opposed to them running out of cash!). Moreover, organisations also improved other areas of asset management like reducing the interest cover. However, they are getting worse at collecting their money as the debtor days increased slightly.

Things have not improved in overhead management as the ratio of directs to indirects has reduced, and there was no significant increase in the no. of employees per manager. This reconfirms the message that the cost base management (including human capital management) is not improving.

Customer perspective

Very positive impact is seen in the customer measures as all but one have improved. Organisations managed to reduce the complaints and their total value and improved their on time delivery. However, there has been a slight increase in the orders rejected during warranty, probably with more implications on product and service design as opposed to customer management processes.

People – the employee perspective

Again, the people management area is the one where the worst performance has been recorded. All the measures have seen declining performance (apart from the days lost to absenteeism which was reduced). Organisations seem to be losing more employees, many of them early leavers (in the first six months of joining). However, days lost to absenteeism were reduced along with the average no. of accidents per employee, which suggests that some things are being done right . It is probable that the increased staff turnover is not solely to blame on the organisations own process but is also affected by the global war for talent which means that good employees are being headhunted. This implies that organisations need to work harder to maintain their employees and need to provide even better incentives and environments to get the maximum value of their employees.

Supplier performance

Improvements recorded in this category demonstrate that organisations participating in Benchmark Index sample are improving their supplier management practices. They have simultaneously improved the quality of their supplies, their arrival on time, and their own internal operations (reflected by stock turns). What has had a negative trend is the value of supplies per supplier (an indicator of the no. of suppliers). This growth of supplier base will pose problems in that organisations need to be managing more suppliers and goes against the advise of building supplier relationships and trying to work closely with fewer suppliers. However, it might well be the way the corporate world is heading with the increased competition in the age of e-purchasing and globalisation as discussed in an earlier section of the report.

Building for the future

This is an area of concern as even with the insights they get from Benchmark Index, organisations seem to be only marginally increasing their investments to build for the future, or, in some cases, even decreasing them . While their overall capital investment as percentage of turnover increased slightly, the money they spend on R&D, Training and Marketing has either stayed the same or reduced. This could have serious implications that will only be revealed in the future when it might be too late to act (or too expensive to fix).

Market growth and penetration

Overall, Benchmark Index seems to have succeeded in helping organisations focus on growth and generate new income. However, the main sources for this income seem to be limited to new segments and new customers while income from new geographies and new products has reduced.

Appendix 1. Benchmarking Glossary

The data provided to Benchmark Index is used to analyse company performance across a comprehensive range of measures. The glossary below explains how each of the measurement criteria is calculated.

Accidents per employee (#) - this measures the number of accidents per employee. It demonstrates the level of commitment to safety that the organisation displays and importance that is attached to providing a safe working environment.
Calculated as: (no. of accidents or incidents / no. of employees)

Acid test (short term assets / current liabilities) - this ratio measures the company's liquidity, and it's ability to pay all their short-term liabilities instantly.
Calculated as: (debtors + stocks + cash in bank) / (creditors + short term loans + other current liabilities)

Capital investment / turnover (%) - this is an indication of how much the company continues to invest in itself.
Calculated as: (capital Investment / turnover) x 100%

Cash in bank / turnover (%) - small companies find the non availability of cash their largest problem. This ratio gives an indicator as to the accessibility of cash. Companies which hold too much cash may however not be investing their funds to the best advantages of their business.
Calculated as: (cash in bank / turnover) x 100%

Complaints per customer (%) - this is a method of assessing the average number of complaints per customer independent of number of orders and customers. The trend for this measure can be useful to indicate improvement in performance.
Calculated as: (no. of recorded customer complaints / no. of customers) x 100%

Complaints per order (%) - this is a method of assessing customers satisfaction with the product and services supplied. It is sometimes desirable to seek complaints from customers as it is better to know that they are not happy with the product or service in order to put it right. However, it is important to look at the nature of complaints to ensure that repeat ones are rectified as soon as possible. The trend for this measure can be useful to indicate improvements in performance, and is also a key indicator for lost business.
Calculated as: (no. of recorded customer complaints / no. of orders received) x 100%

Days lost to absenteeism per employee (#) - this measures the amount of time that people spend away from work due to sickness, unexplained absence and other reasons why people do not attend work on a 'voluntary' basis.
Calculated as: (absenteeism rate / no. of employees)

Debtor days (days) - this is the debtor value divided by turnover and represents the average collection period that customers take to pay their bills. It is an indicator of profitability and customer relationships.
Calculated as: (debtors / turnover) x 365

Directs to indirects (#) - this measures the number of employees directly involved in output-related activities compared with supporting activities
Calculated as: (no. of employees directly involved in the provision of service or product / (no. of employees - no. of employees directly involved in the provision of service or product))

Early leavers / total employees (%) - this indicates the extent to which the organisation has been successful in recruiting and selecting people who are right for the position and right for the organisation. A large ratio of early leavers to employees indicates a mismatch of expectations between the individuals recruited and the organisation or job that they were recruited to perform.
Calculated as: (no. of people who leave within six months of joining / no. of employees) x 100%

Graduates / employees (%) - this looks at the ratio of graduates to all employees. It is one way of assessing the level of education that is incorporated within the organisation.
Calculated as: (no. of graduates / no. of employees) x 100%

Income from new geographies (%) - this identifies how successful a company is being at developing new geographical territories.
Calculated as: (turnover from new geographical markets / turnover) x 100%

Income from new products (%) - this measures a company's success rate at developing and introducing new products.
Calculated as: (turnover from new products/services / turnover) x 100%

Income from new segments (%) - this identifies the ability of a company to generate sales from new market segments.
Calculated as: (turnover from new market segments/turnover) x 100%

Interest cover - this ratio indicates the proportion of profit taken up by interest payments. The larger the ratio the less vulnerable a company is to a fall in profits or a rise in interest rates.
Calculated as: pre-tax profit / interest paid

Marketing expenditure/turnover (%) - this is an indication of the company's investment in its marketing activity.
Calculated as: (marketing expenditure / turnover) x 100%

New customers/customers (%) - this figure, expressed as a percentage, identifies the growth in customer numbers regardless of new business generated.
Calculated as: (No of new customers / No of customers) x 100 %

New employees/total employees (%) - this is a measure of the relative experience level of a workforce. A higher figure signifies a low experienced workforce or it may reflect a high growth rate.
Calculated as: (no. of new employees / no. of employees) x 100%

Number of employees per manager (#) - this measures the number of employees to each manager / supervisor. It enables organisations to see the appropriateness of their level of management and supervision.
Calculated as: (no. of employees / no. of managers)

Orders not delivered on time (%) - this shows how well a business is meeting its commitment for delivery promises. A lower figure indicates better performance.
Calculated as: (no. of orders which were not delivered when promised / no. of orders received) x 100%

Orders rejected during warranty (%) - this shows how satisfied customers are with the quality of the products supplied. The lower the percentage, in general, the better, as it means that more orders are supplied with which customers are satisfied.
Calculated as: (no. of orders rejected during the specified warranty period / no. of orders received) x 100%

Order value of complaints / turnover (%) - this figure expressed as a percentage measures the total dissatisfaction of customers independent of the number of orders and customers.
Calculated as: (order value of recorded complaints received / turnover) x 100%

Pre tax profit per employees (Eur) - this is pre-tax profit divided by the number of employees. It is an indicator of profitability.
Calculated as: pre-tax profit / no. of employees

Pre tax profit / turnover (profit margin, %) - this is the profit before tax expressed as a percentage of turnover. It is an indicator of profitability and growth and provides a useful comparison for how well the costs have been controlled.
Calculated as: (pre-tax profit / turnover) x 100%

R&D expenditure / turnover (%) - this is an indication of the company's investment in the future, of its capacity to be innovative.
Calculated as: (R&D expenditure / turnover) x 100%

Return on capital employed (ROCE, %) - this is the profit before tax expressed as a percentage of the capital employed, where capital employed is taken to be the aggregate of shareholders' funds, long term loans, and long term liabilities. It is an indicator of both profitability and growth as it measures how effectively the business is using its funds in growing the size of the business itself.
Calculated as: pre-tax profit / (shareholder's funds + long term loans + other long term liabilities) x 100%

Return on net assets (RONA, %) - this is the profit before taxes expressed as a percentage of net assets (fixed, intangible and intermediate assets plus current assets less creditors and other current liabilities). It is an indicator of both profitability and growth regardless of method of financing.
Calculated as: pre-tax profit / (total assets - other current liabilities - creditors) x 100%

Sales turnover per employee - this is the ratio of sales divided by the number of employees. It is an indicator of profitability.
Calculated as: turnover / no. of employees

Stock turns (#) - this is the turnover divided by stocks, giving the number of times stocks are turned over during a year, or how quickly stocks are moved through the business. It is an indicator of profitability.
Calculated as: (turnover / stocks)

Sub standard supplies (%) - this figure highlights the quality of suppliers expressed on a percentage of total purchases.
Calculated as: (value of supplies which are sub standard on delivery / value of bought in materials) x 100%

Supplies delivered on time (%) - this percentage measures the ability of a company's suppliers to deliver on time. A higher figure demonstrates use of reliable suppliers.
Calculated as: (value of supplies delivered on time / value of bought in materials) x 100%

Total leavers / total employees (%) - this measures the rate at which the staff of an organisation turnover per year. It can give an indication as to how happy staffs are with their workplace, it can also demonstrate the effectiveness of the selection procedures in terms of getting the right people in the right positions.
Calculated as: (no. of people who leave the organisation / no. of employees) x 100%

Total new income / turnover (%) - this identifies the ability of a company to generate additional turnover from new customers.
Calculated as: (turnover from new geographical markets + turnover from new market segments + turnover from new products and services / turnover) x 100%

Training expenditure / turnover (%) - this is an indicator of the company's investment in its employees.
Calculated as: (training expenditure / turnover) x 100%

Training expenditure per employees (Eur) - this measures the company's financial investment in its employees, expressed as an average training spend per employee.
Calculated as: (training expenditure / no. of employees)

Value of supplies per supplier (Eur) - this ratio measures the average value of business for each supplier. A higher figure demonstrates a minimising of supplier relationships.
Calculated as: (value of bought in materials / no. of suppliers used for delivery of core products and services)

Appendix 2 **Public Policy Implications**

The report has covered a wide cross section of the UK industry and investigated various aspects of their performance. The analysis has highlighted numerous issues that require attention among several areas of strength that can be built upon for the further success.

To build on these findings and support performance improvement in participating organisations, the following notes provide some high level proposals for action. It is prudent to note at this point that due to the complexity of organisation and indeed their current and future operating environments, any sustainable improvement effort must involve a joint effort between the employees, management, investors, regulators, and policy makers. It is hoped that this report will provide some common ground. In that context, the following points are believed to be the main Public Policy Implications from the analysis undertaken.

- Institutionalise 'learning' to close the gap - There is a substantial gap between the top 25% and bottom 25% organisations in the UK industry. A gap that most probably exists due to better management and business practices in the top 25% firms. More importantly, a gap that can be reduced (with a goal of eliminating it) by learning from each and spreading these best practices and advanced techniques. The key issue is embedding the 'learning' culture and thinking mode in all organisations. Once these firms accept the need to learn, and have a genuine will and commitment, there seems to be no shortage of best practice in UK organisations for them to learn from.
- Learning can take many forms, and one proven approach is benchmarking and best practice transfer (best practice reports, benchmarking visits, knowledge transfer teams, employee exchange, etc.). From the areas highlighted in the report, the main areas that all UK sectors could benefit from improving include: cost base management and optimisation, people (employee) management, and investment (building for the future) aspects.
- The study revealed a low focus on organisational people (employees). UK organisations do not seem to be focusing on, or taking care of, their employees. In today's markets, advanced economies are all working on becoming 'knowledge' based acknowledging that this will form the future competitive edge (and most are already suffering from skills shortages). From a UK organisational perspective, this translates to managing their intellectual capital and recruiting, developing, and retaining the best talent. This simply does not seem to be happening. Organisations must change the way they deal with their people to achieve maximum benefit. The war for talent will only intensify in the near future and people management practices will be one of the one determinants of who wins in the competitive market. National efforts to support people development and intellectual capital management would go a long way in generating the required awareness.
- Overall, and by comparing the performance indicators over a period of six years, it seems that there are some positive changes in improving performance mainly on areas like customer management, market growth, and supplier management. However, some areas that did not improve (or even worsened) like finances and asset management and people management. This strengthens the argument that while conducting the benchmarking exercise is useful, the real benefit will only be achieved if clear action plans and follow up result from that exercise. Organisations that participate in such benchmarking exercises could benefit from further support on what to do next, how to do it, and by when! It is not enough to know what your malaise is if you are not prescribed the right medicine, and indeed you have the commitment to take it.

- Among all UK organisations in the sample, there is a concerning lack of investment in building for the future (mainly research and development and training). While we do live in turbulent times, one might argue that investment in R&D, employee development, and marketing are what will help some winners to emerge from this environment. R& D can be encouraged as part of a national policy via providing tax benefits to such activities, providing research forums, facilitating organisational cooperation with dedicated research centres and educational establishments. As for employee development, steps have been taken to spread and subsidise learning for employees, but what might be missing is educating the firms themselves on why this is necessary and leave it to individuals to determine if they should use it or not. A view of 'every organisation is a learning organisation' can be the goal, one that is very far from the current reality.
- There seem to be several cross-sector learning opportunities were upper quartile organisations in some sectors seem to be leading. The following is an example of some sectors that seem to be able to offer good/best practice in certain areas:

area	sector offering good/best practice (based on performance numbers provided by Benchmark Index data
cost base	service • general machinery • electronics
asset management	service • general machinery • electronics
overhead management (employee empowerment & management control)	service • food, drink & tobacco
on-time delivery	food, drink & tobacco
absenteeism (work environment & employee motivation)	service
supplier management (no.of suppliers, stock turns)	food, drink & tobacco • chemical
investing & building for the future	chemical • electronics • services
market growth	electronics

- There are also some sector specific learning that needs to take place, i.e. some sectors seem to be under performing in certain when compared to all UK industry sectors. These could benefit from sector specific learning targeted and tailored to them and their environment. The following is an example of some sectors specific areas that need targeting:

sector	learning area
general machinery	customer management • delivery on-time
food, drink & tobacco	people management (employee retention;staff turnover; absenteeism)
chemical	safety (employee accidents)
transport	investing & building for the future
metal products	investing & building for the future

Appendix 3. Benchmark Index data sources

The report relied on data collected via Benchmark Index from organisations in the UK. The sample composition is described in the following table;

Industry	%
Farming, forestry & fishing	6.9
Mining & ore extraction	0.3
Food, drink & tobacco	3.5
Textiles & clothing	1.6
Wood & paper	4.8
Chemicals, plastics & ceramics	4.3
Metal products	14.3
General machinery	4.0
Electrical & electronics	4.4
Transport	20.0
Utilities, telecommunications & post	0.4
Retail & wholesale goods	6.0
Tourism	2.2
Transport services	2.0
Financial/property services	1.5
Social/governmental service	1.4
Other services	9.8
Construction/contracting	6.9
Other manufacturing	5.2
Education	0.5
Total	100%

Turnover	%
Less than £1m	35.9
£1 - £4.9m	36.3
£5 - £9.9m	12.2
£10 – £29.9m	9.9
£30m +	5.7
Total	100%

Number of employees	%
10 or less	22.5
11 – 20	16.8
21 – 50	25.0
51 – 100	16.1
101 – 250	15.0
251 – 500	3.8
More than 500	0.8
Total	100%

Appendix 4. Benchmark Index Analysts

Data analysis in this publication has been carried out by the Centre for Business Performance at the Cranfield School of Management, Cranfield University. The analysis has been headed by the Centre's Director, Professor Andy Neely with support from Dr. Marek Szwejczewski and Dr. Yasar F. Jarrar

Professor Andy Neely BEng MA PhD
Director, Centre for Business Performance
Professor Andy Neely is Director of the Centre for Business Performance at Cranfield School of Management and Professor of Operations Strategy and Performance. Prior to joining Cranfield University he held a lecturing position at Cambridge University, where he was a Fellow of Churchill College. Andy has been researching and teaching in the field of business performance measurement since the late 1980s. He chaired the first and second international academic conferences on performance measurement, in July 1998 and July 2000 respectively and co-ordinates the Performance Measurement Association, an international network for those interested in the subject. He has completed numerous research and consulting projects and authored over 100 books and articles, including "Measuring Business Performance", which was published by the Economist. He has consulted to and worked with a wide variety of organisations including 3M, Accenture, Aventis, British Aerospace, British Airways, British Telecom, DHL, Diageo, Hogg Robinson, KPMG, NatWest, Pilkington, Posten, Reckitt and Colman, Rolls Royce Aerospace and Schering.

Dr. Marek Szwejczewski BA MSc MSc DipM PhD
Senior Research Fellow in Operations Management
Marek is responsible for the administration and is involved in the judging of the Management Today/Cranfield School of Management Best Factory Awards scheme. His first degree is in Economics and he completed his Master of Science in Computer Integrated Manufacturing at Cranfield University in 1991. Prior to joining Cranfield he worked for eight years in marketing management. He has worked in various industry sectors, ranging from retailing to telecommunications and, prior to coming to Cranfield was Marketing Manager with Motorola. After completing his MSc, Marek joined the Operations Management Group at the School of Management, to work on the Best Factory project. His current research interests are manufacturing strategy, performance measurement and world class manufacturing. He is the author and co-author of a number of articles and reports on manufacturing performance and strategy and supply chain management.

Dr. Yasar F. Jarrar BSc MSc PhD
Yasar joined the Centre for Business Performance in January 2001 as a Research Fellow, and is currently involved in applied research for sponsoring organisations (DHL, Bank of Scotland, Arla Foods, BTCellnet, Greggs of Yorkshire and Accenture). Currently, major research areas include Performance Measurement and Management, Customer Relationship Management and Six Sigma. Yasar is also involved in research projects for NGO's like the Productivity and Standards Board (Singapore) and The Government of Dubai (e-government initiative). Yasar is currently an Honorary Visiting Fellow in Total Quality Management at the European Center for Total Quality Management, University of Bradford, UK, and has been an invited speaker in numerous national and international events. Yasar also previously worked as a Quality Management Consultant and Industrial Engineer in the Middle East.

Case Study

Aqua Cure

NOT CONTENT TO SIT ON THEIR LAURELS

With over a hundred years experience in business, one may think there is not much for Aqua Cure to learn. But rather than getting complacent, the firm have taken the opportunity to stand back and look at their performance in order to continue their success.

Founded in 1859 Aqua Cure is one of the United Kingdom's largest suppliers of water filtration, purification and treatment systems. With just 70 employees it has remained small but successful in its field. The company occupy two sites in Merseyside where they manufacture and supply products from as small as water filters for the kitchen sink to large engineered treatment plants capable of dealing with thousands of gallons per day.

Aqua Cure caters for approximately 20,000 customers, across the public and private sectors, the largest clients being local councils, NHS trusts and the prison service. Although most of their business is national they export some products overseas and hope to expand this market at an international exhibition in Amsterdam later this year.

The firm's reputation has been built on customer satisfaction with its products, installation and maintenance facilities and after-sales service. Current turnover stands at £4 million and has been growing at 20 per cent per annum for the last three years.

Nevertheless, managing director Minoo Karani is keen not to let things slide. "There may be companies who are growing at 50 per cent. We wanted to do the Benchmark Index to see if we were doing well compared to others in the industry." After hearing about the Benchmark Index through a Business Link presentation, the company took part in the process for themselves in April this year. Five managers were involved in benchmarking over a two and a half month period. But this was time well spent according to Karani, who says benchmarking has been wholly worthwhile.

When Aqua Cure received the results six weeks later there were no real surprises. Profitability was good in comparison to the rest of the industry and the Benchmark Index also affirmed that the company's approach to sales and customer satisfaction was good, through effective marketing methods.

However, the report invited Aqua Cure to look more closely at its expenditure in order to be more cost-efficient in relation to production. The main weakness highlighted by the index was in terms of communication. It seemed that communication down the line was not always working well and Aqua Cure needed to examine this at all levels of the firm. The company have now taken steps to improve this by introducing fortnightly meetings for all staff to make everyone aware of changes in the business, even if they do not affect all employees directly. A committee of representatives from different areas of the company was also formed to pool information and improve communication across teams.

Karani believes benchmarking has helped in all areas of operation, the main benefits being in relation to cost-saving and better communication. "Small companies can get used to wearing 20 different hats and lose sight of what their goals are," says Karani, "The Benchmark Index is a new set of eyes for businesses - the constructive criticism can be very useful."

Two advisors facilitated Aqua Cure in working through the Benchmark Index. Karani explains that they could not have completed it without the advisors as some of the questions are more general and need tailoring to the specific company. He hopes Aqua Cure will be able to continue expansion and development at a steady rate over the next four years, and possibly join forces with other businesses in the market. Benchmarking helped clarify Aqua Cure's strengths but also revealed some areas for improvement showing that profitability is not the sole indicator of a healthy business.

And would Aqua Cure recommend benchmarking? Karani explains that any company that thinks it is doing well should do the Benchmark Index because there are always areas that can be improved. "Simple improvements can make huge changes in business," he says.

> "Small companies can get used to wearing 20 different hats and lose sight of what their goals are, **The Benchmark Index is a new set of eyes for businesses** - the constructive criticism can be very useful."
>
> **Minoo Karani , Managing Director, Aqua Cure**