

Microeconomics

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**BENCHMARKING –
THE INSTRUMENT OF COMPETITIVE
ADVANTAGES DEVELOPMENT**

Abstract

The theoretical foundations of benchmarking and its application and vectors of development in the economy are substantiated. The concept and types of benchmarking, methods of research, analysis of environment, development and implementation of benchmarking in a company are studied. The author characterizes the circle of questions that can be settled by using benchmarking techniques. Benchmarking is just developing in Ukraine. It is an important factor of economic development. The usefulness of benchmarking consists in the fact that production processes, trading operations and marketing functions are best managed if the company analyses and implements best practices, methods and technologies of the leading enterprises or industries. The author offers to use benchmarking as an effective instrument of the world economy.

Key words:

Benchmarking, comparative analysis, competition, competitive advantages, instrument, target market.

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Actuality of research. In the long-term perspective, the activity of any organization – be it commercial or non-profit – is largely determined by its ability to effectively meet the demands of its clients. Total Quality Management (TQM) is only the first step in organizational restructuring, while productivity management and business process reengineering are also important. Benchmarking is an instrument, which helps companies to proceed in these two directions.

The classical definition of marketing, which assumes such generally known elements as Product, Price, Place, Promotion is not comprehensive and by far not sufficient, as it does not reflect the linkages between the processes of interaction involving all subjects of the market system. Thus, other approaches (such as relationships marketing, strategic orientation of marketing, etc.) appeared and have recently started to be implemented into practice. Benchmarking is one of the most effective and popular.

In the modern world of global competition, the main goal of companies is to achieve the world's best standards. In these conditions, the role of such a powerful instrument as benchmarking is growing, as it allows to establish whether the company's goals correspond with the needs of the world market and to support the continuous growth of its competitiveness (Matviyiv, 2013).

Analysis of the recent researches and publications. The questions of benchmarking were studied by both foreign and national scientists, in particular D. Aaker, R. Camp, G. Bagiev, Y. Savelyev, N. Kozak, O. Prus, and others. Along with that, scientific literature has not been able to provide a unique definition of benchmarking, its essence, stages of implementation, as well as its place in the strategic development of enterprises.

The goal and tasks of research is to reveal the theoretical foundations of the benchmarking concept and to substantiate its application and directions of development in the economy.

In the West, companies started to use benchmarking in the late 1970s. This was the time when Japanese enterprises have gained significant market advantage over American enterprises. In view of this, the American Xerox company started to look for reasons that could have caused the sharp loss of its market share by studying the experience of the Japanese company Fuji (Bagiev, Bogda-

nova). The very term «benchmarking» appeared in 1972 at the Strategic Planning Institute (Cambridge, USA).

Today, there are different definitions of «benchmarking». Thus, R. Camp, the leader of the Global Benchmarking Network defines benchmarking as a continuous process of studying and assessing the products, services and production practices of the most serious competitors or companies that are recognized leaders in their respective industries (Camp, 1989).

Benchmarking is connected with finding and studying the best methods and practices of entrepreneurship in order to do one's own business even better and in a more productive way. Benchmarking entails the continuous monitoring of competitors, the search for their strengths and weaknesses (Energy Efficiency Benchmarking, 2011). Benchmarking includes the evaluation of the practice of best organizations in their respective areas, as well as the adjustment of the company's processes so that to implement the best of these practices (American Productivity & Quality Centre, 1994). The Webster Dictionary defines benchmarking as «a standard or reference point by which others may be measured or judged» (Webster Dictionary). According to Robert Camp, «benchmarking is a continuous systematic process of measuring products, services and practices of the leading companies in the industry with the aim of achieving high productivity» (Camp, 1989).

The process of benchmarking evolution gave rise to numerous definitions which do not contain significant fundamental contradictions. As a rule, benchmarking means the study of someone else's experience, assessment of its value for one's own company, organization, industry or country and adjustment to conditions of their activity. In its broadest sense, benchmarking is a reference for comparison and tuning of one's own organization and its business processes using the practice of another company. Today, benchmarking, in addition to management and marketing, is among the three most popular methods of managing a business, which is justly recognized as a new direction in the development of economic science (Savelyev, Kuryliak and Smalyuk, 2013).

Therefore, benchmarking is a comparative analysis, which includes the assessment of the competitor company and its business processes in order to adopt and implement the leading experience, improve productivity, search for innovative ideas, and create the competitive advantage. The comparative analysis offers a rational methodology for setting productivity objectives, encompassing leading market positions, as well as determines a more extensive and precise prospective management of an organization.

The common feature of all these definitions is the notion of analysis performed in order to develop and implement the plan of market leadership. Its main points can be revealed as follows:

- Products, services and practices: benchmarking today is a much broader method than competitive analysis, which is traditionally oriented at product, service or price comparisons. Benchmarking analyses and measures major achievements in business processes, as well as defines key actions and causes that contribute to their productivity.
- Industry leader: achieving parity with industry leaders does not always guarantee success. The aim of benchmarking is to compare the company's own productivity with the world's leaders.
- External risks: benchmarking contains the analysis connected with instability of state power, peculiarities of active state legislature, inefficient economic policy and its elements, as well as demographic, regional polarization of interests of various social groups, etc.

Corporations in the whole world recognized the benchmarking process back in 1970s. First, it was used by producers for product improvement. At that time, the benchmarking method was usually used by service companies for servicing both clients and personnel departments (Watson, 1992).

Currently, benchmarking is considered to be one of the most effective directions of consulting. This instrument gains ever more popularity in management and marketing. Even public institutions strive to reap all the benefits and advantages of benchmarking, using it to improve their own processes, production and systems, even though in Ukraine it is mostly used by private organizations.

Benchmarking rests on the idea of comparing the company's activity not only with its competitors, but also with leading companies of other industries. In fact, benchmarking is an alternative method of strategic planning, whereby the tasks set are based not on the results that have been previously achieved by the company, but on the indicators of competitors that have been analyzed. Benchmarking technique allows to integrate all elements of the system of strategy development, the processes of industry analysis and the analysis of competitor experience.

In order to better understand the methods of benchmarking, it is necessary to define its links with strategic planning and competitive analysis (Table 1).

In order to rationally choose the directions of activity and the size of the required resource base, as well as to create the links between various directions of this activity, an organization must clearly perceive the strategic peculiarities of the industry. Thus, industry analysis is a starting point for the development of strategic steps. This analysis entails the study of the degree and features of competition, the behavior of clients and suppliers of certain inputs, barriers to market or sector entry, mobility and adjustability of production, and other specifics. Industry analysis provides information, which is used to perform a rather exact forecast of potential average industry profits, as well as reveal why some companies perform differently in comparison with others.

Table 1

Comparison of benchmarking and competitive analysis approaches

Features of the process	Competitor analysis	Benchmarking
Overall objective	Analysis of competitor strategies	Analysis of competitor activity or leading enterprises
Subject of the study	Strategies of competitors	Methods of doing business, which satisfy customer needs
Object of the study	Products and markets	Techniques, processes of doing business
Main limitations	Market activity	No limits
Main sources of information	Industry experts and analysts	Leading enterprises within the industry or beyond it, competitors, internal departments

The market is divided into segments (niches) based on most profitable sectors. After that, factors of success are defined, for example quality, system of sales, exclusiveness of product/services, new technological features, low price, etc. Finally, their influence on overall profitability is defined.

The next step is the detailed study of competition. In the first place, the company analyses how important the particular directions of business activity are for the competitor and how many resources and financial investments the competitor might need to develop these directions. Here, it is necessary to assess the financial strength of the competitor so that to define the correspondence of priorities in the sector where both companies compete.

It is important to know how the competitor allocates the available resources, or in other words, what the competitor has before the moment of market entry (product, price, distribution system, marketing, client servicing) and what are the costs of its activity. Another important factor is the competitor's similar work in the area of research and development, which positively affects its production costs and marketing expenditures over some period of time.

After the most profitable market segments have been defined and the company's own competitive advantages have been assessed, it is necessary to choose the «imitation model». In order to achieve the most effective results in short time, benchmarking experts advocate that companies not only find such organizations and collect information about their activity, but also establish contacts

with them. After the data have been collected, analyzed and grouped, it is necessary to assess the possibility of reaching the aim and factors that influence upon the result. Finally, the company should develop a plan aiming to achieve the highest effectiveness of the processes that are being changed.

Thus, we can distinguish the following kinds of benchmarking:

- 1) internal – comparison of the departments' activity within a company;
- 2) competitive – comparison of one's own organization with competitors based on the maximum number of parameters;
- 3) general – comparison of the company with its indirect competitors based on certain indicators;
- 4) functional – comparison based on functions (sales, purchases, etc.).

According to data published by the famous consulting firm Bain&Company, it is exactly over the last two years that benchmarking has become one of the three most popular business management methods, even though this is characteristic of large international corporations. Its popularity is based on the fact that it helps to modernize business processes in a rather short time and at less cost. Benchmarking reflects and specifies the work of the leading companies and contributes to achievement of similar or even better results.

The growing popularity of benchmarking in the modern world can be attributed to the following:

1. Global competition. In the conditions of growing integration and globalization of business, companies face the need to comprehensively research and apply the competitors' best practices to assure their own well-being and development;

2. Quality award. Recently, ever more public acclaim has been generated by national and international campaigns, contests and tenders devoted to recognizing and awarding organizations, which achieve leadership in quality. In order to participate in such events, the companies must not only show their competitive advantages with respect to produced goods or services, but also necessarily demonstrate the use of the benchmarking concept in the process of regular and systematic corporate management;

3. The need to comply and adjust to modern shifting conditions and to implement world achievements in the field of production and business technologies. In order not to be overplayed by their competitors, all companies (irrespective of their size and industry) should regularly investigate the situation in other companies so that to implement the leading achievements in production and business technologies (Kozak, 2000).

In order for the instruments and methods of benchmarking to become ever more sophisticated, it is necessary:

- to make the process of comparative analysis more effective;
- to guarantee that benchmarking methods are given priority importance based on the strategic criteria used to support company goals;
- to assure that team members and benchmarking partners choose the most profitable industries so that to close the competition gap;
- to assure that internal and external market features use appropriate instruments of analysis in order to reveal failures and remove their main causes;
- to create the financial system for productivity and quality control so that to achieve continuous progress and dynamics in order to enter external markets and reach the world's standards;
- to include benchmarking as a key ingredient in the process of strategic planning and corporate TQM.

Conclusions. When applied appropriately, benchmarking is a powerful instrument of preserving the competitiveness of an organization. Many experts in economics and marketing advocate that benchmarking become a continuous process within a company. Within the benchmarking framework, entrepreneurial functions are viewed to improve the processes of product or service development and its market promotion. Although the benchmarking component entails the development of the strategy, the range and the limits of managerial functions, consumers remain to be the main source of information about products, markets and competitors.

Benchmarking can be viewed as a way for organizations to assess their strategies and objectives in comparison with more successful, yet similar organizations, in order to occupy their place in the market over the long term. Benchmarking is never a one-time analysis. In order to reach success and increase company effectiveness, benchmarking should be made part of routine business activity, a regular process of innovations for business improvement and development.

In conclusion, we can state that the usefulness of benchmarking consists in the fact that production processes, trading operations and marketing functions are best managed if the company analyses and implements best practices, methods and technologies of the leading enterprises or industries. This can become the beginning, the new stage in the development of profitable entrepreneurship with high economy of resources, creation of healthy competition and ultimate satisfaction of customer needs.

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