



Information Booklet

Sales and Marketing

2

BENCHMARKING YOUR BUSINESS

for SMEs



Introduction

Small and Medium Enterprises Development Authority (SMEDA) works under the Ministry of Industries and Production, Government of Pakistan and was established in 1998 with the objective to propel economic growth through development of SMEs. SMEDA serves as an SME strategy-advisory body for the Government of Pakistan and facilitates partners in meeting their SME development agendas.

SMEDA envisions growth of a globally competitive SME sector (in Pakistan), through creating an enabling environment and support services for increase in the national economy. SMEDA strives to achieve this vision by providing assistance in employment generation and value addition to the national income, through development of the SME Sector, by helping increase the number, scale and competitiveness of SMEs.

National Business Development Program for SMEs (NBDP) is a project of SMEDA which intends to provide hands-on support services to SMEs. The aim of this business development support provided by NBDP is to advance new businesses and improve efficiencies in existing SME value chains to empower them to contend in global market. NBDP expects to facilitate around 314,000 SME beneficiaries over the period of five years.

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Objective

- To explain the way of measuring, comparing and improving business performance through benchmarking against your business competitors.

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a Concept and Rationale of Benchmarking

Benchmarking is a way to measure performance of a business against similar-sized businesses in the neighborhood or industry at large. The comparison helps to give direction to the efforts and provides essential information to improve the business.

Benchmarking helps to identify the best performance being achieved in a given situation, by a competitor or by an entirely different industry. The results can then be applied to find gaps in the operations of a business to achieve improvement.

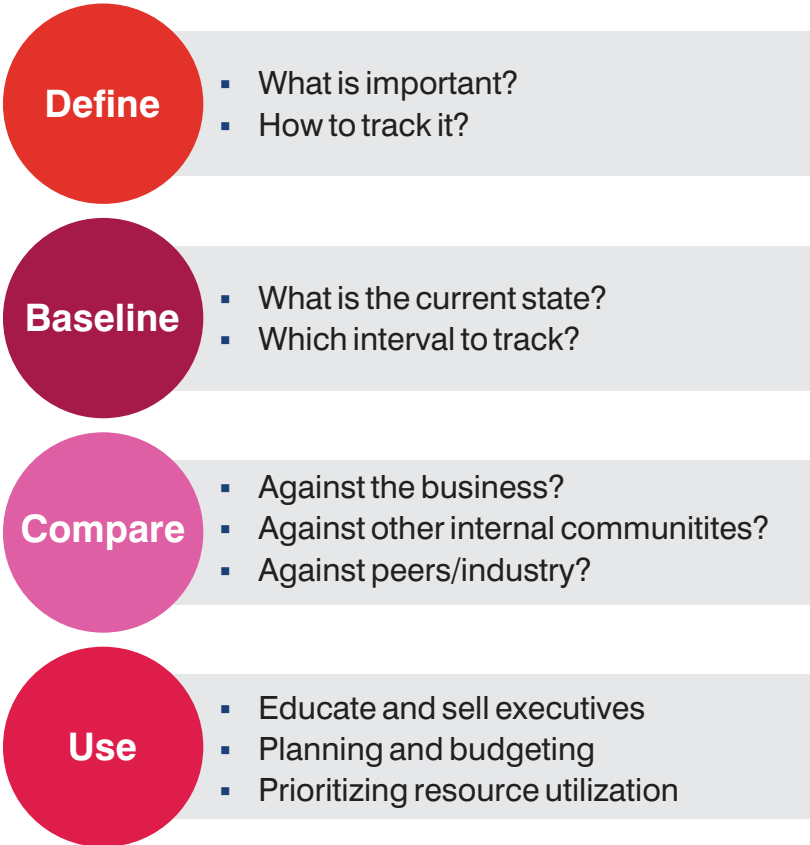
How to Benchmark?

There are many ways to benchmark, some more formal and some less formal. The comparisons are more focused on business performance, supported by hard data. Some people use the objectives including the total sales and total customers per day, while others use more sophisticated measures e.g., profitability per employee and overhead cost per rupee earned.

SMEs can use any of the methods to compare the business, some are as follows:



How to Benchmark?



Importance of Benchmarking for SMEs

Benchmarking is a valuable tool that can be used to improve the performance and profitability of a business. It helps to identify comparatively weak areas for improvement and identify the strengths in the following ways:

Identifying where the business can reduce costs and improve efficiency

Assessing the productivity of the business compared to how many employees there are

Identifying opportunities for improvement, new ideas and innovative practices

Highlighting opportunities for making the business more competitive

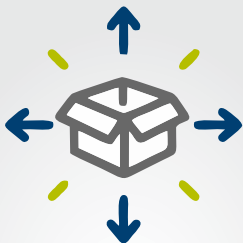
Forecasting the impact of any changes and see how to prepare for growth

b Different Types of Benchmarking

Benchmarking can be greatly beneficial for SMEs in many ways. Businesses differ in resource allocations and resultantly their outcomes. Each business must decide and identify who they want to compare with.

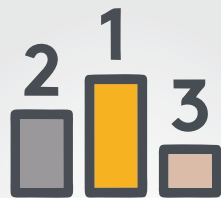
There is no fixed way to benchmark. One type of comparison might be more appropriate for an SME than another depending on its products, services, resources and environment. Types of benchmarking have been categorized in four different categories: internal, competitive, functional, and generic.

Internal Benchmarking



A comparison of a business process or a department to a similar process or department within the organization.

Competitive Benchmarking



A comparison of a business with a direct competitor for a product, service or process.

Functional Benchmarking



A comparison with a business outside the immediate industry, having similar practices or similar processes.

Generic Benchmarking



A comparison with broadly unrelated business processes or functions, practiced in the same or similar ways regardless of the industry.

Decide Who to Measure the Business Against

To get the best results from benchmarking, a business should carefully consider what it wants to measure its business outcomes against or who should it compare with.

Start by identifying the areas of business that need to be benchmarked, then seek out businesses that perform consistently well in these areas. These businesses may not necessarily be competitors - in fact, they may even operate in a different industry.

However, for a small business there are less chances of internal benchmarking but benchmarking of business can be done against:



Industry Leaders

For a new super market in Pakistan Al Fatah and Imtiaz could be role model industry leaders.

Similar-sized Businesses or Competitors in Your Industry

Similar sized business for a super market of 2000 sq. ft. area can be another one with the same area.



Similar-sized Businesses in a Related Industry

Similar sized business of a super market of 2000 sq. ft. area and 20 employees in a related business could be a restaurant in a similar location with same size or number of employees.

Industry Standards

Getting industry reports from the research institutes or consultants.



Identify business leaders through observations, word-of-mouth, reading published surveys, industry and business publications, and searching the internet. Depending on the industry type, a range of benchmarking data is available online.

C Types of Data Used for Benchmarking

There are several types of data and different ways to find data that can be used to benchmark a business.

Speak to the Business or Industry Association

Contact the relevant business or industry association to provide any information they have about performance standards (or benchmarks) for the industry. Many associations have detailed information that can be used to measure the business performance against the standards set by the industry. If that does not work, SMEs can contact the local Chamber of Commerce and Industry to seek guidance for a source of information.

Use a Commercial Benchmarking Business or Consultant

Commercial benchmarking businesses and consultants can provide benchmarking data for a fee. When hiring these services, always do the research to make sure that:

The data is accurate and up to date

The keep your information confidential

Value for money is received

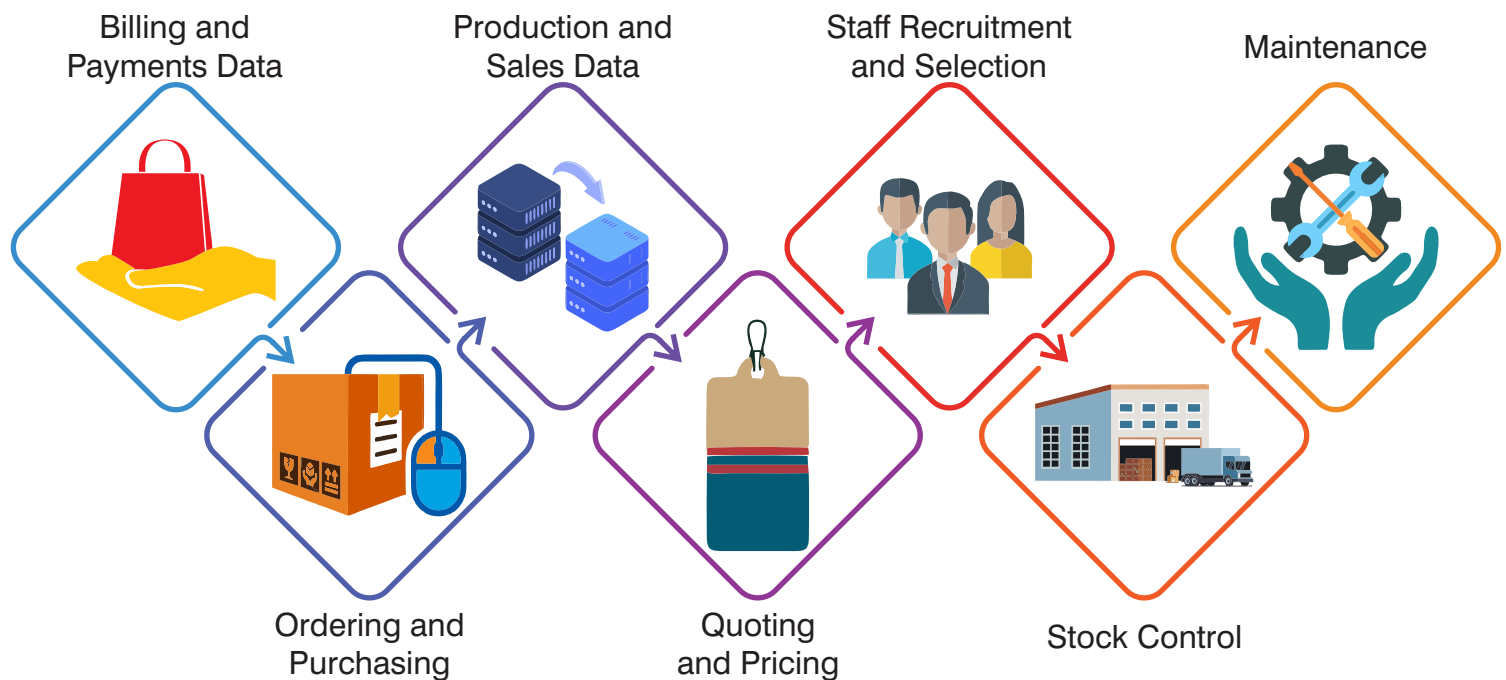


SMEs can seek advice from the business networks to find a benchmarking company that will suit the business needs.

d Important Factors in Benchmarking

While a business can benchmark almost all the areas, some are more important to the business and therefore, more important for benchmarking.

With the help of data, financial or operating performance can be benchmarked as follows:



Benchmarking data can also be used to compare:

Customer Feedback

Products and Services

Design and Development

Production and Productivity

Sales and Turnover Efficiency

Selecting the Area of Business for Benchmarking

There are many ways to select the business areas for benchmarking. In order to decide which areas of the business to benchmark, analyse the business processes and identify the critical ones. The following steps could be used for the analysis:



e Conducting Successful Benchmarking - Techniques and Activities

Benchmarking shows whether the performance of a business is stronger or weaker than the competitors and industry and how the business is performing over a period of time. It will give a clear picture of where improvements are needed and how to increase profits.

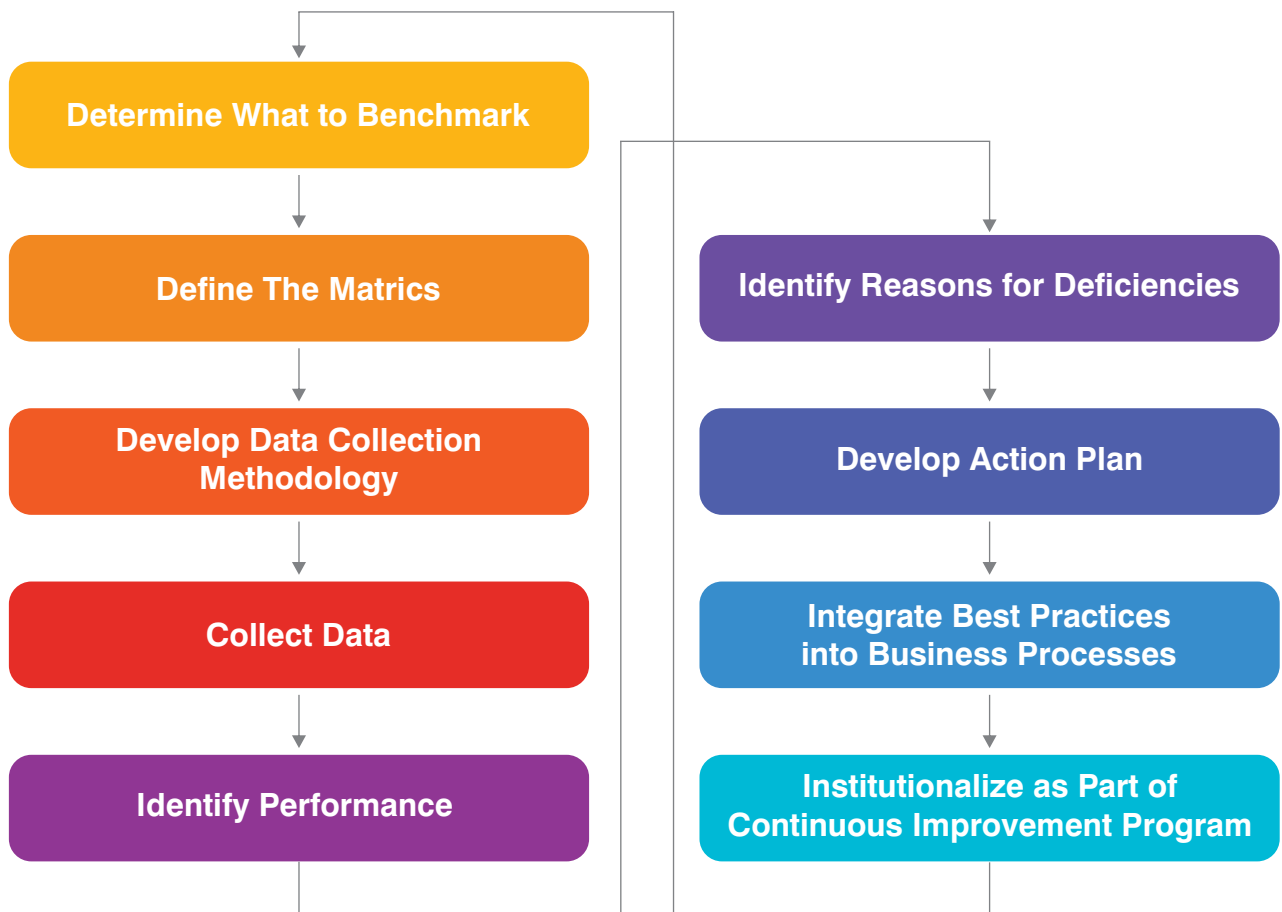
For example, financial benchmarking data will help to see how much a business earns and how much it spends on advertising, rent, staff, training and other expenses compared to the competitors.

Benchmarking may lead to discover that the business is:



When benchmarking, SMEs should analyze in detail how the business compares to others. Once areas of improvement are known, develop a plan to put changes in place. Remember to keep the employees and customers informed as the business processes change. If any problems arise, act on them immediately.

Benchmarking is a process of continual improvement. Once the changes are implemented, benchmark the business again to see the results. This will reveal what is working, and what can still be improved.



Benchmarking Tips

- 1 Think creatively about ways to improve the business
- 2 Ask staff for their input
- 3 Study other, similar, businesses and how their processes work
- 4 Implement changes based on observations and research
- 5 Evaluate the results of the changes implemented
- 6 Review the business performance

f Benchmarking Case Study - Template

Sometimes resource allocation is a major constraint in successful benchmarking. The SMEs feels constricted due to budgetary limitations. In such times, if an SME has the expertise, and the time, it can benchmark itself. However, this will require time to find access to the data needed, as well as extended time to research and evaluate the results.

To make this process easier and economical, a combination of resources can be utilized including data from a business network or benchmarking company to be used with self-created data of SME.

For example, an SME could examine the ways that it controls the stock and compare this to the performance of similar businesses or some other small or stand-alone activity that can be assessed, on its own. Some benchmarking efforts may result in savings for different expenses, even if not for some future profits, so this can be considered as resource allocation for benchmarking.



g Template - Benchmarking Case Study

Karachi Birayani

Rahim khan owns Karachi Birayani, a restaurant in a middle income area. He believes Karachi Birayani could perform better, but so far he is simply following the lead of the previous owner.

He sees that benchmarking could help Karachi Birayani improve, so he:

- Contacts his industry association “All Pakistan Restaurant Association” (APRA) to obtain information about industry benchmarks.
- Buys financial data from a commercial benchmarking business.

Rahim uses an analysis model with significant factors in business. A significant factor is a business factor that has a significant impact on your bottom line. Rahim identifies his significant factors as:

Cost of Goods



Overheads



Net Profit



Operating Hours



Sales



Rahim investigates his benchmarking data and puts the key information about his significant factors into a table so it is easier to understand.

(The percentages are of total income, except for those relating to sales %)

	Business 1	Business 2	Industry Average	Karachi Birayani
Total income	PKR 204,400	PKR 210,000	PKR 186,923	PKR 154,400
Cost of goods	45.20%	46.90%	46.78%	53%
Total overheads	32.30%	29.40%	31.28%	27.50%
Net profit	22.50%	23.70%	21.93%	19.50%
Trading hours per week	46	48	44	38

Identify Areas of Opportunity

Rahim khan sees that he is performing well in some areas (e.g. overheads) but there are areas where his business is underperforming:



Most of Rahim Khan's benchmarking data is financial. He decides to gain more information about the opportunities for his business by:

Asking customers to complete a survey

Asking staff for their feedback

Analyze Causative Factors

The factors that affect a significant factor in either a positive or negative way are called 'causative factors'.

Rahim khan investigates which factors are causing Karachi Birayani to fall below the benchmark.

Cost of Goods: Reduce

Rahim Khan speaks to his staff and realizes that they throw out quite a lot of uneaten food each week.

Rahim Khan also conducts a series of stock takes. When talking with other business owners in the area he discovers that his stock losses are significantly greater than other restaurants.

Causative Factors

An unsophisticated ordering system leading to excess food wastage

Stock loss through redundancy

Trading Hours: Extend

Rahim Khan looks at the results of his customer survey. It shows a majority of his customers would like the restaurant to open on weekends.

He also speaks to his staff. They tell him that they suggested to the previous owner that he increase trading hours.

Causative Factor

The previous owner was an active worker of a political party and participated in meetings on the weekend and Rahim Khan thinks that is why he did not extend service hours.

Address Causative Factors

Rahim is ready to make changes to the factors that are having a negative impact on his significant factors. He plans to:

- Implement a more efficient, 'just-in-time' ordering system to reduce the amount of food spoilage and waste.
- Open later in the day Monday to Friday and open on weekends, extending hours of operation to 50 hours a week.

Rahim Khan reviews his business plan and includes these changes, budgeting for the extra costs and projecting increased income from additional sales. Benchmarking helped Rahim Khan in improving the performance of his business.

Conclusion



Benchmarking is a way of measuring performance of the business against similar-sized businesses. It helps in identifying comparatively weak areas for improvement and to identify strengths, where the business can reduce costs and improve efficiency. While a business can benchmark almost all the areas, some are more important to the business and therefore, more important for benchmarking. Benchmarking efforts result in savings for different expenses even if not for some future profits, so this can be considered as resource allocation for benchmarking.



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