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How Benchmarking Supports Cost Optimisation and Strategy

Benchmarking can actively reduce costs

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Constantly evolving business challenges necessitate business leaders to continuously assess their cost base and allocation of resources to support growth and profitability. While traditional cost allocation methods are fairly simple to employ, more complex approaches, such as zero-based budgeting, typically yield improved cost performance and allocation compared to traditional budgeting methods[1-2]. Benchmarking analysis serves as a good starting point to assess the relative cost position of the business compared to industry and market leaders. Through measuring, comparing, identifying, and applying best practice methodologies, opportunities for value extraction can be identified and leveraged to improve overall business performance[3].

Strategy&'s Fit for Growth has deep experience and capability in benchmarking analysis across various industries, including financial services, technology, communications, and mining. Figure 1 illustrates how opportunities can be identified when evaluating costs of the business against best practice benchmarks.

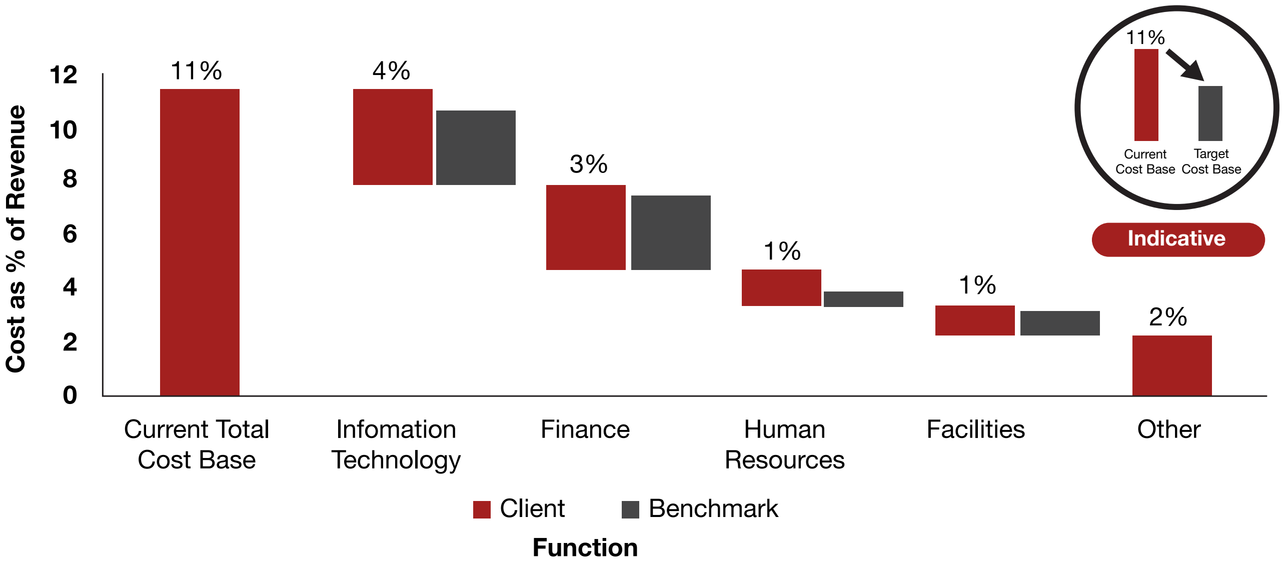


Figure 1: Identifying realisable value across functions through benchmarking analysis.

Through employing Fit for Growth's approach to benchmarking, cost allocations are contextualised with business strategy to identify relevant cost reduction areas across the business.
Further Strategy& offerings, such as Capabilities-Driven Strategy, can also be employed to clearly identify the strategies that will lead to sustainable growth[4].

Key Focus Areas to Identity Cost Opportunities

Benchmarking analysis can be employed across several different aspects of the business, such as activities, products, and processes to identify the performance and cost position of a business relative to competitors and the market. Through focusing on these different areas, benchmarking is aligned to either a performance, process or strategic focus area. These different focus areas are shown below.

Performance	Process	Strategic
How does this analysis support cost optimisation?		
Provides a numerical standard against which activities can be compared.	Identifies how internal processes compare to peers and the market from complexity and capability perspectives.	Identifies how processes should integrate and which long-term strategies are best-suited to leverage internal capabilities that can transform the business.
Typical Measurements		
• Number of calls per sales agent • Conversion rate of sales engagements	• Client onboarding duration • Client retention rate • Net promoter score	• Market share • Gross / operating margin • Employee turnover ratio

While any analysis performed may have a set of key focus areas on any of the above three types of benchmarking, there is large overlap between these different measurement areas, since performance, process, and strategic activities are inherently interconnected[5]. The key objectives the benchmarking analysis aims to achieve can be defined across the three pillars as indicated in Figure 2 below:

Figure 2: Pillars of benchmarking analysis.

Through the three pillars we are able to determine the underlying drivers of performance in the business, gain insight into which activities and processes are differentiators, and how these must change or can be leveraged to create competitive advantage[6-7].

Challenges and Mistakes Often Made in Benchmarking

Common challenges and mistakes to avoid when conducting a benchmarking analysis can be narrowed down to six themes. It is important to remain clear on the overall objectives, how performance is measured, and to ensure data comparability between the performance being measured and the benchmark used. This will ensure a successful benchmarking and the identification of actionable insights and recommendations.

1. ***Ambiguously defined scope and performance objectives***
   Key to a successful benchmarking analysis is to define clear and unambiguous objectives for evaluating and comparing performance. A poor understanding of the scope of the analysis, performance metrics that are critical for success, and ambiguous or poorly defined data can jeopardise the accuracy of the analysis and the validity of its recommendations.

2. ***Outdated data***
   The business environment is constantly changing. Using the latest data available for benchmarking prevents the analysis from making a comparison to market conditions that are no longer relevant. It enables companies to make informed decisions based on the present state of the market, anticipate future changes more accurately, and implement strategies that are truly aligned with the latest industry dynamics.

3. ***Little comparability and consistency in data and methodologies***
   It is crucial to ensure that the benchmark data used in the analysis is comparable to the business. Selecting a benchmark that has little relevance or is defined or measured in a different manner to the business will result in erroneous results and insights generated. It is important to also use a consistent methodology to ensure reliability and comparability in results.
   Employing an inconsistent methodology will usually yield inconsistent results.

4. ***Focus on the key benchmarks that drive performance***
   There are often many benchmarks available, however very few of these are the key benchmarks to focus on. Through linking key performance metrics with detailed activities in the business, deep insights can be generated that focus on addressing core challenges in the business.

5. ***Poor contextualisation of the variance between the business and best-in-class***
   Obtaining the variance in performance between the business and the benchmark is not the aim of a benchmarking analysis. The objective is to take action based on such variances to improve performance. Contextualising why there is a variance is an important step in understanding how the business could approach change to improve performance.

6. ***Subjectivity, bias, and not involving the right people***
   It is important to remain objective during each iteration of the analysis. Bias and reverse-engineering can lead to a loss of credibility in the entire analysis. It is important to involve a cross-functional team in order to get a well-rounded perspective that ensures all relevant areas are considered.

Through preventing these mistakes and pitfalls, an effective benchmarking analysis is ensured that can support insightful cost and performance recommendations. Benchmarking relies on a clearly defined scope, unambiguous objectives, and a focus on the most relevant metrics to derive value.

The Power of Benchmarking in Navigating Market Dynamics

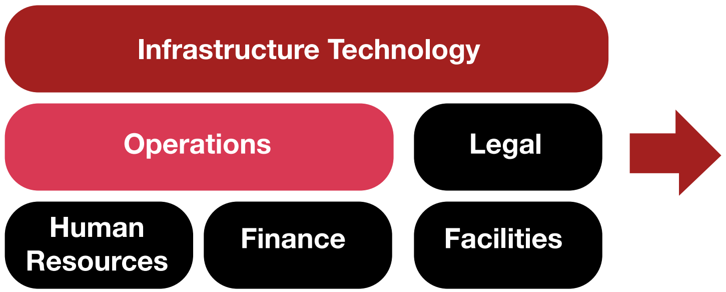
By meticulously comparing and analysing their operations against industry standards and best practices, companies can uncover significant opportunities for cost reduction and efficiency gains. The insights derived from benchmarking analyses enable businesses to make informed decisions that align cost allocations with overarching business strategies. This alignment is crucial for identifying and implementing cost-saving measures without compromising the ability to invest in growth opportunities. Moreover, the integration of benchmarking with strategic planning processes facilitates a more agile and responsive approach to market changes, ensuring that businesses remain competitive and financially healthy.

How Fit for Growth delivers value through benchmarking

Fit for Growth's approach to benchmarking analysis is centred on a data-led, bottom-up approach. This approach involves first establishing a baseline of how cost and revenue is recognised across business units and functions in the organisation. The key benefit of this approach is the ability to unlock deep insights and comparability of the client to competitors and the market at the most granular level. Figure 3 indicates how Fit for Growth combines cost and revenue allocations to generate a benchmark analysis report.

Indicative

Cost/Revenue/FTE allocated by BU/Function



Direct comparison at the most grandular level

Metric	BU / Function	Client	Best Practice put in a range)	Variance (median)
FTE as a % of total FTE	HR	5%	3%	+2%
	Legal	4%	5%	-1%
Fully loaded cost per FTE	Finance	R500K	R450K	+R50K
	Operations	R400K	R300K	+R100K

Figure 3: Fit for Growth benchmarking analysis overview.

Strategy& possesses global expertise in data analysis, modelling, and informational processing capabilities. Our approach to problem solving creates opportunities to unlock long-term value and growth.

If you would like to know more about how Strategy& Fit for Growth can assist, please reach out to Andrew Dalling, Strategy& Partner and Fit for Growth Lead in South Africa.

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