First Things First: Benchmarking Supply Management

"I think people here expect miracles. American management thinks that they can just copy from Japan. But they don’t know what to copy.”

W. Edwards Deming

Patricia E. Moody

The room was filled with assorted consultants and information system experts, each shuffling impatiently through their findings. The group was set to decide which material planning and distribution software package would be chosen for implementation at 18 sites; the winner’s revenues would jump by several million dollars. Installation for the beta site would probably take eight to twelve months; the group was eager to start.

Analysis and recommendations began. For three weeks, two software packages had been put through their paces as the gurus tested the software technical abilities: speed, capacity for processing massive data transactions, recovery and compilation times. They called it exercising the system, or benchmarking.

The results overwhelmingly pointed to a complex seven-year old software package priced at $175,000 whose heart, the bill of material processor (BOM), had demonstrated great capacity for processing complex assemblies in record time.

But wait! The application was order administration in warehouses and distribution centers (DC), none of which much needed a BOM, the meatgrinder that breaks top level assembly requirements into their smallest components, offsetting the subassemblies and units in weekly time buckets. Warehouses and DC’s process thousands of receiving and shipping transaction reports; inventory maintenance and audit trails are important. The package had no backlog customer order detail. And no distribution network pegging. Hmm ... Was this truly benchmarking...? Could they have skipped a step or two?

The promise of benchmarking

Fifteen years ago this was benchmarking, testing the technical abilities of a software package. The original idea was to push a system through various transaction processing loads, looking for breaking points and tangled audit trails. The final decision was in the hands of the systems gurus.

Many AME member companies have conducted one or two benchmarking projects; production is a good place to start. But purchasing, procurement, and supply management areas are more of a research challenge. The difficulty, which is reflected in the variety of names and terms we use to describe this function, is to first define the areas to review; second, to find organizations willing to share critical supply management practices; and third, there is no single database that offers the right data at reasonable costs. Common terms like EDI (electronic data interchange) can, for example, mean anything from faxing weekly production schedules to true paperless
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| **Figure 1.** From *The Benchmarking Workbook: Adapting Best Practices for Performance Improvement*, by Gregory H. Watson. Copyright 1992 by Productivity Press, Inc., P.O. Box 13390, Portland, OR 97231, 1-800-394-6868. Reprinted by permission. |

Unfortunately, the definition and purpose of benchmarking is also still unclear, despite much activity and a range of seminars. Benchmarking as a hot trend has been recrafted, peaked and is beginning to lose its magic as the first wave of benchmarkers wear out their welcome with world-class companies. Initial benchmarking efforts frequently amounted to junkets because team members had little to offer in return for the host’s time. Primary (looking at internal operations), and secondary research (literature and database searches) were often, like the system specification steps in the opening software selection story, missing.

The problem is not the concept — it’s the execution. Benchmarking, looking at world class examples of best practice and comparing them to one’s own operation, is a marvelous tool that takes a team outside its own boundaries. It is an essential tool for companies looking to improve their internal partnering abilities because each of the seven requirements for excellent partnering — quality, timeliness, communications, flexibility, continuous improvement, a habit of collaboration, and trust — are further strengthened by customer/supplier partners who benchmark and take action to ratchet up their organization’s performance. But homework first!

According to Dave Curry at Honda of America (HAM), no benchmarking drive is worth the effort without a commitment to follow-up on improvement opportunities. For customer/supplier teams, benchmarking is an efficient continuous improvement aid. Greg Watson, Xerox vice president of total quality, defines benchmarking as “… a business tool for helping to understand and anticipate the potential moves of competitors… a structured approach to gaining information that will help your organization anticipate the white water and improve its ability to steer through the business environment.”

To benchmark supply management and customer supplier partnership efforts, look at a few key functions to determine how well potential partners will perform. Supply management performance in specific functional areas — planning, buying, commodity teams, for example — and communications are the immediate targets. Other functional areas such as logistics and accounts payable come into play because they also impact a customer or supplier’s ability to partner.

One supply management benchmarking team organized their project around processes for the following five topics:

1. Payment terms
2. Commodity/product manager organization, including sub-contract administration. This category covered questions on:
   - purchasing headcount
   - sales dollars per buyer/planner
   - total dollars spent with suppliers
   - salaries and benefits as a percent of the purchasing budget
   - active suppliers
   - number of meetings with suppliers attended by average buyer
   - buyer/planner education and training levels
   - percent of transactions performed electronically
   - time to place or respond to order
   - amount of time spent benchmarking
   - use of customer/supplier scorecard.
3. Supplier rating, certification, development and recognition systems
4. Cross training/commodity exchange
5. Reduction of non-value added purchasing activities.

Each of the seven partnership elements — quality, timeliness, communications, flexibility, continuous improvement, a habit of collaboration, and trust — is measurable. The challenge for benchmarkers is to identify the right measure and to locate an excellence model willing to share quantitative performance measurements, as well as operating details that show how they reached that performance level. Start with the first and one of the easily measured partnership elements, quality.

1. Quality

Benchmarking is a quality tool mentioned in at least 12 of the 30-plus criteria for the Baldrige Award. Quality translates in a variety of ways in different industries. As a result, the benchmarks will vary. In the electronics sector, for example, process controls and other proof of an organization’s ability to control and correct for quality problems are more important than a simple reading of the product defect levels in parts per million. Would-be benchmarkers, therefore, need a clear definition of what they hope to learn that will support their own strategic objectives.

In the opening software “benchmarking” story, team members skipped from definition of strategic objectives on to tactical details — how, rather than what the system did. Had they defined strategic objectives first, they would have identified a quality problem in the warehouse — orders missing line items, forgotten backorders, missing paperwork — all problems that could have been fixed with operating changes, not a multi-million dollar MRP package. They would have first defined their customer’s acceptable service level; their strategic objective, therefore, might have been to fill all customer orders from the warehouse in 48 hours or less with no errors or backorders. Next, they would have identified an excellence model like LL. Bean, whose success is dependent on superb ordering. Finally, their benchmarking partnering project would have taken them inside LL. Bean to observe their real-time distribution system.

2. Timeliness

Federal Express and Walmart build all their processes around time. The success of their approach is measured in growth and retention of market share. Walmart, according to Sam Walton’s Made in America, My Story in 30 years has grown from nine stores ringing up $1.4 million sales to 1528 stores totalling $26 billion sales in 1990.

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**Benchmarking Study Checklist**

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<tr>
<th>Plan</th>
<th>What is our process?</th>
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<td>How does our process work?</td>
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<td>How do we measure it?</td>
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<td>How well is our process performing today?</td>
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<td>Who are our customers?</td>
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<td>What products and services do we deliver to our customers?</td>
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<td>What do our customers expect or require of our products and services?</td>
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<td>What is our performance goal?</td>
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<td>How did we establish that goal?</td>
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<td>How does our product and service performance compare with our competitors?</td>
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<th>Search</th>
<th>What companies perform this process better?</th>
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<td>Which company is the best at performing this process?</td>
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<td>What can we learn from that company?</td>
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<td>Whom should we contact to determine if they are willing to participate in our study?</td>
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<th>Observe</th>
<th>What is their process?</th>
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<td>What is their performance goal?</td>
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<td>How well does their process perform over time and at multiple locations?</td>
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<td>How do they measure process performance?</td>
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<td>What enables the performance of their process?</td>
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<td>What factors could inhibit the adaptation of their process into our company?</td>
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<th>Analyze</th>
<th>What is the nature of the performance gap?</th>
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<td>What is the magnitude of the performance gap?</td>
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<td>What characteristics distinguish their process as superior?</td>
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<td>What activities within our process are candidates for change?</td>
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<th>Adapt</th>
<th>How does the knowledge of their process enable us to improve our process?</th>
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<td>Should we redefine our performance measure or reset our performance goal based upon this benchmark?</td>
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<td>What activities within their process would need to be modified to adapt it into our business environment?</td>
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<th>Improve</th>
<th>What have we learned during this benchmarking study that will allow us to improve upon the &quot;superior&quot; process?</th>
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<td>How can we implement these changes into our process?</td>
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**Figure 2.** From The Benchmarking Workbook: Adapting Best Practices for Performance Improvement, by Gregory H. Watson. Copyright 1992 by Productivity Press, Inc., P.O. Box 13390, Portland, OR 97231, 1-800-394-6868. Reprinted by permission.

The best way for benchmarkers to identify time opportunities is a simple flowchart, or a process flow of their operations, including at each step of the way the time to perform the task, the number of steps involved, and the names of the processors. The pure exercise of following a customer order through convoluted order administration, material planning, and production cycles uncovers surprises — “dead spots,” areas where paperwork sits or is detoured off the main traffic flow. The sum of the pieces is greater than each of the parts. The flowchart will also reveal much of the way an operation...
integrates its separate functions.

The experience of a southeast automotive sub-assembly manufacturer illustrates. As the company considered slight modifications to their planning system, one team member took a radically different approach to what was perceived as an inventory problem. He mapped the entire planning cycle on a ten-foot long flow chart. Dotted lines indicated where paperwork crossed an invisible departmental line. (The exercise of constructing “the map” was a good weight control technique because the examiner walked several miles, from cubicle to cubicle, asking the same questions of various participants — “What is this paper, where does it go from here, etc.”)

This organization had structured its planning functions around a pre-World War II vision of planning that drove massive batches of material down long assembly lines — data chunks moved, were thrown, nudged and dragged along until they reached the last stop in phase I of planning — purchasing — where the next chunk had already dropped into the hopper. Everything happened serially, nothing was in parallel. Quite a discovery! Tweaking the system or adding a few more planners en route would not fix a basically flawed process flow. It had to be re-designed for speed.

3. Communications

For customer/supplier partners, communications are either frequent and clear, or useless. Some typical indicators of good communications are subjective. The following checklist represents a good starting point to objectively benchmark a supply management organization’s communications activities:

1. Percent of buyer/planner time spent with suppliers and/or customers
2. Use of electronic communications aids: EDI linkages for schedules, MRP requirements, and the frequency of their transmission
3. Time to respond to immediate concerns
4. Does the customer/supplier partner maintain a single contact point (your own “customer service representative”) committed to rapid response?
5. Are personnel trained and comfortable with group presentation skills?
6. Formal communications: Does the customer conduct regular feedback surveys? Does the customer sponsor on-site periodic supplier days, or is there an active supplier council?

4. Flexibility

For customers, flexibility is usually a code word for scheduling flexibility, the ability of suppliers to quickly change product ship dates, quantities, or specifications. For suppliers, flexibility means the hoped-for flexibility of customers whose systems can accommodate last-minute deviations from schedule or ship quantity. Of course JIT, as GM discovered when the Lordstown strike almost shut down the Saturn assembly plant, is also very important to customers who run lean production operations. Flexibility may not reside at the actual customer or supplier partner’s site, but in the pipeline where skilled logistics linkages flex to accommodate schedule changes.

Measuring flexibility is not as difficult as it seems. If schedule flexibility is the strategic issue, the measure of that element is a supplier’s adherence to schedule and their ability to absorb customer requests for different ship dates and quantities. Very short, and getting shorter, leadtimes may not indicate that a supplier is supremely flexible, but waiting two weeks less than your competitor for a critical part is adequate flexibility in the marketplace. Process flexibility means that a plastics supplier, for example, has the capital equipment in place to move a customer’s design to a machine. Benchmarking teams can evaluate flexibility, therefore, two ways:

1. Objectively, through quantitative measures
2. Subjectively, through evaluations by key customers of a supplier’s ability to respond to new product challenges.

5. Continuous improvement

Ken Stork, a Chicago-based management consultant, feels strongly about the correct use of benchmarking — “Time out! We need a new law; no one may utter the word ‘benchmarking’ until they have completed the following:

1. No one may accept or delegate authority to begin a benchmarking study without a clear understanding of its purpose, desired objectives, etc.
2. No new questionnaire may leave your company without providing the potential benchmarking hosts your internal status/responses to your own questions.
3. Peer-to-peer benchmarking exchanges only. No more “employees you can spare” sent to visit CEOs. Your CEO needs to do it, too.
4. Any benchmarker who, after completing the team’s benchmarking report fails to lead dramatic change in his organization will be fired and lose all pen-
Motorola and Sun Microsystems use benchmarking as a major contributor to their continuous improvement strategies. In supply management, the benchmarking challenge is not necessarily the process — books by Michael Spendolini, Robert Camp, and Greg Watson will all get you started, if you have decided what areas need improvement. Sun’s Director of Supply Management Peggy Williams recommends that in supply management an organization must pick the right improvement targets first — “What you measure counts. Instead of measuring how many parts buyers cover, look at the value of their contribution in terms of total cost of ownership, which includes quality, technological innovation, on-time delivery, flexibility, and cost return.”

Steve Kelley, manager of Advanced Manufacturing Technology for Sun’s Chelmsford, MA. plant, recently led a unique benchmarking project. The company needed to know how Sun product reliability, usually measured as mean time between failure (MTBF) or mean time between repair (MTBR), compared with the competition, a more difficult research job than benchmarking against best practice models because data is harder to uncover. Four major competitors to one of Sun’s system products were selected. “When you talk about reliability,” says Kelley, “everybody has a different definition — it’s really customer perception. The challenge was to do a comparison and use some kind of scale. Because most of the data is not published, we couldn’t get performance stats on standard tests undergone by each competitor.”

The team chose to develop one methodology to compare all four competitors; the emphasis was on developing standard, repeatable measurements, rather than the perfect quantitative assessment. Kelley felt that if the project yielded information on current product reliability, it would be easy to compare the next generation’s percent improvement down the road. So the assessments looked at the product two ways — compared to the competition, and compared to earlier generations of Sun product.

Understanding the perception of reliability is where benchmark evaluations turn from quantitative to subjective, says Kelley. “Sony, for example, creates the perception of quality and reliability for which customers will pay slightly more; Panasonic’s name might evoke a different reaction, but if we broke the two brands’ products down, we would probably not find much variation except in perception.” Customer perception of reliability is built a number of ways, not just through the measurable hardware performance; service, packaging, availability, and image are all contributors.

Kelley’s experience with a previous benchmarking exercises is markedly different. This one, which he describes as a “very focused project” was designed, like Sun’s product cycle itself, to get done fast; completion time was about one and one-half months.

**Hewlett-Packard**

A Hewlett-Packard benchmarking team, eager to benchmark their semi-conductor performance against internal and external competitors, threw a “wild party” to kick off benchmarking efforts. Team members gathered for several hours of pizza and literature searches, their first step before data base reviews. “Trips,” warns team co-leader Lucy Crespo, “are absolutely the last step.” In the semiconductor industry there are a few commercial benchmark sources, American Productivity and Quality Center (APQC), Technology Forecasters of Palo Alto, and Ceeris, a Connecticut firm, among others. To make the entire benchmarking process more than a data gathering exercise, the more team involvement, the better the continuous improvement for the group.

6. **Habit of collaboration**

Benchmarking an organization’s ability to collaborate is extremely subjective. Ask partners how many teams they have participated in or served on in the past year, and which they are currently working on. An East Coast electric/mechanical controls producer boasts that most purchasing and manufacturing personnel have served on five or six teams in two years. Other indicators include collaborations with various professional groups, and, especially important for small companies, a history of pooling resources with others for training.

The second major contributor to effective collaboration is the reward system. When personnel are expected to participate in cross-functional teams, they should be rewarded for their work. A medical devices manufacturer is experimenting with a points catalog reward system that allows personnel to accumulate prizes, including time off and resort trips, in recognition of cross-functional project work.

**Protocol**

Protocol guides how groups and individuals treat each other. If a potential partner has established guidelines for conducting business — protocol — partners
In any partnering activity, especially benchmarking, protocol makes or breaks the success of the project. Writing down the rules in advance keeps secondary agendas in control, and gives participants the freedom to make the most of the exercise without concerns over leaks. A typical benchmarking team will set rules governing the following five areas:

1. "Housekeeping" — escort requirements, meeting location, notes;
2. Confidentiality rules, such as “No sensitive information,” “all discussion is for the record,” and which topics are off limits;
3. Objectives, such as to bring people together to discover ideas that can be further developed in one-on-one sessions; to produce a written report for the partner; to continue the process with educational events and public forums;
4. Agenda — agreed to and published in advance; role of facilitators; meeting feedback checklist.
5. Participation; attendee list — participants decide when and to whom to open the group; the group also decides whether to make available attendee names and phone/fax listings. Finally, the group may set minimum attendance rules, or some other mechanism to guarantee ongoing commitment to the process.

Of these five points, confidentiality is especially important because it explains why, although the process of benchmarking is a hot topic, detailed results are difficult to share. The shadow of industrial espionage hangs over many intra-company contacts. Had the British barred Francis Cabot Lowell from visiting their cotton mills in 1812 when he memorized the power loom design, they would not have lost dominance of that industry to the United States. Two brilliant individuals — Lowell and industrial engineer Paul Moody — were all it took for America to seize British technology and integrate the entire production process that dominated world markets for the next 150 years.

**Benchmarking Information sources**

Much data that supply management teams want for benchmarking is publicly available. (See Figure 1, p. 24.) Other rating tools include the Motorola Quality System Review (the QSR), the Baldrige criteria, and ISO 9000. Certainly organizations that have prepared for one or more of these reviews will be well-prepared to supply relevant benchmark data.

**Sun**

Peggy Williams of Sun takes a very simple approach to benchmarking. She participated in and guided a benchmarking study by 75 Silicon Valley companies. Her team prepared a 65 question survey to gather benchmarking data and locate potential benchmark partners. Survey responses were summarized and provided to participating firms and to management.

Twelve survey respondents attended a benchmarking roundtable held after the survey. In the MRO purchasing area, for example, roundtable participants shared their vision of the future in four topic areas: cost reduction, MRO purchasing systems, innovative processes, and strategic directions. Useful continuous improvement ideas came up — one firm eliminated hard copy purchase orders for many expensed items up to $5000, and planned to raise the base to $10,000. Credit cards were one way to eliminate invoicing and purchase orders.

Rather than recommending to other benchmarkers specific books as guidelines, Ms. Williams advises that team members invest in up-front planning and strategizing. First, recommends Ms. Williams, look at how well a buyer has consolidated his supplier base: “If you have a family of 12 children, it’s very hard to manage — you have a limited amount of time for each one. But if you have four or less kids you can give each some individual attention. I look at this the same way from the buyer’s standpoint; if we can reduce the supplier base, we can really work with them to develop a more productive team.”

"Many organizations expect buyers to manage a base of 500 or more," she said. Finding a realistic and workable number depends on the commodity. For a critical and complex commodity, because of the technology and supplier development challenges, perhaps the ideal number is two, maybe one. Ms. Williams’
conclusion is that a buyer cannot manage an excess number well.

Sun has developed an innovative supplier rating scheme to evaluate true cost for a supplier's part. A supplier rating of 1.00 (the highest) means that the part costs the customer exactly $1.00; a rating of 1.24, which is the average supplier rating, indicates additional costs of $.24 incurred by the customer for administration, packing, or other unusual expenses.

Ms. Williams' has some advice for benchmarkers from smaller companies:

1. Establish a benchmarking team and carefully identify the outcome (“don’t just do it”) from the benchmarking project;
2. Locate companies in similar industries. It does not hurt to go outside your industry if you understand the numbers and how to use the information, however;
3. Identify and move on actions to improve, and decide who will do it.

**Kodak**

Dave Goodwin, Kodak quality and industrial engineer, participated in a benchmarking project to determine the best process to evaluate technology for equipment manufacturing. Starting with the Camp model, the group modified their goal to look at innovation and cultures that nurture ideas. Their Executive Summary identified contributors to innovation, key success factors that benchmarkers include in the subjective review of best practice companies, including:

1. Cross-functional multi-involvement
2. Stewards assigned a specific technology, responsible for growth
3. Customer focused development processes
4. Champions that drive implementation of new ideas
5. Conscious efforts to put the right people in the right place. Sometimes people end up in places where they don’t belong, and the group suffers with them. Or, some managers hesitate to give up personnel who are “indispensable” to their departments to new technology projects.
6. Organizations need processes to support creativity, like idea generation sessions, some of which might seem to manufacturing pros more of “the things marketing people do;”
7. There must be natural consequences to support innovation. Ask what happens to a new idea, “what-if?”
8. Innovative organizations have an external awareness reflected in the expectation that engineers, for example, keep up with new technology initiatives in their area, or that they join consortia.
9. Innovation must have clear alignment with corporate initiatives and strategy.

Key learnings from the benchmarking project, according to Goodwin, were how champions work. Every successful project has in one way or another been influenced by a champion. The “systems” within an organization must support and nurture innovation.

The Kodak experience echoed Stork and Peggy Williams' advice to new benchmarkers: up-front work is critical, look at internal processes first, saving site visits and lengthy phone calls for last.

**Honda Benchmarking Conference**

After hosting over 400 companies in three years, Honda of America assembled a comprehensive benchmarking confab in April at its Marysville plant. Attended by over 100 would-be benchmarkers, the two-day event was a hit. Tom Tashiki, HAM president, welcomed benchmarkers with, “Please make any suggestions you have. We also want to learn from you.”

Honda's very generous and open policy to benchmarkers produced a full menu of production topics for review, from procurement and production, through quality, environmental practices, reward and recognition systems, MIS, and their innovative supplier development programs.

The company manages a range of manufacturing, quality and procurement functions. Within three years of auto production at Marysville, HAM became the fourth largest auto manufacturer in the United States. The Marysville auto plant is fully integrated to include stamping, welding, painting, plastic injection molding, assembly, quality assurance, export and other operations. Already recognized experts at engine building, Honda has increased local supplier parts content to 83 percent with its comprehensive supplier development programs. The company has, through its benchmarking and other supplier development practices, enabled many smaller suppliers to achieve world-class performance levels.

The Marysville auto assembly plant turns 18 million dollars inventory daily, with 1.5 to 1.7 days inventory in the pipeline, and one-half a day or less on the floor. East Liberty maintains two-and-one-half hours of prod-
uct on the floor. Honda’s purchasing and tracking systems, soon to be supplemented with a new planning package from Japan called Target, are essential to maintain the company’s aggressive JIT schedules. Suppliers keep their customer informed of shipments as they head to HAM through ASN’s. Three out of four suppliers are tied to the EDI order and delivery systems. A major system goal for the next year is to eliminate “rip and read” paper purchase orders for all 246 suppliers, and to complete the automated payment system.

Benchmarking conference attendees agreed there is no substitute for plant tours. Benchmarking trips that follow initial research are invaluable because at world class organizations like HAM, how employees act, the condition of the workplace, and other more subtle clues reveal much about company philosophy translated to day-to-day practice.

**Conclusion**

Benchmarking is a valuable partnering tool that allows a customer or supplier to measure its internal processes against excellence models to foster continuous improvement. The benchmarking process strengthens a group’s external focus, another aid to the partnering exercise. But benchmarking as a process is only a quality tool, one of several valuable partnering tools. When misused as an uncontrolled or unplanned exploration exercise it loses its effectiveness. Organizations that select a few strategic areas to benchmark at the beginning of the process have more successes to cite for their efforts, and will be welcomed back the next time they want to compare notes.

Benchmarking exercises fail when they:

1. Become fun trips with minimal preparation;
2. Do not include a commitment to follow-on improvement efforts from the benchmarkers themselves, as well as their supporting management team;
3. Benchmark the wrong topic.


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