

# World-Class or Best-in-Class?

**For benchmarking to be meaningful, you need to be clear about both the performance level you are aiming for and what is feasible in your sector.**

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Most senior procurement executives want to know how competent their organisation is compared to others. This means knowing how many of the available operational processes and systems that support 'good practice' their organisation possess. While this sounds straightforward, understanding what is 'good practice' for a specific organisation can be problematic. This is because managers often struggle with definitions of 'world-class' and 'best-in-class' performance. Are they the same?

An attempt is made in this article to shed light on these issues. The general thrust of the argument is that the concept of 'world-class' can only be useful if it is seen as a moving 'ideal' that is unlikely to be fully achieved by any organisation, but against which public and private sector organisations (operating within particular circumstances) can compare themselves. This definition makes it possible to understand what 'best-in-class' means — the current performance of an organisation relative to both 'world-class', and also relative to other comparable organisations.

The argument is supported by evidence from benchmarking studies into organisational competence in Europe, the Middle East and the US. The evidence shows that some organisations and sectors perform better than others when

'the ideal' is defined, but also that some should be expected to perform better. This is because it is easier for some organisations to perform close to 'world-class' than it is for others. Understanding why some sectors are unlikely to be able to achieve the same competence or performance levels as others is valuable. It provides a means to define targets for 'best-in-class' performance at the specific sector level, whether that be Automotive, Fast Moving Consumer Goods, Oil & Gas or Central Government.

Over the past two years we have undertaken a series of benchmarking studies to assess over 200 organisations in adopting available organisational processes & systems for the management of procurement and supply chain activities.

Five main attribute categories were used to assess performance: Business Buy-in & Functional Role; Stakeholder Management; the Strategic Sourcing Process; Organisational Structure; and Systems & Processes, with two of these sub-divided into 11 sub-categories (see Figure 1). Each organisation was scored on 184 attributes of currently known organisational process & system competence from 5 for 'the currently available ideal performance' (world-class), to 0 for none, and 1 for a very basic level of competence / performance.

This framework has so far been used to assess the performance of 173 private sector and 32 public sector organisations.

As Figure 2 illustrates, some organisations score much more highly than others. The highest score out of 100% ('the ideal' or 'world-class' level) was recorded in Retail (80.2%), with Automotive (79.3%) second and, Consumer Goods/FMCG (76.4%) third. The lowest organisational score was in national government at 11.3%, followed by regional & local government at 14.6%, while a public sector organisation in Oil & Gas scored only 24.4%.

What these results demonstrate is that there is a wide gap between the top and the bottom scores - 68.9 percentage points, in fact. Furthermore, only 3 private sector companies are in the 'top class' category (i.e. scoring above 75%) and none of these reached the very highest scores attainable (85% or more). So even for supposedly leading-edge companies there are major gaps between current performance and what is organisationally feasible.

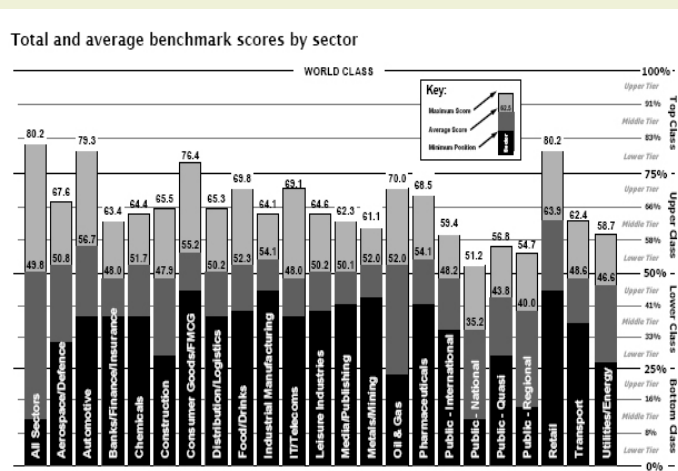
**FIGURE 1**

**A framework for benchmarking procurement performance**

<b>Business Buy-in and Functional Role</b>	13 attributes
<b>Stakeholder Management</b>	8 attributes
<b>Strategic Sourcing Process</b>	118 attributes
Strategic Understanding	12 attributes
Defining Business Needs	21 attributes
Supply Market Analysis	20 attributes
Sourcing Option Development & Selection	16 attributes
Tender & Market Test	13 attributes
Final Supplier Selection and Contract Award	9 attributes
Contract Start-up & Supplier Performance Management	21 attributes
Transition & Exit	6 attributes
<b>Organisational Structure</b>	25 attributes
Organisational Effectiveness	7 attributes
Individual Competences	14 attributes
Organisational Alignment	4 attributes
<b>Systems and Processes</b>	20 attributes

The distribution of total scores by organisation is also interesting. Most organisations are 'middling' in the sense that the majority receive scores of between 40% and 56%. This means that they have most of the attributes required for managing the procurement process, but do not achieve the highest levels of sophistication and/or on-line capability in their systems and processes compared with what is now feasible. In addition, there is a lack of effective Buy-in and Stakeholder & Risk Management and, perhaps most importantly of all, a lack of resourcing and rigour in the management of the overall Strategic Sourcing Process.

**FIGURE 2**



The data also reveals that the organisations with the highest individual scores also tend to be in the sectors that record the highest average scores. The highest performing sectors on average are Retail (63.9%), followed by Automotive (56.7%); and, Consumer Goods/FMCG (55.2%), with Industrial Manufacturing and Pharmaceuticals not far behind (both recording 54.1%).

There are a large number of sectors scoring between 50% and 55%, including: Aerospace/Defence (50.8%); Chemicals (51.7%); Distribution/Logistics (50.2%); Food & Drink (52.3%); Leisure Industries (50.2%); Media/Publishing (50.1%); Metals/Mining (52%); and, Oil & Gas (52%). While these sectors scored better than many others their percentages demonstrate that there is considerable scope for process and system improvement.

Unsurprisingly the lowest average scores are recorded in the sectors with the lowest individual organisation scores. The Public Sector (35.2% for national government, 40% in regional & local government and 43.8% in quasi-government agencies) has the lowest average scores. The lowest private sector industry scores on average are in the Utilities/Energy sector (46.6%) and in Construction (47.9%). These figures indicate that public and former public sector (but now regulated) industries have the lowest performance scores. They also receive the lowest resourcing for implementing organisational process and system innovations.

## Understanding Best Practice

These benchmarking studies are based on a methodology that, first, defined the current 'ideal' organisational practice. The reason for this is to understand what 'world-class' looks like, so that all respondents can be benchmarked against this currently defined best practice.

Whereas this approach provides a rigorous and consistent method for comparing all respondents against the same 'ideal' performance outcome, there is one major problem with it. While it may be feasible to do something, it may not always be possible for all organisations to do it. Consider the strategic sourcing process.

In trying to understand how to be 'world-class' in the creation and management of a strategic sourcing process, the first task is to identify all of the activities and tasks that are required for any type of organisation. Our own model has 8-Steps, starting with category segmentation and team selection and continuing through supply market analysis, sourcing options, contract award and supplier performance management. Other models have 5, 6 or 7 steps – the exact number is not, in our view, critical; what is important is that models cover all of the key activities and tasks, both pre-contractual and post-contractual, that must be included within a strategic sourcing process.

Using our benchmarking methodology, for each Step in the process we have identified (through extensive review of current theoretical knowledge and by benchmarking empirical practice across 22 industrial and governmental sectors) all of the key activities & tasks that are currently synonymous with 'world-class' practice.

To describe the activities & task attributes of each Step is one thing, but it tells us little about whether performance is good, bad or indifferent. To fully understand world-class best practice, managers also need to understand the performance variables for each activity or task.

Many organisations use the Purchasing Portfolio Analysis methodology developed over 25 years ago (Krajic, 1983), and believe this is a 'world-class' approach to the Segmentation & Sourcing Options Selection Steps. However, in our methodology the possession of such an approach is not evidence of 'world-class' performance. This is because there are already superior segmentation and sourcing option selection methodologies available using on-line, rather than paper-based, tools and techniques (Cox, 2008).

The problem for managers is clear. Unless they are aware of all of the potential tools, techniques and delivery mechanisms that are available, they will never be able to understand what a 'world-class' approach is for any Step in the strategic sourcing process. This raises an interesting dilemma for practitioners: should everyone strive to be 'world-class' and always adopt the latest practices and technologies? Our view is that the answer depends on the circumstances of their organisation.

Even if managers do know what the current 'world-class' way of managing is, there will always be circumstances when what is feasible for one organisation may not be feasible for another. For example, in defining business requirements and managing demand - Step 2 of the strategic sourcing process - effective forward demand and capacity planning is normally evidence of 'world-class' process management. The ability to undertake effective planning over 5 years is normally preferable for supplier and supply chain optimisation than the ability to do it for only 1 or 2 years. So benchmarking approaches must always recognise the difference between the evaluation of the possession of an attribute, and the variable use of it in particular contexts.

The key learning for managers here, however, is not just in understanding that forward demand and capacity planning over 5 years is a demonstration of 'world-class' process competence, but the realisation that it is not feasible (or indeed always desirable) for all organisations to undertake this activity. In many industries - and especially those faced with short-term, *ad hoc* and/or episodic demand profiles, such as Construction, Upstream (Exploration and Production) Oil & Gas and Fashion Goods - there are often only limited opportunities for managers to build 5 year forward demand and capacity plans.

While understanding what is a 'world-class' approach (and where the organisation stands in relation to it) may be beneficial in general terms - it is not the only relevant benchmark. In many ways the benchmark that is most relevant is the relative performance of an organisation against comparable organisations in their own sector. In other words, the most important benchmark may well be understanding which organisations are 'best-in-class' - those that perform the best in the direction of the current 'world-class' ideal, but given the demand, supply and resourcing constraints with which their sector is faced.

Viewed in this way, benchmarking becomes a more complex activity because organisations must understand their position both against 'the ideal' and also against those in the same, or similar, sectors. This also means that, whereas some organisations may find it easy to perform close to the ideal of 100%, others may find this inherently difficult and their realistically achievable target score may be much lower - in the 80% or 90% range.

Our studies reveal that organisations in process-based industries tend to record higher benchmark scores than those operating in project-based industries. In itself, this is interesting because it provides at least one reason why some organisations can operate closer to 'world-class' than others. It is not only because they are better managed; it is also because the context in which they operate allows them to pursue more of the 'world-class' processes & systems than organisations operating in less than 'ideal' contexts.

## The impact of operating circumstances

The matrix in figure 3 shows that for sectors in quadrant A (transactional), adopting 'world-class' procurement and supply chain management processes & systems is unlikely to be seen by senior managers as being of much value.

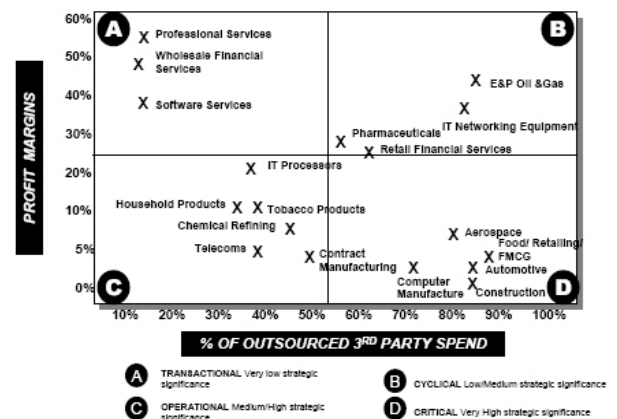
In Professional Services and Software Development companies, the delivery of services is mainly undertaken in-house, and there is only sourcing of transactional support activities. In such organisations, there is also little need for complex tools and techniques to manage procurement. This is because profits are normally high and the need to reduce costs, or buy goods and/or services that provide things that customers' value, is low.

Contrast this with the situation in quadrant D (critical) where profits tend to be low, and most of what is provided to customers is sourced from suppliers because of the high incidence of outsourcing. In such organisations, the role of procurement and supply chain management is critical to corporate success. It is hardly surprising, then, that most of the organisations that tend towards 'world-class' performance in procurement are in sectors with a high incidence of operational outsourcing and low profitability. The Automotive, Retail & Consumer Goods/FMCG sectors must leverage external resources for competitive advantage and as a matter of survival, not only because they are better managed than others. High volume and frequent demand also allows the adoption of leading edge demand and supply management practices.

In quadrant B (cyclical) the role of procurement is often difficult. On the one hand because the incidence of outsourcing is heavy this competence may be of high operational significance. But on the other, the relatively high profitability in these industries tends to preclude an organisational focus on sourcing issues - unless, of course, profits decline.

**FIGURE 3**

Understanding the organisational role of procurement and supply



In the Upstream Oil & Gas industry, it is normal for procurement to be ignored in the good times (when profits are high) and then, when the pendulum swings and profits decline, the function becomes much more strategically important. Implementing 'world-class' approaches to procurement in such circumstances is precarious, and subject to cyclical financial circumstances and managerial fashion.

In quadrant C (operational) the role of procurement is rarely of strategic importance because the key supply operations of the company that generate profitability are heavily insourced, with only transactional and tactical operational requirements (direct and indirect) being sourced. Despite this and the relatively low levels of profitability in these organisations, it is sometimes possible to implement procurement process and system improvements. This is because of the need to continually weigh up make-buy decisions in order to reduce operating costs, and also because of a need to find lower cost sourcing solutions to improve the overall profitability of the company.

In these organisations, the procurement role is normally seen as primarily operational, rather than strategic, and resourcing is always an issue for process and system improvement initiatives.

Our response to these differing contexts has been to devise a process that not only provides organisations with a comparative benchmark of their performance against current 'world-class' best practice (the 100% level), but also a way of understanding what the current feasible targets should be for their sector (varying between 80% and 100%), so that they can understand what is a realistic target. This provides the basis for benchmarking against 'the ideal', as well as understanding who is 'best-in-class' within the specific sector in which they operate.

and 11 sub-categories are provided for 4 companies. The figures show the scores for each of the process & system attributes analysed, but also benchmarks these against both world-class (100%), and the optimal score that an organisation ought to be able to achieve (92.1%) if it is fully resourced and empowered to adopt the latest tools & techniques.

The benchmark scores also show the 4 participants in the survey how they score against one another (i.e. who is performing worst, at 33.4%, compared with 55%, 58.4% and 62.4%), who is currently 'best-in-class' amongst the participants in the survey for their sector (in this case 72.2%), as well as the current 'best-in-class' organisation in the overall survey (80.2%).

### Devising Appropriate Organisational Improvement Strategies

Not every organisation can, or needs to, adopt the same practices as others. What organisations and their managers have to understand is which practices are 'best-in-class' (i.e. 'optimal') for them in the context in which they find themselves. To understand this, however, it is still necessary to know what 'world-class' performance looks like. The need to differentiate between 'world-class' and 'best-in-class' performance for a particular organisation in a particular market and supply chain context is, therefore, key.

For some organisations such as Automotive & Retail, being 'world-class' and at the cutting edge of innovation may be essential, but for other such as Professional Services & the Public Sector, they may simply not require (or indeed be able to apply) all of the practices that are desirable and/or feasible for others. Real competence is the ability to know for any, and all, types of organisation what is the most appropriate thing to do in the context of specific sector, market and supply chain circumstances. Yet, as the results from our studies show, most organisations are still a considerable way from understanding what is 'world-class' performance overall, let alone what is 'best-in-class' performance in their own sectors.

This means that there is still a considerable lack of knowledge and understanding about what is currently feasible and desirable in terms of organisational process and system improvement.

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### References

1. P.Krajic, "Purchasing must become supply management" *Harvard Business Review* (October, 1983)
2. A. Cox, *Strategic Sourcing* (Earlsgate Press, 2008)

**FIGURE 4**

	Newpoint Audited Scores (%)				Top Score in Sector (%)	Class Position (Top Score in Sector)	Potential Best in Class Sector	Current Top PSCM Index Score (%)
	A	B	C	D				
<b>A: Business Buy-in and Role</b>	46.3	69.1	77.0	68.6	78.0	Top Class / Lower Tier	89.0	95.0
<b>B: Stakeholder Management</b>	18.3	44.5	66.3	72.5	73.4	Upper Class / Upper Tier	90.6	81.3
<b>C: Strategic Sourcing Process</b>	24.2	49.2	48.5	59.2	69.6	Upper Class / Upper Tier	91.5	75.5
C1: Strategic Understanding	25.9	46.4	59.8	62.5	69.6	Upper Class / Upper Tier	95.5	70.5
C2: Defining Business Needs	17.5	55.5	42.7	58.5	62.2	Upper Class / Middle Tier	86.6	74.4
C3: Supply Market Analysis	16.4	46.1	40.8	50.0	71.7	Upper Class / Upper Tier	89.5	74.3
C4: Sourcing Option Dev. & Selection	17.4	49.6	50.7	62.5	72.9	Upper Class / Upper Tier	97.9	74.3
C5: Tender & Market Test	26.9	49.1	40.7	65.7	69.4	Upper Class / Upper Tier	93.5	72.2
C6: Final Supp. Selection & Cont. Award	32.4	55.9	60.3	55.9	72.1	Upper Class / Upper Tier	97.0	85.3
C7: Contract start-up & SPM	32.8	44.8	53.1	58.9	69.3	Upper Class / Upper Tier	86.5	87.5
C8: Transition & Exit	27.8	41.7	25.0	43.7	75.0	Top Class / Lower Tier	88.9	75.0
<b>D: Organisational Structure</b>	46.3	69.7	54.0	69.5	75.9	Top Class / Lower Tier	98.1	92.9
D1: Organisational Effectiveness	41.7	75.0	48.3	63.3	76.7	Top Class / Lower Tier	93.3	95.0
D2: Individual Competence	49.0	67.3	57.7	73.1	76.0	Top Class / Lower Tier	95.0	88.5
D3: Organisational Alignment	43.8	62.5	50.0	68.8	93.8	Top Class / Upper Tier	96.0	
<b>E: Systems and Processes</b>	53.8	77.3	56.4	58.3	76.5	Top Class / Lower Tier	90.2	85.6
<b>Total</b>	33.4	58.4	55.0	62.4	72.2	Upper Class / Upper Tier	92.1	80.2

How this works is illustrated in figure 4, where the benchmark scores across the 5 process and system categories