

Benchmarking In Business: The Key To Improving Performance and Increasing Profit

5 min read



Key Takeaways

- There are many different types of benchmarking for businesses such as internal, external, performance, and practice benchmarking.
- Use the 5 step approach to benchmarking so you can get the data and information you need to make better business decisions.
- KPI's are specified metrics used to measure performance, and benchmarks are goals to strive for.

You wouldn't drive a car without looking at the dashboard, right?

Exactly. And in business, you can't know the direction your company is headed and how it's stacking up against competition without measuring performance- internally and externally.

Benchmarking is a way to compare your company's processes to best industry practices. This enables you to identify performance gaps and achieve a competitive advantage. It involves looking outside of your business to examine how industry competitors achieve a high level of performance and the processes they use to maintain success.

What Is Benchmarking?

Benchmarking is a way to compare your company's processes to industry best practices. This enables you to identify performance gaps and achieve a competitive advantage. It involves looking outside of your business to examine how industry competitors achieve a high level of performance and the processes they use to maintain their success.

Industry benchmarking allows you to see how your company is performing against the industry average. And more importantly, it allows you to accurately assess your performance.

The 3 Main Goals Of Benchmarking:

- Interpret internal and external data on targeted areas.

- Uncover what areas of your business needs improvement.
- Use data to make strategic decisions to reach your business goals .

Determining Your Benchmarks

There are many different comparison measures that make up benchmarking (*i.e. financial or non-financial*). Pre-existing KPIs are a good starting point, but best practices are to take a wider approach.

Here are the most 4 common types of Benchmarks for businesses:

Internal Benchmark: Compare operations and processes within your own company- such as between two different offices, warehouses, or teams- to ultimately determine best practices. This helps establish standards and procedures company wide.

External Benchmark: Comparing your internal processes to another entity- measuring how your business processes stack up against direct competitors. This is helpful to identify new opportunities and see how to increase customer satisfaction. It gives you a better understanding on where your organization fits into the market and helps pinpoint areas of weakness to improve on.

Performance Benchmark: Using quantitative data, such as KPIs and other metrics, to see how your company is performing. Performance benchmarking is a great first step for organizations to take to identify performance gaps. By monitoring metrics and KPIs within your business, you can compare past outcomes to current standards, continuously updating the standard for improved performance.

Practice Benchmark: On the contrary to performance benchmarking, practice benchmarking looks at qualitative information. This is a deeper dive into your company's people, processes, and technology. Looking at practice benchmarking will give you insight into performance gaps and how to improve processes in your organization.

Understand How Your Organization Measures Up Against Your Competitors

How does your business stack up against its competitors? Your business does not operate in a vacuum. It is crucial to understand how you are doing compared to your competitors.

So, how do you determine [who](#) to benchmark yourself against?

1. **Direct competitors:** companies that are similar in size & revenue. This helps enable future planning and capitalizing on immediate opportunities.
2. **"Top Dogs":** Benchmarking against the leader in your industry. Although there may be a big gap, this can help get insight into how you can achieve their success.
3. **Smaller Players:** Don't sleep on the smaller competition. Benchmarking the smaller players will keep you alert and prepared if they begin to pick up traction in the industry.

Tip: Make sure you're segmenting the data into separate reports, so there are not discrepancies in your discoveries.

Benchmarking helps uncover opportunities for improvement, so you can reduce labor costs, save time, and increase profit.

Track your Progress of Business Goals and Objectives

Benchmarking should play an important role in decision making.

It can be applied against any process, approach, function, or product in business. Once you've gathered your information, analyzed the results, and determined your benchmarks, it's time to put this data into action and make decisions for your company.

Here is a [5 step process](#) of how to approach benchmarking:

1. **PLAN:** Decide on what your company goals. What do you want to accomplish with benchmarking? How does this fit into your overall mission? What criteria are you looking at?
2. **SET-UP:** Determine the primary measures for inclusion. What will the process be for data collection? What external targets are you looking at?
3. **COLLECT:** Follow through the Plan & Set Up phase and Initiate data collection based on the established procedure.
4. **ANALYZE:** The most important step. Analyze data collected on pre-defined criteria you established in the plan phase. What opportunities came up? What gaps did you uncover?
5. **ACT:** From your findings, develop a business improvement plan on how you will use these results to drive success. Continually monitor performance against set benchmarks.

Benchmarking gives you the data and information you need to make better business decisions.

KPIS Vs. Benchmarks

When do you use KPIs and when do you use benchmarks?

In short- KPIs are specified metrics used to measure performance, and Benchmarks are goals to strive for.

Benchmarking compares an organization's processes, services and operations with other entities. A key performance indicator (KPI) measures how well an organization performs against their strategic, set goals.

Use KPIs: If you are trying to see where your business is in relation to your goals.

Use Benchmarks: When you are trying to determine your goals. Benchmarking helps you create reference points & goals to compare your business's own levels of performance with the performance levels of others.

Get More Out Of QuickBooks

Now, with [QuickBooks Online Business Performance Dashboard](#), benchmarking is easily done.

In the trends section of the Business Performance Dashboard, you will see Industry Benchmarking. This enables you to compare your gross and net profit margins against other businesses in your industry, local area, with similar revenue.

QuickBooks Online pulls from at least 30 businesses (that also use QuickBooks Online) that are the closest match to your industry and location. This data is protected and shared anonymously. Note: *In some cases, there might not be industry data for your specific industry type or location. For a more comprehensive list consider purchasing your industry specific benchmark data.*

Looking at the Business Performance Dashboard makes it easy to review historical performance. This is a great starting point to figure out which metrics and growth comparisons are most important when creating future goals.

Your accounting system should be a platform for growth. We specialize in accounting system design and optimization to eliminate inefficiencies- delivering actionable insights for making data-driven decisions.