

The United Kingdom
Benchmarking
Index

Closing the gap

The performance of UK SMEs within the United Kingdom Benchmarking Index

dti

Department of Trade and Industry

Closing the gap

*The performance of UK SMEs within
the United Kingdom Benchmarking Index*

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FOREWORD

By the Parliamentary Under Secretary of State for Small Firms, Trade and Industry

Benchmarking is an invaluable management tool that enables all types of organisations to examine their performance critically, so that they may adopt the better practices of those that are considered market leaders. By appraising their performance and assessing their strengths and weaknesses through benchmarking, organisations gain the opportunity to develop the appropriate policies and implement the changes necessary to achieve competitive advantage.

The DTI-backed United Kingdom Benchmarking Index has enabled small and medium-sized companies to enjoy the advantages of high-quality benchmarking that larger organisations with their greater resources have benefited from for some time.

Almost a thousand SMEs have now used the Index since its introduction in October 1996 to compare their performance with that of their competitors. In the relatively short time that the service has been available this is a remarkable record.

An extensive database of information about SME performance has been built

up during this period, which has provided a wealth of information for analysis. This report, *'Closing the gap'*, therefore breaks new ground in that it is the first time such a wide ranging study of the factors contributing to differing performance amongst SMEs right across the board has been carried out. The report gives a clear indication of the benefits of benchmarking as a tool for improvement for SMEs, highlighting gaps in performance and unachieved potential.

On the wider front, the comprehensive overview provided makes it abundantly clear that there is plenty of room for improvement in many typical SMEs. It is only through addressing their shortcomings and implementing the necessary changes that gaps in performance with market leaders will be closed, giving a valuable boost to the economy's overall competitiveness. The analysis will provide valuable additional focus that will assist with work emanating from the forthcoming Competitiveness UK White Paper.

Barbara Roche

EXECUTIVE SUMMARY

Since its launch in October 1996, the United Kingdom Benchmarking Index (UKBI) has established itself as one of the most comprehensive sources of SME performance data anywhere in the world. To date, over 900 companies have benefited from the service through a network of more than 400 specially trained advisers operating out of 127 business support organisations throughout the UK.

Comparative data on more than 60 key performance measures under the general headings of Finance, Management and Business Excellence form the basis of the benchmarking reports, allowing each company to quickly establish its relative

position. The gap between their own performance and the best in any chosen sample provides an indication of what it is possible to achieve, and the implementation of tailored action plans devised to close the gap can lead to improvements in both individual company performance, and in the UK's competitive performance as a whole.

'Closing the gap' provides an overview of the differences which exist within the performance of UKBI user companies, together with some 43,000 companies whose financial records contribute towards the UKBI database. Analysis of this unique data source reveals the following;

- The top 25% of UKBI user companies achieve profit margins 5 times greater than companies in the lower quartile.
- When applying the 'acid test' ratio of short term assets against current liabilities, well over 50% of companies are shown to have substantially more cash than is necessary to cover current liabilities, with only the lower quartile companies appearing underfinanced.
- Factors affecting cashflow such as stock turns, creditor days, and debtor days vary widely between upper and lower quartile companies, but there are no significant sectoral differences.
- In terms of innovation, there are substantial differences both within and between sectors.
- Firms in the Transport Manufacturing sector generally out-perform others in terms of innovation and customer satisfaction, but the Electrical/Electronics and Chemical/Plastics sectors have higher levels of turnover and value-added per employee.
- Poor delivery performance and low customer satisfaction are inextricably linked, with companies in the lower quartile recording complaints from one in every two customers.
- Significant differences occur between best and worst performers in terms of their supplier performance, with upper quartile companies achieving 98% supplier accuracy and 99% delivery reliability, as opposed to 60% accuracy and 85% reliability for lower quartile companies.
- At the upper quartile and median levels, manufacturing companies in the Electrical/Electronics sector employ twice as many graduates as other high performing manufacturing companies.
- There is significant variation in training expenditure between the highest quartile at £294 per person per year, and the lowest quartile at £30 per person per year.
- Absenteeism is approximately 4 times greater in lower quartile companies than in the higher quartile.

Every benchmarking exercise we have undertaken has resulted in further business opportunities for us.

John Montgomery,
Business Link & Sandwell
TEC

The following general conclusions can be drawn from this analysis:

- The UK SME base is made up from a wide variety of companies, many of which are performing comparatively well over a broad range of measures. However, the gaps in performance both within and between sectors suggests that very few companies are fully realising their potential and that areas for improvement can be identified in all companies.
- The combination of a central database and the use of trained advisers to facilitate the process makes benchmarking a realistic improvement tool for SMEs of all sizes, regardless of location or industry sector.
- High volume users of the UKBI service are achieving benefits both for their client base and for their business support organisation through the identification of further commercial opportunities.

Overall, the analysis shows that the measurement of company performance is dependent upon a complex combination of both 'hard' and 'soft' metrics. The UKBI database, delivery mechanisms and support offer UK SMEs a unique facility in this respect.

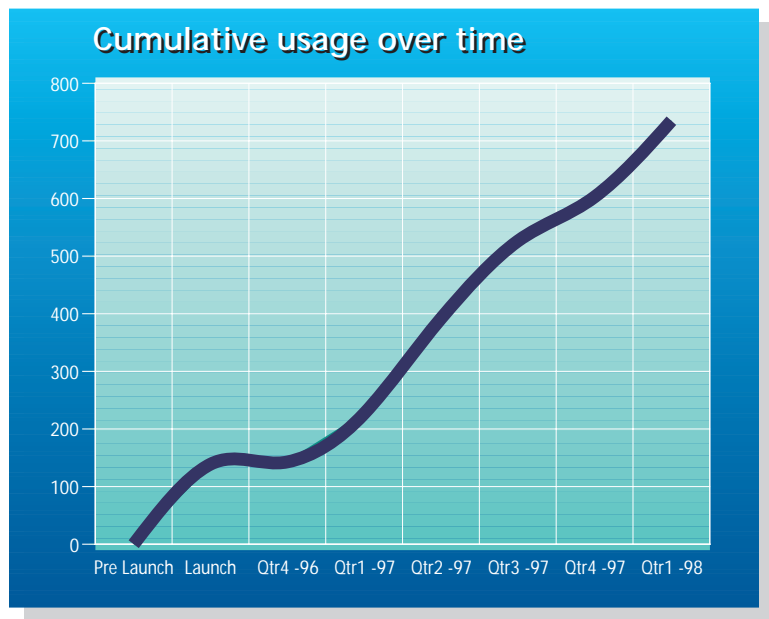
INTRODUCTION

Benchmarking is now well established as a powerful tool to measure and improve business performance. Historically, however, the resources required to implement successful benchmarking initiatives have tended to limit its use to larger organisations. Over recent years the UK Department of Trade and Industry (DTI), recognising that many of the techniques and benefits transfer well to smaller companies, have introduced a series of measures to raise awareness of benchmarking as a business improvement tool and to make it accessible to Small and Medium-sized Enterprises (SMEs).



In 1993, the DTI issued a challenge to trade associations to improve the competitiveness of member firms through the formation of benchmarking clubs. Lessons learned through this exercise helped to develop a nationwide benchmarking service for SMEs.

The United Kingdom Benchmarking Index was launched in 1996 to bring a comprehensive benchmarking data and consultancy service within the reach of UK SMEs for the first time. To date over 900 companies have benefited from the service,



delivered by over 400 trained facilitators operating from within the Business Link, TEC and LEC network.*

Since its launch, the UKBI database of SME performance, created as each user submits information for the generation of comparative reports, has become arguably the most extensive benchmarking data source in the world.

Analysing and drawing conclusions from the UKBI data provides the opportunity to highlight issues of competitiveness vital to the UK economy, as well as the significant gaps which exist between the best and worst-performing companies and sectors. In doing this, 'Closing the gap' aims to assist policymakers and those instrumental in encouraging best practice in industry to understand key trends in the SME sector as well as providing case studies of the most successful UKBI delivery mechanisms.

* TEC – Training & Enterprise Council;
LEC – Local Enterprise Company

Takeup of benchmarking has grown steadily since the Index was launched

... The UKBI database offers a revealing and valuable insight into the performance and culture of the SME sector in the UK...

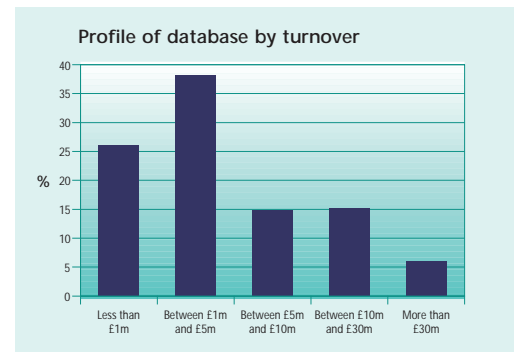
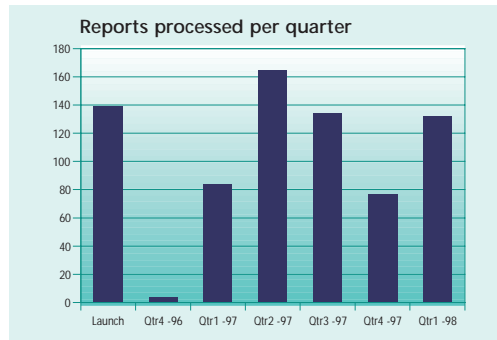
THE UNITED KINGDOM BENCHMARKING INDEX – MEETING THE CHALLENGE

HEADLINE STATISTICS – USAGE & DELIVERY

USAGE

Use of the UK Benchmarking Index has grown steadily since its launch. Today the database holds some 43,000 financial records together with Management and Business Excellence data on over 900 companies, compared to 139 company entries following the pilot exercise.

Pilot company data was used to populate the database prior to the launch



Considering the size of company by annual turnover:

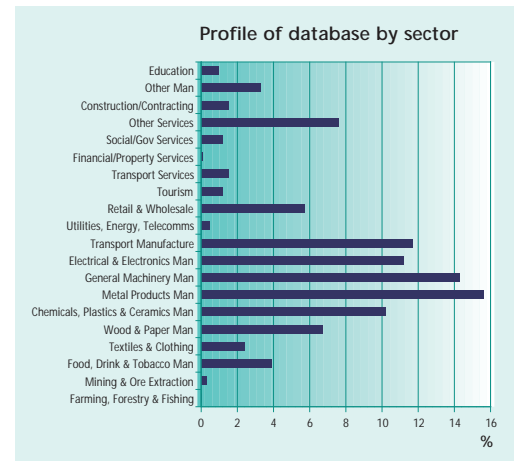
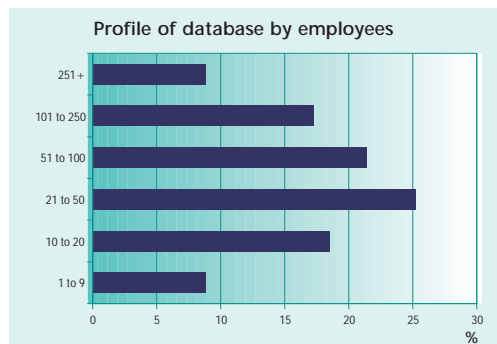
- over half of the database is made up of companies with a turnover of between £1m and £10m
- two-thirds of UKBI users have a turnover of less than £5m

TRENDS IN COMPANY USAGE

Profiles of the database by employee numbers and turnover generally reflect the target audience of the Business Link, TEC and LEC network.

As can be seen from the graphs of users by employee numbers:

- over 25% of UKBI user companies employ between 21 and 50 employees
- two-thirds of the database is populated by companies employing between 10 and 100 people.



Analysis by industry sector reveals that :

- approximately 80% of the UKBI users are Manufacturers, with the remaining 20% from the Service sectors
- two thirds of UKBI users are involved in Transport, Electrical/Electronics, Chemicals/Plastics, General Machinery and Metal Products Manufacturing sectors

FROM THESE HEADLINE USAGE STATISTICS WE CAN CONCLUDE THAT;

- The United Kingdom Benchmarking Index caters for all sectors, regions and sizes of company.
- The UKBI database is largely populated by companies with a turnover of less than £5 million.
- The geographic spread of UKBI users is disproportionate to regional economic weighting although industry sectoral distribution does influence take-up.

DELIVERY

The UKBI has been designed as a Managed Assessment service whereby trained advisers from intermediary organisations such as Business Links can assist SMEs in the data collection, benchmarking report interpretation and action planning process.

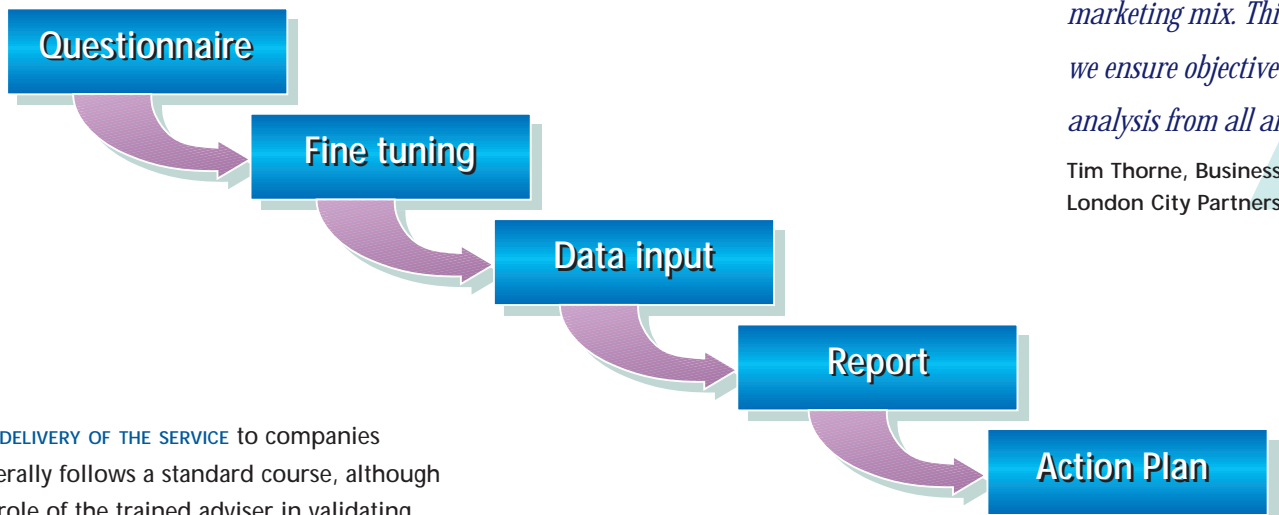
THE UKBI DATABASE contains information collected as part of company assessments and from other commercial sources. Each trained UKBI adviser has personalised software giving them access to this regularly updated and extended database.

SAMPLE GROUPS for comparison are selected by the adviser for each user company from a range of parameters including general industry sector, Standard Industrial Classification (SIC) code, geographical region, company size.

A BENCHMARKING REPORT is then generated showing how a company's performance compares to others in over 60 aspects of financial, operational and managerial performance.

We believe that by meeting as a group to interpret UKBI reports we can maximise the benefits of the service for each company. An adviser with an HR background, for example, will focus on the people issues within a report. Someone with experience of marketing will pick up on the weaknesses in the marketing mix. This way we ensure objective analysis from all angles

Tim Thorne, Business Link
London City Partners



THE DELIVERY OF THE SERVICE to companies generally follows a standard course, although the role of the trained adviser in validating and interpreting the results may vary.

- On the first visit to the company, the adviser usually explains the principles of benchmarking and the specifics of UKBI. The company will be advised how to fill in the UKBI questionnaire which will then be left with them to complete.

Going through the benchmarking process using the UKBI has had a very tangible impact on the effectiveness of our operation, particularly with the installation of the recommended production flow and team working improvements.

Ian Slaughter,
Managing Director,
Rembitt Ltd

- On the second visit the adviser will ensure that all the necessary information is completed and will validate the figures using audit-type techniques including requests for evidence in some cases.
- The adviser keys in the data from the questionnaire into his own computer which has been loaded with remote software. The data is then sent via modem to the central UKBI database, where the benchmarking metrics are calculated and a report created in minutes before being returned to the adviser over the modem connection.
- The benchmarking report contains a mixture of graphical and numerical comparisons; some advisers tailor the report to the individual client, whilst others may just add a summary of the key issues.
- On the third visit the adviser generally presents the report and its interpretation to the MD or Board of the company.
- It is the role of the adviser to consider any strengths and weaknesses identified in the report in the development of an Action Plan. This plan may involve the support of other parts of the business support organisation and may result in companies being referred to other sources of help and advice.

CASE STUDY

BUSINESS LINK COVENTRY & WARWICKSHIRE has the highest number of trained UKBI advisers and has also processed the largest number of benchmarking reports to date. Regional industrial activity, with a high concentration of automotive supply and other manufacturing companies, plays a major role in how it promotes and delivers UKBI.

THE UK BENCHMARKING INDEX IS PROMOTED as part of a suite of initiatives, including the West Midlands Manufacturing Challenge and, most notably, Accelerate, a European funding programme aimed at creating a world-class supplier base for the automotive component supply chain. Clients on the Accelerate and Manufacturing Challenge programmes are offered the opportunity to undertake a benchmarking exercise using UKBI free of charge. This policy, and the synergy

PROMOTION OF UKBI is tailored by each participating business support organisation to meet the needs of its local SME population. Marketing mechanisms include targeted mailshots and seminars, personal presentations to existing clients and integration of benchmarking with other local initiatives e.g. diagnostic services. In some instances it is promoted alongside other DTI Best Practice programmes, notably, 'Connect for Better Business' and the 'Inside UK Enterprise' visit programme.

THE COST of using UKBI is determined by the organisation delivering the service. In some areas it is free, or heavily subsidised, whilst in others it is charged to cover costs or sold as a value-added service. Each report generated by the central database is charged to the business support organisation at £100.

between these business improvement programmes, makes the connection a particularly effective one.

THE BENEFITS OF USING UKBI are clearly demonstrated by Rembitt Ltd, manufacturers of wood packaging and flooring products for the automotive industry. Rembitt's initial benchmarking exercise illustrated that the company needed to work on people-management issues. 'As a direct result,' explains Martin Mason, 'we helped Rembitt with a mentoring arrangement, a teamwork improvement programme and the recruitment of a new Works Manager as a key member of the management team.' Twelve months on, the company is now ready to embark on the benchmarking process again as a mechanism to structure the second phase of their improvement programme.

ANALYSIS OF THE UKBI DATABASE

INTRODUCTION TO THE ANALYSIS

The UKBI database comprises a complex and comprehensive combination of factual and subjective measures drawn from a wide cross-section of companies. In analysing this data a series of key performance indicators have been extracted and these are now examined generally in terms of company size and location, and more specifically by industry sector.

The measures selected are intended to give a broad picture of performance. They include Profitability, Return on Net Assets (RONA), Growth, Innovation, Investment, Cash Management, Customer Satisfaction, Operations Management and People Management.

In carrying out sectoral analysis it is important to note that, based on the Standard Industrial Classification (SIC) system, companies are grouped under broad industry headings as shown in the table below:

It is the difference in performance of firms against each of the selected measures which is of particular interest, as it demonstrates both what is achieved and what is possible. In order to illustrate these gaps as simply as possible, the data has mainly been presented using graphs showing median, 25th percentile and 75th percentile performance levels, thereby modulating the extremities of performance. Even so, as can be seen in many of the following graphs, there are significant variations in performance.

The UK Benchmarking Index showed us what was possible and thanks to our Business Link we now have access to the tools and techniques we need to initiate major, company-wide change.

Alan Hayman,
Managing Director,
Basys Marine.

INDUSTRY SECTOR		
Sector	2 Digit SIC Code (1980)	% of Database
Farming,Forestry & Fishing	01, 02, 03	0
Mining & Ore Extraction	11, 12, 13, 14, 15, 21, 23	0.3
Food,Drink & Tobacco Manufacture	41, 42	3.9
Textiles & Clothing	43, 44, 45	2.4
Wood & Paper Manufacture	46, 47	6.7
Chemicals,Plastics & Ceramics Manufacture	24, 25, 48	10.2
Metal Products Manufacture	22, 31	15.6
General Machinery Manufacture	32, 33	14.3
Electrical & Electronics Manufacture	34	11.2
Transport Manufacture	35, 36	11.7
Utilities, Energy, Telecomms	16, 17, 79	0.5
Retail & Wholesale	61, 64, 65	5.7
Tourism	66	1.2
Transport Services	71, 72, 74, 75, 76, 77	1.5
Financial/Property Services	63, 81, 82, 85	0.1
Social/Government Services	00, 62, 91, 92, 95, 97	1.2
Other Services	67, 83, 84, 94, 96, 98, 99	7.6
Construction/Contracting	50	1.5
Other Manufacturing	49	3.3
Education	93	1.0

FINANCIAL PERFORMANCE

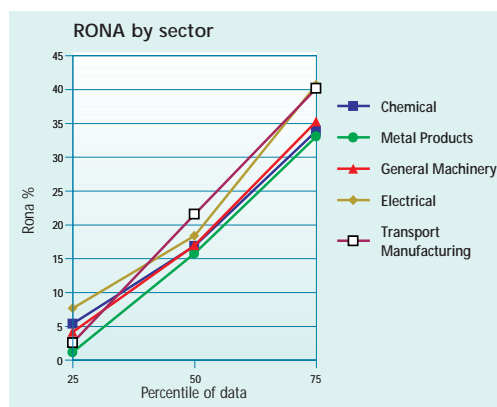
PROFITABILITY & RETURN ON NET ASSETS (RONA)

These general measures give an indication of the overall financial performance of a company. RONA is a similar measure to Return on Capital Employed (ROCE), but focusing fully on the utilisation of operating assets.

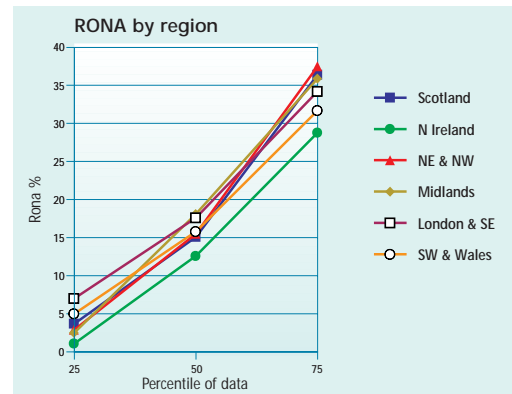
For the selected sample of 735 users of the United Kingdom Benchmarking Index, the median pre-tax profit is 5.1% of turnover, and Return on Net Assets is 16.5%. These levels are considerably better than those of the larger sample of approximately 43,000 companies whose financial figures also contribute to UKBI and where the pre-tax profit and RONA figures are 2.6% and 7.9% respectively. Firms in the lower and upper quartiles of UKBI also show considerably better results than those of the larger sample.

By SECTOR

- The Electrical and Electronics Manufacturing sector performs well in terms of RONA in all quartiles. Transport Manufacturing is a close second at the upper quartile and achieves higher results than the Electrical and Electronics sector at the median, but in the lower quartile the performance of the Transport Manufacturing sector is poor.

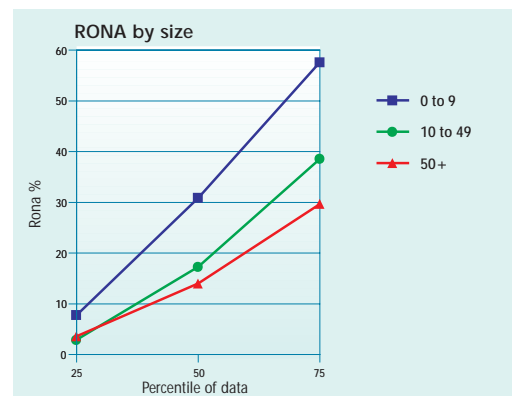


- Metal Products, General Machinery and Chemical, Plastics and Ceramics Manufacturing show a similar RONA performance at about 15% lower than Electrical and Electronics and Transport Manufacturing sectors. The Metal Products Manufacturing sector performs badly at the lower quartile.



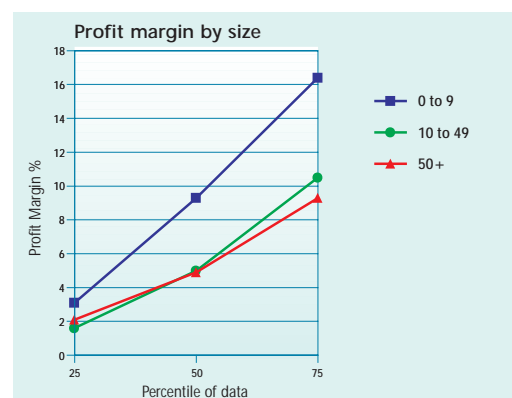
By REGION

- There is little difference between regions although companies in Northern Ireland report RONA at 10% to 20% lower than the majority of UK companies. By contrast, however, their profit margins are higher.



By SIZE

- In all sizes of company, the difference in profitability between the lower and upper quartiles is a factor of five, whilst for Return on Net Assets, the multiplier is around 10.



By PROFIT MARGIN

- At the median and upper quartiles, companies with 1 to 9 employees perform better financially than larger firms. Profit margins are double those of larger companies in the sample.

GROWTH			
Measure	Lower Quartile	Average	Upper Quartile
Pre Tax Profit/Turnover (%)	-47.5	6.2	91.9
RONA (%)	-53.9	4.8	100.7
ROCE (%)	-57.6	-0.7	96.4
Capital Investment/Turnover (%)	-28.9	23.0	162.7

(figures from 43000 UK companies)

- Companies at the median are showing modest growth rates in profit margin and RONA. The upper quartile companies are recording 2 to 3 times the turnover growth rate and up to 20 times the growth rate for profit margin and RONA when compared with the median.
- In general, the above average companies show growth in profit margins and RONA, whilst the lower quartile companies experienced substantially lower profit margins and RONA.
- Differences in financial performance between sectors at the median are less significant than differences between lower and upper quartile financial performance.

CASE STUDY

TILLETT RACING SEATS, manufacturers of seats for racing karts and cars, participated in the UKBI pilot scheme and have since benchmarked their activities again in order to further enhance their overall performance.

THE COMPANY HEARD ABOUT UKBI through Jeremy Parker of Business Link Kent. Knowing that the company was highly responsive to customer needs and competitor activity, and that the enthusiastic management team was a firm believer in continuous development, he felt their interest in benchmarking would be high.

THE BENCHMARKING SERVICE WAS DELIVERED by Jeremy Parker, whose analysis of the UKBI report highlighted many good performance areas but, despite very high scores on a number of profitability measures, some financial weaknesses.

THE BENEFITS OF USING UKBI were principally associated with improving these weaker areas – primarily working capital management and stock availability. Measures to improve production control systems and tighten up cash management were introduced.

The company's high gearing ratio also came under close scrutiny, particularly in the light of a planned major capital investment schedule. Tillet decided against further borrowing and, instead, investigated the possibility of introducing business angel equity into the business.

As a direct result of the benchmarking project's findings, Tillet also committed to working towards the Investors in People standard as a means to reducing staff turnover and to provide a framework to improve training throughout the company.

Tillett Racing Seats was already doing very well, but UKBI enabled them to rank themselves against their competitors and home in on areas which could improve their overall performance even further.

Jeremy Parker,
Business Link Kent.

TURNOVER GROWTH

GROWTH			
Measure	Lower Quartile	Average	Upper Quartile
Turnover (%)	-1.6	10.1	27.0
Capital Investment/Turnover (%)	-28.9	23.0	162.7

(figures from 43000 UK companies)

- The overall revenue growth of companies in the UKBI database at the median was 10%, with the lower quartile at 0.3% and the upper quartile at 25%.

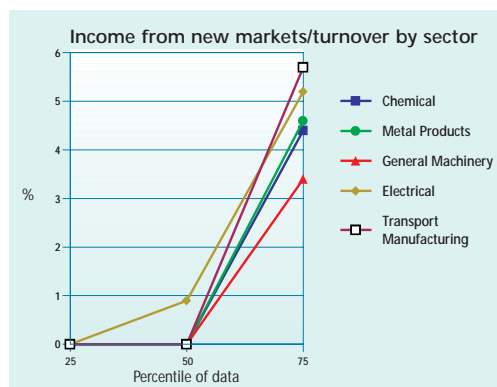
There is some scatter between sectors but the major differences in turnover growth performance are between the upper and lower quartiles within the sectors.

INNOVATION

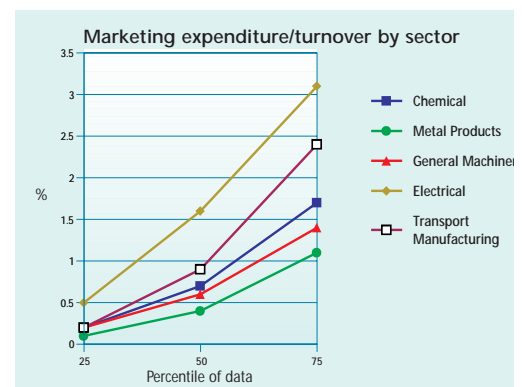
INNOVATION			
Measure	Lower Quartile	Average	Upper Quartile
Income From New Geographies/Turnover (%)	0.0	0.0	3.4
Income From New Market Segments/Turnover (%)	0.0	0.0	4.2
Income From New Products/Turnover (%)	0.0	2.6	10.8
New Customers/Total Customers (%)	6.8	13.3	23.8
Total New Income/Turnover (%)	0.3	6.2	19.0

- 'New income' generated from new geographies, market segments, products and customers was 19% of turnover for the upper quartile of the UKBI database, the median produced 6.2% and the lower quartile a poor 0.3%.
- The 50% of companies below the median generated minimal new income from new products and the lower 25% of the companies generated no new revenue at all from new geographies, market sectors and products.

- All sectors and quartiles enjoyed some growth in their customer base. Performance between sectors showed little variation in the percentage of new customers, apart from a good performance from General Machinery Manufacturing at all quartiles and a relatively poor performance by the Electrical/Electronics and Transport Manufacturing sectors in the lower quartile.

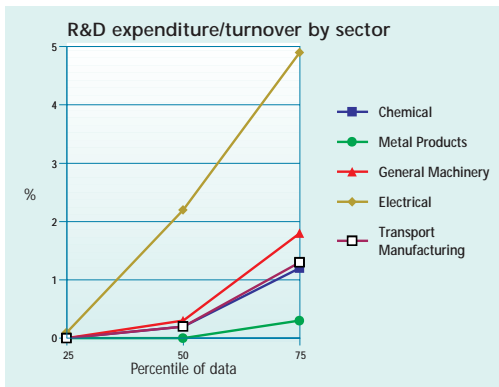


- There are, however, substantial differences in new income performance between the sectors. Transport Manufacturing, where the upper quartile achieve 43%, the median 15% and the lower quartile 3.5%, show the best results. The next best performance is shown by the Electrical/Electronics Manufacturing sector who achieved 23%, 12% and 1% respectively. Analysis shows General Machinery Manufacturing to be the worst performing sector.



INVESTMENT

- The Chemical, Plastics and Ceramics Manufacturing sectors along with the General Machinery and Metal Products Manufacturing sectors spend a greater proportion of their turnover and profit on capital investment than any of the other sectors. Interestingly, and perhaps significantly, their new income performance is substantially worse than that of other sectors.



- Investment in Marketing and R & D is minimal throughout all the sectors. Only the Electrical/Electronics and Transport Manufacturing sectors show a tendency to invest more in these areas. These two sectors also tend to make less capital investment than the other sectors, however their growth performance is significantly better than those of other sectors.

CASE STUDY

BUILDING CHEMICALS RESEARCH LTD

is one of the largest independent manufacturers of special admixtures in the UK. While successful in its niche market, use of the UKBI gave the ambitious management team the confidence to expand.

THE COMPANY HEARD ABOUT UKBI from Philip Stott of Business Link Bolton & Bury. 'We already had a good working relationship,' he explains, 'and I felt that they were at the right stage in their development to compare themselves against nationally accepted standards to see how they were performing.'

THE BENCHMARKING SERVICE WAS DELIVERED by Philip Stott, who worked at the outset to gain consensus for the project from the workforce as well as from the Managing Director. 'This is important when you are relying on everyone's support to collect data on, and address, a wide range of issues,' he says.

Once the data was collected and compared, Philip customised the UKBI report, adding a commentary to highlight key issues and possible plans.

'In this way,' he explains, 'the report becomes much more than a set of figures, rather a framework for the development of a performance improvement strategy driven by measurable business objectives.'

Philip will be tracking these performance improvements, believing that it is vital to review benchmarking periodically – monthly, six monthly, or every year depending on the particular business objectives of a company and the market dynamics.

THE BENEFITS OF USING UKBI are evident in BCR's adoption of a more aggressive approach to the export market, the launch of new products and the entering of new markets. Confirmation of their strengths encouraged BCR to exploit them, and identification of one weakness – customer complaint levels – has led to their drastic reduction. Completion of the questionnaire had revealed that complaint levels weren't recorded. Investigation showed that they were mainly due to late deliveries and, as a result, BCR implemented a Production Schedule Adherence monitoring system.

BCR's report revealed performance gaps – with BCR leading most of their competitors! This fostered the confidence to develop brave new initiatives for the company.

Philip Stott, Business Link Bolton & Bury

CASH MANAGEMENT

THE ACID TEST

The shortage of immediate cash is often the cause of business failure and inhibits the development of the business. This is probably the biggest risk that a small business faces on a regular basis. The 'acid test' – short-term assets divided by current liabilities – is widely regarded as a good ratio to judge the status of liquidity in a company.

When the acid test result is 1, then short term assets and current liabilities balance. More than 1 indicates a cash surplus and less than 1 signifies a deficit. The UKBI median is 1.2.

The UKBI user company results are generally good:

CASH MANAGEMENT			
Measure	Lower Quartile	Average	Upper Quartile
Short Term Assets/Current Liabilities	0.7	1.0	1.3
Credit Payment Days	14.9	31.7	52.3
Debtor Days	77.7	53.0	21.9

(figures from 43000 UK companies)

- All UKBI user companies above the median recorded an acid test rating of greater than 1.2, the UKBI upper quartile is 1.8 and the lower quartile 0.9. Between 50% and 75% of companies have more cash than they need to provide for current liabilities – they are cash rich. The lower quartile companies appear to be hovering just below the critical figure of 1. These companies are under-financed.
- The upper quartile companies gain significant benefits from creditor and debtor management compared with the lower quartile. However the difference between the creditor and debtor days is consistently about 20 days for UKBI user companies.
- While acid test, creditor days, debtor days and stockturn do vary significantly between the lower and upper quartiles, there is little difference between the market sectors.
- One major difference between the performance of upper and lower quartile companies is in stock turnover. For the upper quartiles this is 22, whilst for the lower quartile it is 7.
- Lower quartile companies have approximately nine times more short term debt (compared with long term debt) than upper quartile companies.

In terms of **CASH FLOW**, the companies within the database show a reasonably cash-rich position, with many apparently having more cash than they need for their immediate needs. The upper quartile companies appear to be soundly financed, however the lower quartile companies are still very dependent on short-term funding.

BUSINESS LINK & SANDWELL TEC

is a keen exponent of UKBI, with 11 trained advisers and 32 companies already benchmarked. Every benchmarking exercise has resulted in follow-on work for the Business Link.

THE UK BENCHMARKING INDEX IS PROMOTED solely through its introduction as a diagnostic tool to companies the Business Link is already working with in order to produce an Action Plan for developing the business further.

DELIVERY OF THE SERVICE involves an initial company visit to explain the questionnaire. 'We leave it with them,' explains John Montgomery of the Business Link, 'suggesting that a sample of the workforce completes the Business Excellence section to achieve a consensus opinion.' At the second visit the results are discussed. At the third the report is presented to the MD or Board. A fourth visit is sometimes made for a presentation to the whole management team.

The Action Plan always includes an intention to re-benchmark within a certain timescale to assess improvements. 'Benchmarking becomes much more worthwhile when a company is able to do it for a second time,' says John Montgomery. 'They can then see the impact that performance improvement measures have had on their business.'

THE BENEFITS OF USING UKBI have been experienced repeatedly by Pressfab Sections Ltd, whom the Business Link & Sandwell TEC has recently benchmarked for the third time. As a company, Pressfab had always valued comparative information, but it wasn't until the Business Link introduced them to UKBI that they had the opportunity to benchmark their performance against similar companies rather than their own past performance.

'Benchmarking confirmed that we were strong on people and on quality,' says Managing Director Stuart Hobbs. 'But, importantly, it pinpointed where our financial performance was letting us down. The exercise showed us that although we were working hard on our processes, we simply weren't as focused on results as we might have been.'

As a direct result of the first UKBI report, and with the help of the Business Link, Pressfab Sections secured a Regional Selective Assistance grant to invest in more high technology equipment. The information derived from the exercise has proved so useful that the company now tracks 36 of the questionnaire categories in its own monthly internal management system.

The benchmarking exercise was useful in itself as it pointed out that we weren't collecting some of the performance measures that were key to our business. However, the real benefit to us is in continuing to benchmark our performance year on year against our industry sector

Stuart Hobbs,
Managing Director,
Pressfab Sections Ltd

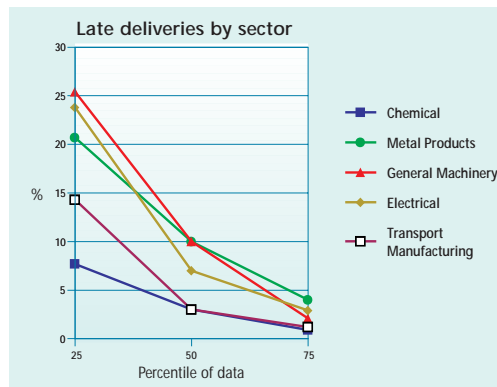
CUSTOMER SATISFACTION

Customer satisfaction is probably the most important factor in determining the market and financial performance of a business. Quality and delivery are critical elements of

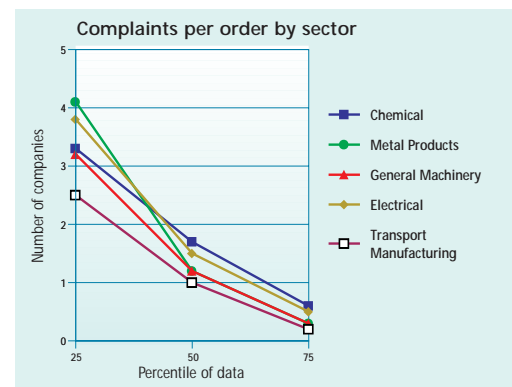
this aspect of business management and levels of performance in these areas are demonstrated by the following table.

CUSTOMER SATISFACTION			
Measure	Lower Quartile	Average	Upper Quartile
Complaints/Orders (%)	3.5	1.2	0.3
Complaints/Customers (#)	0.4	0.1	0.0
Order Value of Complaints/Turnover (%)	2.8	0.6	0.1
Orders Not Delivered When Promised/Orders (%)	15.0	4.6	1.0
Orders Rejected During Warranty/Orders (%)	1.2	0.2	0.0
Orders Failed Prior to Delivery/Orders (%)	2.1	0.4	0.0

- Lower quartile companies fail to deliver on time on 15% of their orders, compared with 1% for the upper quartile. The figure for the median is just under 5%.
- The number of orders rejected and failures account for 3.2% of total orders for lower quartile companies, 0.5% for the median and are negligible for those in the upper quartile.
- Across all sectors, lower quartile companies can expect to get 10 to 12 times the frequency of customer complaints received by upper quartile companies.
- One in two customers of lower quartile companies complain each year; one in ten to companies at the median, but very few complaints are received by upper quartile companies.



- Chemicals, Plastics and Ceramics and Transport Manufacturing perform much better than other sectors in terms of meeting order delivery deadlines.
- Transport Manufacturing outperforms all other sectors on the number of complaints per order, delivery and quality of product.

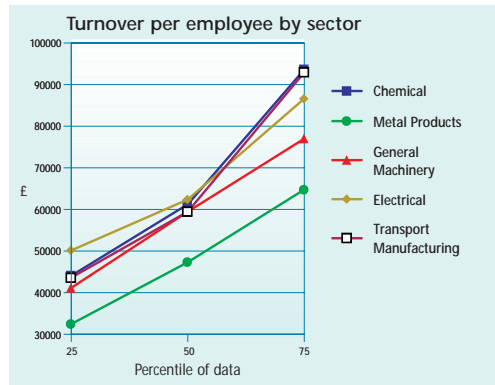
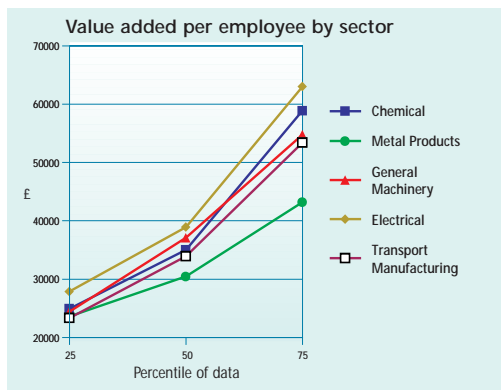


- In analysing complaints per order by sector, the differences between the quartiles are far more significant than the sector variations.

MANAGEMENT PERFORMANCE

PRODUCTIVITY

- Value added per employee in the Metal Products Manufacturing sector is about 25% lower than the norm, whilst pre-tax profits per employee are the lowest in any sector.
- Electrical/Electronics and Chemicals, Plastics and Ceramics perform well in each productivity variable.

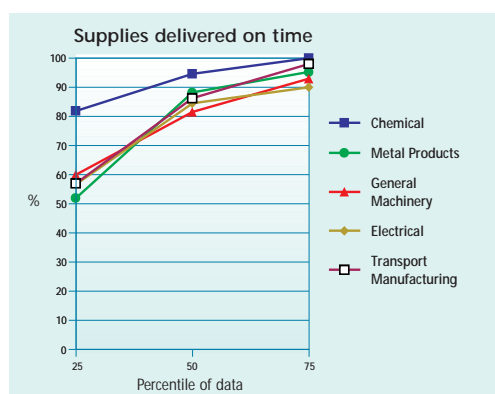


- Turnover per employee in the Metal Products and General Machinery Manufacturing sectors is substantially lower than the other sectors at the upper and lower quartiles.

SUPPLIERS

Measure	Lower Quartile	Average	Upper Quartile
Sub Standard Supplies/Bought In Materials (%)	4.0	1.1	0.1
Supplies Delivered On Time/Bought in Materials (%)	60.0	89.1	98.0
Turnover/No of Suppliers (£)	21,927	57,151	197,395
Bought In Materials/No of Suppliers (£)	7,400	21,653	79,661

- The amount of spend per supplier in the lower quartile is £7,400, compared to £79,661 in the upper quartile.
- Upper quartile companies enjoy accurate deliveries from their suppliers on 98% of orders, and only an average of 0.1% of goods ordered are substandard. By contrast, lower quartile companies receive 60% of deliveries on time, with 4% of goods ordered being substandard.
- The Chemical, Plastics and Ceramics Manufacturing sector appears to enjoy a better delivery accuracy than any of the other sectors, except at the upper quartile where other sectors become comparable.
- Among the upper quartile companies, the Electrical/Electronics and General Machinery Manufacturing sectors experience a significantly higher rate of substandard product at 0.6%.



Knowing that you can measure success is one of benchmarking's Unique Selling Points over other business performance processes

Neil Ivory,
Business Link Rochdale

CASE STUDY

BRITISH VITA PLC first made use of UKBI when Vitamol, a division supplying rubber parts, was going through a period of massive change as well as committing to a market with stringent quality standards.

THE COMPANY HEARD ABOUT UKBI through an article in the Rochdale Business Link newsletter and felt that Vitamol was an obvious benchmarking candidate. At the time, Vitamol was reconsidering its whole way of working and had also made the decision to concentrate solely on the automotive industry. As a result, it was coming under pressure to comply with established standards and improve business practices.

THE SERVICE WAS DELIVERED by Neil Ivory of Business Link Rochdale, who encouraged senior management, both as a team and separately, to complete the UKBI questionnaire. 'It was important that I had a thorough understanding of their thoughts as well as a picture of exactly where the business stood before devising an action plan,' he says. Neil Ivory also ensured the support of middle management, whose endorsement was key as they would be more involved

than anyone else in the day-to-day management of these plans.

'Discussing aspects of the business excellence model with them,' he says, 'also verified that the perceptions of the senior team were widely held throughout the business.' He was then in a position to compile a report in which performance gaps were identified and a plan developed.

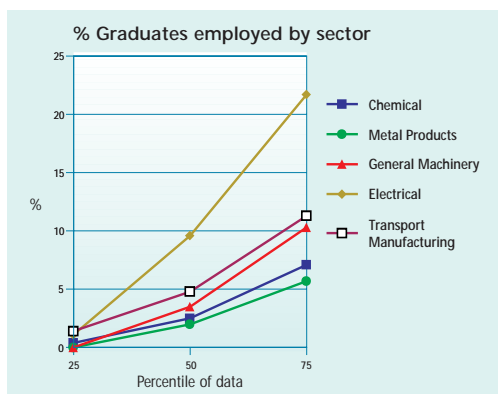
THE BENEFITS OF USING UKBI centred on Vitamol's desire to obtain QS 9000 accreditation, in which benchmarking plays an important part, and on issues surrounding supply chain management and cost base improvements. The report helped the company to plan the improvements in price and efficiency required by the major motor manufacturers.

Vitamol has now completed a second benchmarking exercise which has identified new areas in the business that require more management time. 'The exercise has shown that, although significant improvements have been made in all areas, the company cannot rest on its laurels because other businesses in this sector have also shown improvements,' concludes Neil Ivory.

PEOPLE MANAGEMENT

PEOPLE MANAGEMENT			
Measure	Lower Quartile	Average	Upper Quartile
Direct/Indirects (#)	1.3	2.4	4.5
Employees/Managers (#)	5.0	7.3	11.8
Graduates/Employees (%)	0.0	3.7	10.6
Number of Management Levels (#)	3	3	2
Total Training Days/Employees (#)	0.5	1.7	3.3
Training Expenditure/Employees (£)	30	123	294

- The majority of the companies below the upper quartile have 3 management levels, whilst in the upper quartile the typical number of management levels is 2. The different sectors all behave in the same way for this measure.
- At least 25% of UKBI companies do not employ any graduates.



- The Electrical and Electronics Manufacturing sector employs far more graduates than any other sector, with the pro-rata number doubled over the nearest competing sector.
- There is little difference between sectors in the ratio of direct/indirect employees, and employees per manager ratios.
- Upper quartile companies provide at least 5 times as much training as lower quartile companies, irrespective of market sector. The Electrical/Electronics Manufacturing sector provides the most training days per employee per year.
- Typical spend on training for lower quartile companies is between £30 and £49 per person per year. At the median it is between £105 and £179 and at the upper quartile the figures are between £218 to £294.
- Training spend does not vary substantially with sector.

PEOPLE SATISFACTION

- The data on people satisfaction is very similar for all sectors. However, whilst there are no significant differences between the sectors, there are variations between companies.
- In general lower quartile companies have a poorer track record with absenteeism, accidents, early leavers, and the percentage of new employees and total leavers.
- Companies in the lower quartile experience around four times the number of total leavers and rate of absenteeism that is shown in the upper quartile. Lower quartile companies also have three times the number of new employees in the total workforce and experience a 5% higher rate of early leavers when compared with upper quartile companies

The second stage benefits from the regular meetings of our UKBI facilitators, who brainstorm the raw report results to ensure that a realistic interpretation is delivered to the client

Colin Sawer, Business Link Devon & Cornwall

BUSINESS EXCELLENCE

The third section of the UKBI Managed Assessment Questionnaire attempts to benchmark company performance against the nine elements of the European Foundation for Quality Management (EFQM) Business Excellence Model, using a series of statements through which UKBI users demonstrate their self perceptions. General results show the following:

- Responses to the business excellence section show a remarkable consistency across all market sectors with very little variation evident
- All respondents scored themselves well on Leadership, Policy and Strategy, and Processes
- There were more mixed responses on People Management, Resource Management, Customer and People Satisfaction and Business Results, and poorer scores generally on Impact on Society

Business Excellence results appear to reflect a feeling that managers think that they are performing well. This is illustrated by lower quartile scores which indicate;

- Leadership scores at a minimum of 63%
- Policy and Strategy scores of 58% for all but the Metal Products sector, which scored 50%, despite low RONA and growth rates
- Customer Satisfaction related scores of over 50%, despite high levels of customer complaints and late deliveries

Amongst companies at the upper quartile level, these potentially misleading perceptions are not so significant with results showing;

- Leadership scoring at 81%
- Policy and Strategy scores of 83%, except in Metal Products, which scored 75%
- Customer Satisfaction scoring 75%

CASE STUDY

BUSINESS LINK DEVON & CORNWALL

has 7 offices manned by 20 Personal Business Advisers, together with a specialist team of Innovation & Technology Counsellors. These are all supported by 30 self-employed Business Link Advisory Service Counsellors contracted to carry out visits to Business Link referrals.

THE UK BENCHMARKING INDEX IS PROMOTED as a stand-alone product but, where possible, it is also linked to other initiatives such as Inside UK Enterprise (IUKE) and the regional scheme Inside South West Enterprise.

DELIVERY OF THE SERVICE, by a small group of specialists drawn from the wider team of advisers, is offered as a two stage process. The first stage encompasses completion of the questionnaire and generation of the report. The report is sent directly to the company, making this option suitable for companies happy to interpret the data themselves. Opting for a second stage, which is delivered at separate cost, involves a trained Business Adviser reviewing the report and working closely with the company to develop an on-going Action Plan based on the report findings. A formal presentation is then made to the MD or Board.

CONCLUSIONS

Analysis of the data within the United Kingdom Benchmarking Index clearly indicates significant differences in company performance both within and between industry sectors. The reasons for these differences are many and varied, but in all cases they help to demonstrate relative strengths and weaknesses, and also the underlying potential for business improvement. This is true at both company and sector level, where the UKBI provides a unique tool to assist owners and managers in identifying;

- specific areas that require improvement
- the level of performance that is being achieved by other companies in these areas

The benchmarking data shows that performance differences between companies in the lower quartile and those in the upper quartile in any given sector are much greater than the differences between companies in

the same quartile but in different sectors and regions. The lower quartile results observed in the UKBI database tend to reflect the poor performance of specific companies rather than that of whole sectors. Industry sector does have some impact on performance, however, excellent performers can be found in all sectors.

Customer satisfaction is usually the key to excellent performance, and this can be achieved through the development of a business strategy that is customer focused, to ensure that products and services are perceived by the customer as being of superior quality and value to those of the competition. Factors which demonstrate success or failure in such a strategy are measured within UKBI in terms of profitability and RONA, and across a range of innovation, customer satisfaction and management issues.

GENERAL DIFFERENCES

Some of the main gaps in performance and reported results that best illustrate the differences which exist within these key factors in UK SMEs can be summarised thus:

- The top 25% of UKBI user companies achieve profit margins some five times greater than companies in the lower quartile.
- When calculated as Return on Net Assets, there is a factor of 10 difference between the lower and upper quartile companies' profitability at 3.9% and 35.8%, respectively.
- Micro-companies i.e. those employing less than 10, generally achieve higher profit margins than larger firms.
- When applying the 'acid test' ratio of short term assets against current liabilities, well over 50% of companies are shown to have substantially more cash than is necessary to cover current liabilities, with only the lower quartile companies appearing underfinanced.
- Factors affecting cashflow such as stock turns, creditor days, and debtor days vary widely between upper and lower quartile companies, but there are no significant sectoral differences.

- In terms of innovation, there are substantial differences both within and between sectors. For example, the upper quartile of all companies generate more than 19% of business from new customers, products and territories, compared with a level of less than 0.3% in all lower quartile companies. However, the difference in new income between the top and bottom quartile performers in the Transport Manufacturing sector is approximately 40%, with upper quartile companies achieving new income figures of 43% of turnover compared to 23% in the Electrical/Electronics sector.
- Poor delivery performance and low customer satisfaction are inextricably linked, with companies in the lower quartile recording complaints from one in every two customers.
- Significant differences occur between best and worst performers in terms of their supplier performance, with upper quartile companies achieving 98% supplier accuracy and 99% delivery reliability, as opposed to 60% accuracy and 85% reliability for lower quartile companies.
- Firms in the Transport Manufacturing sector generally out-perform others in terms of customer satisfaction, but the Electrical/Electronics and Chemical/Plastics sectors have higher levels of turnover and value-added per employee.
- At the upper quartile and median levels, Electrical/Electronics manufacturing companies employ twice as many graduates as other upper quartile manufacturing companies but there is no sectoral difference at the lowest quartile, where no graduates are employed.
- There is significant variation in training expenditure between the highest quartile at £294 per person per year, and the lowest quartile at £30 per person per year.
- Absenteeism is approximately 4 times greater in lower quartile companies than in the higher quartile.
- Companies' own self-assessment of their performance in the areas of Leadership, Processes, Policy and Strategy are generally high, with little or no correlation with actual performance, based on financial or other business results.

POOR PERFORMERS

In looking across all companies whose financial performance is in the lower quartile it is possible to identify the following contributory characteristics:

- Little marketing, R & D and product development expenditure
- Poor supplier management
- Poor delivery performance to customers
- Minimal staff training

All of these factors are associated with poor long term planning and management. Despite this, however, Business Excellence results appear to reflect a feeling that managers think that they are performing well. This is illustrated by lower quartile scores which indicate;

- Leadership scores at a minimum of 63%
- Policy and Strategy scores of 58% for all but the Metal Products sector, which scored 50%, despite low RONA and growth rates

- Customer Satisfaction related scores of over 50%, despite high levels of customer complaints and late deliveries

These results question the perceptions held by managers of what is considered as good management and performance levels. This highlights a need to persuade SME managers from lower performing companies to examine areas where improvement is both possible and necessary, and benchmarking is an ideal tool for this purpose.

GOOD PERFORMERS

Amongst companies at the upper quartile level, these potentially misleading perceptions are not so significant with results showing;

- Leadership scoring at 81%
- Policy and Strategy scores of 83%, except in Metal Products, which scored 75%
- Customer Satisfaction scoring 75%

The best performances at sector level are within the Transport Manufacturing and Electrical/Electronics Manufacturing sectors. Both record RONA results of above 40% at the upper quartile, 15% higher than that of other sectors, whilst also recording the best results at the median. At the lower quartile, the Electrical/ Electronics Manufacturing sector performs better than any other sector, while interestingly the Transport Manufacturing sector, which performed so well at the upper quartile does not perform particularly well at the lower quartile.

However, within the area of Customer Satisfaction the Transport Manufacturing sector outperforms any other. This is probably due to the fact that these companies are strongly influenced by the automotive manufacturers such as Rover, Nissan and Ford who have all been through long periods of supplier rationalisation and have increased the required standards of performance from their supply base.

Whilst performance in terms of Innovation is generally at a low level, the upper quartile spend within the Transport Manufacturing and Electrical/Electronics Manufacturing sectors is significantly larger on market and product development, and consequently these sectors enjoy a growth in revenue from new markets and products. These two sectors also have the lowest levels of capital expenditure to turnover.

GENERAL CONCLUSIONS

Considered as a whole, the following general conclusions can be drawn from this analysis:

- The UK SME base is made up from a wide variety of companies, many of which are performing well over a broad range of measures. However, the gaps in performance both within and between sectors suggests that very few companies are fully realising their potential and that areas for improvement can be identified in all companies.
- The overall financial and operational performances of the lower quartile companies are poor and appear to be slipping back in terms of turnover and profitability. These companies are clearly at risk, however the results from the business excellence section would indicate that some companies do not appear to have recognised this problem. For these lower quartile companies, improvements in business performance will be necessary in order to ensure their long term survival.
- The combination of a central database and the use of trained advisers to facilitate the process makes benchmarking a realistic improvement tool for SMEs of all sizes, regardless of location or industry sector.
- The fact that UKBI user companies perform better than those from a larger sample of UK firms in terms of profitability and RONA, tends to confirm that it is the better managed SMEs who utilise external expertise and services offered by business support organisations.
- High volume users of the service are achieving benefits both for their client base and for their business support organisation through the identification of further commercial opportunities.

Overall, the analysis proves that the measurement of company performance is dependent upon a complex combination of both 'hard' and 'soft' metrics. The UKBI database, delivery mechanisms and support offer UK SMEs a unique facility in this respect.

