



Benchmarks Can Serve as a Catalyst to Enterprise Transformation

Board members and management teams are always keenly interested in how their company is performing against peers.

However, benchmarking becomes particularly important when revenue is flat or declining, and margins are shrinking. In this situation, benchmarking can not only help identify areas of underperformance but also act as a “call to action” for the management team to undertake an aggressive, enterprise-wide transformation.

“Benchmarks are a key first step to helping management teams understand the magnitude of adjustment that is required in order to improve competitiveness”, says [Ron Orsini](#), Managing Director with Alvarez & Marsal’s (A&M) Corporate Transformation practice in Houston. When the performance gap in key cost categories is large, it is a clear indication that the current operating model is not sustainable. “Benchmarks are not going to tell you how to fix your problem, but they’re going to tell you there’s a gap to close and they help executives prioritize what to fix and how much to cut,” he says.

A global industrial company recently engaged A&M when its revenue growth had stalled, and it faced shrinking margins in its commodity businesses. Benchmarking the company’s sales, general and administrative (SG&A) spending as a percentage of its sales and gross profit against its closest peers indicated the company was spending over \$100 million more than it should, making its cost structure uncompetitive. The size of this additional overhead could not be addressed without a broad-based transformation, and A&M worked with the company to transform its operating model from a highly siloed, localized organizational structure to a more simplified model which makes extensive use of shared services across divisions and regions. This will eliminate duplicated roles and unnecessary layers of management.

However, benchmarking overall performance is only the starting point. Specific functions, such as finance, HR, IT and procurement, should be benchmarked against best practices to identify specific areas of underperformance that require closer analysis to develop a plan for transformation. “Working with clients, A&M also benchmarks measures of productivity, which are particularly important when revenue has stagnated,” says [Bharat Singh](#), Senior Director with A&M in Dallas. “Clients often already have internal data that can be combined with A&M’s experience working with clients across industries to generate new insights to drive productivity improvements,” he says.

Not surprisingly, leaders’ enthusiasm for benchmarks often diminishes when their specific part of the organization is shown to be underperforming. The typical objection is that the benchmarks are not applicable to their business. It is certainly true that no two businesses are 100 percent alike and there are many unique factors influencing a company’s performance. As a result, A&M takes a multi-pronged approach that uses external financial and operational benchmarks in combination with internal benchmarks and best practices. While the applicability of external benchmarks can be subject to challenge from the management team, internal benchmarks are very difficult to discredit. “When external benchmarks show underperformance, internal benchmarks confirm it in most cases,” says Mr. Singh.

A recent example of this was a produce company which was losing market share even though the overall market was strong. A&M’s analysis of some key internal productivity metrics, such as customer orders per salesperson and number of employees supported per HR resource, indicated a clear deterioration when



CORPORATE TRANSFORMATION SERVICES

FROM THE INSIDE OUT

benchmarked against the company's own past performance. In addition, benchmarking of productivity metrics across its multiple plants also showed wide variation between sites for measures such as equipment utilization and labor productivity. The internal benchmarks showed a clear need, as well as an opportunity, for the business to transform its cost structure by shutting down an underperforming plant and improving the utilization of production lines at other sites in order to stay competitive and capitalize on the growth in its market.

A&M's experience working with clients across multiple industries and geographies has shown that businesses are often too slow to adjust their cost structure in response to changing market dynamics, especially when management believes the lack of sales growth is temporary. Engaging external advisers to benchmark performance can help companies avoid this, by showing that aggressive action is needed. Leaders can use poor benchmark results as a catalyst to rally their management team to make transformational changes.

"Benchmarking is just the first step, but it frames the rest of the engagement," says Mr. Orsini. "We're invited in by companies because they know something is broken but they're not sure where to prioritize their attention and how far cost cuts need to go. That's where we bring to bear our experience in making operational and cost improvements."

Stay informed about the key issues driving companies to seek meaningful, lasting change in [From the Inside Out](#), our corporate transformation newsletter.

GOT A QUESTION? CONTACT AN INFLUENCER

ANSWERS ARE ONE CLICK AWAY



JOE BERARDINO
jberardino@alvarezandmarsal.com



MALCOLM MCKENZIE
mmckenzie@alvarezandmarsal.com



RON ORSINI
rorsini@alvarezandmarsal.com



BHARAT SINGH
bsingh@alvarezandmarsal.com

For general inquiries, please email us at corptransformationnewsletter@alvarezandmarsal.com

ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) when conventional approaches are not enough to make change and achieve results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services.

With over 4,000 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, help organizations transform operations, catapult growth and accelerate results through decisive action. Comprised of experienced operators, world-class consultants, former regulators and industry authorities, A&M leverages its restructuring heritage to turn change into a strategic business asset, manage risk and unlock value at every stage of growth.

To learn more, visit: alvarezandmarsal.com

