

Benchmarking and Efficient Cost Reviews

Benchmark comparisons can be useful but often review outcomes and conclusions are merely indicative and subject to certain limitations. The most significant limitation is that benchmarks only establish how an organisation compares to other businesses, not how efficient they can be given local operating constraints. Benchmarking reviews are also typically presented at a high level and are therefore not designed to identify unique differences in operating conditions, performance gaps or specific measures to increase efficiency.

An efficient cost review is an important augmentation of a benchmarking study as it examines the underlying efficiency of the key activity areas of a company and identifies and quantifies the potential for improvement. Efficient cost reviews take into account the business environment and consider any associated constraints within which the company operates. An efficient cost review is a critical ground-up analysis of processes and associated costs, incorporating techniques such as ratio and gap analysis, functional and financial activity statements, value added engineering and process mapping, selective use of benchmarks from other industries (i.e. overhead cost ratios, direct to indirect staff ratios, etc.). An efficient cost review can be designed to determine:

- ▶ the efficiency and appropriateness of historical costs;
- ▶ key cost drivers and processes;
- ▶ areas where potential for cost savings and efficiency improvement may exist (focusing on the most significant cost drivers only), and in particular:
 - the use of resources including during peak or seasonal work loads;
 - the magnitude of any efficiency improvements or cost savings identified;
 - any constraints which impact on an organisation's ability to increase efficiency; and
 - the variability of costs due to internal and external factors;
- ▶ areas where under-spend may be affecting performance;
- ▶ cost of any proposed measures; and
- ▶ the efficiency and appropriateness of forecast costs.

Outputs of an efficient cost review are a list of potential candidate areas where quantified or estimated potential for efficiency and cost improvements have been identified. Outputs can also include a series of recommendations consisting of specific practicable measures for review and implementation.