BLACKFIELD CONSULTING
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BUSINESS INSIGHTS

WHY BENCHMARKS ARE OVERRATED

Corporate target setting

MARCH 2025

Blackfield Research

YOUR CHALLENGE

Over the years, Blackfield Consulting has worked closely with Fortune 500 companies, guiding them through a range of complex organizational challenges. The firm's seasoned professionals bring deep industry expertise, enabling clients to uncover new opportunities and navigate shifting market conditions.

By focusing on strategic insight and practical implementation, Blackfield helps companies build resilience and achieve lasting success

This wealth of experience is captured in its white papers, which provide readers with in-depth guidance and proven tactics to address issues faced by businesses across the globe. From developing robust corporate strategies to streamlining critical processes, Blackfield's knowledge-sharing approach positions companies to thrive amid constant change and evolving demands. By leveraging a collaborative approach, the firm consistently delivers outcomes and competitive advantages.

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WHY BENCHMARKS ARE OVERRATED

Publicly traded companies are constantly under pressure to deliver positive financial results. While benchmarks are useful to gain certain insights, they often result in unrealistic goals and resistance within the company.

Key Takeaways

- The pressure on publicly traded companies to formulate ambitious cost-saving goals often leads to tensions between the board and its management teams. While benchmarks are useful for setting goals, they often fail to account for the unique circumstances of a company. This can result in unrealistic goals and resistance within the management team, which is responsible for execution.
- The use of detailed cost analyses offers companies the opportunity to gain a better understanding of their unique cost structures and set goals that are ambitious yet achievable. This allows the management team to better respond to the challenges and opportunities specific to their situation, leading to more successful - yet still ambitious - cost-saving strategies and a greater chance of sustainable growth.

Alongside revenue growth, there is also an expectation for companies to improve their operational efficiency. Companies that fail to show progress in cost efficiency risk losing shareholders, seeing a decline in stock prices, or becoming the target of activist investors. For these reasons, board members often feel compelled to set ambitious cost-saving goals aimed at improving both efficiency and profitability.

One widely used method for setting such goals is benchmarking. Benchmarking allows companies to compare their performance with that of competitors within the same industry. It serves as an objective measure of what is achievable within a sector and is frequently used to identify inefficiencies. Large consulting firms often offer benchmarking services, where they analyze data from various companies to identify patterns, trends, and success factors. Executives and managers then use this data to assess their company's performance and determine areas for improvement.

Benchmarking is applied in various areas, such as production, logistics, finance, and technology. For many companies, benchmarking also serves as a roadmap to cost efficiency. Companies facing high operational costs or inefficiencies often turn to benchmarks to gain insights into adjustments that enable improvement. A typical benchmarking study, for example, can provide insight into the cost per unit produced compared to competitors, allowing managers to make more informed decisions about where savings can be achieved.

Globally, it was estimated that approximately $21 billion was spent on strategic advice and benchmarking in 2023 (Statista, 2023). This underscores the importance of benchmarking for publicly traded companies when setting ambitious goals.

The Tension Between Ambition and Capacity

While benchmarking provides valuable insights, the ambitious goals that often arise from it can create tensions within companies. These tensions primarily occur when the goals set do not align with the internal capacities of a company to implement the proposed changes. This problem is exacerbated when the board of directors focuses on setting goals to meet external expectations, while the management team, responsible for execution, is concerned about the feasibility of these goals.

According to research, only 31% of the expected revenue increases and 25% of the cost savings are realized by companies that base their transformations on benchmarks (McKinsey & Company, 2020). This illustrates how often the gap between ambition and capacity is underestimated.

The Impact on Business Results

When companies set unrealistic goals based on benchmarks, it can lead to negative long-term effects on their performance. Rather than fostering a culture of continuous improvement, such goals can cause frustration and demotivation among employees and managers. This, in turn, can lead to short-term solutions that are detrimental to the long-term stability of the company.

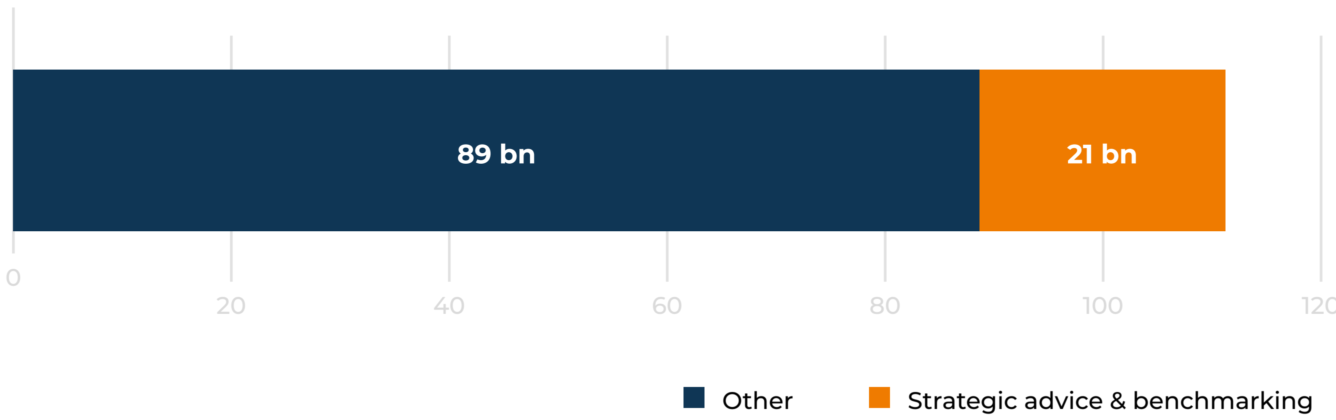
Friction typically arises within the management team, where, in addition to political dynamics, the various division heads face the practical challenges of the intended cost optimization:

1. **External Pressure Over Internal Capacity**

One of the primary sources of internal resistance is that the goals set often exceed the internal capacity of the company, as the benchmarks used do not adequately account for the operational limitations and challenges within the company.

Case: A manufacturing company might receive benchmarking data suggesting that labor costs can be significantly reduced to meet industry standards. While these benchmarks may present attractive savings opportunities, the management

Global financial advisory market in $ billion (2023)



team often understands that lowering labor costs will result in a loss of productivity and quality, especially if the company is already operating with a minimal workforce. This can lead to a decline in product quality and customer satisfaction, which could harm the company's competitive position in the long term.

2. **Previous Cost-Saving Efforts Are Not Recognized**

Another common issue is that previous cost-saving efforts are often not acknowledged when new goals are introduced. Many companies have already implemented cost optimizations in earlier stages. When new benchmarks are presented without recognition of these prior efforts, it can lead to friction and frustration within the management team.

3. **Fear of Short-Term Savings at the Expense of Long-Term Stability**

A common source of resistance within the management team is the fear that the focus on short-term savings will jeopardize the company's long-term stability. Departments such as Research and Development (R&D), which are crucial for innovation, can, for example, become victims of short-term cost-saving measures. While it may seem attractive to cut back on R&D, this can lead to a loss of market share in the long term, especially when competitors continue to invest in innovation.

Case: A technology company decides to cut back on R&D to meet a benchmark-driven cost-saving goal which increases its profitability in the short term. However, in the long term, this could lead to a loss of innovation capacity, causing the company to lose market share to competitors who continue to invest in new technologies. This type of short-term saving would have a lasting negative impact on the company's competitive position.

‘While generic benchmarks are based on industry-wide data, they rarely consider the unique characteristics of individual companies’

Improving Benchmarking with Detailed Cost Analyses

One of the most effective ways to reduce the tensions between the board and the management team is to combine benchmarking with detailed cost analyses. While generic benchmarks are based on industry-wide data, they rarely consider the unique characteristics and challenges of individual companies. By using detailed cost analyses, companies can better map their specific cost structures and set more realistic, achievable goals that are aligned with their own capabilities and limitations. This leads to more realistic policies that generate less resistance and are more readily accepted by the management team.

Case: Suppose a globally operating manufacturing company discovers through a detailed cost analysis that labor costs in certain regions are significantly higher than in other parts of the world. Instead of relying on a generic benchmark that suggests labor costs can be reduced across the board, the company developed customized strategies for each region, taking local conditions into account. This reduced management resistance and increased the chances of successfully implementing the savings.

Three key examples of such cost analyses include analyzing regional cost differences, reviewing previous investments in process optimization, and mapping costs by product line. These methods enable companies to make strategic yet achievable decisions:

1. **Breakdown of Regional Costs**

For globally active companies, a detailed analysis of labor and material costs by region can assist in setting cost-saving targets that are tailored to local conditions. This enables companies to establish realistic goals for each region without compromising productivity or quality.

2. Insight into Previous Investments

A thorough analysis of past investments in process optimization can help companies identify where additional savings can be made without undermining previous successes. This facilitates the creation of new cost-saving targets that account for already achieved optimizations.

3. Costs per Product Line

Companies with multiple product lines can use detailed cost analyses to gain insights into the specific costs per product or service. This allows them to target savings for specific product lines without negatively impacting the company's core activities.

Setting Ambitious Goals

While it is essential to set realistic goals based on detailed cost analyses, this does not mean that companies should temper their ambitions. On the contrary, by using detailed cost analyses, companies can remain ambitious while setting achievable goals. This allows companies to save costs and maintain their competitive position without exposing themselves to unnecessary risks by pursuing unrealistic goals.

Ambition remains a key factor in striving for cost efficiency, but it must be accompanied by a realistic plan that takes the company's capabilities into account. By using detailed cost analyses, companies can not only set realistic goals but also identify the resources and actions needed to achieve these goals. This significantly increases the likelihood of success, as the management team feels more involved in the execution, and the goals are better aligned with the operational reality.

OUR MISSION

Blackfield's approach extends far beyond merely pinpointing cost-saving opportunities. With a deep understanding of cost structures and operational processes, we identify areas of cost flexibility and efficiency that are practical, sustainable, and fully aligned with our clients' long-term business objectives. By working collaboratively with all relevant teams and specialists on the client side, we ensure these strategies are smoothly integrated and embraced across the organization.

At Blackfield, we don't just provide comprehensive financial analyses—we equip clients with the tools and knowledge to actively engage with these insights. Our solutions allow for real-time updates of key figures to monitor shifting trends, structured development and tracking of business cases to measure the impact of projects and programs, and detailed scenario analyses, whether for offshoring, outsourcing, or IT system replacements. By enabling clients to assess multiple strategic options, we facilitate well-informed decision-making that drives long-term success.

Our commitment goes beyond delivering insights; we provide solutions that are precise, transparent, and designed to support targeted, concrete interventions with measurable impact.

Our approach

Accuracy is at the core of everything we do. Our solutions are designed with precision, ensuring that all numbers are 100% accurate and traceable back to the raw, unfiltered data. In addition, we partner with our clients to build solutions that are user-friendly, easy to implement, and straightforward to maintain. We tailor each solution to meet the specific business requirements, while ensuring organizational buy-in. Moreover, we offer full support in the execution phase, ensuring that the client achieves lasting results with minimal disruption.

At Blackfield, we deliver a seamless customer experience through user-friendly models that clients can easily maintain and update. With these models our clients can generate recurring insights, ensuring that they can continuously monitor performance, make data-driven decisions, and adapt to changing needs with ease.

Accurate

Accuracy is our primary goal. Best guesses aren't accurate, so we measure and validate. We work with raw data and ensure traceability of all steps. Optimal spend is only possible when the numbers add up.

Tailor made

We provide strategies that are easy to understand and execute. Financials can be complex and clear explanations are essential. We capture even the most complex models in simple structures.

Straightforward

Every situation demands a bespoke tone of voice, and problems can be solved best when the unfiltered truth is addressed. Hence, our advice is straightforward and tailored to your needs.

Flexible

Sometimes you need us to be in the line of fire, sometimes you need us to operate below the radar. No matter the situation, we apply the style required for the highest impact to reach your business goals.

Our core values enable us to deliver solutions that are not only precise and tailored, but also practical and responsive to the unique challenges our clients face. This approach ensures that our insights translate into lasting impact, seamlessly aligning with the strategic ambitions of your organization.

EXPERT TEAM

Mark van der Burgt

Managing Partner

With an exact science foundation, 10+ years in consultancy and a zest for solving complex problems. Made his career in the financial industry, fast moving consumer goods and advertising. Designed and delivered multiple large, strategic programs. Is keen to leverage leadership and IT experience to deliver the digital or strategic fundament for your company.

Mark is result driven and retains an overview when challenges are complex, stakes are high and context keeps developing. At his best when leadership is needed in ad hoc and high-stake situations, facing serious time pressure.

Nick Breukelman

Managing Partner

Holds an International Business Administration degree, specializing in entrepreneurship and philosophy. Experienced in strategy definition, operating models and value cases, with a strong eye for simplicity. Designed and led large transformational programs. Looks back at 10+ years of consulting in financial services, government affairs and technology.

Nick has a natural feeling for structure and connecting the dots. At his best when both the stakes and complexity are high. Stays calm in any situation operates as a trusted advisor close to the executive board of organizations.

Vincent van Oeveren

Managing Partner

A background in Mechanical Engineering and Business Administration, specializing in finance, strategy and operations. Driven multiple projects at various large corporates with always a strong focus on connecting strategy to cost efficiency, lead time and agility of processes. In parallel, Vincent acted as entrepeneur in the veterinary sector for 10+ years.

Vincent is highly experienced in simplifying and quantifying complex challenges to drive decision making. Architect of multiple company-wide business cases, incorporating aspects of Agile and DevOps, (out)sourcing, workforce alignment and profitability.

Blackfield Research analyzes the opportunities and challenges we encounter in practice, distilling key lessons along the way. Through our whitepapers, we are eager to share these insights with anyone interested in gaining a deeper understanding in corporate financial and social structures.

If you have any questions or suggestions, please don't hesitate to reach out. The same energy and passion we bring to our work, we also bring to sparring and refining our expertise. We welcome every opportunity to engage in meaningful discussions and further develop our knowledge together.

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