

Continuous Benchmarking Study: Helping Manufacturers Improve Performance

Capgemini’s benchmarking tool provides manufacturers with an ongoing view of how they stack up against their competition and identifies key areas for improvement.

As global manufacturers face such challenges as shorter product lifecycles, increasing competition and growing supply chain complexity, improving performance throughout the organization becomes more important than ever. But identifying opportunities for improvement isn’t always easy.

Benchmarking manufacturing companies across a range of financial, operational and commercial metrics can help provide better performance evaluation. This is the premise behind Capgemini’s Continuous Benchmarking Study. This ongoing research measures the practices of dozens of leading companies operating in the aerospace and defense, automotive, high tech and industrial products segments against a defined set of key performance indicators (KPIs).

The benchmarking tool enables manufacturers to better understand their own performance against competition and identify performance gaps and

opportunities on an ongoing basis. The insights gained from this analysis can be leveraged to address areas of strength as well as opportunities for improvement.

How the Benchmarking Works

The study model was built using multiple benchmarking metrics in four areas:

Growth: Metrics consist of **sales growth** (latest quarter sales – year-ago quarter sales/year-ago quarter sales) and **net income growth** (latest quarter net income – year-ago quarter net income/year-ago quarter net income).

Return on Investment: Metrics used are **gross margin % of revenue** (revenue – COGS/revenue); **net margin % of revenue** (net income/revenue); **return on assets** (% TTM¹; net income/total assets); and **return**

on equity (% TTM; net income/total stockholders’ equity).

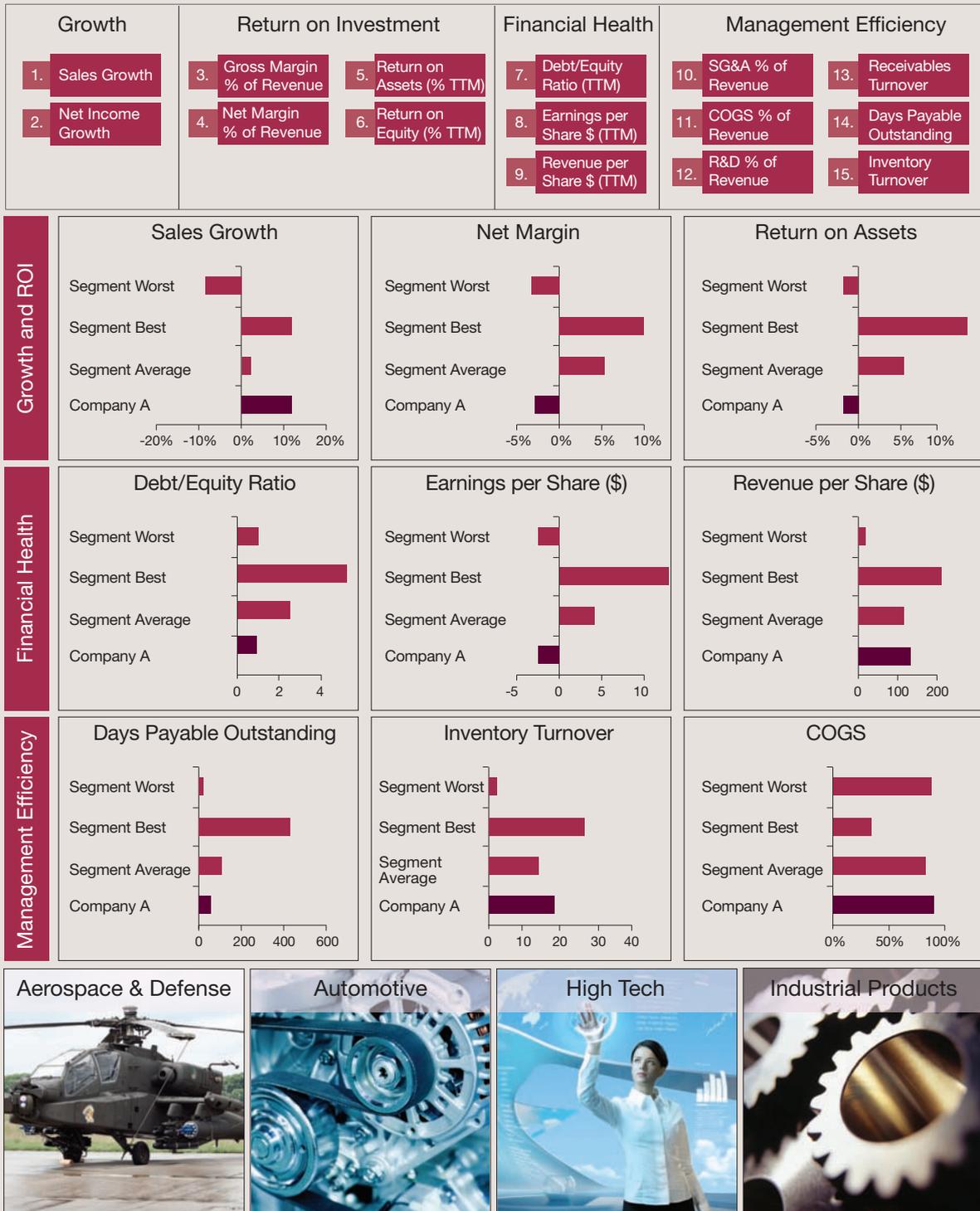
Financial Health: **Debt/equity ratio** (TTM; total debt/total stockholders’ equity); **earnings per share** (TTM; net income/total common shares outstanding); and **revenue per share** (TTM; (revenue/total common shares outstanding).

Management Efficiency: **SG&A % of revenue** (SG&A/revenue); **COGS % of revenue** (cost of revenue/revenue); **R&D % of revenue** (R&D expenses/revenue); **receivables turnover** (revenue/average accounts receivables); **days payable outstanding** (average accounts payable/cost of revenue; number of days); and **inventory turnover** (cost of revenue/average inventory).

¹ TTM = trailing twelve months



Figure 1: Continuous Benchmarking Model (Selected Benchmarks)



Source: Capgemini

Manufacturing companies are benchmarked in four key areas: growth, return on investment, financial health and management efficiency. Benchmark metrics provide an upfront assessment of each manufacturer, suggesting the company's strong and weak points.

This approach helps manufacturers detect high-level areas of improvement such as international market presence, unit cost structure, inventory and R&D capability. In addition, the assessment of the metrics encompassing disparate business aspects will help identify the competitiveness of each company and highlight areas in which they are winning and where they have room for improvement. It can help identify the factors that produce the most meaningful and valuable results for a particular manufacturer. To take into account changes in the market and in an organization, KPIs are tracked and updated on a **quarterly basis**.

Benchmarking Study Overall Findings

The study found that the manufacturing sector overall grew at an average rate of 12% in Q1 2011 vs. Q1 2010, indicating signs of post-recession recovery. Additional findings include:

- The **aerospace and defense** segment grew at a rate of 5% with Tier 1 suppliers performing better than the original equipment manufacturers (OEMs).
- The **automotive** segment continues to bounce back from the recession with a growth rate of 13%.
- In the **high tech** segment, the resilient growth in the developing economies contributed to a 13% quarter-over-quarter growth.
- The **industrial products** segment maintained its momentum, growing at a rate of 17%, reflecting the improved global economic situation.
- **Average net margin** was 7% for the manufacturing sector overall with the high tech segment leading the way.
- The **average R&D expenditure** was constant at 5% of sales for the manufacturing sector.

- The **average return on assets (ROA)** was 6% for the manufacturing sector with the high tech segment registering above-average results.
- The **average inventory turnover** was 11 for the manufacturing sector with the highest inventory turnover in high tech and the lowest in industrial products.

Providing a Holistic View of Business Performance

To realize the benefits that can be derived from effectively quantifying these metrics, companies must take a close look at the measures that matter most to their individual operation and strategy. This benchmarking tool creates a detailed performance measurement system through which critical company-specific value drivers are measured and linked to performance. The company-specific analysis can quickly identify the metrics that have the biggest impact on a particular manufacturer's bottom line.

The benchmarking tool can be particularly valuable for the following types of activities:

- **Scoping:** The database can be used to identify areas where costs, efficiency and growth are out of line with industry and/or functional norms, helping to focus program scope.
- **Target setting:** Efficiency and productivity benchmarks can be used when setting targets for the future-state organization as well as for organic and inorganic growth strategies.
- **Solution identification:** Best practices sourced from Capgemini's global experience can be applied to the current situation as appropriate, accelerating the analysis and development time.

- **Benefits tracking:** With its regularly updated data sets, this benchmarking tool provides a constant source of current performance trends for comparison.

Capgemini's Continuous Benchmarking Study offers a yardstick by which to compute the impact of a wide range of variables. This deeper view of a manufacturing company's functioning provides valuable insights into its business performance and can help determine which strategic or capital investment decisions will have the most significant return.



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