



>> It's All Relative

KINGSLEY WHITE PAPER

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Industry Benchmarking - It's All Relative

Every business needs to know where it stacks up against its peers in the industry. But what is the best way to get a true “apples-to-apples” comparison? How can you truly measure the relative differences among competing firms, and, having done so, how should you communicate the results in the most appropriate fashion? Kingsley Associates has undertaken the task of critiquing three common approaches to peer comparison, including some of their advantages and pitfalls, and why we, as a firm, have elected to use one approach over the others.

Published Rankings

Rankings can be a great evaluation tool for potential customers, particularly when they are based on solid, unbiased research, the kind of research that is usually conducted by an academic institution or a subscription service, such as Consumer Reports. A ranking system accomplishes the first goal of comparing products or services, which is to place them in direct relation to each other based on quality.

Rankings have their disadvantages, however. The most apparent is that they typically provide no information on the degree of difference among those being ranked. Implicit in any “Top 10” list is the notion that #1 is as much better than #2 as #2 is than #3, and so on. But this is almost never the case in reality. It may be that all of competitors in the “Top 10” offer a very strong product or service, and all deserve similar recognition and consideration. Alternatively, it may be that there is a very small difference in quality among the first three, then a significant drop to the last seven. The point is that a simple ordinal comparison doesn’t provide information about incremental differences.

Another caveat inherent with rankings is that they tend to be much less relevant to small, regional, or niche-focused shops. For example, while consumers may prefer the taste of a small-label soft drink, such a beverage will rarely appear on a ranking list with the likes of Coca-Cola or Pepsi. Even if it did, the lack of broad familiarity with such a brand would reduce the publication value of the ranking itself to near irrelevance.

Finally, in a highly competitive environment, rankings are ultimately useful only to the one at the top. In the same way that the loser of the Super Bowl is forgotten by the casual fan, those not ranked #1 are not served by trumpeting the results of a ranking. This is evidenced by the proliferation of rankings themselves. What automobile isn’t advertised as “Best in Class”, “Tops in owner satisfaction”, or “Number One in initial quality”? Ultimately, this represents a failure to provide valuable comparative information.

Awards and Certifications

Who hasn’t heard of the Good Housekeeping Seal of Approval? Certifications have an advantage over rankings because they typically involve clearly-defined, objective criteria. When the certifying agent is an unbiased advocacy group or regulatory agency, such designations have their place.

For all the positive value associated with their objectivity, however, certifications lack the appealing ordinal reference provided by rankings. And, like rankings, they fail to provide a sense of the magnitude of the relative differences among competitors. This lessens their worth; a comparison, after all, should give a good sense not only of where you are, but where you need to be and how far you need to go to get there.

Furthermore, the value of certifications as a tool for comparison and marketing can evaporate very quickly. What happens, for example, if a firm loses its “gold star” rating after having it for several consecutive years? Even worse,

what if the “gold star” itself ceases to be a mark of distinction? If everyone who matters has a certification, then the certification itself is merely an albatross of competitive necessity.

One final note about awards and certifications: ultimately, they encourage not excellence, but meeting minimal standards for inclusion. Consider the old joke: “*What do you call someone who made straight C’s in medical school?*” “*Doctor!*” Customers don’t just want a doctor, they want the best doctor, or at least one they believe they can trust. Just having the sheepskin isn’t enough.

Confidential Indexing

An index is simply a set of comparable data. If the index has a large amount of data, it has several advantages. A good index combines the relative positioning of a ranking system with the objectivity of a certification program, without the negatives of other approaches. But an index also does something more: it provides a quantifiable relative difference, and a corresponding target to shoot for.

When a product or service is measured against an index, simple analyses such as significant difference testing and percentile ranking can pinpoint where that product or service falls short – and by how much – relative to its peers. Thus, a firm may understand that it outperforms a large percentage of its competitors, even if it would never make a “Top 10” list. Or, it may realize that, despite having historically maintained a “Gold Star” rating, its performance is nowhere near the best in the market. The point is that an index is a better tool for helping to achieve the real goal, which is to optimize performance relative to one’s competition.

A common question that arises when using an index is not just “Where do I stand relative to my peers”, but “How did [Competitor X, Y, or Z] score?” In a competitive situation, the question is a natural and valid one. If an index is used to answer it with specificity, however, it can undermine its own value as a benchmarking tool. It stands to reason that any firm allowing its data to be included in such an index would have the desire for confidentiality. In Kingsley Associates’ experience, this is invariably the case. Thus, the danger of using an index to generate a *de facto* ranking that is made available for public consumption is twofold. In the short term, contributors to the index (or, if you like, the clients of the firm which produces the index) can be harmed. In the long term, the index itself becomes weak, as fewer and fewer firms are willing to undertake the risk of participating. To Kingsley Associates, both outcomes are unacceptable. Thus, for our part, we maintain a commitment to the confidentiality of our clients’ data.

And yet, despite the lack of specificity, the index approach still allows a firm to obtain a very strong picture of where it stacks up, and, if appropriate, how far it exceeds or falls short of a broad-based, customized industry standard. As a tool for relative comparisons, we believe it represents the best method available.

About Kingsley Associates:

The most successful firms in real estate rely on Kingsley Associates for cutting-edge business intelligence solutions. With a depth and breadth of insight unmatched in the industry, we bring thought leadership and passionate client service to every engagement. Kingsley Associates is a leader in real estate research initiatives such as tenant/resident satisfaction surveys, client perception studies, strategic consulting and operations performance benchmarking. Let us partner with you to improve the performance of your assets and organization.

Business intelligence for the real estate industry.

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