

**«BENCHMARKING» AND
«PEER GROUP»
ANALISYS**



What is Benchmarking?

... the continuous search for and adaptation of significantly better practices that leads to superior performance by investigating the performance and practices of other organisations
(R. Camp, executive at Xerox USA in 1979)

...in 1979, Xerox USA realized that a Fuji-Xerox photocopier was sold for what it costed Xerox to produce one of its own photocopiers
=> Xerox used benchmarking to reduce manufacturing costs.



Types of Benchmarking

- **Internal benchmarking:** comparison against another area within the organization
- **External benchmarking:** comparison against other organizations
 - **Intra-industry benchmarking**
 - **Inter-industry benchmarking**
 - **Competitive benchmarking:** comparison against direct *competitors*;
 - **Best practice benchmarking:** comparison against the best performing organization
- **Generic benchmarking:** comparison of processes and practices regardless of the industry or field of the partner.

Competitive Benchmarking

Objective: Comparison of given (usually operating) metrics in a peer group (the comparable "universe")=> you against the "target" companies.

Main Tool: "Peer Group" Analysis

Steps:

- **Select the "Peer Group" (i.e. target firms, benchmark partners):** database (...as rich as possible!); consider: sector of activity, type of firms (size, location, independence, growth history etc...)
- **Compute the key indicators:** choose and compute the indicators for yourself and the target firm(s) (median, IQ range, etc...)
- **Comparison with the target firm(s):** evaluate your position against the others

- Performance and positioning
- Tax data: Comparability Analysis (...“peer-group”)
 - ⇒ **Transfer Pricing**: application of the CUP (Comparable Uncontrolled Price) method
([OECD Guidelines](#), Provvedimento Agenzie delle Entrate - [ITA/ENG](#))
 - ⇒ **Patent Box**: evaluation of “reddito agevolabile” (“subsidizable” income)
(Ref. [D.M. 30/07/2015](#))

Competitive Benchmarking

Example: Transfer Pricing – “fashion retail industry”

A **transfer price** is the price that a division of a MNE charges for the provision of goods or services to another division of the same group.

Profit shifting (to low corporate tax rate countries) by setting the price at a different level compared to the price that market forces would have set.

« **Principio Arm's Length** »:

« *[where] conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise and taxed accordingly* »

(Art. 9 OECD Model Tax Convention)

Example: Transfer Pricing – “fashion retail industry” (cont.)

How to establish whether the conditions of controlled transactions are consistent with the “arm's length” principle?

=> Transfer pricing methods:

- “traditional transaction methods”:
 - resale price method
 - cost plus method
 - comparable uncontrolled price method (“CUP” method)
 - => requires Competitive Benchmarking (Peer Group Analysis)
- “transactional profit methods”
 - transactional net margin method (“TNMM”)
 - transactional profit split method

Example: Transfer Pricing – “fashion retail industry” (cont.)

“Peer Group” Analysis for the application of the “CUP method” (comparability analysis):

- Focus on Fashion Retail, abstracting from economically significant characteristics of the given company and relevant context factors
- AIDA Database (Bureau van Dijk), Italian, Active, Independence: foreign property $\leq 25\%$; exclude companies with a negative performance of at least 3 years => 10856 companies
- Key indicator: Operating Margin (OM) = operating income / net costs
- Evaluation: median, IQ range, etc...

⇒ OM lower than the peer group median OM => potential evidence of transfer pricing

Competitive Benchmarking

Example: Transfer Pricing – “fashion retail industry” (cont.)

Peer group IQ Range

p50=peer-group median

# EMPLOYEES	PERCENTILE			# OF FIRMS
	p25	p50	p75	
<= 5	-3.513	1.719	4.982	7243
5 - 20	0.021	1.943	4.010	2787
21 - 50	0.610	2.015	3.766	525
51 - 150	-1.138	1.537	3.339	120
151 - 500	-0.003	2.010	4.963	53
> 500	-12.033	0.039	4.762	128
avg	-1.988	1.787	4.558	10856

INDEPENDENCE	PERCENTILE			# FIRMS
	p25	p50	p75	
high	-2.512	1.705	4.437	6984
low	-1.353	1.946	4.772	3872
Total	-1.988	1.787	4.558	10856

=> The OM threshold varies by, e.g., # of employees or degree of independence

Example: Transfer Pricing – “fashion retail industry” (cont.)

Where do you stand in the ranking?

...in a random sample of 15 companies with branches => two are potentially involved in TP practices

(...anonymized)

Company Name	OM	size class	reference OM values		
			p25	p50	p75
Company 1	1.178398	1	-3.51267	1.718881	4.982461
Company 2	2.92463	1			
Company 3	-0.79425	2	0.021	1.942967	4.009849
Company 4	1.640447	2			
Company 5	2.428776	2			
Company 6	3.109431	2			
Company 7	3.302618	2			
Company 8	4.410429	2			
Company 9	15.90522	2	0.610116	2.014794	3.765659
Company 10	0.592395	3			
Company 11	1.837795	3	-1.13804	1.536621	3.338765
Company 12	12.11118	4			
Company 13	4.760151	5	-0.00321	2.01009	4.962893

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