Benchmarking: The Antidote to Innovation and Competitive Advantage

Clients often ask me to include benchmarking in their leadership development workshops. They want to know what Apple, or Google, or their competition are doing. They want case studies on their best practices. They want faculty who can tell them their competitor's secrets. With this knowledge they believe they can gain a competitive advantage.

While benchmarking your competition can keep you in the game by generating efficiencies and improving operations, it cannot help you win the game. Even with a lot of work, if you could be just like Apple is now by 2017, at best you would still be five years behind. You cannot create a competitive advantage by copying. You must innovate. You must differentiate.

The problem with benchmarking is not how it is intended to be used, but how it is often used in practice.

While there can be benefits to benchmarking, I find many clients want it as part of a program on innovation or strategy. My gut feeling is that they know changing an entire culture to be more innovative is a long, hard slog. But, benchmarking is easier and a much lower risk. "Let's just do what they do!" This is often a sign of being captive to a herd mentality and not a sign of a well thought-out strategy. And, my job is to point this out.

For example, I recently dissuaded a client who hired me to help their managers become more innovative from basing a large part of the 5-day leadership development program on benchmarking against their competitors like Apple, Google and Amazon. I asked them, "Who does Apple benchmark against? How about Google?" Of course, there was silence. These companies are innovators because they invent new ways to do business, not because they imitate others.

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This story has a happy ending because the client decided not to focus on benchmarking, but on how to win through innovation.

But benchmarking doesn't always have a happy ending because there are three major misunderstandings about it.

#1: Benchmarking competitors can give you a competitive advantage.

Your goal should be to be the leader, not an also-ran. While benchmarking may put you ahead of some of your competition, by definition it cannot make you the leader. To be the leader your customer must see you as having a unique advantage. As Seth Godin states, "The reason it is so hard to follow the leader is this: The leader is the leader precisely because he did something remarkable. And that remarkable thing is now taken - so it's no longer remarkable when you decide to do it."

In addition, benchmarking can stifle true innovation. For example, if you are in the beverage business and your CEO tells everyone to benchmark against Starbucks, anyone who brings up a new idea not aligned with what Starbucks does may not get their idea considered. “Why should we try that? Starbucks doesn’t do it!”

When he rejoined Apple, Steve Jobs realized that imitating Microsoft or some other competitor would not rescue the company. He knew Microsoft had won the PC game. He had to create a new game. As Jobs said in 1999, “The cure for Apple is not cost-cutting. The cure for Apple is to innovate its way out of its current predicament.” Obviously, that is exactly what he did.

In 2008 when Howard Schultz came back as CEO of Starbucks after its stock had dropped 50%, he didn’t look around to copy someone else. He started with “a relentless focus on the customer [with] new levels of innovation” in order to “reaffirm our leadership position as the world's highest-quality purveyor of specialty coffee.” That’s how you win the game.

There are so many differences between innovation and benchmarking, I had to make a chart (see chart below).

Innovation	Benchmarking
• Creates something new	• Imitates something existing
• Generates breakthrough ideas	• Generates incremental improvement
• Creates differentiation	• Creates parity with best
• What may work in future	• What has worked in past
• Based on your work	• Based on someone else’s work
• Hard to deliver	• Easy to suggest
• High risk and uncertain outcomes	• Relatively safe, predictable outcomes
• Generates advantage	• Generates operational efficiencies
• Focuses on customer experience	• Focuses on competitor experience
• Highly creative	• Highly rational
• Uses your standards	• Uses someone else’s standards
• Learning from your experience	• Learning from others’ experience

But I want to highlight one more major reason benchmarking cannot give you a sustainable competitive advantage (if, indeed, it gives you an advantage at all). Looking backwards or at the status quo cannot tell you what to do in the future. For one, the world and consumer tastes are changing too rapidly. In addition, as Steve Jobs said in a *BusinessWeek* interview, “A lot of times, people don't know what they want until you show it to them."

For example, when I came to Wharton in 1989 to help turn around their executive education division (it was losing money), it was suggested to me to look at Harvard. At the time, Harvard clearly was the leader. However, I felt that their programs were too long (their Advanced Management Program was 11 weeks), too heavily based on case studies (which actually is benchmarking as opposed to building on participants’ experiences), and were limited by relying solely on their own faculty. I did not emulate what "the best" was doing. I created shorter, more experiential courses that were taught by non-Wharton faculty 50% of the time. My programs were "innovative" because they were based on what customers wanted - not what the Wharton faculty taught. Within a couple of years, the division of executive education was wildly profitable and was ranked #1. I didn't copy the best, I surpassed them.

However, there are some instances in which benchmarking can lead to innovation and a competitive advantage.

One of my clients didn't benchmark against a competitor, but against someone in an entirely different industry. My client was in the grocery business and wanted to be the best in the industry in customer intimacy. We had a group of their high potential managers stay in high-end hotels known for their world-class customer service, and had the participants take notes on what made their stay exceptional. The next day I brought in an expert on creative thinking and innovation who helped them apply their observations to their own industry. The group came up with several innovative and novel ideas that were implementable and could give them a definite leg up on the competition in customer intimacy.

While in theory benchmarking can be a stimulus for innovation, in practice I find it typically blocks it.

#2: Benchmarking will give you the same results.

A major problem with benchmarking is that what you copy may not be the actual reason for the other company's success. What you are trying to copy may be *part* of the reason the best is the best, but it isn't *the* reason for their success. Some single process may seem like the secret sauce, but it is actually the entire culture, or how the entire system is integrated that is the secret sauce. The problem is that companies often benchmark against what is obvious and visible, when the actual advantage is systemic and intangible.

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These companies do what Pfeffer calls "casual" or "mindless" benchmarking. They blindly copy what a leader in the field does without asking basic questions, such as how could this process help us? Or, is this the right thing for us to do? As Pfeffer points out, "Something that helps one organization can damage another."

In fact, Pfeffer finds that many companies emulate "best practices" even when research shows them to be ineffective. For example, he points to research by Wayne Casio that downsizing does not make firms more successful. There is no evidence it increases productivity, stock prices, etc. Yet, in a down economy, people consider it a best practice.

The point is, you may be copying something that will not work.

For all the great things Steve Jobs did, would you want your boss to copy his management style? Would you want your CEO to be an "asshole?" Google "Steve Jobs and asshole" and see how many times it comes up.

I often have clients that ask for a particular faculty member because a company they admire used that person in their leadership development program. It can be hard to convince a client that not only is the use of that faculty member not a significant reason for the other company's success, but that particular person is not the right fit for their need. Just because a company is best in class it doesn't mean that everything it does contributes to its success.

Too often, clients want to replicate and implement an easy to see and easy to copy process instead of spending the time to find out what really makes their competition different.

#3: Being the best always pays off.

I know people who must have the "best" of everything. The best car. The best phone. The best TV.

About six months ago, I went to a Sprint store to buy an iPhone. Everyone told me it is the best. However, when the salesperson asked me what I used my phone for, I replied, "Well, I primarily use it to make phone calls and check email". I don't play any games on my phone. I don't use it to watch TV. I don't use it to listen to music. I guess I'm a dinosaur.

The salesperson surprised me by saying I didn't need an iPhone (she clearly was not on commission), and I would get better value if I bought a less expensive phone. Buying the "best" wasn't the best value *for me*. I was better off spending that additional money on something else. And that's what I did.

Similarly, many firms spend time, money and resources trying to be the best at something when they would create more value by developing the talent, products and services that differentiate them.

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In Conclusion

Robert Camp, one of the gurus of benchmarking, defines it as "the search for those best practices that will lead to the superior performance" of a department or organization. While no one can criticize superior performance or enhancing operational efficiencies, this is not the same as becoming more innovative and or gaining competitive advantage.

Benchmarking can be used to strategic advantage. Benchmarking can help generate cash by creating efficiencies and incremental operating improvements. As my colleague Joe Clark, CEO of Prana Business states, "That cash can and should be reinvested into product lines that are in emerging growth categories. In other words, use benchmarking or best practices on declining business units to optimize cash that can be injected later into new business units that lead to differentiation and sustainability."

Improving performance is a good thing. But gaining competitive advantage is even better.