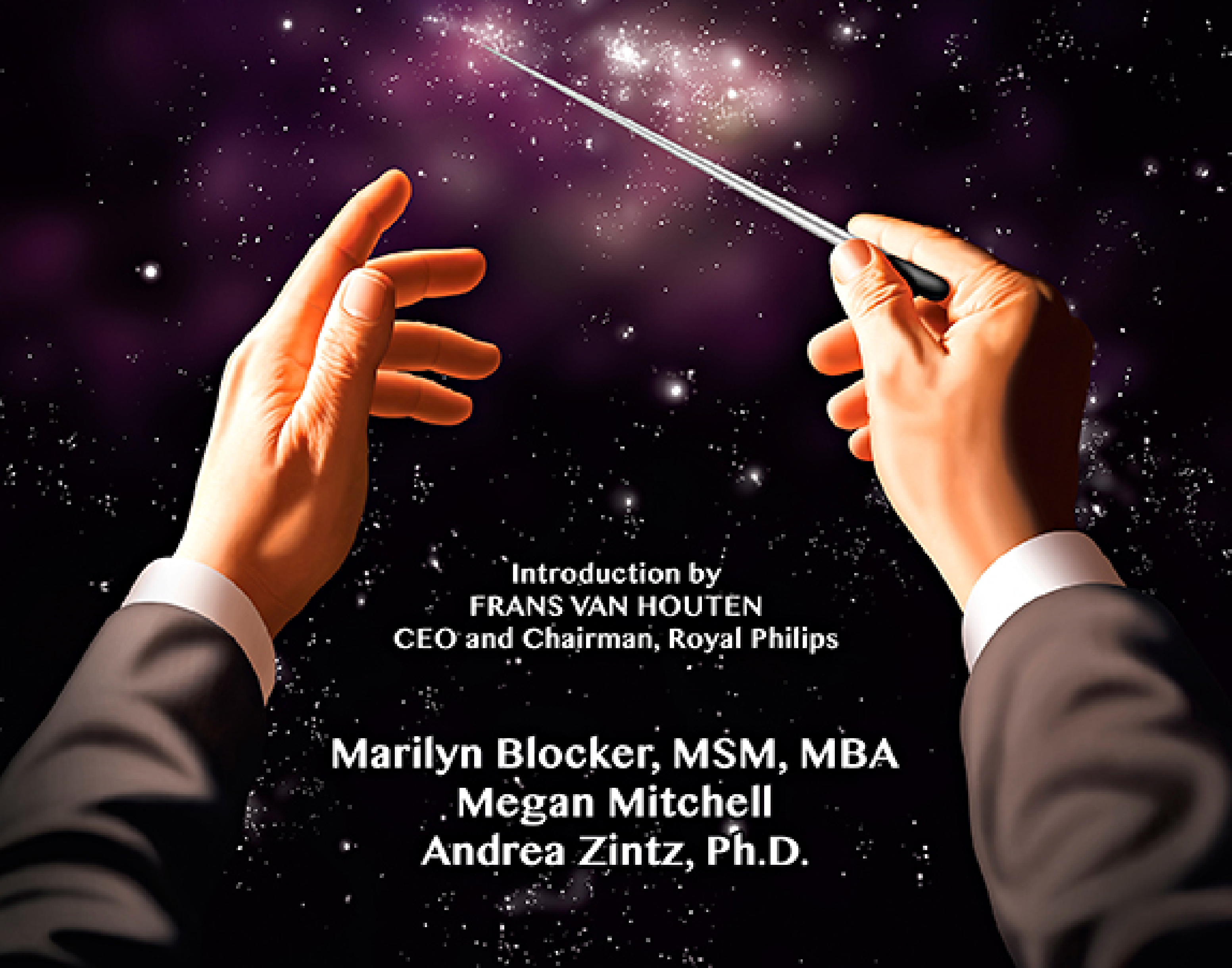
Orchestrating Sustainable Innovation

A Symphony in Sound Bites



Introduction by
FRANS VAN HOUTEN
CEO and Chairman, Royal Philips

Marilyn Blocker, MSM, MBA
Megan Mitchell
Andrea Zintz, Ph.D.

Chapter 26 – Benchmarking and Metrics

An interview with Andria Long, Vice President of Innovation & Insights at Johnsonville Sausage; former Vice President of Innovation & Strategy at Sara Lee; author; and innovation speaker

---

"One accurate measurement is worth a thousand opinions."

— Admiral Grace Hopper

We might think that the success of most jazz ensembles and symphony orchestras is subjective, but it can also be measured with traditional metrics. Since as much as 60-70% of an orchestra's operating expenses are covered by donations, orchestras must have strong development initiatives for the long term. When there is a decline in attendance, ticket sales, or membership subscriptions, an orchestra's revenue is negatively impacted. It can also be adversely affected when orchestras don't make enough recordings or when the sale of recordings doesn't match what was projected. Ticket sales, level of debt, and income from products, programs, and performances are all factors in making basic comparisons such as forecasts versus actuals. Comparisons like these are important for orchestras and businesses alike, but can benchmarking and metrics have other uses?

Benchmarking and metrics can also help leaders align on organizational goals and ensure that actions are consistent with stated goals and strategies. In addition, they can enable more accurate methods of planning, forecasting and identifying opportunities. In time, they can also yield meaningful data for informed decision making, personal and organizational accountability, and performance management. Benchmarking and metrics can also provide early warning signals that enable course corrections or a complete change in direction. These signals are especially useful when innovation initiatives are ambiguous or in need of adjustments to respond to changing market conditions.

We interviewed Andria Long for this chapter because of her expertise in innovation and strategy and her particular focus on benchmarking and metrics. In her former vice president role at Sara Lee, Andria consistently facilitated transformational revenue growth. She also worked on some of the most recognized and valuable brands in the consumer products industry, which include Cheez-It, Huggies, St. Ives, Jimmy Dean, Hillshire Farm, Johnsonville, and Ball Park. Also drawing from her experience at other top-tier companies such as Kimberly Clark and Kellogg, Andria developed a unique insights-based approach that yielded dramatic new product successes. This approach was used in the launch of seven IRI (Information Resources Incorporated) Pacesetter awards and 15 products with more than 5 years' successful sales growth that generated over $500MM and pipeline revenue of $2.5B.

When speaking about innovation, Andria provides guidance on how to achieve innovation success based on firsthand experience with leading innovators. She is a requested guest lecturer and speaker at professional association conferences and for MBA students at the Kellogg School at Northwestern, Chicago Booth, Michigan State, and the University of Florida. Andria holds an MBA in Marketing and Finance and a Bachelor of Science in Marketing from the University of Florida. Please join us as she describes how benchmarking and metrics can identify opportunities for innovation.

QUESTIONS AND ANSWERS

Would you please define both "benchmarking" and "metrics"?

Benchmarking is a process that provides fact-based information for both internal and external comparisons. When done externally and based on critical success factors and key performance indicators, benchmarking can inform leaders about how their companies are doing in relation to peers, competitors, and best-practice organizations. Internally, it can be used to compare the performance of departments, divisions, or product lines, to determine why some might be performing better (or worse) than others. Most importantly, benchmarking and metrics can provide fact-based criteria as alternatives to emotional "gut-based" decisions or those made in conjunction with pet projects or political considerations. Metrics are the measurements used to enable benchmarking.

How might benchmarking facilitate innovation?

When used for external comparisons, benchmarking enables leaders to determine whether their organizations are holding even, lagging behind, or moving ahead. In this way, benchmarking can also produce information that facilitates innovation and keeps an organization relevant and focused on staying ahead of the competition. In the same way that benchmarking can be used for external comparisons, it can also be used internally to help leaders set goals, make decisions, and set realistic expectations for both individual and organizational performance. At the same time, benchmarking can enable businesses to identify potential opportunities to innovate. It can also determine the size and scale of innovations and help leaders anticipate potential innovation hurdles.

Why are metrics important for measuring organizational performance and for enabling innovation?

The former GE CEO Jack Welch was famous for his use of the expression "What gets measured gets done." Welch knew that benchmarking and metrics could provide an objective basis for specific accountabilities, performance management systems, and business scorecards. He also knew that metrics could be useful in aligning department or operating unit goals with broader organizational goals and for assigning rewards. Metrics can signal an organization's commitment to innovation and validate that it's critical for success. They can also help companies assess whether internal and external processes are supporting versus inhibiting innovation. Additionally, metrics can aid in constructing defined processes to objectively evaluate potential breakthrough innovations, line extensions, and new uses for products and services.

How are metrics also useful for other purposes?

When used as tools for risk management, metrics can provide a basis for a portfolio management approach to innovation. They can help decision makers assess the relative risk of breakthrough and incremental investments and define an appropriate mix of risk. Additionally, metrics can help companies determine the kind of product mix that's required by providing the basis for current and historical pipeline analysis and consumer performance, product performance, and advertising performance. And finally, metrics can be used for quality improvement purposes, helping leaders to determine which areas need improvement and how they might be improved. An example of this could be both the "hard" and "soft" metrics used to evaluate the processes and performance of key functional areas such as R&D and Operations as well as enabling functions such as Information Technology, Accounting and Finance, Human Resources, and Customer Service.

How can benchmarking and metrics support new product development and risk management?

Within marketing functions, internal metrics measure the success of products and services, which typically include portfolio management, pipeline performance, and pipeline valuation. Portfolio management metrics profile the product mix and determine the types of innovation and investment needed for each type of project or innovation. Metrics balance risk by ensuring that products earn anticipated revenue and profit and enable projects to be prioritized. This is accomplished by using specific metrics for each one—such as net dollar sales volume, profit, probability of success, capital investment, and consumer metrics. Pipeline performance is evaluated on current versus historical performance. And pipeline valuation is based on the total value of products or services in the pipeline. Since a failure is more likely early in the new product development process, metrics reflect not only the total number of products in each stage, but also discounted product performance based on the percentage of failure projected for each product in each stage. Other critical metrics for products evaluate speed to market and total time from concept to launch, as well as how much time each product is spending in each stage.

What external and internal data should be measured to assess new product launches?

External data should measure actual market performance. These metrics usually include post launch analysis, which is critical for the cycle of learning needed for innovation. External metrics can also measure how quickly the product is distributed. Velocity is another critical metric, in that it measures how fast the product is selling. Spending metrics—usually in the form of consumer and customer support—show spending that was originally forecasted versus what is actually being spent. And finally, there are metrics that measure sales volume and profit by comparing actuals to what was forecasted.

What are typical problems with benchmarking and metrics?

Incorrect benchmarking or metrics can cause decision makers to overreact to perceived versus actual threats—and can also mislead by providing false assurances that show the company to be performing better than it is in reality. Problems with benchmarking and metrics generally fall into five categories: the type of data that's used, the source of the data, how data is gathered, its accuracy, and how it's used. Internal data—particularly historical data—might reside in several locations, with multiple owners, and within a number of different systems. Since data is often not maintained in standard or consistent formats, there's a potential risk in making "apples-to-oranges" comparisons. There can be problems with external data as well. It might not be shared publicly, and even when it is, accuracy can be problematic because most businesses want to position themselves favorably. Inaccuracies in either internal or external data can create the potential for leaders to take the wrong course or continue on their current course when they should be changing direction.

How might these problems negatively impact performance or inhibit innovation?

One of the most common problems is when leaders begin the benchmarking process with unreasonable goals. This can demotivate and potentially set people up for failure. Another way that benchmarking and metrics can be problematic is when they're used only for getting an initial snapshot of what competitors are doing. Benchmarking and metrics are of limited use if they aren't providing a constant check on programs, product or service launches—or for continuous improvements to internal and external processes. By contrast, when benchmarking is done on an ongoing basis, it can provide cycles of learning that are useful for improving performance and for identifying opportunities to innovate.

Can metrics be used to evaluate both soft (intangible) and hard (tangible) data?

There are many critical enablers of innovation, so when people in organizations benchmark their practices against those of leading innovators, soft data, which is anecdotal and usually gathered in informal communications, can be a good way to identify where change or culture transformation is needed. Although soft metrics are often a subjective call, they can help decision makers understand why their businesses might not be meeting goals. Soft data can provide information that hard data, such as statistical measures, can't. Benchmarking and metrics can help organizations measure both "the soft stuff" and "the hard stuff," since each is needed for successful innovation.

How can benchmarking and metrics set the right level and type of innovation for an organization?

Innovation is definitely not a one-size-fits-all proposition. By utilizing objective tools and processes—such as benchmarking and metrics, leaders can more accurately determine what their organizations need. Metrics vary by industry and are also different for companies in the public and private sectors. In the private sector, benchmarking and metrics can help leaders determine whether top-line and bottom-line growth can be achieved through various innovations—and even show which innovations hold the greatest promise. By using objective tools and processes, leaders can ensure that their companies stay relevant within their particular categories and with respect to their competitors. Additionally, when utilizing benchmarking and metrics, leaders can determine the right frequency (i.e., the number of initiatives) and the right amount of money invested in potential innovations. While many people associate innovation primarily with the front end of the process—where ideas are produced, discussed, screened or built upon—benchmarking and metrics are what help leaders determine whether innovation is being implemented and whether it's consistent with their organizations' goals and strategies.

TAKEAWAYS

- In addition to providing performance comparisons, benchmarking and metrics can provide useful information for goal setting, alignment, and accountability.
- Benchmarking and metrics can also guide risk management strategies by enabling leaders to assess innovation opportunities and define appropriate mixes of risk.
- Metrics can be used for evaluating both "soft" and "hard" data.
- When benchmarking and metrics are used incorrectly or used improperly, they can produce overreactions to perceived threats and also mislead with false assurances.
- When done early and on a continuing basis, they can establish meaningful baselines for measurement and allow leaders to maintain a pulse on both internal and external environments.

TAKING STOCK

- Does my organization typically benchmark early enough in our processes?
- Do we continually benchmark ourselves against our competition, course-correct, and change direction when needed?
- How might we apply metrics to the "people side" of our business so that we're inspiring and rewarding people for innovating?

To learn how benchmarking and metrics are related to other innovation enablers, see our chapters on *Business Model Innovation, Personal Accountability, Risk/Portfolio Management,* and *Scorecards and Performance Management*.