The Use of Benchmarking to Enhance Marketing Decision Making

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Over 2,500 years ago the Chinese philosopher, Sun Tzu, wrote "Know your enemy and know yourself, and in 100 years you will never be in peril". Today's marketing executives can make use of this wisdom in a two-step process for implementing change. Find out which firms have the best strategies, tactics, processes, functions — whatever is relevant to the decision being made. Second, adapt these standards to your own firms. Benchmarking is the continuing search among competitors and/or those companies recognized as industry leaders for the best practices. These practices can then be used as reference points which should lead to higher and superior performance.

Benchmark decisions cannot be created without extensive analysis of the market and an understanding of the culture of the decision maker's firm. Stated another way, benchmarking compares, adapts and improves performance through observing and analyzing what is already working well for others. It emphasizes "hard" data from the real world or real world standards. A firm might compare marketing functions, e.g. its methods of distribution with firms that excel in this particular aspect of marketing.

In benchmarking there is an obvious advantage in seeking firms which are similar in critical dimensions for comparison. However, companies outside one's industry may have developed methods of handling a matter that can also be readily applied to one's own firm. For example in improving warehousing and shipping functions, Xerox benchmarked against L.L. Bean, the large retail mail order firm. Thus, the decision maker must continuously make trade-offs between the obvious relevance of most benchmarks inferred from a close competitor and outstanding excellence of firms with little relationship to an industry.

Therefore, the major purposes of this article are to:

(1) detail the basic advantages or benefits of a benchmark;

(2) explore some of the possible deleterious side effects of benchmarking;

(3) explain how a benchmark can have value in each of the "four Ps";

(4) provide insights on how the executive can incorporate benchmarking as a creative marketing tool.

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ADVANTAGES OF BENCHMARKING

What general advantages do decision makers gain from the use of benchmarks? First, benchmarks will tend to be seen as "hard data", because that is a key element in how they are selected. Indeed, reference points are usually taken from functioning markets. Furthermore, there is every reason to believe that the referenced benchmark worked for some successful companies in real world conditions. Companies are trying to tie in with success by creatively adapting the best practices of other firms to their needs.

A second benefit is that the decision process is simplified. Rather than consider a decision without a base, the analysis can be limited to the differences between the situation faced by those companies from whom the standard has been developed and those faced by the decision maker. Selection of a standard which has been successful for another firm, evaluation of the differences between the other firm and the decision-making firm, and realistic adjustment of the analysis accordingly, should result in decisions that are, at a minimum, reasonably successful.

Third, a little thought will suggest that the projections of anticipated profits from the implementation of a sophisticated benchmarking process can be made with more confidence than those secured using the alternative of starting a decision from "scratch". The variance of anticipated outcomes should be smaller. As suggested previously, fewer factors have to be considered when a decision maker is concerned only with the increment from the benchmark.

Fourth, effective benchmarking is characterized by an organized marketing intelligence system that is critical in selecting benchmarks and in evaluating the trends of important, designated benchmarks. Thus benchmarks can be seen as an integral part of forward-looking management, competitive intelligence and the analysis of changing markets. They can provide stimulation and motivation to marketing executives whose creativity is needed to execute the benchmarking activity.

Fifth, benchmarking leads to some firms becoming or seeking to become the standard by which other firms benchmark, e.g. Wal-Mart. The rewards of benchmarking success provide substantial incentive and motivation for marketing and other executives. Thus there is an added bonus to being perceived as state of the art, i.e. those to which others measure excellence. Becoming state of the art should also add to the marketability of the key executives involved.

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BENCHMARKING BREAKS THE INGRAINED RELUCTANCE OF OPERATIONS TO CHANGE

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Sixth, benchmarking is a mechanism for inducing inter-industry change (Camp, 1989a). Camp suggests that benchmarking breaks the ingrained reluctance of operations to change. People may be more receptive to new ideas and their adoption when they do not originate in their own industry. Benchmarking may also identify a technological breakthrough (that might not have been discovered in one's own industry for some time to come), such as barcoding, originally adopted and proved to be effective in the grocery industry. In these instances it is more important to uncover the industry's best practices than to concentrate on obtaining comparative cost data. The business unit can determine for itself cost levels that could

Tends to be derived from "hard" data
Simplifies the decision-making process
Does not start the decision-making process from "scratch"
Becomes a standard by which to measure excellence
Can become a mechanism for inducing inter-industry innovation
Can enhance careers of relevant executives

TABLE I.
Advantages of Benchmarking

be achieved if it incorporates the benchmark practices in its own operations.

Seventh, those marketing executives can, in the benchmarking process, establish and maintain invaluable contacts and interactions that can enhance future professional growth. Moreover, by being involved in the benchmarking process, executives are able to order their horizons thus making them more valuable to their own companies. Table I summarizes the advantages of benchmarking.

DISADVANTAGES OF BENCHMARKING

There are disadvantages in using benchmarks for many decisions. Such a decision process is conducive to the "lemming" decision syndrome portrayed by J.K. Galbraith, i.e. each executive copying or conforming to the decisions of others is likely to stymie or destroy creative insights and may produce an unwanted "sameness" among organizations.

Relatedly, decisions reached by the use of benchmarks can tend to be passive in nature and not conducive to tough competitive interactions. Thus, differential pricing (to be discussed later) is designed to fit into a marketplace and not start a price war. There are methods of pricing, such as experience curve pricing, market share pricing, and penetration pricing, that may be conducive to sharp competitive reactions.

Third, and perhaps the greatest risk of benchmarking, may be the risk of executive non-action when substantial action may be required (Simon, 1991). Executives may become complacent when they observe their firms to be performing as well as competitors, even when they are all doing equally badly. Benchmarking to the wrong or an idiosyncratic standard could be seen as a cause of the major problems in the automobile industry in this country.

Fourth, a decision maker may select the wrong benchmark. Thus all the biases that relate to decision making are relevant to the selection of benchmarks (Kahneman and Tversky, 1984). Executives may be biased toward the salience of a benchmark or in the selection of a reference company. Executives may assume that a standard exists when there is none.

In addition, benchmark decision making by and large assumes that the rest of the company is well run. In such situations, thinking incrementally may make sense. If the firm considering using benchmarking for particular decision making is poorly run, the results of benchmarking are more likely to be "muddling through".

Finally, benchmarking should not be used intermittently. Benchmarking should be an ongoing process that necessitates regular updating and be sufficiently adaptable to incorporate and assimilate new ways of securing data from the competitive environment. Table II summarizes the disadvantages of benchmarking.

May destroy potential creative insights
May produce strategies that are passive
Can induce inaction by marketing executives, when action is required
Can select the wrong benchmark
Assumes that the firm attempting to benchmark is already reasonably well run
Can lose its value if used intermittently

TABLE II.
Disadvantages of Benchmarking

THE "FOUR Ps" AND BENCHMARKING

The standard or benchmark that a marketing executive should use will vary with many factors including: the socio-economic environment, behavior of consumers, state of technology, and/or nature of competition. Some examples should illuminate. In a service industry, when GTE wants to know whether it is doing a good job delivering telephone service, it compares itself with the local Bell companies or to overseas phone companies (Deutsch, 1990). GTE went to American Express for guidance on a billing system (Deutsch, 1990). Naturally GTE is also benchmarked against in some activities. Other examples are presented for each aspect of the "four Ps".

Product Examples

In developing fashion products a favored technique is the "knock-off" of the best sellers (for the most part perceived to be not only legal, but normal). A knock-off in fashion merchandizing is usually a copy of another firm's merchandise, typically offered at a lower price. The knock-off is often translated into the following merchandise philosophy of a retailer or a supplier: it is better to be a fast second than a sorry first, at least for some kinds of fashion firms.

The logic of the merchandise knock-off is this. Anticipating the merchandise that the consumer will want is very complex and risky. Therefore, see what products the consumer is buying in quantity at high prices and copy the product, fast. In some instances not only will the supplier and the retailer decrease the risks attendant to the creation of an "entirely" new product but the marketing costs for the supplier may be substantially reduced or eliminated. Thus a fashion retailer can select a best-selling item and send it to a knock-off supplier, order in large quantities, and in the process eliminate most of the costs of distribution for that supplier.

The above discussion has emphasized the benchmarking of actual products. However, a firm may also benchmark with respect to a product innovation process. Thus companies such as Xerox and General Electric are known for the overall effectiveness of their product and business innovation. Firms benchmark against the attendant processes, organization and management practices of such firms. Many firms in the United States are benchmarking against Japanese firms in an effort to shorten the time it takes from the design of an innovation to actually being in the marketplace.

Pricing Examples

A frequently used form of pricing is that of differential pricing (Dickinson, 1988, Oxenfeldt, 1979). Differential pricing is a passive method of pricing, designed to fit into the existing price structure in a market without creating a price war. Often a manufacturer needs to know what the retail price of this product will be. Such a decision maker goes directly to the appropriate marketplace (i.e. target retailers) to ascertain the retail price of the most directly comparable "best seller". We now have the price (the quantity can usually also be obtained) of a similar product that is a best seller. We then, by research of the target final customers, by expert judgement, or by interaction with relevant salespeople, estimate the perceived value difference from the perspective of the target customer between the best seller and the new item being priced, including factors such as the differential value of the brand. The price to the consumer is the price of the best seller plus or minus the perceived differences, including brand and all other important differences. The overall logic is this. The base item is selling well. This is how it was selected. If the difference in price to the target consumers is seen as reasonable, then the new item should sell at least at a reasonable rate.

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WHAT IS AN EXTRA PRODUCT WORTH TO THE TARGET CONSUMER?

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Thinking in terms of differential pricing introduces a basic question for executives involved with product development. What is an extra product feature worth to the target consumer?

Blind item pricing can be seen as an adaptation of differential pricing and an example of benchmarking (Dickinson, 1988). A blind item is one the consumer cannot easily recognize, therefore the manufacturer and retailer have more latitude in setting prices to charge. The procedure suggests that, given the price of a best-selling item or group of items that are selling well, what is the highest price that can be charged for the new item, consistent with the possibility of reasonable unit sales? This is differential pricing biased toward high prices. If the goods do not sell at the designated price, lower the prices systematically until the goods sell reasonably.

A valuable adaptation of differential pricing for a manufacturer is backward pricing. In this process the manufacturer would use differential pricing, a benchmark, to estimate the most likely retail price that his product would bring from the consumer. The manufacturer would then estimate the mark-up requirements of the target retailers and, in addition, if relevant, the requirements of the firms or representatives which would be employed to sell to and service the retailer. The result of this process is the dollars that the supplier can anticipate receiving for his goods at that particular point in time.

Promotional Examples

A major promotional decision problem is establishing an advertising budget. The most frequently used method of developing an advertising budget for retail firms is the percentage of sales (Lewison and DeLozier, 1986; Mason *et al.*, 1988). The use of the percentage of sales technique frequently reflects the application of benchmarks. A firm making the budgeting decision knows that:

(1) almost all successful firms advertise — thus, not advertising is not a choice for most firms;

(2) few firms can estimate with any degree of accuracy what the benefits of their advertising are (Bonoma and Clark, 1988); and

(3) similar kinds of firms have a known percentage of sales, no matter how the figure was arrived at.

And if the designated reference firms or standards are in a situation similar to the decision-making firm, and very profitable, it appears reasonable to use these (including under some conditions a firm's own history) as benchmarks.

Benchmarking can be used as a guide in many sales promotion decisions. For example a manufacturer might use benchmarking as a means of developing a mix among media. For example, how much advertising should be allocated to newspapers, television, radio, and so forth? Today, a critical problem for suppliers is the percentage a firm in the food industry should allocate for sales promotion and for advertising. Firms can also benchmark in deciding in which newspaper and on what day of the week to advertise. The benchmark would be to select that newspaper that has the most pages on most days. Select the day of the week in which the newspaper has the most pages, if that day has a substantial number of advertisements of the type you are considering.

Distribution Examples

A major distribution decision for manufacturers involves the kinds of retailers who should be targeted for the sale of their goods. For example, one hard goods manufacturer used another manufacturer's distribution system when deciding on which types of resellers he would use. Such retailers are often called target retailers by manufacturers.

Similarly, if a retail chain is locating a new store, one technique that is frequently used to estimate sales volume and profitability is the analog method, a benchmarking procedure. The analysts use the sales of parts of trading areas of existing stores that are perceived to be similar to parts of the trading areas of the site that is being considered. The total sales estimate for the new store is then a sum of the individual part estimates.

Many firms benchmark against Wal-Mart. Today many firms use the Wal-Mart systems as a standard to evaluate and change their systems (Stalk *et al.*, 1992). Cross-docking has been brought to the literature via benchmarking. In cross-docking, the goods being delivered to warehouses are selected, repacked and then dispatched to stores, without ever being a part of the basic inventory. One retailer has mandated that cross-docking be part of its new warehousing system.

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CROSS-DOCKING HAS BEEN BROUGHT TO THE LITERATURE VIA BENCHMARKING

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The previous examples are in no sense a complete list of the types of marketing and business decisions that can be effectively made by references to benchmarks. It is important to recognize the focus is on successful practices. By changing a firm's current way of doing things, overall effectiveness can be enhanced, and net profits will rise.

INCORPORATING BENCHMARKING INTO COMPANY STRATEGY

Benchmarking describes not only how many effective executives make decisions, but it also implies how much executive decision making ought to take place. Where feasible, effective benchmarking will be based on "hard" data, typically developed from observations of the marketplace; easier to use in that much time can be saved when compared with the time taken in employing a full decision process; and less risky in many dimensions. On the negative side, benchmarks often reek of conformity; can be conducive to passive competitive activity; and may suffer the costs of non-activity and/or the hesistance to take bold action.

Benchmarking cannot be assumed to be the same as routine decision making. Some benchmarking is not routine (Oxenfeldt, 1979). It requires identifying what the relevant benchmarks are and ascertaining how the present situation differs from those that provided the environment for the development of the benchmark. Thus it is a complex problem-solving technique.

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BENCHMARKING CAN COMPLEMENT THE CREATIVE DECISION PROCESSES ALREADY BEING USED

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An acceptance of the roles for benchmarking outlined in this article would appear to suggest the following for those studying decision making in marketing:

(1) Benchmarking can complement the creative decision processes already being used. Thus an executive can use various creative techniques to find benchmarks or to adapt existing benchmarks to the needs of the firm. However, many of the creative problem-solving processes can be seen as competitive with benchmarking. In general, one should go from benchmarking to a more lengthy decision process only when the additional work is seen as providing net benefits. These may include consideration of the costs of the increased variance of anticipated returns that are likely to be attendant to selecting many creative options.

(2) Business decision making appears to be significantly different from other kinds of decisions either in non-business organizations or with respect to individuals. Business may be a different culture with markets which are more easily referenced and more dependable for particular purposes. Different cultures may require different problem-solving processes.

(3) Benchmarking can be seen as a form of "satisficing" (Simon, 1991), perhaps satisficing in order to optimize. Forgoing benchmarks for a more lengthy decision process designed to achieve the "optimal" will often be seen as one example of pursuing the best as being an enemy of the good (Simon, 1991).

(4) Benchmarking would appear to complement various decision styles.

(5) Benchmarking would appear to be close to the way experts are seen as making decisions. They are seen often as selecting from among models, stories, patterns, and the like (Simon, 1991). To the extent that experts make decisions in different ways from novices, it is reasonable to believe that a different creative process may be relevant for experts. Indeed it can be argued that the prevalence of benchmark decision making among experts and the growing importance of expert decision making makes the need for understanding creativity in expert decision making of some societal importance.

Steps in Implementing the Benchmarking Process

To this point it has been suggested that benchmarking can be used for a variety of decisions and at different levels of sophistication and commitment. The following is an outline of steps that might be used in an extensive benchmarking process based on the work of Camp (1989b):

In the planning stage:

(1) Identify what is to be benchmarked. Is it to be the product, the distribution system, pricing, or promotional strategies?

(2) Identify companies for possible comparison. Benchmarking should be used in conjunction with leading companies, not necessarily with firms in the same business as the firm implementing the benchmarking process.

(3) Determine data collection method and collect data. There are many ways to collect data, but utilize methods that can be quantified.

The objective of these steps is to plan for the benchmarking process. Essential in any plan development is the "what" and "who". It is important to recognize that benchmarking is a process and therefore, in addition to identifying quantifiable goals, select industry practices which will allow attainment of company goals and targets.

In the analyzing stage:

(4) Determine current level of performance and the gap to the expected level of performance. As a comparative process, there is the need to possess and understand the internal performance on which to evaluate strengths and weaknesses.

(5) Project future performance levels. The resultant gap provides the basis on which to act. In addition, since benchmarking is not a static process, performance levels have a need to be constantly recalibrated.

Steps (4) and (5) involve a clear understanding of the firm's current practices as well as of those in the industry. A basic requirement is a clarification on the internal performance on which to assess strengths and weaknesses.

In the integrating stage:

(6) Communicate benchmark findings to company executives and gain their acceptance of the findings. To facilitate acceptance, the findings should be presented clearly and with as short as possible rationales.

(7) Establish functional goals. Critical to the success of this stage is the conversion of benchmarking findings into quantifiable statements of functional goals or objectives.

The steps in the integrating stage incorporate benchmarking findings in order to establish operational targets for change. Planning is needed in order to integrate these new practices into all aspects of the company's operations. It is essential to communicate the findings and goals to all organizational levels in order that commitment can be secured.

These steps incorporate benchmark findings to establish operational targets for change. Careful planning is basic in integrating these new practices into all aspects of the firm's operation. These findings should be communicated to all organizational levels to obtain their commitment.

In the action stage:

(8) Develop action plans. Findings and operational principles must be converted to specific action plans.

(9) Implement specific actions and monitor progress. Because practices are constantly changing, provision has to be made for modification.

(10) Recalculate benchmarks. Because of the need for recalibration, new benchmarks will be needed and communicated to executives who take part in the implementation process.

Steps (8), (9) and (10) involve converting steps (1) to (7) into implementable actions. In addition to the necessity of periodic measurement and evaluation, a feedback process is needed to aid in the implementation stage so that modifications are made when necessary. Benchmarking is a dynamic process.

SUMMARY

The firm can often achieve increased profitability when incorporating the "best" marketing practices into its programs. Moreover, the greatest benefits should be attained when benchmarking becomes an ongoing part of the management process, and marketing executives are striving to become the standards against which other firms benchmark. Benchmarking can be used for many types of decisions and can be carried out at all levels of the firm. It is a tool for attaining superior performance.

Benchmarking can result in a firm establishing new goals, strategies and tactics. The goals, to the extent feasible, should be measurable and based on what is best in business. From a marketing perspective, benchmarking is a sensible and rational way of a firm satisfying current as well as future consumer requirements by seeking excellence in all aspects of the benchmarking endeavor.

Benchmarking should motivate executives because it is an excellent way of improving a firm's profits through a proactive process. Marketing executives will be in a position to justify the effectiveness of their operations by indicating that they functioned to the best standards. Benchmarking is a process leading to discovery, improvement and an ongoing learning experience for marketing executives.

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