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The perils of best practice: Should you emulate Apple?

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Outliers are exactly that. Duplicating their performance is harder than we might wish.

It's no mystery why companies emulate their most successful peers. Tried-and-true approaches often seem preferable to starting from scratch, whether for developing new products or running efficient supply chains. The quest for such methods went global during the 1980s and 1990s as European and US companies sought to retool their operations by transplanting Japanese factory practices, such as kanban and just-in-time production. Management consultants—ourselves included—naturally facilitate the process by extolling successful companies as models from which others can learn proven practices that reduce risks.

However, perils abound when truly exceptional companies morph into ever more ubiquitous examples. Observers and management theorists alike, blinded by star power, eventually assume that everything these companies do should be regarded as best practice—often without examining the context in which they derive their success or without parsing the true nature of their accomplishments. Managers tempted to distill universal insights from what are in fact *exceptional* companies put their own businesses at risk for strategic or operational missteps.

Others before us—notably Bob Sutton and Jeffrey Pfeffer at Stanford, Adrian Wooldridge at the *Economist*, and Phil Rosenzweig at IMD—have issued warnings about best-practice traps and management-theory fads.[1] Yet the desire to emulate is often stronger than mere rationality, even in the face of repeated evidence that most companies won't achieve the anticipated outcomes and that some will suffer a hard fall. Research by our colleagues, for instance, has shown that lockstep benchmarking may lead to "herding" effects that, over time, diminish emulators' margins.

Apple is today's all-purpose innovation icon. In the past three years alone, more than 1,500 published articles have mentioned both "Apple" and "innovation" (a Google search displays hundreds of millions of results). As of this writing, Walter Isaacson's comprehensive biography of Steve Jobs has held a place on the *New York Times* best-seller list for over 40 weeks. Nearly 40 books on Apple and Steve Jobs have been published since his death, in October 2011—celebrating the company's can-do culture, breakthrough product designs, global supply chain prowess, and legendary cofounder. A unique confluence of leadership, talent, strategy, and technology has brought Apple extraordinary success and raises the question of how relevant a model the company can be for others as they chart their own innovation course. To answer the question of how exceptional Apple actually is, we analyzed its growth using the analytic technique that underpins the 2008 book *The Granularity of Growth*.[2]

This approach, at its core, entails disaggregating the sources of growth into three categories. The first is to compete in the right markets and harness their momentum to expand sales of current products and services. The second uses M&A to, in effect, purchase growth. Finally, companies can grow organically, through market share gains from existing or new products and services.

Since 1999, the more than 750 companies in our database have, on average, derived a negligible portion of their growth from organic share gains of any kind.[3] Apple, by contrast, has grown almost entirely through share gains. And that's just the beginning of its uniqueness. Of the companies that have expanded through market share growth, only a few have created new markets from whole cloth, either by being the first to enter entirely new geographies or through "disruptive" innovation that creates completely new products, services, or business models. In fact, our research shows that from 1999 to 2008, Apple was the only global incumbent to create entire new markets, repeatedly, from disruptive innovation. This analysis, it should be noted, does not consider industry attackers or start-ups—only incumbent companies and their efforts to create new markets.

Just how unique is Apple's performance? We looked at our database's top ten companies that grew by creating new markets. Apple was the only one among the top ten to capture this growth through disruptive innovation and one of only three to derive more than 5 percent of its annual growth from creating new markets. Nine companies grew by entering fast-growing emerging markets. Seven of those nine, including the other two whose annual growth from creating new markets exceeded 5 percent, were from the telecommunications sector. (The remaining two were a consumer products company and a conglomerate.) At the same time, Apple's 7.9 percent growth from disruptive innovation represented 45 percent of its company-wide growth. For others among the top ten, the average growth derived from entering new markets was just 21 percent of total growth.

Apple's performance also has been singular among its peers in the innovative high-technology sector. The company's growth through market creation is about six times higher than that of the second- and third-ranked companies achieving rapid growth by creating new markets—Lenovo and Cisco. In other sectors, including consumer packaged goods, retail, and health care, incumbents' growth through creating new markets was close to zero or in some cases slightly negative.[4]

Apple does deserve its place in today's hierarchy of esteemed companies by virtue of its unique accomplishments; its innovative products, services, and business models; its culture; and its processes and capabilities in areas

Exhibit

Companies that innovate at scale outperform competitors in their sector.

For 322 companies in 6 sectors that showed positive organic growth from 1999 to 2007

Type of organic growth	**Consistent year on year** (ie, 70% of total over time frame)	**Frequent but not year on year** (ie, 50% of total over time frame)	**Sporadic**	**Limited**
Share of companies[1]	6%	22%	50%	21%
Absolute CAGR,[2] 1999–2007, %				
Organic growth (share gains)	14.2	3.9	–0.7	–2.3
Growth through M&A	4.8	3.9	3.0	2.2
Momentum growth				
Portfolio unchanged	10.6	6.0	6.6	6.0
Portfolio changed	0.5	0.1	0.1	–0.1
Total revenue growth	**30.1**	**13.9**	**9.0**	**5.8**
Total returns to shareholders (TRS),[3] %	23.5	10.3	7.5	5.9

[1]Figures do not sum to 100%, because of rounding.
[2]Compound annual growth rate.
[3]Includes both public and private companies that were public between 1999 and 2007.

such as supply chain management—not to mention the extraordinary leadership of its cofounder and current executives. In addition, we don't mean to say that companies should *never* emulate Apple or other truly exceptional businesses. Many companies can draw new insights from Apple's achievements in design, brand loyalty, and retailing, to name a few things. Rather, our analysis is a cautionary tale suggesting that executives take a clear-eyed view of the companies they want to emulate, as well as the returns and outcomes they expect from doing so.

An alternative to the headlong pursuit of disruptive innovation is what we call an "innovation at scale" strategy: repeatable and sustainable organic growth across the organization from new products and services—growth that builds on the foundation of a company's core business. Analysis of more than 300 companies indicates that from 1999 to 2007, companies that showed positive organic share gains, year over year, for 70 percent or more of that time frame were, on average, twice as likely as other companies in their sector to outperform competitors as measured by total returns to shareholders. Companies that innovated at scale successfully at least 50 percent of the time were also more likely to outperform, but to a lesser degree (exhibit).

This approach, too, is challenging: just 6 percent of global incumbent companies innovated at scale 70 percent of the time during this period. Still, the data suggest that identifying ways to exploit existing assets, including technology, organizational capabilities, or business model strengths, is within the reach of many more incumbent companies than might succeed in creating new markets, as Apple and few others have done.

[1] See Jeffrey Pfeffer and Robert L. Sutton, *Hard Facts, Dangerous Half-Truths and Total Nonsense: Profiting from Evidence-Based Management*, Cambridge, MA: Harvard Business Press, 2006; Adrian Wooldridge, *Masters of Management: How the Business Gurus and Their Ideas Have Changed the World—For Better and for Worse*, New York: Harper Business, 2011; and Phil Rosenzweig, "The halo effect and other managerial delusions," mckinseyquarterly.com, February 2007.

[2] See Mehrdad Baghai, Sven Smit, and Patrick Viguerie, *The Granularity of Growth*, Hoboken, New Jersey: John Wiley & Sons, 2008, which rests on a proprietary database of more than 750 large global companies that we have continued updating and analyzing. The research on which this article is based draws on that database and on public documents from Apple and other companies.

[3] For example, a disaggregation of growth for companies in our database between 1999 and 2005 shows that of the overall 8.6 percent top-line annual growth achieved by the average large company, just 0.1 percentage points came from market share performance, 5.5 percentage points from the market growth of the segments in existing business portfolios, and 3.0 percentage points from M&A.

[4] We measured the average movement in portfolio growth across each sector.

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