

WHITE PAPER

What Business Are You In?

by **Bob Gibson**



Where Did This Question Come From, and Why is it Relevant?

It's a simple but powerful question. It was first asked in the '70s by management consulting guru and thought leader, Peter Drucker. And it continues to be asked today by most forward-thinking CEOs.

About the same time Drucker was consulting, renowned founder of modern marketing and Harvard Business Review editor, Theodore Levitt, also made a strong argument that companies should stop defining themselves by what they produce, and instead reorient themselves toward customer needs.

Here's what Theodore Levitt had to say in a 1960 Harvard Business Review:

"Every major industry was once a growth industry. But some that are now riding a wave of growth enthusiasm are very much in the shadow of decline. Others that are thought of as seasoned growth industries have actually stopped growing. In every case, the reason growth is threatened, slowed, or stopped is not because the market is saturated. It is because there has been a failure of management...The railroads did not stop growing because the need for passenger and freight transportation declined. That grew. The railroads are in trouble today not because that need was filled by others

(cars, trucks, airplanes, and even telephones) but because it was not filled by the railroads themselves. They let others take customers away from them because they assumed themselves to be in the railroad business rather than in the transportation business. The reason they defined their industry incorrectly was that they were railroad oriented instead of transportation oriented; they were product oriented instead of customer oriented.

An expanding market keeps the manufacturer from having to think very hard or imaginatively. If thinking is an intellectual response to a problem, then the absence of a problem leads to the absence of thinking. If your product has an automatically expanding market, then you will not give much thought to how to expand it..."

The question, "*What business are you in?*" is an important gateway question for you to ask and for your team to get right.

Companies That Didn't Get It Right

There are many case studies of companies that did not answer this question correctly. Kodak today is largely out of the photography business. Blockbuster was in the business of renting movies. Record companies once offered a disruptive technology—selling recorded music. They were moved aside by digital start-ups that came from nowhere to provide customer value in a new and better way.

Big box retailers, such as Home Depot and Lowe's, have methodically identified product categories once dominated by name brands that started stagnating. The first step in those brands' stagnation occurred when US manufacturers moved their production to China to meet the margins required by the retailers. Then, as innovation languished and the category looked more like a commodity, the big box retailers built large offshore sourcing departments and began sourcing the same products from the same suppliers, leaving brand name manufacturers with few, if any, points of differentiation.

Regarding differentiation, Levitt wrote:

"There is no such thing as a commodity. All goods and services are differentiable. Though the usual presumption is that this is more true of consumer goods than of industrial goods and services, the opposite is the actual case. The usual presumption about so-called undifferentiated commodities is that they are exceedingly price sensitive."

One exercise your company can use to discover points of differentiation is to look for unpleasant customer transactions in your business or industry. Buying gas is

Effective CEOs are the very ones to disrupt their own business for a positive outcome—before someone else does it and takes their customers.

unpleasant. It's more like paying a tax for the convenience of driving. So, if there was a more pleasant alternative, the entire industry would change in a heartbeat!

I recently wrote about how **CEOs in 2017** are embracing disruptive business models and technologies. In previous years CEOs were skittish about disruptive technologies in their marketplace. Today's CEOs view disruptive technology challenges as opportunities to create advantage. They embrace disruptive technologies as a way to stay relevant. Effective CEOs are the very ones to disrupt their own business for a positive outcome—*before someone else does it and takes their customers*. At BOLTGROUP, our specialty is helping clients explore opportunities, weigh benefits, and develop technologies for disruptive new product lines.

So, what business are you in? Do you define your business by the product you sell or by the value you create for your user?

Humminbird

In the '80s I had the good fortune of working for a very smart, forward-thinking senior management team at Techsonic Industries, home of Humminbird depth finders.

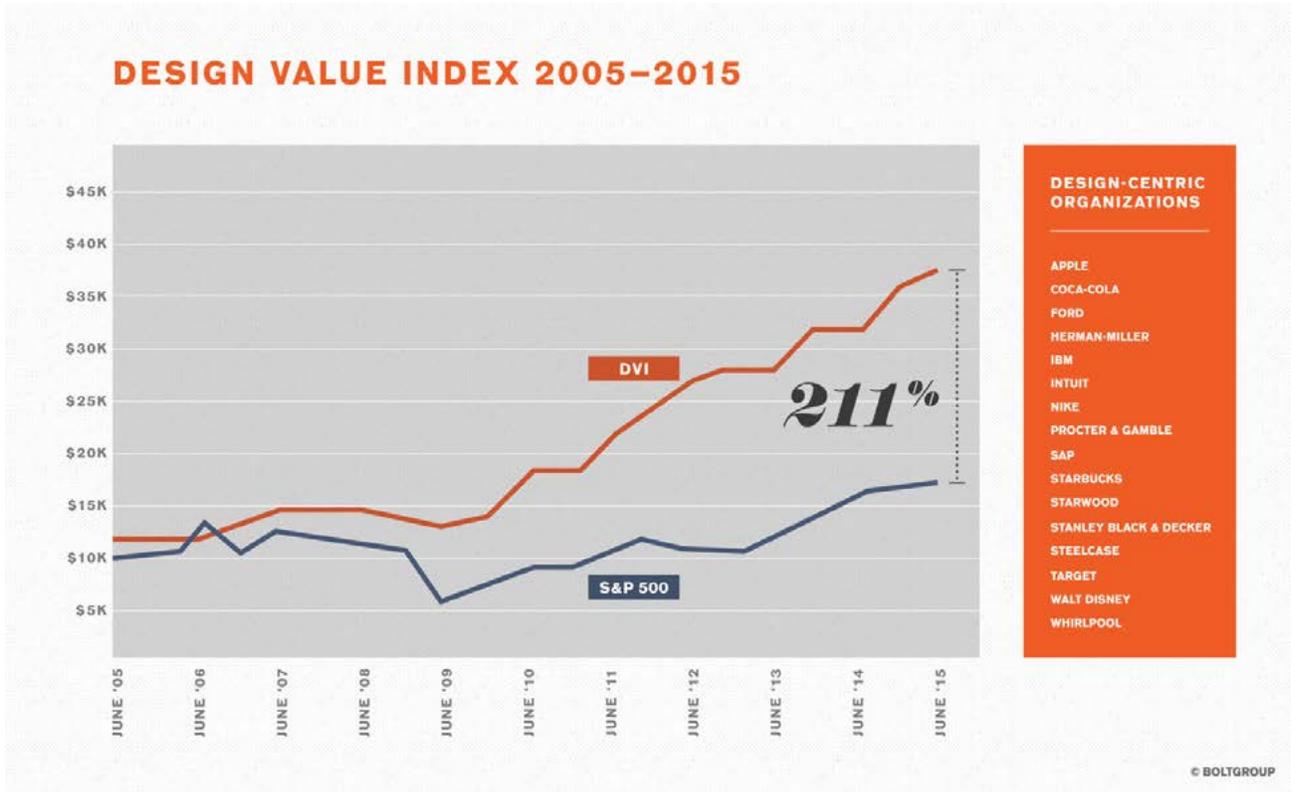
We asked the "What business are you in?" question often as a means to help evaluate our business direction, and identify the products and services that would support that direction. It allowed us to think independently of our production facilities and current product lines and focus more on the customer base we served and what might bring them value. By defining the business more by the needs and problems of customers than a specific product, we were able to take advantage of emerging technologies that would better meet those needs and solve problems. The result was a disruption to the fish finder market. By adopting the new technologies (LCD displays and microprocessors), Humminbird offered customers a product experience that was much easier to learn and understand. Within one year the company went from a long-standing number two market position to a dominant number one. The easier to use and understand product line greatly expanded Techsonic's overall market size.

BOLTGROUP also helped Hunter Fan, the market leader in residential fans, ask and answer the question, "What business are we in?" Results of that exercise prompted the question, "What business should we be in?" The exploration of both questions, along with BOLTGROUP'S experience in the builder and consumer markets, allowed Hunter to break out of its brand box. Our ethnographic research techniques revealed insights and potential new product features and benefits. That led to the development of innovative fans for the construction industry. Hunter Fan SVP, Jim Barrett, shared, "The resulting product line was selected for a national rollout with a large DIY chain, and touted as the most innovative fan product at the annual line review."

Defining Your Business the Right Way

Nike isn't in the shoe business. Sure, they started by making shoes. However, when they began focusing on a larger vision—inspiring the athlete in all of us—Nike became an extremely diverse company, making products like the number one health app in the world.





Is Tesla in the car business or in the mobility business? Is Apple in the computer business? Apple dropped the word computer from its name five years ago—a signal that a company is waking up to the business that it is actually in.

Here are how a few best-in-class companies broadly define their business:

Nike: "To bring inspiration and innovation to every athlete in the world."

Starbucks: "To inspire and nurture the human spirit—one person, one cup and one neighborhood at a time."

Chevron: "To be the global energy company most admired for its people, partnership and performance."

Amazon: "To be the most customer-centric company in the world, where people can find and discover anything they want to buy online."

Intel: "Delight our customers, employees and shareholders by relentlessly delivering the platform and technology advancements that become essential to the way we work and live."

eBay: "Provide a global trading platform where practically anyone can trade practically anything."

Bristol-Myers Squibb: "To discover, develop and deliver innovating medicines that help patients prevail over serious diseases."

Levi Strauss & Co.: "We will market the most appealing and widely worn casual clothing in the world. We will clothe the world."

Patagonia: "Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis."

So, What Should We Do?

If you don't have a broad definition of what business you are in, start by asking your customers, your suppliers, and your end customers what business they think you are in. You'll get insights into what is recognized as unique and essential about your business.

Once you've reviewed responses, define the business you are in by seriously asking the question and arduously debating the final answer. And, stay close to your customers for ongoing insights to this question. One note: companies with the strong use of design have an advantage here. The **Design Value Index** shows that companies that embrace design understand their customers better than those that don't. As a result, they grow faster and with higher margins, and also recover faster during economic downturns.

Now that you have a broad definition of what business you are in, apply that to your new ideas. One definition of innovation in business is an action that extends customer value. If we want to innovate, we need to understand what it is that the customer really values. Then we can set our minds to the task of how to extend that value. Start every week by asking these questions:

- What business are we in?
- What do customers really value?
- In what other ways could that value be delivered?

These questions are always worth asking. The insights they yield can produce powerful innovation in your products and services.

So, let me close with my opening question. What business are you in?



MEET BOB

Bob is BOLTGROUP's CEO. He champions our vision to bring meaningful innovation to our clients' products and brands through extraordinary design and customer service. An award-winning designer, Bob has spent the past three (+) decades managing international product development teams, and creating innovative product lines and brands for companies such as GE Lighting, Sears Craftsman, Coca-Cola, and Lowe's.