

THE COMPETITIVE EDGE

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DEFINITION FRAMES DESTINY

Spend some time thinking about the definition of your business. It's worthwhile. One way or another, the definition you choose shapes the destiny of your business. Suppose the definition you choose is a business that sells hot dogs in Los Angeles through a stand-alone hot-dog stand. If so, your ideal is to become Pink's, a Los Angeles cultural icon and a wildly popular hot-dog-only stand. But that will be it. Your destiny, for example, will not involve hamburgers or a nationwide chain of hot dog stands.

Watch for three business-definition errors to avoid: too narrow, too broad, too long.

Too Narrow

Marlin Steel is an excellent example of this error. Company owner, Drew Greenblat, defined the business as a maker of metal bagel baskets. The business was doing well until Chinese competitors entered his market selling baskets at prices below his manufacturing cost. Greenblat was saved from ruin by a serendipitous phone call from a Boeing engineer looking for metal baskets to hold factory airplane parts. Greenblat had been blind to the existence of this market, five times bigger and more profitable than bagel baskets. Greenblat was blinded by his narrow business definition.

Too Broad

In 1979, Chairman Richard Ferris declared that United Airlines was not an airline, but something much broader, a travel company. To become a travel company, between 1979 and 1987 he bought Westin, Hilton, and Hertz. Then he changed the company name to Allegris. Unfortunately, Ferris and his team, knowing little about managing hotels and car rental operations, paid far too much for the acquisitions, and, thereby, damaged financial performance. The stock price sank. Four months after the name change, Ferris was fired, then the United Airlines name restored, the acquisitions sold off. The message: don't define your business too far beyond your range of experience.

Too Long

Early in the 20th century, wagon companies died if they stuck too long to a definition as wagon makers. Those companies changing to auto makers survived.

Eastman Kodak declined because its management stuck too long to its film-base definition.

Blockbuster stuck too long to the definition of renting DVD's through stores, 9,000 of them. Now no more Blockbuster.



CHANGE YOUR DESTINY

Explore the definition of your business. Creatively examine alternatives to the current definition. You may uncover a new definition that opens up surprising growth, as Drew Greenblat of Marlin Metals did. You will uncover potentially valuable insights into your current situation that could improve your value propositions and growth.

Reed Hastings did so. In 1997, when he cofounded Netflix, his definition of the business was a renter of movies by mail. The value proposition embedded in his definition was vastly superior to the store-rental alternative. Twelve years later, in 2009, Hastings dropped the phrase “by mail” from the definition and opened the door to streaming. The new, broader definition produced great growth, driving the company’s stock price from \$5 per share to \$300.

In 2014, PayPal’s new CEO, Dan Schulman, did the same. PayPal was founded in 1998 as facilitator of online payments for retail purchases. That definition created a destiny of excellent growth from 1998 to 2014. The definition, however, gave lower priority to understanding customer needs. Schulman’s definition change gave customer needs highest priority. PayPal would provide the online solutions to financial problems of both small merchants and retail customers. Since 2014, revenues have doubled and the stock price tripled.

WAYS TO CHANGE THE DEFINITION

The definition of a business describes what job the business does, how it does the job, and (implicitly or explicitly) for whom. For the hot-dog stand example at the start of this newsletter, the job is to provide hot dogs, the how is imbedded in the phrase “hot-dog stand” and the for-whom is hot-dog lovers close enough to the Los Angeles location of the hot-dog stand.

Identify other definitions by changing one or more of the three dimensions of the definition. Instead of hot dogs, lobster dogs. Instead of hot-dog stand, mobile on-call hot-dog servers. Instead of Los Angeles, the United States. Brainstorm a list of possibilities in each dimension. Generate possible new definitions by combining the possibilities. You can do this rapidly and just as rapidly winnow the list down to 6-8 alternatives that are worth thinking about.

Some businesses benefit from changes in definition that shift emphasis from products to services, as in “a maker of pumps” to “enable low-cost, always-available pumping.” Consider this option if it can lead to a more compelling value proposition.

WHEN TO CHANGE THE DEFINITION

Periodically check the status of your business definition. Change it when it becomes too narrow because of growth or market changes. Change it when it becomes too general and vague. Change it when it’s long in the tooth and there are major changes in markets and technology. The definition is easy to neglect. A mistake. An improved definition produces greater growth.