FINANCIAL REVIEW

Saturday May 25th, 2013

IT AIN'T WHAT YOU DO, BUT WHY YOU DO IT

Strategy Does a camera company sell film, or memories? It pays to know the difference, writes **Michael McQueen**.

Back when I was in Scouts as a teen, I vividly remember weekends away in the bush where my friends and I would be dropped off at some isolated location in the middle of nowhere. The Scoutmaster would give us the co-ordinates of a destination point and give us three days to get there. Long before Google Maps or GPS, we had to engage in old-fashioned "orienteering" and find our way through the wilderness guided by nothing more than a compass and the contours of our map.

One of the most important lessons was drummed into us on day one. To counteract the variation between magnetic and true north, we learned to place our compass on the map with its heading arrow aligned with true north and rotate the compass housing until it lined up with the magnetic north line. Once our map and compass were calibrated, we were ready to embark on our journey.

We had heard stories of groups who got hopelessly lost because they failed to do this. Some scouts, presuming the difference between the two norths was insignificantly small, figured they could just work it out as they went along. The diversion of a few degrees, compounded over many hours or days of walking, typically led them miles off course.

In the commercial arena too, continual calibration or recalibration is critical if a business, brand or organisation is to stay relevant and on track. Why do some brands and organisations emerge from change and upheaval stronger than ever, while others get knocked out of the game?

Compare the fortunes of Kodak with Fuji, Meccano with Lego, SAAB with Volvo, and Atari with Nintendo. The evidence is clear: decline need not be inevitable.

Put simply, "recalibration" is about ensuring there is alignment between a brand or organisation and its key values. It is about making sure that what you are doing and how you are doing it lines up with who you are and why you exist in the first place. Being off even by a few degrees can make all the difference when compounded over time.

It was Kodak's very failure to recalibrate when the digital age hit that led to its demise. Kodak fell into the common trap of getting who it was confused with what it did.

In the early days, Kodak had been in the business of helping people preserve memories. However, owing to the generous profit margins and lucrative residual income that resulted from selling film, Kodak began to see itself primarily as a company that sold film. In a sense, the company became a hostage to its own success. While a film-focused paradigm served Kodak well as long as everyone bought film and depended on it to take photos, the onset of the digital age posed a challenge. When the digital threat became clear, Kodak made the mistake of asking the question: "How can we ensure people keep buying film?" Instead, they should have asked: "How can we help our customers preserve their memories in a digital era?"

Kodak had invented the world's first digital camera as far back as the mid-1970s. It could have been the first company to introduce online photo sharing, and it could have pioneered cloud-based file backup systems. Instead, Kodak remained focused on film, and by the time Kodak realised just how far off track it was, it was too late.

Theodore Levitt observed the very same pattern of getting confused between what a company does and why it exists in his seminal 1960 piece for the *Harvard Business Review* titled "Marketing Myopia". Levitt observed how railroad owners in the early 1900s mistakenly assumed that they were in the railroad business rather than the transportation business. When technology and customer needs evolved, these railroad companies missed the chance to embrace the opportunities these changes represented.

Speaking at a bar licensees' conference recently, I asked attendees the question, "What business are you in?" Unsurprisingly, the majority of responses centred on products and services: "We are in the food and beverage business". Although I understood why audience members responded the way they did, I challenged their assumptions and suggested that they were, rather, in the "atmosphere and experience" business.

Seeing the puzzled expressions, I explained that when a customer enters a bar or restaurant and orders a glass of wine, they are aware that they are paying for one glass what they would otherwise pay for an entire bottle of the same wine at the liquor store down the road. "So why are they paying more?" I asked. "Why not just buy the bottle and drink it at home?" It's the atmosphere and experience that enticed customers to pay up, and return again and again.

"Food and beverages are just one way that you create the experience and atmosphere your customers are looking for."

Most businesses and organisations set out with a clear idea of who they are and why they exist. But as the "what" and "how" get repeated, entities focus on processes and lose sight of their purpose or outcome.

For decades, business leaders have had the corporate values message drummed into them. Consultants have grown wealthy as boardrooms, filled with well-meaning executives, have spent countless hours hammering out and wordsmithing all that an organisation holds near and dear. Sadly, these exercises are often, at best, tokenistic and, at worst, a costly waste of time.

One of the common mistakes I see many of my clients make when attempting to identify their values is that they start by asking the wrong question. Rather than asking "What are our values?" they ask the question, "What should our values be?" An organisation's values are implicit. The task, then, is not to ask what your values should be, but to discover what they already are.

There are no automatically right and wrong values for an organisation or brand to have. Across the entire spectrum of enduringly successful companies and brands, there is not one single value common to all.

What determines enduring success is that the organisation has core values, knows what those values are and allows their decisions and strategy to be guided by them.

The purpose statements below drive some of the world's most enduringly successful and relevant brands: **3M:** to solve unsolved problems innovatively. **Nike:** to experience the emotion of competition, winning, and crushing competitors. **Dyson:** to solve problems others seem to ignore. **Wal-Mart:** to give ordinary folk the chance to buy the same things as rich people. **Disney:** to make people happy.

3M, founded in 1902 as the Minnesota Mining and Manufacturing Company, would never have branched out from mining into sandpaper, Scotch Tape or Post-It Notes if it hadn't been for its driving purpose.

If the Disney Corporation's purpose statement had been to entertain kids by producing cartoons, the company would have stopped growing decades ago.

However, Walt Disney's purpose to "make people happy" allowed for and inspired the company to create feature-length hit movies, the Mickey Mouse Club, Euro Disney, and even an online virtual world for kids called Club Penguin.

Then there's American hotel and restaurant chain Howard Johnsons which, throughout the 1960s and '70s, was the largest restaurant chain in the United States, with more than 1000 outlets nationwide. When the company's founder passed away in 1972, his son took the reins and prioritised sales growth and return on investment over the company's former twin values of customer service and employee morale.

Within a few short years the new CEO had all but destroyed the company and ended up selling the chain in 1979.

Speaking in August 2012 at the Edinburgh International Television Festival, Rupert Murdoch's daughter, Elisabeth, openly criticised her father's company News Corporation for operating with an absence of values.

She observed that "profit without purpose is a recipe for disaster" and that companies and their leaders need to "reject the idea that money is the only effective measure of all things". To this, she added that an absence of purpose could be one of the most dangerous things in a capitalistic world.

The last 100 years of corporate history give credence to Elisabeth Murdoch's insight. As Hewlett-Packard co-founder David Packard once said: "Profit is not the proper end and aim of management – it is what makes all of the proper ends and aims possible." W

This is an edited extract from Winning the Battle for Relevance *by Michael McQueen, published by The Nexgen Group.*

FBA 051