What Business Are You In?

THE SECOND COMMANDMENT

DEFINE THE BUSINESS OF THE ENTERPRISE IN TERMS OF WHAT IS TO BE BOUGHT, PRECISELY BY WHOM, AND WHY.

Businesses are organs of society that perform tasks associated with providing most goods and services the public decides it wishes to own and use. Under this capitalistic system, a business can prosper to the extent that it performs its particular tasks effectively and efficiently within the law. The nature of the tasks to be performed usually changes over time as those served change. The people in a successful company predict and respond to their chosen customers' needs. Customers, therefore, define an enduring business. At all times, some customers are growing in their ability to buy; others are declining. The astute manager ascertains which is which.

Over forty years ago, Ted Levitt published an article, *Marketing Myopia,* that became a classic. His words still ring true. Levitt said that customers buy need satisfactions, not products. He illustrated his point with two famous examples. Why did railroad companies, once very prosperous, decline in importance and value? Because railroad business people persisted too long in defining their businesses as the rail-bound movement of people and goods. They failed to recognize that customers were buying *transportation*. Transportation was the generic need being satisfied, and as new, non-rail forms became available, e.g., air and highway, there was no reluctance among railroad customers to switch. Had railroad managements been less myopic, they could have led the way into the new forms of transportation.

Levitt's second example was from the movie industry. What did (and do) people buy when they attend theaters? The movie business people of the 1950s assumed the answer was movies, of course. Levitt noted that a more useful view would have been that people were buying *entertainment*. If movie executives had defined their businesses in terms of the generic need for entertainment, they might have been the first people into the new medium of television when it appeared.

Entrepreneurs face three special hurdles when it comes to defining their businesses in terms of their customers. First, many new enterprises are started by technical people—engineers, scientists, and inventors—who, almost by definition, are likely to be deeply attached to the initial product or process. In effect, the founders get caught up in the folk lore of building a better mousetrap. The truth is that people don't buy mousetraps, per se, they buy ways to eliminate mice. Think about it.

Second, entrepreneurs are prone to generalize about who their real customers are. They think in terms of serving "companies” and “consumers,” which are ex-

tremely vague classes of potential buyers. Finally, entrepreneurs, in their enthusiasm and infectious optimism, sometimes fail to pinpoint concrete reasons why individual decision makers will buy the entrepreneur's specific new product, service, or experience. In short, the entrepreneur neglects to think through just what will differentiate his or her enterprise in customers' minds, be it price, performance, convenience, or...

Following are three short cases to illuminate these hazards to a successful start-up operation.

CASE D. Two technical (electromechanical) people left a major west coast instrument manufacturer to cofound a teaching-machine company. The product, an audiovisual-response device, worked well and seemed to have a number of potential applications. Consider the dictates of Commandment Two and think about these three questions.

1. What might customers buy from the new company?
2. Who might make the buying decisions?
3. Why might various types of buyers buy the machine?

–Think about the answers before proceeding–

Here is a partial list of possible answers to the questions.

Q1. Customers might buy teaching machines to:

- Reduce teacher or instructor costs
- Improve student or trainee retention of material
- Increase efficiency (teach more people per hour)
- Improve utilization of facilities
- Help slow learners

Q2. The buying decision might be made by:

Academic Market Segment

Teachers	School administrators
School boards	PTAs

Business/Industrial Market Segment

Profit center managers	Training directors
Personnel managers	Purchasing agents

Q3. A given buyer might buy in order to:

- Improve his or her performance
- Enhance his or her reputation as an innovator
- Capture available investment tax credits before they expire
- Experiment
- Avoid hiring additional people

There are certainly a lot of possibilities. Effective entrepreneuring requires that the possibilities be reduced in number to the point where rifle-shot marketing and selling becomes possible.

CASE E. A famous tennis champion started a chain of tennis camps. Initially he had summer camps for children. Then he began expanding to week-long and weekend programs for adults. Essentially the same marketing, advertising, and operations approach was used for both segments of the tennis camp market—children and adults. The venture into the adult market failed. Commandment Two was violated.

	Children Camps	Adult Camps
What is bought?		
	1. Tennis skills	1. Social mixing
	2. Camp experience	2. Vacation
	3. Baby sitting	3. Tennis skills
Who buys?	Parents	Adults, mostly singles
Why?	1. Child development	1. New experience
	2. Social status	2. Physical fitness
	3. Free-up time during school vacation	3. Athletic prowess
		4. Meet opposite sex

In Case E, properly defining the business in terms of its customers would have led the entrepreneur to the conclusion that, in fact, he was dealing with at least two discrete tennis businesses. Each one had its own distinct marketing, sales, and operations requirements for success.

CASE F. Four physicians teamed up to take advantage of an opportunity they saw to use hand-held computers in hospitals. They pulled together an extraordinarily sharp group of programmers and systems people and developed packages

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for a variety of applications. The physician/entrepreneurs produced a large, handsomely-bound business plan. One seasoned investor made these notes on the cover after a detailed reading of the plan: "I can't tell if you are intending to sell a) time savings to doctors, b) cost savings to hospital administrators due to possibly fewer nurses per floor or ward, c) greater revenue to accounting people due to tighter controls on miscellaneous charges, or d) shorter hospital stays to patients and insurance companies." The potential investor said no to the investment opportunity.

Of course, if an entrepreneuring team such as the one in Case F has enough money, it may be able to muddle through the range of alternatives and eventually ferret out one or more solid, profit-making opportunities. There is almost always going to be some muddling, which is why a young company needs an adequate supply of money up front, i.e., capitalization. But there is a lot to be said for minimizing the muddle factor beforehand with hard thought, market research, field interviews, and actual sales calls. Up to some point short of paralysis by analysis, the respective enterprise should be defined as tightly as possible on paper. This doesn't preclude later deviations in direction based on new information (see Commandment Ten). Putting things on paper can help founders minimize spending energy and money leading their companies down blind alleys.

CASE G. An adult student of the tennis champion in Case E above conceived and developed a videotape device linked to a laptop. It was designed to allow tennis pros, and perhaps ski school pros, to record students' motions and play them back with stop action and other diagnostic features. The engineer/entrepreneur, the champ, and everyone who saw themselves played back on the screen bubbled with enthusiasm. Money was raised easily for a new venture based

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on the device, and production was inaugurated amid appropriate fanfare. After all, how could the champ be wrong? The company expected to sell 1000-2000 units at around $4000 each the first year, a projection based on selling units to what the entrepreneur thought was a reasonable percentage of the number of teaching pros and racquet clubs across the country. The fledgling company sold a grand total of twenty-three units nationwide during its first year in business.

What went wrong? Very simple. Tennis pros generally saw, and still see, themselves as artists. They didn't care much for diagnostic devices, particularly ones that were a trifle complicated to operate. In addition, many of them (it turned out) didn't care much either for the champ who was featured prominently in the advertisements. And finally, neither the teaching pros nor the clubs that provided the courts had much spending money.

The world of interest to an entrepreneur is filled with individuals who have some amount of change in their, or their companies', pockets. The most basic business transaction occurs when an individual exchanges his or her change for whatever it is you, the builder of a business, are selling. If there are enough individuals willing to make such an exchange at a price that allows you to pay your way and have enough left over to make the effort and risk worthwhile, then you may have a case for proceeding with a new enterprise. Otherwise, don't. If you are unsure, tiptoe until you can assemble enough hard data from customers—purchase orders, letters of intent, survey results, field tests—to justify a go decision. Getting balanced input from others qualified to entrepreneur with you (Commandment One) and agonizing through the preparation of a business plan (Commandment Four) can help you sort through and rationalize the maze of options that confronts the people who give birth to a new enterprise.