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Minding your business

Diversification is fine, but losing focus is just plain costly, finds Beth Zimmerman

One of the most essential, and difficult, questions any business must answer is, what business are we in? Many will say what they do—process electronic transactions, sell insurance, build buildings, design websites—but fail to address what they are fundamentally in business to achieve. If this sounds frighteningly similar to a mission statement, it's for good reason, since a business description defines the competitive category in which a business resides and in which it strives to fulfill its mission.

Take General Motors, which in April 2006 sold a controlling stake in its highly profitable auto financing unit, General Motors Acceptance Corp. (GMAC) in order to produce significant liquidity to fund its North American turnaround plan. Because GMAC eclipsed the auto division in profitability, the running joke was that GM was really in the finance business, its vehicles a mere foil to get people into GMAC financing. While that's probably a bit of hyperbole, GM must now show that it can stand on its own as a profitable auto manufacturer. The ways in which it understands, structures, executes and communicates its business have changed fundamentally, and it must prove it can be viable in a market that many argued it ignored for too long.

In stark contrast to GM and the other members of the Big Three (Ford and DaimlerChrysler) is Honda, which doesn't consider itself in the automobile business at all. Honda is in the business of mobility and explicitly states that its business is "beyond automobiles and motorcycles." As a player in the mobility business, the company's new HondaJet makes perfect sense—a small, ultra-

light micro-jet targeted to air-taxis and corporate fleets. The company is already projecting sales of 70 units a year in 2010. Equally compelling is Honda's ASIMO humanoid robot, which not only is considered the world's most advanced and independently mobile robot but was designed to assist people in everyday living tasks; in other words, to enhance or augment human mobility. Its moniker stands for Advanced Step in Innovative Mobility and is a striking example of the innovative potential unleashed by a company that defines its business as more than the sum of its most ubiquitous products—cars and motorcycles.

Yet many companies struggle with how to define their businesses. Kodak, an industry stalwart, was late to the digital party and is trying to reinvent itself as a player in the digital business—in spite of the fact that 80 percent of its revenues are driven by its traditional film business, which is growing at an anemic two percent per year. Faced with "go digital or die," the company must figure out how to be in a new economy business while weaning itself off old economy revenue streams.

Taking a strategic approach to determining a company's business has enormous, tentacular consequences that reach into every aspect of how it goes to market: its products and services; its customers and competitors; the way it prices and distributes offerings; the performance and quality expectations of its stakeholders; the talent required to pull it all off; and—equally important—the businesses it is not in or should exit. ■

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