

## Re-Purpose Before You Re-Structure

*A recent note from James Womach*

One of my favorite questions when meeting with senior leaders of enterprises is, "What is your organization's purpose?" The typical and immediate response is, "To make money and grow." "But," I respond, "This answer has nothing to do with your customers, who provide the money your organization needs to profit and grow." I then repeat my question, but elaborate, "What does your organization do to solve customer problems better than competitors so that customers old and new will pay good money for your services and goods and buy more over time?"

In recent years a fashionable alternative to "make money and grow sales" was that organizational purpose was to steadily grow shareholder value. But now the king of shareholder value, General Electric's retired chairman Jack Welch, has acknowledged —thank goodness —that this is a result, not a strategy for achieving this result. Now that investors as well as customers are on strike during the great financial crisis, the whole management world is being forced to rethink purpose from the standpoint of the customer.

Confusion about purpose is particularly painful to watch in the collapse of General Motors because this organization was so brilliant for so long in clearly defining its purpose. On June 9, 1921, GM's great leader Alfred Sloan produced a simple memorandum on the topic of "Product Policy" that defined General Motors' purpose for generations to come.

Sloan stated that General Motors would provide a carefully configured range of products for "every purse and purpose", from used Chevrolets at the lower end of the market (with dealer financing on these traded-in vehicles) to a "fully loaded" Cadillac at the top end. This simple memo rationalized GM's chaotic product line-up so its vehicles would not overlap in the market. Instead, they would each have a clearly defined place in a status hierarchy and would always be more refined, a bit "classier" with a higher price, than competitor products in each market segment.

This memo about market policy was much more than the now familiar market segmentation and value proposition for each segment. Sloan did something much more important by defining GM's central purpose as creating an aspirational escalator for every customer through the life cycle, from the used Chevrolet as their first purchase to the fancy Cadillac as their last (often concluding with a Cadillac hearse on the way to the cemetery!) And it worked brilliantly. General Motors was probably never as efficient in production as Ford and it was rarely a technology leader. But it provided a clear product pathway on the customer's life journey. Customers embraced this purpose and opened their wallets to pay higher prices for more refined products within each market segment. Within a few years of Sloan's memo GM had become the largest and most successful corporation in the world and in the history of the world.

Moving forward to the present moment, it is saddening to read the viability plan GM recently proposed to the US Automotive Task Force. With the exception of the plug hybrid Volt (an unproven technology for an unproven market to be produced at tiny volume in the early years), the plan is entirely about "restructuring" and shrinking, about what General Motors isn't. It isn't Saab or Hummer or Saturn. It won't have nearly as large a dealer network. It isn't a manufacturer with a significant North American footprint outside of Michigan and Ohio.

The natural instinct of senior managers in any crisis is to restructure and downsize. But the question is always, "Restructure and downsize toward what?"

***No customer cares about a company's structure..***

*"Unless you try to do something beyond what you have already mastered, you will never grow."*

*Ronald. E. Osborn*

Where Lean Thoughts can become Reality

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No customer cares about downsizing. Customers only care about a company solving their problems along life's path.

So here's my advice to new GM CEO Fritz Henderson or whoever may follow after him. Before you restructure, restate GM's purpose. Today no one knows. Do it in a simple memo. Indeed, do it in a single-page A3 format. Sloan needed three pages in 1921, so practice continuous improvement to get down to one! And remember that no amount of restructuring without a clear and compelling purpose will save this stricken giant (or any other failing enterprise.)

Best regards,

James Womach

P.S. Toyota has gotten off lighter than GM in the current crisis, but it faces the same confusion about purpose. Until the mid-1990s the clear purpose of Toyota was to be the best organization in the world at providing refined, durable "value" products in all market segments with few delivered defects to customers. The assumption was that growth would naturally follow, and it did. But then the purpose seems to have shifted to becoming the biggest auto company as rapidly as possible by adding capacity everywhere, a purpose that no customer cares about. At the same time competitors, led by Hyundai, have closed the gap on Toyota's original purpose and everyone is doing hybrids where Toyota initially took the lead. An A3 on re-purposing Toyota is surely what new president Akio Toyoda needs as well. My fear is that he will only focus on cost reduction and restructuring. data driven.

### **Cheating at the gas pumps (PRINT OUT YOUR RECEIPTS!!!)**

This email was forwarded to me by my Dad and it seems to make sense.

This is true. It happened to them three weeks ago somewhere in Ridgetown on our way to Kingston . The pump should have totalled @ \$38.00 (and change). When the receipt was printed, and she checked it was \$ 47.00 (and change).

She got mad, went inside the store, asked for a calculator and let them do the math. They refunded her. She told them that if they cheat, they had better make it right. Normally, her husband would skip printing the receipt.. Not her

#### **Here is how to check a pump to see if you are getting the right amount:**

Whichever grade you are using, put EXACTLY 10 LITRES OR GALLONS in your tank, then look at the dollar amount. If the dollar amount is not EXACTLY 10 times the price of the fuel you have chosen, then the pumps are rigged.

In my case, as I said, the mid-grade was \$0.885 per liter; my dollar amount for 10 liters should have been \$8.85 . I wish I had checked the pump. It doesn't matter where you pump gas, please check the 10 liter price. If you do find a station that is cheating, contact the MTO, and direct your comments to the Commissioner, the info is on the gas pumps.

It is a simple and quick verification ... almost like a Pokeyoke approach.

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