



Special Report  
**THE OUTWARD FOCUSED BUSINESS:  
A CASE STUDY OF AUTOMAKERS FORD AND TOYOTA**

**by Robert Urbanowski**

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The *Law of Contribution* plays a part in all our relationships, either at home or at work. It can also be a powerful business principle. We know that when a person is self-focused and inward looking, they suffer destructive results in their life. Conversely, when a person is outward focused on the needs of others, they are much more likely to get the results they want. An organization is no different – suffering destructive results when inward focused, but enjoying productive, healthy results when outward focused.

Over the years, great business minds have identified key success factors. As I examined the writings of Peter Drucker, Jim Collins, Douglas McGregor, Frederick Herzberg, Mihaly Csikszentmihalyi, Abraham Maslow, Steven Covey, and others, I found an underlying, common element to those success factors. These could be reduced to a single, common denominator - the *Law of Contribution*. Although success in business can be complicated, there is one foundational law on which the rest of the business must be built on.

## What is an Inward Focused Business?

An inward focused business is centered on its own needs. They concentrate on:

- Policies and procedures that lean toward the company not the customer or employee.
- Short-term profit results at all costs with little forethought to longer-term value.
- Products that are a reflection of what is best or easiest for them to produce, not a reflection of what the customers greatest need or desire is.
- Employees who are dispensable machines, not valued individuals with personal needs.
- Customers who are treated like they are in unlimited supply and will continue to wait in lines, hold on the phone, and talk to automated voice recognition machines.
- Measuring profit, not customer satisfaction, because they are more concerned about what the business wants than what the customer wants.
- Being open when it's good for them, not necessarily when their customers would like them to be.
- Mission statements focused not on what they will give, but what they expect to receive from employees. For example, the company says “each employee will meet commitments”, “employees will act like a business owner with a sense of urgency”, and “our staff will relentlessly seek our opportunities to improve.”

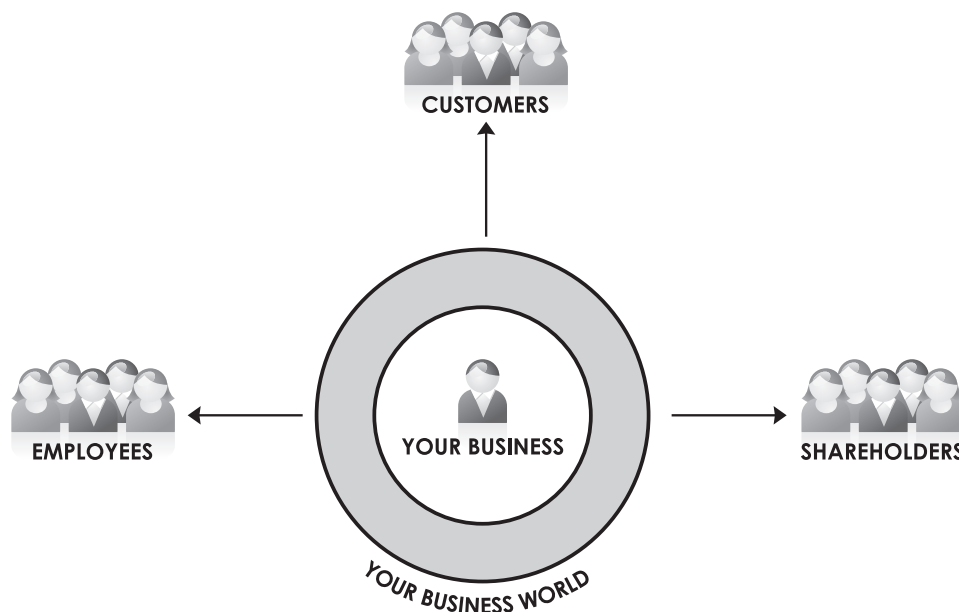
Inward focused businesses are not easy to work for, not easy to do business with, and rarely produce lasting results.

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## What is an Outward Focused Business?

An outward focused business understands the *Law of Contribution*. It inherently knows it must focus on meeting the needs of those in its world in order to get what it wants and needs. What does an outward focused business look like? See diagram below.

The inner circle is the business organization itself. The outer circle is the “business world” which includes its customers, employees and shareholders. When a business contributes to its world, it activates a response from that world that enables the business to meet its needs. If a business is not outward focused, it cannot survive.



The more a business can understand and define the needs of its customers, employees and shareholders, the better it can meet those needs and produce growth and lasting results. Now, I appreciate that at first glance this may appear to be overly simplistic; however, let me assure you that its inner workings are both powerful and very rarely applied in the real world.

## Ford/ Toyota Case Studies

Let's compare two automotive companies. One showing all the signs of an inward organization, and the other showing what can happen when a business is outward focused.

In its 2004 fiscal year-end financial statement, Ford unveiled several disturbing financial weaknesses:

- Ford had 35 cents of cash and marketable securities for every dollar of current liabilities.
- Ford's total liabilities amounted to a staggering \$175.8 billion.

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- With a tangible equity position of about \$8.8 billion, Ford Motor Company's total liabilities to equity ratio stood at 20 to 1—keep in mind that 3 to 1 is considered risky.

At nearly the same time, Toyota announced record profit and moved into the number two sales spot, replacing Ford. What was the difference between these two companies? One was focused inward, the other outward.

Although there may be many complicated factors that contributed to the downturn of Ford, the cause is rather simple – people don't buy their cars!

When Bill Ford took the reins of the company his great-grandfather, Henry Ford, founded over a century ago, he instituted a Revitalization Plan in 2002, after the automaker lost \$5 billion a year earlier. But three years later the plan failed to meet the goals set out in the Revitalization Plan.

When a company is so consumed with what is happening “within” the organization they fail to look “outward” at what is happening in the market and with its customers. This is what the great business coach, Peter Drucker, has always said; “...the single most important thing to remember about any enterprise is that results exist only on the outside. Inside an enterprise, there are only costs.”

This is exactly what happened to Ford. They ignored what was happening in the market, and ignored what their customers wanted. They missed key predictions like:

- Gas prices that rose a dollar above 2002 levels, causing consumers to ditch big SUVs faster than anticipated; steel prices doubled affecting costs
- 40 more nameplates emerged to battle for a share of a flat U.S. market.

Ford also did not update and refresh their product offering. Instead, during the three years and billions of dollars of losses, its new products failed to capture the public's imagination, causing sales and market share to drop.

In January 2006, Bill Ford Jr. and his team unveiled Ford's Way Forward turnaround plan. With no where else to turn, Ford finally acknowledged that its designs were too conservative.

And now here comes the best part of the story. This is so insightful that I wonder if Bill Ford himself was able to understand it. As I was watching the evening news, various reporters commented on Ford's new “plan.” One of the correspondents reporting on Ford's demise commented that in order for Ford to improve their performance they would have to “learn to make cars that people want to buy.” What could be more simple. Make a product that people want to buy. Do they teach this in business schools? I wondered if Ford had made this one statement, the focus of their Revitalization Plan in 2002 if their results might have been different? I suspect so.

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If a business does not focus outward on what is happening in the market, and what its customers want, they will fall the way of Ford. If the central focus of a business is not to “learn to make products that people want to buy” they will not succeed.

Toyota, on the other hand, took an approach that was precisely the opposite of Ford. They focused outward on the market to understand customers’ needs. As they looked beyond the horizon, they saw factors that would spike the demand for better fuel-efficiency. First, management recognized that consumers would gradually become more environmentally aware. Second, they saw the trends that showed that gas prices would rise. Toyota was also willing to redesign and retool for the future. They began manufacturing cars that would meet their customers’ needs. Toyota’s ability to look outward enabled them to build cars that people want to buy. The result? Market leadership and profit.

Now, while Toyota continues to plan for the future, Ford is busy spending its energy on their latest plan, which includes massive layoffs (up to 30,000 - blue and white - collar jobs or 25 percent of the workforce by 2012) and plant closings (14 through 2012).

But wait, the story gets better for Ford! Here’s the latest update.

Since announcing their Way Forward plan in 2006, Ford has lost another \$15.3 billion. Wow! If that’s the way forward, they are clearly pointed in the wrong direction!

Demonstrating a remarkable inability to look at the changing market, Ford said, “Going forward, the Ford brand will build upon the success of hits, such as the Ford F-Series, Explorer, Expedition, Mustang, Escape and Fusion, and enter new segments with a clear, consistent and distinct point of view one driven by bold, American design and innovation.” (Note: no mention of a shift to smaller cars).

In July 2008, after announcing an \$8.7 billion LOSS (yes, that is BILLION), Ford's chief executive, Alan Mulally said, “We're taking decisive action in response to a rapidly changing business environment.” Rapidly changing? There nothing rapid about the change in the market. Toyota managed to see in coming for more than a decade!

With no where left to turn, Ford is in a market demanding fuel efficient vehicles. A top Ford executive has said, “Large sports utility vehicles (SUVs) will go out of fashion because of environmental worries...” Mark Fields, Ford's president of operations in the western hemisphere, said (please see how ironic this is) “Consumers are speaking loud and clear. They are telling us that the social and environmental trade-offs associated with automobiles are increasingly unacceptable. They want cleaner, safer, more efficient vehicles that don't compromise on function or value.”

With no where left to turn Ford announced that six compact vehicles from across the Atlantic will be introduced in North America by the end of 2012. By 2012?? I wonder if they will last that long?

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## The Focus of an Outward Business

Peter Drucker says if you ask the typical businessman “what is a business?” he is likely to answer, “An organization to make a profit.” Drucker states “the answer is not only false, it is irrelevant.” He explains that “Profit is not the explanation, cause, or rationale of business behavior and business decisions, but rather the test of their validity.”

If the purpose of a business is to make a profit, then what is the purpose of a hospital or a school? How are they different? They aren't. They all exist to serve a need. The result of a business is a satisfied customer. The result of a hospital is a healed patient. The result of a school is a student who has learned something and puts it to work. If the purpose of your business is to make a profit (and not serve a need), imagine how that will affect your decisions. What does making a profit tell you about how to design and build your product (as cheap as possible – who cares if it works)? What does it tell you about how to serve your customers (charge allot, give a little)? You need to have an outward focus to recognize what your real objectives are – to serve a need.

*“If you want to have a sense of real accomplishment, you are going to do a lot better if you don't just make money selling junk to people. That you create something of lasting value, of benefit to humankind and to the environment.”*

– Ted Turner

*A business's first and foremost requirement is to be outward focused on those needs that it must satisfy. “Businesses exist to supply goods and service to customers, rather than to supply jobs to workers and managers, or even dividends to stockholders. The hospital does not exist for the sake of doctors and nurses, but for the sake of patients who's one and only desire is to leave the hospital cured and never come back.”*

– Drucker

*“It demands that business start out with the needs, the realities, the values, of the customers. It demands that business defines its goal as the satisfaction of a customer need. It demands that business base its reward on its contribution to the customer.”*

– Drucker

An outward business does not ask, “What do we want to sell”, it asks, “What does the customer want to buy?” The very question that Ford forgot to ask.

Everything an outward business does should reflect the customer's needs and wants, not what the company wants. While it might be easier and more profitable in the short-term not to retool a company, it does so anyway because it is focused on what the customer wants (Toyota's approach). While it might be more profitable in the short-term for a company to have fewer employees working, it refuses

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to do so because it understands customer service will suffer. While it might be a lot of work to ensure employees are all trained in customer service, an outward company makes this a priority because it knows that customers must be satisfied if they are going to return. While it might cost a company in the short-term to maintain more inventory, an outward company knows customers are not willing to wait, so it finds ways to do it.

A business, like a person, can not be successful without being focused on contributing to the needs of others.

*After embarking on a five year research project to find the common denominators of successful businesses, Robert Urbanowski discovered the Law of Contribution – a natural law that goes beyond business to impact every aspect of our lives. In his new book, **Kickback**, Urbanowski unveils the Law of Contribution as the truth to achieving genuine happiness and success. Urbanowski offers professional development seminars and workshops helping individuals in the workplace discover the rewards they receive when making their greatest contribution in life. For more information, visit [www.lawofcontribution.com](http://www.lawofcontribution.com).*