

How to Pivot to Profit

Mark Stein (Next Avenue)

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Business history is full of tales about companies and business owners who struggled in their original industry but thrived after switching into a new field. The man who founded Avon Products did so after noticing that his customers were more interested in his free perfume samples than the books he was hawking door to door.

Likewise, a soap and baking soda salesman named William Wrigley Jr. jumped into the confectionary industry when he realized that his customers were most interested in the chewing gum he was giving away as a sales gimmick. These sudden changes in business strategy are called pivots.

Pivoters' Parade

The list of pivoters goes on: [Groupon](https://www.groupon.com/merchant/working-with-groupon/groupon-news/the-history-of-groupon) (<https://www.groupon.com/merchant/working-with-groupon/groupon-news/the-history-of-groupon>), [Hewlett-Packard](https://www.hp.com/us-en/shop/tech-takes/history-of-hp) (<https://www.hp.com/us-en/shop/tech-takes/history-of-hp>), [Instagram](https://www.britannica.com/topic/Instagram) (<https://www.britannica.com/topic/Instagram>), [Nintendo](https://www.nintendo.com/about/) (<https://www.nintendo.com/about/>), [Suzuki](https://www.globalsuzuki.com/corporate/history/index.html) (<https://www.globalsuzuki.com/corporate/history/index.html>), [X \(formerly Twitter\)](https://www.britannica.com/topic/Twitter) (<https://www.britannica.com/topic/Twitter>) All started out doing one thing and found their fortunes doing something entirely different.

Some companies pivot several times. The Finnish firm [Nokia](https://www.zippia.com/nokia-careers-64048/history/) (<https://www.zippia.com/nokia-careers-64048/history/>) was first a paper mill, then made toilet tissue before pivoting into automobile tires and rubber boots followed by electronics and eventually manufacturing cellphones.

Pivots do not always mean changing industries. They can involve jettisoning some goods or services and focusing on others that sell better, for example, or products that you can make for less than your competitors.

Alternatively, a pivot can involve adding lines of business related to the most successful part of your enterprise. Netflix, for example, had a good thing going in 2006, posting a net profit of \$49 million, more than twice as much as 2004.

Yet Netflix founder Reed Hastings pivoted nonetheless. Why? Because he saw that the Web was robust enough to allow entertainment companies to stream movies digitally and to offer enough content to persuade customers to pay by the month not by the movie.

Profitable Pivot

How much did that pivot matter? Netflix still mails DVDs to some customers, a service that generated \$145 million in revenue last year. Streaming revenue, meanwhile, climbed to \$31.47 billion — more than 200 times as much.

Hindsight can make pivots look obvious — if they succeed. Knowing how and when to take your company into a new direction takes a little luck and a lot of insight. This is where a mentor comes in.

"Pivoting can be a struggle, especially if you're a first-time entrepreneur," said Miranda Welbourne Eleazar, an associate professor at the University of Iowa's Tippie College of Business. "People get really passionate about their ideas and committed to them, so sometimes it's hard to come to the realization that something's not right and you need to make that fundamental or significant change to your business."

[Mentors](https://www.nextavenue.org/paying-it-forward/) (<https://www.nextavenue.org/paying-it-forward/>) can help business owners see through their biases because they, by definition, have deep wells of experience in the mentee's industry, entrepreneurship generally, financing or other field in which mentees would benefit from a new perspective.

Signs of Trouble



What are some of the red flags that mentors look for when they are invited to advise a new business owner?

- You are losing rather than gaining customers or clients.
- Customers don't like things you thought were sure-fire hits.
- One product accounts for a disproportionate volume of sales.
- Substantial investment of time and money don't improve business.
- The number of competitors has grown faster than your company.
- Your business' weak cash flow keeps you up at night.
- Rivals acted on the next big thing before you saw it coming.

Different Kinds of Feedback

Business founders are often so busy keeping the enterprise running day to day that they don't have the time to recognize problems or appreciate the existential threat they can pose.

"So sometimes having a mentor or somebody else telling you over and over that 'this needs to change' is important," Eleazar said.

She and a colleague, Toyah L. Miller, a professor at George Mason University, are researching "abstract" and "concrete" feedback. An example of concrete feedback would involve a mentor straight out telling a mentee, "Change this." Abstract feedback involves having a mentor or someone else the founder trusts ask probing questions about a problem — "What about this?" "What about that?" — until the founder concludes that a change is necessary.

Back to Square One?

Discovering the correct change to make is another steep hill for startups to climb. "You might need to go back to the drawing board," Eleazar said. It is not unheard of for a mentor to recommend a fresh round of "customer discovery," which is the first step in the process of talking to potential customers in order to learn their situations, needs and problems they are trying to overcome.

If a business does need to pivot, it is best not to put it off. "There's been research out there that has said that once you're farther along, (a pivot) can potentially have different consequences to pay," Eleazar said. "Because if you already have customers and they're already using your product and they're loyal to you, and then all of a sudden you change, that can be difficult."

The author Eric Reis, in his book [The Lean StartUp](https://theleanstartup.com/book) (<https://theleanstartup.com/book>), popularized the idea of business pivots, which he defines as "a structured course correction designed to test a new fundamental hypothesis about the product, strategy and engine of growth."

His book includes an observation that may encourage mentors and mentees alike. "Startup success," he writes, "can be engineered by following the right process, which means it can be learned, which means it can be taught."

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