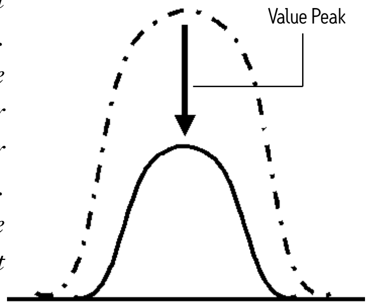
1. The Value Gaps



In many ways, this book is about reaching the parts of value that 'customer focus' can't reach. The diagram to the right sums it up. On the one hand, today's businesses are finding it ever harder to add extra value for their customers. In fact, in many cases their ability to add such value is actually subsiding. At the same time, there are also some huge value gaps: areas of 'value in my life' that are simply not being met.

We have, in other words, a massive – and growing – disconnect between 'demand' and 'supply'. And it's our contention that a new type of business is emerging to address this massive disconnect, and that it is set to transform the competitive environment for every consumer facing business. And these value gaps aren't trivial. They reach right into the heart of business as we know it: the old bottom line.

'Be customer focused'; 'Get closer to your customers'; 'The secret of success lies in understanding consumer needs and meeting them'; 'Be more customer-centric'. If the number of times businesses used phrases such as these was any indication of the real state of affairs, there would be no need for this book.

In fact, they're part of the problem, not the solution. If we look closer we can see that all the acres of print and clouds of hot air devoted to such customer-talk amount to little more than a huge smokescreen for an all-pervading seller-centricity that is now so deep that it is all but unconscious.

TASKS FOR THIS CHAPTER

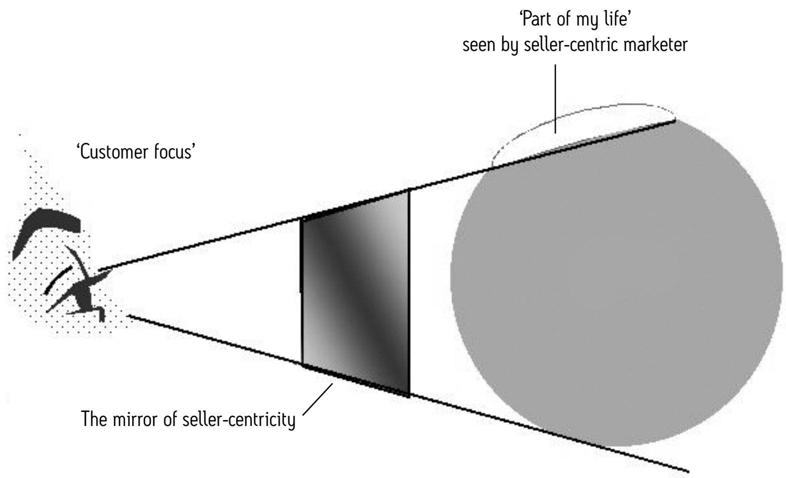
1. **Introduce the seven value gaps created by the old bottom line.**
2. **Show why the old bottom line's value peaks are subsiding.**

THE MYTH OF THE CONSUMER

To see the difference between the old bottom line's 'consumer-focus' and the new bottom line's focus on value in my life, we have to look again at 'the consumer'. Surprise! There is no such thing as a consumer. Look at the world around you, and no matter how hard you look, you will never find a 'consumer' because the consumer is a fictional entity invented by producers: 'the consumer' is a unit of demand for the producer's products.

When we look at the world around us, we see millions of *people* and yes, an awful lot of consumption. But when a soap company looks at me, it's not really interested in *me*. It's actually looking in a mirror – at a reflection of its own needs: its need to close sales (see Figure 1.1). The only parts of me it is really interested in – that it really looks at – are those parts of me that affect the likelihood of me buying its soap. When it sees me, it doesn't see *me* at all. It sees a potential unit of demand for its products.

Figure 1.1 Seller-Centric Companies see only a Part of my Life



The same goes for every product and service. When a car company looks at me, it's searching for a unit of demand for its cars. When a bank looks at me, it's looking for a unit of demand for banking services. When an airline looks at me, it sees a potential unit of demand for flights. When each and every of these companies 'focus on the consumer' they are in fact focusing on how to meet their own need to find a market for their products. In the process, I am fragmented into a thousand and one separate 'markets' – for beer, cheese, sneakers, make-up, deodorants, holidays, bank accounts and so on. And the real me disappears from view.

INTRODUCING THE NEW BOTTOM LINE

So what are the dimensions of value that old bottom line businesses fail to address? We think there are seven main gaps, as follows:

The seven key value gaps

1. Transaction costs
2. Integration costs
3. Standardization versus customization
4. Seller versus buyer-centric information
5. Functional versus emotional needs
6. Where economies of scale fail
7. Neglect of personal assets

1. Transaction costs

When a seller-centric producer of products (or services) thinks 'price' it naturally thinks in terms of the price it charges for its product – the money the consumer will pay for it. But that's a flatlander's view of the world. It ignores other dimensions of cost incurred by the consumer in the course of the transaction. The price of a packet of soap powder in a shop may be ten Euros, for example. But in order to acquire that packet of soap powder, I have to spend time and money travelling to and from the shop, searching for the product, queuing, paying etc. The real price paid by consumers for products and services is invariably higher than the monetary price levied by sellers. *Seller 'price' is just one element of buyer cost.*

Here is a simple example. Every year, European spends approximately 34 billion hours shopping for groceries. Fifty-seven percent of that time is spent in cars and other forms of transport, and 43 percent is spent in shops. If you charged these hours at minimum wage rates, these transaction costs equals 20 percent of the total value generated by European grocery value chains.

Such buyer transaction costs tend to be ignored by sellers, for a number of reasons. First, they have zero immediate impact on the seller's sales revenues or profits, so they simply don't impinge on the seller's consciousness. Second, specific 'divisions of labour' between buyers and sellers emerged in the mists of time and have become so 'normal' that we take them for granted. We just assume for example that 'it's the job' of the shopper to shop. Because shopping is such a 'natural' part of everyday life, as consumers, we don't stop to measure how much time, money or effort we invest doing it – or how good a return we get on this investment. Likewise, it's the producer's job to worry about his own costs, not other people's costs.

Third, most attempts by sellers to reduce buyers' transaction costs involve renegotiating these divisions of labour, which is complex and difficult. Usually it involves sellers taking on more work and cost, for very little obvious return. Just look at the difficulties grocery retailers have had trying to make money out of home delivery. Finally, it's often beyond any individual seller's ability to address these transaction costs. The soap powder manufacturer can't address my overall grocery shopping costs single-handedly, for example. Equally, an individual insurance provider will find it difficult to reduce the time I have to spend comparing different providers' policies.

In short, there are many excellent and deep-seated structural reasons why seller-centric marketers have not addressed consumers' transaction costs. But that's precisely the point. There's a big need out there, and it's not being met.

2. Integration costs

A frighteningly high proportion of today's value propositions take the form of *ingredients* to solutions rather than the solutions themselves. Take the simple example of a pizza. I can, if I want, go to a store to buy all the separate ingredients of a pizza (thereby incurring significant transaction costs). I can then invest a significant amount of further time and effort preparing these ingredients, putting them together, cooking them to get my desired end-result: a delicious, piping hot pizza, ready to eat. Alternatively, I can pick up the phone, order from a local pizza parlour and have it delivered right to my door.

This difference between buying a range of separate pizza ingredients and ordering a freshly made, home-delivered pizza sums up the difference between making and selling ingredients and offering complete solutions. Old bottom line businesses excel at making and selling ingredients – and avoid solutions – for a simple, basic reason. They are *asset-centric*. They make their money by investing vast sums in specialist, productive assets and by 'sweating' these assets to produce as much as possible. That's how they add value for consumers: by using these assets to drive up the quality and drive down the cost *of what these assets are best at making*. If you've invested your particular fortune in cheese making equipment, you live and breath the making and selling of cheese. Likewise, if you are in tinned tomato business, cars, airlines or retailing.

As long as each of these businesses focuses on doing what it does best (and why shouldn't it?), they will all focus on making and selling ingredients, leaving consumers with the job of assembling their own solutions. And like transaction costs, there are some very good reasons why old bottom line businesses continue to avoid solutions.

If you define consumer needs in terms of solutions such as say, personal financial management rather than financial services products, such as loans, savings, current accounts, plastic cards, mortgages, pensions and so on, then suddenly your 'market' evaporates before your very eyes. A whole host of potential new competitors materialize in front of you. And you face the prospect of your precious product being rendered invisible: who cares what brand of mozzarella the pizza parlour uses?

Addressing a solution requires heavy investment in new skills and infrastructure – which reach way beyond your existing 'core competence' – while downgrading the value of your existing 'core' assets. Just look at the difference between the skills and assets of that mozzarella maker and that pizza parlour. Moving from ingredients to solutions is, therefore, an expensive, high-risk activity. A case in point: Ford under Jacques Nasser, who moved into a whole range of car-related businesses such as Kwik Fit the roadside repair service – only for his successor to realize enormous losses reversing the strategy. So it takes guts and boldness to move from ingredient production to solution assembly. Few try. Even fewer succeed. But that doesn't make the need disappear.

3. Customization versus standardization

Industrial-age value creation lives and breathes standardization. It is only by standardizing inputs (such as raw materials), processes and outputs that you can replicate routines, automate and drive down unit costs. Yet, by definition, each individual is unique and different – so what is required to create value in my life is unique and different too.

'Choice' between a range of standardized offers is a wonderful thing. But value in my life is not about choice. It's about being able to specify exactly what I want. The trouble is, that goes against the grain of everything standardized mass producers have been trying to achieve internally for the last hundred years. It means, basically, transforming the way they do everything. It may involve additional cost and complexity rather than facilitating standardization and cost cutting. It means reversing the flow of the entire business. Instead of making many units in batches and then trying to sell them, they might have to wait for orders from customers, and then make individual units to order. This, in turn, implies a completely different set of go-to-market strategies and different types of customer relationships. What's more, there are few viable half-way houses.

Once again, these are all very good reasons why old bottom liners have stuck with standardization. But the net effect is the same. From food to financial services, from cars to computers to clothing, the value gap is there. And it's growing.

4. Seller- versus buyer-centric information

Product-centric companies may do their best to address the needs of their customers as *users* of their products. This is in their interests because it helps them to sell more, more efficiently. But once they have made the product or service in question, then a completely different imperative takes over. Now, their over-riding priority is to cover their costs and realize a profit by selling what they have made.

While sellers have a strong vested interest in addressing *consumers*' needs when it comes to making the product, when it comes to taking the product (or service) to market, consumer focus goes out of the window. Now, their *focus is entirely on the needs of the company:* how to sell more, more efficiently, at a higher margin. When it comes to marketing, in other words, *sellers* have zero incentive to address the needs of *buyers*, because it might be in these buyers' best interest to choose an alternative offer. That's what advertising is about, for example: providing partial, biased information that's *designed to get consumers to do what companies want them to do*, not to help buyers do what they want to do.

Helping buyers to buy rather than helping sellers to sell, then, requires a completely different set of objectives, such as the provision of *buyer-centric* information and advice: impartial, objective, easy-to-use comparative information that helps us make the best choices and get the best deals.

Once again this value gap is enormous. And once again, the reasons for its existence are structural. At the risk of sounding like a stuck record, there's no reason why old bottom liners should ever address it. Indeed, as we'll see below, the gap is growing ever larger.

5. Functional versus emotional needs

Mass production is very good at meeting functional and physiological needs. It's not so good at addressing people's emotional needs. Almost by definition, because you can't make happiness in a factory, and you can't sell it through a retailer's shops. The only place you can make happiness is in your own life.

That's about all we need to say in introducing this value gap – with just one clarification. Various traditional offers and brands do provide consumers with some of the ingredients they use to 'manufacture' emotional value in their lives: the media with entertainment; brands that help consumers make statements about themselves; bars and restaurants that provide a platform for socializing, and so on. But this emotional added value tends to be limited or distorted in of two crucial ways,

First, it's limited to the form of what can be packaged, mass-distributed, purchased and consumed – such as a Disney film. Second, it's distorted by seller-centric objectives. There's many a seller-centric marketer who appeals to peoples' need for a sense of community, self-esteem, identity, belonging or meaning as a means of attracting them to their brand and closing a sale. But *using* people's emotions as a means to an end is very different to helping them maximize the emotional value they *make* in their own lives. We explore this difference in detail when we look at the rise of the passion partner.

6. Where economies of scale fail

This value gap is slightly different. For decades, industrial-age businesses have added huge amounts of value by finding new and better ways to improve 'personal productivity': helping us to do more, in the same time, or with less effort. Running water, gas and electricity have boosted our personal productivity no end. for example. The average European household now uses the energy equivalent to 150 domestic servants by running electrical appliances in their homes.

There have been many waves of industrial age-generated personal productivity. Basic infrastructure such as the utilities, roads and railways created the springboard and platform for the consumer-goods revolution. This triggered a massive wave 'outsourcing' of tasks to manufacturers, as consumers discovered that things that they used to make in their own homes – such as clothes or loaves of bread – could be made much better, and more cheaply, in mass production factories. A further boost came after the Second World War when 'home automation' began and labour-saving devices such as the automatic washing machine, the vacuum cleaner and the toaster transformed our daily lives. They, in turn, created a platform for yet more labour-saving products. The chilled ready meal, for example, was only made possible by the existence of the fridge, the freezer and the microwave.

Looking back, it is breathtaking how much value these successive waves created. Nevertheless, over recent years, this hundred-year personal productivity revolution has begun to run out of steam. We've managed to automate the washing cycle, but not the loading, unloading and ironing. No clever machine has (yet) been invented to sweep floors, clean surfaces, make beds, fix faulty appliances and so on. Automation – the product of industrialization and economies of scale – worked as long as it could be made 'in our operations' and embedded in a mass-produced product like a washing machine. As soon as the delivery of value moved out of the factory into the home – ironing those clothes, making those beds – the revolution ran into sand. As the *Financial Times* writer Richard Tomkins put it 'the last big inventions to have significantly changed our lives – television and the passenger jet – came half a century ago.[1]

That's why, for the most part, running a home (the 'factory' of wealth creation in my life) remains a cottage and craft industry that's largely untouched by ongoing technological revolutions elsewhere. Economies of scale and centralized mass production got us an awful long way. But at a certain point they hit the buffers. We not only need new technologies to address this value gap, we need new business models too.

7. Neglected personal assets

Old bottom line businesses create wealth by investing in productive assets (plant, machinery, infrastructure, know-how, etc.) and sweating them to the full, to produce the best possible products and services as cheaply as possible. Their natural operational focus is to maximize the productivity of these assets.

The assets that really matter to me, however – the ones that I use to make my life – are personal assets. They include traditional physical assets like money, my house and my car (if I own them). But many of the most important personal assets take a different form. For instance my time, my attention or the returns I get for investing emotionally in relationships. Helping me maximize the value, potential and productivity of my personal assets is, for want of a better phrase, 'the mother of all value gaps' encompassing most of what we've discussed above.

Old bottom liners neglect this task for a very simple reason - 'They're not my business, and I'm not set up, or organized to do it.' Indeed many of the things old bottom liners do when they go to market positively waste my time and abuse my attention.

New bottom liners exist to make the most of my personal assets. That is what I turn to them for. But there's something extra special about these assets. They not only represent a need, where I turn to an outsider provider for help. They also represent a hugely valuable – and untapped – marketable asset. Companies are prepared to pay good money for my attention, for information about me, and so on. This twin dimension to personal assets makes them special, so special we devote the next chapter to them.

A CONTINENTAL SHIFT

Now let's step back and put these seven key value gaps in perspective. They range far and wide in nature, from accessing the inputs I need to create value in my life, through the processes I use to do so, to the final outcome of emotional fulfilment.

They are created by a mixed bag of causes. In some cases (e.g., buyer-centric information), the gap has emerged because it's simply not in the interests of suppliers to fill it. Other cases such as emotional fulfilment simply lie beyond the old bottom liner's reach. In others, (e.g., domestic chores) traditional suppliers would love to fill the gap – if only they could work out how. And yet others, such as transaction and integration costs, are the product of deep-seated structural factors: addressing them is just 'too big' a challenge.

The value gaps summed up

- The value gaps exist because old bottom line businesses are unable or unwilling to address them. They are the product of deep-seated structural barriers and marketing myopia.
- Separately and together, they represent a huge untapped business opportunity.
- Addressing this opportunity, however, requires a different type of business.
- Every consumer-facing industry is affected by these value gaps.
- Successfully addressing them will transform the economics, criteria for success, value offerings, infrastructure and culture of each and every one of the industries concerned.

But whatever the cause, the value gaps exist (see the Roland Berger Profiler, Box 1.1) and their potential effects reach both wide and deep. Wide, because every sector suffers from them, from one degree to another. Everyone is affected from food to financial services, from consumer durables to utilities to retailing/shopping. From health and transport through to leisure and entertainment. Deep, because a large percentage of each of these industry's income is involved. Take the simple example of 'fast food'. Fast food is an early, primitive attempt to address consumers' transaction and solution assembly costs in the realms of food: the time and hassle of food shopping and preparation. In the US, it has already grabbed over 50 percent share of stomach. Europe is following fast in these footsteps.

By focusing on traditional seller-centric value – and failing to address crucial value gaps – traditional food manufacturers and retailers saw half their market evaporate in before their eyes. *When push came to shove, better 'value in my life' beat 'better products and services' hands down*. Or to put it another way, better products and services are *just one part* of helping to create better value in my life. This new bottom line habit of subsuming the value offered by old bottom liners represents its greatest threat – and opportunity.

BOX 1.1 THE ROLAND BERGER PROFILER

Evidence of the power of unmet consumer needs comes from a unique research project undertaken by Roland Berger. This was an open-ended research programme, with no particular issue in mind. It simply asked consumers 'what is important to you?' Answers ranged over a total of 1,600 statements which were then analyzed and grouped together by common themes. These themes were distilled further and re-researched – and refined down to 20 broad themes.

These are:
Rational needs and value propositions: quality, service, 24/7 - Protech, comfort and convenience, customized, proven, price awareness, smart shopping (i.e., bargain hunting) and total cost (shopping systematically on price).

Emotional needs and value propositions: carefree, clanning, new and cool, classic, vitality, thrill and fun, passion, fair, nature, tranquil and purism.

The results are striking. Classic marketing battlegrounds around product quality and price make their appearance. So does an emphasis on classic design and tradition that makes some luxury brands so powerful. But the majority of identified desires, needs and dreams fall outside these classical marketing battlegrounds and into the value gaps discussed in this chapter. Key themes include 'customized' (the desire for controllable exclusivity, uniqueness, variety and flexibility), 'protech' (fast access to information) and 'comfort and convenience' (time efficiency and 'pro-active support').They chime with the themes of transaction and integration costs, customization, and buyer-centric information.

Emotional value gaps loom largest, however. Some of them revolve around themes such as 'vitality' (a need for physical and mental fitness and mobility), 'thrill and fun' (adventure and risk seeking, and rebellious escapism), and 'carefree' (a need for spontaneity and easy-going optimism). Others – like the groupings 'fair', 'nature', 'tranquil' and 'purism' – represent consumer desires not to exploit people or nature and to have high ethical standards, to work in harmony with nature, or to slow down, de-stress and find inner peace and simplicity.

Many marketers have nodded towards these emotional needs in their marketing communications imagery, but so far few companies have actually attempted to build businesses that address these needs as the central core of their value offer.

WARNING! VALUE SUBSIDENCE!

Remember the notion of the value peak. The higher it is, the more value it offers. Competition drives businesses to climb such peaks, because that's the way they acquire and keep customers. Slip too far down a value peak and you risk your survival.

If consumers have a choice between two peaks representing two different types of value offering, then clearly they tend to opt for the highest one. As long one peak remains higher than another, it's safe. It doesn't really matter if it's 1km higher or 1cm higher: as long as it is higher, consumers will tend to choose it.

But what happens when one value peak keep on rising, while the other keeps on falling? In this case, at some crucial point, the tables are turned: 1cm higher becomes 1cm (or 1km) lower. The value scales tip, and all the momentum of competition flows in the opposite direction towards the new, rising peak. From now on, it's the new peak that sets the competitive agenda.

This is our suggestion. We've reached a tipping point where the potential value offered by new bottom line business models reaches higher than that offered by the old. We've examined some of the reasons already.

When it comes to identifying and meeting consumer needs via the making and selling of products and services, old bottom line companies are geniuses, forever discovering new market opportunities and rushing to seize them. But the value gaps represent those needs that have fallen through the net; the needs that have been left to fester. The old bottom liner is also a victim of its own success. Thanks to old bottom line wealth-creation, in advanced Western industrial economies at least, we are more affluent than ever. Our basic needs are met, we have more 'discretionary' money to spend, we are healthier, we live longer, we are more educated and more sophisticated. All of this gives us the luxury of being able to start climbing up Maslow's famous hierarchy of needs: to reach beyond the quest for physical security and sustenance for higher goals such as 'self-actualization'. Yet as we've seen, old bottom liners are not designed to address these higher-order needs. But there's another, crucial side to this coin. The old bottom line wealth-creating system is actually passing its sell-by date. It has passed its prime and diminishing returns are setting in: far from creating ever more value, it's in danger of actually producing less.

THAT AWFUL SINKING FEELING

The causes of these diminishing returns are very familiar. They're the subject of endless academic and consultancy research – and endless managerial fretting. Yet they persist, because they are *systemic*. They are a product of how the system works and *cannot be resolved or solved within the confines of that system*. Let us just remind ourselves of them.

The Seven Deadly Sins of the industrial age

1 Overcapacity
2 Product parity
3 Innoflation
4 Over-satisfaction
5 Information overload
6 Marketing overload
7 Tangibles focus

Overcapacity

When markets are fresh and new, investment in additional productive capacity generates enormous value for consumers – and sometimes stupendous returns for investors and producers. But as markets mature, they reach a tipping point where supply begins to outstrip demand. In industry after industry, overcapacity is now the norm, not the exception. Even 'star' sectors such as personal computers and mobile phones have discovered, to their cost, how quickly overcapacity can set in.

The onset of overcapacity has a crucially damaging effect on the win-wins that form the foundation of the old bottom line business model. These win-wins revolve around developing 'New! Improved!' products and bringing them to market, thereby stimulating demand which earns a return on the investment, and which provides an incentive for the

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producer to invest even more in productive capacity and R&D. The win for the producer: growing revenues and lower unit costs. The win for the consumer: 'New! Improved!' products at lower prices.

When overcapacity sets in however, that win-win dynamic evaporates. Companies focus their attention on rationalization and cost-cutting, not new value creation. Costs actually rise, and companies naturally try to pass these costs on to their customers. In this way a hugely powerful, dynamic win-win tips over into lose-lose. Overcapacity destroys the win-win heart of old bottom line production.

Product parity

Every marketing person will tell you: innovation is the key to growth and improved customer satisfaction. They are quite right of course. But no company would dare let a competitor get ahead on product quality or attributes, so each attempt at innovation is quickly matched – and the net competitive benefits cancelled.

As time-to-market cycles are compressed, product parity becomes a major headache for any would-be innovator. Many companies now despair of ever gaining, or keeping, a sustainable competitive advantage for their products or services. The effects run deep.

Product parity undermines the logic – and payback – of sustained innovation. It also undermines the win-wins central to brand-consumer relationships. In the early days of the old bottom line, marketers invented brands as ambassadors for 'unique selling propositions': clear points of differentiation built around clearly identified points of sustained superior consumer benefit. These brands acted as signposts of value for consumers, pointing them easily, quickly and efficiently to the sources of value most appropriate to them.

As product parity sets in, however, marketers have found themselves turning this original purpose of branding on its head. Today, increasingly, marketers seek to build brands in order to *hide underlying sameness rather than express important points of difference*. This destroys the win-win heart of branding.

Innoflation

In their desperate attempt to tackle the curse of product parity, firms have pushed 'innovation' higher and higher up their corporate agendas. They've looked to more, better innovation as a way out. What they've created instead, is innoflation. This happens when firms start throwing ever more superficially different products at the market, in the desperate quest for a point of difference. The net result is counterproductive. The proliferation of products and variants creates layer upon layer of extra production, distribution and marketing cost and complexity, without adding benefit for consumers. In fact, consumers lose out as costs, and therefore prices, rise and as choice descends into confusion and becomes a chore instead. Once again, with innoflation win-win tips over into lose-lose, as the win-win benefits of old bottom line innovation and choice evaporate.

Over-satisfied customers

A customer is 'over-satisfied' when a further improvement along a particular dimension no longer adds any real value. If a car breaks down every ten thousand miles, then improving reliability to a breakdown say, every fifty thousand miles is a major benefit. But once reliability reaches a certain level few customers ever experience a breakdown during the time that they own the car. Further improvements in reliability add no boosts to the customer's experience of the product; their experience of value.

As Harvard Business School professor, Clayton Christensen points out, over-satisfaction spells disaster for any company that grew prosperous on the back of a particular improvement such as reliability. Suddenly its 'secret' of success evaporates and it becomes a victim of its own success as value subsidence sets in. Over-satisfied customers, product parity and overcapacity are symptoms of an over-ripe value system: one that is reaching past its sell-by date. In category after category, over-satisfaction is also one of the dominant challenges for producers.

Information overload

The mass production of products such as soap powders, automatic washing machines and motor cars created an awesome value breakthrough. But it's not the only breakthrough generated by old bottom line business. Another awesome value breakthrough came with the mass production of information and entertainment. First, the printed word. Then the radio. Then television. Then cable and satellite. And the Internet. And so on. Result: ever-richer 'content' made ever more freely available.

But all of us have only so much attention time. The more information that's thrown at us, the more we suffer from information overload and attention poverty. This has huge long-term implications for the two key players in the media industry: media owners and advertisers.

Media owners face the unpalatable fact that content, far from being 'king', is becoming commoditized. The commercial, marketable value of most of what they offer is falling, inexorably. They're finding it ever harder to win the war for people's attention. Advertisers face the equally unpalatable fact that the more information overload sets in, the less effective advertising becomes. One counterproductive result is that advertisers find themselves forced to invest ever more money, on ever more intrusive advertising initiatives designed to 'cut through the clutter' to get their message through – thereby intensifying the very information overload that they're trying to overcome.

Information overload means that the hugely powerful win-win dynamic that has driven advertising-funded media is now stalling. It also elevates 'return on attention' to an important economic dynamic in its own right, placing a big question mark under the future role and value of traditional 'push' marketing communications. Another old bottom line win-win is turning into another lose-lose.

Marketing overload

The combination of all of the above factors is the source of another crucial piece of value subsidence. Industrial-age wealth-creation revolves around standardization, automation and economies of scale. Companies endless quests for improved productivity have pushed production costs down ever lower. The other side to this coin, however, is that while production costs have fallen, the relative costs of going to market – of identifying, communicating with and transacting with customers – have risen.

A hundred years ago, about a quarter of all US economic activity was devoted to what the economists John Wallis and Douglass North called 'transacting' – which includes all the costs incurred by companies in taking their goods and services to market.[2] By 1986, the figure had nearly doubled to 45 percent and was rising. Recent McKinsey Institute research suggests that over a half of all US labour activity is now focused on 'the searching, coordinating and monitoring that people and firms do when they exchange goods, services or ideas'.[3]

The result of this pincer movement in relative costs is devastating. While overcapacity, product parity, oversatisfaction, etc., mean that the value creation has hit diminishing returns, the costs of realizing this value on the market are still rising, inexorably. The effects reach right to the heart of the old bottom line business model.

Old bottom line businesses try very hard to make sure that *what* they sell represents good value for the consumer. But they don't judge *how* they go to market – their marketing spend - by the same criterion. Marketing itself is not meant to add value for the consumer; its job is to *realize the value that has already been created*. As far as the consumer is concerned, for the most part marketing is non-value adding. Yet, this non-value adding element of the old bottom line package is growing proportionately larger every day. So consumers are paying less for what does add value, and more for what doesn't. This is value subsidence with a vengeance. Yesterday, marketing was a win-win exercise because it helped to cement the virtuous circle of improved supply and rising demand. Today, it too, is tipping over into a lose-lose exercise.

Tangibles focus

At the same time, the very economic logic at the heart of the old bottom line business is changing fundamentally. It's not uncommon nowadays for only 15 to 20 percent of the stock market value of the company to be accounted for by hard, physical, 'tangible' assets such plant and machinery. The other 80 percent is delivered by so-called intangibles.

Intangibles come in many forms: staff skills and know-how, brands and customer relationships. We'll return to this in more detail, especially in Chapter 11. But for now we need only note one core effect. The industrial age lives and breathes automation as the means of producing more at lower cost: it is the essence of 'value from our operations'. Yet the counter-intuitive effect of the relentless advance of automation is that increasingly, competitive edge comes not from what we *can* automate (because that's easily copiable) but what we *can't* automate (because that's harder to copy).

Hard-to-copy things are, almost by definition, 'people things'. Things like sensing, making judgements, imagining, creating and inventing, amusing and engaging, building relationships, motivating other people, setting goals, being dedicated and determined, and so on. They're all things created by 'people assets'.

What unites these 'people assets' is that the real source of value is located in people, not in things, machines or processes. Companies cannot 'own' these people assets or control them as they do things, machines and processes. Indeed, to a large degree, people themselves own these people assets. And they invest and allocate these assets according to their own personal criteria. This means, quite simply, that the proportion of economic activity which is effectively owned and controlled by old bottom line, tangibles-driven logic is shrinking – and the proportion which necessarily revolves around the optimization and maximization of people assets (the new bottom line) is growing.

The old value peak is sinking under its own accumulated weight. It's experiencing *unavoidable value subsidence*. The 'seven deadly sins' of this value subsidence are over-capacity, increased product parity, innoflation, over-satisfied customers, information overload, a crisis in marketing effectiveness, and the remorseless rise of 'intangibles'. We need only remember three key points about these 'deadly sins'.

1 Separately and together, they're all the unavoidable consequences of a system at work; they're the product of the system's own unfolding inner logic.

2 Separately and together, they all have the same underlying effects: of diminishing returns and value subsidence.

3 Because they're the product of a system at work, it is beyond the power of any individual firm to address them, as long as it keeps working within the constraints of that system. Indeed, many such attempts may have completely the opposite effect: of actually intensifying and exacerbating the problem they're supposedly trying to address. Increased marketing spending adding to information overload is just one example.

Overcapacity, product parity, innoflation, over-satisfaction, information overload, marketing endgame, and the intangibles crisis. Of course, each one of these tectonic shifts affects different industries and companies to different degrees. For some, the burden may still be light. For others, it's already very heavy. Assessing this burden is up to you, in your circumstances. Our point, however, is this. Each one of these 'seven deadly sins' are intrinsic parts of the old system. They are the unfolding product of its own internal logic. They are unavoidable. They are why its value peak is declining. Today's business obsessions – lower cost production, better, faster innovation, better marketing, 'culture change' – may address the symptoms of this decline. Temporarily. But they are not a cure.

STUCK IN FLATLAND?

Of course, it does not mean that seller-centric companies haven't created untold wealth for consumers. Of course they have. Indeed, over the last hundred years or so they've presided over the richest explosion of wealth creation mankind has ever seen. Indeed, it is precisely because they've been so successful in the past that they have begun to reach a point of diminishing returns. Thanks to everything they've done for us in the past, we now have the luxury to sit back and worry about what they're *not* doing.

It's also true, however, that no matter how successful they have been in meeting certain types of need, there are also some dimensions of value in my life that they hardly touched – *and will never touch.* Here's a simple parallel. Earlier this century, some teachers taught school kids basic geometry by taking them flatland: an imaginary two dimensional world where the notion of height – the third dimension – didn't exist. In this two dimensional world there is an infinite range of beasts. Straight lines, squiggly lines, squares, circles, triangles and so on. But you won't ever find a cube, or a sphere. Because that involves leaping to the third dimension.

Seen from the perspective of a rich, three-dimensional world, flatland seems, well, awfully flat. Awfully limited. But flatlanders don't feel this way at all. There's an infinite variety of two dimensional shapes for them to play with. And because flatland extends forever in every direction – north, south, east and west – they're able to continue exploring forever.

At the same time, they simply cannot understand notions like 'sphere' or 'cube', because they've evolved to live in a 2D world and they can't think in 3D terms. Indeed, they even have difficulty understanding 2D notions such as 'square' and 'circle' in the way we understand them: because that involves looking down on them from above. Which flatlanders can never do.

So here's our contention. Old bottom line businesses have the touch of the flatlander about them. When it comes to making and selling useful '2D' products and services, nobody can beat them. And there's always more territory to explore here; there's always a chance to innovate. Yet when it comes to seeing 3D people who want to maximize the value that they generate in their own lives, rather than 2D consumers and customers who represent a market for their products, marketing myopia sets in.

All of this begs a question, however. Even if we agree that a new value peak is emerging (if only we could look past that seller-centric mirror to see it) and even if that the old peak is sinking, the insight remains academic until there is a way to reach and scale this new peak. If the best and brightest of the old bottom line have failed on this front, why should anyone else succeed?

To glimpse the answer we must return to the 'marketing myopia' we discussed earlier, because the same myopia is also blinding us to potentially vast new sources of value.

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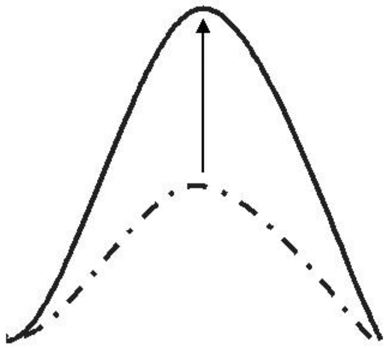
2

2 Untapped assets



Think about your own life for a moment. The things in which you find pleasure and fulfilment. The things that worry and concern you. If you look at your life as a business – with certain inputs and outputs – you will quickly see that you invest certain 'personal assets', such as time, money and emotional commitment in doing things that you hope will generate high returns. In other words, your are always looking for the best possible value for money, value for time, return on attention, return on emotional investment, and so on.

But there is no business *that makes it its business* to achieve these things. Many companies may offer you bits and pieces which help you along the way: a rewarding chocolate or film, more convenient shopping, a place to meet with friends. But no one dedicates themselves to helping you make the most of these personal assets, invest them wisely, maximize their productivity or generate maximum returns. Until now.

A NEW OPTIMA

The defining feature of the new bottom line business model is that it organizes itself around such personal assets. While old bottom line businesses organize themselves around corporate productive assets such as factories, shops, offices, infrastructure and so on – and focus on getting

TASKS FOR THIS CHAPTER

1. **Examine the nature and importance of the six main personal assets.**
2. **Explain their crucial importance to emerging business models.**

the best possible returns from these assets – the job of the new bottom liner is to maximize the value and productivity of personal assets – to generate maximum value in my life.

Personal assets come in six main forms: operations or work, passion, time, information, money and attention – or OPTIMAL for short. We discuss them in detail below. But for now, let's focus on what makes them special.

The OPTIMAL asstes

Operations
Passion
Time
Information
Money
Attention
... in my life

First, they have a triple role:

- As an 'input'. We invest time, work, accumulated knowledge, commitment and so on in doing things in order to get the outcomes we desire.
- As 'profit'. We rarely measure the rewards, or outcomes, that we are looking for in purely financial terms alone. When it comes to measuring our personal profitability we instinctively measure it in the currency of core assets. Did it represent 'value for time'? Was it worth the bother, or work? Was it 'emotionally fulfilling'. And yes, of course, did it represent value for money?
- As an 'output', which can be traded on the open market. Companies 'buy' our money with goods and services. They buy our time, work and skills when they employ us to do work for them. They may also buy our attention and our personal information too.

So, separately and together these personal assets are the currency of value in my life. But there's something else that makes them special. They are also increasingly valuable: valuable to companies which need them to solve their problems.

Look at any consumer facing company today, and study its obsessions. It wants to make products and services that customers really want – that they'll choose in preference to those of any competitor. For this they need genuine, superior consumer insight: information from and about that consumer. It wants to go to market efficiently and effectively, which means attracting the attention of its target customers and persuading them of the merits of its offer. As we saw when discussing information overload, winning customers' attention is now the prime challenge for every marketer.

It goes without saying that the company desperately needs its customers' money. Less obvious, however, is its equally desperate need to win the battle for a decent share of that customer's time. Because, again and again, how people choose to spend their time determines how they spend their money.

Then, of course, it also desperately wants some form of emotional commitment or bond with that customer: to build brand loyalty, to encourage word-of-mouth recommendation, and so on. What's more, when the company looks inside itself, at its employees, it needs to maximize its access to (and the productivity of) exactly the same set of personal assets. It needs to tap its employees' know-how, creativity, commitment, motivation, etc.

The trouble is, as we saw in Chapter 1, because all these assets are personal they cannot be owned or controlled by any company. I have to choose to invest or trade them. And, naturally, I will choose to invest and trade them in ways, and with organizations, that maximize their returns and value to me.

At first sight, the value gaps we discussed in the last chapter and the 'seven deadly sins' of industrial-age production seem poles apart. In some senses they are. But in one crucial sense they are intimately connected. The value gaps are all about better use of my OPTIMAL assets. The seven deadly sins mean companies desperately need more, richer access to these self-same assets. Precisely because of the old bottom line's systemic crisis, the 'market value' of these assets is soaring.

What's needed is a new type of business. A new type of business that makes this crucial connection between me making the most of my personal needs, and companies' need to access these assets. Three new bottom line business models are poised to do just this: trading agents, solution assemblers and passion partners. Their job is to maximize the productivity, and realize the outputs, of different combinations and forms of personal asset. We discuss them in detail in Chapters 3 to 6. For now, however, let's focus on the assets themselves.

MY OPTIMAL ASSETS

O for 'operations'

To achieve the things I want to achieve in my life I have to work at them. In this arena of work, new bottom liners do two main things. They help to:

- improve the productivity of my operations – to reduce the amount of work I have to do to 'make' my life, and to increase the value of that work.
- improve the value I realize for my work on the open market.

Personal productivity improvements come from two key sources. I might outsource non-core, low-value jobs such as shopping for routine replenishment items or home cleaning, maintenance and decoration to these companies, for example. This covers value gaps such as transaction and integration costs, plus 'where economies of scale fail'. I might also retain them to help me get more 'bangs for bucks' from the work I retain 'in-house', such as helping me to better plan and organize my personal finances, or working with me to achieve personal goals and objectives such as to get fit or lose weight.

My ability to work is also, of course, a highly tradable asset. I sell my work on the labour market, to earn money – and clearly I want to maximize the value of this asset on the market. We discuss this in more detail in Chapter 11.

I also 'trade' work with companies in connection with their products and services. We often take this for granted. But the fact is, every existing product or service assumes a certain division of labour between supplier and consumer and between seller and buyer. As new technologies, consumer priorities, cost structures or business models emerge, new win-wins can often be found in renegotiating these divisions of labour.

Many companies seek to 'outsource' work to consumers, often in exchange for lower prices. Ikea transformed furniture retailing by passing the work of furniture assembly back to the consumer. On-line banks look to on-line 'self-service' to get consumers to do work such as inputting transactions and updating records free – work that was once undertaken by paid staff.

Likewise, consumers seek to outsource work to companies. Home-delivered groceries and ready meals are obvious examples: consumers pass back a task they once undertook (travelling to and from the shop, assembling the ingredients and cooking the meal) to the supplier.

The ideal is a sort of 'mutual process re-engineering' where both sides adjust their own internal operations and processes to save the other side time, money or hassle. In the case of on-line banking, for example, consumers 'pay' more by doing previously paid work for free. But they also 'get' more, in the form of easy, 24-hour access and far greater flexibility.

For new bottom liners, unleashing new win-wins by such mutual processes of re-engineering is one of the key ways the add value. The bottom line remains very simple, however. While the old bottom liner's over-riding priority is to maximize the productivity of its own operations – its factories, offices, shops and so on – the new bottom liner's job is to help me maximize the productivity of the operations I undertake to make my life. If it succeeds in that task, it has a role to play.

P for 'passion'

Let's be blunt. If our emotional 'profit and loss account' is negative – if we're really unhappy and unfulfilled – then we don't find life much worth living. In the end work, money and just about everything else is all about maximizing our personal emotional bottom line.

We invest emotionally in virtually everything we do. We invest emotionally in relationships that we hope will be rewarding, in hobbies and pastimes, in causes and beliefs, in the work we do. (The 'rational economic man' beloved of twentieth-century economists was always a fiction). One form of new bottom line business addresses emotional added value directly: the passion partner, who we discuss in more detail in Chapter 6.

But our emotions and passions also have a certain ‘open market exchange value’. Marketers have long known that there is an emotional dimension to everything; that our emotions play a huge part in our perceptions of value, what we choose to buy, at what price, and so on. It’s a fundamental building block of modern marketing theory that brands represent bundles of functional and emotional attributes. That’s why marketers are forever trying to appeal to these emotions: because our emotional investment in their brand is extremely valuable to them.

If we invest emotionally in a brand, for example, we are far more likely to become ‘loyal’. And overall, loyal customers tend to be more valuable. What’s more, if we’re truly committed to the brand, we’re likely to act as its ‘ambassador’, spreading the word among friends, family and acquaintances; doing its marketing for it. In fact, there’s no stronger recommendation for a brand than a positive reference from a trusted friend. It is far more likely to influence a purchase than an ad campaign.

Old bottom line brands, then, are desperate for such emotional investment. By shifting the goal-posts of trust and value new bottom liners help consumers maximize the returns they can expect from brands for such emotional investment: they force companies to fight much harder for loyalty and affection. They also, by the way, compete with each other (and everyone else) to maximize their own ‘share of heart’.

T is for Time

If we look back at economic history, value for time arguably comes before value for money. We traded in time – via things like barter and divisions of labour – long before money was ever invented. If I could make a good quality pot in less time than you, and you could make some cheese in less time than I, it made sense for us to trade pots for cheese. In fact, we only really invented money to make time trading easy.

As individuals we have three core value-for-time requirements:

- To spend less time doing the things that give me low value for time.
- To invest more time doing the things that give me high value for time
- To improve my time productivity, whether invested in low or high value for time activities.

Time and work go together: work takes time. As we saw in our value gaps discussion, old bottom liners often ignore or neglect value for time – say, in transaction and solution assembly costs – because it doesn't affect their financial profit and loss account. What they're concerned with is turning products and services into cash. For new bottom liners providing improved value for time is key.

Value for time is already having a major impact on traditional markets. Just look at food, where the market is rapidly splitting into two different segments which revolve largely around value-for-time considerations. There is the high value-for-time segment (gourmet cooking as a hobby, eating out at restaurants, food as part of a broader leisure experience) and low value-for-time segment (outsourcing 'chore' cooking to the fast and convenience food providers). The message: increasingly, share of purse follows share of time. For many consumers nowadays, 'value for time' is more important than straightforward price.

Helping me maximize the productivity of my time is a key plank of all three main new bottom line business models: trading agency, solution assembly and passion partnership. The other side of the coin is my willingness to invest my time with you – as an employer, a product or a brand. How much time I have to invest, with what return, is an increasingly important bargaining ticket in buyer/seller relationships. Time, as well as money, is a central currency in value in my life.

I is for Information

There are two sides to the coin of information trading. To maximize value in my life I need better information. I need to know which companies and brands are offering me best value, for example, and how to get the best from my dealings with them. That's one of the roles of trading agency.

On the other hand, I am also a source of valuable information. Information (especially finely grained, detailed information about supply and demand) is the invisible black gold of the information age. It lubricates the economy. It's a precious resource in its own right. The fact is, however, if information is the 'oil' of the information age we as individuals own the most valuable oil wells. *We*, as individuals, are where the most valuable information comes from. Only when we volunteer information does it really flow.

As we'll see, consumer ownership and control of information is one of the decisive factors in the shift from an old bottom line economy to a new one. Companies are prepared to pay good money for information from and about consumers: what they want, in what form, at what price, etc. One of the trading agent's main jobs (and to a lesser extent solution assemblers) is to gather up such information, slice and dice it, and pass it on to the right people in the right form. We look at this in detail in Chapter 4.

M is for money

We all seek to maximize the income we generate from the work we do. We all invest our hard-earned money in precious assets: cars, homes, clothes, holidays, etc. In addition, we want to maximize a) what we get for our money and b) the value of the stuff we buy. (Important assets such as houses and cars have high tradable value in their own right.) We also want to maximize the value of our savings and to minimize the costs of our borrowings. Each one of these different priorities represents a huge business in its own right.

The big difference between the old bottom line and the new is that the old bottom liners' key priority was to maximize the amount of money they got *from* consumers – by successfully closing sales for example. The new bottom liners earn their keep in a very different way: by optimizing the efficiency with I use my precious financial assets (when buying and when saving); by getting the most for my money when sourcing goods and services on the open market, and by maximizing the money they make *for* me (when selling assets such as information, for example). In other words, they see my money as an asset to be maximized rather than as a market to be tapped. The better they are at adding value for me in these ways, the more I am prepared to pay them.

A is for attention

Attention is like time. We only have so many waking moments, only so much attention to invest: it's a very scarce and precious asset. Whether or not I invest my attention wisely, and how effective I am at maximizing my return on attention is a critical contributor to my personal bottom line. All three new bottom line business models – trading agency, solution assembly and passion partnership – help me avoid wasting my attention on things that don't deliver high returns, to focus my investment on the things that do. Like value for time, the dynamics of 'return on attention' are transforming today's markets, especially marketing itself (as we'll see). Do I want to bother thinking about your offer, or communicating with you? What return on attention are you offering? (In the case of a lot of advertising, for example, the honest answer is 'zero'.)

Precisely because it is so scarce and so valuable, the market price of consumer attention is rising rapidly. To get a glimpse of its commercial value just look at the billions of Euros spend by advertisers and media owners in the battle for consumer 'eyeballs'. Why? Simply because companies and brands desperately need consumers to pay attention to their brands, offerings and communications if they are successfully to close sales.

New bottom liners transform the market for attention by claiming a share of this value for the owner of the attention, the consumer. We'll see in Chapter 4 how trading agents in particular create new liquid markets that help consumers to capture the market value of their attention. In Chapter 5 we'll also see how solution assemblers draw attention to themselves, away from traditional ingredient providers.

L stands for 'in my Life'

Value in my life revolves around making the most of each and every one of these OPTIMAL personal assets because they are the currency, or the medium, through which I live my life. Enrich them, and you do me a great favour. Waste or abuse them and you do me harm. These simple facts lie at the heart of what we believe is a looming and far-reaching economic transformation.

When old bottom line businesses make and sell valued products and services, invariably they are valued because they help me make the most of one or more of these OPTIMAL assets. When they fail to add value – as per the value gaps discussed in Chapter 1 – it's because they are wasting, neglecting or abusing these assets. Likewise, the test of the new bottom liner is its ability to make more of these assets for and with me than any would-be competitor.

In the next chapter we'll begin to answer this question: how and why can new business models do this? But before we do, let's quickly conclude with two crucial observations.

Multi-dimensional exchange

First, recognizing the importance of OPTIMAL assets also involves recognizing the importance of *multi-dimensional exchange*. Traditional firms focus on just one, narrow dimension of exchange: money in exchange for goods and services. Only recently has it begun to dawn on them that they are also effectively trading other assets such as information, time, emotional investment and attention.

Multi-dimensional exchange may be far more complex and much harder to measure. But it's also far richer. It means that we judge the value of a relationship across many criteria, not just one. It demands a far more sophisticated balance between different ways of offering value and different ways of receiving value. One of the things that makes trading agency, solution assembly and passion partnership so powerful is their ability to take full advantage of the richness of such multi-dimensional exchanges of value.

New economies of scope and scale

However, there's something else that makes new bottom liners powerful. Look at Box 2.1. It lists many of the richest and most powerful, influential types of organization to flourish in modern economies. They are united by one common factor. They all trade in one or other OPTIMAL asset.

Box 2.1 The Power of 'the Organized Consumer'

- What makes financial services such a huge industry? The aggregation of consumer savings.
- What makes retailers so powerful? The aggregation of consumer buyer power.
- How do multi-billion dollar media empires make their profits? By aggregating and selling of consumer attention, to advertisers.
- How do market research, database marketing and a large swathe of the IT industries earn their keep? By gathering, storing, analyzing and distributing information from and about consumers – another personal asset.
- What makes pressure groups so influential? Their ability to organize and channel people's passions.

OPTIMAL asset trading is already an awesomely huge business. Yet, we believe, its true potential has yet to be unleashed. The forms of business we see today – in banking, media, retailing, marketing communications, etc. – are just a pale precursor of what is about to emerge with the new bottom line.

They are flawed and limited in the following ways.

- They each focus on just one asset, in isolation (banking on savings, retailers on buying power, media owners on attention). They are therefore unable to generate any 'synergies' between them, either in terms of cost structures or asset deployment.
- They deploy these assets incredibly inefficiently, often extracting just a fraction of their potential value. Just look at the waste in modern advertising and direct marketing, for example.
- They do so in a thoroughly seller-centric old bottom line way, seeking to harvest this value *from* consumers, rather than maximizing its productivity and value *for and with* them.
- For all these reasons, individuals see little reason to increase their investment of personal assets beyond a bare minimum.

In other words, today's personal asset traders are actually stifling their true potential, not unleashing it. Now imagine the power of an organization which gathers and trades a range of these assets, in a combined and integrated way, with my expressed knowledge and permission, on my behalf – so that I have a positive incentive to invest ever more money, information, attention, time, work, and/or passion with it. That organization is the new bottom liner.

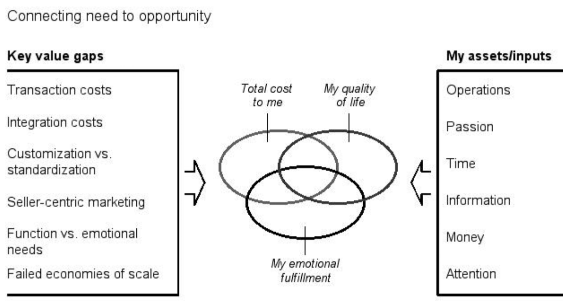
Yesterday's great businesses and brands aggregated, organized and tapped the potential of *industrial* assets, maximizing the value that came out of their operations. Already, however, as Box 2.1 shows, many of the most powerful, influential business sectors are those which, to some degree or other, aggregate and trade in personal assets. This is just a pointer to the future.

Tomorrow's 'pinnacle' businesses and mega-brands will aggregate, organize and tap the true potential of personal assets: to maximize their productivity, to help me create maximum value in my life; to maximize the value I generate from them on the open market. They will maximize the value of these assets – my money, attention and information – *for and with me*. And I will reward them according to how efficiently and effectively they do this.

The old bottom line 'took off' when breakthrough business models such as Henry Ford's found ways to aggregate industrial assets and process millions of products efficiently under one roof. They unleashed the potential and economic value of **things**. *The new bottom line will take off as a new breed of business finds new ways to unleash the true potential and economic value of* **people**.

3

3 The New Bottom Line



In one of his stories about the English detective Sherlock Holmes, Arthur Conan Doyle has Holmes solving the mystery by referring to the dog that didn't bark: the thing that didn't happen, when you would have expected it to. With the new bottom line we face a similar mystery. Here, on the one hand, we have a range of huge value gaps – unmet needs which, you would have thought, present a huge new market opportunity.

On the other hand, we also have a wide range of increasingly important, untapped assets and sources of value. What's more, they both revolve around the same entity – 'the consumer'. So they come together naturally.

Table 3.1 outlines some of the new forms of value that emerge when this 'coming together' happens. Our suggestion: the services in the left-hand column naturally come together in a new bottom line function which we call trading agency. Those in the middle column come together to create solution assembly, and those on the right-hand side come together to create passion partnership. Some of these individual services are self-explanatory, others less so. We'll discuss them all over the next three chapters, where we look at these functions in more detail.

TASKS FOR THIS CHAPTER

1. **Explain why the new botom line didn't happen earlier.**
2. **Clarify key differences between new and old business models.**

First, however, we need to answer an obvious question. If there is such demand for these services, why haven't market forces already reacted to fill the gap? Why haven't hundreds of 'consumer-focused' organizations already rushed to offer these services as extra layers of value, in addition to their existing offerings? Why do we need new business models to do so? And what's so different about these new business models?

Table 3.1 New Forms of Value from New Types of Business

Trading agency	**Solution assembly**	**Passion partnership**
Buyer-centric information (e.g., comprehensive, impartial price/product comparisons)	Address coordination/ integration challenges	Authenticity/ shared interest
Expertise of products, suppliers etc.	Expertise of products, suppliers etc.	Passion-related expertise
Search/navigation services	Reduce time spent achieving objectives	Passion-related community
New negotiation/ market mechanisms	Reduce money spent achieving objectives	Passion-related information
Provide consumers with voice, as well as choice	Reduce work needed to achieve objectives	Passion-related activities/ events
Aggregation services (e.g., buying power)	Provide additional products needed to achieve objective	Provide additional products
Information, attention and other trading services	Provide additional information needed to achieve objective	Passion-related services
Fulfilment services	Provide additional services needed to achieve objective	

We've begun to answer this question already. The seven value gaps only emerged because they represent forms of value which old bottom liners cannot or do not want to address. Likewise, OPTIMAL personal assets are neglected and underdeveloped because they are not central to the old bottom liners, who naturally organize themselves around maximizing the productivity and value of their own assets, not those of a third party.

Result: both the market and the key means of addressing it remain overlooked. Asking an old bottom line organization to prioritize new bottom line services is a bit like asking a fish to explore the land and expecting it to start breathing air along the way. The fish may be supremely adapted to its particular environment, but this very strength also brings limitations:

- Operational limitations which mean there are some things it's not built to do;
- Mindset limitations which mean there are some things it's not really interested in doing.

To see the full scale of the new bottom line challenge, we need explore these limitations a little further.

OLD VERSUS NEW

The limitations of the old bottom line business model are a product of its enormous strengths. The following is one way of summing up its core characteristics:

1 The old bottom liner is organized around maximizing the efficiency and productivity of core industrial assets – mainly various forms of infrastructure. **Value from our operations** in other words. The new bottom liner is organized around maximizing the efficiency and productivity of personal assets such as time, information and attention. Value in my life is its watchword.

2 The old bottom liner is focused on achieving **economies of scale** in these areas to bring down unit costs. It tries to sell more of the same thing to as many different people as possible. The new bottom liner seeks **economies of scope**. It tries to funnel as many different transactions as possible through the same relationship.

3 The old bottom liner is funded by investments from **financial investors** who own the company. Individuals invest key personal assets in a relationship with the new bottom liner, and look for a return on this investment. With the new bottom line **'the consumer' is also 'an investor'**.

4 The old bottom liner draws back from doing things where it cannot unleash economies of scale, thereby creating a very specific divisions of labour between producer and customer. The new bottom liner negotiates new and different **divisions of labour** with consumers: consumers may work harder within this relationship, inputting more time and effort, but at the same time they outsource more.

5 The old bottom liner brings these different aspects together in a powerful set of **win-wins** which revolve around **making more, better stuff (products and services) at lower cost**. The new bottom liner's win-wins are driven by **better, cheaper matching and connecting**.

Table 3.2 New and Old Bottom Liners: Systemic Differences

Attribute	**Old bottom line**	**New bottom line**
Core assets	Industrial: value from our operations	Personal: information, time, attention,etc.
Wealth creation	Economies of scale	Economies of scope
Divisions of labour driven by needs of . . .	Vendor efficient supply	Customer efficient demand
Win-win	Better, cheaper making	Better, cheaper matching and connectng
Main investor	Financier	Customer

First, let's look at the old bottom line characteristics in a little more detail. The old bottom line is a product of an industrial age which created untold amounts of new wealth via new ways of making things – mass production, distribution and advertising. Old bottom line firms are effectively defined by the assets that make this possible. The car company is defined by its car factories; the airline by its planes and landing slots; the retailer by its stores; the bank by its branches, and so on.

Such companies naturally focus on the productivity of these core assets, and over the years a whole series of technological revolutions ñ†from the first non-animal energy such as water mills and steam power through oil and electricity, via internal combustion and jet engines, the telegraph and telephone, television and the computer, and so on – has helped them do so. Each new wave of technology has allowed firms to create ever more value from their operations, via ever higher quality, new, better and cheaper products and services.

To maximize the value they create from their operations, old bottom liners have had to do other things as well. None of their wealth creation could happen without sometimes huge up-front investments of capital from financial investors, for example. As firms have raised capital from these investors, they became driven by the need to repay and reward these *capital*-ists: shareholders. When push comes to shove they make their money *from* their customers, and *for* their investors – a key influence on their mindset.

To do so, however, firms have had to draw a clear line between activities that help them improve the productivity and profitability of their operations, and activities which do not. Anything that undermines operational productivity is bad – *even if it improves the productivity of the customers' operations*.

Grocery home shopping provides a classic example. Retailers have spent decades trying to improve the productivity of their core assets – their stores – focusing on key metrics such as sales per square foot, footfall and basket size. It has not entered their heads to do anything that might encourage consumers *not* to visit their stores.

That is why Internet home shopping represents such a challenge. When consumers order a basket of groceries on-line, *not* only do they *not* go into the store (so that they are not influenced by a whole battery of carefully crafted merchandise and promotional tools designed to get them to spend more), they also hand over some extremely expensive activities to the retailer. Activities such as picking the items off the shelf and delivering them to the door.

Worse, consumers are not prepared to stump up the full cash costs of someone undertaking these tasks for them. So grocery home shopping – a service that addresses the consumer's transaction costs, our value gap number one – goes against every traditional grain of traditional retailing; potentially undermining the viability of the retailer's core asset, while adding more cost than direct revenue. Not surprisingly, most retailers have made a complete hash of it.

The few retailers (such as Tesco) that have been successful in grocery home shopping anticipate many of the key themes of this book. First, Tesco has been prepared to invent a new business model to make it work, with new divisions of labour, new cost structures and new revenue streams.

The delivery fee it charges helps to cover some of the extra costs it incurs, but not all. By reducing customers' transaction costs however, it unleashes a different source of value: customers spend far more at Tesco than before, and they are far more loyal. In other words, by addressing its customers 'operational productivity' rather than just its own, it wins competitive edge.

Second, it has worked extremely hard to find a 'migration path' to this new business model – one which uses its existing assets (its stores) to new purposes rather than investing huge sums up front in new infrastructure. Such migration paths – and the ability to use old assets and skills for new purposes – are the main theme of Chapters 8 to 12.

Finally, the nature of the system's win-wins are crucially important. The firm invests in making 'New! Improved!' products and services, and stimulates demand via marketing. Because it is adding new value via its products and services, consumers flock out to buy them and become 'brand loyal', thereby generating not only pay-back today, but relatively secure revenues tomorrow. This provides the firm with the incentive and confidence to invest yet more money and effort in new productive infrastructure with even greater economies of scale and lower unit costs, leading to even cheaper, better, new products, to repeat the circle over and over again.

This win-win system is a hugely powerful magnetic force. And it pays – both companies and customers – to keep working within the system, and not to challenge or undermine it.

CORPORATE NARCISSISM

Old bottom line operations, then, form a sort of hermetically sealed system, and considerations that reach beyond or across it – like our value gaps and OPTIMAL assets – tend to compromise its efficient working, thereby creating less value, not more. The old bottom line's marketing mindset is an integral part of that system. With their customer-oriented rhetoric marketers like to believe they provide an antidote to its inherent producer-centric tendencies.

1 The purpose of finding out what customers want and need is to help firms concentrate on making stuff that's going to sell, rather than wasting efforts and resources making stuff that's not going to sell.

2 Via the device of marketing communications marketers then help complete the win-win circle by stimulating demand for the products in question.

Like a Chinese puzzle, in other words, the beauty of this system is that each part helps lock the others snugly into place. Operational necessities create a certain mindset, and this mindset in turn helps focus attention on operational necessities. Because of this, the knee-jerk marketing reaction to every problem – that more, better marketing is the answer – is fundamentally misleading. Seller-centric marketing is part of the problem, not the solution.

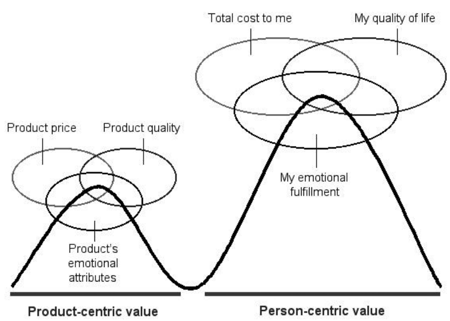
1 When it comes to the product, the marketer only focuses on consumer needs to the extent and degree to which these needs relate to what he's trying to sell.

2 When it comes to taking this product to market, all pretence at meeting the consumer's needs go out of the window. When in go-to-market mode, the marketer is firmly focused on meeting the needs of the seller, not those of the buyer. The real purpose of marketing communications, for example, is not to provide useful information to consumers, but to provide consumers with information that's useful to producers; information that will influence potential buyers to buy their brands.

The same goes for consumer understanding. When sellers go to market, they deploy consumer understanding *for the purposes of control* – they want to understand which buttons to press and which triggers to pull in order to get consumers to do what they want them to do. Thus, the purpose of building a strong brand is not to get the company's actions orbiting the consumer, but to get consumers' thoughts and actions orbiting the company – to get them to be 'loyal' to the brand. To this degree, seller-centric branding is simply an extension of the industrial age command and control mindset, applied beyond the corporation's formal corporate boundaries into the marketplace; into other people's minds and actions.

We can see the same corporate narcissism in familiar terms such as 'value for money' and 'quality'. All these terms revolve around 'what we make', not value in my life. Value for money relates to the seller's price not the buyer's cost (this is the source of one of our key value gaps). Quality relates to the attributes and qualities of the seller's product, not the quality of my life. Emotional added values relate to the emotional associations triggered by the seller's brand, not my personal emotional rewards or satisfaction. Each one of these core marketing notions are actually product- and not 'consumer'-centric.

Figure 3.1 A New Focus of Value



In contrast, as Figure 3.1 shows, the three new bottom line business models shift the focus entirely: trading agency focuses on my total costs, solution assembly on my personal productivity and better use of time (quality of life), and passion partnership on personal emotional fulfilment.

For all these reasons the new bottom line simply doesn't fit the old bottom line agenda. That's why addressing the new bottom line isn't just a matter of incremental change. For deep systemic operational and mindset reasons, the new bottom line represents a break from the past. There is a deep ravine between these two very different value peaks.

Box 3.1 The Ideology of Marketing

In our experience, the greatest resistance – and the greatest degree of incomprehension – to the new bottom line comes from those ostensibly most committed to the theory and practice of 'customer-focus': marketers. Why on earth can this be? Is it because marketers are somehow dishonest, incompetent or driven by the wrong motivations? Of course not. It's because of the way their ideology works.

Ideologies work by rendering any possible alternatives invisible, impossible and/or undesirable. Mediaeval cosmology before Copernicus and Galileo provides a good example.

1. *Invisibility*. The pre-Copernican theory accorded with what people saw in their everyday lives. They literally could not see any evidence of the earth travelling around the sun. What they saw – right there, before their very eyes – was the sun travelling around the earth. Why should they believe the opposite of what their eyes tell them?

Likewise, say marketing traditionalists, what we see around us is the eternal truth of marketing at work: Look at any and every successful brand, and it's as clear as daylight that success comes from finding out what consumers want and giving it to them. You can see the evidence right there, before your very eyes. What possible alternative is there: not finding out what consumers want, and not meeting their needs? Yet, as we've seen the very notion of 'the consumer' is an expression of a seller-centric worldview.

2. *Impossibility*. When Copernicus proposed his alternative theory his set-up seemed impossible. The Church had already provided a coherent explanation for our seeing

the sun during the day and the stars at night. The heavens were a 'firmament', which was a solid vault extended above the earth, and heavenly bodies such as stars were lights hung by God from this firmament. As St Philastrius explained, God brings the stars out each night from his treasure-house, while the sun and the planets are 'windows of heaven' opened and shut by angels appointed for that purpose. (Later, as the theory developed, the movement of various planetary bodies was explained in terms of successive transparent spheres rotated by angels specially appointed for this task.)

When Copernicus suggested that the sun was the real centre of the universe, his theory raised more intractable questions than it seemed to answer. If the stars are not lights hung out by God, then what are they, who moves them, and how? If the firmament is not a solid vault, then what is it? If the earth moves around the sun, what force is making the earth move? And why can't we feel or see that movement? In the absence of clear, incontrovertible answers to these questions, it was Copernicus's theory, not that of the Church that seemed impossible and ridiculous.

Likewise, to a marketer brought up with the assumption that good marketing is about helping sellers to sell, the mere suggestion that it should perhaps focus on helping buyers to buy, seems absurd. If the angels are not moving the stars at night, then what is moving them? If we focus on helping buyers to buy, how on earth are companies to sell efficiently, effectively and profitably?

3. *Undesirability*. Meanwhile, there were vested interests and deeply held convictions which made Copernicus's theory undesirable to the powers that be. His theory challenged the authority of the Church, as he was well aware. That's why he kept his opinions to himself for thirty years, waiting until he was close to death before publishing – and choosing to publish in Poland rather than in Rome (where he had worked). It also raised unsettling questions about religious truth. As one Father Lecazre worried on seeing the evidence for the Copernican theory 'If the earth is a planet, and only one among several planets ... [then] how can their inhabitants be descended from Adam? How can they trace their origins back to Noah's ark? How can they have been redeemed by the Saviour?'

Likewise, the business models we outline in this book may threaten some companies with loss of control, authority and perhaps even prosperity – if they fail to adjust. To them, the idea of corporations orbiting the consumer at the consumer's convenience doesn't only seem impractical, it is positively undesirable. Nevertheless, that's where we're headed.

BEYOND SELLING

The new bottom line represents the beginnings of a different *system*: Like the old system, all the different parts naturally 'fit' together. If the old bottom liner is a fish breathing water, the new bottom liner is land-based mammal breathing air. The beast works to a different logic. We saw some of the key differences in Table 3.2 above:

- From an industrial centre of gravity to a personal centre of gravity.
- From economies of scale and low unit costs to economies of scope and high added value.
- New win-wins: from better, cheaper making to better, cheaper matching and connecting.
- From the unquestioned primacy of the financial investor to the consumer as investor

Now let's look at some of these aspects in a little more detail. Under the new bottom line the *central unit of wealth creation and goals* shifts from the firm to the person. It's as if the individual has become the corporation, so all efforts are now focused on maximizing his personal productivity and profitability.

This isn't just an empty metaphor. It's real. As individuals we do all the things that firms do. We source inputs, process them to create additional value, and seek to realize value in the marketplace. We seek to maximize the efficiency of the processes we undertake along the way and to maximize the final benefits we gain.

As individuals, therefore, we are all 'mini-corporates'. Like corporates, we buy products and services; we hire and fire staff; we plan and forecast; we set priorities and goals; allocate scarce resource; manage cash flows; make savings and investments; work; invest in skills; do financial planning and management accounting; build relationships with suppliers; coordinate activities; face logistical challenges; and so on. Indeed one way of looking at the new bottom line is that its new business models seize