THE NEW FACTORY THINKER

Re-Wiring Our Minds For Success
In A Disrupted Marketplace

BILL BISHOP

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PREFACE

NEW THINKING FOR A NEW MARKETPLACE

When I wrote another $700 check for the lease on our mailing machine, I realized the future had caught up with me and I hadn't seen it coming.

Three years earlier, I thought I was a genius. I had contracts to publish newsletters and magazines for more than 100 clients. My most lucrative revenue source was mailing out the publications to our clients' customers and prospects. To do this, we had leased a high-speed mailing machine that cranked out hundreds of letters per hour. It was a pricey piece of equipment, but I loved it. Every letter that went through the machine meant one thing: money. The more letters, the more money. The sound of the mailing machine in high gear was music to my ears.

But then market conditions changed. Business owners migrated away from printed marketing tools to their digital counter-parts. Like a slow death, the demand for my printed products declined day by day. The lovely sound of the mailing machine churning out letters became less frequent and I by extension less happy. Then one day, the finance company called to see if I wanted to re-lease the machine for another six years. After some pondering, I agreed because I still had a fair bit of mailing business even if it was on the decline. I figured there was nothing else to do.

Three years later, the mailing machine sat silent in the mailing room. No one sent out printed newsletters anymore. Everything

had gone digital. But there I was handing over $700 month after month.

This nasty experience taught me a lesson. When you run a business, the future probably won't be the same as the past. When you make a long-term commitment to an asset like a mailing machine, there's no guarantee that resource will be required in the future. But you'll still be on the hook for it and that can cost you a lot of money.

I realize now that the mailing machine was a manifestation of my old factory thinking at the time. My business mind was running on an old operating system that had been programmed into the collective consciousness of our culture at the start of the Industrial Revolution. With a brain wired for old factory thinking, I didn't see how the world was changing and, as a result, I made bad business decisions. In this case my erroneous thinking cost me thousands of dollars.

That's why I wrote this book. To help you recognize your own old factory thinking and re-wire your mind so you can survive and succeed in the new factory marketplace. To illustrate what I mean, consider these three scenarios:

Scenario 1. You're in a meeting at Apple in 1998. The top executives are brainstorming ideas to sell more computers. Suggestions are bandied about: "Maybe we should lower the price of the Mac? Maybe we should increase our advertising budget? Maybe we should expand our retail network?" Then someone at the back of the room, a newly-appointed executive, puts up her hand and says: "I think we should sell music." The question is: Would you have voted for or against that idea?

Scenario 2. In 1990, you meet Howard Schultz. He's full of

enthusiasm about his idea for a company called Starbucks. He tells you his vision: "We're going to get people to pay $5 for a cup of coffee." The question is: In 1990, when the average cup of coffee was 50 cents, would you have supported Schultz's idea for a $5 cup of coffee?

Scenario 3. In the 1990s, you attend a meeting in Palo Alto. Two guys have invented something called a "search engine" and it's attracting lots of users. The inventors want to give their company a name. Someone suggests they call the company "Google." The question is: Would you have voted for or against that name?

Personally I would have voted no to all three ideas. In hindsight, it's tempting to say I would have voted yes, but I know I would have voted them down. My experience as a business coach tells me that most people would have voted no as well. Not because they lack intelligence or imagination, but because their mind is wired for the marketplace of the past, not the marketplace of the future. This is a huge problem because this old kind of thinking, what I call old factory thinking, stops them from achieving their full potential. It can also lead to unnecessary economic hardship for millions of people.

How we currently think about business has become obsolete. For the past 200 years, the Industrial Revolution wired our minds to think in a certain way, specifically like an assembly line: linear, hierarchical and efficiency-focused. It led us to believe that increasing consumption is the primary objective of the economy and that the key to success in the marketplace is to produce and sell as many products and services as possible. Our industrial, assembly-line minds also view the marketplace as a competitive battlefield where resources

are scarce. This kind of thinking has worked so well for so long it has become the unquestioned mental template for success.

But old factory thinking is now obsolete because the economy and the marketplace have changed on a fundamental level. It has changed from an *assembly-line* economy to a *value hub* economy. The industrial assembly line has been replaced by the Internet, a global network of connected relationships, as the economy's dominant means of production.

This shift from an assembly line economy (old factory) to a value hub economy (new factory) is causing unprecedented and irreversible changes. Increased global competition is driving down margins on traditional products and services. This is forcing old factory companies to cut costs, often by replacing human employees with computers and robots. Many old factory companies have been forced out of business or marginalized. In addition, the psychology of consumers has changed. Empowered by new technology and exposed to an ever-increasing volume of information, they see the world through new eyes and behave differently in the marketplace. Ironically, the same technology that marketers use to reach consumers has also made it easier for them to hide from marketers, driving up the cost of sales. Under these conditions, old factory thinking doesn't work anymore. That's why I wrote this book: to teach you a new way of thinking that's more appropriate for the world we live in today.

Many of the issues and ideas discussed in this book will make you uncomfortable. Having your established way of thinking challenged is not fun. You might be scared about what's coming and hope it won't happen. You might worry about your business, your job, or your

family's future. But you'll learn that new factory thinking is much more exciting and invigorating than old factory thinking. You'll realize you've placed unnecessary limitations on yourself. You'll understand that old factory thinking has been holding you back from achieving your full potential. You'll discover that greater success will come, not from working harder (you already work hard enough!) or even from working smarter. You'll discover that greater success will only happen when you transform your way of thinking on a fundamental level.

Using new factory thinking, you'll experience an explosion of ideas about how to provide new, more profitable kinds of value in the marketplace. You'll redefine what "value" means, and come to appreciate that in the new factory marketplace, value and wealth are being created in ways that were unimaginable in the old factory economy. You'll also see that building your new factory is also easy and fun.

The first step towards new factory thinking is to admit you currently engage in old factory thinking. Being brutally honest, you accept that your mind is programmed for the past, not the future. To see what I mean, let's review the three scenarios presented at the start of the chapter.

First, the story about Apple. When someone suggested they sell music, the natural reaction was negative. Why would we, a computer company, get into the music business? That's a different industry. That's not our area of expertise. We're a *computer* company, not a *music* company. Caught up in a limited self-definition (we're a computer company), most Apple people rejected the idea at first. But of course, we know now it was a brilliant idea. By branching out

into music, Apple became a totally different kind of company. Once they broke through the "computer-only" barrier, they no longer placed restrictions on what they could or could not provide to their customers. This positive experience opened their minds to many other value creation possibilities such as iPhones, tablets, apps, movies, and e-books. Of course, there never were any real restrictions. The restrictions were only in their mind. There was no law stopping them from expanding into other industries: Just old factory thinking.

So when someone suggests you could provide value that falls outside your industry or product/service category, stop before you trash the idea. Notice your old factory thinking. You see, in the value hub economy, it doesn't matter what industry you're in. Your customers don't care. Only you care. In fact, in the value hub economy, traditional industry definitions are irrelevant. Ask yourself, what industry is Apple in? Can you say they're in the computer industry or the music industry? Are they in the telecommunications industry? In the value hub economy, it doesn't matter. Apple is its own industry. They're in the industry of creating value for their customers, no matter what that means.

Now to the Starbuck's story. In 1990, most people rejected Schultz's vision of a $5 cup of coffee. "Why would anyone pay $5 for a cup of coffee when you can get it for 50 cents?" they asked. Old factory thinkers couldn't imagine such a scenario so they didn't try to figure it out. But Schultz believed that "if we build it they will come." And indeed they do. Today, millions of people line up every day to pay $5 for a cup of coffee.

This kind of old factory thinking is common. When I suggest to

business owners that their customers might pay 10 times more for something, they scoff. "Our customers will never pay more, certainly not 10 times more," they say. Then I ask them: "Pay 10 times more for what?" They can't see the opportunity because they're stuck in old factory thinking. Their old factory industry is so competitive and commoditized that, in their mind, price is the only point of differentiation. Their customers demand the lowest price and they try to provide it. So when I suggest their customers might pay ten times more, they can't imagine it. Their brains are just not wired to see the possibility.

Let's turn to the third story about Google. You can kid yourself, but I bet you would have voted against calling the company Google. You would have said: "That's a crazy name. It doesn't mean anything. It's weird. No one will get it. It will make us look foolish. It's too risky."

I used to be like that. When I started writing books, I gave them boring titles. I was trying to establish my credentials as an expert by being serious and conservative. But this old factory thinking stopped my books from standing out in the marketplace. Then I wrote a book with the title *How To Sell A Lobster*. The funny name worked. I've sold more than a million copies.

The lesson is: The 200-year-old-factory era wired our minds for conformity and conventionality. Being bland and boring worked best in a hierarchical society. Blending in and keeping a low profile was safer. Doing something strange or bizarre meant public scorn or even jail. Think of Oscar Wilde or Lenny Bruce. But in the new factory marketplace, being plain and boring means marginalization and failure. In today's entertainment-rich marketplace your customers

are being amused 24/7 in a myriad of ways using a multitude of media. If you don't do something dramatic to catch their attention, you'll never emerge from the pack. So when someone suggests you put a picture of a giraffe on your website or call your company a name like ShoeLace or Flunky-Fest, think twice before you run the idea into the ground. Pause, notice your old factory thinking, and consider the potential upside of the strange, the odd, and the peculiar.

I love these three new factory scenarios because they cut through self-deception. Most of us believe we're forward-thinking and open minded, but it's simply not the case. When given an idea to create value outside our normal parameters, we often reject the idea. When it's suggested our customers might pay 10 times more, we disparage the notion. And when given the option to do something wild and crazy, we cringe at the possibility. That's just the way our minds are wired. From birth we have been conditioned for old factory thinking.

The lessons learned from Apple, Starbucks and Google is that new factory thinking works better these days. That's why we need to change how we think in a myriad of ways:

- Instead of thinking about how to get our customers to consume *more* resources, we need to think about how our customers can get better results using *less* resources.
- Instead of thinking in a linear and fragmented fashion, we need to think spatially and holistically.
- Instead of focusing exclusively on tangible products and services, we need to focus more of our attention on providing intangible value.
- Instead of being salespeople making a sales pitch, we need to

provide value during the sales process.

• Instead of creating a product or service once, we need to be continuous value creators.

• We need to focus more on what we know and less on what we do, and then turn our knowledge and wisdom into new forms of value.

• Most importantly, we need to be comfortable with continuous change, and re-configure our businesses and our thinking in order to welcome change as an opportunity not a threat.

Taken together, these elements of new factory thinking represent a radical re-arrangement of how we see the world and our role in it. Sadly, many people will not want to change their way of thinking and will fail in the new factory marketplace. Others will see the writing on the wall and make the effort to change. I'm hoping you're one of those people. If you are, let's get started.

INTRODUCTION

THE SINGULARITY IS HERE

In the late 1970s, a good friend got me a job in the computer department at a drug wholesaling company. I was responsible for operating a room-size mainframe computer linked to 300-plus drug stores across the country where pharmacists filled out prescriptions using a computer terminal. Though basic by today's standards, the system was a massive leap in productivity and capability. The pharmacists loved the system because it did in seconds what used to take them hours to accomplish.

During the 18 months I worked there, I got an inside look into the consequences, both good and bad, that advances in technology can have in the marketplace. Coincidentally at the same time, I was reading *The Medium Is The Message,* a book by Marshall McLuhan. I was digesting his thesis that new technology has an unpredictable and irreversible effect on how humans think, work and interact with each other.

I observed that the pharmacists were completely dependent on our computer system. One morning the system crashed and within seconds all the phones lines started ringing. The pharmacist couldn't fill their prescriptions and business had ground to a halt. Fortunately I rebooted the system in 45 minutes, but the lesson was clear. The pharmacists were completely dependent on this new technology. This dependency was underscored a month later when a fire broke out in our building. The smoke fried our computers and shut down the

system for three days. The pharmacists were apoplectic but there was nothing they could do. They couldn't revert back to the previous manual system. That was the irreversible part Marshall McLuhan talked about.

Another consequence of this new technology became evident. The system was created by the drug wholesaler to monopolize the marketplace. They gave the computer terminals to the pharmacists for free, and once they started using it, they bought 98% of their drugs from our company. The pharmacists could still buy from other wholesalers, but it was a lot harder and more time-consuming, so they didn't bother. The other companies were locked out of the market. As you'll read in this book, I've coined a phrase for this type of monopoly: I call it an "alpha network."

I also had a first-hand lesson in Moore's law that states that computers double in speed every 18 months while becoming smaller and less expensive. The GEAC 8000 computer we used was twice as fast and less expensive than the GEAC 500/800 computer used the previous year. The GEAC 8000 computer was also smaller and had more capabilities. Since that time, I've kept track of this progression. Today my smart phone has 100,000 times more processing speed than the GEAC mainframe that filled a large room back in 1979.

This experience taught me that it's folly to ignore the impact of technology on our lives. If you run a business, it's likely something will happen in the near future that will have a disruptive impact on your business model. A new technology might undermine your business. A new competitor might change the power balance in your industry. Consumers might grow bored of what you're selling and flock to something new. Political and economic conditions might

change and throw into question the viability of your industry. It's impossible to predict what specific changes will happen but you can be certain that change will come.

Change will happen because the singularity is here. I use this expression with thanks to Ray Kurzweil who wrote a book called *The Singularity Is Near*. Kurzweil is an inventor and a futurist who's worth listening to. Some people refuse to listen to his message but they close their ears at their peril. Kurzweil's message is simple: The exponential growth of computer processing speed and power will continue (Moore's Law), but the pace of this growth will be much greater in the coming decade.

To visualize this trend, think about the doubling of integers, starting with 1. The sequence goes 1, 2, 4, 8, 16, 32, 64, 128, 256, 512, 1014…. At first the increase per generation is relatively modest. For example, the increase in real terms from 4 to 8 is only four. Even the increase from 64 to 128 is only 64. But when you get further along in the sequence, the increase per generation becomes astronomical. For instance, within 22 generations, the sequence becomes: 1,048,576 to 2,097,152 to 4,194,304 to 8,388,608. At this point, the increase per generation is in the millions.

This is what is happening to computers today. Back in the '80s and '90s, computers sped up relatively slowly every 18 months: 1, 2, 4, 8, 16, 32, 64, 128, 256, 512, 1014…. Now they speed up by millions every 18 months: 1,048,576 to 2,097,152 to 4,194,304 to 8,388,608. In a few years, computers will speed up by billions every 18 months: 17,179,869,184 to 34,359,738,368 to 68,719,476,736. And then they will speed up by trillions every 18 months.

In their book *The Second Machine Age*, Erik Brynjolfsson and

Andrew McAfee use a good analogy to illustrate this concept in non-mathematical terms. Get out a chessboard. On the first square, place one piece of rice. Then put twice that amount of rice on the next square, and then twice that much on the third square. Keep doing this until you have completed the 64 squares. Now ask yourself: How big is the pile of rice on the 64th square?

Before I give you the answer, consider this. As you pile up the rice square by square, the first half of the chessboard is quite manageable. Even on the 32nd square, you still have a relatively small pile of rice. But when you get to the second half of the board, the piles get really big, and then even bigger. By the time you get to the 64th square, your pile of rice will be the size of Mount Everest (no kidding).

That's what's happening with computers. They've doubled in speed and capability for the past four decades, but it's been manageable because we were still on the first half of the chessboard. Now we've entered the second half of the board and the annual progression is accelerating beyond all previous experience. Each year, the progress of computers, and their effect on our economy and society, will exceed all of the progress achieved in all the previous years. That's why I say, "You ain't seen nothing yet," when it comes to technology-related change.

So what's this got to do with you and your business? Everything. It's not just that your computer will run faster, and that you will have more apps to play with on your smart phone; the impact will run much deeper. As Marshall McLuhan said: The medium is the message. It's not what we do with technology, or what we communicate with technology that matters; it's how the technology

changes our society and us as human beings.

As computer-processing speed increases faster and faster, you, me, your family, your community, your company, your industry, and the whole world will be taken for a ride. It will be like a roller coaster that keeps picking up speed. Everything will change more rapidly and most of that change will be unpredictable. That's what Kurzweil means by the singularity. We're about to reach a point beyond which change will happen so fast and so unpredictably that we won't be able to plan for the future.

That's why it's important to design a business or career that is future-proof. If you use old factory thinking—which is based on planning your future around specific products and services—you take a huge risk. That model worked in the past when the future was more predictable and slower to change. You could spread out the risk of your capital investment over years, if not decades. Now however, if you use that model the odds will be against you.

But if you build a new factory—structured as a value hub—the odds will be in your favor. You'll be able to change and adapt your business on a day-by-day, even minute-by-minute basis, without needing to pull up roots. Like a sturdy oak tree, your new factory will grow tall and strong no matter how much the wind blows or from what direction.

Reading Kurzweil's book was both exhilarating and terrifying. As an entrepreneur, I revel in disruptive innovation. When I see disruption I see opportunity. But what if there is too much disruption? What if the world changes too fast? Kurzweil projects that within 20 years, a computer the size of your smart phone will have more processing power than the brains of everyone who ever

lived times a trillion!

And that's not even the scary part. He also conjectures that at a certain point, computers will start designing and building their own progeny, and at that point, we lowly humans will not understand or be able to keep up with the technological advances they're creating. It's at that point the ultimate singularity will have arrived.

So that's frightening. And maybe it won't happen exactly like that. But it's certain, over the next decade; computers will become faster and smarter. More of us will become connected to each other, and just like the pharmacists, we'll use technology to do more things and become more dependent on it.

But even that's not the big story here. The big story is that your world is going to change. What you think about and what you believe in will change. How you see the world will change. How you work will change, and how and what you buy will change. Moreover, your customers will change. How they think and what they buy will change. As a result, your business will need to change.

That's why it's imperative to think ahead and adopt new factory thinking. It will enable you to survive and succeed during the disruption caused by the singularity. It will empower you to build a new kind of business designed for the brave new world ahead of us.

To this end, I'll give you dozens of examples of how many companies—from large corporations to one-person home-based operations—have made the exciting transformation from old factory thinking to new factory thinking.

SECTION ONE

THE NEW FACTORY MARKETPLACE

CHAPTER 1

THE NEW MARKETPLACE REALITIES

Walking home from work one day, I bump into an old friend of mine. Her face is haggard, her shoulders are slumped, and tears roll down her cheeks.

"How's it going," I ask.

"Terrible," she says. "I got laid off from the bookstore."

"I'm so sorry to hear that," I commiserate, putting my hand on her shoulder. "What happened?"

"They laid off half the staff. They can't compete against online book retailers like Amazon. People don't buy as many books from us as they used to. They browse in the store and then order online."

"I know about that," I say. "They call that show-rooming. It's happening to lots of companies like retailers, travel agents, and insurance brokers. People spend time with a salesperson to pick their brain and then go online to get a deal."

"Well anyway," my friend says, moping up the tears on her face. "It cost me my job. And I don't know what I'm going to do."

I promise to keep her posted on any job openings I might hear about, but I'm not sure how to help her. I feel sad for my friend but I'm not surprised by her story. I hear tales like hers all the time. I have another friend who was unceremoniously escorted out of her office and turfed on to the street after doing a stellar job for 30 years. Her company had merged with a much larger firm and the new company trimmed its work force. "Nothing personal," they said, as a

security guard asked her to turn over her laptop and cell phone.

The sad fact is: Lots of people are losing their old factory jobs and they have no vision for what to do next. Their only hope is that the economy will turn around, and companies will start hiring again. But that's not going to happen. The changes taking place in the marketplace are much bigger than any single job, company, business cycle or downturn. We're making the painful transition from the old factory marketplace to the new factory marketplace, and the best way to equip ourselves for the future is to recognize what's really going on, and embrace the new world that's emerging.

THE THREE FACTORS

Three factors are changing the marketplace on a fundamental level.

Factor #1: Exponential change: The pace of change is speeding up exponentially. In the past, market conditions changed slowly. Today, market conditions change much more quickly, usually with no advance warning.

Factor #2: Convergent competition: In the old factory marketplace, competition was constrained by trade barriers and controlled by industry regulations. In the new factory marketplace, companies have more competition converging on them from other countries and other industries. This convergent competition drives down prices and profit margins on traditional products and services.

Factor #3: Empowered prospects: In the new factory marketplace, communications technology empowers consumers to shop around for the lowest price if they think a product or service is a commodity. They also use technology to create a barrier between themselves and salespeople. This makes prospects harder to reach.

WHY THESE CHANGES ARE HAPPENING

The three factors of the new factory marketplace—exponential change, convergent competition, and empowered consumers—are caused by the ever-increasing processing power of computer-based devices and the expansion of the Internet. Previously, computers, the Internet and automated systems were simply tools to improve machine-based, old factory processes. But now, they have become the primary infrastructure of the global economy. This new "means of production" is having profound and irreversible repercussions in the marketplace. Clearly understanding these repercussions will empower you to deal with them effectively rather than being victimized by them.

THE REPERCUSSIONS

Repercussion 1: Conceptual Recombination

Every day, more people connect their computers, smart phones, tablets, and other devices to the Internet. Sensors, cameras and appliances are also being linked to the Internet, causing exponential growth in the number of connections on the network. In addition, computers and other devices are getting faster and more powerful.

This means more information is exchanged and processed every day.

This flood of information from multiple sources exposes people to novel concepts and ideas that they process and re-arrange in novel combinations. This "conceptual recombination" changes their worldview (their perceptions, beliefs, and preferences), and in effect, turns them into a new kind of person. It also turns them into a new kind of consumer, with different preferences about what they buy and how they buy.

Accelerated conceptual recombination also causes social, political and economic change. When people change their worldview (perceptions, beliefs, and preferences), they choose to live their lives differently (social), they demand different things from their leaders (political), and they change their behavior (economic). All of these changes alter market conditions.

In the old factory era, conceptual recombination was much slower. Because society was structured as a hierarchy, the elites at the top of the hierarchy tried to control what was communicated to the masses. In this environment, people's values, beliefs, and preferences changed slowly. As such, market conditions also changed slowly. In the new factory era, the emergence of non-hierarchical peer-to-peer communication is accelerating conceptual recombination and causing market conditions to change more quickly in unpredictable ways.

Repercussion 2: The Race To The Bottom

Increased global competition and the growing primacy of the Internet marketplace have turned most traditional products and services into commodities. A product or service becomes a commodity when buyers think all the suppliers in an industry or

product category sell basically the same thing. When this happens, consumers look for the supplier with the lowest price. In this competitive environment, companies are forced to lower their prices. This race to the bottom is wonderful for consumers, but a challenge for producers. To stay competitive and maintain their profit margin, producers must cut costs. They cut costs in the following ways:

Lower cost of operations: Cut cost of labor. Replace people with computers, automation software, and robots. Get rid of physical assets like stores, manufacturing facilities and office space. Get customers to do work previously done by the company. Farm out operations to other countries with lower labor costs.

Lower cost of sales: Eliminate or scale back sales force. Use automated selling systems. Get prospects to do the work previously done by a salesperson.

Decrease percentage of fixed costs: Turn fixed costs into variable costs. Eliminate full-time employees. Outsource to other companies.

Lower the cost of risk: Download operations with high risk to outside companies. Impose tighter regulations and compliance requirements on down-stream sales and service organizations.

Achieve larger economies of scale: To lower costs per transaction, old factory companies merge and consolidate into larger operations and then engage in further cost cutting.

The effect of these changes is often lamentable but also

inevitable. When consumers seek lower prices, companies are forced to cut costs. This race to the bottom will cause millions of people to lose their old factory jobs.

Repercussion 3: The End Of The Middle Market

The Internet has taught consumers to look for the lowest price on anything they perceive as a commodity, even things not sold on the Internet. That's why most old factories now find themselves in a commodity marketplace where the only point of differentiation is price. This commoditization has gutted the middle market. Companies that try to maintain their existing cost structure and profit margins cannot compete against lower-priced rivals.

This state of affairs cleaves the marketplace into two camps: the fast food market and the gourmet market. In the fast food market, buyers look for the lowest price. In the gourmet market, buyers pay a lot of money for something special. This doesn't mean that poor people buy fast food and rich people buy gourmet. Every person, depending on the marketplace they're in, behave accordingly. If they're in the fast food marketplace (i.e. shopping online for life insurance or driving around to save at the gas pump), they look for the cheapest price. If they find themselves in the gourmet marketplace, the same person may buy an expensive fur coat or take their spouse to dinner at a chic restaurant.

This is an important point. The disappearance of the middle market is not because we have social disparity between rich and poor (although that's also a problem), it's because consumers now have two minds—fast food and gourmet—and employ one or the other depending on what marketplace they happen to be in. In other

words, if a person is in the fast food marketplace, they look for the cheapest price, and if they're in a gourmet marketplace, they are willing to buy something expensive. This psychological behavior is adroitly explained in the book *Situations Matter* by Sam Sommers. He says behavior is not innate in a person's character, but rather shaped by the situations they find themselves in.

The implications of this new market reality are significant. If your company is stuck in the middle market, you'll be driven out of business. If you try to compete in the fast food market, you'll have to do more transactions in order to maintain your existing overhead and you may need to compete against much better capitalized rivals. For most companies, the only opportunity is to enter the gourmet marketplace. (Note: Gourmet does not necessarily mean a luxury good, just something considered significantly superior to a commodity.)

Repercussion #4: The End Of The Salesperson

In the new factory marketplace, people are exposed to thousands of marketing messages everyday, and to deal with this flood of data, they block out certain types of messages; especially anything that sounds like a sales pitch. So, if you send a sales message by email, your prospects probably won't read it. If you call them, they probably won't answer the phone, and if you mail them a brochure, they'll probably throw it out. This reality has increased the cost of sales and made the traditional sales approach ineffective.

That's why we are witnessing the end of the traditional salesperson. Consumers know the cost of sales is built into the price of a product and producers know the cost of sales is subtracted from

their profit. For this reason, consumers have a financial incentive to do many traditional sales functions themselves (like searching for options and filling out forms), while producers are motivated to replace salespeople with computers and robots. That's why traditional salespeople who merely facilitate a transaction will become extinct.

This trend is already evident in sales-oriented professions like real estate, life insurance, and wholesaling. There's stiff commission competition in these industries. One of my clients, a real estate broker, cut his commission by 50%. Because he works at home and has low overhead, he could under-cut his competition and still make a good profit. His competitors (other real estate brokers) were furious (you can't do that, they said), but my client didn't care. He quickly got ten listings, made the sales, and pocketed a goodly sum. That's why some real estate brokers now offer zero commission in exchange for a flat fee. The same is happening in life insurance. In the U.K. and Australia, regulators eliminated commissions on life insurance. When that happened, many advisors left the industry because they couldn't figure out how to charge for their advice. That's why in the new factory era we'll see the end of the traditional salesperson.

Repercussion 5: The End of The Single Transaction

Because prospects are hard to reach, the cost of sales has gone up. It's now necessary to contact more prospects in order to land a sale. In some old factory industries, you also have more regulatory paper work. That's why you don't want to do a single transaction. Once you have a relationship with a customer, you want to sell them lots of things in order to cover the initial cost of acquiring them. That's why

new factories that amortize the cost of customer acquisition over many years and many transactions out-compete old factories that only do single transactions.

Repercussion 6: The Freebie Factor

In the fast food marketplace, consumers look for the best price, and the best price is free. That's another thing the Internet has done to the brain of the consumer. They expect most things on the Internet to be free. This is a big danger for old factories because one of their competitors might start giving away their product or service for free in order to capture and own the relationship with the customer. One of my clients, a tax preparer, was compelled to build her new factory after a local insurance company started giving away free tax return services. "How can I compete if they give my service away for free?" she asked. Exactly. How can you? This highly disruptive trend will continue. More and more, commodity products and services will be given away for free by new factories intent on building their membership roster. I predicted this trend back in 1996 in my book *Strategic Marketing For The Digital Age*, and have watched it unfold ever since. (Also see Chris Anderson's book *Free: The Future of A Radical Price*).

Repercussion 7: The Demand For New Kinds Of Value

In developed economies most consumers have achieved physical actualization, meaning that most of their physical needs are being met. Of course, there are still many marginalized people, but even they are relatively better off than most people in the Third World. In this kind of mature marketplace, catering to a customer's physical

needs is less of an opportunity than it used to be. For example, after World War Two, my father-in-law was the first person in his community to buy a refrigerator. Dozens of his friends came over to see the new invention. They had a refrigerator party. But today, everyone has a refrigerator. It's no big deal. Refrigerators have become a commodity; an essential one, but not something to throw a party about. And that's the thing. Back then, if you peddled refrigerators you sold something people got excited about and few people had. You also had few competitors so you could charge a good margin and make a good income. But nowadays, if you sell refrigerators, everyone has one, and there are a lot of people selling them. Customers can also go online and buy one themselves for dirt cheap and never talk to a salesperson.

That's the problem. If you only sell something tangible like a refrigerator, there's not a lot of opportunity to get rich in the new factory era. But that doesn't mean there is no opportunity. Once people get their physical needs met, there are other things you can help them with. This is where the opportunity lies: to package and sell new kinds of value that transcend the value provided by old factories. For example, the demand for emotional value will grow in the new factory marketplace. Once they have their physical needs met, consumers will be willing to pay a lot of money to feel better emotionally (i.e. feel less stressed, have more peace of mind, feel empowered, feel fulfilled, feel connected).

In the new factory marketplace, value will be created in ways that were previously unimaginable. Value will be created with "words" and "design" and other intangibles. New factories will transform the lives of their customers in holistic, integrated ways that are

significantly superior to the fragmented approach taken by old factories. Opening our minds to the potential for new kinds of value is one of the keys to new factory thinking.

Repercussion 8: The End Of Fixed Overhead

In the new factory marketplace, companies will eliminate as much fixed overhead as possible. They will not want to commit resources to any physical or human asset that is "fixed" because they won't be sure if they'll need it in the future. In the old factory era, companies could confidently make a big fixed investment in overhead. They could invest $10 million in an assembly line to make hammers, and amortize that investment over 10 years. But in the new factory era, it's foolish to do that. There's no guarantee people will want hammers in 10 years or even one year from now. So new factories will avoid anything that fixes their overhead.

I had an experience that taught me this new factory lesson. Years ago, my company produced printed educational booklets for our clients. We generated $8,000 in revenue per month, incurring $4,000 in outside printing costs. Given the popularity of the booklets, we committed to lease a photocopier for $800 a month, thereby saving $3,200 a month in printing costs. It seemed like a good idea at the time, but it wasn't. A year later, no one wanted the printed booklets anymore. They wanted e-books. But we were left with six more years on the lease at $800 a month. The lesson was: while the photocopier was part of our fixed overhead, the demand for our product turned out to be variable. More excruciating (as all good lessons are), the photocopier spent the last two years of the lease in storage, and the total loss on the whole project amounted to about $30,000.

That's why fixed overhead is anathema in the new factory marketplace. New factories seek flexible overhead to match the malleability of the market. That's why my company now uses a nearby UPS store for our photocopier needs. If a client wants a printed booklet (sometimes they still do), we use the UPS machine and mark up the price. In this way, we turned a fix overhead cost into a variable cost, and always make money on a project.

In the new factory marketplace look for companies to shear off as much fixed overhead as they can; buildings, vehicles, machines, and of course, the biggest fixed overhead of them all, people. Companies will be forced to either hire people on contract or use outside suppliers. They will have little incentive to hire someone for a job, or to incur the additional fixed overhead associated with being an employer (such as desks, chairs, computers, phones, lunch rooms, toilet paper, insurance, and benefits).

Please don't misunderstand me. I'm not saying this is a good thing. I don't want to see people lose their jobs. It's just that the new factory marketplace forces companies to take these steps, even if they don't want to. To compete, they have to lower their fixed costs. They have to convert fixed costs into variable costs or go out of business. For these reasons, the ideal new factory will have virtually no fixed costs at all. It will be completely virtual.

Repercussion 9: No More Jobs

As flexible overhead replaces fixed overhead, millions of old factory jobs will be eliminated. Say good-bye to job security, defined benefits, and long-term employment. Lots of people will be replaced by computers and robots, or their old factory company will shut its

doors. These displaced people will either spend the rest of their life unemployed or they will find work in the value hub economy. But notice I didn't say find a *job*, I said find *work*. This is a key distinction. In the new factory future, there won't be a lot of jobs, but there will be unlimited opportunities for work. As the value hub economy takes hold, an infinity of opportunities to provide value and make money will emerge, but not in the form of a traditional job. Jobs lost in old factories will not be replaced by jobs in new factories. Instead, everyone will act as a value hub connected to a network of other value hubs.

Repercussion 10: The End Of Industries

In the new factory marketplace, traditional industry definitions and structures are irrelevant. Ask yourself: what industry is Apple in? Is it in the computer industry or the telephone industry? What about Amazon? Is it in the book industry or the retail industry or the grocery industry?

The idea of industry silos and territories are of no interest to a new factory thinker. They cross over into any industry they want. Industry overlords, who have a vested interest in maintaining old factory perks and entitlements will of course, resist this trend. But it's all over for them because new factory consumers don't care what industry a company belongs to as long as it provides value.

As I write this, an internecine turf war is raging between Uber and the traditional taxi industry. Consumers love the improved value provided by Uber, but the traditional taxi industry is growling and biting back. This tug of war between new factory upstarts and industry-entitled old factories will be one of the most interesting

dramas to play out in the new factory marketplace.

To succeed in today's marketplace, it's critical to get your head out of your industry-defined box. It's holding you back from seeing all of the potential value you could provide to your customers. Like Apple selling music, maybe you could sell your customers something from another industry or product/service category.

THESE CHANGES ARE IRREVERSIBLE

These changes and repercussions are unprecedented in human history. While they are caused by technology, they are not all about technology. It's about how people in the new factory marketplace see the world differently and behave differently in it. No amount of wishful thinking will reverse these trends. They're now firmly entrenched. The only path forward is to embrace the reality and the opportunities of the new factory marketplace. Now let's look at the difference between an old factory thinker and a new factory thinker.

CHAPTER 2

HARRY: AN OLD FACTORY THINKER

Millions of smart and hardworking people today have the ability to create a successful business. There's only one problem. They will probably use old factory thinking and that will doom their company right from the start.

To illustrate my point, consider Harry, one of those smart and hardworking people. During his spare time, Harry invents a new kind of hammer. It's three times lighter and 10 times stronger than other hammers on the market. Everyone agrees: it's a great hammer.

With encouragement from family and friends, he launches a company called Harry's Hammers. He leases industrial space and builds an assembly line to make hammers. He also hires employees and puts together a sales campaign.

After 18 months of preparation, Harry's sales team enters the marketplace. They have two targets: retailers and consumers. They want stores to stock their hammers, but they also plan to sell directly to consumers. After two weeks, a pattern emerges. The sales team reports that retail buyers are hard to reach. Almost every time they call a prospect, they get voice mail and have to leave a message. None of the prospects call back. So they call again and leave a second voice message along with an e-mail. But once again, the prospects don't respond. "It's kind of rude," one of the younger salespeople remarks.

The direct-to-consumer salespeople are also frustrated. They

make 1,000 calls and only speak to 81 prospects. From that group, four purchase a hammer. The door-to-door salespeople are even more discouraged. They knocked on 450 doors, spoke to 33 prospects, and only sold two hammers. "To top it off," one of the salespeople reports, "I almost got bitten by someone's dog."

During the following months, the sales team keeps at it, and there are some encouraging developments. Two local retailers stock the hammers on a consignment basis (meaning they can return the hammers to Harry if they don't sell). As well, Harry sells 121 hammers online, although it's pointed out that the cost of online advertising strips away most of the profit.

After a year, Harry is both worried *and* optimistic. He hasn't sold very many hammers but he's making inroads. People tell him to keep at it. "It usually takes a few years for a new company to make a profit," supporters tell him. "The key is to persevere."

So Harry perseveres. He finds investors and expands his sales team. He creates a second-generation hammer, making it even lighter and stronger. But then something happens that Harry had not expected (although in hindsight, he realizes it was inevitable.) A new competitor from Asia enters the marketplace. Their hammer, called The Whammer 9000, looks a lot like Harry's hammer. It's also light and strong and has a streamlined futuristic shape. But that isn't the biggest problem. The Whammer 9000 is 25 per cent cheaper than Harry's hammer.

Harry buys a Whammer 9000 and checks it out. He gets some comfort from the fact that the upstart hammer isn't as good as his hammer. "Our hammer is lighter and stronger," he tells everyone. "Sure their hammer is less expensive, but our hammer is better

quality."

Selling quality, however, is tough. Prospects only have one question: "How much?" When a salesperson explains that Harry's Hammer is better quality, and therefore more expensive, the prospects are unmoved. "You say your hammer is better but the people from Whammer say their hammer is better too," the prospects say. "And their hammer is cheaper. So we're going to stock the Whammer. If you can get your price down to their price, maybe we'll take another look at your hammer."

Unfortunately, that's just the beginning of Harry's woes. Over the next year, six other new competitors enter the hammer market. All claim their hammer is the best and all offer a lower price than Harry. Reluctantly, Harry decides to lower his price, cutting into his already slim profit margin. But even that doesn't work because three of the competitors promptly lower their price even more.

Determined to figure a way out of this quagmire, Harry brings his employees and investors together for a meeting. After spelling out the situation, Harry asks for suggestions. Everyone has an opinion on what to do. Some suggest they lower their price even more and make operations more efficient. Others suggest they branch out into screwdrivers and other tools such as wrenches and saws. A few of the younger employees think the company should make better use of social media. "We need to tweet more," Harry's son says.

"I appreciate all of your comments and suggestions," Harry says. "But I think we need to stay the course. We've got 20,000 hammers in the warehouse. The name of the company is Harry's Hammers. We can't start selling screwdrivers. That would confuse people. We just need to try harder. We need to make more calls and send out

more emails. We need to hone our message and convince customers that our hammers are the best quality and worth a few extra dollars."

Two months later, Harry learns a national chain of hardware stores is running a promotion. To attract new customers, they're giving away free hammers (the Whammer 9000s!). Shortly thereafter, Harry files for bankruptcy. All the employees are laid off and 20,000 hammers are sold at auction for 35 cents each. Dejected but not defeated, Harry returns to the workbench in his garage. He has an idea for a new and better can opener.

So the question is: Why did Harry fail? Was it because no one wanted his hammers? Was it because he didn't know how to run a business? Was it because he used the wrong marketing strategy? No, Harry failed because he used old factory thinking. He approached his business like it was the 19th Century, not the 21st Century. Like many business people, he used a mental roadmap that no longer works in today's market conditions. To understand what I mean, let's imagine in the next chapter what would happen if Harry used new factory thinking.

CHAPTER 3

HARRY: A NEW FACTORY THINKER

As we saw in the last chapter, Harry's company went belly up because he used old factory thinking. Now let's imagine a parallel universe where Harry uses new factory thinking instead. To begin, Harry chooses to make his new factory not about a product or service but about a specific type of customer, namely Do-It-Yourselfers (DIYers). These are people who like to do their own renovations. Harry knows there are millions of DIYers around the world, and they have money to spend.

Focused on DIYers, Harry develops a big idea. He brainstorms ways to help DIYers get better results using less money, time, and energy. Tossing around ideas with his team, they hit upon a seemingly radical concept. Why not help DIYers connect with each other in order to exchange ideas and resources? "We could even help them share tools with each other," someone suggests.

In the old factory universe, Harry would have squashed such an idea. He would have said: "We don't want people sharing their tools with each other. We want each of them to buy a hammer." But in the new factory universe, Harry sees a bigger picture. Yes, he thinks, that's a great idea. We'll become the value hub at the center of this exchange and make lots of money. Another person suggests that members could help each other with projects, either by providing tips, or by actually helping them build something: kind of like an old

fashion barn raising. Great idea, Harry exclaims, feeling a wave of excitement rising in his chest. Over the next couple of hours, ideas for creating value come fast and furious.

Harry then plays around with a few names for his big idea, and eventually settles on *The Do-It-Together Club*. He registers DoItTogether.club as a domain name and creates a simple website to get started. His goal is to sign up 1,000 members in the first year. He also packages three program levels: basic (free), premium ($25 a year), and super-elite ($150 a year).

When they sign up, members receive a lot of value. Using The Do-It-Together Club website (and later an app), members access a listing of the other members, find out what projects they're working on, and discover what tools they have to share (either free or for a rental fee). Members can also upload videos about a project they've done, like building a deck, or renovating a bathroom. The more videos they post, the more reward points they receive.

Harry finds that getting new members is easy. Signing up for membership is a no-brainer. It doesn't cost anything, and the club offers a lot of services even at the entry level. Within six months, Harry exceeds his 1,000-member target, and by the end of the first year, has 40,000 members. Harry is excited to see that membership growth is exponential. As more members join, the value of the club increases, attracting even more members.

After two years, Harry has 250,000 members in the network. Ninety percent are free members, 10 percent are paying members. He has 3,000 level two members at $25 a year ($75,000) and 1,000 level three members at $150 a year ($150,000) for a total membership revenue of $225,000. These are not big numbers, but Harry doesn't

care. He's just getting started.

Building a roster of members is just part of the new factory game Harry is playing. He also makes money from his one-stop store where members purchase products and services at a discount. The first product added is of course Harry's Hammer. But Harry doesn't stop there. He adds The Whammer 9000, which in the old factory universe Harry would have never done. Then he adds screwdrivers, wrenches, saws, nails, lumber, drills and ultimately 10,000 other products. Of course, Harry doesn't make these products. That would be so old factory. No, Harry makes a deal with each supplier. They agree to give his members a discount, and give him 15% on every product sold. They agree to this commission because they seek access to Harry's growing roster of members.

Sales in the store keep growing. In the second year, total commission revenue is $600,000. Not a lot perhaps, but Harry keeps in mind that it's all high-profit revenue, with little or no risk attached. Harry is delighted to sell products created by other companies. He doesn't have to invest capital in factories, warehouses, and other infrastructure. He also doesn't need to worry about what products sell. If people stop buying hammers and start purchasing screwdrivers that will be just fine with Harry. He makes money either way. As Harry is fond of saying: Whether I sell a hammer or a screwdriver, the money looks the same in the bank.

Harry loves other things about his new factory. He doesn't have a lot of fixed overhead or operations. There are no machines to repair or light bulbs to replace. There are no carpets to clean or office supplies to buy. He also has more flexibility. He can run The Do-It-Together Club from anywhere. He spent three months last

winter working from a beach house in the Caribbean, and this summer, he's heading to Italy to work there. All he needs is his laptop and a good Internet connection.

Harry also has a different perspective on creating equity in his business. In the new factory universe, Harry knows the value of his company grows as his network of members expands. The more members he has, the more his company is worth. He also knows that revenue growth is more predictable (revenue grows as memberships increase), and more consistent (83% of members renew their membership each year).

As a new factory thinker, Harry is always brainstorming about new ways to provide value to members. (*Thinking* has replaced *doing* as the primary value creation activity in the company.) In addition to home-building-related ideas, Harry plans to introduce other exchange-related concepts, such as home exchanges, car exchanges, baby-sitter exchanges, elder care help exchanges, and even a clothes exchange.

As he delves deeper into new factory thinking, Harry clearly understands that his company is now built around knowledge and relationships, not just the sales of tangible products and services. The benefit his company provides is embodied in a single word "empowerment". Anything that empowers members is something we could do, he tells himself. He also knows that his company's key solution is to facilitate an "exchange". Anything that helps our members make an exchange is also something we could do, he says. Taken together, Harry's business is now built around a simple phrase: *Empowerment Through Exchange*. With this in mind, Harry now has no barriers to his creativity, his intellectual interests, or his pathway to

success. He's not limited in his thinking like old factory Harry. He's liberated to achieve his full potential.

Not surprisingly, Harry has many detractors when he veers off from his singular focus on hammers. "You're getting off track, Harry," a management consultant tells him. "You need to try harder to sell hammers, not get into this weird club thing." But Harry realizes the naysayers are mired in old factory thinking. They look at the world through 19th Century eyes, and don't appreciate how much the marketplace had changed. So he listens politely to their concerns and proceeds to build his new factory anyway. After all, he doesn't actually give up his old factory. He keeps selling hammers. In fact, in his third year running The Do-It-Together Club, he sells a record number of Harry's Hammers, along with an equal number of Whammer 9000s. Not to mention screwdrivers, drills, lumber, and hundreds of other products.

So the question is: What universe do you want to live in? The old factory universe or the new factory universe? I'm hoping you want to build a new factory. Bear in mind that Harry's situation might be different from your own. Harry had a product manufacturing company. You might run a service business, or sell to the consumer market or to businesses. You might work in a corporation, or a government agency. It doesn't matter. The principles of new factory thinking are universal. That's what makes new factory thinking so powerful. It's a universal model everyone can use. But before I show you how, let's look at the old factory business model in more detail.

CHAPTER 4

THE OLD FACTORY MODEL

When Henry Ford perfected the moving assembly line in 1913, he ushered in the modern age. Old factory thinking had reached its zenith. Up to that point, cars had been built one at a time by craftsmen, making them too pricey for the average person. Ford's assembly line changed all that. Model T Fords took only 93 minutes to assemble with a new one coming off the line every three minutes. This efficiency allowed Ford to drop the price from $825 in 1908 to $575 in 1913. Millions of people could now afford to buy his car. Even better, Ford was able to raise wages from $1.50 a day to $5.00 a day, making it easier for his own workers to buy a car as well.

The spectacular success of Ford's assembly line was an inspiration to other entrepreneurs. They studied what Ford was doing and tried to copy his methods in their business. Initially, Ford's assembly line process was directly applied to other manufactured products but eventually influenced service businesses like restaurants and insurance companies. It also became the organizational model for other sectors such as education, healthcare, and government services. All the assembly lines in the economy then joined together into a single, integrated assembly line. Success as a company and as an individual meant fitting into this linear system; to find your place in the machine. Whether you worked on an assembly line in a factory, taught high school, or worked at home as a housewife, your

role in life was oriented around the organizing principle of the assembly line. This way of life then conditioned our minds to think of the world as an assembly line: to be an assembly line person using assembly line thinking.

Today, the vast majority of the world's people still think and act like it's 1913. And because the world has changed, they feel like strangers in a strange land. They don't know how to navigate this new landscape so they often feel frustrated, angry and scared. You might feel that way yourself. I know I did. That's why we need to deconstruct our old factory thinking. We have to make it visible and then do away with it.

So what does an assembly-line-oriented mind look like? Let's take a look at the underlying concept of an assembly line. It works like this:

1. Acquire resources from the environment or from other organizations.
2. Assemble these resources in an efficient step-by-step process.
3. Deliver a quality product or service at a low price.

When you get it right, an assembly line is an amazing thing. You can produce millions of cars, toasters, hamburgers, life insurance policies, and handbags, and do it in less time and for less money. You can lower your prices and attract more customers, and if you're a nice employer like Henry Ford, you can raise salaries and give your productive employees big bonuses.

The assembly line economy was a wonderful thing. It raised the standard of living for billions of people and created the modern

economy we have today, but it came with an unexpected consequence. It wired our minds to see the world from an assembly line perspective. It told us to:

- Do more;
- Do things faster;
- Use more resources;
- Focus on producing and selling more products/services;
- Specialize in a product or service;
- Focus on your individual objective; and
- Measure results quantitatively.

Old factory thinking pervaded all areas of society but it became manifest most visibly in the structure of companies. Each company was designed as an assembly line, and endeavored to fit into the overall assembly line structure of the economy. Creating and operating a business meant creating and operating an assembly line. This led to a four-stage thinking process, which I call the old factory business model. The four stages are:

1. Pick a product or service
2. Set up operations
3. Make a sales pitch
4. Do transactions

1. Pick a product or service

Like Harry with his hammers, old factory thinkers begin with an idea for a product or service. Perhaps they want to design wedding dresses or become a cosmetics wholesaler. Or maybe they want to

provide in-home eldercare services or host extreme travel in the arctic. Some of their ideas might be truly innovative and creative but they make a critical error. By defining their business around a particular product or service, they don't think about what will happen in the future when their offering no longer interests customers or when new competitors start selling the same thing. They don't take into account change or competition as inevitable factors. And because of this, they may one day regret being typecast.

The other problem with building a business around a product or service is that you unnecessarily restrict your potential. If you think you're in the hammer business, you don't contemplate selling screwdrivers. You lock yourself into a very narrow box. Theodore Levitt, a marketing professor at Harvard, diagnosed this self-limiting mentality in the 60s as "marketing myopia". He used the example of the railroad companies at the turn of the 20th Century who thought they were in the "railroad" business and didn't see the potential of branching out into automobiles, airplanes, and other transportation-related businesses. According to Levitt, this myopia caused the railroads to define themselves too narrowly, and as a result, they missed out on big opportunities for growth.

Having product or service ideas is not wrong. Keep coming up with ideas to provide new kinds of value. Just don't define yourself or your business based on these products or services.

2. Set up operations

With a product or service in mind, the old factory thinker then sets out to construct an operational structure to make and deliver it. This often begins with a desk, a computer, telephone, a pad of paper and a

pen. This simple start can then lead to giant factories with multi-stage assembly lines, scores of employees punching the clock, and all of the other operational paraphernalia associated with a growing enterprise such as trucks, warehouses, signage, photocopiers, and insurance.

But this focus on expanding operations is a trap. Because old factory operations are designed around a particular product or service, you restrict your ability to adapt to changes in the marketplace. If you have an assembly line to make hammers, it's not easy to start making something else. You also turn a blind eye to the potential of other things because you're emotionally and financially invested in your infrastructure. In addition, the cost of operations turns into a huge problem if your product or service becomes a commodity. As the price of your product falls, the cost of your overhead remains the same (or increases) and this takes a big bite out of your profits.

3. Make sales pitch

Nothing epitomizes the old factory era more than the image of a door-to-door salesman peddling vacuum cleaners to apron-clad housewives in the 1950s. While the tacky glad-handing salesperson is a firmly-entrenched cultural icon that makes us chuckle, most companies today still engage in the same basic approach to sales. Once they've chosen their product or service, and built operations around it, they enter the marketplace and give a sales pitch: *Here is our great product. It's better than anything else on the market. It's got these amazing features. Here's the price. We'll give you a deal.*

In the old factory era, straight-up sales worked great. People

were interested in hearing a sales pitch. They weren't being bombarded with thousands of sales messages a day. They were also more accessible because they couldn't hide behind technology like security systems and voice mail. If you knocked on their door, they would have probably answered it, and if you called them, they would have probably picked up the phone. But that's not the world we live in today. Prospects are much harder to reach because they abhor a sales pitch.

Besides being ineffective, a sales pitch mentality has other drawbacks. By focusing on the features and benefits of your product, you fail to investigate the true needs and wants of your customers. If you have a quota to sell 1,000 hammers this month, you won't ask the customer what they really want. You don't care. You don't want to discover they really want screwdrivers. You want them to buy hammers. This emphasis on your personal product (hammers) and your own goals (sell 1,000 hammers) can make you self-absorbed and uninterested in other people, and stop you from developing bigger relationships and making bigger sales.

4. Do transactions

The fourth step—do transactions—is the way old factory thinkers keep score of their success. If they sell 10,000 hammers this year, they want to sell 20,000 hammers next year. Pumping more products and services through the assembly line becomes the key driving force of the organization. All the intellectual and creative energy of the company is focused on determining one thing: how can we move more of our product? While this sounds like the right course of action, transaction-oriented goal-setting is another old factory trap

because it diverts attention away from opportunities that might prove to be much more lucrative. By only thinking about how to sell hammers, you don't create other kinds of value (like screwdrivers) that might be even more profitable.

DECODING THE MACHINE LANGUAGE

This four-stage process is so engrained in our thinking we don't question it. But that's what I'm asking you to do: question it. Notice your own thought process. Is your business defined by its product or service? Are your operations built around that product or service? Do you make a sales pitch? Do you keep score by tracking transactions?

If you're honest, you'll admit you use old factory thinking. But don't worry. You're not alone. It's used by 99.9% of business people today, in every kind of business in every kind of industry. This includes manufacturers, service companies, wholesalers, and retailers. It applies equally to consumer or business-to-business-oriented companies. It also applies to most Internet-based enterprises.

The old factory business model is so ingrained in our thinking that we don't know it's there. It's like a computer's machine language. That's the deep code programmed into a computer's chip. Most people don't know about this level of programming in their computer. They're familiar with their computer's operating system (like iOS) and its individual software applications (such as Word or Excel), but they don't know about its machine language. And yet, it's the machine language that dictates the structure of the operating system and the software applications. The same is true with the old

factory business model. It's been the core programming of all companies during the past 200 years but it's so engrained in our thinking that we don't even know it's there.

Now let's turn to the next chapter and discuss an alternative: The new factory model.

CHAPTER 5

THE NEW FACTORY MODEL

Harry was more successful when he used new factory thinking because it freed his mind from a limited self-definition—we are a hammer company. It enabled Harry to create new forms of value previously beyond his imagination and it gave him a new blueprint for building his business. This new factory structure has five elements:

1. Specialize in one type of customer
2. Help your customers achieve a big idea
3. Provide free value during the sales process
4. Enroll customers in a membership program
5. Sell products and services from a one-step store

1. Specialize in one type of customer

Unlike an old factory designed around a product or service, a new factory is designed around a single type of customer. As in the example given earlier, instead of building a business around "hammers" you build a business around "do-it-yourselfers". The new factory is then defined not by *what* it makes and sells; it's defined based on *whom* it helps.

This customer-first perspective unshackles your mind. You are

now free to think of new ways to help your customers; ways that go beyond the standard products offered in your industry. In fact, you are free to make and sell anything as long as it's considered valuable by your customers. This realization keeps your mind curious, nimble and intellectually engaged.

From an operational standpoint, this opened-minded attitude means you begin each relationship with a blank slate and work through a discovery process to help your customers articulate their goals and then make a plan to achieve them. Based on what you are learning from the marketplace (i.e. people want screwdrivers, not hammers) you're prepared to restructure your entire business if it will better assist your customers in achieving their goals.

On a deeper level, building your business around a customer type helps you escape from an egocentric worldview. Instead of your business being all about you, your business is all about others. This is not only more meaningful, it's good for business. Using the new factory model helps you align your social good intentions with the dictates of making a living, something that the old factory model often made difficult.

Building your business around a type of customer, instead of products and services, also makes sense in a fast-changing marketplace. I've seen many people tie their reputation in the marketplace to a particular product or service only to find that its popularity was fleeting. Then they had to start again by re-branding themselves (usually around another product or service). This is a bad idea in a marketplace that is constantly changing. However, if you pick the right type of customer, you never have to change it no matter what happens in the marketplace. This gives your business a

strong anchor of stability that's impervious to inevitable changes in market conditions.

2. Help your customers achieve a big idea

A big idea communicates what a new factory tries to help its customers achieve, and the unique way it helps them achieve it. It's not an idea for a product or service; it's an intangible concept. Customers don't hold it in their hands, they hold it in their minds. It has two key components: the *BIG Goal* and the *Signature Solution*.

The big goal is transcendent: it's a desired outcome that transcends the small-minded benefits achieved by old factories. It's also an intention rather than a promise. You can't guarantee you'll achieve it, but you have the intention to try. Here are a few examples of big goals:

- Be ten times safer
- Be ten times more fulfilled
- Be ten times more connected
- Have 20 times more fun
- Lower your costs by 50%
- Increase sales by 300%
- Make twice the income while working 50% less time
- Lose 100 pounds in six months
- Win a gold medal at the Olympics
- Feel greater well-being using less resources

To be effective, a big goal needs to be lofty and challenging. This gets customers to take notice and get inspired about what you're

trying to do. You want your potential customers to see that you're trying to help them achieve something big and significant.

Another part of the big idea is the signature solution. This is a new, more advanced approach that helps your customer achieve the big goal. It's based on your years of experience working with many customers. Over that time, you've learned what works and what doesn't, and have boiled it down to one key action, tool or strategy. For example, to help someone lose 100 pounds in six months, you might have a signature solution called *The Hopping Method*. You teach your customers to hop on one leg for an hour a day, and by doing so; they lose the 100 pounds (as long as they don't drink six beers at the same time!). Over the years, you've learned that hopping is a good way to lose weight.

Packaging a big idea provides many benefits to a new factory thinker. One, it's easy to test in the marketplace. Without investing a lot of capital, you can try the idea on a few existing customers to see if it works. If it doesn't work then you can easily pivot to an alternative idea. In this way, you can quickly ascertain the best big idea. Secondly, it's another great anchor. No matter what happens in the marketplace, your big idea doesn't need to change. For example, its unlikely people in the future won't want to lose 100 pounds in six months. Thirdly, the big idea refocuses your intellectual and creative energies. Instead of trying to figure out how to sell more products, you now focus on thinking about new ways to help your customers achieve their goals. Having a more transcendent intention, that's all about your customers, not about you, opens the closed fist of your mind.

3. Provide free value during the sales process

In order to draw prospects out of their sales-pitch bunker, new factory thinkers provide free value during the sales process. It's like giving away a free piece of chocolate in order to sell the whole box.

The immediate objective of the free value strategy is to sign up *subscribers*. You nail down a formal relationship with a prospect by getting them to sign up for a mailing list or a free service. This technique is now commonplace. Many companies offer prospects a free version of their service, either for a month, or on an on-going basis. For example, Skype provides subscribers with free telephone service. Google provides dozens of free applications, and Apple provides thousands of free apps. Their objective is to get lots of free subscribers and then convert them into paying members.

By becoming a subscriber, the person is required to give a certain amount of personal information and agree to receive some form of on-going communication. This is called *permission marketing*, a term coined by Seth Godin in his book of the same title. Eventually some of the subscribers move to the next level and become a member.

Giving free value during the sales process can take many forms. It can be a subscription to an e-mail newsletter or a free version of your product or service. It can be a certain amount of consulting time. Ideally, the free value is a facsimile or segment of the membership program (see next step) so the subscriber gets a taste of what they will experience if they become a full-fledged paying member.

The free value approach gives a new factory a huge advantage over its competitors who use traditional sales techniques. One, it's much easier to attract a prospect when you give them something for

free. You don't have to spend time selling; you just give them the free sample. This speeds up the sales process and lowers your cost of sales. Additionally, providing free value gives you more leverage in the company-prospect relationship. To get the free value, the prospect must give you something: either their personal information and/or their attention. You can also dictate who gets the free value and who doesn't. Like a bouncer at a popular nightclub, you decide who gets in and who doesn't. Psychologically, by restricting access to the free value, you increase its perceived value, making it even more desirable.

Most importantly, free value helps you bring more potential customers into your world. It creates a crowd around your business and projects an aura of popularity. It also gives you a much larger group of prospects to work with and enables you to demonstrate the value you provide, rather than just talk about it. It also enables you to shed the negative image of a salesperson and be perceived instead as someone who is successful, popular and in-demand.

4. Enroll customers in a membership program

A old factory has customers, a new factory has members. Because they are part of a "program" these members have "membership consciousness." They are conscious of being part of a larger community and feel a special affiliation with the new factory. And because they have received a lot of value from the new factory—both before and after becoming a member—they're open to buying other things, even if the products and services do not fall within the original industry-parameters of the relationship. (For example, people who originally bought a computer from Apple now purchase

music, telephones and apps. Amazon customers who originally bought books now buy groceries, office supplies and fitness equipment.)

The most important marketing objective of a new factory is to sign up members. If it has 2,000 members this year, it wants 4,000 members next year. To get and keep these members, it sets up a structured program packaged with a range of membership benefits. It makes it clear what members get that non-members don't get. (That's why Amex says membership has its privileges). It either charges a fee for membership, or provides it for free, in the hopes of selling products from its one-stop store (see next).

Fostering membership consciousness is important because customers today are fickle. They don't feel guilty about shopping around for the best price or jumping ship to a competitor for a better deal. But members stay put because they are imbedded in the company's eco-system. For example, my stepdaughter Robin kept exhorting me to switch from an iPhone to an Android smart phone. "It's a better phone," she said. But I told her I couldn't do it even if I wanted to because I was ensconced in the Apple eco-system. "I would have to change my whole life if I switched from Apple to Android," I said.

The most powerful reason why members become firmly attached to a new factory is because they buy into its big idea. They have a powerful "why" in their mind about why they have a relationship with the new factory (i.e. becoming 10 times safer, more fulfilled or more connected), and they realize the new factory is the only company that provides the big idea. To go to another supplier is simply not an option, either practically or emotionally.

5. Sell products and services from a one-stop store

A new factory is not tied to any particular industry. While it's old factory may have started in a traditional industry, the new factory sells products and services from multiple industries. The best current example is Apple: it sells its traditional products from the computer industry, but also sells products from the music, telephone, and movie industries.

By expanding into other industries, and selling products created by other companies, the new factory expands its potential revenue without increasing its risk profile, capital investments or fixed overhead. By sourcing outside suppliers, it leverages existing resources in the economy. The suppliers are willing to give the new factory a commission or finder's fee because they don't have to do any marketing. They're willing to pay a premium in order to reach the ever-expanding roster of the new factory's membership. (That's why Apple is able to command a 30% fee for selling music, movies, and apps.)

By selling products and services produced by other companies, the new factory also takes advantage of the long tail strategy (see Chris Anderson's book *The Long Tail*). This means the new factory has a huge supply of products and yet doesn't need to worry which products sell and which don't. For example, Apple doesn't worry which song is a hit; it makes money no matter what. The same applies to Amazon. They don't care which book becomes a best-seller.

The one-stop store is a win-win for all three parties: the members, the suppliers and the new factory. The members win

because they have a single place to get everything they need. The suppliers win because they gain access to previously-hard-to-reach prospects, and the new factory wins because it generates passive income. The overall economy also benefits because the new factory generates demand for previously under-utilized resources.

THE OPEN MIND

One of the biggest problems with old factory thinking is that it closes your mind to potential opportunities. It stops you from imagining new ways to help people. It makes you egocentric and turns your mind into a closed fist.

New factory thinking and the new factory model, however, open the closed fist of your mind. The very bones of your company embody a customer-first philosophy. It sets your sights much higher and brings into action your best intentions. It allows you to demonstrate to prospects the value you provide without turning them off with a sales pitch. It also honors the relationship you have with your best customers by designating them as members. And finally, it maximizes your revenue potential by providing your members with a vast compendium of resources in a one-stop store.

The new factory is also structured to match the new conditions of the 21st Century marketplace: exponential change, convergent competition, and empowered consumers. Designed as a value hub, the new factory connects its network of members to its network of suppliers, and grows organically by continuously expanding the size of both networks. It adapts easily to changes in the marketplace because its core business anchors—its customer type and big idea—

are future-proof. Operating within this model, the new factory is able to continuously expand its influence, its customer relationships, and its value propositions. That's why companies designed as new factories will proliferate and prosper in the coming years while companies designed as old factories will falter and vanish.

Now let's turn to a detailed look at each of these five elements in the next section: *Building Your New Factory*.

ABOUT BILL BISHOP

Bill Bishop is the CEO of **Bishop Communications Inc**. and the creator of **The BIG Idea Adventure™**, an advanced coaching program that helps entrepreneurs grow their business by creating, packaging, and promoting BIG Ideas. During the past 20 years, more than 10,000 entrepreneurs have graduated from his membership programs.

In addition to this book, Bill Bishop is the author of **How To Sell A Lobster** (now sold in 25 countries in 12 languages), **The Problem With Penguins**, **Beyond Basketballs**, and **Global Marketing For The Digital Age**. He was also the author of **Strategic Marketing For The Digital Age**, the first book ever published about e-commerce and Internet marketing.

Bill is also the founder of two social networks—**The 10% Referral Club™** and **The Keynote Collective™**, and the inventor of the board game **Quibberish®: The Paraphrase Puzzle Game**.

Bill has delivered speeches to hundreds of organizations including The MIT Entrepreneur Program, TEC, Entrepreneur's Organization (EO), Advocis, The Knowledge Bureau, MDRT, NAIFA, NAPFA, Independent Financial Brokers, Workcomp Advisors, Pro-Seminars, BNI, The Ivey School of Business, The Schulich School of Business, and Queen's University Executive MBA Program.

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