

The ‘New Bottom Line’, in Five Minutes

Since business writer Alan Mitchell first explored the notion of buyer-centricity in detail in his seminal book *Right Side Up* (HarperCollins, 2001), there has been a growing interest in the topic. Alan explores these themes further in *The New Bottom Line*, with co-authors Andreas Bauer and Gerhard Hausruckingner (Capstone Wiley, 2003), and summarises them here.



Organizations’ behaviour and priorities are determined by how they ensure their survival. Most modern businesses work according to a ‘value from our operations’ model. They invest significant amounts of money, skill, energy and time in technical know-how and economies of scale in productive assets – e.g. factories, bank branches, pipelines or retail outlets etc – which they use to create value. They then sell this value on to customers, hopefully for a profit.

‘Value from our operations’ wealth creation is driven by the need to maximize the productivity of the firm’s core productive assets and to maximize the realizable value of these assets’ output in the marketplace. This is as true for industrial age services as it is for manufacturing. The imperatives of ‘value from our operations’ create a business logic which we call ‘the old bottom line’.

Old bottom line firms have been enormously productive. They have created the foundation and springboard of all that is to follow. However, the very way in which they add value for customers (via their intense focus on ‘value from operations’) also generates certain value ‘blindspots’: dimensions of consumer value that they either cannot, or do not want to, address.

The main ‘value gaps’ lie in the following arenas:

- customer transaction costs,
- customization to fit personal needs,
- integration of ingredients to create desired outcomes,

- the need for buyer-centric information (information which helps buyers to buy better, rather than information which helps sellers to sell better),
- services which add value efficiently where traditional economies of scale fail to apply,
- emotional authenticity and fulfilment, and related community formation,
- improving the productivity of personal assets such as time, attention and information.

The common feature of all these value gaps is that they revolve around the value individuals create and experience in their own lives. These are not forms of value that can be made in factories and sold in shops; they do not fit the old bottom line model of 'value from our operations'. Delivering such 'value in my life' is the job of the new bottom line business.

The new bottom line reframes the central challenge for business. Under the new bottom line, the critical issue is not how to improve the efficiency, effectiveness, productivity and profitability of *corporations*, but how to improve the efficiency, effectiveness, productivity and profitability of *individuals*. This is a radical shift in the focus of value creation.

Achieving it requires the invention of new types of business – businesses which focus their efforts on generating a return, not on traditional corporate assets such as factories, offices and shops, but on individuals' *personal* assets. These personal assets include: my operations (energy or work); my passion; my time, my information, my money and my attention.

The fundamental stance of the old bottom liner is to look out from a producing company to a 'market' – a world of individuals who are potential buyers of what we make. The fundamental stance of the new bottom liner is to stand *with* the individual, looking out to a world of companies: potential suppliers of the value I seek. The new bottom liner takes on the role of a consumer *agent* working *for* and *with* individuals to maximize 'value in my life', rather than selling *to* and *at* them to maximize 'value from our operations'.

Instead of treating individuals as *consumers* or *buyers* of the value that comes ‘out of our operations’, new bottom liners relate to individuals as *producers* of ‘value in my life’, and as *investors* of personal assets. New bottom liners assist individuals in their quest for a return on their investment of such assets: not only value for money but value for time, return on information, return on attention, and return on emotional commitment.

Thus, while the ‘value from our operations’ focus of the old bottom line business drives it to be *producer* and *seller*-centric, the ‘value in my life’ focus of new bottom line organizations makes them *person* and *buyer*-centric. While old bottom liners live and breathe ‘vendor efficient supply’, new bottom liners focus on ‘customer efficient demand’.

Three main forms of new bottom line business are emerging. They are:

- **Trading agents**, which help individuals maximize the value they source from markets and to minimize its total cost (including not only money costs but time and hassle costs too). If we regard the individual as a company in its own right, the trading agent acts as its professional purchasing department, sourcing the most appropriate, best value inputs for its operations. Trading agents also help individuals maximize the market value of their information, attention and purchasing power.
- **Solution assemblers**, which help individuals maximize the efficiency and productivity of their personal operations: the things they have to do to make ‘value in my life’ – like maintain and replenish the home, organize personal finances, stay healthy etc.
- **Passion partners**, which help individuals maximize the value of their life ‘outputs’: the returns they generate on the investments they make in the things that really matter to them – that create ‘meaning’ and emotional fulfilment in their lives.

Together, new bottom line business models are set to transform the way all consumer-facing industries work, whether in consumer products, services such as retailing or banking, utilities, or media. They represent a leap to new levels of value: rather akin to the leap from agriculture to industry, where new forms of value were generated by new forms of organization and production.

New bottom liners earn their keep in a number of ways. These include:

- Payments from individuals for added value services
- Using new information and communication technologies to reduce the costs of integrating and coordinating activities in my life, interactions between buyers and sellers, and between different ingredient suppliers.
- Generating new economies of scale around individuals and their localities, rather than around 'our operations'
- Monetizing the value of personal assets such as information and attention, for and on behalf of individuals.
- Using higher levels of trust, new technologies and detailed information about demand to drive down both individuals and suppliers' matching and connecting costs.

The potential *size and influence* of new bottom line organizations is easily illustrated by a quick look at industries which already trade in personal assets. These include financial services (which trade in aggregated consumer savings), retailing (which trades in aggregated consumer buying power), the media and marketing (which trade in aggregated consumer attention), and market research and database industries (which trade in aggregated consumer information).

New bottom liners trade in *all* these assets, in an integrated way - with one big difference. They earn a cut depending on their ability to maximize the value of these assets *for* those individuals who invest assets with them, rather than attempting to make money *from* these assets.

The potential *economic importance* of new bottom line functions can be quickly understood by reference to one of their core roles: more efficient matching and connecting. In modern advanced economies, the processes necessary to match supply to demand and connect buyers to sellers now account for around a half of total corporate costs. New bottom liners use their trusted position 'in my life' (including access to information from individuals) to fundamentally reengineer these processes, enriching their content while dramatically cutting their costs. This creates powerful new win-wins

with traditional suppliers, for whom new bottom liners represent a more efficient route to market.

The new bottom line has a *social* dimension too. The pressure for 'value in my life' which is now transforming relationships between consumers and producers is also transforming relationships between employee and employer and between citizen and public institution. Companies are under pressure to become organizations that 'work for me'. Governments are under pressure to look at their services and policies not only from the point of view of 'efficient provision' but of 'easy and efficient use'. Companies are under pressure to reflect and promote my *values* in areas such as corporate social responsibility and ethics, as well as offer me economic *value*.

Pressure for new bottom line forms of value is not new. Just look at growing consumer demands for increased convenience or personal productivity, for example. Or for 'meaningful' rewarding work.

Companies started responding to such pressures long ago with changes to information systems, operational infrastructures, partnership strategies and employee and customer relationships. These initiatives were originally designed to improve the performance of *existing* businesses. At the same time however, they also help build the sorts of infrastructure, capabilities and relationships new bottom line organizations need to prosper. In this way, leading mainstream companies have already *begun* the journey from improved 'value from our operations' to improved 'value in my life'.

Constrained as they are by old bottom line imperatives however, traditional 'value from our operations' companies are nevertheless finding it hard to keep pace with the pressure for new bottom line value. The question for today's manufacturers, retailers, financial services firms, media companies and utilities etc, is whether to resist or ignore this pressure, to work with new bottom liners to 're-engineer' the forms of value they offer and how they go to market, or migrate their core business towards a new bottom line business model.

There is no 'right' answer. It all depends on each organization's particular circumstances. Considerations include:

- Which value gaps are particularly important to our customers, and are we in a good position to address them?
- Which personal assets are most important to our customers, and are we in a good position to help maximize their productivity and value?
- What is the potential value of these personal assets on the open market?
- How far have we evolved our information systems, operational infrastructure, partnership strategies, employee and customer relationships to address new bottom line priorities?

The main trend is clear. Tomorrow's peaks of value will be generated by new bottom line businesses, whether in the form of trading agents, solution assemblers or passion partners. Increasingly, the 'price' of achieving traditional business objectives such as profitable growth, more trusted brands, greater consumer loyalty, deeper customer relationships and preferential access to customers' emotional commitment, information, time and attention will be to conform to new bottom line requirements.

The question is not whether to respond to this 'tectonic shift' in value, but how.

The New Bottom Line: Bridging the Value Gaps that are Undermining your Business, by Alan Mitchell, Andreas Bauer and Gerhard Hausrucking, is published by Capstone Wiley in March 2003.