

THE NEW FACTORY

BUILDING A NEW KIND OF BUSINESS
FOR THE MARKETPLACE OF TOMORROW

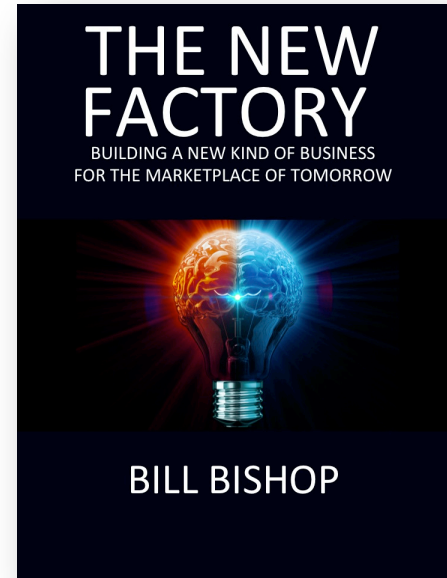


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Is your business properly designed for the marketplace of tomorrow?

Few would disagree that today's marketplace is significantly different than it was 50 years ago, 25 years ago, or even 10 years ago. And yet, most entrepreneurs still use the same product-oriented business model that emerged 200 years ago at the start of the Industrial Revolution, and it is the reason why many of them have hit a wall in terms of revenue and profit growth. The hard truth is: If these entrepreneurs do not adopt a new approach, more appropriate for today's market conditions, they could lose their business by being eclipsed by more forward-thinking competitors.



To start, it is important to define and deconstruct the old business model, which we call *the old factory*. This approach to business is so deeply engrained in common business practices that its fundamental precepts are adopted without question. It's like a person living in the Middle Ages who believed the sun revolved around the earth. There was no questioning it. Moreover, there was no notion that there could be another way to think about it.

Entrepreneurs sometimes think they are using a new business model because they employ a new strategy to part of their business such as marketing or distribution. Perhaps they sell products on the Internet, or use just-in-time logistics in their supply chain. But this is like using a new kind of software that runs on an old operating system. On the surface, it seems like you are running your business in a new way, but on a deeper level, it's the same old thing. That's why it's useful to understand the principles of the old factory, discuss how you might be using it without knowing it, and then decide if you really want to use it or not. Let's look at how it works.

The old factory approach to business works like this:

1. Pick products or services: When you build an old factory business, you start by picking products and/or services to provide customers, such as computers, tennis racquets, travel services, or lawn care. You define your business by its products or services.



“The old factory approach no longer works in today’s marketplace. It was designed for the industrial age...”

2. Build operations and infrastructure: The second step is to invest time and money in operations and infrastructure to deliver your products and services. In some cases, this investment can be considerable. You might invest in buildings, computer systems, vehicles, manufacturing equipment, and of course, people. These investments are risky because most of them need to be made before you can make any sales.

3. Make a sales pitch: The next step is to make your sales pitch. You create a brochure, a website, presentations, and other sales tools. You might also engage in social media, exhibit at trade shows, and buy advertising. Once again, these investments need to be made before you can make any sales.

4. Do transactions: If all goes well, you make sales and generate revenue. Ideally, these transactions are made at a good profit margin so you can reinvest some of the money back into the company.

Granted, this is a very simplified overview of what can be a complex process. But the simplicity of it is helpful. Whether it was retail or wholesale, consumer or business-to-business, online or offline, virtually every business in the past 200 years has used this old factory approach. And they followed this approach because it worked extremely well. But this is no longer the case. Companies that use this approach today are experiencing less positive results because market conditions have changed in a fundamental way.

Three new conditions in the marketplace

There are three new conditions in today's marketplace that are having a profound impact on business. They are:

1. Rapid change: The computerization of the world since the 1980s has increased the velocity of change. Not only are things changing more often, the rate of change is accelerating. Rapid changes in market conditions such as customer preferences, commodity prices, labor costs, trade regulations, and currency prices, plus competitive pressures, have dramatically compressed product and service life cycles. Companies now need to change their products and services more quickly if they want to keep up with changes in the marketplace and serve the ever-evolving desires of their customers.



“The marketplace of today is significantly different from the marketplace of the past...”

2. Information overload: With the advent of e-mail, social media, smart phones, 500-channel cable TV, satellite radio, and dozens of other communications devices and services, people today are exposed to a lot more information than in the past. This flood of information makes people feel overloaded, so they naturally block out any information they think is low value, such as a sales message. This filtering makes it harder for companies to reach prospects using traditional sales methods.

3. Increased price competition: With the liberalization of global trade, and the rise of the Internet marketplace, price competition has increased in every traditional industry because customers are more empowered to shop around for the lowest price. This is great for consumers, but it's a potential nightmare for most producers who are now forced to sell their products and services at lower prices with much lower margins.

How these market conditions affect your company

These three inexorable trends—rapid change, information overload, and increased price competition—have undermined the old factory approach. While it worked in the past during a time of slow change, limited information, and little price competition, this model no longer works in these new market conditions, and as these trends become more magnified in the years ahead, the old factory approach will be even more obsolete. Here's why:

- Rapid change means you need to adapt quickly to changes in market conditions. But if your business is defined by particular products or services, this is difficult. For example, if you have a business built around “hammers”, it is hard to make the shift to “screwdrivers.” After all, if everything about your business is about hammers: its brand, its operations, its processes, and its marketing campaigns, it is nearly impossible to change. That's why in today's market conditions, it is not wise to use the old factory model and build your business around specific products and services.
- Information overload has diminished the effectiveness of traditional sales techniques. Prospect are less willing to give you their time and attention to hear a sales pitch, whether it comes in the form of advertising, cold calls or Power Point presentations. As



“The New Factory approach is much more appropriate for today’s new market conditions...”

such, companies now have a much harder time getting prospects to listen a product-oriented sales pitch. This drives up the cost of sales, and drives down profits.

- Increasing competition has had three major impacts on the old factory model. One, if you have a lot of competitors who sell essentially the same thing as you, it's hard for you to stand out in the marketplace, and get the attention of prospects. Two, if you sell a product or service similar to other competitors, price competition drives down profit margins. Three, even if you introduce a new kind of product and service, low barriers to entry now make it easier for competitors to emulate your success, and over-ride your monopoly.

These factors have made it much harder to achieve sustainable success using the old factory model. It is still possible, but the chances of success are much lower than they used to be. As well, the old factory model can stifle intellectual curiosity and creative innovation because old factory entrepreneurs become too attached to their products or services, and stop exploring new value opportunities that might be more successful in the marketplace. The old factory model also tends to engender an inward focus, rather than an outward perspective, and leads to an emphasis on operations, processes, and financial controls, rather than value creation and new business development.

Fortunately, there is a new and better model for entrepreneurs to use, what we call The New Factory.

The New Factory: More appropriate for today’s market conditions

A growing number of entrepreneurs in many different industries have adopted, either deliberately or through intuition, a new and better business model for their business, what we call The New Factory. This new model does not push back against today’s marketplace trends—rapid change, information overload and increasing competition—but rather sees them as opportunities. Companies that use The New Factory model make money by helping their customers deal with rapid change. They attract prospects by using information technology to provide free value during the sales process. And they increase their potential revenue by selling the products and services of other companies, including their former competitors.



“The New Factory is built around a specific customer type and a BIG Idea, not specific products or services...”

Well-known companies like Apple, Google, Amazon, and American Express use the New Factory model, along with hundreds of small and up-and-coming entrepreneurial companies. (Stories about these companies will be featured later on in this paper.)



1. CUSTOMER TYPE



2. BIG IDEA



3. FREE VALUE



4. MEMBERSHIP PROGRAM



5. VALUE HUB

The New Factory process

How is the New Factory different from the old factory approach? Let's look at how a New Factory is structured.

1. Pick a customer type

A New Factory is built around a type of customer, rather than products or services. This is the most important difference. Rather than being inward focused (on its products and services), a New Factory is outward focused (on a particular kind of customer).

Importantly, this model is not just customer centric, it is focused on a particular *type* of customer such as women, runners, dentists, or dog catchers. The entire enterprise is focused on providing value to this type of customer, even value that falls outside the traditional parameters of its industry, or product/service category. In other words, it's not attached to any particular product or service, or way of doing things. If the marketplace changes, the New Factory can change along with it.



“The mission of The New Factory is to help its customers achieve something bigger and/or better...”

2. Give prospects a BIG Idea

A BIG Idea is a conceptual construct that defines what the New Factory is designed to deliver. It is not tangible like a product, or visible like a service, it is intangible. It is an idea for a new and better kind of goal. For example, the New Factory might be dedicated to helping its customers retire at age 55, or make 10 times more money, or enjoy optimum health. The BIG Idea also gives customers a vision for a new and improved self-image (safer, stronger, smarter, happier, more fulfilled). The marketing objective of the New Factory is to plant this idea in the mind of the customer, so they come to the company to turn the idea into reality. The BIG Idea also gives the New Factory renewed intellectual energy and creative focus. The company is now focused on using its brain power to develop new and better ways to help its customers make the BIG Idea a reality.

3. Give free value to prospects

The New Factory knows that prospects do not want to hear a sales pitch. Instead, the New Factory provides its prospects with a highly-concentrated dose of free value during the sales process. It's like giving prospects a piece of chocolate for free in the hopes they will buy the whole box. This strategy breaks through the prospect's sales pitch filter because they now approach the company to get the free value. This increases the number of potential customers within the New Factory's sphere of influence, and fills up the company's sales pipeline. For these reasons, the New Factory eventually stops doing traditional sales, and focuses instead on promoting its free value offer.

4. Enroll customers in a membership program

A New Factory takes ownership of the relationship with its customers by enrolling them in a membership program. By becoming a "member" customers feel special and part of a community. The membership program is free or provided for a fee, and there are multiple levels of membership. At each level, the member receives certain benefits not available to members at lower levels. Customers join the membership program because they buy into the New Factory's BIG Idea. They believe in the company's mission and values, and are motivated to bring their friends and associates into the community. As such, they are more open to the company's communications, and more likely to buy its products and services, even if they could find a lower price somewhere else. Membership also becomes an integral part of their habitual lifestyle, making it undesirable and inconvenient to take their business elsewhere.



“The New Factory is willing to provide any kind of value, even if it falls outside the parameters of its industry...”

5. Sell products and services through a value hub

The fifth and last component of a New Factory is the value hub, a marketplace of purchasing activity that the company controls. This is the company’s marketplace for products and services. This value hub includes the traditional products/services offered by the company’s old factory, plus products/services provided by other companies, even former competitors.

Think of iTunes and the App Store on the iPhone. This is Apple’s value hub. You can buy products created by Apple, but most of the items in the store are created by other companies (apps, music, movies, TV shows). Apple earns an average of 30% commission for selling these things. The New Factory knows that there is a lot of money to be made, at less risk, by selling products made by other companies and services delivered by other providers. Secondly, the New Factory doesn’t worry what specific products or services are purchased. Think of Amazon. They don’t care, or try to predict what book will be a best-seller. They make money no matter what books are sold. That’s because they have created a value hub, a marketplace of purchasing activity they control.

Why the New Factory works better in today’s marketplace

The New Factory model is much more suited to today’s market conditions for many reasons. One, because it’s core defining elements—its customer type and BIG Idea— are immutable, The New Factory has two strong anchors that make it future proof. Unlike an old factory built around specific products and services, the New Factory does not need to change its core focus or identity if changes take place in the marketplace. The New Factory also sees change as an opportunity, not a problem, because it knows the best way to make money is by helping people deal with their own changes in business and life. The New Factory knows that change equals opportunity.

Second, The New Factory breaks through their prospects' information filters by giving away high-quality free value during the sales process. It also uses its membership program to obtain permission from its customers to communicate with them on a regular basis. And third, it deals with competition in a number of ways. By attaching its reputation to a BIG Idea, packaged and protected as intellectual property, The New Factory erects an impenetrable barrier to entry. Competitors are neither able nor inclined to copy The New Factory’s BIG Idea.



“Apple is a great example of a company that succeeded because it expanded its vision and became a New Factory...”

By adopting an holistic and integrative perspective, The New Factory also transcends the petty squabbles of the competition by incorporating their products and services into its value hub. It is a sweet form of competitive revenge when you make a higher profit than your competitors by selling their products and services in your value hub.

Apple Inc: A New Factory success story

If you think The New Factory is an untested, idealistic idea, think again. Apple has used it to become the biggest company in the world. Let's look at how they did it.

If you recall, Apple was in deep trouble in the 80s and 90s . They had the best computers in the world (my opinion), but they almost went out of business twice. That is the first take away: They had the best product on the market, but they almost went out of business, a surprising fate experienced by many old factories.

Fortunately Steve Jobs came back from retirement in 1998 and turned Apple into a New Factory. The first thing he did was remove the word "computer" from the company name. Apple Computers became Apple. The company was no longer defined by its traditional products, but was instead focused on providing value, any kind of value, even if it wasn't a computer. They chose a customer type: Creative Rebels who think differently. They adopted a Big Idea: Think Different. Then they created a panoply of new things: the iPod, iTunes, the iPhone, the iPad, and the App Store. Over a decade their revenue exploded.

The key lesson here is that Apple achieved this success, not because they suddenly got smarter or more creative, or because they worked harder, but because they escaped from the limited parameters of their traditional industry, transcended their competition, and built a value hub. In short, they created a New Factory.

Surprisingly, most of their competitors did not follow Apple's lead. Microsoft, Dell, and RIM are still structured as old factories. They still define themselves based on their products, and as such, they haven't given themselves the same intellectual and creative freedom to provide different kinds of value to their customers. Their sluggish growth demonstrates the danger of clinging to the old factory model.



“Small entrepreneurial companies are the best positioned to take advantage of The New Factory approach...”

So what about your company? Perhaps you are thinking this approach is only useful for large companies like Apple or Google. But that’s not true. In fact, this model can be used by any company, no matter what size or industry. And most encouraging, smaller companies can adopt this model more easily than bigger companies because they’re not constrained by the same level of entrenched operational structures that make change difficult.

How five entrepreneurs have used The New Factory model

Let’s look at five entrepreneurial organizations that have worked with Bishop Communications Inc. to see how they created a New Factory.

1. Frigologix: This company is based in the Netherlands. It’s old factory is cold storage. They store frozen food products in large refrigerated warehouses. The owner Reinier Van Elderen decided to create a New Factory around the BIG Idea of custom logistics. Frigologix now helps food companies develop logistics systems to provide their retail customers with customized solutions. This BIG Idea, called *The Custom Profit Solution™* has given Reinier a new, more exciting vision for the future of his business, and has helped him secure new, more profitable contracts for his cold storage facilities

2. Siete 24: Located in Columbia, Siete 24 provides security guard services. Julio Milano created a New Factory built around the idea of convergent security. His New Factory now helps customers develop an integrated security plan and system that guards against cyber-crime, employee theft, and other security issues. This has helped Julio secure many new more profitable contracts.

3. Mette Design: Entrepreneur Mette Keating was a successful commercial designer in Denmark, but when she came to Canada, she encountered a lot of competition, and was unable to get a lot of projects. She was caught in a commodity marketplace. Her New Factory, which provides *The Office Alive Solution™*, has helped Mette’s win a number of large design projects because her prospects buy into her BIG Idea, and see her as an expert, rather a consultant peddling design services.



**“The New Factory is not hard to build.
You already have 95% of everything you need...”**

4. Legacy Leaders: Ken Ramsay runs a successful fund-raising company in Toronto. Ken could see that his old factory was operating in a commodity environment. He built a New Factory around the concept of *empowerment dialogues*, which teaches non-profit organizations how to raise more money by engaging their donors in dialogues that empower them. His company now stands out from the competition because it offers something better, different, and more valuable.

5. Technigro: Located in Australia, Technigro has an old factory that provides institutional property maintenance services. Owner Nick Bloor recognized the limitations of expanding his old factory (large capital requirements, price-competitive marketplace, operational complexity) and decided to build a New Factory around the concept of *integrated vegetation management (IVM)*. Now, Nick’s New Factory helps customers use the science of IVM to get better results for less time and money, and with less impact on the environment.

In each of these cases, entrepreneurs have seen the writing on the wall (the old factory model is a dead end) and embraced a better way of doing things (The New Factory model). They are differentiating themselves in their market, and making more money by providing new kinds of value to their customers. They are also excited because they are taking greater advantage of the intellectual and creative potential inherent in their organizations.

The advantages of the New Factory model

There are a number of other advantages of the New Factory model:

- Your New Factory can open for business today. In fact, you already have 95% of what you need to get your New Factory up and running.
- The New Factory can be initiated with little or no capital investment.
- The New Factory can generate sales with virtually no upfront investment in operations or infrastructure.
- The New Factory can be built while you are still running your Old Factory. In fact, the first objective of The New Factory is to generate more sales for the old factory.
- The New Factory is a great way to get attention for your business. By talking about your BIG Idea, you have a much more interesting story to tell than your competitors.



“You can get started right now building your New Factory, while still running your old factory...”

- The New Factory can be offered to your customers for free, or it can become a new source of high-margin revenue.
- The New Factory can be operated at a very high margin, typically a 75% profit margin.
- The New Factory can be operated as a virtual company, using Cloud-based services. It does not necessarily require any physical infrastructure, and can be operated any where any time.
- The New Factory is infinitely scalable. It can be easily operated on a global basis.
- The New Factory can be licensed to other companies, including companies that you formerly considered to be competitors.
- The New Factory can be a more intellectually stimulating and creative undertaking for ambitious entrepreneurs.

What are you going to do now?

So the question is: what about you? Are you going to keep plugging away at your old factory, or will you pursue a New Factory future? The thing to understand is that the New Factory approach is not difficult. You just have to get started. The good news is: You have 95% of what you need. You don't need to change your old factory or get rid of it. You can keep running your old factory while you get your New Factory off the ground. By thinking big and starting small, you can build your New Factory one incremental step at a time, while immediately getting tangible results from your efforts.

The BIG Idea Session

If you want to get started working on your New Factory, we offer a free two-hour session called *The BIG Idea Outfitter*. During this session, we will:

- Identify your customer type
- Determine your BIG Idea
- Identify what you will provide as free value
- Start mapping out your membership program
- Getting started creating your value hub.

To schedule your BIG Idea session, call 647.436.8829 x 101.



Bill Bishop helps entrepreneurs build their New Factory by packaging their BIG Idea

He is a speaker, author, entrepreneur and business coach. Over the past 30 years, Bill has taught advanced marketing concepts to entrepreneurs around the world in almost every industry. He has started four companies, has written five business books, and has given hundreds of speeches, seminars and webinars. He and his coaches have helped more than 5,000 entrepreneurs package and promote their BIG Ideas.



Bill is a life-long entrepreneur. He started selling at age 10 hawking newspapers after school on a busy street corner in Toronto. He pitched in at his parent's marketing company during his teens, assisting with advertising and PR programs. While attending journalism school, he held down a part-time job at the Keg Restaurant, where he triumphed in a waiter contest by selling 1,400 lobsters. At age 25, he created and published *The Uptown*, a monthly entertainment magazine. Bill then helped promote the launch of *Pictionary*, the board game that sold 100 million copies.

He then started *Bishop Communications Inc.* in 1987, which was the first company in North America to specialize in the electronic publishing of newsletters and magazines. He is also the inventor of a board and online game called *Quibberish*®, a personality test called *The TruMark Index*™, and *The BIG Idea Adventure*™, an innovative step-by-step packaging program for entrepreneurs.

Based on these varied and seminal experiences, Bill has become a recognized coach, keynote speaker and workshop leader, and is the author of five best-selling books, including *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 published about e-commerce and Internet marketing. He is currently working on his latest book: *The New Factory: Designing Your Business For The Marketplace of Tomorrow*.

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