

MOVING INTO THE SUPPORT ECONOMY

Shoshana Zuboff
for
GDI Impuls

I. *The Old Model is Broken*

There is a growing awareness that business as usual is no longer acceptable. Today's business model is broken and cannot be fixed with the available tools. But a perfect storm is brewing—a convergence of the three forces necessary for economic revolution. These are new markets replete with unfulfilled needs, new technologies that can be leveraged to meet those needs at an affordable price, and a new enterprise logic to link people and technologies in wholly new patterns. The last time we saw such a perfect storm was nearly one hundred years ago. Then, the consequence was the birth of mass production and the rise of a new chapter of capitalism known as “managerial capitalism”. It created the greatest era of wealth creation the world has ever known. But the captains of industry a century ago did not see that storm coming. The same kinds of institutional blinkers are blinding corporate leaders today, even as we stand on the precipice of yet another new episode of capitalism capable of igniting a new era of wealth creation on a global scale.

Today's companies remain rooted in a business logic invented a century ago to mass manufacture goods for a then new population of people with very little stuff who wanted more. The 20thC corporation was invented to meet the needs of these new mass consumers. It emphasized the concentration of resources, command/control, cost, and efficiency. It required a strict inward focus in order to manage the new complexities presented by economies of scale. This “managerial capitalism” produced epic wealth for many decades, because mass consumers wanted exactly what companies were skilled at giving them: cheap goods.

II. *The New Society of Individuals*

That wealth also set into motion fundamental social change that has transformed the very nature of consumption. Yesterday's mass society has given way to a new “society of individuals”—people who are more educated, informed, experienced, traveled, and connected than earlier generations. This new society spans the world, most pronounced in the core of the global economy, but gaining dramatic headway at its periphery. These new people experience themselves as unique individuals, not just anonymous members of a mass. Above all, they seek what I call “psychological self-determination”, expressed in the search for sanctuary, voice, and connection. Sanctuary: I want to take my own life in my own hands. I want to be the origin of my own future, my destiny, and my meaning. Voice: I want my voice to be heard and to matter. I want unmediated influence. Connection: I seek community, but without the old feudal demands of conformity.

This is not just a demographic trend or blip to be exploited by marketing gimmicks. It is a fundamental change in what social historians call “the mentality” of our age. A testament to how deep this new mentality runs is that it has become a critical factor in health and longevity. Researchers have found that people who score high in psychological self-determination have significantly more positive patterns of health and well-being at every income level. Indeed, this factor is a better predictor of health than is income or other traditional variables. Another study of the elderly found that a one-unit increase in personal control was associated with a 7 % decline in the odds of dying. Studies of centenarians find that “dominance” is their critical common attribute: what one scholar describes as “they want to have it their way and they are not easily pushed around.”

Michael Marmot’s recently published work on the status syndrome shows that health and longevity follow a social gradient: people with more control live longer healthier lives, and that control is unequally distributed, thus creating the health gradient. Data from the UK and US show that over the last thirty years this gradient has become even steeper, suggesting that while an increasingly wide swath of the population seeks greater control over their lives, opportunities for such control remain limited to the very top of the socio/economic pyramid. The stress that results actually kills people. This new mentality centered on the need for psychological self-determination has been building for the last five decades and it is now having an explosive impact on the nature of consumption.

III. *The New Consumer*

As consumers, we are tired of having to battle for our interests. No longer content to be faceless mass consumers, we resent having to bend to antiquated rules of commerce. Instead, we want companies to bend to us. We seek advocacy instead of adversarialism; relationships instead of transactions; trust instead of tricks; real voice instead of meaningless choices. We want our time back. We want to eliminate stress and hassle. All of this means a fundamental shift in the structure of consumption from mass consumption to what I call “the individuation of consumption”.

Recall that a key ingredient to ignite economic revolution is the presence of new markets whose needs are not being met by the old business model. Such was the case a century ago and such is the case today. Individuated consumers represent these new markets. They are the first ingredient for revolution. They want more than products and services. They want the individualized advocacy and support that will enable them to live their lives the way they want to live them. Yes, they still need toasters and mortgages, but now they seek those products and services in the larger context of committed trustworthy relationships of advocacy and support. This is the basis for the shift to a “support economy”.

In this way “support” becomes the new purpose of commerce, the new “meta-product”. As in the past, goods that were considered luxuries for one generation become necessities for another: once for the rich, now sought by all. So it was with consumer goods from teapots to autos, so it was with services from air travel to credit, and so it is with the new needs for support. Adam Smith described this ever-changing standard of necessity, and explained it as whatever the common person feels is necessary for adequate social participation. Today, psychological self-determination is the new standard of adequacy.

IV. *The Chasm*

In our daily lives, however, the situation looks intractable. I call it the “transaction crisis”. Consumers bring their intricate and unique new lives to the door of business and are met by a wall of cluelessness and indifference—a world of organizations still fitted out for the old mass order. It is a world still driven by inwardly focused efficiency rules in which the interests of managers are at the very center of the commercial solar system.

For example, it’s easy to find a competitively priced insurance policy, but difficult (impossible?) to find an insurance company that will really be there when you need them-- no tricks, no strings. Patients can get access to a range of medical specialists, but no one to shepherd them through the system, find, sort, integrate, and explain critical information, and advocate on their behalf. Pick from among comparably priced and equally uncomfortable airline flights, but there’s no help to manage a complicated travel schedule, integrate transportation and lodging, and oversee household needs while you’re gone. Just to change my flight today—same airline, same day, two hours earlier, and a plane that was nearly empty—I paid a penalty fee of \$150.00. When consumers are routinely punished for their intricate lives, it’s no wonder today’s fragmented transactions no longer yield significant margins.

Today there is a growing chasm between consumers’ needs and the business organizations they depend upon. The chasm is expressed each time someone spends the evening checking her phone bill for bogus charges, finds his insurance claim rejected without justification, or spends hours on the phone trying to fix a malfunctioning new computer. The chasm is expressed in these brutal facts: only 4% of U.S. adults say they trust their HMO, 7% their health insurer, 11% their life insurer, 12 % their Telco....the numbers don’t get much better. Seventy-four percent say Corporate America’s reputation is “not good” or “terrible” and 83% say that big companies have too much power. In the UK recent national polls show that 80% of adult Britons don’t trust directors of large companies to tell the truth, 65% don’t trust companies to honor their pensions, 68% believe their insurance companies will do everything possible to avoid paying claims.

Across Europe, trust in big companies ranks second to last among all private and public institutions. Only political parties garner less trust. Comparable data can be cited in many other regions. Indeed, similar patterns are rapidly developing in China and other emerging economies.

These data are more than the arid abstractions of academic debate. They represent a *cri de coeur* from each new individual, each hard working family, dual career couple, and working mother. The data reflect the collapse of an entire business model and the way of life it entails. There's a centuries-old pattern here: a business model hits its stride, and its success produces rigidity, resistance to change, and vested interests. Its wealth-creating power and zest for innovation go into decline. But society continues to evolve. People move on, taking a potential marketplace of unfulfilled needs with them. In the mainstream economy, businesses can no longer extract high margins for their products and services. This leaves everyone to fight over a shrinking pie in a painful downward spiral of cost reduction and commoditization.

V. *How Capitalism Renews Itself*

But there is good news too. Capitalism is a book of many chapters. In the past, these downward spirals set the stage for new competitors to emerge with business models that reconnect with people, releasing the economic value concealed in their unmet needs. The last time this occurred was a century ago. Then, a growing mass of people was hungry for consumer goods, but products were in short supply and expensive, still produced in custom workshops and small factories. Henry Ford was among the first pioneers to perceive the yearnings of these new mass consumers and invent a whole new approach—mass production—to meet their needs. Before the work at Ford Motor, the economics of mass production—high volume, low unit cost—simply did not exist. Those inventions laid the foundation for a twentieth century capitalism that has now reached the limits of its adaptive range and can no longer meet the challenges that confront it.

As at the time of Ford's economic revolution, we find ourselves in the gathering winds of another perfect storm. We have the pull of new markets of individuals whose very alienation and mistrust is the opportunity for vast innovation and immense wealth creation. We have the push of technologies that can meet these new needs—a digital medium to handle the complexity of individualized support. This will become the ultimate purpose of the many exciting new technical developments: wireless mobile networks, on-demand computing, peer-to-peer, and media convergence just to name a few. Don't assume that the race between Telco, satellite, and cable companies to wire the home is simply an opportunity to funnel more gadgets and entertainment into each living room. This will be the interactive medium through which individualized support bundles—including home health care, education, travel, financial services, product acquisition, and much more-- are piped to each family and each person at a price they can afford.

Finally, we are just beginning to see the emergence of the third force—a new enterprise logic --that knits technologies and people together in a wholly new pattern. I call this new logic “distributed capitalism”. It shifts the game from the adversarial transaction economics of mass production to a new advocacy-based relationship economics capable of reigniting long-term prosperity and growth because it realigns business with people and their needs. What are the hallmarks of this new capitalism?

VI. *Distributed Capitalism*

In the old business model, assets are concentrated “inside” the hierarchical organization. In the new enterprise logic of distributed capitalism, assets -- people, information, authority, technology, etc.-- are distributed around individual end consumers. Economic value is now understood as distributed in the unmet needs of each individual: it is lodged in their hearts and minds, living rooms and kitchens. Value is “realized” in relationships of advocacy and trust. It’s no longer adequate to think that value can be “created” inside factories or offices. Instead, the assets to leverage value realization need to be as distributed as are the sources of value themselves. This means a Copernican revolution in business. The organization and its efficiency requirements are no longer at the center of the commercial universe. Instead, you and I and each individual are at the center, and assets are organized around each of us.

Distributed capitalism means that business is conducted from the inside out. Business processes are organized from the point of view of the individual consumer and aligned with the individual’s interests. Forget about what niche you’re in, or even what industry. The new enterprise asks, “Who will want us to support them and what do they need?” Then figure out with whom you need to collaborate to make it happen. New “federated support networks” will cluster around individuals, families, and virtual communities with the sole purpose of supporting their aims. Constituents (end consumers) will opt into these networks. In this new enterprise, values help realize value. When wealth creation depends upon authentic relationships of trust and advocacy, there’s no more room for adversarial behavior that ekes out a profit at the expense of consumers, employees, or suppliers. In a support network, all behavior is aligned with the interests and purposes of the individual who pays. More alignment means more cash, more profit, and more well being distributed throughout the network.

eBay represents one small step through this looking glass. It realized previously hidden economic value by listening to and aligning itself with the needs of its members. It learned through trial and error how to engineer trust. Riding this inside-out distributed value-based logic from its inception in 1996, it posted gross sales of \$70 billion last year. But eBay has addressed itself to just one tiny slice of consumer needs and in one format. Imagine hundreds of eBays using a variety of means and methods, able to link and coordinate support across the widest possible spectrum from health care to house repairs-- all on the end consumer’s terms.

Consider a large UK pharmaceutical company. It has saturated the market with nicotine patches. It can't increase market share, yet 28% of the population still smokes and the percentages are even higher among lower income groups. All the company's strategies are geared to one end: How can we sell them more of our product. Once that perspective undergoes a Copernican inversion to the distributed model, the problem looks very different. From the point of view of the smoking addict, the patch is only one small piece of what she needs to quit her habit. She needs support from all of the venues and activities that touch her life daily.

Under the leadership of a local housing authority, a federated support network is established that includes all of the key "touch points" in the smoker's day. [Their goal is to help tenants reduce the amount they spend on cigarettes, typically L2,500 out of an annual average income of L14,000.] General practitioners refer patients and consult with the federation. A cell phone provider issues special handsets equipped with a starred number to ring for a smokers' hot-line. The local gym offers special programs for fitness and weight reduction. A chain of pubs provides a designated smoking area and a brewer provides the pub with counselors to talk to federation constituents who are smoking. A chain of coffee houses makes its premises available after hours for face-to-face support groups. A bank offers favorable rates for those who are giving up smoking. The Housing Authority offers classes and get-togethers. Local birth control clinics offer counseling and referrals. Now the patch is merely one among other products and services in a new constellation of support. The collaborators in this federation would never have found one another had they continued to view the landscape from the vantage point of the old industrial model. They only discover their natural connectedness when they view themselves from the point of view of this end consumer and the realities of her life experience. Now, each member of the federation acquires new customers and increases its revenues. In the future, digital platforms will enable such federations to streamline payment systems, so that each member gets paid according to its contribution to the support offering.

Or consider the construction company that builds houses and new communities. Theirs is a transaction business, prone to dramatic swings in the business cycle. By moving into the support space, they shift from a once-off transaction with each house buyer, to an ongoing revenue stream from each household. The company begins a project to learn more about their customers' needs. Eventually, six key areas are identified, including home maintenance and repair, well-being and fitness, travel, entertainment, education, product acquisition, and financial services. The company leverages its brand equity to establish a federated support network with a range of collaborators who can meet these varied customer needs. Households opt into the federation, which offers 100% accountability and responsibility for the support it provides.

In the modern history of social and commercial arrangements, the distributed template is utterly new. We are just beginning to discover its depth and dimension, in the same way that Ford and others had to discover the once new model of managerial capitalism. All the knowledge about business and organizations that we have developed in the 20thC-- from Max Weber to modern management-- assumes the concentration of assets and ultimately the tenets of managerial capitalism. We urgently need to develop and consolidate new knowledge outside that paradigm, knowledge that illuminates the social and economic behavior of distributed systems.

VII. *A Perfect Storm*

Today my colleagues and I are working with pioneers around the world who are committed to this discovery process. Each day we are learning more about how to sail in this perfect storm to reach a new uncharted world. As they draw further away from the gravitational pull of the old models, we see these pioneers exploding into a white space of new economics. New knowledge is emerging to help companies understand how to move into the support space, including how to reconfigure assets in a distributed model; learn from potential constituents about support needs; identify collaborators and rules of engagement; understand new business models, cash flow, pricing, payment, and profit; and successfully leverage new technologies to dramatically lower support costs.

History suggests that the enterprises that move decisively to reconnect with an alienated population will get rich first. In order to do this, they must break with the past. There will, however, be many that cling to current practices, determined to ride out the tide just like the thousands of companies that derided the new disciplines of mass production a century ago, They are unlikely to survive the next decades. But for visionary leaders, pioneers, mavericks, inventors, and outsiders, there could not be a more welcoming time or a more fertile opportunity to create greater wealth and better life for our children, for everyone's children, and for the generations that follow.

Shoshana Zuboff is author of *The Support Economy: Why Corporations Are Failing Individuals and the Next Episode of Capitalism*. She joined the Harvard faculty in 1981, and has been the Charles Edward Wilson Professor at the Harvard Business School since 1991.
