

'Madam, the ribbon is free'

Companies should define themselves by what they know, not what they do, if they want to succeed in 'the-ribbon-is-free' economy, says Dr Leandro Herrero

A rich American lady visits the most famous hat maker in Paris. She sees an exquisite, long ribbon and immediately falls in love with it. The hat maker takes the ribbon in his hands, does a few twists with it and creates a stunning hat. Brilliant! The lady grabs it immediately. "How much is it?" she asks. "Five thousand francs," the hat maker replies. "Five thousand francs!" the lady exclaims, "but, it's just a ribbon!" "Madam," the hat maker says, "the ribbon is free."

Welcome to 'the-ribbon-is-free' economy or, in other words, the knowledge economy. What matters is the intellect, the skills, the capabilities, the know-how, the human capital. Yes, you need the financial capital as a vehicle, but you compete on your ability to create value, and this ability lies more in intangible thinking processes than in the tangible one of your bank account. Yes, you also need ribbons, but everybody has them. Hat makers are unique, ribbons are a commodity. Industries used to compete on quality. Today quality is the baseline, a pass, the minimum entry. Other things like design, fashion or extra services have taken over. Knowledge is now the currency. Companies should define themselves by what they know, not by what they do.

It's a 'how-to' world

There is nothing terribly new in the story of the Parisian hat maker. Value has long been seen as being beyond the obvious product: either in (a) unique know-how, (b) the ability to make ribbons-on-demand, or (c) how the ribbon becomes the excuse for something else – to sell other more profitable things in the hat maker's shop, perhaps? In 1999, American companies began to offer free computers to anyone who signed a long-term contract for an Internet service (*Fortune*, October 2000). Madam, the computer is free. In the UK –

and I suspect elsewhere – some mobile telephone companies give away the handset as long as one signs for their airtime service. Madam, the mobile phone is free.

Amazon.com is, at a superficial level, a bookstore. At a more serious level it is a system that knows who you are and what you have bought in the past, enabling it to send you tailored recommendations and e-mails when a new book on something that you care about has been written. At another level still, it is a public forum of book reviews where readers can post their own reviews and see what other people think. And at a different, parallel, level, it is an incredible search engine for topics, ideas and cross-references. Madam, all this is free – you just pay for the book.

Well before people started talking about the knowledge economy, the software economy had taken over. A good example of this is the parent company of American Airlines, which made more money from licensing SABRE, a software package used by travel agencies and airlines to make bookings, than from the traffic of the airline itself. It is a 'how-to' world. The software economy is a 'how-to' economy.

It is an access economy as well. Access to information, to the customer, to people in general, but, above all, to a service. The 'material' world is in trouble in the access economy. Microsoft plans to stop selling CD software in colourful boxes, instead providing – for a fee – continuous access to downloadable software from its website, which has the additional advantage of being constantly upgraded. Indeed, everything that is programmable may follow the same pattern. As somebody once said (perhaps in Silicon Valley), "Don't own anything if you can help it; if you can, rent your shoes." It is rent time, knowledge time, access time, and intangible assets time. Madam, the CD is free, you pay for the use of the 'how-to'.

Means to an end

It is also a 'means-become-ends' business world – a variant of the access world. BAA, the owner of London's Heathrow Airport, makes more money from the retail activity than all the airline traffic. Yes, in case you didn't know, Heathrow Airport is a big shopping mall which has landing pads for things called aeroplanes that move people from A to B. The real business is in the shopping. It is becoming increasingly common for passengers to spend more money in the shops than on their air ticket. The airline traffic is the access to the passenger's pocket.

Madam, the traffic is free? Not quite, given the ridiculously high air ticket prices, particularly in Europe. Here the customer pays for everything: the air transport, the use of the facility (airport tax) and the goods bought while waiting. In other words, pay for being there, pay for waiting, pay for buying while waiting, and pay to go.

If anyone needs more convincing, they need look no further than the newspapers. A quality

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daily paper in the UK costs pennies. The news is the excuse, or vehicle, for advertising. Newspapers don't make money with the news. Yes, madam, the newspaper is (almost) free. Indeed, the world of free newspapers and magazines is growing. I predict that a free quality daily newspaper will soon be a reality. All it needs is another Stelios Haji-Ioannou, chairman of easyJet, the European low-cost airline, to wake up one day and decide to show the world it can be done and that money can be made.

What kind of capital moves around in this new economy, where intangible assets, and access to an asset, are more relevant than the solid bricks or possession of the asset itself? The types of capital seem endless. You can find reams of conceptual information, references, essays and entire business models based not only on human, social or intellectual capital but less well known forms, including structural, consumer, digital, process and innovation capital. The main challenge for companies is how to measure them.

New-economy organisations emphasise them to different degrees. Skandia, a Swedish insurance company, has long publicly reported all those forms of capital and its flow in its annual report, (Skandia Navigator). Another Swedish company, the consultancy Celemi, which is better known for its business simulation game, Tango, incorporates an 'Intangible Assets Monitor', on similar lines to Skandia. It will not be long before it becomes the norm for companies to attempt to provide detailed measurement of intangible assets.

The investor's metaphor

But let's go back to the ribbon-is-free economy, where one single thing defines current times: the triumph of the brain over the hands. Henry Ford used to complain: "Why is it that every time I ask for a pair of hands, a brain comes attached?" He obviously did not like the attachment. Today he would have got minds, occasionally attached to a pair of hands.

In this new world of business, one thing, for me, stands out in the crowd of ideas, new concepts, old concepts disguised as new, jargon and new business-talk. It is the so-called 'investor's metaphor'.

In the beginning, the employee was a cost: indeed is still a cost in many current business models. By the 1980s, employees became assets. Indeed, CEOs and human resources (HR) executives around the world told us that employees were a company's most important assets.

The re-engineering/downsizing movement of the Western world, and to a lesser extent of other economies, added little to the credibility of the statement. As one friend of mine used to say, they forgot one word: disposable. Employees are our more important (disposable) assets. Nevertheless, 'asset' is an improvement on 'cost'; after all, one prefers to feel like an asset than a number of dollars in the operating expenses report.



Illustration by Rob Wilcockson

A third shift in understanding employees, after cost and assets, is the one promoted by Terilyn Davenport and others: employees as investors. In other words, investors of (their own) human capital. And, what do you do when you have capital to invest? You make it grow by allocating it to a growth environment; you look after it, you manage it, you withdraw it if it is not growing, and, at the end of each year, you look at the return on investment.

If individuals treat their own human capital (talent, capabilities, skills, knowledge, wisdom) as a true capital, things start looking very different in the HR field. The workplace should enable personal capital growth – no-one would invest in a no-growth or negative growth environment.

HR departments then become more like venture capital providers or incubators, looking after all those investments. Leadership's main role is to create the conditions for that capital to grow. The investor's metaphor applied to employee relationships puts 'brain-holder value' first; shareholder value is the consequence. And the one in charge is the one with the capital to invest, not the one who receives it.

There is a profound difference in this new model, beyond the metaphor. It is revolutionary, not simply semantic. Silicon Valley, for better or

**What I do is free;
you pay for what
I know**

worse, has followed the investor's metaphor more than other places.

People equals brains in the Valley. Actually the Valley = nuts + (resources x power x glory), according to Michael Lewis, author of *Liar's Poker* and, more recently, *The New New Thing*. Given the way the Silicon boys jump from one company to another and how bids for brains dominate the marketplace, we should perhaps talk about a 'mercenary metaphor'. But this is a topic for another day.

In this Brains-R-Us economy, the individual is in charge. The only problem is that the message has yet to reach a few million people. When it does, things will look different. For example, compensation and benefits (C&B) is still largely a one-size-fits-all model. OK, two sizes, part-time and full-time, plus/minus perks. The time is rapidly approaching an 'individualised deal' an 'individualised brain'.

At some point, companies will have to offer a portfolio of C&B: number/allocation of hours (complying with local labour laws but personalised and tailored), training packages, sponsored higher education, personalised bonus, family benefits and so on. It will be a 'pick-your-own' package with people making trade-offs between the benefits on offer: a ten-hour, four-day week, sponsored education instead of bonus, no car but a crèche, extended holiday, access to unpaid and sabbatical leave.

By 2003, as much as 60% of the C&B packages

in the Western world may be highly customised, according to consultants Towers Perrin. In other words, people will create their own deals. The Fordian 'You can have any C&B package you want as long as it is the one that we offer here to all' will be gone. The transformation of work practices in the Western world hasn't seen anything yet.

Madam, what I do is for free; you pay me for what I know. Monthly pay comes last on my list of C&B rewards for my intellectual capital investment. I expect the following annual ROI... 

Further reading

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M Lewis. The new new thing: a Silicon Valley story. W W Norton & Co, 1999.

J Rifkin. The age of access: the new culture of hypercapitalism where all of life is a paid-for experience. J P Tarcher, 2000.

M M Blair (ed). The new relationship: human capital in the American Corporation. Brookings Institute, 2000.

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