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a newsletter on practical strategic thinking and action
issue #19: the power of intellectual capital

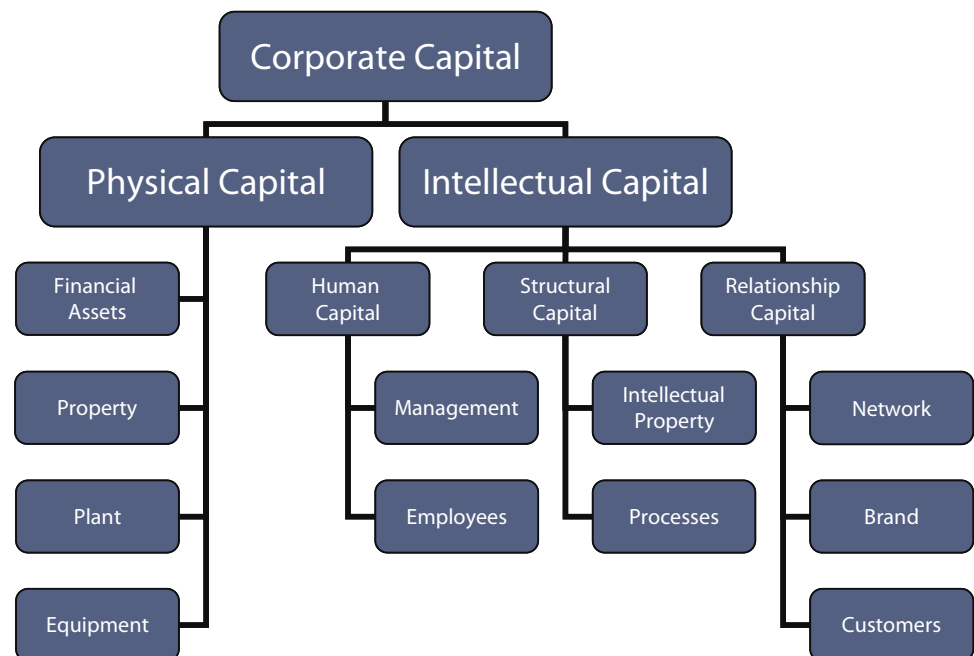
editor's message

You have heard us talk about intellectual capital in the past. We have been very active in this field recently, so we thought that we would share with you some of the things we have been learning and doing. In *Strategic Thinking*, we define intellectual capital (IC) and in *Strategic Action*, we introduce an innovative assessment methodology that rates the IC of a business unit or company. In *Industry Snapshot*, we show how one company leveraged their intellectual capital through a recent acquisition, and in this month's Reading List, we look at the powerful ideas of *Lean Solutions*.

strategic thinking

Intellectual Capital Defined

As we have moved from the industrial to the knowledge era, it has become clear that companies win and lose based not on what they have but on what they know. Knowledge is now the currency of today's economy. Intangible information and relationship resources are used by a company in the way that inventories, machinery and property were used to build industrial era companies. In fact, this 'intellectual capital' has become just as important to traditional product companies as it is to service and technology companies. The easiest way to understand IC is through this graphic:



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Intellectual capital includes the key resources with which your company is going to compete in the knowledge economy. As the world shrinks and competition heightens, control of physical resources is no longer the defining factor for most business models. Now and in the future, success or failure will depend on knowledge, skills, competencies, processes and relationships.

All companies today—big and small, public and private, high and low technology—need to create and extract value from their intellectual capital. For this reason, we at Trek have launched a new website that provides practical information that is applicable to the everyday challenges of today's managers. We invite you to explore it at: www.icknowledgecenter.com.

-Mary Adams (adams@trekconsulting.com)

strategic action

A Practical Way to Start

Some experts aspire to assign financial values to intellectual capital. Much of IC, however, is not owned by a company and can never be counted among its financial assets. And, even if you were to assign accurate values, IC can walk out the door with your employees. So, where does this leave organizations that wish to begin assessing their IC?

Some companies have taken matters into their own hands and begun constructing their own measurement systems such as scorecards and dashboards. But, these systems have several inherent drawbacks that are important to note. Many of them identify and assess specific aspects of intellectual capital using internal indicators or metrics. While such systems sometimes capture information about people, processes or relationships, they rarely examine all three as an integrated system. These systems also can be expensive to build, especially if they are validated to ensure that they are truly measuring the right aspects of the business. Lastly, the results from custom-made systems cannot be benchmarked against other companies.

An economic and effective alternative to building your own system is to use a standardized assessment tool specifically created to focus on intellectual capital. This type of tool is validated through repeated use in multiple situations and produces results that can be benchmarked against competitors and/or similar companies. One such tool to consider is IC Rating™. To learn more about it, visit www.icrating.com.

- Michael Oleksak (oleksak@trekconsulting.com)

industry snapshot

Smarter M&A

Here's a simple example of how powerful intellectual capital can be. In an industry meeting, we recently asked a panel how they could leverage their intellectual capital (human, structural, relationship) as they moved into international markets. Bill Glavin, President and CEO of Babson Capital (a MassMutual member company), stepped right up. He cited Babson's acquisition last year of Duke Street Capital in London. He explained that Babson had market and deal knowledge (structural capital) that could leverage Duke Street's relationship capital in the UK and European leveraged loan markets. Glavin reported that this combination of IC has led to explosive growth in their European portfolio.

We find the language and the structure of intellectual capital to be very helpful in thinking about today's business challenges. In this example, it is the non-financial assets of this financial company that generate revenues, build a sustainable business, and create lasting value. Their human capital builds on their base of market and deal knowledge through creative and disciplined thinking. This knowledge gets recorded and converted to structural capital so that it can be shared and leveraged across new staff and new markets. Relationship capital is where value gets monetized. It is also a source for new ideas and innovation.

The power of the intellectual capital concept is in using it to identify and assess the strength of your value creation process today and your ability to improve it tomorrow.

reading list

Lean Solutions

By James P. Womack and Daniel T. Jones

Speaking of the power of processes...this month we feature *Lean Solutions*. This is a book that won't let go. It keeps creeping back into your mind. The authors introduced us all to lean production and the unique success of Toyota a number of years ago. This book shifts their magnifying glass from the factory floor to the customer experience. It makes the very compelling case that a good customer buying experience can and should be grounded in a more efficient (and profitable) provision process. Done well, it's a win-win.

The authors make the case that "unpaid work" has been rising in advanced economies because of the effort required to manage consumption—things such as shopping trips, medical visits, bill paying, financial management, home repairs, motor vehicle maintenance. This work involves more and more consumption decisions and increased amounts of work foisted by producers and retailers onto the backs of consumers.



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You won't find it easy to forget the detailed process mapping they do of common experiences such as getting a car repaired, visiting a doctor's office or taking an airplane trip. Through these and other detailed examples, the authors teach us how to think about the twin processes of consumption and provision. This thinking leads to service that is better from the consumer's point of view and more profitable from the supplier's point of view. Be prepared for challenges to common thinking about the price of outsourced manufacturing, the importance of the initial contact with a customer and the inevitability of waiting for service.

An unfortunate side effect reading this book is increased outrage at wasted steps and lost time. Go ahead, get mad, then get smart. More information about this approach is available at www.lean.org.

announcements

The many discussions outlined in this newsletter reflect a new strategic initiative at Trek around intellectual capital. We have signed an agreement with Intellectual Capital AB (ICAB) of Sweden, the creators of IC Rating™, to both perform assessments and to build the U.S. network of consultants using the tool. More information on ICAB and our efforts are available at www.icrating.com.

In next month's issue, we take a look at a much broader definition of software.

about trek consulting

Trek Consulting LLC helps companies to face the challenges of growth, building value and dealing with change. Since 1999, we have been a valued partner to business owners and leaders on their arduous journey to business success. We know that we cannot make this journey for our clients, but we can make it easier and more successful. We focus on getting you the best information available, facilitating sound planning and decision-making, making sure you have the right skills and resources to face your challenge, and coaching you through the roadblocks that invariably arise along the way.

Our clients report improved market focus, greater revenues, better margins and increased profits. To learn more about Trek Consulting and how we can help you improve your company's results, visit us on the web at www.trekconsulting.com or call us at 781-729-1008.

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