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a newsletter on practical strategic thinking and action
issue #28: the path from innovation to execution

editor's message

For many reasons, we are thrilled that there is so much attention today on innovation. But we worry that the hype about creativity will lead people to think that good ideas are an end in themselves. Ultimately, ideas have to lead to profits. This month we share some thoughts on how to make the link between new ideas and business results.

In Strategic Thinking, we help you broaden your view of innovation beyond just ideas to the full portfolio of resources that you need in order to create and deliver on innovation. In Strategic Action, we go into more detail about the specific resources necessary for connecting ideas to profits. Our Industry Spotlight provides a cautionary tale on thinking too long. And this month's Reading List reviews the *RICARDIS Report* on intellectual capital reporting recently published by the European Commission.

strategic thinking

Resources for Innovation

We received some interesting data last month from Leonard Nakamura at the Philadelphia Federal Reserve showing that the investment in both tangible and intangible assets slowed from the year 2000 on*. Although there is not yet any empirical evidence of an upturn in investment and R&D, the current discussions of innovation lead us to think that there is an upturn on the way. This is a good thing.

The interest in innovation signals to me that corporations are starting to think more strategically—looking beyond this quarter's results to longer term improvements—to keep American companies ahead of the curve in a very competitive international market. To do this, you need to think about how to leverage your resources for maximum value. This is the essence of innovation—it is ultimately about resources. Ideas don't just fall from the heavens on unsuspecting innocents. They are the result of a good process that brings together the right combination of human, knowledge and relationship resources.

The Apple iPod is a great example of this. The innovation wasn't just about the technology and idea of the iPod itself. It was also about adding to the technology and market competencies at Apple (human resources), building bridges with the owners of music (relationship resources), and the development of a downloading system (knowledge resources).

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It is this type of systemic thinking that will be needed to deliver on the current interest in innovation. Read more in Michael's piece below to get some ideas on how to broaden your thinking about innovation and execution.

**This data can be found on a website that our firm hosts called the Intellectual Capital Knowledge Center. To read more about this data, look under Presentations on the Resources page (<http://www.icknowledgecenter.com/Resources.html#Presentations>).*

-Mary Adams (adams@trekconsulting.com)

strategic action

Resources for Execution

In order to realize the promise of innovation, ideas need to lead to tangible results—and ultimately, higher revenues or lower costs. But, how do you make that link? Innovation implies you are changing your business (sometimes, starting a “new” business). So, think like an entrepreneur. Get the right resources in place and align them properly to make the most of your innovation. What are the resources you need?

Intellectual Capital: Knowledge is the most important competitive resource in today's economy. The best way to think about knowledge resources is through the identification of the three types of intellectual capital:

- **Human Capital:** You need people, including supportive management, to filter out and identify the best ideas, research the appropriate markets, nurture innovation and move it along its path to completion. Do you need to add new people and/or skills to your team to get it done?
- **Structural Capital:** Beyond your ideas themselves, you also need processes to filter the best ideas from the not-so-good ones, and to follow the path to execution and production. What knowledge and/or processes do you need to deliver on your ideas?
- **Relationship Capital:** In today's market, it is a rare company that is fully integrated. Most work through networks of suppliers, outsourcers and partners to deliver value. Many innovations address the same market but some open up new markets and opportunities. What should your network look like?

Physical Capital: Even in the knowledge economy, physical capital can be important. What do you need in terms of facilities, hardware, and equipment?

Financial Capital: In order to make the necessary investments to convert your innovation to profits, you will probably need budgets that encourage short-term innovation and long-term investment in its execution. Do you have enough money to see this idea through?

In order to deliver on good ideas, you need to think about the whole solution. Identify the resources you will need...and then get busy.

- Michael Oleksak (oleksak@trekconsulting.com)

industry snapshot

Just Do It

Having told you how to think through a new opportunity, we feel a word of caution is in order. When we first started our consulting practice, we were involved with a start-up that had a really innovative idea in the children's nutrition market. One of the two partners was a great idea person—energetic and enthusiastic with a deep knowledge of the existing (mostly mediocre) nutritional products available at the time. The other partner was a great marketing face for the company and had all sorts of contacts. They actually persuaded some leading athletes of the day to represent their product. But neither of the two had operating experience, and they never pulled the trigger to start production. Every time it looked like it was to time to get underway, the owners had another issue to study. So their great idea, despite the clear market opportunity and great endorsements, never went any further. It was the most frustrating engagement we've ever had.

Paralysis by over-analysis meant that years of planning and investors' money went down the drain because the partners who had control did not execute to make it all happen. Nike had a famous slogan a few years back: "Just Do It." Ultimately, action is the only path to results.

reading list

RICARDIS Report

Published by the European Commission

We received a copy of this book at a recent conference on Intellectual Capital sponsored by the World Bank. RICARDIS stands for "reporting intellectual capital to augment research, development and innovation in small and medium enterprises." This is a great resource because it presents a neutral review of the research in this field and the options available for intellectual capital reporting. Some highlights of the findings include:

- Successful R&D and innovation are the result of a combination of not just knowledge but also complementary assets such as people and relationships. So, reporting needs to focus on the full portfolio of intellectual capital.
- IC portfolio reporting supports R&D and innovation by providing information about existing resources and a management framework for leveraging IC for future growth.
- Better information about the intangible aspects of a business makes the company a better candidate for financing sources of all kinds (ranging from equity investors to lenders).

Most business books present the theories and world view espoused by their authors. Since this book was written by a committee of fifteen experts in the field, it is a rare resource that gives an overview of all the available literature. It is especially valuable because, while it recognizes the challenges faced by companies trying to explain the intangible, it provides practical advice on how to make a difference in individual companies today. This publication is available free on-line.

(Part 1 - http://bookshop.europa.eu/eGetRecords?Template=Test_EUB/en_log_freeDwnld&filename=/eubookshop/FileCache/PUBPDF/KI7606073ENC/KI7606073ENC_001.pdf&EUBPHF_UID=264540)

(Part 2 - http://bookshop.europa.eu/eGetRecords?Template=Test_EUB/en_log_freeDwnld&filename=/eubookshop/FileCache/PUBPDF/KI7606073ENC/KI7606073ENC_002.pdf&EUBPHF_UID=264540)

announcements

Mary Adams has received the designation of Certified Management Consultant, or CMC, from the Institute of Management Consultants. The CMC is earned through a process that includes client evaluations, written and oral business examinations, and ethics tests. This is the only globally-administered certification process available in our industry. For more information on the CMC, please visit www.imcusa.org/certification/.

In a recent article in the IndUS Business Journal about intellectual capital tools for the private equity market, Michael Oleksak asked the question:

“Venture capitalists are key agents in the development of today’s knowledge economy. Their investing has put venture capitalists and private equity investors in the vanguard of analyzing and valuing the potential of knowledge-based businesses. But are venture capitalists taking advantage of new tools available today to improve investment decisions and returns?”

Read the article (<http://www.trekconsulting.com/Publications/Articles/IndUS-ICforVCs.pdf>).



In next month's issue, we'll reveal the only information that matters.

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 road-blocks 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.