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# trekking

a newsletter on practical strategic thinking and action  
issue #38: where's the value? take a quiz to find out.

## editor's message

You've heard us talk about the overwhelming shift to intangible, "soft" assets as a source of value and profits for American businesses. This month, we are going to show you what we mean.

In Strategic Thinking, you can take the Value Quiz to see how important intangibles are to your business. In Strategic Action, we'll give you the first level answer to what to do about it. Industry Snapshot features the results of a survey just released by CFO magazine on the topic of non-financial measurement, and our Reading List reviews *Blue Ocean Strategy*.

## strategic thinking

### *Intangible Value*

We created the Value Quiz a while back for a white paper we wrote on The Power of Intellectual Capital Assessment (<http://www.icknowledgecenter.com/WhitePapers/ThePowerofICAssessment.pdf>). We didn't realize it at first, but it has become our most powerful means of helping people see how the shift to a knowledge economy has affected their own business. You can take the quiz yourself—I'll cover Part I and Michael will cover Part II.

Part I asks that you rate each of the following resources as to their importance to your organization's future (competitive position, value, profit). Rate these factors on a scale from 1 for least important to 5 for most important:

Physical Capital:	1-5	Intellectual Capital:	1-5
Inventory	___	People	___
Production equipment	___	Processes	___
Buildings	___	Relationships	___
Land	___	Strategy	___
Total	___	Total	___

If your score is like that of most companies, the total in the right hand column is higher. This reflects the significant shift in our economy away from an industrial model. In today's knowledge economy, economic value, growth and competitive advantage are largely dependent on intangible, intellectual capital.

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There are many implications of this shift on businesses. But the most fundamental is information. The standards for information are still heavily dependent on formats designed for the industrial economy. Take the second part of the quiz to understand this point.

-Mary Adams ([adams@trekconsulting.com](mailto:adams@trekconsulting.com))

## strategic action

### *Intangible Information*

Part II of the Value Quiz asks, where do you get information on these assets:

- a. Physical Capital: \_\_\_\_\_
- b. Intellectual Capital: \_\_\_\_\_

If I had to guess, I'd say that you have a balance sheet for your physical capital. But almost none of your intellectual capital shows up in your financial and management information. That's a problem. If you can't see it, how can you manage it?

Seeing intangibles requires some new thinking. But it's not as hard as you may think. Here are some tips:

- Break intangibles down into components – We use the breakdown you see above: people, processes, relationships and strategy.
- Assess rather than measure – Measuring is better for physical goods—for intangibles, you need to assess their strength, their performance, and their appropriateness, which leads to the next tip...
- Use strategy as your touchstone – The best way to assess an intangible is to use the yardstick of your strategy. Ask yourself, "Do we have the right resources to deliver on our strategy?"
- Build a new balance sheet and income statement for your business – It is hard to understand metrics unless you see them in context and over time—that's why we start with a consolidated IC assessment (<http://www.icrating.com/>) to help leaders "see" their business in a new way.
- Use non-financial metrics to manage proactively and maximize financial result – This means building scorecards that include non-financial metrics to track progress over time toward your financial goals.

If your most important assets are on the right hand side of the value equation from our quiz, isn't it time to tune up how you measure and manage your intangibles?

- Michael Oleksak ([oleksak@trekconsulting.com](mailto:oleksak@trekconsulting.com))

## industry snapshot

### *CFO Magazine Survey Results—Measuring Up*

The importance of intangibles in our economy has led Trek to invest a lot of time in learning about new ways of looking at our clients' businesses. This isn't something any of us learned in school. A lot of it is still "cutting edge", but the thing that keeps coming back to us is how practical it all is. Once you get over the new vocabulary, this subject is about how to improve the profitability of our businesses right now.

So we are always pleased to see new data that supports our case—the latest being survey results published in CFO magazine ([http://cfo.com/printable/article.cfm/9214066/c\\_9277557?f=options](http://cfo.com/printable/article.cfm/9214066/c_9277557?f=options)) this week highlighting how far most companies have to go to improve their understanding of intangibles. The areas where senior managers feel they would benefit from better information include: employee commitment, customer satisfaction, innovation, quality of management processes, relationship with supply chain, and brand strength, among others.

We want to make our newsletter more of a two-way dialogue. So here's a first stab—we would like to hear from you on this one. Do you see the need for hard information on soft assets? Why or why not? Let us know ([adams@trekconsulting.com](mailto:adams@trekconsulting.com)).

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## reading list

### *Blue Ocean Strategy*

By W. Chan Kim and Renee Mauborgne

I resisted reading this book last year because I don't like "one size fits all" solutions to business problems. That's what all the hype about this book made it sound like. But one of our colleagues in the IC Rating Community (<http://icrating.com/AboutUs.html>) who has trained with the authors, Tomasz Rudolf of Innovatika Poland (<http://www.innovatika.com/>), persuaded me to give it a try, and it did win me over.

The title refers to an open, "blue" ocean where there is little competition versus an ocean "red" with the bloody remains of battles with shark-like competitors. The contribution this book makes—a powerful and graphic way of comparing your company with its competition—is called the "Strategy Canvas" and is drawn using the key factors of competition. The idea is to identify where you can reduce, eliminate, raise or create factors of competition to stake out a unique position in a market. Your own company and your competitors are graphed along a spectrum from low to high for each competitive factor.



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An example of how to apply this tool is outlined in the book. The [yellow tail] wine brand became successful very quickly by using a “blue ocean” strategy. This brand didn’t try to compete with 1600 U.S. wineries with a typical offering: a broad line, complex taste, or vineyard prestige. Instead, they marketed a social drink that had “simple fruity sweetness” and competed with all drinks (including wine, beer and cocktails). They used fun packaging and stressed ease of selection. Using the authors’ tools to graph this radically different strategy canvas helps to illustrate how this played out for [yellow tail]—it is a very powerful approach when looking to break out of your own “red ocean”.

We have already been influenced by this thinking in our work with one client who faces unending and fierce competition. This is a powerful new tool in our toolkit, and we recommend it for yours.

Visit the authors’ website for more information (<http://www.blueoceanstrategy.com/>).

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## announcements

Trek principal Mary Adams will be speaking on intangibles at the ConsultingWorld conference (<http://www.consulting-world.org/>) put on by the American Management Association and the Institute of Management Consultants on June 25th. Her presentation, “The Intangible (But Very Real) Opportunity for Consultants,” will explain in more depth how to help companies see, “measure,” and leverage intangible assets for profits.

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## 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](http://www.trekconsulting.com) or call us at 781-729-1008.