



FROM THE DESK OF BOB WILSON

Maximizing Results Through People
A CEO to CEO Quarterly Newsletter -- 8-15-01
Focusing on the Value of Intangible Assets

Dear Fellow CEO:

When we analyze our businesses, we are drawn to look at the numbers provided to us by our accountants: cash flow statements, balance sheets, and income statements. And when we look beyond these to other numbers, they are typically the building blocks that make up the former reports: sales, gross margin, scrap, throughput reports, etc. As managers, we tend to evaluate results by dissecting the tangible parts of our businesses. That's how we can measure whether we've achieved positive results. This only makes sense.

But, when it comes to our intangible assets, what do we do? How do we measure things like staff morale or the quality of internal communications? Do we measure equally important intangibles like organizational culture? Do we know the cost of operating without some sort of strategic plan? Or, at the least, a marketing plan? Are these intangible assets measured in our business so that we can evaluate and manage them in useful ways? And finally, is there a cost to our businesses if they are not?

I would offer that it is our intangible assets that determine our overall success in trumping our competition. The success or lack thereof in managing our intangible assets is what generates success in tangible measures. This reality creates a disconnect in how we run our businesses; i.e., ***we spend most of our efforts measuring, analyzing and monitoring issues of secondary importance to our business success.*** This can yield some terrible results.

Let me give you a recent example that illustrates the cost of this dichotomy. This is a real story about assets and their relative importance.

A company (we'll call it the "Baby" company) we have worked with was purchased by a national organization (we'll call that company "Daddy"). Prior to their acquisition by Daddy, Baby had a relatively happy workforce. They'd been an enthusiastic P. I. client for many years – training all of their managers in the system. As a result, they generally had the right people in the right jobs and did their best to use the teachings of P. I. to motivate their staff. In addition to this, they had a clear market focus.

While they didn't have a formal strategic plan, the CEO was a pretty good strategic thinker. The top management team communicated and worked well together. In short, the organization had a clear sense of where it was going. The culture was a "get it done" entrepreneurial one that people either fit into or didn't and the company worked to bring in people that did. Baby was a successful company in a tough, competitive marketplace. It got to be successful by making sure that its intangible assets we're maximized. That's what made it an attractive acquisition.

Enter Daddy.

Daddy consolidated a lot of similar Baby's with Baby-like cultures into one company and began a drive for an IPO. (As the integration process took place, we gained entry with a number of the brothers and sisters of Baby. This close contact from a variety of perspectives allowed us a good view of what transpired.)

Daddy was quick to focus on the tangible assets mentioned above, e.g. - improving productivity and reducing costs. Initially, the numbers showed improvement because redundant costs were squeezed out across the businesses. Focus was placed on quarterly numbers and thus efforts went from strategic to tactical in an effort to get the tangibles to "look good" for the investment community. Based on

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what we saw, little effort was placed on evaluating or managing tangible assets. Dissatisfaction began to percolate as market became cloudy. Seemingly, what mattered were reports and the reporting processes - not the business that generated them. Requests for more information were generated daily to the point where one manager said, "They're turning me into a bookkeeper." the organizations' in- and product focus be-

With the drying up of the money stream in the IPO market, the pressure from Daddy's management intensified. A team from one of the big consulting firms came in to advise Daddy on cutting more costs and creating the discipline needed to go forward (all based, needless to say, on evaluations of tangible assets).

At this point, the numbers started to take a noted downward path. To compensate, a group of managers from a more traditional, much larger company were brought in to teach Baby and her brothers and sisters how a larger, more successful company is run. These managers superimposed the rules and doctrine of a much larger business on what was predominantly, up until that point, a group of entrepreneurial companies. A common complaint among managers was, "they've got our best salespeople spending more time doing paperwork than selling. And they wonder why sales have tanked. It won't take the salespeople very long to find themselves other jobs where they can do what they do best." And it didn't. Many of the people who made Baby successful are leaving the sinking ship looking for any life raft in a turbulent sea.

To our knowledge, Daddy continues to measure, manage and analyze tangible assets to the exclusion of its intangible assets. This is being done at considerable cost since the talent of the former organization has disengaged mentally or left. Morale is on a par with the passengers of the Titanic after the band stopped playing. There is no sense of a strategic or even a marketing plan – there are simply tactics to drive sales, profits and reduced costs (and none of them are working). There is no market focus (a manager reports receiving new product information almost daily without even knowing what the product is or who it's to be sold to). The culture is at odds with itself. Baby and its' brothers and sisters have an entrepreneurial culture and structure that now has a traditional command and control platform superimposed on top of it by Daddy. It's not working.

I'm not privy to the cash flow, income statements or balance sheets of Daddy. But I'd venture they reflect the misdirected emphasis on tangibles vs. intangibles. The anticipated IPO is not visible on the horizon; and I'd guess Daddy is pretty frustrated with the results.

If asked, Daddy would likely blame their failure on the economy. It has to be the economy since the tangibles were all measured and managed appropriately. None of their measures told them they were about to fail until failure stared them in the face. Without the metrics to measure the intangible, human side, Daddy was blindsided.

Yet, their failure was visible from the point that they changed the focus from serving the market to preparing an IPO – an action not measured on any report of tangible assets. The intangibles only got progressively worse from there. And Daddy still doesn't see the cause of the problem.

Traditional tangible measures of a business are valuable. They let us know, in retrospect, the results of the productivity of our intangible assets. But it is our intangible assets that determine our ultimate success and failure. Our people, morale, strategic plan, culture, and market focus produce our measurable tangible results. You are well served to focus on measuring, managing and evaluating your intangible assets. We'd like to think helping you do that is what we do best. If you would like our help in this endeavor, we're here to offer it.

Thanks for listening.



Bob Wilson, President