



FORTÉ FOCUS

Thoughts, ideas, inspiration and provocations from *Forté Management* and *eNZyme intellect*.

WELCOME

2009 was a bumpy old year. Many of us are glad to have it behind us. Now we're all wondering what the year ahead holds for us. Of course the future is not evenly distributed so it will be different for each firm, sector and even nations. We believe fervently that we all have a much greater potential to create our own futures than we usually realise. The secret is in spotting opportunities and not only knowing how to respond but having the confidence and self-belief to do so.

“ **Chance favours the prepared mind.** ” – Louis Pasteur

Turbulent times always offer up opportunities and as the trailing edge of recession continues to collide with the leading edge of recovery we should anticipate a fair old bit of turbulence.

Productivity is going to be the focus of this newsletter because we think this is the year to focus on firm PROFITABILITY and national prosperity both of which are determined by PRODUCTIVITY. The most important thing that we need to do right now is ignore conventional wisdom of “heads down – bums up”, lift our heads up and cast our eyes and thoughts way out to the horizon.

IN THIS EDITION

- Peering into the future – trends to take note of
- Taking steps to higher productivity
- 7 Questions to improve productivity
- Uncovering your firm's hidden value – maximising your intellectual assets

What Forte Management and eNZyme intellect are working on

Like everyone else the year has had its challenges. However it's also be really exciting and stimulating. Our work has included:

- ❑ New Zealand Trade and Enterprise: *Playing to our Strengths - Creating value for Kiwi firms (A report on how Kiwi culture can translate into creating successful and internationally competitive business models.)* (<http://www.nzte.govt.nz/features-commentary/In-Brief/Pages/Report-DIY-approach-innovative-but-limiting-.aspx#Downloads>)
- ❑ Marlborough District Council: Review of Workforce Development Strategy; Review of economic development opportunities in Marlborough;
- ❑ Marlborough District Council: Project management of project to develop new distribution model to export market for Top of the South products with the aim of capturing value currently lost in the distribution channel.
- ❑ Presentations on the impact of Kiwi national culture on innovation management in New Zealand to: Board New Zealand Trade and Enterprise, AJ Park Wellington and Auckland offices, *Licensing Executives Society of Australia and New Zealand*, EO24 launch for *Entrepreneurs' Organisation NZ Chapter*.



PEERING INTO THE FUTURE

Our research shows a tendency amongst kiwi firms to unwittingly judge what's happening in the rest of the world by what we can see here in New Zealand. Or at very least we use Kiwiland as our point of reference. Unwittingly that blinds us to seeing the "big game" and especially to understanding what our customers consider our true value proposition is. We seem to substitute our thinking for that of the customers, our values, aspirations assumptions for theirs. The result of that according to NZTE research is that people in our markets see us as reluctant to understand their needs, have a short sighted transaction approach while they prefer building long term relationships, and that we have a take-it-or-leave-it approach. That should really concern us because it is not what we intend and it is denying us a lot of potential value.

Many of the things that we take for granted or see just as market access requirements represent real value to our customers and consumers yet we ignore opportunities to exploit those.

The following section draws heavily on www.trendwatching.com, a trend monitoring service that we subscribe to – acknowledgement below:

Source: www.trendwatching.com. One of the world's leading trend firms, [trendwatching.com](http://www.trendwatching.com) sends out its free, monthly Trend Briefings to more than 160,000 subscribers worldwide.

TREND 1. STATUS STORIES. (www.trendwatching.com/trends/statusstories.htm). We are practical down to earth people and so the story associated with products that we buy isn't front of mind. None the less we are hugely influenced by those brand stories. Here are some examples of how powerful stories are.

- In the UK, blind tastings of baked beans ranked Heinz beans as sixth best. When the tastings were conducted with the brand known to the tasters, Heinz was ranked number 1!
- In the USA, consumer panels ranked identical wines higher when they thought that the prices was higher.
- In Denmark, free range eggs have gained a major market share and a 20% price premium even though scientific testing reveals no nutritional differences between freerange and battery eggs.

Unless your product is a true commodity, and few if any products really are, at least in terms of consumer perception, then your brand story is worth a great deal of value. Maybe even more in terms of the margin it delivers than the core product. New Zealand firms have excellent stories to offer and consumers are eager for engagement. Trendwatching calls it INFOLUST. Our problem is that we take the stories for granted or don't even recognise that they exist. For instance we heard of a case recently where the firms owner's mother was German and had a fascinating history.

Many of our products and services can be positioned around a status or feel-good proposition. But that means that first of all we have to have a story ready to tell, next we have to keep the story attached to the product all the way to the consumer. Once we could rely upon media advertising to carry the story but now the market is too fragmented to make that practical. We have to rely upon successive generations of consumers to pass on the story. An important marketing strategy then is to make sure that can happen.

This is largely counterintuitive to us Kiwis – but much of the value in a product, be it a fashion label, a sustainability accreditation, or seafood grown in New Zealand's (comparatively) clean waters, is in the story, not the core product.

TREND 2. Business as UNUSUAL. "For the first time, there's a global understanding, if not a feeling of urgency that sustainability, in every possible meaning of the word is the only way forward."

We might still think this is a load of hot air (excuse the pun) but in key markets, especially the UK and Europe, and now an Obama led USA and consumers' sustainability values are increasingly evident. Here are a couple of examples that caught our attention:

a) The small town of Bundanoon in New South Wales has banned the sale of bottled water for environmental reasons. They now sell empty bottles and the town has refilling taps and fountains on the main street.

b) Pret a Manger (UK health fast food chain) has responded to exposure of over fishing of the worlds oceans by stopping selling tuna sandwiches. Given the popularity of tuna sandwiches in their market that is quite some decision but we have no doubt that they will have been rewarded by their health/environmentally conscious target market.

"To truly prosper, they [firms] will have to 'move with the culture'. This may mean displaying greater transparency and honesty, or having conversations as opposed to one-way advertising, or championing collaboration instead of an us-them mentality. Or it could be intrinsically about generosity versus greed, or being a bit edgy and daring as opposed to safe and bland."

We reported in the last edition of Forte Focus (http://www.enzyme-intellect.co.nz/resources/Forte_Newsletter_October_2008.pdf) that Banrock Station wines were the only imported wine product on the shelves at The Eden Project. There because of their environmental credentials. We would argue that there are Kiwi firms with superior credentials but our recognition of how important our story actually is, our willingness and ability to tell that story and keep it associated with the product all the way through the long and complicated distribution channels many of our products go through, lets us down.

TREND 3. URBANY. This is a really interesting one for a nation like New Zealand where almost all of our products are (or should be) niche products. Mass distribution (supermarkets etc) relies upon exceeding a specified threshold of qualified prospects (ie members of the target segment) within a specified geographic area to warrant stocking a particular product. Increasingly that threshold is being exceeded within cities. In 2008, for the first time in humanity's history, greater than 50% of the world's population lived in cities. Consider the significance of that for product distribution. It may be that the productivity of distribution and sales can be increased by targeting specific cities rather than states or whole countries. Then consider whether those people outside the cities are a viable market or one best served using internet based direct to consumer distribution.

TREND 3A. URBAN PRIDE. *"... in thriving mega-cities, whose economic and cultural power already often surpasses that of entire nations, inhabitants' identities will be closely tied to a cities culture, its brand, its heritage, its 'being'."* The opportunity therefore exists to provide city specific branded and/or customised products. Absolut vodka for example launched a New Orleans vodka with a special mango and black pepper blend. They followed that with a Boston product with a black tea and elderflower vodka!! Think of the opportunity to tailor wine, ready to serve food products, clothing designs, even meat cuts for specific cities. Example – a wine designed to complement creole food and targeted into New Orleans.

TREND 4. REAL-TIME REVIEWS. The internet democratised the exchange of information about products. Mobile internet has made it instantaneous. A consumer can now stand in front of a product display and check on line other CONSUMERS opinions. Engaging in that space, listening, learning and responding has never been more important. If your marketing strategy does not have a specific on-line component, including social media, we strongly recommend that you review and revise the strategy. This might not be important for your particular business right now – but odds on it will be soon.

Closely linked is **TRACKING** and **ALERTING** something that consumers actually need and want – as part of making their life easy. If you have a product that is seasonal or only available periodically, alerts provide another opportunity.

TREND 5. LIMITED LOCATIONS. Links closely with 3A. Offering products that are available exclusively at limited or exclusive locations.

TRENDS 6. EMBEDDED GENEROSITY. We commented in the last Forte Focus (http://www.enzyme-intellect.co.nz/resources/Forte_Newsletter_October_2008.pdf) on the growing importance of cause related marketing that we had observed in the UK. Trendwatching report this as an important global trend.

Embedded generosity incorporates all giving initiatives that make giving and donating painless if not automatic.

“In October 2009, Twitter’s owners announced that they will begin selling wine through their label, called Fledgling Wine. The wine will be bottled from August 2010 and \$US5 from every bottle sold will go to Room to Read, a charity that organizes literacy programs for children around the world.”

This example struck us for two reasons – the stretch between the core business and the product, and the apparent margin available to make the donation from. That’s a great deal more than a Kiwi winery achieves for a bottle of wine sold in the US:

4 ways to turn trends into business opportunities

1. Should or could trends influence or reshape your firm’s vision and strategy (processes, product, price, promotion, positioning, target market, distribution channels, sustainability practices).
2. Provide clues for a new business concept, product, brand or whole new venture.
3. Reveal a new customer segment that could be profitably targeted.
4. Provide opportunities to tailor products, messages or language to match consumers already ‘living’ a trend – that is – satisfy the consumers INFOLUST with your story.



TAKING STEPS TO HIGHER PRODUCTIVITY

There are lots of productivity measures used in financial management, for instance profit per employee, sales per employee, earnings per share, profitability. We can even (and should) measure the productivity of the firm’s investment in each customer. All these measure the amount of reward realised for a given amount of effort or investment. *GDP per capita* as a measure of national wealth creation often isn’t of great interest to business, but its sister statistic, *GDP per hour worked* (the amount of value created and captured by NZ per hour of work effort) certainly should be. Unfortunately we are towards the bottom of the rankings for both.

Productivity is a sensitive subject in New Zealand and mention of the word all too often evokes allegations of exploitation, working longer and harder, greed. To quote from a recent *eNZyme intellect* media release [[A prescription for New Year prosperity](#)]

“Prosperity and productivity have absolutely nothing to do with greed or avarice or exploitation as some Kiwis seem to think .”

At heart, the productivity measure is a very simple one:

Productivity = $\frac{\text{Value created and captured}}{\text{“cost” of creating that value}}$

Value and cost are both open to interpretation but in the context of the business we are really interested in the net profit created relative to the cost in dollars or hours of input. Most inputs can be reduced to dollar units which provides a convenient common measure.

In New Zealand we have dedicated much of our renowned inventiveness to driving down the cost of production – with the aim of course of increasing productivity. Our record is poor in absolute terms and relative to those nations that we like to compare ourselves with. And, decreasing input costs is a game of diminishing returns.

It's almost embarrassing to raise it – because we all know it but we focus little attention on it. Productivity can also be increased by increasing the numerator – the amount of value created and captured. Working to optimise the value side is far less limiting and more open-ended. And we can often create a compounding effect on that side of the equation.

Note the reference to creating **AND** capturing value. Creating value does not automatically mean that it will be captured. Much of the value or potential value of our goods is lost to the distribution channel. But there are also a number of our management practices that mean that unwittingly we do not optimise the value inherent in our goods and services. Some of the management practises and strategies to optimise our strengths and compensate for our weaknesses are introduced in the paper that we prepared for NZTE – *Playing to our Strengths - Creating value for Kiwi firms (A report on how Kiwi culture can translate into creating successful and internationally competitive business models.)* <http://www.nzte.govt.nz/features-commentary/In-Brief/Pages/Report-DIY-approach-innovative-but-limiting-.aspx#Downloads>

That report introduces what we believe is the biggest opportunity available to Kiwi firms – developing and leveraging value from their intellectual assets. That is the subject of the next article.

We think that focusing on the productivity of all the functions within the business is a useful management approach. Here are some questions that help managers do that.

7 questions to improve productivity

- How intimately does the firm/sector understand intimately the goals, aspirations, needs of consumers of the firm's products and services? Are decisions ever based on assumptions that rely upon our own values, aspirations, needs etc? Could things that we take for granted represent value to end users of the products and services?
- How is quality defined - from a technical perspective or consumer perspective? See productivity Tip 2 below.
- Do the firm's distribution channels represent ultimate value or are they legacy systems that add cost and filter the relationship between the firm and the consumer?
- Is it possible to build relationships and establish two way communication with consumers, bypassing the filtering of intermediaries?
- Is it possible to capture some or all of the value created in the distribution chain?
- How well does the firm understand – in depth – how our customers do business, how they accord respect, rely on trust versus contracts, look for long-term versus transactional relationships, defer to authority or not, etc?
- Are the firm's sales people rewarded for building long term customer relationships or is the focus on the immediate transaction? Do they receive formal negotiating training? Very few people are born negotiators although Kiwis may tend to believe otherwise. Training will include how to create a win-win situation, seeing the other's point of view including how our goods and services fit into their world (as opposed to ours), and understanding the other party's rules and conventions.

During the year one of New Zealand's most successful business people explained to us that if you are paying more than about 60% of the asking price you are paying too much! That's what you are facing when you enter a negotiation so it is very important not to lay down your best price right up front unless you have a clear understanding that that is what is happening and there is no expectation by the other party that the price will be haggled over.

Productivity tip 1

We recently had an interesting discussion with the CEO and Chairman of a significant company who posed the question "Why do our staff accept requests for appointments from sales people even though there is no apparent benefit to the company?" My conclusion was that this probably relates to our low assertiveness and high harmony seeking. We do not wish to offend and lack, as a result of our low assertiveness, the skills to deal properly with the persuasive patter of the salespeople. They asked "What can we do because we think

this is costing us a lot of money? It's affecting our productivity". That was quite an insight because we do not normally think of such factors affecting productivity. We offered the example of a former colleague (a Scot by the way) with a substantial budget and who would only see salespeople at 9am on Monday mornings. He was in Dunedin and the sales people were based in Auckland or Christchurch. Only the most determined made it. Then he booked them all at 9am and made them wait together – which made them focus on their key offerings. A brutal approach and once that most of us wouldn't feel comfortable adopting.

In a more practical sense we suggested that the staff be briefed, when approached for a sales appointment, to pose questions like "What value will you/your product/service add to my business?" If the sales person did not have an immediate answer they should be offered the opportunity to send an email setting out their value proposition (in case you miss out on something valuable) Unless they provided a persuasive entrée to delivering the firm value, the staff should refuse the appointment. The staff should be looking for value and they should be offering it. Of course if all the firm is interested in is the lowest cost short term deal then this strategy won't work!

The flip side of this is, to use the opposite approach to increase your own sales productivity. Right up front introduce how you and or your products and services add value and increase productivity for the customer. Avoid talking price until you have exhausted the value pitch.

Productivity tip 2

Think about how quality is defined in your firm/sector

- Fitness for purpose according to technical specifications, market entry etc.
- Fitness for purpose according to customer specification.

There is an important difference. We do not necessarily lack attention to quality. It is that quality is properly described as "*conformance to requirements*" (ISO 9000) and those requirements should be defined by the consumer. Yet because there are filters between our firms and the consumers, and we substitute our thinking for theirs we risk carefully taking aim and firing at the wrong target. In response people often say to us – not true – we produce a lot of food products so we have to meet the highest quality standards. Now that's true as far as food safety etc is concerned but quality extends way beyond those technical parameters often defined by authorities like NZ Food Safety Authority. Most importantly it relates to listening very carefully to what the consumer/customer wants and responding accordingly.

Productivity tip 2

- Improve basic measured outputs continuously
- Think simply and directly about all the factors that affect the firms productivity
- Evaluate each factor, business, business opportunity with total fact based objectivity
- Ask questions and challenge assumptions continuously and endlessly about performance, markets, customers/consumers and goals.



UNCOVERING YOUR FIRM'S HIDDEN VALUE

If we said that you are probably overlooking up to 80% of your firms potential value you'd think that we had gone crackers. Yet according to research in Scotland companies there could be blind to 80% of their value.

That value is what is hidden in the firm's intellectual assets <http://www.enzyme-intellect.co.nz/asset.php>. All businesses rely upon intellectual assets, regardless of the size or industry. Innovation exists not just in legal patents and trademarks but also in the firms personnel and their collective know how. Firms and sectors that

fully exploit their intellectual asset portfolios produce greater returns on assets. Intellectual assets include:

- Registered and/or legally protected assets such as patents, trademarks and copyrights;

- Non-registered assets such as trade secrets, manuals, procedures, quality and environmental systems etc;
- Human capital – skills, experience, knowledge, know how that could walk out the door.

In Denmark, since 2000, financial reporting rules have required the preparation of a report ON and disclosure of intellectual assets. In New Zealand we are at the very early stages of discovering and exploiting the value in our intellectual assets. Our failure to do so currently may go a long way to explaining why our economic performance is so mediocre compared to similar countries.

What stage of recognising and exploiting intellectual assets is your firm or sector at?

- There is low awareness of the importance of intellectual assets and intellectual asset strategy to the overall corporate strategy and the firm/sector's competitiveness and profitability and no specific attention is given to intellectual asset management.
- There is a vague awareness that Intellectual Assets have some importance in strategy and the firm/sector's competitiveness and profitability but there is no formal intellectual assets strategy.
- The Board has a high level understanding that Intellectual Assets have importance in strategy and the firm/sector's competitiveness and profitability but there is still no formal intellectual assets strategy.
- The Board has a detailed understanding of the role that intellectual assets and intellectual assets strategy play in corporate plans at both the corporate and business unit level and a formal intellectual assets strategy exists.

Our conclusion after considerable research into this subject is that every firm and sector should have a specific intellectual assets strategy and that it should be the responsibility of every director and CEO to ensure that the value hidden in the intellectual assets is fully realised through an appropriate intellectual assets strategy. (<http://www.enzyme-intellect.co.nz/asset.php?page=assessment>)

