

## Forté Enterprise Digest

Monday, 28 March 2011

Hello

Welcome to this first edition of *Forté Enterprise Digest*. In the course of keeping up to date with developments and new ideas in the world of business, management and innovation, we process an immense amount of information. Some of it we read and discard. But we think some would add value to your work so we have developed the *Digest* so we can send on important and valuable information and at the same time tell you about our work. Whenever we have something that we think you may be interested in or need to know about – we'll send it on out. We hope that you find this all of value. So if you would like to receive a copy directly, please just email us at [tony@forte-management.co.nz](mailto:tony@forte-management.co.nz) with SUBSCRIBE in the subject line and we'll do the rest.

We know how busy everyone is and that all too often there's just not enough time to read the things that you'd like to. So we've designed the email version of *Digest* so that by taking a quick check of the "Contents", in 30 seconds or less you can find which articles you should give priority to and leave the rest for "another day" by just clicking on the headlines for the articles that you want to read in more detail.

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- **Forté Management achieves approval to deliver training and management coaching under the new NZTE 50% discount voucher scheme (NZ).**
- **Looking to raise capital? Then to set out your offer as clearly as possible, present your company in the best possible light, all while minimising your risk, an Information Memorandum is a must.**
- **Shifting innovation focus from driving operational efficiency to building new business models offers the opportunity to create and harvest more value. See how.**
- **Innovation and culture – a brief summary of Forté's findings on Kiwi culture and why understanding ourselves and our customers more deeply opens the door to creating and harvesting more value.**
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- **What every Director and senior manager should know about managing their firm's intellectual assets – the 6 step intellectual asset management plan to help businesses identify, manage and develop hidden opportunities.**

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### **Cashing up annual leave. Three mistakes to avoid or pay the penalty**

From 1 April 2011, employees are able to request that up to one week of their minimum entitlement to annual leave is paid out in cash. The new regulations have some very specific requirements that you must comply with. Here are three that could easily trip up employers:

1. The request can only be made by the employee and must be in writing. The employer must consider the request in a reasonable time frame and is not obliged to agree to the request but must, as in all employment matters, act in good faith. An employer may have a policy of not paying out leave for all or certain parts of their business.
2. Only leave entitlements earned after April 1 2011 can be converted to cash.
3. If an employer incorrectly pays out a portion of an employee's leave where the employee did not request it, the employee is entitled to take the portion of leave concerned and keep the payment!

### **Forté Management approved trainer and coach under new NZTE programme**

*Forté Management* has achieved approval to provide training and coaching under the new NZTE Capability Development Voucher Scheme. Qualifying businesses may receive vouchers that cover 50% of the cost, up to \$5000 in any year, for approved training programmes and coaching to increase their "management capability". "This is a rare and very straight forward opportunity for businesses to benefit directly from government assistance." says *Forté Management* consultant Tony Smale.

*Forté Management* is approved to deliver a variety of training and coaching services in Canterbury, Marlborough/ Nelson/ Tasman and Wellington under the general headings:

- Business planning
- Business sustainability
- Managing resources
- Marketing

To access the programme businesses undergo a simple assessment process by the "regional partners", The assessment may even be able to be done over the phone. The scheme is administered in Marlborough by the Marlborough Chamber of Commerce, in Nelson/Tasman by Commerce Nelson, Wellington by Grow Wellington and in Canterbury by the Canterbury Development Corporation and Canterbury Employers Chamber of Commerce.

Full details of the programmes and coaching options are available from the Forté Management website here <http://www.forte-management.co.nz/training-and-coaching>.

The following criteria apply to the Voucher Scheme. Businesses must:

- Have fewer than 50 full time employees.
- Be operating in a commercial environment.
- Be registered for GST in New Zealand.
- Be privately owned, or a Maori Trust or incorporation under the Te Ture Whenua Maori Act 1993 or similar organisation managing Maori assets under multiple ownership.
- Demonstrate a desire to innovate and grow, and
- Have undergone an assessment (FREE) with the Regional Partner.

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### **Looking to raise capital? – an Information Memorandum is a must have document**

An information memorandum is a document provided by an individual or company to prospective investors, setting out the investment offer. It contains much of the same information as the business plan with the added discipline of knowing it will be subject to “due diligence” by external parties. We find that the rigour of preparing the information memorandum imposes very good disciplines for entrepreneurs and managers, forcing deep analysis and thinking about the business’s critical success factors and strategies in a very realistic way.

An information memorandum can be used where a prospectus is not required by law. In New Zealand that is when the offer is strictly limited to people who are not considered to be "members of the public" pursuant to the Securities Act 1978 in New Zealand and relevant legislation and regulations in other countries. In New Zealand, offers of securities can be made in this way only if the prospects are:

- (a) Friends, family or close business associates;
- (b) People whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money;
- (c) People who are each required to pay a minimum subscription price of at least \$500,000 for the securities before the allotment of those securities;
- (d) Any other person who in all circumstances can properly be regarded as having been selected otherwise than as a member of the public.

The information memorandum provides a clear description of the business, its structure, growth potential and what the invested funds will be used for. It parallels the business plan but with a specific emphasis on the capital raise. As well as various disclosures and exclusions, it will include the following sections:

- The problem this business will resolve.
- The solution and benefits – how and why the product works including a customer centric quantification of the benefits.
- Industry and market size analysis.
- Business and revenue model – who pays and how much of that is profit.
- Competitor analysis and sustainable competitive advantage.
- Marketing and sales strategy including pricing and distribution strategies.
- Executive team profile.
- Capital requirements including a detailed description of what the funds will be applied to.
- Forecasts – growth, sales, revenue, profit.

- Exit strategy – when and how investors will get their money out and what return they can expect.

Talk to us if you need to discuss preparing an *Information Memorandum* for your capital raise or if you need help with your business planning. Help with business planning may qualify for assistance under the NZTE 50% discount voucher scheme.

### Directing innovation effort to where the best opportunities for profit are

The western world has an almost obsessive focus on efficiency. And that's where, especially in New Zealand, we focus our innovation efforts. In New Zealand we've been obliged to focus our efforts on lowering the cost of production to offset the continuing long term decline in commodity prices and we've been very good at it. Once, way back in the 20<sup>th</sup> century that might have been a sound strategy – but more and more it's not working for us. Efficiency has become a proxy for productivity – forgetting that the productivity calculation has a numerator as well as a denominator. Productivity is improved by reducing input costs OR increasing output value. A Google search for “productivity” produces page upon page of references to “efficiency”.

But the reality is, compliments of benchmarking and similar tools, being efficient is now table stakes – necessary to be in business - but unless you have a unique process or technology that provides genuine cost advantages not enough to provide competitive advantage and profit optimisation.

Consider the following – they make interesting reading. The first is an excerpt from *Business Week* (Full article at [http://www.businessweek.com/innovate/content/feb2006/id20060216\\_568704.htm](http://www.businessweek.com/innovate/content/feb2006/id20060216_568704.htm). Authors: Hagel ([www.johnhagel.com](http://www.johnhagel.com)) is an independent management consultant who spent 16 years with McKinsey & Co. Brown ([www.johnseelybrown.com](http://www.johnseelybrown.com)), Xerox's former chief scientist, is now a visiting scholar at the University of Southern California. An equivalent Europe focused discussion is at [http://ec.europa.eu/enterprise/e\\_i/news/article\\_9904\\_en.htm](http://ec.europa.eu/enterprise/e_i/news/article_9904_en.htm).

*“While executives of large Western companies and policy-makers of Western governments continue to view innovation through 20th century lenses, entrepreneurial companies in Asia are harnessing the opportunities of the flat world to pursue broader forms of innovation appropriate for the 21st century.*

*In the West, we still confuse invention with innovation. Even worse, we tend to focus narrowly on breakthrough technology or product invention -- that's what really gets the adrenaline going. Anything else is marginal and uninteresting.*

*But if we shift our attention from invention to innovation, we begin to see a much broader horizon. Innovation -- the ability to create and capture economic value from invention -- is what really drives both the economic prosperity of nations and the shareholder value of corporations.*

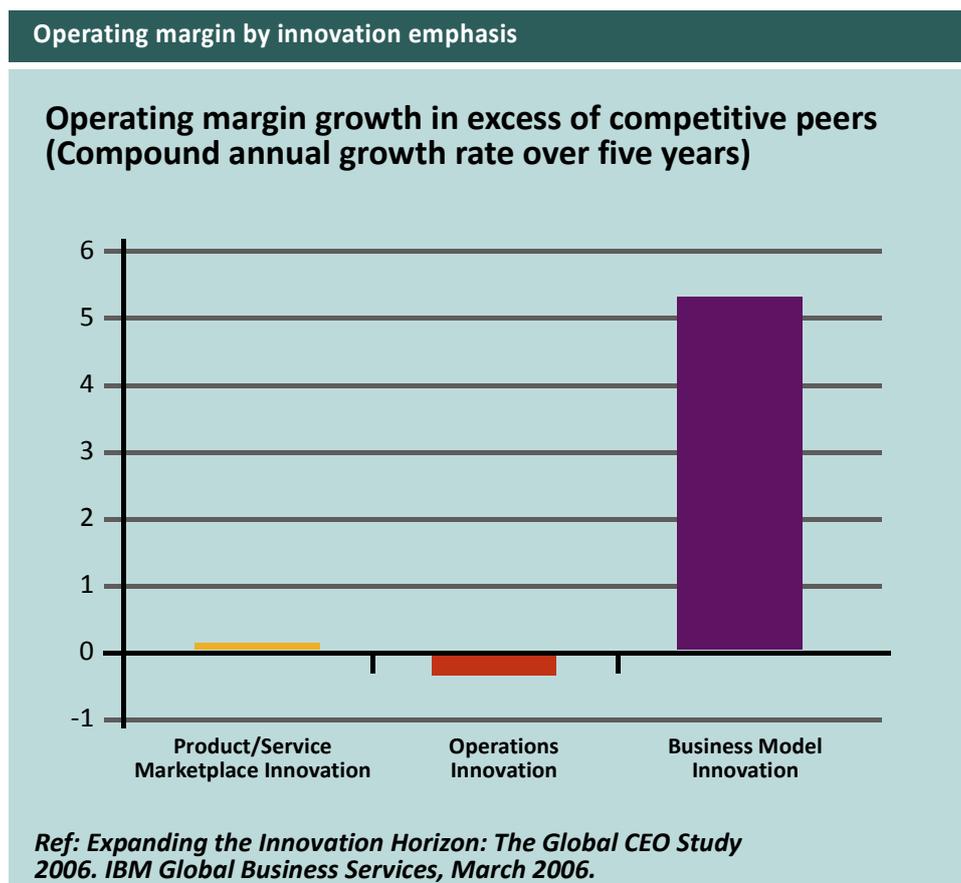
*Innovation isn't just confined to commercialization of new products. It can also build upon creative new practices, processes, relationships, or business models, and even institutional innovations such as open-source computing -- invention occurs in all these domains. And while breakthrough innovations can generate significant economic value, sustaining that value requires a capacity for continual incremental innovations.”*

This really reflects what is going on in our part of the world and it has little to do with the traditional factors that we consider like distance from market and access to resources. It is about our particular

approach to innovation or R&D, one part of which we are world class at and one part that we aren't. Broadening the approach to innovation and helping businesses convert more of their inventiveness and creativity into optimal commercial outcomes is at the heart of *Forté Management's* work and expertise in innovation and national culture.

The chart below is reproduced from *"Expanding the Innovation Horizon: The Global CEO Study 2006 by IBM Global Business Services"*. Although this study focused on electronics companies, the messages warrant close consideration since electronics have rapidly gone down a familiar commoditisation pathway. In New Zealand we have focused the great majority of our innovation on operations innovation in the pursuit of "driving out cost". The findings of the study provide us with a strong pointer that to harvest the optimum returns from what we have achieved in operational efficiencies we should not be looking to business model innovation. That always sounds a bit scary but many businesses are already embracing this idea.

An obvious starting point is to look at how your business engages with your customers and distributes your products and services to them. In the past using an intermediary – a distributor or agent – worked well but we find now that to optimise profit, firms need more control over their relationships with customers to properly manage their brand, communications and especially feedback. In other words, taking control of (owning or managing) your distribution and communication channels is increasingly a priority.



## **Innovation and culture – how understanding the Kiwi mind set and our customers can open the door to improved productivity, profit and prosperity**

There are strong correlations between economic development and innovation. As such there is nothing of greater consequence to the nation's prosperity than innovation performance and in particular the ability to extract optimum outcomes from innovation efforts and investments. Kiwis have to work half as long again as Aussies to create the same amount of value. That just isn't right – and it's way past time we were doing something about it.

New Zealand's productivity and prosperity indicators remain weak and one of the reasons is that we struggle to convert our strengths in invention and creativity into optimal commercial outcomes. There are lots of reasons why this is so and one is how we think about and practise innovation and engagement with our customers. We are very good at the early invention and creativity part – amongst the best in the world. But when it comes to the part where we create and harvest value we need to build some new strengths to properly benefit from what we are already good at. We do the hard work but too often others harvest much of our value.

*Forté Management's* innovation and culture work provides businesses with tools to help understand customers better and create value that often currently slips through our fingers.

This brief, fully referenced technical report that sets out *Forté Management's* innovation and national culture findings and conclusions is available from the [Forté website](#).

## **BIG R little d – why research doesn't always turn into development**

Tony Smale recently presented a well received dinner address at the Australasian Industrial Research Group Summer Conference in Melbourne. [In the address Tony illustrated how even the small cultural differences between Kiwis and Australians can influence the conversion of research into commercially successful developments.](#)

National culture is surprisingly influential in moderating the “software of the mind” that we all use to make sense of the world around us. It influences how we interpret facts and figures, how we manage staff and make decisions. It influences things like assertiveness, how we relate to other people and whether we prefer individual adventure and discovery over group activities. It is remarkably influential and almost entirely neglected in its impact on innovation outcomes. National culture determines whether a culture/nation has a bias towards the initiation part of the innovation process (creativity, invention, discovery - research), the implementation stage (development) where productivity, profitability and prosperity are created and harvested, or a balance between the two stages.

Different cognition, behaviour, institutions and resources are necessary to optimise performance of the two parts of the innovation process. It is rare for planners, managers and policy makers to make such clear distinctions, and especially to consider the influence of cognition and behaviour and how greatly that varies in such important ways from nation to nation.

Tony hypothesises that the correlation between initiation and implementation tendencies and economic performance is curvilinear. Therefore there is an optimum performance zone between extreme initiation and extreme implementation biases. Nations and firms within the “zone” have a

greater likelihood of deriving optimised economic performance from their innovation efforts than those with a bias to initiation or implementation.

Nations and firms therefore face a choice in developing their innovation policies and strategies. New Zealand for instance has traditionally applied a “vertical” strategy. By increasing its already strong initiation capability even further, it has assumed that the natural inclination of entrepreneurs and market forces will automatically transform the increased flow of ideas, products and processes into optimal economic outcomes. There is however, contrary to economic theory, evidence of a pattern of cognition and behaviour that results in sub-optimal economic outcomes.

China by contrast is showing every sign of applying “horizontal” policies and strategies. Having appreciated that it now has implementation capability and capacity in excess of its initiation capability, in other words it has moved outside of the optimum performance zone, it appears to be repositioning itself into the optimum performance zone.

By understanding the different needs of the two stages of the innovation process, and understanding our own natural culturally moderated cognition and behaviour, the conversion of initiation into implementation can be optimised.

### **Intellectual assets – what every director, manager and entrepreneur should know**

All around New Zealand and Australia there are businesses with ideas and designs just crying out to be turned into value. We know of one firm with eight patented, highly commercial designs but developing them is not core business and the pathways to market are not obvious for them, so despite the investment that has been made and the potential on offer, the latent value sits there untapped. For most businesses the potential value in their intellectual assets is much less obvious but no less real. The *Forté Management Six Step Intellectual Assets Management Plan* is specifically designed to get firms started on the pathway to identifying and realising that value by managing the assets to improve performance and develop them to create new revenue and profit channels.

Intellectual or intangible assets are all the business’s ideas and plans, customer databases and relationships, knowledge and expertise, production processes and quality systems, designs and design capability, brands and reputation, inventions, and know-how as well as registered IP like patents and trademarks. Unlike tangible assets that wear out and depreciate with time and use, intellectual assets grow in value the more they are used. According to Standard and Poors and Intellectual Assets Magazine, by 2006, intellectual assets made up 80% or more of firms value.

By recognising and managing the intellectual assets firms have new ways to optimise performance and where appropriate, develop and create new revenue and profit streams. Because a great deal of our cleverness and inventiveness has been used to drive efficiency, we end up embedding high value intellectual assets into comparatively low value goods and services, and despite our investments, we fail to optimise the harvest of the value inherent in our systems, processes and developments. Sometimes those systems and processes we use to produce the goods and services may be worth more than the goods and services themselves. Worse than not harvesting optimum value, all too often we give away our intellectual assets because we don’t recognise their value.

Let’s look at an example. We are all driving towards sustainable business, whether by choice or because of demands from our distribution channels and customers. We generally see that as a cost. We have to develop new processes to reduce waste and especially reduce carbon emissions. But there’s a huge opportunity here too. Al Gore understood that when he visited NZ in November 2007.

*“If New Zealand followed through on its pledge to become carbon neutral and every business in every sector searched for new approaches to accomplish that goal, they would find the world beating a path to their door to license the new processes and innovations involved.”*

In other words – while the “bread and butter” value is in the sustainable goods and services, the “icing on the cake” lies in the systems and methods that we would use to produce them.

If we can adopt this new approach to creating value we will reveal immense opportunities for businesses, sectors and the economy as a whole that we are currently letting slip through our fingers.

When intellectual assets are identified and managed these benefits are on offer:

- Performance – productivity and profitability is enhanced when the 80% of the firm’s assets are specifically managed for optimum performance as part of the business strategy.
- Risk is reduced – the vulnerability and criticality of the assets to loss or degradation is identified and the assets managed accordingly.
- Competitive performance is protected by securing the intellectual assets whether through formal registration like patents or the use of instruments like non-disclosure clauses to protect industrial secrets.
- New revenue and profit streams can be created by developing and licensing, joint venturing , selling etc.

