INVISIBLE ADVANTAGE

How Intangibles Are Driving Business Performance

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The Web site for this book is at www.invisibleadvantage.com.

MAIN IDEA

Intangibles – like brand equity, the ability to execute a chosen strategy, reputation and know-how – don't show up on your firm's financial statements and yet they are already transforming both the way you do business and the way investors value your company. Therefore, how you manage a business in the future should also change to reflect the increasing importance of intangibles. Or to be more specific, the means by which value will be created in the future has shifted dramatically from the tangibles to the intangibles as the key generators of future growth. Therefore, instead of treating intangibles as a by-product of whatever else you do, it makes good sense to start actively managing your intangibles to create future growth opportunities.

Why bother? Numerous studies have found that already, about one-third of your company's current market value is attributable to intangibles which you probably don't even presently measure, disclose or even attempt to manage. That proportion is likely to go up even more in the future as the "Intangibles Economy" gathers momentum. Therefore, if you fail to take an active role in managing your business's intangibles, you essentially abdicate control to the marketplace.

Equally important, however, is the fact a competitive marketplace advantage built on intangibles can be exceptionally difficult for your competitors to emulate. In this regard, a competitive advantage built on intangibles is invisible – competitors aren't exactly certain precisely what they need to do to match it. Thus, the more you can strengthen and build your intangibles, the harder you make it for others to understand what you're doing and to attempt to do likewise.

"If a company faces constant competition, after all, what does it have to fall back on? Size alone isn't enough. Physical assets – factories, stores, equipment – can help, but only until someone changes the rules of the game. Financial strength is always a plus, but it doesn't necessarily translate into competitive advantage. The major players in the global economy don't suffer from lack of access to resources. Thanks to the venture capital market, even upstarts are likely to have plenty of cash at their disposal. What companies can fall back on are precisely those assets and competencies that are hardest for competitors to emulate: an ability to innovate – to come out regularly with new products and services; adaptability, or the ability to turn on a dime as market conditions change; dedicated, loyal, well-trained employees, along with leaders who are capable of inspiring them; a powerful brand (as important now as ever); a sterling reputation (more important than ever); and systems – information systems, production systems, service-delivery systems – that can provide customers what they want when they want it, with a bare minimum of problems or delays. The key sources of value creation have shifted from the tangible to the intangible."

– Jonathan Low and Pam Kalafut

Over the last 25-years, business intangibles have become much more valuable. Today, intangibles impact on everything from investment decisions through to IPOs. As a result, many of today's most successful companies have an invisible competitive advantage which cannot readily be duplicated by competitors.

The Twelve Drivers of the Intangible Economy	Leadership	1	Business leadership
		2	The firm's ability to execute its strategy
		3	Transparency and communications
	Relationships	4	Brand equity
		5	The firm's reputation
		6	Networks, partnerships & alliances
	Inside the Company	7	Technology and processes
		8	Human capital
		9	Workplace culture & organization
		10	Innovation
		11	Intellectual capital
		12	Corporate adaptability

The main challenge for any business today is to understand what intangible assets it possesses and then to utilize those assets effectively in deriving and maintaining an invisible advantage over everyone else.