



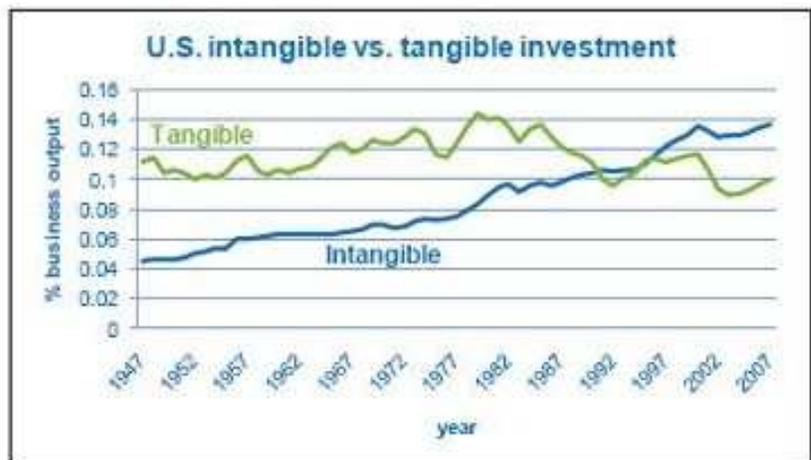
Why Intangibles Matter Now

Is there a tangible asset that you can buy today to give your company a competitive or a collaborative advantage? Probably not. Buying a building or a piece of equipment may be necessary to your ability to grow and compete. But this kind of tangible asset is far from sufficient to ensure the success of the venture.

In the not-so-recent past, control of hard assets was critical to the creation of wealth. Rockefeller had oil. Ford had factories. But the rise of computing, the internet and now social technologies has dramatically shifted the balance. Today organizations succeed by marshalling the assets that have traditionally been considered as secondary, soft and hard to define. Things like smart people, good processes, big data, unique designs, strong networks, engaged cultures and creative business models.

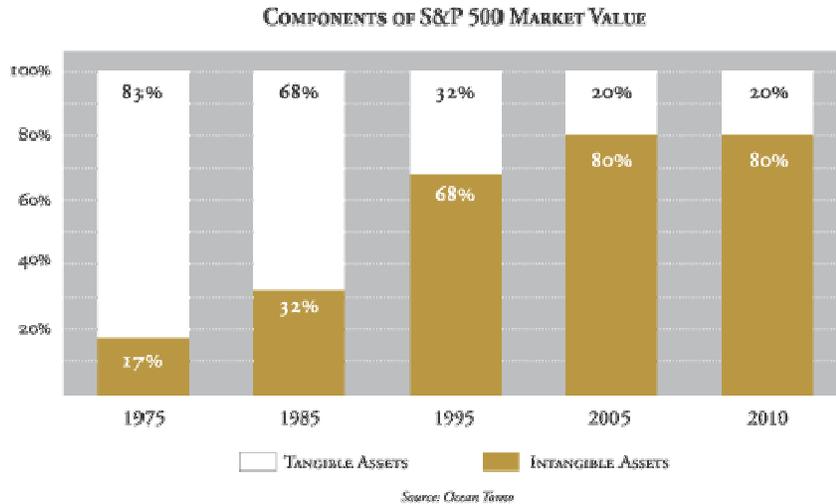
Traditional business and accounting practices call these resources “intangible,” implying that they are hard to see and harder to measure. This is a dangerous fallacy that blinds the business community and society. And it prevents people from facing the facts.

The fact that spending on intangibles by American corporations grows every year and has exceeded their spending on tangibles for over 20 years. The fact that the tangible net worth of the average public company represents just 20% of its total corporate value. The fact that 50% of the average merger is booked to an undefined catchall category called “goodwill,” hiding the true sources of value in companies.

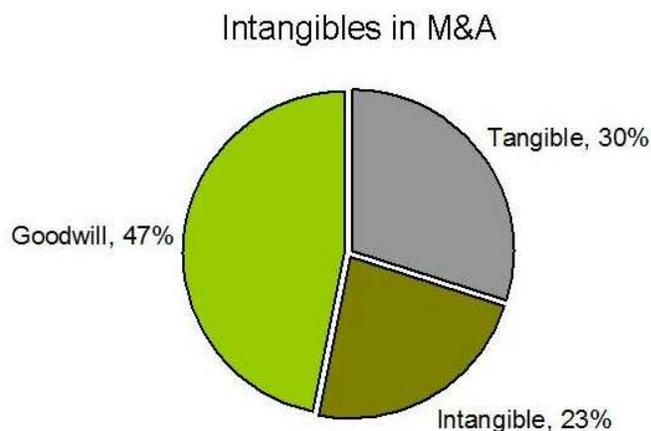


Source: Corrado and Hulten (2010)

Spending on intangibles is very real. And it's built a powerful infrastructure of collaborative knowledge that actually has a very long life. What are the longest-lived assets of a company like Federal Express? Not the planes and trucks and scanners that are replaced on a regular basis. It's the data and knowledge and processes the company has built over decades that enables them to do what they do and, if they are well-managed, to get better at it every day. The same logic applies in almost every industry in our economy. Services and technologies are clearly about people and knowledge. But even manufacturing today is about systems and processes much more than machines. Traditional resources businesses are about conservation and/or finding new sources of energy. Retail is about creativity and aggressive execution using real-time data.



The collaborative computing and communication technologies driving these changes enable organizations of all sizes to take on new challenges and opportunities for innovation. The frontiers of innovation today are less about what you do and more about *how you do it*. The big challenge today, for example, is not just to feed people but to feed them in a healthy, sustainable way. It's not just to clothe and house them but to do it in a fulfilling and sustainable way. It's not just to treat disease but to create healthy people. It's not just to provide the fastest transportation but to do it in an affordable sustainable way. It's not just about selling a product or a service but creating an experience that is pleasing and satisfying. There are countless frontiers for every business and organization begging for continued innovation.

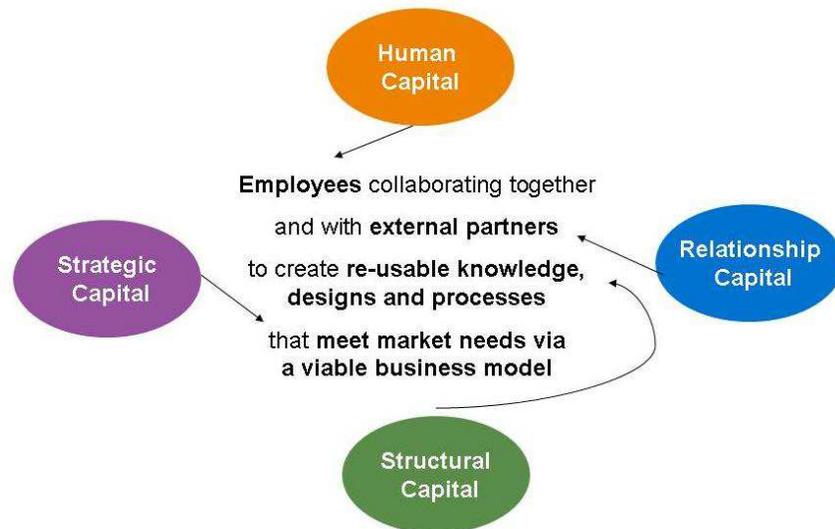


E&Y: *Acquisition Accounting – What's Next for You?* (data from 2007)

And more people are paying attention to *how you do what you do*. Because collaborative computing and communication technologies distribute power. Small companies can disrupt and change markets just as empowered citizens are now able to change governments. And the technologies are flipping the traditional view of marketing on its head. Your brand and reputation are out of your control if you think that what you say is more important than what you do. Empowered consumers, employees and citizens will create your reputation for you based on their experience of your organization. They will hold you to a higher standard than ever and push you to improve in ways that you may never have considered.

Can you face these challenges and create new innovations by buying machines? Sometimes, but most of the time it will be by gathering the right combination of people, data, knowledge and networks to fulfill a worthy and profitable purpose. These “intangibles” are critical to the future success and prosperity of companies, communities and countries. So we at Smarter-Companies believe that it’s past time that the business community embrace ways to identify, measure and optimize intangibles.

Businesses need to be able to talk about their intangibles when they go to a bank or an investor. Leaders need more than a balance sheet to track their infrastructure. Marketers need more than fancy slogans to connect with stakeholders. Employees need more than orders to engage with your organization. Everyone in organizations needs to have a shared understanding of what they have, how it works and how to make it better.



Why do intangibles matter now? Because they are the foundation of our collective prosperity. Markets have changed and value creation has shifted to the intangibles. They are key to achieving growth, optimizing performance and increasing your corporate valuation. And because how you manage your intangibles influences your reputation, the awareness of your brand and the strength of your relationships with your customers, partners and employees.

What we propose is simple.

1. To promulgate simple open source methodologies that empower individuals in organizations to discover and label the critical intangibles that drive their shared success.
2. To develop ways to measure and monitor these resources.
3. To hold each other accountable to improve the value that can be created together from the intangibles.
4. To work together to apply our collaborative knowledge to create a better future for ourselves, our families and our communities.

[Smarter Companies](#), supports this movement with a series of open source tools that are available on our website as well as with conversations with a world-wide community of IC practitioners. An easy way to get started is the ICounts Index, an open source methodology that helps you quickly illustrate the relative importance of intangibles to your own or a client's business. Try the on-line social version [here](#) for free.

For those who are interested, we also offer a three step ICounts Graphs process for the identification, measurement and optimization of intangibles based on the work of founder Mary

Adams over the last decade. This proprietary tool enables our ICountant partners to help companies see and manage their intangible capital more effectively. To see a sample ICounts report go [here](#).



Leave the tangible, industrial economy behind and move into the future with confidence, ready to drive a new era of innovation. For more ideas on how to identify, measure and optimize intangible capital, join the conversation at www.smarter-companies.com