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FINANCE & MANAGEMENT

“MARKETING COMMUNICATIONS SHOULDN’T HAVE TO INTERRUPT YOUR DAY” PAGE 32

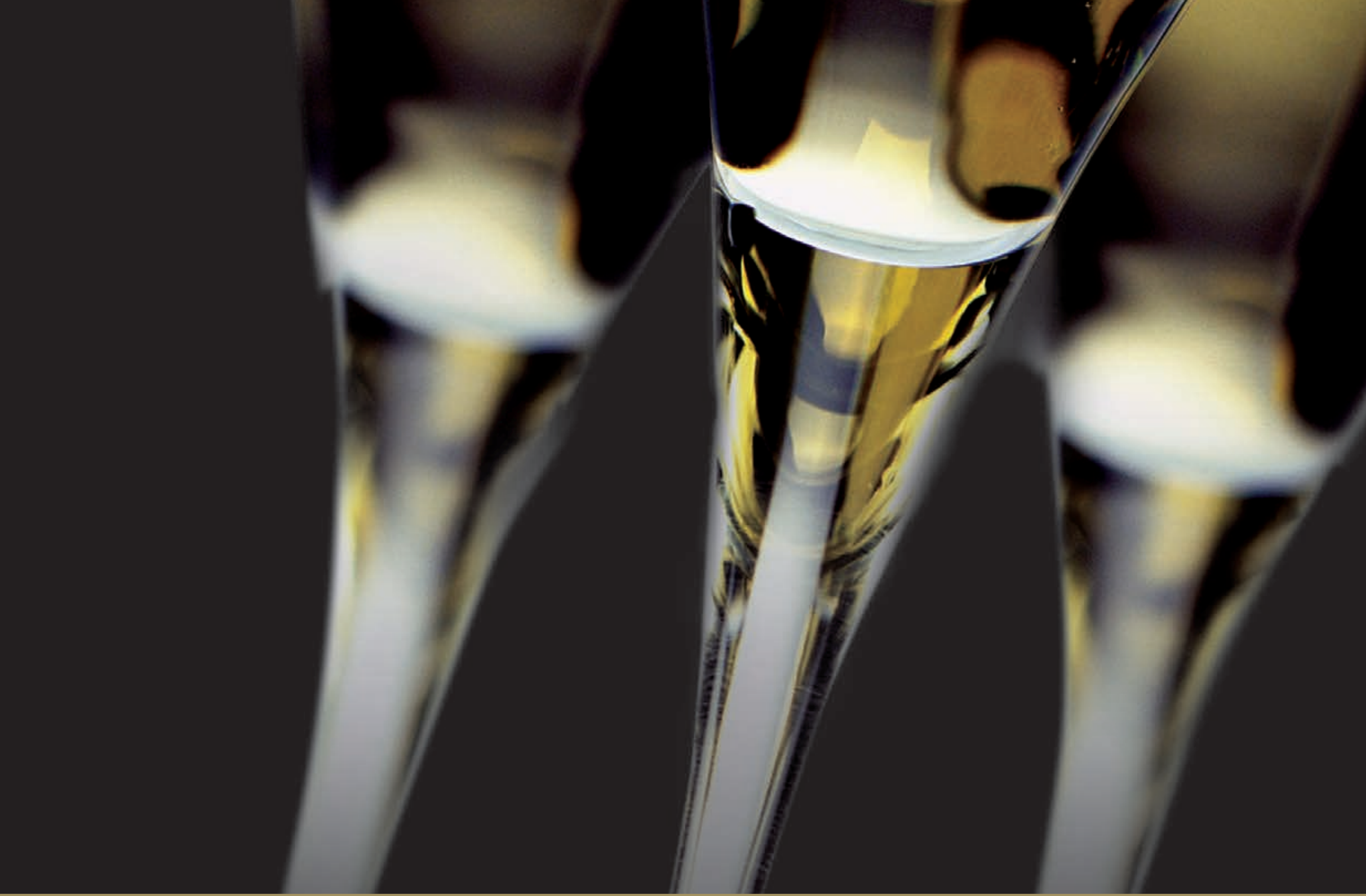
Getting the story straight

Making performance measures make sense

PE to PE review
Secondary buyouts: exit and investment strategy

Matching the manipulators
Tips to help CFOs stand their ground

Export and grow
Covering the ground for selling abroad



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"Budget time is a tough time for finance teams. It's a recipe for conflict"

Pamela Milne is director of Solutions Unlimited

COVER: DAN MURRELL. ELLY WALTON/IKON IMAGES

Business talk and a fond farewell

I hope you enjoy this month's magazine, covering a spectrum of articles from defusing conflict in budget-setting meetings to looking at expansion through export sales. Our cover story "Tales of the expected" (pages 16-19) should sound familiar to most of you

as David Baines explores the notion of the "business story". Understanding how they fit into the bigger picture should make budget holders more amenable to downward revisions.

Personally, I found that some budget holders seem to relish the conflict potential with finance and made the budget-setting meeting onerous and sometimes hostile. In "Stand your ground" (pages 20-22) Pamela Milne suggests a strategic approach to defuse aggressive situations, although her scenario with the FD taking on the CEO might not be one that you wish to emulate.

Business expansion and breaking into new territory are the themes for John Westwood and Alan Mitchell. "How does your business grow?" (pages 24-27) deals with generating sales abroad and breaking into new markets overseas and Alan Mitchell offers some thoughts on adopting innovative, targeted approaches to marketing in "The new marketing game" (pages 32-34). "Secondary thoughts" (pages 11-13), by John Gilligan and Mark Garratt, introduces secondary private equity buy-outs, a rising trend, offering an exit to the initial investor looking to sell.

The Finance & Management Faculty is keen to hear from you with your thoughts. Please email me at robert.russell@icaew.com with any feedback, positive or negative; I'm hoping that I won't have to resort to Pamela Milne's techniques. Have a great month.

From fact to fiction

And on a poignant note, just over a year since taking over as acting head of the Finance & Management Faculty and six years since starting as technical manager, Emma Riddell is leaving ICAEW to study full-time for her MA in creative writing.

Emma has relaunched the magazine and set the course for the establishment of new Finance & Management Faculty services from 2013. We'll miss her gentle and wise counsel and wish her the very best with her new career path. We are looking forward to reading her first novel.

Robert Russell
Technical Manager

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For information about forthcoming faculty events, please visit icaew.com/fmevents. Highlights of events can also be found within this mailing. For all enquiries contact the events booking line on +44 (0)1908 248 159.

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From the faculty

TOP LINKEDIN THREADS

- Implementing Finance Change and Transformation
- Lean Thinking: Special Report 38
- Basic business maths – off the rails?

To enter the debate join our group – ICAEW Finance & Management Faculty at linkedin.com

SPREADSHEET ERROR

Rumour has it that inflation and passenger number forecast errors were to blame for the failed bidding process for the West Coast Main Line rail franchise contract. This resulted in a minimum £40m reimbursement of costs to the tenderers. We understand this is being blamed on a spreadsheet error. Do you have any interesting stories about Excel bloopers? We'd love to hear from you. Anonymity is guaranteed. Please email **robert.russell@icaew.com**

MEMBERSHIP BENEFITS

We want you to have access to the best-value Continuing Professional Development and services to help your career. Annual membership of the Finance & Management Faculty includes:

- Monthly magazine
- Four in-depth special reports
- Free online access to archived articles and reports
- Discounts on regular events
- Opportunity to network with your peers through our LinkedIn groups
- Women in Finance Network
- Opportunity to be part of our thought leadership programme
- Webcasts available on demand.

The more accountants in business who join the Finance & Management Faculty, the more value all of us gain from it.

Please go to **icaew.com/fmjoin** if you are interested in becoming a member or contact Caroline Wigham on **020 7920 8508**.

Please contact our client relationship manager on **020 7920 8659** if you are interested in our enhanced corporate membership scheme.

GLOBAL BUSINESS LEADERS

London and New York have been jointly allocated the top slot in PwC's annual analysis of 27 cities across the world in which to conduct business. In *Cities of Opportunity 2012*, published last month, London gained points for its strengths in economic clout, ease of doing business and convenient location, as well as for being a city of cultural vibrancy, intellectual capital and innovation. Intriguingly it is also seen as having a strong transportation network and infrastructure.

The report predicts that London will remain the best of the 27 cities until at least 2025, with strong continued growth in business services, although it predicts New York will overtake London for financial services. Readers of the report should note that business development body Partnership for New York City is a co-sponsor.
More information and full report **pwc.com/us/en/index.jhtml**

FRANK OPINIONS OF HR

Out of 418 global executives surveyed, 83% think HR has failed to keep pace with the changing nature of workplaces and is unable to manage a global workforce. According to *Rethinking HR for a Changing World*, published, at the end of September 2012, by KPMG and the Economist Intelligence Unit, HR has "wasted the past 20 years", failed to demonstrate its business value and will itself become redundant unless it can meet the challenges of today's business environment.

Some 31% of respondents said that HR would require more investment before 2015.
tinyurl.com/ccs6pjf

INFLATION CONSULTATION

You have until 30 November to respond to the government's consultation on how inflation is measured.

The Office for National Statistics is consulting on changes to the way that the Retail Prices Index (RPI) is calculated. It is keen to harmonise the methodology of calculating the RPI and the Consumers Prices Index (CPI).

There are also some great formulae in the appendices for any statisticians and mathematicians among you.
tinyurl.com/9f38z5r

Events

CHRISTOPHER FIELDS

The price of all events is £29.25 for Finance & Management Faculty members; £43.88 for other ICAEW members and £58.50 for those who are not members of either, unless otherwise stated.

FORECASTING IN UNCERTAIN TIMES – A STARRING ROLE FOR FINANCE?
CHARTERED ACCOUNTANTS' HALL, LONDON

19 November 2012, 17.30 – 19.00

We live in scarily uncertain times: Will the Euro collapse? Will the USA trip over its fiscal cliff? Will China's growth falter? It all makes forecasting more important, but more difficult.

David Baines, director of Freeman Baines Consulting, will describe a range of simple techniques that go beyond mere guesswork and can significantly improve the accuracy of your forecasts. This session will allow you to consider your own forecasting approaches and see if you can apply some of the ideas that David puts forward.

More information and online booking: icaew.com/fmfnovevent

WOMEN IN FINANCE NETWORK: HOW TO BUILD A WINNING CV BASED ON SKILLS
CHARTERED ACCOUNTANTS' HALL, LONDON

27 November 2012, 17.30 – 20.00

Nathalie Metcalf and Vanessa Sadler draw on their years of experience working with Senior Executives to run this interactive workshop. You will be introduced to a number of approaches to writing your Curriculum Vitae, including the very successful skills-based approach. Not only will this help you land your next job, it will also give you more focus when interviewing candidates and assist in developing a career profile useful for networking. Bring along your CV and get feedback on the perception it creates in the mind of the reader.

More information and online booking at icaew.com/wifnovevent

FINANCIAL MODELLING IN UNCERTAIN TIMES
CHARTERED ACCOUNTANTS' HALL, LONDON

5 December 2012, 08.30 – 10.00

John Tennent returns to present a topic that has proved very popular recently both at a previous talk to our Faculty and the IT Faculty. He presents a clear and structured approach to building robust models that can effectively support decision evaluation.

The talk will include: What defines a robust business model? The difference between believing and trusting the results; How to structure a dynamic model; The role of Monte Carlo analysis in evaluating scenarios; Using dependency ranking to evaluate the critical assumptions. John will round off with some great Excel tips and tricks to improve your business models.

More information and online booking at icaew.com/fmfdecevent

BOOSTING FINANCE FOR BUSINESS EXPANSION
CHARTERED ACCOUNTANTS' HALL, LONDON

6 December 2012, 08.15 – 12.30

Price: £60 for faculty members; £90 for ICAEW members and £120 for others.

Raising capital to fuel business growth and expansion remains among the biggest challenges faced by those running UK companies in a tough financial and commercial environment. What alternatives to traditional bank debt are likely to emerge for companies in 2013? What have business angels, venture capital investors, crowd funders, private equity specialists and asset-based leaders got to offer UK Plc and UK Ltd?

This special morning forum held jointly with the Corporate Finance Faculty brings together company directors, advisers and financiers to focus on practical ways of raising finance for early-stage right through to established businesses.

More information and online booking at icaew.com/boostingfinance

SOLD OUT

CLARITY AND IMPACT FOR FINANCE PROFESSIONALS
CHARTERED INSURANCE INSTITUTE, LONDON

21 November 2012, 09.00-16.30

Price: £360 for faculty members

Imagine writing documents that have clarity and impact that people praise and envy, and that win new business or impress the board. Chartered accountant Jon Moon will help you transform your work, from notes and reports to information packs and slides, by focusing on key elements: "Words in Tables" (an alternative to bullet points that has three times the impact), graphs and layout.

More information and online booking: icaew.com/fmfclarityeventnov

Break on through...

September's Women in Finance meeting heard from four experts on breaking through the glass ceiling. The secret, said the headhunters, is self-confidence. **Richard Young** reports

As a way to end a relationship it's perhaps rather clichéd:"It's not you; it's me." But for many women finance executives, it's a phrase probably not spoken enough. That was one conclusion of speakers at September's Women in Finance (WIF) event at Chartered Accountants' Hall. The event left members in no doubt: if you don't value your contribution or you undersell yourself, you shouldn't be surprised if senior roles don't come your way.

The event, sponsored as usual by Oracle, included presentations covering access to non-executive roles, senior finance appointments, interim work and positions at not-for-profit organisations. But each headhunter stressed that an ability to project yourself is a must-have quality in today's competitive environment for the top finance roles.

ON PAPER, IN PERSON

"Self-belief is key," said Sally Springbett, director of headhunters Sapphire Partners. "The lack of it affects so many important aspects of career development. For example, we see too many women who produce a very generic CV. In person, they will talk about their achievements – but they're too often loathe to commit them to paper. We need to be proud of those achievements. That's how you open doors."

One solution, she said, is to prepare your CV when you're feeling energetic and confident. "It's a document that should be updated constantly too," she added. "If you do something you feel really great about at work, that's the time to include it on your CV."

Even with a self-confident CV, you can't neglect the impression you must make face to face. Finance today is as much about projection as technical competence. That's particularly true in the not-for-profit (NFP) sector, as Rob Hayter, director at TPP Not for Profit, explained.

"Empathy and passion for the cause are also valuable in NFPs where there's likely to be a higher expectation of the FD going out on 'sales' visits with major donors, for example," he said. "But internally that empathy is also vital. You have multiple stakeholders, so being able to build alliances and foster collaboration is key."

Women have an opportunity here to exploit the stereotypes, Hayter added. "It's hugely advantageous if you can bring an open and engaging personality to bear – which is something people expect more from women than from men. So you can play to those prejudices," he said.

NETWORK, NETWORK, NETWORK

Showing your outgoing side at interview and in post is important. But that personal touch has to be evident in your job search too. Women who want the best finance roles have to be great at networking.

"WIF exists because there is still a glass ceiling for many women in finance," said the WIF network's co-chair, Helen Stevens, at the start of the evening. "It's a challenge to network in ways that develop the top opportunities. In any case people within the finance discipline probably have fewer opportunities to network than other types of executive."

Many of the WIF delegates asked about networking tactics in the breakout consulting sessions after the main presentations. But there was plenty of broad advice for women finance executives from the podium too.

"It's better to have five contacts who think you're brilliant than 50 who don't really know your areas of expertise or are lukewarm about you," said interim management expert Pamela Butler, director of Balanced People.

"It's vital to raise your profile, both inside your business and outside it," added Springbett. "Blow your own trumpet – loud and proud. It's never a mistake to be seen at networking events. And don't be shy about taking up speaker engagements and media interviews."

> "If you do something you feel really great about at work, that's the time to include it on your CV"

GET THE RIGHT EXPERIENCE

Whether it's a talking point on your CV or within your network, the secret to catching the attention of headhunters and employers is interesting experience.

"There's a huge advantage in having some clear career objectives and a plan for

Tips to the top: Headhunters agree - project yourself and your achievements, and develop a plan to get there

SOPHIA SCHORR-KON

> "Work with your employer or board colleagues to structure your role to deliver diversity of experience"

reaching them," said Boyden partner Simon Bailey. "Of course your plan and even your goal will evolve over time and could move in some surprising directions. But we definitely see more success for candidates who at least have a plan to begin with."

Bailey gave an example: "You might want to be CFO of a quoted company. That will demand some clear experiences – working in a business unit outside finance, supporting an MD, getting group-level exposure and probably working overseas. You'll also need to gain experience managing external stakeholders.

"But many accountants can find they do great work purely inside their own business or function – and it's really hard to overcome that lack of experience later in your career," said Bailey.

"Career planning, then, is about actively engineering those moves and gaining those experiences. And don't forget to do it regularly. Every three years, ideally, you'll make either an internal or external change to gain that incremental experience. Try to move outside your comfort zone too."

His big tip was to work with your employer or your board colleagues to structure your role in a way that delivers that diversity of experience. Asking for a move within the business – perhaps to shift or add responsibilities – is not a bad thing. You simply need a self-belief and an understanding of your own capabilities.

THE MARKET

Speakers were frank about the jobs market. There are fewer moves happening right now, partly thanks to the sluggish economy. So are there any bright points for women seeking top jobs?

"We've all seen the media coverage of the Davies report and the pressure to get more women on boards," said Springbett. "But it's a hugely competitive marketplace out there. We know one successful woman who spent nearly two years and was on 81 shortlists before she landed her first non-executive director (NED) position. So it pays to be patient as well as determined."

In the NFP sector, nervousness about the typical FD might help women candidates – even if the same problems with churn are limiting openings. "The average charity FD is male, 49 years old, Caucasian, has five years in-post and 11 years in the sector," said Hayter. "So women looking to break into NFP can really take advantage of the preconceptions that exist. There's a real opportunity to freshen up that image."

There's better news for interims. "UK businesses are certainly hiring more interims – we reckon about half of all businesses are looking at it. Finance, HR and IT are the most sought-after disciplines," said Butler.

But she pointed out that many of the prerequisites for successful interim work tend to run against the traditional imperatives for women executives. "There is a need for flexibility – around how, when and where you're prepared to work," Butler explained. "Many assignments, often the ones that are best for your profile or experience, can be pretty far-flung."

GET STUCK IN

A mixed bag then: some good news for women who are prepared to project themselves, but less positive on the general market for senior roles. Is there a way for women to cut through to the top jobs, to gain essential experience, raise their profile and exploit the trend for female board appointments more quickly?

"You have to be realistic, especially about non-executive roles," said Springbett. "We could all probably sit on an audit committee and be effective. But your journey definitely will not start as a NED at an FTSE 100 company. For example, a good way of starting out is taking a trusteeship of a local charity – or perhaps on a subsidiary board. That will build confidence both in your ability to add value and in how you can sell yourself."

Hayter agreed. "Although the market is slow, the sector is taking seriously the current push to get more women on boards," he said. "So it's worth applying for roles that are a stretch. You never know. At the same time, 40% of UK charities have vacancies for trustees, so there are plenty of openings to gain that board-level experience in the sector."

A reminder that starting from October 2012, all employers must enrol eligible workers into a qualifying workplace pension scheme. The date you have to do this by depends on the size of your company, but to give yourself time to prepare, visit The Pensions Regulator at **www.tpr.gov.uk/actnow** where you'll find out all you need to know.

Workplace pensions. We're all in.

automatic enrolment

The Pensions Regulator

Department for Work & Pensions

Secondary thoughts

GETTY IMAGES

The management buy-out was a success. But time has passed. Your PE investor wants an exit; perhaps your business needs new funding for growth. A secondary buy-out could be a good option – and not just because trade M&A and IPOs are in the doldrums. **John Gilligan** offers a basic guide, while **Mark Garratt** describes his own experience

A secondary buy-out is a transaction where one private equity (PE) fund acquires a business owned by another PE fund, rather than from a private investor, taking a company off the public markets or carving out a division of a group, for example.

HOW COMMON ARE THEY?

The data shows that while the dislocation of the banking crisis caused the overall buy-out market value to fall dramatically, secondary buy-outs have been increasing as a proportion of that market, recently accounting for a significantly increased proportion of transactions (see figure 1 overleaf). The pattern is similar (by value) for primary when compared to secondary investments. Secondary transactions account for a significant proportion of the total. The number of secondary deals has been rising and 25-30% of all buy-outs are now transactions between PE houses (as shown in figure 2 overleaf).

There are two explanations for the rise in secondary buy-outs. Cynics hint that they are "exits of last resort". A 10-year PE fund is typically designed to invest for five to six years and then harvest for five to six years, thus forcing a two-year extension option. As the fund approaches its end, the pressure to sell increases; if no trade buyers are out there and a flotation isn't possible, a secondary buy-out allows it to crystallise its investment.

The less cynical analysis? There is an ongoing debate as to whether the private equity model is just shock therapy for underperforming companies, or a long-term corporate governance structure that can generate superior outcomes. If it's the former, traditional thinking says a buy-out should work only once. If the latter, there are benefits to be gained from secondary buy-outs.

WHAT ISSUES ARISE FOR MANAGEMENT?

There are four major issues for those management teams considering secondary buy-outs.

You need advisers who have done this before – many times. The rules are constantly changing

1. Conflicts of interest
For existing equity holding managers there is an obvious conflict with both the sellers and the new investors. On the one hand you want the highest price for your current shares; on the other you want the lowest price as a re-investor.

2. Signals sent
Taking lots of cash out during a secondary deal signals a lack of commitment going forward. Leaving all the cash in the deal puts all your wealth at risk in a re-geared structure. Getting the balance right is both about economics and communication.

3. Changes in team and equity structure
Are the right people still holding the right incentives? If not, who do you need to bring into the equity and how are they going to be brought in? It is not unusual to see a mix of equity, loan-notes and cash used to rearrange the ultimate equity split between management team members.

4. Taxation
Tax needs careful planning early on in the process. HMRC tends to look very closely at secondary transactions to stop people using a deal to convert income into capital and reduce taxation. You need advisers who have done this before, many times. The rules, and what is deemed acceptable, are constantly changing.

EQUITY DECISIONS SPEAK VOLUMES

Your decisions can speak volumes in a secondary deal. Let's say I am a member of the management team, both selling and reinvesting some of my money. What do others conclude about my appetite and my expectations for the future, from these two – admittedly extreme – scenarios?

Scenario one: the equity value is £50m, and I want 90% in cash with 10% reinvested.

Scenario two: the equity value is £35m, and I want to reinvest all my proceeds.

Clearly in scenario one I think I can get a better return on my money elsewhere, since I am demanding a high proportion of cash. Why do I think that? Presumably because the deal is overpriced or too risky – or both.

If I want to reinvest everything, then the opposite applies: I see it as a great deal (for me) and want as much as I can get. All this is signalled simply by my preferences for cash or reinvestment.

TOP TIPS FOR SECONDARY BUY-OUT SUCCESS

1. Understand how a secondary deal will generate value. Don't do a deal just because you can.
2. Understand the motivations of the selling PE house – do they *want* to sell or are they being forced to by their fund structure? For example, could they remain with some on-going equity interest?
3. Secondary buy-outs might be common, but they are also intricate and "fiddly". Get experience around the table.
4. Get the maths right – nobody can do this sort of financial arithmetic in their head.
5. Get the tax right – understand early on what is possible.
6. Send clear messages – be aware of what other people may conclude from your actions.
7. Make sure equity is in the hands of the right people after the deal. There should never be any passengers in a buy-out.
8. Be nice to bankers – in this market they have the whip hand.
9. Beware of the "equity illusion". You don't necessarily get most money by having the largest equity stake. It depends what has to be paid off before the equity generates value – and you have to bear in mind factors such as loan stock that accumulates compound interest over the life of the deal. You can only spend money, not equity percentage points.

KEEP CALM, BE CLEAR

Secondary transactions are common today. The structuring issues should be well within the capability of any decent corporate financier worth his or her salt. The difficult pieces are the conflicts that need resolving. But a clear strategy, a calm and methodical approach to the financial arithmetic, an early tax clearance and some experience in the room usually get things done.

John Gilligan
is partner, corporate finance, PKF (UK) LLP, and co-author of ICAEW's *Private Equity Demystified: 2012 Update*, http://bit.ly/OIlZin
John.gilligan@uk.pkf.com

UK PE-BACKED DEALS: NEW VERSUS SECONDARY BUYOUTS BY VALUE

Figure 1

SECONDARY BUY-OUTS AS A % OF TOTAL PE BACKED DEALS (UK MARKET)

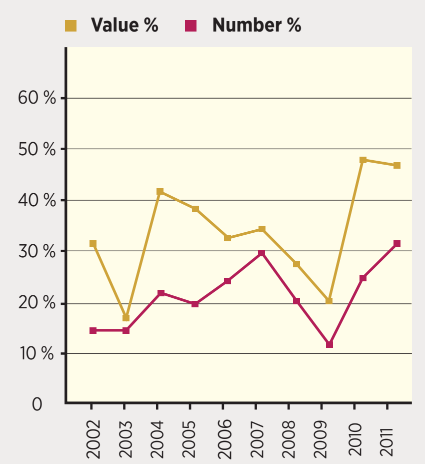


Figure 2

SOURCE: CMBOR/ERNST & YOUNG/EQUISTONE PARTNERS

NATIONAL FOSTERING AGENCY

Mark Garratt

Case study

In 2012 Graphite Capital acquired National Fostering Agency (NFA) from Sovereign Capital in a deal that included additional expansion capital. FD Mark Garratt (pictured right) explains how it went.

NFA was founded in 1996 to support local authorities facing increased demand for fostering. The business expanded from its original London base to become an established national provider. In 2006 the two founders wanted additional capital to expand the business further. Sovereign Capital was chosen for the initial MBO in December 2006. CEO Iain Anderson was appointed in May 2008 and put together a new management team over the next two years, with the founders stepping back into non-exec roles.

During the five years of Sovereign's ownership, the company developed strongly in a still-fragmented market, partly through acquisitions. It was clear that there was more opportunity to build and grow the group – if further funds could be raised. So the NFA board appointed NM Rothschild to act as adviser and kicked off a limited sale process focusing on mid-range PE firms.

This route was readily accepted by all parties for a number of reasons including: the scale of NFA itself; the lack of IPO interest in care businesses; the fact that potential trade buyers in the sector were still developing their strategies; and the potential for private equity investors to support bolt-on acquisitions, as well as fund organic growth and diversification.

THE RIGHT INVESTOR

Rothschilds worked with the board to review potential bidders and then offered one-to-one meetings with Iain Anderson. It was clear which PE houses were keen to proceed. This next stage involved management presentations; preparation of full vendor due diligence (DD); and establishment of a "virtual data room" (VDR) and draft legal documents for the sale.

Immerse yourself in all aspects of the business, you have to be able to answer any question

First-round bids were sought, then a selection of the highest went to a second round of management presentations and got access to the DD and VDR. After that, a preferred bidder was chosen based on the final bids. Graphite Capital was then granted a period of exclusivity in order to finalise its DD, confirm any "locked box" adjustments (a pricing mechanism commonly used in M&A transactions instead of a "completion accounts" mechanism), raise bank debt (move from term sheets to committed funds) and complete the legal documentation.

HOW WAS IT FOR US?

Considering the economic climate, the scarcity of banks willing to lend and the size of the company, it went extremely well – no key DD issues, no missing data and an excellent outcome achieved for both selling and buying PE houses. As a management team, we felt very happy with Graphite as the new partner – and very proud of all we had achieved with Sovereign.

The process did take a lot of management time and resources. But considering there was a PE house and the founders and a management team involved on the sell side, the fact that the whole transaction took less than six months is truly remarkable.

I learned you must ensure that you...

- Make time well in advance to review all the company's data and who is best placed to keep it updated.
- Immerse yourself in all aspects of the business, not just finance. There will be meetings where you're the only management representative, so you have to be able to answer any question reasonably well.
- Make certain all existing banking arrangement conditions are fully met and audits go smoothly.
- Have a detailed one-year (and fairly rigorous four-year) business plan.
- Remember: until the deal is done, your loyalty is to the current owners even though you are likely to be part of the management team for the secondary buy-out.
- Try to become involved in final bank negotiations at the preferred bidder stage, particularly on reporting requirements and covenants. You're going to have to live with them.

Key mistakes to avoid

- If you don't know something, don't guess or bluff. Admit, "I will need to check and get back to you." Then make sure you do.
- Don't fly solo. Get good advice – both for the company and you as management.
- Don't forget the day job. The quality of financial reporting and business performance needs to stay high, and "business as usual" be maintained.

Mark Garratt
is FD of NFA. He is also a former faculty committee member, mgarratt@nfa.co.uk

Customer connect

Finance people are often urged to get out on the front line of their business. But what are the real benefits? Access CFO **Adam Brown** explains why he loves meeting customers

GETTY IMAGES

My first experience of talking to customers came while working in the US, in a business backed by venture capitalists (VCs). I was more or less given a free rein by the VCs and the team. The three vice presidents (VPs) of sales were keen for me to see what it was like talking to customers. And we figured it would help us speak the same language when it came to investing in new projects.

That front-line intelligence turned out to be critical. When we went into business with a company that was technically a competitor, working out the details of how we'd share development costs and access to intellectual property was crucial. With the market knowledge the finance team had picked up "out there", we added real value in those negotiations.

My next job, back in the UK, was CFO of telecoms company Nextcall. Finance had a key role – the bulk-purchase and resale telecoms business is all about credit control, billing systems and managing partnerships with big companies like BT.

But we could see that minimising churn was a key driver of financial performance. And the sales guys would get frustrated with our approach to provisioning – they saw it as interfering in the customer relationship. So members of the finance team started to go door-to-door with the sales guys. We wanted to see the pressure they were under.

It was a revelation. Some sales guys were brilliant at getting a 'yes' from prospects. But they weren't motivated to explain the "on-boarding" procedure for the service. So we were losing customer engagement right at the start. And seeing those guys selling at a doorstep made us realise the limits on upselling. There's only so much sales chat someone will put up with.

As well as helping structure targets, commission, pricing and product design – we could see at first hand the effect of the "value proposition" we'd been talking about. Also, the mutual understanding between finance and sales means less gaming of things such as targets.

THE B2B ANGLE

The next dimension is more applicable to business-to-business situations. Once you have that deeper relationship with salespeople they work out the FD can help make sales. Many FDs might worry about it being a drain on time, but I'm clear: use me on any sales opportunity, at any stage.

It's always useful for me to get that customer knowledge. Apart from that rounded feel for the market, as FD it's really important to have a clear sense of the sales pipeline – and to understand customer sentiment.

BROWN'S BENEFITS OF MEETING CUSTOMERS

- Helps you develop better sensibilities around your own terms and conditions.
- Builds respect for salespeople – and an understanding of their constraints...
- ...and gains respect from salespeople – leading to less gaming of the relationship with finance.
- Customer insight helps pricing and revenue modelling – and sharpens forecasting.
- Finance-to-finance contact can be invaluable.

Adam Brown is CFO of Access UK, the mid-market software developer with over 20 years' experience delivering integrated business solutions, particularly in finance and accounting

That's partly about their confidence and their intention to purchase – but also what's important to them individually.

That's the real return on investment of your time. You're gaining an understanding of how to build your business. What is that investment? There are no hard and fast rules. But I allocate enough time with customers representing maybe 10% of revenue, some large clients, some small – although clearly that needs to be tailored to the business and the FD.

Getting that visibility into customer decision-making means so much in terms of our ability to model pricing and revenues – then improve our forecasting. That's another major return on finance's time investment.

There's one other big advantage [of this approach] for me as CFO of a company like Access. As a financial software vendor, our key customers are also FDs. So if we have a customer with a tricky upgrade issue, meeting their FD is a great way of making a deeper connection and teasing out their concerns. We can use that to drive our focus and resources to get the right solution for them.

Customer interaction is valuable in terms of the effectiveness of the finance function and the success of the business. But a major reason I continue to do it is, quite simply, it's enjoyable.

Tales of the expected

Business performance measurement sounds simple. But for it to have an impact there must be an underlying story of where the organisation is going – a tale understood and endorsed by everyone involved. **David Baines** explains finance's crucial role in writing that story – and choosing the measures that underpin it

To the uninitiated, business performance measurement sounds like child's play. You decide your goals, choose suitable measures, then track them. Because what gets measured gets managed, achievement follows automatically, right? Sadly, no. Those who have tried it know it's not that simple.

There has to be a story behind the measures for this to work. This story describes how your organisation is going to achieve its objectives – and the key things you have to accomplish in order to do so. The story has to be easy to follow and plausible. If it's done right, the performance measures will follow naturally.

But does your organisation have such a story and can you put your hand on the document that tells it? Is it easy for everyone to understand, can they tell the story unprompted, do they believe it?

Unless you can answer "yes" to these questions… why should people strive to achieve the measures by which you judge them? Without their active agreement you have to resort to hoping that they do what you tell them.

CARROTS, STICKS AND STORIES

My firm has come across many FDs, and their departments, who are desperately seeking the magic measures that will make the massive difference to performance.

But whatever carrots or sticks finance uses, the rest of the organisation seems impervious to its engagement. The nub of the problem (see figure 1, overleaf) is that people's behaviour is driven by two forces:

- What the organisation tells them to do – the "plans" route on the left.
- What they think is important and what they want to do – the "values" route on the right.

If people don't understand the plans – or don't agree with them, or don't think the measures reflect the plans – the two routes conflict. The bad news is that the "values" route usually wins hands down.

If your plans are so far removed from what other people in the organisation think should be done, you have a problem. It's likely people simply do not know what the plans are, or the reasoning behind them, or think that the measures are wrong or unfair. This is where the story comes in.

FINANCE'S WIDER REMIT

So what is the role of finance here? A narrow view is that finance reports the financial numbers of costs and revenues by whatever categories the chart of accounts and the ledger codes dictate. In these circumstances management reporting might only consist of budget variances by budget line, supported by explanations that give varying levels of insight.

> If your plans are so far removed from what other people in the organisation think should be done, you have a problem

Anyone who has endured this approach knows how futile and unrewarding it can be. A typical bad example is a narrative that amounts to something like: "The negative variances occur because the wishful thinking about sales and cost efficiencies we used in the budget hasn't been realised, but fortunately these are offset by positive variances due to our being unable to realise our plans and spend as quickly as we had hoped."

Finance should have a much wider remit in the field of performance measurement: no one else offers a logical case for taking the role. Under this remit, you are responsible for:

- writing the story describing how your organisation is going to achieve its objectives;
- creating a model that projects the financial results from pursuing the story successfully;
- telling and selling this story so that everyone understands and agrees with it – or modifying it until they do;
- identifying the measures, financial and non-financial, that underpin the story;
- presenting these measures along with explanations of why they differ from forecast; the likely outcome if nothing is done to change matters; the options that exist for changing course; what the likely outcome of pursuing these options would be; and
- designing and owning the process by which measures are decided, measured, presented and acted upon.

LIGHTEN THE WORKLOAD

This is a tall order coming on top of an already full workload, but don't dismiss it out of hand. Finance staff justifiably claim they are already overstretched, but what about ditching some of the current workload? I know that the rest of the organisation insists that everything you currently do is vital, but often they are wrong and it is worth a challenge.

For instance, the responses of 123 large UK organisations in a 2004 survey revealed they take on average 3.7 months to create their budgets. Half the respondents said budget figures become outdated and ignored before year end: the average time into the year when the budget figures become outdated is 4.25 months (just 16 working days longer than it takes to produce the budget in the first place). You can't deny there is a great deal of wasted finance effort reporting and explaining monthly variances in these circumstances. Similarly persuasive arguments can be advanced about many of the reports that are produced.

I am not suggesting these activities don't add any value, merely that, given a finite resource, one has to prioritise. The benefits of an effective performance measurement system that helps you achieve corporate objectives outweigh the benefits of detailed ledger line variance analysis done by rote.

Another bullet point in the list above, setting out finance's role in performance measurement, relates to creating a financial model of the organisation. Such a model (illustrated diagrammatically by figure 2 overleaf) is important because it can provide the acid test for the plausibility of the story. If you can use such a model to win over the sceptics, you are home and dry.

THE STORY

The role of finance in performance measurement outlined above is sketchy. The

DAN MURRELL

remainder of this article will endeavour to put some meat on the bones. Let's start with the story sitting behind the measures. One approach – and it is only one – is to use the balanced scorecard, which is popular but often misapplied.

The balanced scorecard proposes four perspectives: financial; customer; internal; learning and growth. For each perspective a set of appropriate measures is selected. What isn't always made clear is that these perspectives are interdependent. They build upon one another in a specific sequence (see figure 3 on the opposite page).

The underlying rationale is that to achieve your financial measures, such as greater asset utilisation or increased revenues, you need to set and achieve a 'customer value proposition' – your proposal to customers of the value you will deliver to them.

In order to do this, you need to get your internal delivery mechanisms – or business processes – working effectively, and to do that you need to grow appropriate capabilities: of your people; your IT; and your organisational structures and ways of working.

You can work on achieving your measures in each perspective at the same time, even though the measures in the lower perspectives support those higher up. The important point is that the chosen measures must be related to one another in the linked sequence: your learning and growth measures must be ones that support the attainment of your internal measures, and so on in a chain up the structure.

While the name "balanced scorecard" implies that what is needed is a balance of the four perspectives, it doesn't imply as clearly that the measures need to link to one another, which is key. Without the links between specific measures in the different perspectives, you run the risk of ending up with four boxes full of any old important-sounding measures.

You will probably find that piecing together the key elements of each perspective into a coherent, sound structure that delivers the objectives of the organisation is not easy. But the effort is worthwhile because out of it will come the story and the associated measures.

KEY MEASURES

If the balanced scorecard is out of favour in your organisation, and you desperately want to get away from reporting a mass of ledger line variances, I offer the following approach to generating a basic set of performance measures.

Choose measures that answer the following set of questions:

1. Strategic:

- Is each product/market segment behaving as we expected (competitor activity; market size; prices; market share)?

2. Plans for change:

- Is implementation going according to planned timescale and cost?
- Are the effects of implementation as forecast (eg better customer service; growth in customers; lower unit costs)?

3. Business-as-usual:

- How are key measures of customer service moving, particularly in relation to competitors?
- How are unit costs moving?
- How are revenues moving compared to forecast?

To achieve your financial measures you need to set and achieve a 'customer value proposition'

This approach has the benefit of providing a range of measures from the strategic to those that track business-as-usual performance. It encourages you to pick a set of measures that is vital to your business and so forces you to focus on what is important rather than the humdrum.

HIERARCHY OF MEASURES

The purpose of performance measures isn't only to measure performance but also to explain why actual performance differs from forecast or target. In providing this explanation, performance measures can answer one of two questions:

- Have we done what we planned to do?
- Has our plan achieved what we forecast?

There is an obvious distinction between these two questions – one relates to an

GETTY

FIGURE 1

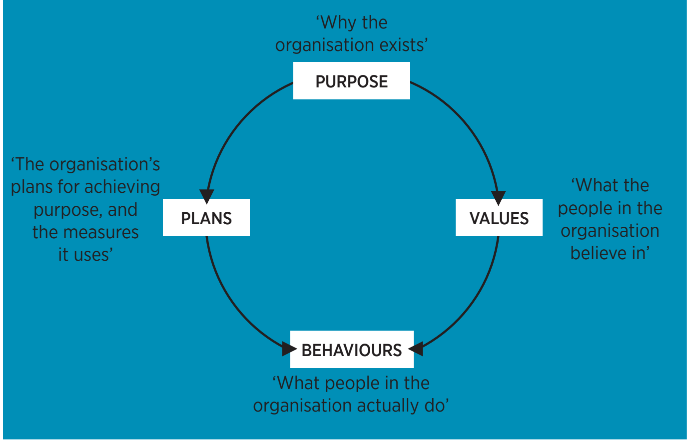


FIGURE 3

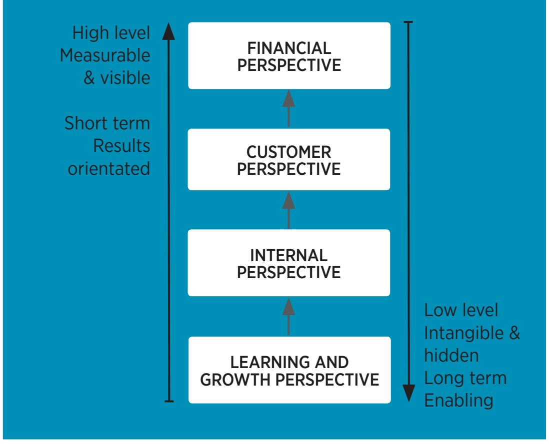


FIGURE 2

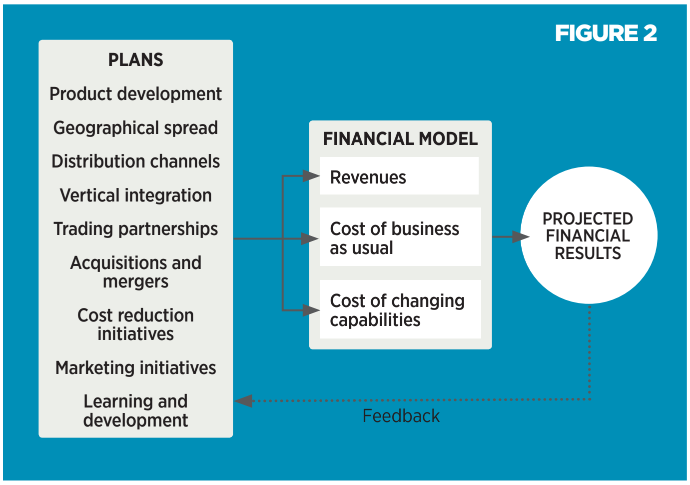
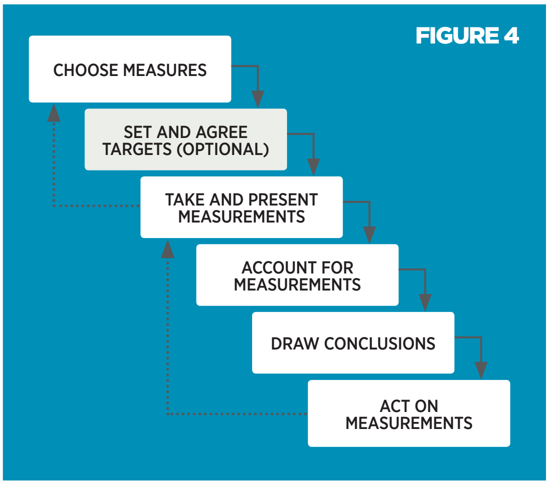


FIGURE 4



outcome that fails because we haven't done what we said we would; the other to one that fails because our judgement about the results of our actions was wrong. It is important to have both types of measure in your mix.

However, while a mixture of both types of measure will usually give a satisfactory explanation when you haven't done what you said you would, it may fail to do so when you have done what you planned and yet the result isn't as predicted. In the latter case there is a danger that people abandon the whole performance measurement system as being unhelpful.

If this happens, resist. There will always be a reason for outcome differing from forecast and it is essential that you nail down this reason in order to do something about it. Don't abandon your measures because they initially send confused signals – persevere with them and dig for the answers, which will probably lie in one or more of the following areas:

- insufficient time for your efforts to bear fruit;
- a missing element to your plans;
- a flawed judgement about how the market would react to your proposition; or
- an unnoticed competitor move.

PERFORMANCE MEASUREMENT IS A PROCESS

Performance measurement isn't simply the task of making measurements and publishing them. It is a cyclic process that starts with deciding appropriate measures, moves on to deciding what actions to take as a result of the measurements obtained, and ends with implementing these actions. Different players do different things at various points in the process. Map your process, and ask yourself whether each stage is fit for purpose.

To ensure you have good measures, and to weed out unnecessary ones, ask questions about each one, for example:

- What is the purpose of the measure, and does the purpose justify the effort?
- Should there be a target, and if so what is the planned achievement date?
- Who is accountable – named person – for the measurements?
- Who will assess performance?

These might sound obvious questions, but it is surprising how often performance measurement systems degrade into a data collection and presentation task for finance, the product of which no one heeds (see illustration in figure 4 above).

IN A NUTSHELL

In the field of performance measurement, finance should have a bigger role than line-by-line budget variance analysis and reporting. Challenge the value of what you currently do. Replace it with identifying, measuring and reporting the key measures that, if achieved, will enable the organisation to meet its objectives.

The difficult bit, as always, is getting the rest of the organisation to follow your line. To do so, provide a story that describes and explains what people must accomplish to meet the overall goals, and the measures that will track progress. Create a model that demonstrates how the financial results follow from making the story come true. Lead the way!

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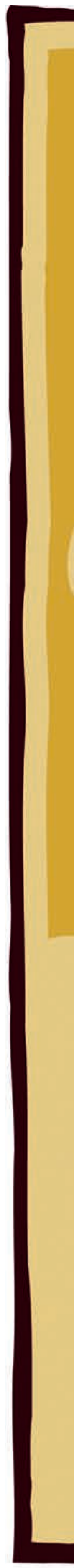
Stand your ground

Most finance executives face conflicts with colleagues, not least at budget-setting time. **Pamela Milne** explains how to take a stand without getting aggressive – and suggests tactics to defuse any tricky situations



With the economy in the doldrums and many businesses having to prepare for uncertainties – even growing companies are being cautious right now – budget time is a tough time for finance teams. You're probably looking to set stretching targets for frustrated salespeople and rein in costs already pared back heavily. It's a recipe for conflict. And when it comes to negotiating with senior colleagues and their teams, there's a good chance you're going to have a tough job. If one side doesn't know how to be assertive in the right way, or is too passive, bad decisions will be taken.

We looked at using assertiveness to achieve better outcomes at work in *Finace & Management* last June. Lack of assertiveness is demonstrated by passive behaviour, which puts the needs of other people ("you") above one's own ("I"). That attitude is symbolised by an "I negative, you positive" outlook. Or else, surprisingly, it manifests itself in the adoption of aggressive behaviour – putting one's own needs above those of everyone else in an "I positive, you negative" stance.

The key? Developing sensitivity to each situation you find yourself in and understanding both your own and the other party's stance. If you're clear on your goals and know how people might deflect you from them, you're calm, logical – and above all positive – then you're more likely to be successful (see box, *Personal drive*, overleaf). But I want to provide a more detailed analysis of how assertiveness can be effective in managing three particularly important workplace challenges:

- defusing the arch manipulator;
- making peace;
- taking a stand.

And the annual budget round is a great place to do all three.

MANIPULATOR? STAY CALM

Imagine that you, as FD, have successfully said no to a department head – let's call him Archie Manipulator – who wants additional funding without producing a viable or detailed business plan. What if Archie tries to undermine you? If you lose control of the situation, you might end up fighting so many fires that you allow the funding request to go through just to make life easier. Archie has many tricks – there are at least 38 documented in my book – but two of the most common are to:

- create chaos where none existed before;
- press the right buttons to make you act emotionally and fall out with people.

Having switched the spotlight to others, the successful manipulator can carve a pathway to their goal.

The best way to foil Archie is first to recognise what is happening, then refuse to "feed" the behaviour. Manipulators are skilled at causing a reaction, so when they push your buttons to make you angry or defensive, focus on calming down and use one of the assertiveness tools listed in the box, right. For example:

AM: "You're losing your grip if you think we'll just jump when you say so."

FD: "I would have liked to have given you more time, but I do need to have a business case." (Negative assertion; broken record)

AM: "I'm sick of talking to the monkey when the organ grinder [CEO] agrees with me."

FD: "I understand the situation might be difficult for you. What is it about the request that is causing you problems?" (Fogging; negative enquiry)

AM "You've not heard the last of this. I can destroy your career you know."

FD "I'm sure you'll do whatever you think appropriate." (Fogging)

By managing to stay in control, you will start to defuse the manipulations. And

Typically, when the arch manipulator fails to get the expected reaction they move on to create dramas elsewhere

then you can start to help others to disconnect from their impact too. Typically, when the arch manipulator fails to get the expected reaction they move on to create dramas elsewhere.

MAKING PEACE? BE OPEN

Assertiveness is also about understanding the other person's point of view. Take the example of someone aggrieved by a recent cut in their budget – who is in fact fed up with all the budget cuts their service has suffered over the past few years. Let's call her Agatha Roe. She's become hostile and trust between the two of you has disintegrated. When you approach her to discuss financial matters, she refuses to take your call. To make peace you need dialogue and that's a four-step process.

- Identify her readiness to begin talking.
- Create a framework for discussions.
- Develop an environment of trust.
- Wait for a breakthrough.

An open, honest and transparent process to discuss the budget allocations

ASSERTIVENESS TOOLS

The four stages of assertiveness are: being clear about what you want to achieve; stating your aim clearly and without emotion; avoiding deflection using assertiveness techniques; and coping with your own emotional reactions to being successful. (In short: don't feel guilty when you get what you want.)

So just what are those assertiveness techniques?

1. Broken record. Stay on track by simply restating your aim whenever you are making a request, saying "no" to someone or being challenged.

2. Fogging. Allow what the other person says to just hang – or find some limited truth to agree with. It defuses your opponent without creating conflict with them.

3. Negative assertion. Agree with valid criticisms of your behaviour – any that are true, anyway – without deviating from your core demands.

4. Negative enquiry. Ask the other side to be more specific about what aspects of your behaviour or position bother them. This reveals if their behaviour is manipulative or whether they simply need to become more skilled at giving constructive feedback.

CORBIS

is one thing, but you also need to re-engage with Agatha on a personal level. Here's how.

- Build rapport. "I have some ideas for making the budget process more transparent, can I come and have a chat with you about them?"
- Allow her to express her concerns.
- Don't judge her behaviour – her style may just be very different from yours.
- Don't rush her.

Take time to rebuild the relationship, and when Agatha decides you're someone to do business with, there will be rapid progress towards shared objectives.

STAY TRUE TO YOUR VALUES

As an FD, people are constantly pushing you to agree financial arrangements beneficial to them. What do you do when the person pushing those boundaries is a heavyweight colleague – such as the CEO? Let's call her Yonda Limits.

In this scenario, CEO Yonda wants to allocate more money to the marketing budget than looks sensible. You know she wants to raise the organisation's profile. But you also know that the overextension might risk the business and will deliver few benefits. Yet she is going to put sustained pressure on you. Again, the assertiveness techniques of broken record, fogging, negative assertion, and negative enquiry are the key skills. And, if you really believe that the action is not in the best interests of the organisation, it will help to be sure of your principles and motivations when you take a stand. Here are some strategies that will help focus your mind to make the right decision for you and the business.

- Consider your values. Identify which ones are being challenged.
- Use your values as your moral compass in decision making.
- Ask yourself "What do I really stand for?"

Simply articulating these fundamentals will help you to stand your ground. A typical response to Yonda's pressure might be the broken record of "I have worked the numbers and the business cannot support your request this budgeting cycle." And because you stand for "a viable future for the business", that's not going to change.

PERSONAL DRIVE

Five tips for better personal skills

1. Adopt the 'I positive, you positive' stance in your interactions.

2. Decide what different outcomes you want to achieve.

3. Anticipate how people may try to deflect you from your purpose.

4. Practise using the techniques of broken record, fogging, negative assertion and negative enquiry.

5. Appreciate that assertiveness is not about winning so sometimes you might lose an argument or not have your needs met.

Pamela Milne is director of Solutions Unlimited, which helps manage change agendas. Her book, ***The People Skills Revolution***, is available from **www.gppbooks.com** – enter code A100 for a promotional price of £12.99, including UK postage

How does your business grow?

Whether considering exporting for the first time, or contemplating expanding into further export markets, there is much groundwork to be done. **John Westwood** explains how to get started

ALAIN DELORM

Any company with good products and a steady level of business in its domestic market should logically consider exporting as a way of growing its business still further. The risks are greater – but so are the rewards.

Selling overseas may be more difficult, but if your business successfully sells its products in the domestic market, there is a good chance it can do so overseas – at least in those markets where similar needs and conditions exist. (In 2011, in spite of the difficult climate, the UK exported goods worth almost £50bn more than in 2010.)

WHY EXPORT?

There are two good reasons why exporting should be top of your list of growth strategies:

- exporting expands the size of your available market; and
- no other business activity receives so much government assistance.

The benefits of exporting

Companies that export can benefit from:

- improved productivity;
- levels of growth not possible domestically;
- increased resilience of revenues and profits;
- economies of scale not possible domestically;
- increased commercial lifespan of their products and services;
- increased returns on R&D investment;
- exposure to new ideas and technologies;
- knowledge of different cultural environments and a better insight into customers' requirements;
- experience of a wider range of competitors; and
- improved financial performance.

But is it right for *your* business?

Developing export markets takes time and money. There are many new challenges

Help at the start

In the UK, advice and support for companies wishing to export is available from UK Trade & Investment (UKTI). UKTI's international trade advisers can provide professional advice on their range of services, which covers all of the stages of developing an export strategy and preparing an export plan.

Entering your postcode on the UKTI website (ukti.gov.uk), will bring up the contact information for your nearest international trade adviser. You can then call or email this adviser for specific information and guidance.

ICAEW has also produced a publication in association with UKTI, *International Trade: An Accountant's Guide*. It's available at **bit.ly/QV72zC**

Good news for SMEs...
Although support is available for companies of all sizes and with all levels of export experience, schemes offering financial support or grants are normally restricted to what UKTI defines as small and medium-sized enterprises (SMEs). The DTI normally classifies a business with fewer than 250 employees as an SME.

It has set itself the task of doubling the number of SMEs it helps every year to reach 50,000 by 2015. It also aims to raise the number of mid-sized firms that export to one in four.

Export readiness checklists
There are also a number of government websites with online questionnaires to assess your "export readiness". These include the UKTI/ Business Link interactive tool *Are you ready to export?* at businesslink.gov.uk, and the US Department of Commerce online readiness assessment at export.gov/begin/assessment.asp. These are useful free resources, because these questionnaires can be accessed and completed by anyone – not just UK or US citizens.

– from identifying the best markets and potential customers to making sure your product complies with local standards and regulations. Exporting isn't just an add-on to your existing business – it should be part of your overall business development strategy.

EXPORTING'S POTENTIAL RISKS

Risks involved in exporting include:

1. Greater complexity

- Exporting involves all the usual marketing challenges. You have to find customers and persuade them to buy from you. You have to research the market so you understand what the customers want and how the market operates – both may be different from your domestic market;
- you need to cope with extra logistical problems, paperwork and contractual issues. You will need to have standard contracts prepared for selling directly, through agents and through distributors;
- you will need to comply with regulations in both your domestic and overseas markets and these may differ; and
- the protection of intellectual property can be difficult in overseas markets and in some it may not be 100% effective.

2. Increased pressure on your resources

- you will need additional resources, both in terms of skilled personnel and financing;
- exporting may impact on your company's domestic activities. It may reveal capacity and productivity constraints; and
- at the same time you may have to meet extra costs for transport and insurance.

3. Increased financial exposure

- exporting will initially involve expenditure, which may impact on your company's cashflow;
- payment terms will usually be longer than for domestic sales; and
- there could be export financing and/or currency issues and the additional risk of potential non-payment for goods and services supplied to overseas customers.

Moving into export certainly means additional costs for your business. You may also find that you can't compete with local suppliers in some overseas markets. So if the market only offers low margins or you don't have the extra resources you need, you may decide that exporting is not for you.

Getting started

Before you start exporting you will need to:

- assess whether you are ready to start exporting;
- carry out an export audit;
- develop an export strategy; and
- prepare a complete export plan looking at all the costs and risks involved.

WHICH COUNTRY FIRST?

When you consider potential export markets, an important factor to consider is their similarity to your existing market. If they exhibit many of the same characteristics of your own market, your product is more likely to be accepted and the channels to market would probably also be similar. You need to consider potential export markets, both in terms of their size and the ease of doing business there.

Most new exporters start with markets that are relatively easy to deal with. In fact many companies start by selling their products to customers in neighbouring countries or countries with a common language. Developing countries are riskier

Dos and don'ts of successful exporting

DO

- Develop an export strategy
- Prepare an export plan
- Research your markets
- Choose your sales presence and distribution methods in those markets
- Use effective sales promotion
- Get the customs side right
- Get paid – and get paid on time
- Transport your goods effectively
- Have a good after-sales policy

DON'T

- Expect to get the orders before you invest in an adequate export resource
- Expect your margins on export business to be as high as those on your domestic business
- Try to develop too many markets at once
- Develop high risk markets until you have the experience to handle them
- Drop pricing to get orders on the basis that you will be able to raise the price for subsequent business
- Take risks on foreign exchange or payment terms
- Use packaging that is not up to the job
- Underestimate the personal risks that you will run if you ignore sensible security advice

to deal with and are probably best left until you have more experience.

If you have no experience of selecting markets, I recommend you have a discussion with your local UK Trade & Investment (UKTI) trade adviser who will help you decide the most important criteria to your business and will also guide you in selecting sensible initial target markets (see Help at the start box on previous page).

PRICING

Setting export prices is a key issue, and may be a deciding factor in whether exporting is viable for you. Don't assume your domestic pricing levels will be right for overseas. You will probably have to sell through an importer or distributor. There will be shipping costs and, in some markets, import duties.

The most common methods of setting export prices are:

- cost-plus pricing: the traditional method of pricing exports, cost-plus simply adds the extra outlay – export packaging, freight and documentation, customs duties and distribution – to the domestic manufacturing costs. While simple, it can make your price uncompetitive.
- top-down pricing: works back from the market price you believe to be competitive. Here, the most important issue is whether your ex-works price covers production costs and provides an acceptable profit margin. This can be difficult to achieve with industrial or capital goods. In such cases, companies need to be realistic and this is where marginal costing comes in.
- marginal costing/pricing: treating export sales as an additional business, which makes a reduced contribution to a company's fixed costs. The same product is sold at a lower ex-works price than in the domestic market when it is exported, (though to avoid allegations of "dumping", the end selling price overseas must not be below the domestic one).

Essentially, costs are separated into fixed (including rent, rates, interest charges,

Setting export prices is a key issue, and may be a deciding factor in whether exporting is viable for you

depreciation, administration) and variable (raw materials, labour and energy linked to production), with only those which vary directly with the level of activity being allocated to the product or service. Fixed costs are simply treated collectively as costs for the period of time being considered.

"Break-even analysis" is used to evaluate the relationship between sales revenues, fixed costs and variable costs. For such differential pricing to work, domestic sales must already exceed the level that makes the product profitable and initial budgeted export sales should be based on a selling price sufficient to at least cover the additional costs incurred and provide a reasonable return on investment (ROI).

Figure 1: Methods of payment used in international trade

LOW RISK	Advance Payment
↑	Letters of Credit
↓	Documentary Collection
HIGH RISK	Open Account

PAYMENT METHODS

A major variable in export quotations, particularly when quoting to customers in the developing world, is the method of payment. These methods vary from the low to high risk as set out in Figure 1 above.

Payment in advance is the most secure method of payment and if you are dealing with customers in developed countries, it is usual to start working on the basis of advance payment, moving towards an open account as you build up a trading history.

But when dealing with customers in developing countries, the foreign exchange regulations will often not allow money to be paid out overseas until it is clear that goods have actually been shipped. This is why the use of letters of credit is much more widespread with regard to the shipment of goods to developing countries.

THE RISKS OF CURRENCY AND FOREIGN EXCHANGE

If you develop a significant export business, foreign currencies and the fluctuations of the foreign exchange market are certain to impact on your business. When you sell goods in your own currency, you know what your margins are and how much profit you can make from a certain level of business. Selling in a foreign currency means fluctuations in exchange rates can significantly affect your margins and profits, so you need to protect yourself against foreign exchange risk.

Ways to buy or sell foreign currency:

- spot dealing;
- forward contracts;
- currency options;
- foreign currency bank accounts.

Ways to deal with foreign exchange risks:

- Do nothing. This is a high risk option. It means that as and when you need to convert foreign currency back into your own currency, you will be dealing with the spot market.
- Manage the effect of currency fluctuations yourself, eg open a foreign currency bank account to pay and receive foreign currency. If you do this, you will at least be able to calculate what your possible risks may be and to take action accordingly.
- Take out foreign exchange contracts. This is the safest way to manage the risks. This allows you to fix the exchange rate so you know exactly how much you will receive in your own currency, when your invoice is paid.

AND FINALLY...

Exporting is a major step change for your business. It can be rewarding, but it's also complicated. Exporting is a team effort and will only succeed with the professional dedication of all the members of your export team. So do your homework and use the expert advice available.

Now take the time to look at the checklist of *Dos and Don'ts of Successful Exporting* (above, left), And for an example of how to get it right, look at the case study *Going for growth* (see right). Finally, remember that exporting is also addictive – so once you start, you will never want to stop!

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OVERSEAS INFORMATION

ICAEW Library has information on 140 individual countries, including economic forecasts, taxation rules, surveys and analysis. Visit icaew.com/en/library/country-resources and icaew.com/en/library/subject-gateways/import-and-export

Going for growth

A UK company with an annual turnover of £10m decides to develop its export sales, which are just a few hundred thousand pounds a year. Within three years it has built them to more than £3m a year. This significantly increases the challenges faced by the company's FD.

The additional sales are split evenly into sales to Europe (in euros) and sales to the US/Middle East (in dollars). Only about 10% of the sales are in sterling – some for shipments to Nigeria to a subsidiary of a US oil company. The annual budgeting process now has to take into account the different currencies, and annual "target rates" have to be set for the £/euro and £/dollar exchange rates. The export business's lower margins also have to be taken into account.

Whereas payment terms for domestic business are normally 30 days, payment terms for most of the export business is 60 days, so the company's "debtor days" have increased to 48. As the company purchases special components from a German company, the FD sets up a euro bank account for payments received in euros. Some of this money is used to pay for purchases from Germany, reducing both the exchange rate risk and losses on changing euros back into pounds.

Half of the US business is with one customer, with a monthly turnover that varies by plus or minus 30%. The FD sets up a US$ account and arranges to purchase forward foreign exchange contracts for about 70% of the expected monthly income in US$. These contracts are for the sale of a particular amount of US$ on a particular date. They're set up for only 70% of the expected income to ensure the company will always have enough US$ in the account to satisfy contracts when they became due.

Because of the orders from Nigeria, the finance and shipping departments have had to learn the complexities of handling letters of credit. For domestic business, the company sets credit limits for individual customers, but with the export business, it sometimes has to set up "split credit limits". The products take two months to manufacture, shipping time is several weeks and payment terms are 60 days. So the total time from order placement to payment is about five months. To avoid having to turn down orders from creditworthy major customers the company splits the credit limit. For these customers it has a standard credit limit that covers the value of outstanding invoices (for goods already shipped) and a higher limit that allows it to include the value of orders received, but not yet shipped.

From the faculties

Keep in touch with our selection from ICAEW's other faculty magazines

Audit's big power struggle

A new structure and new powers at the FRC will mean changes for auditors, explains Liz Loxton. Whether they strengthen regulation, make sanctions more proportionate and better serve the public interest remains to be seen

The main thrust of the changes at the FRC has been to narrow its focus, concentrating its statutory powers within the main board

TAXline
RTI: TIME IS RUNNING OUT

Real Time Information is, according to HMRC itself, the biggest change to hit payroll in 60 years. So whether you're thinking about your own practice payroll or supporting client transactions, it's crucial to understand exactly how it's going to play out. And the first thing to acknowledge is that it's happening soon.

The first deadline is April 2013, when most employers will need to start reporting payrolls under RTI – which means their systems will need to be capable of sending information automatically to HMRC as or before employees are paid. The Full Payment Submission (FPS) data will include pay, tax, NICs and other details, including an employee's date of birth, address and even gender.

In some cases, an FPS can run to more than 100 data items, which can include a raft of seemingly tangential information – such as details of the employee's partner (in the event they claim additional statutory paternity pay, for example). Larger employers need to complete an Employer Alignment Submission (EAS) – but there are a host of other three-letter acronyms finance people, business owners and especially payroll staff will need to learn... all within the next few months.

A major issue is that RTI is going to make errors in PAYE much more apparent and change many familiar procedures. It's a case of get ready – or get burned.

For more from the Tax Faculty, visit icaew.com/taxfac

AUDIT & BEYOND
AUDIT'S BIG POWER STRUGGLE

Change is afoot at the Financial Reporting Council (FRC) – not least in its approach to the regulation of audit. It's part of a broader set of regulatory changes responding to the financial crises of the past five years, evident in the halls of other regulators such as the Financial Services Authority (FSA), soon to become the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

FRC chair Baroness Hogg has made clear its new mission is to promote high-quality reporting and governance. The result is a narrowing of the Council's focus – particularly onto "public interest entities" – rather than spreading its power across its seven operating bodies. They'll now be split into two main divisions – Codes and Standards; and Conduct – while the FRC will become more independent of the profession.

ICAEW still has a place at the table, even if it no longer approves FRC sanctions on firms or individuals. But the new powers include the FRC compelling recognised supervisory bodies (RSBs) like ICAEW to take action without resorting to the courts, a possible case of overkill, says Peter James, head of regulatory policy, professional standards at ICAEW.

Critical debates – over the detail of disciplinary schemes, for example – still need to be settled. But although the final outcome isn't clear, the greater independence of the FRC suggests a move in the right direction.

For more from the Audit & Assurance Faculty, visit icaew.com/aaf

CORPORATE FINANCIER
LOOKING TO THE FUTURE

Growth. It's the one thing almost everyone is agreed on – more of it would solve many of our economic woes. So whether you're running a business or advising one, the output from ECI's Growth Survey 2012 should make interesting reading.

ECI (a private equity group) talked to 315 growing businesses – all in the classic mid-market bracket of £10m to £100m turnover – about the challenges they're facing and how they plan to overcome them. The good news is that 86% forecast growth of at least 6% in the coming year, and 78% plan to increase headcount. The bad? Well, 46% say macro-economic conditions – which show no signs of brightening – are the biggest barrier to expansion.

Interestingly, cost cutting isn't a key part of the agenda for a majority of respondents. Nearly half are looking at investments in R&D (no doubt spurred on by the success of the R&D tax credit) and plenty more (54%) at expanding overseas into new markets. Unsurprisingly, given eurozone turmoil, that's now more likely than ever to mean North America and Asia.

Interestingly – especially for advisers capable of helping them minimise costs, including tax – by far the most popular source of capital they plan to use to fund these growth plans is internal cash, with many businesses preferring not to tap into debt or equity markets.

For more from the Corporate Finance Faculty, visit icaew.com/cff

Technical updates

Our regular round-up of legal and regulatory changes

TAX

News and updates from the Tax Faculty weekly newswire. Subscribe free: visit ion.icaew.com/TaxFaculty and click the sign-up link on the right.

TAX PLANNER 2012/13

The Tax Faculty has released the 2012/13 edition of *TAXline Tax Planning*, including plenty of goodies for the company finance function. As well as detailed articles on many personal tax issues, its contents include guidance on:

- Tax efficient company closures.
- Capital taxes (from agricultural property to entrepreneurs' relief changes).
- Controlled foreign company rules for corporates.
- Employment taxes.
- International and EU tax changes.
- NICs and VAT.
- Venture capital schemes.

It's free to Tax Faculty members – see the full contents at the link in the comments at ion.icaew.com/TaxFaculty/25518 – which also has details of how to join.

ENTREPRENEUR'S RELIEF

Finance execs working with entrepreneurs might be pleased to learn that the government has announced that gains made on shares acquired through exercising EMI options on or after 6 April 2012 are to be eligible for capital gains tax entrepreneurs' relief (See paragraphs 1.10, 2.8 and 2.9 at hmrc.gov.uk/budget2012/ootlar.htm). But it's not perfect – the Tax Faculty says only a small number of people are likely to benefit from the relief as currently designed. It is proposing changes to widen the scope of the policy.

TRANSFER PRICING

Transfer Pricing is one of the key issues facing international business and one of the major areas for dispute with tax jurisdictions. The OECD Transfer Pricing and Multinational Enterprises report was first published in 1979 and was formally adopted as the Transfer Pricing guidelines in 1995. At that latter stage a chapter on Intangibles was added and this was updated when a revised version of the Guidelines was published in 2010.

OECD now proposes a substantial revision of the intangibles chapter of the Guidelines which it is hoped to incorporate in the new version of the Guidelines to be published in 2014. A major concern for ICAEW is the lack of clarity in the definition of intangibles, which could give rise to unnecessary disputes between business and tax authorities and between the tax authorities themselves.

The other major concern is valuations. The OECD arm's length principle requires transfer prices within groups of companies to reflect the prices that would have been agreed between unconnected parties. The current, draft, guidelines seem to be suggesting that the arm's length valuation is quite different from any other type of valuation. The OECD is currently reviewing the responses to the consultation.

REAL TIME INFORMATION

RTI continues to vex many businesspeople (and tax advisers). The Tax Faculty is recommending HMRC's September Employer Bulletin (hmrc.gov.uk/paye/employer-bulletin/bulletin42.pdf) which contains useful advice about RTI implementation as well as case studies and guidance on software.

There's a useful summary of the salient points at ion.icaew.com/TaxFaculty/25453.

FOREIGN ACCOUNTS TAX COMPLIANCE ACT

A bilateral agreement between the US and the UK has now been signed. This will shortly be enacted by Parliament and become UK law. Annex 2 to the bilateral agreement now sets out those UK entities and products that are exempt from FATCA. The announcement of the signature with some background information is available on the HM Treasury website. HM Revenue & Customs published a Consultation Document on 18 September for comment by 23 November.

FINANCIAL REPORTING

You can find out more on the latest from the Financial Reporting Faculty, including UK GAAP and IFRS standards and consultations at icaew.com/frf

CORPORATE GOVERNANCE AND STEWARDSHIP CODE

The UK's Financial Reporting Council (FRC) has published updated versions of its UK Corporate Governance and Stewardship Codes together with an updated edition of its Guidance on Audit Committees. The updated codes – which will continue to apply on a 'comply or explain' basis – will apply from 1 October 2012.

Corporate Governance Code Changes include:

- FTSE 350 companies are to put the external audit contract out to tender at least every 10 years.
- Audit Committees are to provide to shareholders information on how they have carried out their responsibilities.
- Boards are to confirm that the annual report and accounts taken as a whole are fair, balanced and understandable, to ensure that the narrative sections of the report are consistent with the financial statements and accurately reflect the company's performance.
- Companies are to explain, and report on progress with, their policies on boardroom diversity.
- Companies are to provide fuller explanations to shareholders as to why they choose not to follow a provision of the Code.

Stewardship Code Changes include:

- Clarification of the respective responsibilities of asset managers and asset owners for stewardship, and for stewardship activities that they have chosen to outsource.

- Investors are to explain more clearly how they manage conflicts of interest, the circumstances in which they will take part in collective engagement, and the use they make of proxy voting agencies.
- Asset managers are encouraged to have the processes that support their stewardship activities independently verified, to provide greater assurance to their clients.

NET DEBT RECONCILIATIONS

The FRC's Financial Reporting Lab has published a project report on the usefulness of net debt reconciliations (NDR). The research identified that a strong majority of investors used an NDR or reconciliation of net cash flows to net debt in their analysis when one is presented, and given the importance, attempt to construct them when they are not.

The report goes on to suggest characteristics of the reconciliations that investors find helpful.

FUTURE OF UK GAAP

The FRC has issued limited scope proposed amendments to FRED 48 (draft FRS 102) The Financial Reporting Standard applicable in the UK and ROI, relating to multi-employer pensions and service concession arrangements. These are likely to affect only a small proportion of entities applying UK standards. Comments are due by 3 December 2012.

Draft FRS 102 is expected to be finalised early in 2013. Draft FRS 100 *Application of Financial Reporting Requirements* and draft FRS 101 *Reduced Disclosure Framework* are expected to be finalised December 2012.

EMPLOYMENT LAW

This section is summarised from the bulletins of various law firms – find out more at the web addresses supplied. None of the information in this update should be treated as legal advice.

MONITORING EMPLOYEES

Most organisations are totally reliant on IT systems and the data they contain. That means they are also vulnerable to actions taken by employees – such as damaging systems; infecting them with viruses or obscene content; or deleting or stealing valuable data.

One obvious solution is to monitor and control employee activity on company systems – which might also catch cyber-slacking. But what are the rules about "snooping" on employees?

Pinsent Masons (PM) stresses that good IT protocols – such as removing network login rights from departing employees – are a must. At the same time, there will be cases where active monitoring is felt necessary. So it recommends checking out the Information Commissioner's Employment Practices Code, which covers much of what you need to know about compliance with the various data protection laws and regulations.

PM cautions that merely informing employees they are being monitored, or even getting them to sign a consent form for monitoring, is not enough to stay within the rules. And a basic approach ought to include both a data and telephone monitoring policy circulated to all staff – as well as assigning responsibility for compliant monitoring to a named manager.

More from Pinsent Masons, including more detailed dos and don'ts drawn from the Employment Practices Code, can be found at: snipurl.com/pmasons2

REDUNDANCY? YOUR CALL

It's never easy to make people redundant – whether it's the emotional trauma or the red tape that ties you in knots. But in Nicholls v Rockwell Automation, explains law firm Hugh James, the Employment Appeal Tribunal (EAT) has confirmed that in many cases it's perfectly reasonable to apply subjective judgments to redundancy criteria – potentially making the process easier for many employers.

The claimant had argued at the original tribunal that the responsible manager had assigned subjective scores for some of the criteria that would determine which employee was to be made redundant (in this case, the employees' "flexibility"). The tribunal agreed this was unfair – but EAT overturned the unfair dismissal finding, agreeing that the tribunal had been wrong to substitute its own view of the claimant's capabilities for its own.

So long as you can justify the scores given to employees, Hugh

James concludes, subjective criteria are acceptable. More from Hugh James at: snipurl.com/hjames2

OWNER EMPLOYEES

The new owner-employee contract might not have got the best press at its launch – it's easy to mock the idea of surrendering a lot of employment rights for a chance to avoid capital gains tax on employer shares – but it's certainly worth considering for many businesses. According to BIS: "Employee-owner status will be optional for existing employees, but both established companies and new start-ups can choose to offer only this new type of contract for new hires… Companies can use the new type of contract from April 2013."

Reaction has been mixed – usually dividing along party lines. But it's worth checking out what the employment lawyers make of it. The general consensus is… "whatever".

Andreas White at Kingsley Napley offers typical view: "Our view is that take up of the scheme will be limited… appealing mainly to entrepreneurial SME companies in sectors with high growth potential… and in particular to the senior executives of such companies."

But a word of warning for the government from Herbert Smith Freehills: "The proposal seems to undermine the fundamental protection against unfair dismissal and a right to redundancy payments which are currently mandatory employment protections granted to all employees working in the UK." Consultations are ongoing. Watch this space.

Check out more views at snipurl.com/mstephens1, snipurl.com/knapley1, snipurl.com/rmtwo1, snipurl.com/hsmith2 and snipurl.com/mfraser1

EMPLOYMENT LAW REFORM

The government's consultation period on "Ending the employment relationship" ends this month. Proposals include a new Acas-drafted code to support the use of protected discussions; model settlement agreements; ideas around guideline tariffs for settlement compensation; and a cap on unfair dismissal compensation. Expect the full response to consultation in the spring of 2013.

Its other big consultation – also closing this month – was promoted by the review of tribunal rules from Mr Justice Underhill. He recommended a more streamlined process, clearer guidelines around tribunals and more encouragement for alternative dispute resolution. Again, changes are expected from April.

Meanwhile, the government has responded to calls for evidence on two policy areas. On dismissal, the "no fault dismissal" idea from the Beecroft Report has been dropped. And the Acas Code of Discipline and Grievance will be unchanged. And on TUPE, the government has acknowledged stakeholder concerns. Further consultations now begin.

More from Herbert Smith Freehills at snipurl.com/hsfreehills3

USEFUL LINKS

Daniel Barnett, a barrister in the Outer Temple chambers who specialises in defending companies facing employment tribunal claims, curates a useful blog of tribunal hearing reviews offered by a variety of firms.
danielbarnettemploymentlaw.blogspot.co.uk

Acas and the Equality and Human Rights Commission (EHRC) have developed a guide to help employers deal effectively and fairly with redundancy for pregnant employees or those on maternity leave.
snipurl.com/acaspreg

And with hardliner Michael Fallon MP arriving at BIS in the reshuffle charged with cutting employment law red tape, what can we expect? A snappy but detailed briefing from Romella Manning-Brown.
foxwilliams.com/news/561

The new marketing game

With traditional advertising hitting a brick wall these days, **Alan Mitchell** explains how your marketing spend can be best directed in a world where consumers seek out the information they can trust

Looking for news to give your marketing department sleepless nights? You don't have to look very far. Take these straws in the wind for the advertising industry:

- Since its IPO, shares in Facebook have fallen 40% as scepticism deepens about its ability to turn eyeballs looking at the site into revenue streams. According to industry sources, click-through rates on ads on Facebook are running at about five in every 10,000 views, a performance far worse than Google (around 40 per 10,000).
- Signs that the Web 2.0 digital advertising bubble is in peril come from regulatory and technology sources. If passed, the US Government's recent proposals for a Data Bill of Rights and the EU's proposed data protection legislation could significantly hamper online advertisers' freedom. With Microsoft wading into the debate with its decision to set "Do not track" as the default setting on its latest browser, privacy worries are transforming the digital advertising debate.
- Things aren't all rosy back at the traditional media ranch either. In the UK, favourability ratings for advertising have fallen consistently from around 50% in 1993 to 30% today. Meanwhile, the percentage of UK citizens saying they regard advertising unfavourably has been rising, from around 20% two decades ago to 30% today.

Tim Lefroy, chief executive of the Advertising Association, wrote: "The public's trust and confidence in advertising has fallen through the floor, we have been too slow to ask the big questions… perhaps advertising has missed a trick by failing to properly renegotiate with the society in which it operates."

The advertising industry thus finds itself struggling on two crucial fronts. There's its age-old quest to prove payback to the companies that invest in it (win over the FD, in other words) and it also has to handle a public trust and approval problem.

LET THE CUSTOMER DO THE WORK

Is there a way through this impasse? New developments from within and outside the industry suggest there might be. They could alter both the content and process of advertising to generate new win-wins between advertisers and consumers.

The first development is driven by technology. One unstated assumption of modern advertising is that it's an advertiser-driven process: they choose what messages to send to which audiences. The only problems (big ones, unfortunately) are how to ensure the message actually gets through and how much it costs to do so.

But what if we turned the process on its head? Instead of sellers seeking out and communicating with potential buyers, why not empower consumers to go to market with messages about what they are interested in buying, and when?

This notion of "intent casting" (the process whereby individuals inform potential suppliers about their intention to buy in a way that protects their privacy) has long been discussed theoretically amongst groups such as Harvard Law School's Project VRM. Vendor relationship management (VRM) is a service that helps customers manage

ELLY WALTON/IKON IMAGES

30%

of customers say they feel unfavourable towards advertising

100m

minutes of training docked by users of Nike Training Club iPod app

5

click-throughs per 10,000 views on Facebook

> "The public's trust and confidence in advertising has fallen through the floor"

their relationships with their suppliers, as opposed to customer relationship management (CRM), which helps companies manage their relationships with customers.

Intent casting has also been mooted in books such as Doc Searls' *The Intention Economy*, published by Harvard Business Review Press in May 2012. But now some big players are trying to turn theory into practice. Most significant of these is SWIFT, the international banking payments network, which has identified permission-based information and data sharing as its next big opportunity. It has started building a new data-sharing infrastructure, called a digital asset grid, that makes intent casting by consumers viable on a mass scale. SWIFT will be unveiling progress on this project at its annual Sibos conference in Japan later this year (for more information visit bit.ly/T1cRAj).

Intent casting won't solve all of advertising's problems. It doesn't address basic challenges of brand awareness, for which mass advertising remains perfectly suited, and it's not likely to work in low-cost, high-frequency markets such as packaged goods.

But in markets for less frequently purchased, high-price items such as cars, holidays or mortgages, it could transform the economics of advertising by stripping out guesswork and helping both consumers and advertisers talk to the right people about the right things at the right times.

FIGHTING WITHOUT FIGHTING

While intent casting potentially transforms the processes by which advertising works, the fast-growing concept of "advertising as a service" prompts a rethink of the content brand offer in their interactions with consumers.

Advertising as a service can take many forms. When VW was planning the launch of its latest Golf GTi in the US, for example, it was confronted with an increasingly familiar problem: a high proportion of its core target audience was spending more of its time and attention online than watching television.

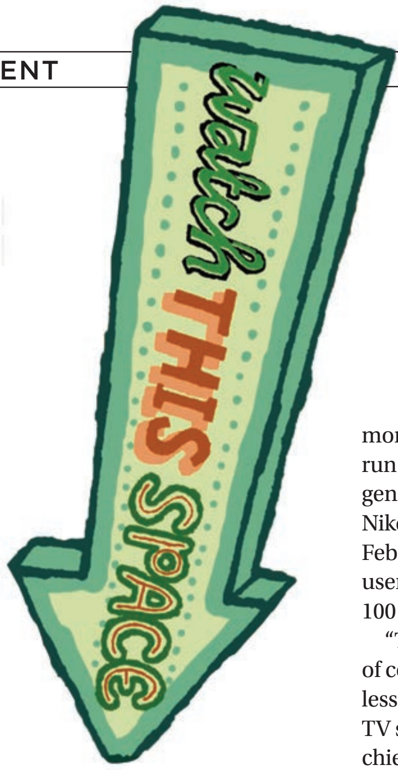
The new GTi's target market was "a tech-savvy individual, who enjoys social networking, playing games, and spending time on mobile devices," noted Charlie Taylor, general manager of digital marketing at VW.

So VW embarked on a bold experiment. It didn't spend a penny on advertising. Instead, it produced *Real Racing GTi*, an app for both the iPhone and iPad. The app, created by professional game designers, rose instantly to the top of the apps charts in the US and in 35 other countries. It had a viral component (it was easy to post videos of your favourite race on YouTube). It contained good, old-fashioned promotions (top race performers had the chance to win their customised car). It also made it quick and simple for would-be customers to book a test-drive.

Dealers reported an 80% leap in sales leads. VW had achieved its main marketing goals at a fraction of the cost of a traditional car launch, in a way that positively boosted the brand's image. In Taylor's words it "solidified Volkswagen's decision to break free from more traditional launch methods and activities". Bruce Lee called his martial arts style "fighting without fighting". This is advertising without advertising.

VALUE ADDED

There are many ways of interpreting the success of *Real Racing GTi*. You could say it's all about going digital, the power of word of mouth, or of trendy new concepts such as gamification. But there is a more powerful, if slightly more prosaic, answer: the initiative succeeded because, as well as sending a



message about the brand and the product, it also gave its audiences something they valued. It was, if you like, a product in its own right. It met a consumer need.

GIVE TO RECEIVE

The same basic idea is now popping up in many different quarters. At supersavvyme.co.uk – a website run by Procter & Gamble (P&G) – there are plenty of mentions of P&G products, plenty of opportunities to get free samples and to review new products as they come to market. But most of the site doesn't talk about P&G brands at all. It talks about health and wellbeing, home and garden, family life and food.

In other words, it provides information that is interesting and valuable to consumers, talking about what they want to discuss rather than trying to focus their attention on its own message. Likewise Pampers.com has very little to say about nappies but a lot of advice about parenting young babies.

Focusing on what's valuable to the audience seems to work for P&G. Supersavvyme has attracted over one million registered users, with 52,000 of them coming back to the site every day. That's a massive level of engagement for a fraction of the cost of a traditional advertising campaign.

ROAR POWER

Perhaps the cleverest exponent of "advertising as a service" is Nike. It's no stranger to big-budget advertising. Global ad campaigns featuring sports celebrities are part of its stock in trade. But recently it has been getting more bang for its buck from a different line of activity.

Nike+ is an app that measures and records the distance and pace of users' walks and runs. Nike FuelBand goes a step further, helping users track their day-to-day activity and measure it in terms of NikeFuel (a kind of branded version of calories). Nike Training Club provides personal training advice about the workouts needed to achieve specific fitness goals. These are all services that help Nike users pursue their own goals, but also putting the brand in front of users' eyes again and again. And they get the brand talked about. With its "Cheer me on" feature, for example, Nike+ users can alert friends when they are going for a run. If a friend comments on or "likes" the runner, they hear a stadium roar through their headphones.

Take-up figures are impressive. The Nike+ digital community now boasts more than 8.5 million members with more than 600 million miles run. Nike+ devices have generated 27 billion units of NikeFuel since its launch in February. Nike Training Club users have docked over 100 million minutes of training.

"That's 100 million minutes of connection with the brand at less than the cost of a 30-second TV spot," notes Ajaz Ahmed, chief executive of AKQA, the digital agency that helped Nike produce these services.

> The better the service, the stronger the connection – the emotional payoff and true value delivered from services beats the ads

SERVICE WITH A SMILE

Stefan Olander, Nike's head of digital sport, is very up-front about the thinking behind this strategy. Marketing communications shouldn't have to interrupt your day, he argues. "Instead they should be of service to you: useful, interesting, well-designed and offering something indispensable. The better the service, the stronger the connection. This replaces most old models because the emotional payoff and true value delivered from services beats the ads – an idea explored in my book *Velocity: The Seven New Laws for a World Gone Digital* (by Ajaz Ahmed and Stephen Olander, Vermilion)."

It's an old cliché in technology circles that technology revolutions unfold at a slower pace than anyone expects, but then end up having a much bigger impact too. With intent casting and advertising as a service, two deep assumptions of the industrial age are being challenged.

The first assumption is that commercial communications, such as advertising, are and will always be top-down processes controlled by the advertiser. That fitted an era of top-down communications technologies such as TV and print. But in a world where individuals can express their opinions and upload their data as easily as any company this assumption no longer holds true. Intent casting may not be the answer to advertising's problems, but it may be part of the answer.

The second industrial age assumption was that consumer value was embedded in the product or service – and that information about that product or service in the form of one-way communications was there to promote and sell it. While the product was designed to meet the needs of the consumer, its advertising was designed to meet the needs of the seller.

The drawback to this division of labour between the product and its advertising is that it gives consumers no real reason to pay attention to ads, or even trust them. By treating advertising as a product like any other – something that has to pass the test of consumer value – advertising as a service tackles this attention/trust challenge.

Developments like these do not herald the death of traditional advertising. Good old-fashioned brand awareness remains as important as ever, and it's best delivered by mass media. But these developments do suggest that deep down in the bowels of the advertising industry some important structural changes are afoot. These changes could address the twin challenges of economic efficiency and consumer trust in surprisingly innovative and powerful ways.

Alan Mitchell is strategy director at Ctrl-Shift and a former editor of *Marketing Week*

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Official fuel consumption for the Volvo Business Edition range in mpg (l/100km): Urban 28.5 (9.9) – 57.7 (4.9), Extra Urban 47.9 (5.9) – 72.4 (3.9), Combined 38.2 (7.4) – 65.7 (4.3). CO_2 Emissions 171 – 114g/km.
MEMBER REWARDS PARTNER
ICAEW
COMPANY CAR DRIVER INFO: Benefit In Kind rate for the 2012/2013 tax year on the Volvo Business Edition range from 16% to 26%. By way of example company car tax payable being £55.17 to £125.69 per month for a 20% taxpayer and £110.35 to £251.38 per month for a 40% taxpayer. Monthly amounts are a guide only. Final car tax payable may be lower or higher and will depend on other factors including final list price of car with accessories and options and any employee capital contributions or payments made towards private use. Excludes private fuel. Advice should be taken.
*S60 T3 Manual Business Edition.
Image shows Volvo S60 with optional metallic paint, BLIS (Blind Spot Information System), Winter Pack and Accessory Front Skid Plate.