Intangibles at the heart of enterprise strategy

Close to half of enterprises - whether groups, or companies that are not members of a group - have an explicit management approach to at least one intangible component of their activity: marketing, innovation, research and development (R&D), or intellectual property protection. Advertising is the most prevalent policy implemented, by four in ten of the smallest enterprises, by half of enterprises with 10 to 249 employees, and by virtually all enterprises with 1,000 or more employees. Size plays a greater role in the other three intangible areas. The percentage of enterprises with 1000 or more employees involved in product or process innovation is seven times higher than for enterprises with less than ten employees; the ratio is thirteen to one for R&D, and ten to one for ownership of a brand or trademark. Quite logically, enterprises in the trade sector own a brand or trademark more often, while manufacturing enterprises have more patent filings. Differences in behavior are far less pronounced between enterprises involved in the same intangibles policy area, even when their size differs: the principal rationales given for the policy, monitoring of the policy, and the perception of its effects, often exhibit little sensitivity to size, or even to sector. What distinguishes large enterprises is the greater variety of reasons they indicate.

Note: Results not significant in trade and the services.

Source: 2005 Intangibles Survey, Insee-Sessi
Intangibles are playing a growing role in the activity of enterprises. Marketing, innovation, research and development (R&D), and intellectual property protection, as well as information or knowledge management, are now full-fledged components in the strategy of companies and groups. Further, for companies that belong to a group, the related strategies tend to be set at the group level, rather than in each of its companies. In the statistical survey conducted on the topic, it was decided to focus on the management of four aspects of intangibles: marketing, innovation, R&D, and intellectual property protection, within individual companies (when they are not members of a group), or within the group itself. For the sake of simplicity, the term "enterprise" will be used here to refer to both types of units.

The importance of intangibles is illustrated by the fact that nearly half of enterprises have set up an explicit management policy for at least one of the four aspects (see chart).

**Advertising: the most important area**

Marketing policy, as the first element in every enterprise's strategy, is the most widespread of the four practices. Enterprises with less than ten employees are considerably less active in marketing and advertising than the largest enterprises, but 38% of them report having at least one advertising action, while 95% of enterprises with 1000 or more employees advertise. Unsurprisingly, a distinguishing feature of enterprises in the trade sector, particularly those with 10 to 249 employees, is their greater utilization of marketing strategies, and their greater use of brands and trademarks, than the other sectors.

Marketing assumes various forms, with a fairly even breakdown between the media (print press, broadcasting, billboards, and Internet advertising), and other marketing actions (sponsorship, participation in joint campaigns, and improvement of the Internet site); most enterprises use several types of actions concurrently.

**First, publicizing existing products to new customers**

Four enterprises in ten report they have at least one marketing action. The proportion is twice as high among innovating enterprises, irrespective of size or sector. For enterprises of all sizes, marketing existing products known to new customers is the leading reason given for marketing actions. Raising brand awareness, launching new products or rejuvenating brand image are the main reasons reported by enterprises with 250 or more employees (see chart). Few enterprises report that their own marketing actions are undertaken to counter competitors' campaigns. This situation is reported fairly often only by enterprises in the trade sector.

**Monitoring the effectiveness of actions undertaken**

60% of enterprises with a marketing policy report that they monitor the effectiveness of marketing, via an awareness indicator, return on investment, or comparison with competitors. The proportion shows little variability with size or sector. Tracking return on investment is the action most often reported.

**A standard for the marketing budget?**

Close to 40% of enterprises with less than ten employees report they have a marketing budget, as do virtually all units with 1000 or more employees. Half of enterprises report they devote over 1% of turnover to marketing.

The relative homogeneity of behavior observed here suggests there may be some de facto standard for marketing budgets. One-fourth of the large enterprises in the trade sector stand out, however, with a budget exceeding 3% of turnover; and 10% of service sector enterprises with less than 250 employees devote over 9% of turnover to marketing. Finally, foreign-based groups have a different position; more of them report non-media marketing actions, and the smaller foreign-based groups devote an even higher budget, possibly to compensate for an image shortfall in France.

**Innovation: first, new products...**

Between 2002 and 2004, one in five enterprises with ten or more employees reported having innovated in products, processes, marketing or organization. The percentage of enterprises that innovated is nearly seven times higher in large units than in small units.

Product innovation was reported by 80% of innovating enterprises, ahead of process innovations (by approximately 50%). These two conventional forms cover the main part of innovations reported. Marketing and organizational innovations were reported by only a third of innovating enterprises. Finally, only 5% of innovating enterprises, essentially very large units, reported breakthrough innovation.

**... to meet a specific demand expressed by customers**

For over three-fourths of innovating enterprises, innovation is driven primarily by a marketing objective: meeting specific requirements expressed by customers. Targeting a new market, countering the competition and, to a lesser extent, exploiting R&D opportunities, are primarily matters for manufacturing enterprises with 250 or more employees.

In the manufacturing industry, enterprises’ responsiveness to action by their competitors increases with size; while 20% of enterprises with less than ten employees make decisions based on what their competitors do, the portion exceeds 70% for manufacturing enterprises with 1000 or more employees. In the distributive trades and services, the portion is roughly four out of ten enterprises, irrespective of size.

**Innovative products account for a greater portion of turnover in small innovating enterprises**

Three out of five innovating enterprises report that their innovations have had a positive effect on their market share in the three most recent years; this varies little with the enterprise’s size or sector. On the other hand, the portion of turnover generated by innovative products is higher for small innovating enterprises: one-fourth of those with less than 250 employees generate at least 15% of their turnover with innovative products marketed in 2003. For enterprises with 250 or more employees, those products account for only 10% of turnover.

**R&D: especially in very large or very small structures...**

Nearly 85% of enterprises active in R&D have developed innovations in the past three years. But only 30% of enterprises that innovated conduct R&D in France.

Two-thirds of enterprises with 1,000 or more employees - and even 90% of large manufacturing enterprises - report conducting R&D in France: R&D is thus the intangible component that is most strongly concentrated in the large units. Yet there is also a population of small service-sector enterprises that are very active in R&D.

The action most often cited, particularly in manufacturing and the services, involves setting up long-term R&D projects. On the other hand, the
<table>
<thead>
<tr>
<th>Enterprises with policies for intangibles (%) *</th>
<th>At least one area of action</th>
<th>Marketing and advertising</th>
<th>Innovation</th>
<th>R&amp;D in France</th>
<th>Protection of intellectual property</th>
<th>The four areas of action</th>
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</thead>
<tbody>
<tr>
<td>Total</td>
<td>45</td>
<td>39</td>
<td>13</td>
<td>6</td>
<td>12</td>
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<td>Total weighted by employees**</td>
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* Percentages in this table are based on numbers of enterprises, except the "Total weighted by employees" line.
** Reading the data: this line indicates, e.g., that 70% of employees work in an enterprise that has marketing actions.

Source: 2005 Intangibles Survey, Insee-Sessi

The largest enterprises are distinguished by more qualitative actions, such as R&D partnerships and hosting researchers, than other enterprises.

... to maintain a reputation for excellence, before all else

The first reason for an enterprise to engage in R&D is to maintain the enterprise’s reputation for excellence; this reason ranks ahead of the need to maintain a high pace of innovation or to acquire new skills to deal with technical change.

Major R&D efforts for some small enterprises in manufacturing and the services

Enterprises reporting an innovation do not always have an R&D budget. Less than one-third of innovating enterprises report an R&D budget. The proportion exceeds 80% for large manufacturing enterprises. The innovation model based on intensive research and development is rare: only 10% of innovating enterprises report R&D budgets greater than 10% of turnover.

Half of enterprises that conduct R&D in France report R&D budgets below 4% of turnover. The extreme values come from highly specific populations, among the small enterprises in manufacturing or the service sector. These are primarily technical design offices, and service companies specialized in IT, that consider that their economic activity is to some extent related to R&D.

Protection: especially a concern for large enterprises

The largest enterprises are eight times more likely to have a policy for intellectual property than the smallest. Among the relevant units with 1000 or more employees, 90% have at least one brand or trademark, 70% use at least one form of innovation protection (filing patents, designs or models; or a simpler form such as the "envelope Soleau" sealed envelope deposit system), and 30% are copyright holders. One in five is active in all the intellectual property areas.

The form of protection is also a function of size. For innovating enterprises with less than ten employees, the filing of designs or models is the most widely utilized form of protection, as it is used by 10% of enterprises, compared with 7% that use the sealed envelope deposit system, and less than 1% that make patent filings. For innovating enterprises with 1000 or more employees, patent filing is the most widespread method; it is used by 70% of innovating enterprises, compared with 46% that use the sealed envelope deposit system, and 42% that file designs or models.
Enterprises may use information from patents, designs and models filed by other parties. They may also be deterred from pursuing research in some areas due to the existence of patents, designs or models. This concerns essentially large innovating enterprises— which conduct a broader analysis of the issues of innovation and protection of innovation. When they give reasons for not protecting their innovations, they use all the arguments proposed on the questionnaire: their products do not lend themselves to protection; a decision to preserve secrecy; and the ineffectiveness and/or cost of legal protection. For small enterprises, the absence of innovation is often the reason they take no action in this area.

Deterring imitations and improving the enterprise’s position in partnering agreements are objectives as important as exploiting inventions for economic gain (see chart). One-third of enterprises—both very small enterprises and the largest—report they protect their innovations in order to earn income from them. Once again, we find a population of small, very active enterprises, alongside the largest ones, in reporting copyright or neighboring rights. These are often service companies specialized in publishing, artistic production, and information technology. The protection afforded by intellectual property rights is of strategic importance for these enterprises.

Elisabeth KREMP
Luc TESSIER

Additional data available at:

The "Managing Intangibles Assets: Means and Methods" survey

The "Managing Intangibles Assets: Means and Methods" survey was designed by Insee and the ministerial statistical offices (MSOs) that gather and analyse statistics on the fields for which their respective ministries are responsible; these are SCEES in the Ministry of Agriculture, SESP in the Infrastructure and Transportation Ministry; SESSI in the Ministry in charge of Industry, and DEP in the Ministry in charge of Research. The survey was conducted in late 2005 by Insee (specifically, by the Pays de la Loire regional office) for enterprises that do not belong to a group, and by Sessi for groups. The aim was to identify enterprises’ policies for intangibles in four areas: communication (marketing), innovation, R&D, and intellectual property protection, by quantifying the policies conducted, their rationales, and perceived effects, and to estimate the human and budgetary resources involved.

Approximately 20,000 units were surveyed in the following sectors: manufacturing, distributive trade, the services, construction, and transportation. The surveyed units include individual companies that are not members of a group, and approximately 2,000 enterprise groups that were each surveyed as a unit or by divisions, because decisions regarding intangibles are often made at the level of the group or its operational divisions. In all cases, in this issue of "Le 4 Pages" the term "enterprise" refers to the unit (whether enterprise, operational division, or group) concerned by the relevant decision level, as identified by a telephone pre-survey. In all, given the response rate, the questionnaires from 7,040 enterprises, including 831 groups, were analyzed. Enterprises have been grouped into three broad sectors: manufacturing (including construction), distributive trade, and the services (including transportation).

In some cases, the telephone pre-survey identified groups involved in several business activities, with different strategies for intangibles in various divisions. Such groups were observed and questioned, at their request, by operational division.

The survey covers a population of slightly over two million enterprises, of which 28,000 are organized in groups. The 14 million employees in these enterprises are evenly divided between those working in companies that are not members of groups, and those working in groups; three-fourths of employees working in groups are employed in French-based groups.

Presentation of survey results

Questioning groups as such, rather than their member companies, reduces the number of units questioned, especially in the largest size category. The scope of the survey covers enterprises of all sizes; those with less than ten employees account for 93% of the enterprises in the scope, and 28% of total employees. Therefore, taking the total for the entire population, stated as a number of enterprises or groups, would result mainly in a description of the heterogeneity of behavior is partly related to size, it is useful to break down the results by size category, and to limit the discussion of the total combined data. An alternative would involve weighting the enterprise data by number of employees, and computing the percentages on that basis. This has the drawback of being harder to interpret, and has been used here for only one line in the table.

There is a strong link between size and type of organization (i.e., whether or not a company is a member of a group). The largest enterprises are generally organized as groups. It is therefore important to neutralize these two effects. This is examined in a forthcoming issue of "Le 4 Pages" that focuses on the impact of organization in groups, and analyzes the issues specific to groups regarding their methods for managing intangible assets (e.g., decision making methods, and the location of R&D).