

VMI

Intellectual Capital Statement

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VMI

Zone Industrielle Nord

86507 MONTAIGU

Didier SOUMET

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Preface

Intellectual Capital Statement – Made in Europe

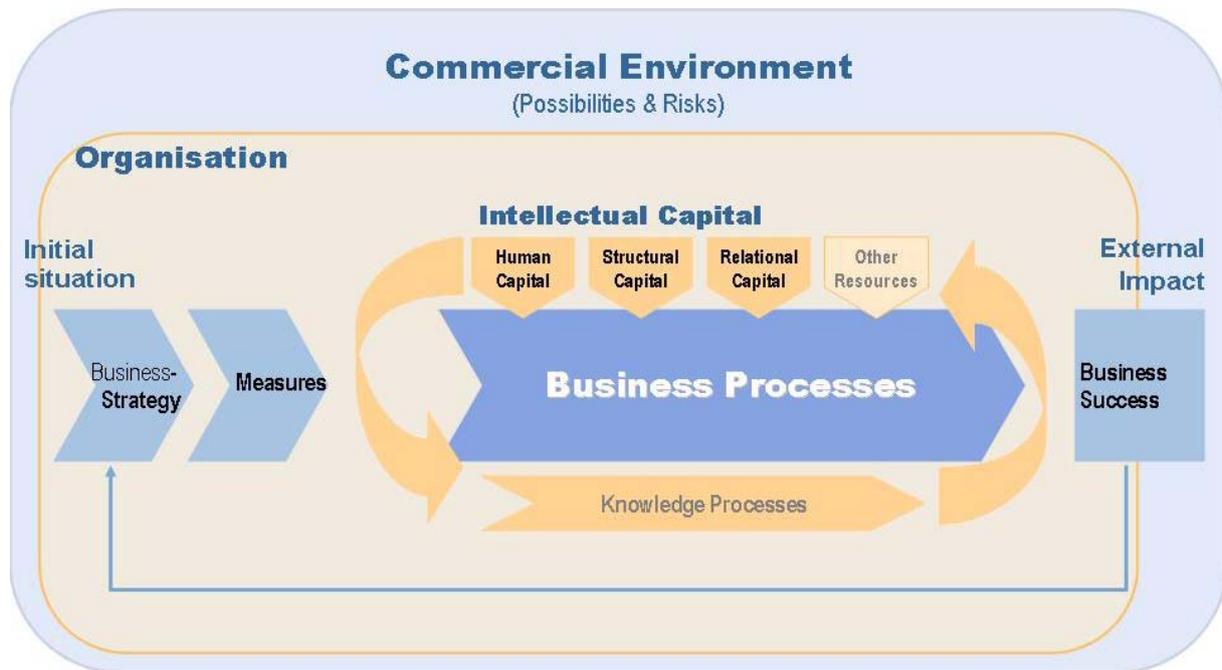
To obtain competitive advantage in Europe, it is crucial for small and medium sized enterprises (SMEs) to utilise knowledge efficiently and to enhance their innovation potential. Furthermore, reporting those intangible assets systematically to customers, partners and investors, as well as creditors has become a critical success factor. Thus, managing their specific “intellectual capital” (IC) becomes increasingly important for future-oriented organisations. Conventional balance sheets and controlling instruments are not sufficient any more, because intellectual capital like specific Know-How and good business relations are not considered so far. The Intellectual Capital Statement (ICS) is an instrument to assess, to report and to develop the intellectual capital of an organisation.

Due to the emerging need to cover intellectual capital the project InCaS “Intellectual Capital Statement – Made in Europe” had been initiated by the European Commission in course of the Sixth Framework Programme. The InCaS project is lead by the European SME association CEA-PME, Brussels, and Fraunhofer IPK Division Corporate Management, Berlin. The collective research project aims to make the existing international experiences applicable for European SMEs. In *France* the ICS implementation in 5 pilot-SMEs, one of which is *VMI*, is coordinated by *AFDEE*.

The participating SMEs are to be qualified to take stock of their specific intellectual capital quickly and in a cost-effective way. Furthermore they should be enabled to edit and communicate the results towards important decision-makers. Thereby the acquisition of customers, partners and new employees is supported and furthermore the access to debt and equity capital is facilitated.

Below the ICS-model is illustrated and the main terms are explained in order to enhance the understandability of the following report.

ICS structural Model



The ICS structural model serves as the frame for the following analysis of intellectual capital and can be described as follows: The strategy including an analysis of the possibilities and risks in the external business environment provides the basis for the ICS. Based on these considerations the SME derives measures regarding the different dimensions of its intellectual capital.

Human capital includes competences, skills and motivation of the employees. The structural capital comprises all organisational and infrastructural instruments, which support the management and the employees in carrying out efficient business processes. The relational capital comprises the relationships to customers, suppliers and other partners as well as to the public.

The ICS reveals the actual value of the intellectual capital regarding its potential to support accomplishing the SME's strategic objectives, production of goods and services and finally achieving business success. Thereby the significance of single IC factors is reflected, revealing the strengths and weaknesses and the highest potential for intervention.

Summary

- What are the company specific strategic objectives?
 - Extend current leadership for baking mixers towards new geographical markets (subsidiary in USA) and to nearby segments (pastry)
 - Develop exports of mixers for the cosmetic industry
- What are your identified strengths?
 - Know how
 - Reactivity
 - Profitability → resources for projects
- Where are the fields of intervention and what are the measures / perspectives?

ACTIVITIES :

- Production/sale/maintenance of kneading machines
- Industrial mixers for pharma, food, cosmetics, chemical, paint industries
- Consolidated 2006 SALES : 50.5 M€ in many countries
- ORGANISATION: 4 Departments : Kneading Industry (vmi) / Kneading Artisans (VMI / Mixing (Rayneri) / After sales service + Italian subsidiary

1 Business Model

1.1 System Boundaries

This Intellectual Capital Statement reports on the company VMI.

This comprises 220 employees in Nantes, France (headquarters), and 25 in Italy.

1.2 Value Creation Model

VMI is specialised in developing and installing mixing equipment, mainly in the bakery systems segment, and in some other industries, e.g. chemicals and cosmetics.

VMI is one of the world top players in the specialised market of bakery mixers. In the segment of chemicals and cosmetics VMI/Rayneri are among the 4 leading suppliers in France.

Main markets are in Western and Southern Europe, USA and Japan. Some key customers are: Mapple Leaf, Pasquier, Grands Moulins de Paris (Délifrance,...), Bimbo, Panrico, Mercadona, Frida Alimentaria, Jacquet, Harry's, Nestlé, Schöller

Main competitive advantage is a high level of technical innovation, especially in the quality of kneading.

Main business processes to deliver this value to our customers are:

BP-1	Sales & Sales Admin	<ul style="list-style-type: none"> • Direct Sales force • Distributors follow up • Sales Admin except offers
BP-2	Production	<ul style="list-style-type: none"> • Quotation • Layout • Detailed engineering • Purchasing • Assembly • Onsite installation & Commissioning
BP-3	R&D	<ul style="list-style-type: none"> • New technologies • Product development
BP-4	Management & Support	<ul style="list-style-type: none"> • Finance, • Human Ressources, • Information Technologies, • Documents & Records, • Maintenance, • Quality • Strategy • Monitoring: Indicators, internal audits • General Management
BP-5	After Sales Services	<ul style="list-style-type: none"> • Onsite Trouble shooting • Hotline and Customer support • Spare parts supply to customers

1.3 External Business Environment

Opportunities:

- Trend to industrial bread
- Geographic expansion of “European” bread type
- Expansion of EU (concentration of customers)

Risks:

- Euro exchange rate
- Chinese competition

1.4 Strategic Objectives

Develop position as a specialist of mixing equipment for bakery, cosmetics and chemical sectors through

- Geographical expansion
- Sector expansion (customer segments close from current business, new fields of application):

Action Plan 2007:

- Start a new subsidiary in USA
- Improve personnel management
- Improve personnel hiring for temporary technical workforce

The two main business success factors to monitor this strategy are:

BS-1	Growth of revenues with stable EBIT %	Optimise all components of profitability:• Design of products (reduction of production cost or new added features allowing higher selling price)• Purchases of subcontracted parts
BS-2	Market position	strengthen export market, stay specialised leading player in segment of mixing (not expanding to other steps of the bakery value chain), expand core competence of mixing to other markets (geographically or other applications)

2 Status Quo of Intellectual Capital

2.1 Definitions

2.1.1 Human Capital

Human Capital is the generic term for the competences, skills and motivation of the employees. The Human Capital of the organisation comprises all qualities and professional skills the employee brings into the organisation. It is "owned" by the employee and leaves along with him the organisation.

HC-1	Professional Competence	The expertise gained within the organisation or in the employee's career: professional training, higher education, training courses and seminars, as well as practical work experiences gained on-the-job. Engineering know-how, language (sales admin), computing training (SAP), compulsory training for electrical devices (following law "management of employment and expertise")
HC-2	Social Competence	The ability to get on well with people, communicate and discuss in a constructive manner, nurturing trust-enhancing behaviour in order to enable a comfortable co-operation. Furthermore the learning ability, the self-conscious handling of critique and risks as well as the creativity and flexibility of individual employees are embraced in the term 'social competence'
HC-3	Employee Motivation	The motivation to play a part within the organisation, to take on responsibility, committed to the fulfilment of tasks and the willingness for an open knowledge exchange. Typical sub areas are for example satisfaction with the labour situation, identification with the organisation, sense and participation of achievement.
HC-4	Leadership Ability	The ability to motivate and lead people; develop, communicate and implement strategies and visions. Negotiation skill, assertiveness, creditability, working on one's own responsibility, creativity, being proactive

Fig. 1: List of VMI human capital factors

2.1.2 Structural Capital

Structural Capital is the generic term for all structures deployed by the employees to carry out the business processes. The structural capital is owned by the SME and remains with the organisation to the largest extent when the employee leaves the company.

SC-1	Internal Co-operation, Coordination & Knowledge Transfer	The manner how employees, organisational units and different hierarchy levels exchange information and co-operate together (e.g. conjoint projects). The focused knowledge transfer among employees. Furthermore the focused knowledge transfer between generations is noticeable
SC-2	Corporate Culture	The business culture comprises all values and norms, influencing joint interaction, knowledge transfer and the working manner. Compliance to rules, good manners, "Do's and Don'ts" and the handling of failures are important aspects in the process.
SC-3	Information Technology & Explicit Knowledge / Knowledge data base organisation	The computer assisted working environment including all elements of explicit knowledge. Among these are for example specific technical operating principles, networks, fileserver, intra- and extranet, databases, internet and software applications including the content
SC-4	Product innovation	Optimisation and improvement of internal precesses e.g. continuous improvement processes, innovation management.
SC-5	Process Innovation	
SC-6	Management Instrument	Indicators, meetings (structure) for different lines of business (bakery, chemical/cosmetics): strategy assessment, budgeting, action plan, business plan (sequence starting in January) forecast for next year

List of VMI structural capital factors

2.1.3 Relational Capital

Relational Capital is the generic term for all relationships to external groups and persons established by the organisation, e.g. customer relationships, supplier relationships, and the relationships to other partners and the public.

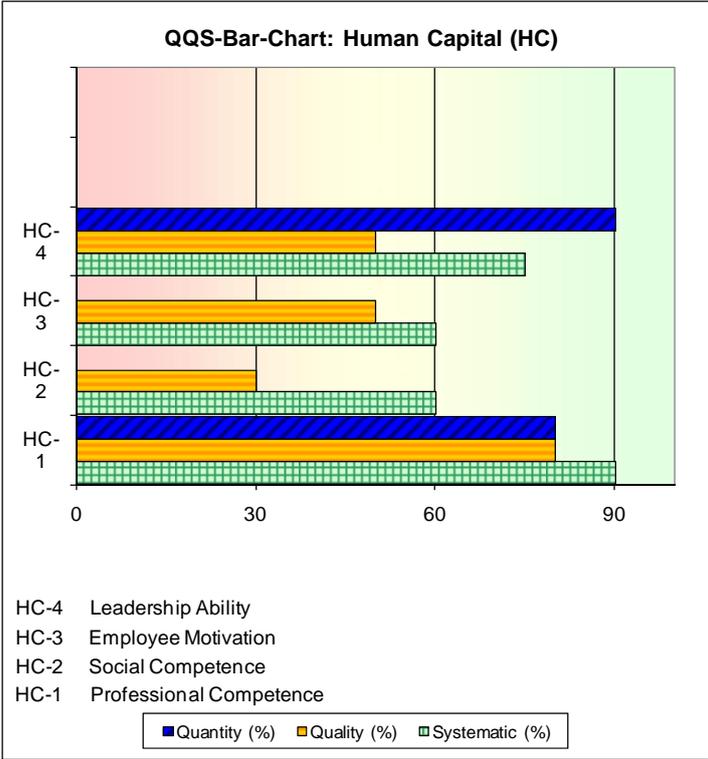
RC-1	Customer Relationships	Customer Relationships	The relationship to former, current and potential customers. The management of these relations comprises activities like sales and marketing, CRM and face-to-face customer cultivation by employees
RC-2	Supplier relation ship	Supplier relation ship	Relationship to the public. Including the relationship to former and potential employees and the public in general, all activities of public relationship management as well as corporate citizenship, e.g. supporting regional activities.

- Preference given to direct access to customers
- Strong sales team for a dense and direct relationship with customers.
- CRM software implemented for 1 department

2.2 Assessment

2.2.1 Human Capital

QQS-Bar-Chart: Human Capital of VMI

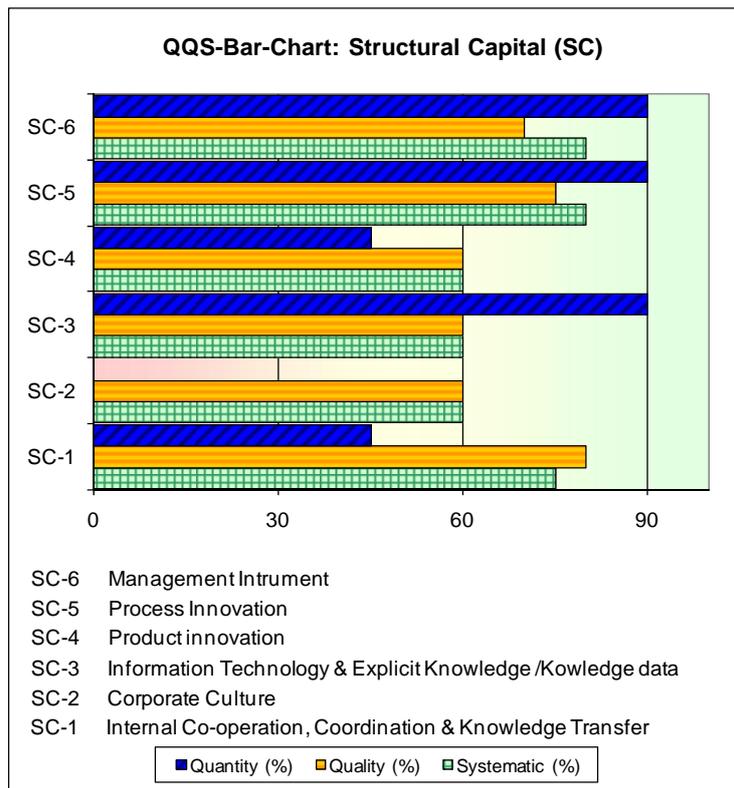


Interpretation:

The professional competence is high in quantity and quality, supported by a systematic of training and hiring.

2.2.2 Structural Capital

QQS-Bar-Chart: Structural Capital of VMI

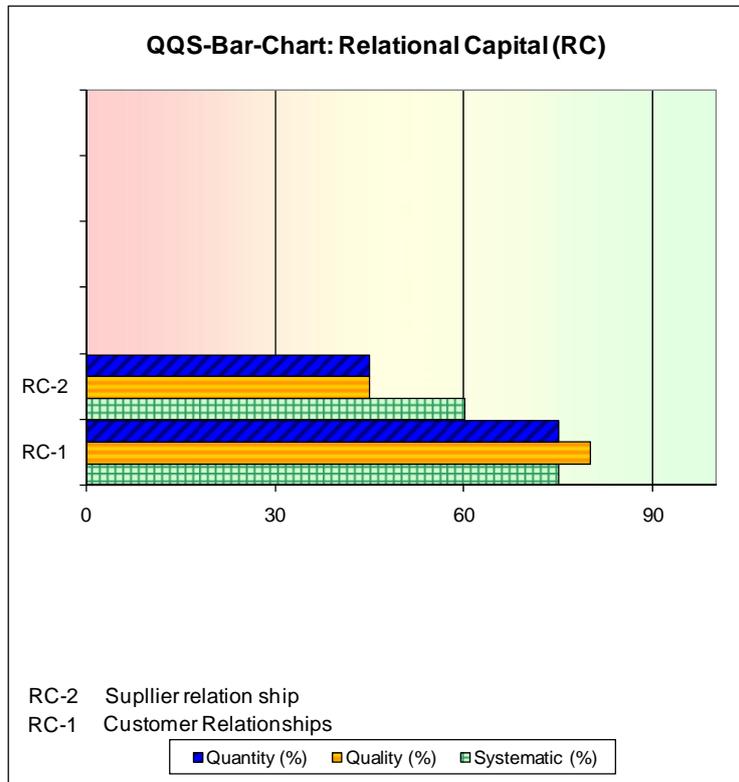


Interpretation:

See comments in the QSS assessment (reasoning column)

2.2.3 Relational Capital

Example: QQS-Bar-Chart: Relational Capital of VMI



Interpretation:

See comments in the QSS assessment (reasoning column)

3 Development of Intellectual Capital

3.1 Strengths and Weaknesses

List of VMI Summary QQS-Assessment

Summary	Quantity (%)	Quality (%)	Systematic (%)	Mean Value (%)	Improvement potential (%)
Human Capital	85	53	71	70	30
Structural Capital	72	68	69	70	30
Relational Capital	60	63	68	63	37
Total	72	61	69	67	33

Interpretation:

The highest potential for improvement is for the Human capital. This is no surprise as VMI is in the middle of the transition between a smaller talented company towards a "bigger" more anonymous company.

Summary QQS-Assessment of VMI

QQS-Overview							
IC type	ID	IC Factor	Quantity (%)	Quality (%)	Systematic (%)	Mean Value (%)	Improvement potential (%)
Business Processes	BP-1	sales & sales admin	60	60	90	70	30
	BP-2	Production	60	60	60	60	40
	BP-3	R&D	60	60	90	70	30
	BP-4	Management & Support	90	60	90	80	20
	BP-5	After Sales Services	90	60	90	80	20
Business Success	BS-1	Growth of revenues with stable EBIT %	90	60	90	80	20
	BS-2	Market position	90	60	60	70	30
Human Capital	HC-1	Professional Competence	80	80	90	83	17
	HC-2	Social Competence		30	60	45	55
	HC-3	Employee Motivation		50	60	55	45
	HC-4	Leadership Ability	90	50	75	72	28
Structural Capital	SC-1	Internal Co-operation, Coordination & Knowledge Transfer	45	80	75	67	33
	SC-2	Corporate Culture		60	60	60	40
	SC-3	Information Technology & Explicit Knowledge /Knowledge data base organisation	90	60	60	70	30
	SC-4	Product innovation	45	60	60	55	45
	SC-5	Process Innovation	90	75	80	82	18
	SC-6	Management Instrument	90	70	80	80	20
Relational Capital	RC-1	Customer Relationships	75	80	75	77	23
	RC-2	Supplier relation ship	45	45	60	50	50

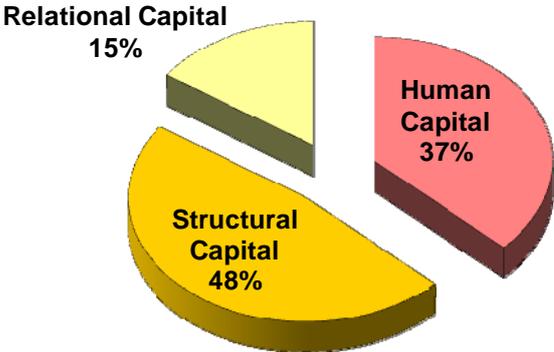
Interpretation:

The social competence is the factor with the highest potential for improvement in the short/medium term. Improvement of product innovation is more important but is taking more time to be implemented and efficient.

3.2 Weighting

Weighting of the three types of capital

Weighting of Intellectual Capital

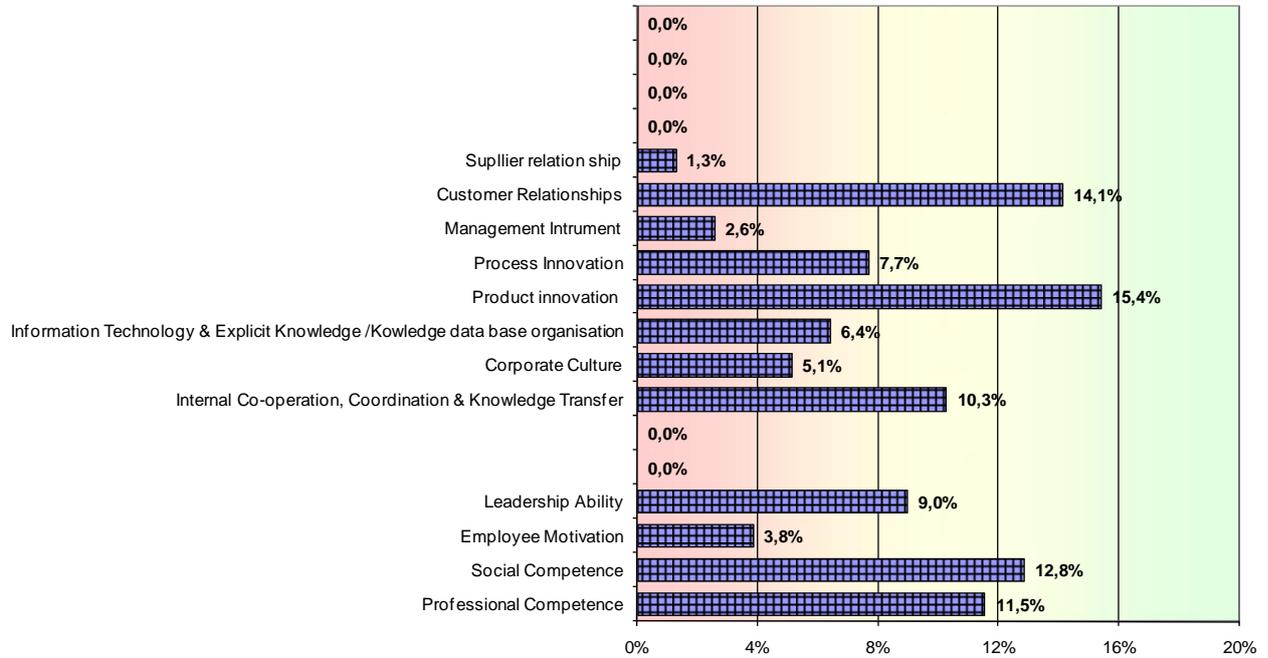


Interpretation:

The ranking seems logical with structural capital on top. The impression is that the human capital might have been a bit over estimated at the light of current issues.

Weighting of the IC factors of VMI

Weighting Score



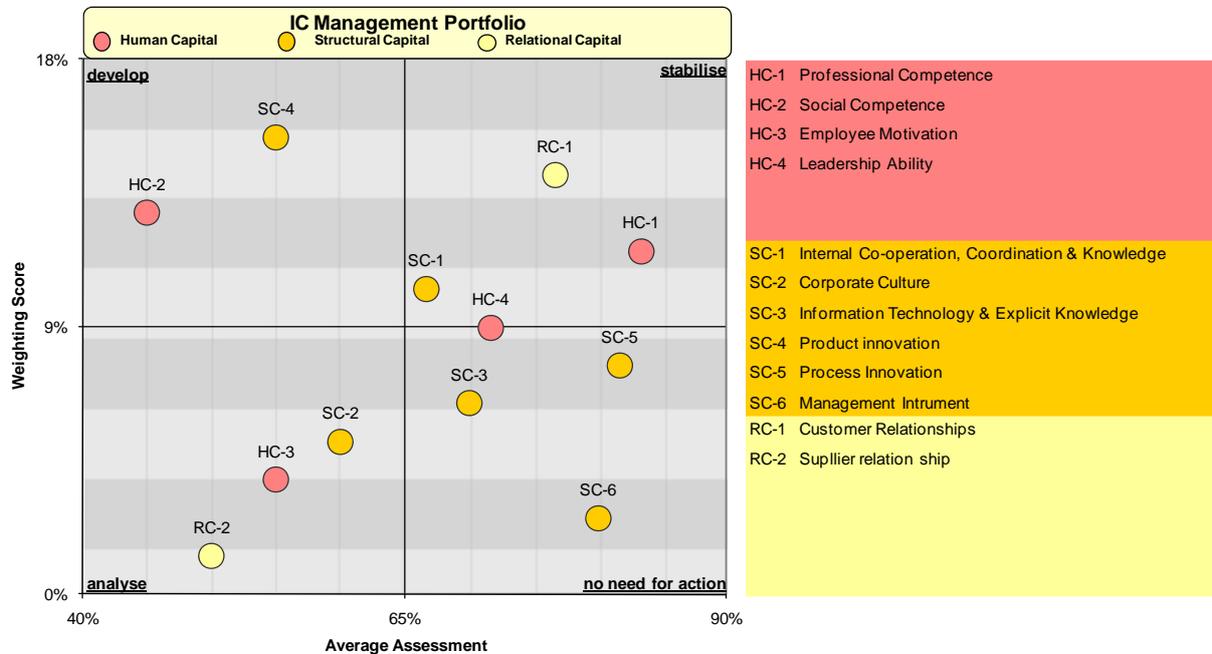
Interpretation:

The impact scoring should be made with more persons. It is likely that the differences between evaluation of the impacts would be bigger than the differences in the evaluation of the QQS.

The ranking here above seems quite normal. The only "surprising" element is the 12,8% of "social competence". Maybe this figure depends a bit too much on a single person interviewed having the problem now.

3.3 Fields of intervention

IC Management Portfolio of VMI



Interpretation:

Actions:

The 2 IC factors to improve are listed hereafter with the corresponding actions taken in 2007 action plan:

- SC4 – Product innovation
 - A 3 years product planning is underway
- HC2-Social competence (6 actions in yearly action plan)