Growth STRATEGIES

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Trend Analysis That Builds Business Decisions

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1 – OUR INTANGIBLE RICHES

Oil, soil, copper, and forests are forms of wealth, writes Ronald Bailey in *Reason*. So are factories, houses, and roads. But according to a 2005 study by the World Bank, such solid goods amount to only about 20% of the wealth of rich nations and 40% of the wealth of poor countries.

So what accounts for the rest? World Bank environmental economist Kirk Hamilton and his team in the bank's environment department have found that most of humanity's wealth isn't made of physical stuff. It is intangible. In their extraordinary but vastly underappreciated report, *Where Is The Wealth Of Nations?: Measuring Capital for the 21st Century*, Hamilton's team found that "human capital and the value of institutions (as measured by rule of law) constitute the largest share of wealth in virtually all countries."

The World Bank study defines ***natural capital*** as the sum of cropland, pastureland, forested areas, protected areas, and nonrenewable resources (including oil, natural gas, coal, and minerals). ***Produced capital*** is what most of us think of when we think of capital: machinery, equipment, structures (including infrastructure), and urban land. The rest is ***intangible capital.*** That encompasses raw labor; human capital, which includes the sum of a population's knowledge and skills; and the level of trust in a society and the quality of its formal and informal institutions. Worldwide, the study finds, natural capital accounts for 5% of total wealth, produced capital for 18%, and intangible capital 77%.

Social institutions are most crucial. The World Bank has devised a rule of law index that measures the extent to which people have confidence in and abide by the rules of their society. An economy with a very efficient judicial system, clear and enforceable property rights, and an effective and uncorrupt government will produce higher total wealth. For example, the members of the Organization for Economic Co-operation and Development – 30 wealthy developed countries – have an average score of 90, while sub-Saharan Africa's is 28.

This new focus on the importance of social and political institutions marks a dramatic shift away from the World Bank's infatuation with financing mega-projects in poor countries, most of which are failures. As the late economist Peter Bauer knew as long as 35 years ago, if conditions are conducive to development, material progress will occur without foreign aid. If they are absent, it will not occur even with aid.

2 – THE COMING CRISIS IN EMPLOYEE TURNOVER

Most companies take it as an article of faith that they've done right by their employees. Each year performance reviews are given, promotions granted and, in a number of cases, raises and bonuses are handed out. No need, then, for managers to worry about their staffing plan, much less about which leaders and employees will stay or might leave. They're covered, right?

In today's competitive work environment, managers should think again, writes Bernadette Kenney, chief career officer of Adecco, on workforce.com. Such complacency is based on an illusion, making it unwarranted. Leaders and managers are fielding increased recruiter calls, and employees are seeing a swell in help wanted ads. Employees at all levels are taking note of the job market.

According to comScore Media Metric, almost one-third of all American Internet users visited a career services site last January, with job searches on Web sites for Monster, Career Builder and Yahoo! growing by an average of 32% over the previous year.

So beware of the turning tides. With the US economy robust and unemployment at its lowest since 2001, Kenney predicts that the employee quit rate will soar this year. In her view, employee turnover is already threatening to mushroom into a national workplace crisis. And all levels of employees are vulnerable.

Back in the late 1990s, some companies, especially those in the high-tech industry, pulled out all the stops to court job candidates and guarantee employee satisfaction. Then came the dot.com crash, recession and 9/11. The pendulum swung hard and fast. But now the backlash has begun.

Deepening job dissatisfaction, together with the potential shortage of "knowledge" workers and management talent, makes for an explosive combination, a perfect storm that could spur further waves of voluntary job moves and heighten employee turnover. Furthermore, the stigma long associated with jumping frequently from job to job has diminished dramatically and is all but gone. A typical American holds more than 8 different jobs between the ages of 18 and 32 alone. Recent research shows that 85% of American workers expect to be employed by a new company within 12 months. Such statistics weigh on the minds of employers everywhere.

This unprecedented churn is creating disruption for both management and employees. As staff leave, retraining is necessary. This strains company resources and hinders growth. Replacing a full-time, private-sector worker costs, at a bare minimum, 25% of his or her total annual compensation, estimates the Employment Policy Foundation. Productivity nosedives, ultimately cutting into profitability. Short-term turnover, generally defined as leaving a job within a year of being hired, incurs the highest costs. Less tangibly, high turnover fosters a sense of discontinuity in the workplace, unsettling managers and employees. The all-important customer becomes neglected.

Corporate America can win the war against employee turnover, and averting this crisis is imperative to the US economy. Companies with a long-term strategy for talent acquisition and retention will have a significant competitive advantage in the decade ahead. Such strategy would include the following components:

- Make retention a top priority
- Provide your leaders with help on how to lead
- Make your workplace the best that you can

3 – POPULATION GROWTH CHALLENGES THE MIDDLE EAST

Rapid population growth in the Middle East and North Africa carries serious implications for employment, access to services and the cost of subsidies. These could spell serious political consequences in what is already a politically unstable region. So reports Oxford Analytica.

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Since the 1970s the Middle East and North Africa has experienced a dramatic rise in population compared to other parts of the developing world, growing from 127 million in 1970 to 305 million in 2005. This growth runs counter to the trend in other developing countries: slower population growth due to the empowerment of women, better education and employment opportunities, smaller families, higher incomes, and improved health and medical care, life expectancy and infant survival rates.

In the Middle East and North Africa, however, demographic momentum will undermine any small advances on these fronts. Population growth will remain a powerful factor into the future and present serious challenges from a number of angles, including:

- Unemployment (an already bad situation growing worse);
- Job creation (private-sector development is severely hampered);
- The inability of young men to marry (increasing instability);
- Provision of services (utilities, water, electricity, education, health);
- Urban drift (disproportionate rise in urban populations);
- Water and food (availability and security);
- Government expenditures on subsidies (especially if oil prices fall).

Growing population in the Middle East and North Africa presents the most serious challenge to the governments of the region and their stability, concludes Oxford Analytica. While the governments are aware of this and are trying to reduce population growth, the damage has already been done, as "demographic momentum" will ensure the problem remains crucial for at least the next 20 years, if not longer.

4 — CALIFORNIA: STILL THE FUTURE

Yes, California is still the future, as we have been writing in these pages for 26 years. California's economic base is concentrated in sectors with above-average growth potential in the national and world economy. California accounts for 20% of the nation's high-tech jobs and production, 25% of new patents, and 45% of new venture capital. California is the center of innovation in stem cell research and other medical technologies, alternative energy technologies, and new ways to use the Internet for businesses and consumers.

California is the nation's center for rapidly growing trade with China and the Pacific Rim. California has the nation's largest entertainment and tourism sector, and stands ready to benefit from a growing world economy. California has an above-average share of jobs in most high-wage and fast-growing professional services, including computer, architectural, scientific, and management consulting services.

A reasonable expectation is that California will add 3 million jobs, 5 million people, and 2 million households between 2005 and 2015. By 2025 the state's population will have increased to between 44 and 48 million. It will be slightly older, significantly more Latino, and more diverse in every measure. Some other key points:

- The growth of California's foreign-born population is slowing. It will rise only marginally between 2005 and 2030, from 27% to 29.8%.
- The growth of the second generation is accelerating. Among children ages 5 to 14, a full 36% are second generation.

Growth STRATEGIES

Growth Strategies is a four-page newsletter that since 1981 has been accurately anticipating and analyzing economic, social, political, technological, demographic, lifestyle, consumer, business, management, workforce and marketing trends.

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Growth Strategies newsletter was formerly published as *FutureScan.*

- New additions to the working age population between now and 2030 will consist largely of the second generation children of immigrants, mostly Latino.
- The immigrant population is achieving longer settlement; their average length of residence in the US is rising (among Latinos, to 22.5 years in 2030).
- In the next two decades, populations are projected to increase by 4.8 million (45%) in inland counties, compared to 4.4 million (17%) in coastal counties. Despite these uneven growth rates, by 2040 60% of the state's residents will still live in coastal counties.

The growing preponderance of long-settled immigrants has several positive implications for a host of future social and economic outcomes. Educational levels are expected to rise but may not keep pace with economic demand. California faces many challenges in converting opportunities to success – housing, traffic, infrastructure, education, workforce, governance, budgets – but the California dream is alive and flourishing.

[Sources: Center for Continuing Study of the California Economy, Pacific Institute, Public Policy Institute of California, Milken Institute, USC School of Policy, Planning and Development, Brookings Institution]

5 – HOW TO RESIST ALL 12 TYPES OF COMMERCIALS

Donald Gunn was a creative director for advertising agency Leo Burnett. He determined a long time ago that there are but 12 kinds of advertisements. As Seth Stevenson writes on Slate.com, knowing the types (and figuring out which is being used) can be a challenge, a game, and a defensive weapon for consumers under assault from endless advertising messages. Here are the 12 basic formats:

1. The demo (a visual demonstration of the product's capabilities).
2. Show the need or problem (and then the remedy or solution: the product being sold).
3. Symbol, analogy or exaggerated graphic (to demonstrate a problem or solution).
4. Comparison (the product is claimed as superior to competitors).
5. Exemplary story (weaves a narrative that helps illustrate the product's benefits).
6. Benefit causes story (a trail of events caused by product's benefit).
7. Tell it (credible testimonial by presenter or real person).
8. Ongoing characters and celebrities (to help cement a brand's identity).
9. Symbol, analogy or exaggerated graphic (to demonstrate a benefit of the product).
10. Associated user imagery (showcases the type of people associated with the product).
11. Unique personality property (highlights product's uniqueness).
12. Parody or borrowed format (parodies movies, TV shows, even other ads).

You might think the new advertising landscape would render Donald Gunn's categories obsolete, but the theory holds up. Being equipped with this knowledge allows the target to resist. Or does it? Stevenson relates that one of his favorite advertisements – a parody of reality TV shows – ***has fooled him more than once.*** We may know how a magic trick is being done, but we still watch the magician.