

Viewpoint: Value-Driven Planning

When 'cash is king', how do you ensure that your change initiatives will drive value into your organisation?

The simple answer is to keep value to the fore when planning your initiatives. It's essential to understand how each new or improved *capability*¹ you are delivering contributes value – and to deliver value-adding capabilities regularly. To make this happen:

- Ensure that you develop and maintain a 'value map' which links value through capability to component and cost and which clearly identifies how components depend on one another and how they integrate to create capabilities.
- Then insist that your plan to deliver new capabilities in 'releases' is value-driven – by using the value map to ensure value is delivered at the earliest practicable opportunity.
- Make sure releases are no more than 6 to 9 months apart and that every single release contributes new value to the organisation – don't be drawn into releases which 'lay foundations' without adding value.

As always, it's never quite this easy in practice – especially as it requires multiple disciplines (e.g. planners, business and technology architects, business case modellers) to work together effectively and there are relatively few people with the knowledge and experience to bring all the elements together.

It's well worth the effort, though. The rewards can be substantial, particularly in difficult economic circumstances. Costs can be deferred, benefits brought forward, maximum outlay reduced and overall net benefit increased – all positive contributions to cashflow, affordability and value.

At the same time, delivery risk is reduced by focusing scope only on those components which clearly contribute value and by having regular and tangible evidence that delivery is on track.

The Challenge

"We badly need to change to remain competitive, but we simply can't afford to in the current climate." Does this sound familiar? In our experience, concerns about affordability, together with the anxiety that the risk of failing to deliver is too high, are preventing many organisations from embarking on essential changes.

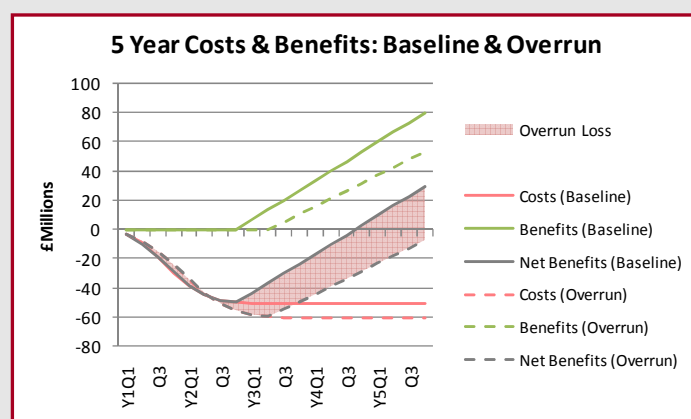
An example: Minor overruns ruin the case

Let's take a typical case.

A major £50M change initiative delivered in 2 years appears to offer solid returns and passes the investment hurdle – say it offers a 20% IRR and net benefits of £29M over 5 years.

Then delivery gets delayed by 6 months, costs overrun by 20% and benefits underrun by 20% – nothing exceptional about that, unfortunately.

However, what looked like a good investment now actually returns a net loss of £7M over 5 years.



¹ Capabilities: things your organisation can do – the services you offer and the facilities and competences you possess

The scenario is all too common. A game-changing opportunity requires a massive investment in new infrastructure. A plan is developed to deliver the entire change – infrastructure, applications, processes, training and so on – as quickly as possible, although with the amount of work to do, it will take years.

The business case looks good, though, and approval is given to kick the initiative off.

What can possibly go wrong? Well, inevitably something happens that pushes the initiative off track when you're a long way down the road and, a long way through your budget. The initiative is re-designed, re-planned and re-costed, and, unfortunately, the business case now looks a lot weaker. More importantly, there just isn't any more cash to fund the additional effort.

In the current climate, can you afford this kind of risk?

The underlying problem with this approach is that it's being driven by supply side considerations: "how much have we got to get done before we can deliver anything?" Consequently, there's a significant lead time between kick-off and delivery – plenty of time for stumbling blocks to be thrown in the way.

However, it is possible to take a different approach to change – focusing on driving value into the organisation, minimising and deferring costs and, at the same time, reducing delivery risks. First, though, let's take a look at why organisations have to change at all.

Building Blocks: Capabilities and Value

Fundamentally, organisations change to acquire new or improved *capabilities* which add *value*.

Capabilities are simply things you can do – the services you offer and the facilities and competences you possess. Some capabilities may be distinctive – they give you an advantage over your competitors. Others may not be distinctive but are necessary to allow you to play the game at all and should in any case be as efficient as possible. Capabilities are created from process, people and technology components. All change involves developing or otherwise acquiring new or improved capabilities.

What your organisation values depends on its nature: in a commercial business, this is likely to mean profits – higher revenues and/or reduced costs; in a public sector organisation this may mean producing economic benefit more efficiently. Of course, organisations also value 'soft' benefits, such as improved customer satisfaction or increased employee morale. But in the current climate, unless these can also be translated into 'hard' benefits, we find many organisations can't find the capacity at the moment.

Taking a Value-Driven Approach

In shaping a value-driven change initiative, three fundamental and closely related concepts are key: Blueprints, Roadmaps and Business Cases.

- The **Blueprint** describes what your organisation will have to look like – what capabilities it will need – to deliver the vision embodied in your Purpose.
- The **Roadmap** then defines the steps you will take to get from your current set of capabilities to the new capabilities defined in your Blueprint; each step on the Roadmap becomes a 'release' within the overall Programme Plan.
- The **Business Case** typically shows the time phasing of the cash flows associated with the costs of acquiring each new capability and its impact on the operational cash flows – increased revenues and/or reduced costs.

The key question, particularly in the current environment when 'cash is king', is "how do you ensure that your initiative will drive value into your organisation?" The simple answer is to keep value to the fore when planning your initiative:

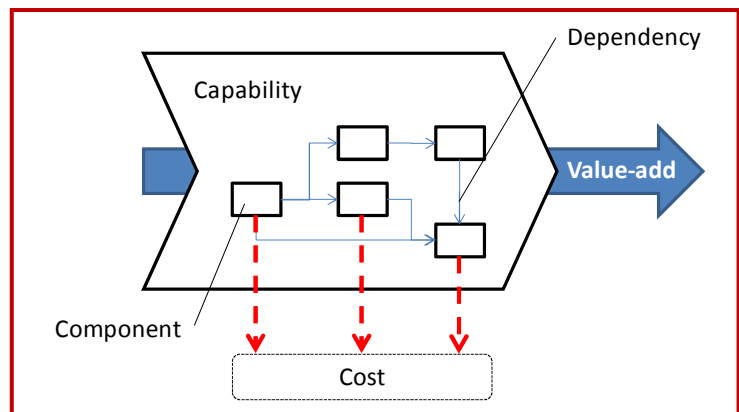
1. Understand how (and how much) each element of the capability you're acquiring contributes value to your organisation;

2. Plan to deliver value-adding capabilities regularly. This has two elements:
 - a. ensure every release adds value; don't be tempted, for example, into releases that 'lay foundations' without also adding value; and
 - b. never allow more than 9 months (preferably 6 months) to go by without delivering a new release.

Value Mapping

It's impossible to ensure that your change initiatives are value-driven if you don't understand the value each new or improved capability can add. There are four elements to understanding this:

1. What are the new or improved capabilities and what they will enable the organisation to do once delivered?
2. What is the best estimate of the value each capability will add to the organisation?
3. What components are required to provide each capability and how much is likely to cost to acquire and integrate these components?
4. How are the components dependant on one another – in other words, which components are pre-requisites of others?



The basic principle here is that value is associated with capabilities and costs are associated with acquiring and integrating the components which deliver these capabilities.

The process of developing a value map involves several disciplines. Business and technology architects are required not only to develop the overall Blueprint, but also to help define what components are required and how they come together to create capabilities. Business case modellers, or business analysts, are required to build the cost and benefit model. Specialists from the business functions affected by the change also play a key role in validating that the value map makes sense 'on the ground'.

In the first instance, it's important to get just enough data to get a realistic idea of the relative costs and benefits of each capability. This is not the time to get bogged down in highly detailed cost and benefit models – precision can come later when the detailed business case is put together. Initially, you're looking for rough, but justifiable data. Coarse costing models and ballpark estimates of benefits will often suffice.

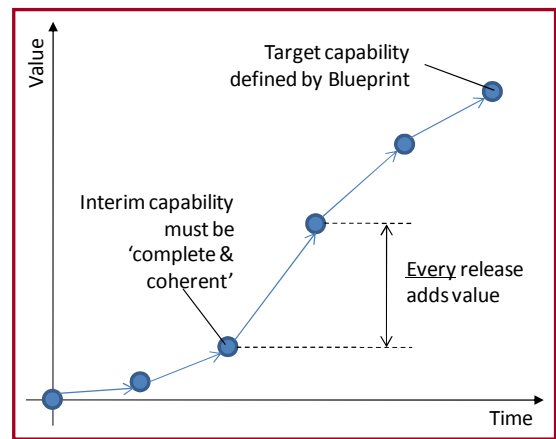
Value-Driven Release Planning

Once you have a clear understanding of the value each element of capability delivers, you can begin to plan releases which will regularly drive additional value into your organisation. Each release is a stepping-stone towards the target embodied in your Blueprint – and each step must represent a complete and coherent new definition of your business. If processes need to change, then roles & responsibilities and probably training will also need to change to remain aligned. Similarly, if information systems are changing, it's likely that processes & procedures will need to change too.

It's important that releases happen regularly, say every six to nine months, and that each and every one adds value to your organisation. This will demonstrate to the organisation, and particularly to its financial stakeholders, that the initiative is paying back on its investment and funding its later stages. Successful releases are also celebration points which help build and maintain momentum and confidence in the change initiative. Regularity sends strong signals of momentum to all stakeholders. Clear value-add builds confidence by showing that something real is happening.

Fundamentally, how capabilities are allocated to releases depends on two things: the value that each capability delivers and the pre-requisites which must be in place before it can be implemented. It goes without saying that the capabilities with the highest payback should be delivered as early as possible. However, it is often these very capabilities that have the largest and longest lead-time prerequisites.

At this stage, Planners are added to the multi-disciplinary mix to form the Roadmap and translate it into activities and dependencies which, when balanced with scope and timescale, determine when releases can be delivered. Architects are also involved again, at this stage ensuring that



the stepping stones on the Roadmap have integrity and are consistent and coherent definitions of holistic business states. Business case modellers also take the cost benefit model they created earlier and, applying the timescales provided by the planners, create the cashflow model so fundamental to the business case.

Laying Foundations

Of course some things will take more than 6 to 9 months to complete. If you have a major infrastructure refresh to undertake, for example, it's likely to take 12 to 18 months or even longer to achieve. The point is not to start a new release every 6 to 9 months but to finish and deliver releases with this regularity. This will mean having strong management to handle the resulting parallel activity and, most importantly from a value point of view, making sure you have one or two early releases that deliver value and that don't rely on having the new infrastructure in place.

If you do have major infrastructure development to do, make sure it's also delivered with other value-adding capabilities. On the whole, organisations don't get excited about a new generation of infrastructure for its own sake – they've seen it, and been burnt by it, before. They want to see how it's contributing to the whole organisation – so aligning the release of infrastructure with some capability which clearly has business value helps keep support for the effort, particularly when the search begins for cost-cutting opportunities.

Some Other Thoughts

While we're on the subject, a couple of other thoughts on release planning:

- It often helps to name releases by the capabilities you will acquire through them – the things you will be able to do once the release is delivered that you can't do now. This helps people to keep the real value of what they're doing in mind.
- If you have tactical change activity going on alongside your strategic change initiative and being delivered through integrated releases (see 'Making Space for Change'), reserve some capacity in each release for tactical changes, and make the decisions on which changes will be included to the last possible moment.

The Benefits: Better Returns, More Affordable, Reduced Risk

The benefits of this value-driven approach, over the supply-driven approach we saw at the outset, can be considerable. In the current economic climate, perhaps the cashflow and affordability are most significant and immediate contributions to value: costs can be deferred, benefits brought forward, maximum outlay reduced and overall net benefit increased.

In addition to the cash flow implications, delivery risks are reduced as there are far more points at which to confirm that the initiative is still on track, or adjust direction if necessary. Resource requirements are also smoothed across the delivery of the initiative, simplifying the management of scarce resources.

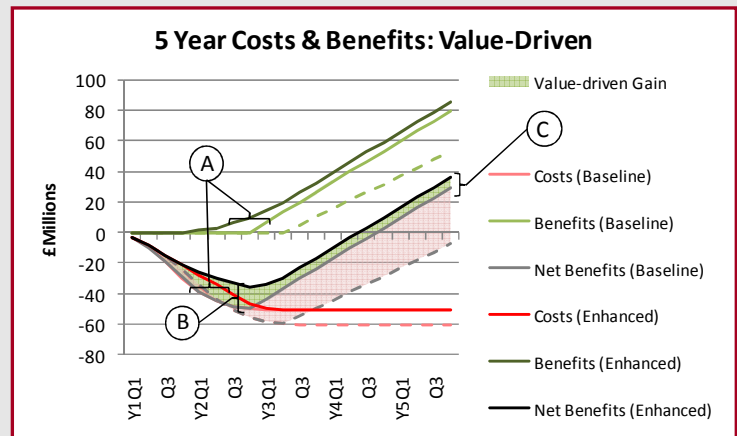
Another look at the example we considered earlier demonstrates these benefits.

Example revisited: Value-driven approach improves cashflow

Let's look again at the typical example we looked at earlier.

By splitting the original initiative into 4 releases, each with 25% of the costs & benefits, several good things happen:

- costs are deferred and benefits brought forward, improving short-term cash flow (A)
- maximum outlay is reduced to £36M, dramatically improving affordability (B)
- Overall net benefit is increased by £7M, enhancing IRR to 30% (C).



Concluding Thoughts

The ideas embodied in value-driven planning are not all that complicated and need not add much to the planning effort over conventional approaches. Of course, it isn't straightforward to achieve this in practice. It takes care and thought to design each release to deliver business benefit and be technically achievable, and strong management to handle the parallel activity.

The challenge is often finding people with the necessary knowledge of these techniques to apply them in practice; we have found relatively few, even among experienced programme planners. Leadership, particularly business executive management responsible for driving any change, has to hold steady in demanding of programme and delivery managers that they seek out these skills and keep driving value into the process and the organisation.

It's not always easy, but with leadership, creativity and experience, value-driven planning can contribute enormously to your chances of success.

For more information about Value-Driven Planning or Houghley Ltd: visit us at www.houghley.co.uk; contact us at enquiries@houghley.co.uk; or phone us on +44 (0) 845 604 2335.