BEYOND COST REDUCTION

FOCUS ON VALUE CREATION TO DELIVER A MORE SUCCESSFUL BUSINESS TRANSFORMATION

When it comes to gauging success and framing business cases in relation to transformation projects, the natural inclination is to focus on metrics that are considered easily quantifiable. Firms accordingly tend to prioritize the measurement of effort (resources and time expended) over the measurement of value (financial or non-financial).

DIAGRAM 1

NON-FINANCIAL VALUE TYPES (NFVS) VS FINANCIAL VALUE TYPES (FVS)

Financial Value Types	Increased Revenue	Increased Return of Investment	Increased Profit	Reduced Costs
Non-Financial Value Types	Increased Knowledge	Reduced Risk	Increased Speed to Market	Increased Regulatory Compliance
	Increased Employee Satisfaction	Increased Community Satisfaction	Increased Customer Satisfaction	Increased Stakeholder Satisfaction
	Enhanced Customer Interface	Improved Efficiency	Increased Connectivity	Enhanced Insight

So why focus on value over effort? In practice, the two concepts do not always correlate. In fact, one definition of efficiency – 'working smart' – suggests an inverse correlation: less effort that yields the same or greater value. However, in worst case scenarios, firms can invest significant effort into a project but still fail to generate the desired value. For example, a start-up offering a product in which no client segment is interested; or IT transformations that create platforms that no one wants to use; or complex methodologies that do not deliver superior products. The list goes on.

Those firms that do measure value tend to focus on financial value (FV) as the pre-eminent metric. This is because it is easy to measure, drives clearcut KPIs, and is often the deciding factor when it comes to which transformation business cases ultimately get funded. Additionally, FV is helpful to address corporate requirements such as reporting 'in-year returns' and evidencing that a transformation is 'paying for itself'.

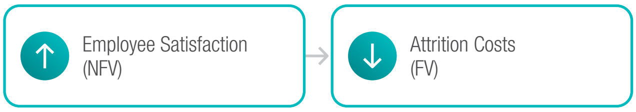
Ironically, such requirements can act as inhibiting factors to unlock long-term value. Focusing solely on FV neglects other, non-financial value (NFV) criteria that are more qualitative and hence difficult to measure, but which are often key to embedding the sustainable change that enables the ultimate realization of financial value – making money.

A more holistic approach is therefore required, whereby organizations consider their whole 'value chain'. Upon adopting this big picture perspective, it becomes obvious that NFV is often delivered first, eventually unlocking the desired FV. Diagram 2 illustrates three examples that highlight how NFV could be viewed as the leading indicator and FV as a lagging indicator of a firm's success.

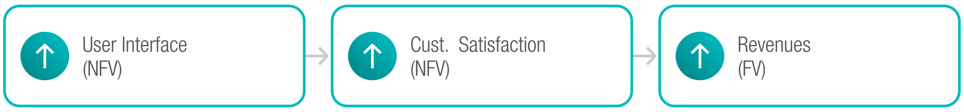
DIAGRAM 2

VALUE CHAIN EXAMPLES WHERE NFVS LEAD TO NF REALIZATION

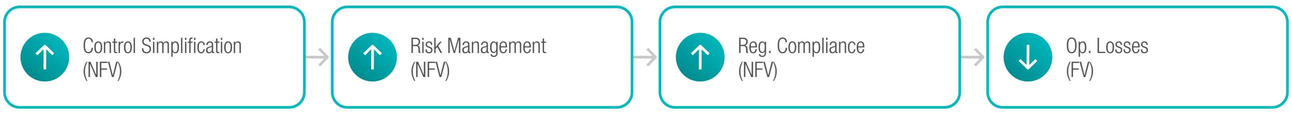
1. Employee satisfaction [NFV] will eventually result in reduced attrition costs [FV]



2. An improved user interface [NFV] will result in increased customer satisfaction [NFV], which will then yield increased revenues [FV]



3. Simplified controls (NFV) will result in improved risk management and regulatory compliance (NFV) which will lead to reduced Operational Losses (FV)



This fresh mindset should motivate firms to put less emphasis on forecasting how long it will be before they generate a profit [FV], on a lagging indicator, and instead focusing on delivering relevant value now (even if it is NFV). In other words, once the firm starts delivering NFVs, it is not a matter of whether the firm will make money, but when.

This mental pivot is admittedly not easy. So, how can firms get there? Certainly, they should focus on the minimum value that can be delivered in the short-term whilst keeping a clear line of sight on the long term organizational vision. This approach ensures that employees, customers, stakeholders, and community members will frequently benefit from small chunks of value that are relevant today.

This dynamic ensures that invested efforts deliver frequent NFV (that can eventually stack up into FV) before the value requirements change due to the fast-evolving nature of the business environment inevitably altering – or even nullifying – the original programme priorities. This new mindset also requires a shift in measurement. The focus must evolve from trying to quantify qualitative NFVs to assessing if the intended progress is being made along the value chain.

This is liberating for the business case owner because more immediate non-financial (NFV) qualitative benefits (for instance customer satisfaction levels, reduced risks, enhanced connectivity) are now given their due weight as the programme moves towards delivering its ultimate financial benefits (FV).

It is also a more realistic and adaptive way of achieving the ultimate value goal – to earn money. Let's explore this last idea further.

When organizations decide to invest in optimization efforts, their business case typically includes a financial return forecast and, once greenlit, stakeholders will be keen to be updated on progress towards delivering that financial return. This can be a frustrating task in complex and volatile business change environments, as such forecasts will inevitably be prey to unexpected variables. It is therefore sensible to adopt a pragmatic stance when monitoring progress. Whilst it is relevant to have a grasp – via those financial forecasts – of the scale of the projected final pay off, it is more useful to concentrate attention on early indicators that demonstrate whether a project's direction of travel is indeed correct.

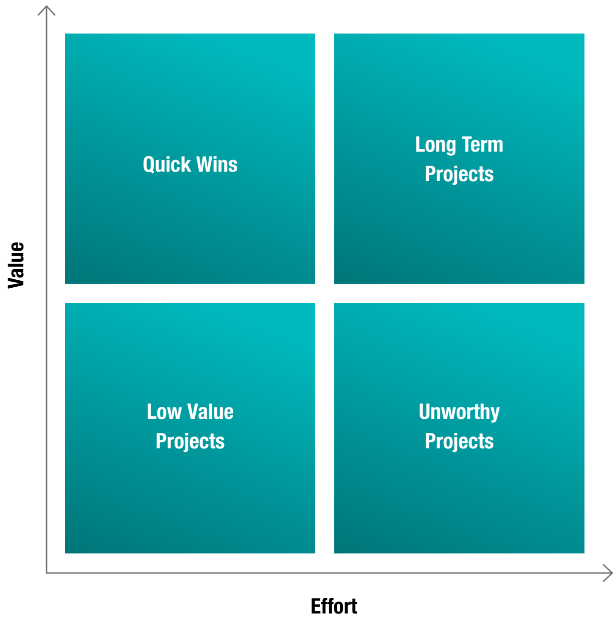
Putting a lot of effort into precisely forecasting FV years down the line doesn't usually pay off, given the fluid and constantly evolving nature of operating environments and commercial landscapes. Therefore, it is better to focus on assessing if NFV is being unlocked today and taking corrective actions if it is not (i.e. an adaptive approach). If NFV is not being unlocked today, it is unlikely that FV will come in the longer run.

This fresh approach caters for the upcoming FV market trends which are deprioritising 'cost reduction' (FV) from business cases. This is because there is a sense that 'the lemon has been squeezed' as much as possible and all the quick wins (i.e. high value/low effort initiatives) have been addressed. So now the optimisation focus is on long-term projects (i.e. high value/ high effort), such as tech infrastructure rationalisation (i.e. increased efficiencies NFV) and the attraction/retention of top talent (i.e. employee satisfaction NFV).

This trend poses a challenge as long-term projects are especially complex even before you factor in evolving business environments. Fortunately, this challenge can be mitigated with adaptive ways of working, smarter use of data, tooling and analytics that, when implemented holistically, can successfully break down long-term projects into NFVs that will in time stack up to the desired FVs.

DIAGRAM 3

VALUE VS EFFORT PROJECT PRIORITY MATRIX



We encourage financial institutions operating in todays' complex and changing world to consider the following when undertaking optimization efforts to maximize their impact and efficiency:

- Monitor the whole value chain rather than only focusing on the ultimate FV
- Focus on the direction of travel and near-term value milestones over precise longer-term financial forecasting
- If NFV is not being unlocked, don't wait – make changes to deliver such value, little and often.

At Capco we enable dynamic end-to-end transformation, from defining strategy through to implementing and embedding optimisation projects, and have clear insights on how to focus on the right NFV to deliver financial value. We can help co-design your firm's end to end holistic optimisation strategy. To learn more, please contact us.

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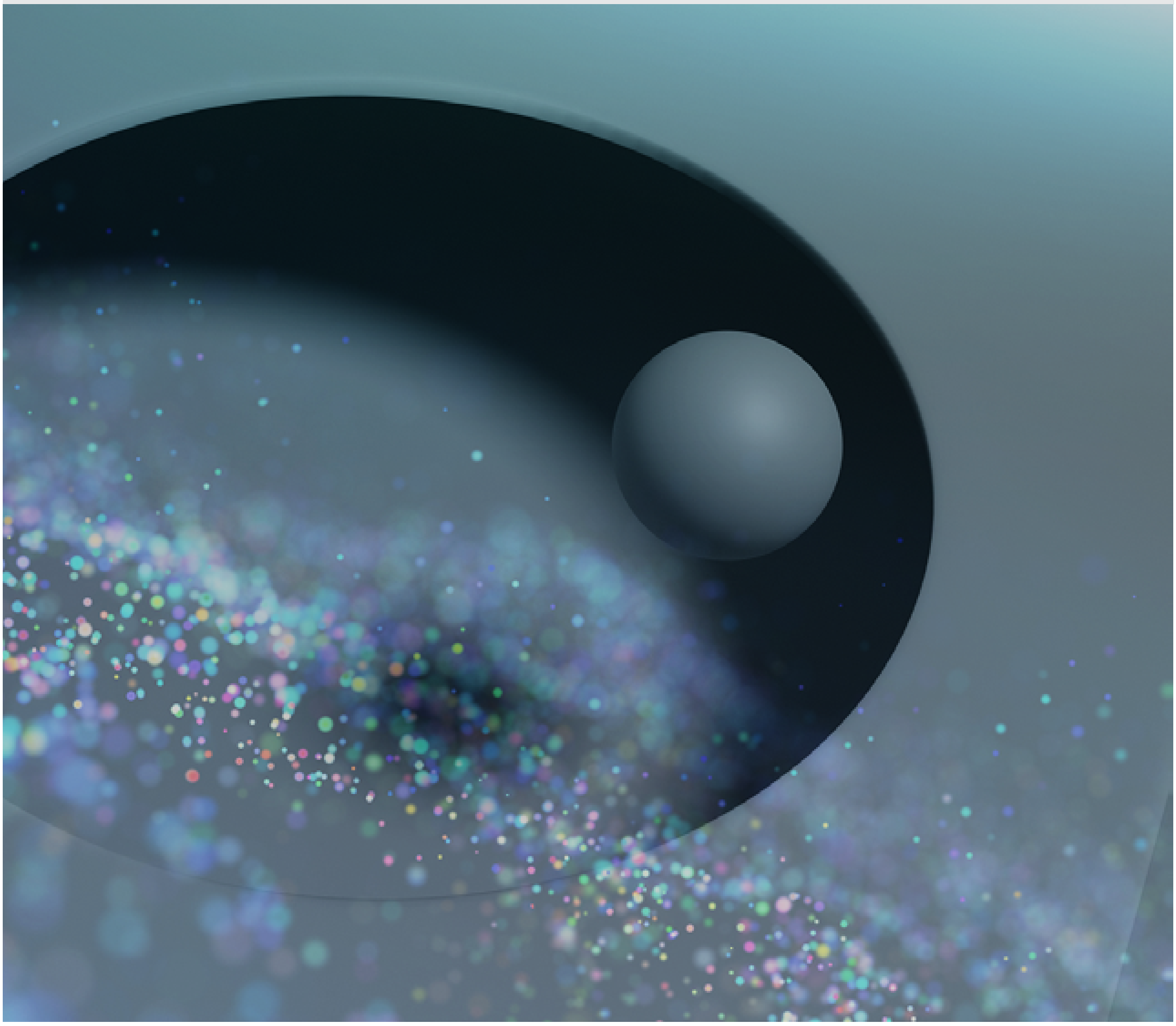

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