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Capabilities for Commercial Enterprises

Do you have what it takes or do you need more?

Investments directed at improving an enterprise comprise goods and services procured from other enterprises and the time and expertise of individuals. Of themselves, these capabilities produce no value. In fact, spending money on them destroys value. Possession of them confers no benefits.

In order to create additional value, the capabilities resulting from such investments must be used by the enterprise to work in new ways, e.g. to buy better, to hire more appropriate staff, to produce more, to sell more, to be more efficient and effective etc. These all require people, whether amongst the Executive, management, staff, customers, suppliers or others, to change their behaviours.

Consider who will be creating the value before buying anything

Before buying any capabilities, it is vital to determine what their effect will be on your people and the future roles of those people on the journey to creating additional value.

There is often a great temptation,early on, to undertake detailed technical designs and prepare specifications. Ultimately, these are useless if those who will have to work with the resulting output are not consulted throughout and do not participate fully in transforming the enterprise.

Business cases only for programmes

Typically, each change programme needs to be decomposed into a series of projects with many running in parallel. In order to control resource scheduling and utilisation, each of these projects needs its own objectives, budget and timeline, against which each should be assessed.

However, few of these projects will actually generate any value. Projects which do create value will usually be dependent on earlier projects having delivered something, e.g. a new IT system, so value generating projects will not fully reflect the cost of securing that value. Projects which do not directly create value cannot be justified in isolation. Hence it only makes sense to prepare business cases for whole programmes and not any constituent projects.

Sourcing capabilities

Some of the required capabilities might already exist within the enterprise and could be made available to assist in creating value. However, the fact that they already exist does not mean that they have zero cost. They could be used to do something else to contribute to value creation elsewhere in the enterprise or they might be otherwise surplus to requirements, so again they have a cost if retained.

Commercial sensitivity

In some cases value will arise from commercially sensitive innovations which will give competitive advantage. It might therefore be considered that the required capabilities should be directly under the control of the enterprise, requiring the recruitment of permanent staff with those capabilities.

Resource contention

The enterprise might have all the expertise in-house required to provide the necessary capabilities but insufficient of it can be spared from current activities, so it needs to obtain more externally.

It is extremely dangerous to spread key resources too thinly as their normal work might suffer and insufficient attention be paid to bringing about change successfully. Trying to achieve both will impair today's value creation and tomorrow's additional value.

Generic capabilities

It might be that suppliers have capabilities which are needed as part of the change programme which would be more cost effective than developing them internally. This particularly applies to commodity items and generic products and services readily available in the market place which, of themselves, provide no competitive advantage as they are available to all. However, obtaining them might help overcome competitive disadvantage.

Perhaps outsourcing, off-shoring and the cloud offer capabilities which would be useful. For more information on these, please see www.grosvenorconsultancy/outsourcing.

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Quality of capabilities
The cheapest often come with some disadvantage, like lower quality, delayed delivery, lower competence and commitment etc. These can have a disproportionately negative effect on the value being sought from the investment. Penny-pinching on resources might reduce the value created by more than the savings made.

Typically, programmes are going to cost what they are going to cost to get a good job done, regardless of what the Executive and management would like the costs to be. If suppliers are pressured to reduce their prices, they usually reduce what they are supplying, even if that is not obvious at the time. This is about optimum value creation, not opportunistic cost minimisation.

The overall objective
Maximising RoI requires a very careful balance to secure just those capabilities needed, when they are needed, at a price which enables optimum value to be created. On occasions it might be better to spend more, as disproportionately more value might be created from better capabilities. Of course there is a limit to what is available to spend and that might be the ultimate constraint on how much value can be created. Beyond a certain point, diminishing returns might set in, so more capabilities produce proportionally less value. The optimum point needs to be identified and monitored very carefully.

Optimum value is achieved when the maximum RoI is achieved from the funds available for investment in the portfolio of change programmes.

Shorter vs longer term
The investment needs to be considered in two parts:
a) what is required to achieve the new state; and
b) the running cost of the new state.
Too little spent on the former can increase the latter, which is fine if the lifespan is short. However if the lifespan is extended, unnessarily high running costs will be incurred.

In other words, a) and b) have to be considered together with the investment life span, to optimise value creation. Hence business cases need to span the whole period from commencing investments through to sustainable additional value being created.

Exploiting economies of scale
Investing to gain economies of scale, e.g. in shared services, can reduce unit costs providing, in aggregate, overheads reduce and volumes increase but if volumes decline instead, unit costs might increase. This results in wasted investments and increased costs – a double whammy! Great care is needed with such investments and scenario planning can be a very useful guide.

This is one of a series of papers on Grosvenor's Value Management. Others cover:

- vision,
- investments,
- change,
- benefits and
- value.

Together they describe the journey from envisioning the future state of the enterprise to bringing it about through the selection and management of investments in business change.

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