

In this issue:

4 Continental Europe

4-5 Reducing Costs

6 Risk & Opportunity

Big Business - disaster avoidance, an answer!

Joint Ventures and Consortiums – the road to success

Due to fiscal, market and political pressures in today's world there is an increasing number of joint ventures, alliances and consortium being created.

Each of these arrangements will have a unique set of issues and challenges.

What is the corporate skillset to operate successfully in this environment?

Although these arrangements are unique, they all have to have people, processes and systems in order to function. Each partner obviously has their own people, processes and systems and a particular way in which they operate their own businesses / organisation.

The key to success for a joint venture, alliance or consortium is in the optimization of the integration into a single efficient operational process.

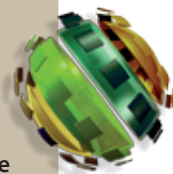
To achieve this, requires experience in the integration process itself, especially as each integration faces its own unique set of issues and challenges. The following are some of the key elements that need to be addressed to ensure success:

- ▶ Common clearly understood goal(s)
- ▶ Leadership
- ▶ Right people/right structure
- ▶ Communications
- ▶ Rigor, discipline and pace

Continued on page 3

It is always more apparent when big businesses have problems, get into trouble or founder because they attract media attention and hence become the target for open debate whether this be on TV, in the local pub or even on the train.

To avoid problems, change direction and mitigate disaster revised or new strategies need to be reviewed, reality checked, approved and implemented in order that benefits can be realised. There is no longer the luxury of time to undertake these steps sequentially. Today's market requires a fast track approach for the successful delivery of business critical projects.



Chaucer has developed a 'Strategy Realised' methodology for the fast track delivery of business projects and programs.

Big businesses (together with small and medium sized ones) have to instigate projects of one sort or another in order to generate the transactions which keep them alive.

In big business the need for change is paramount in order to maintain market share, be profitable, contend with the internet, even survive.

Big business has to embark upon and execute projects on an ongoing daily basis, these projects have to be delivered with pace and be successful, something which requires discipline as well as expertise in project management which is so often missing in an organisation. The fact that project management skills are often missing in an organisation should not be of any great surprise as companies are and rightly so focused on their core business. This could be manufacturing, providing a service, creating, marketing, or whatever it is that they do. Project management of business projects is a non-core discipline* and therefore when a project needs to be delivered those in the company who are nominated to deliver it tend to lack project management skills or experience. This can be the case even though a particular project may be the single most important piece of work the company has to deliver in a financial year.

Typical examples of drivers for a business project or program are:

- ▶ The need to comply with a new regulatory requirement.
- ▶ The need to grow or expand the business.
- ▶ The need to create and launch a new product or service.
- ▶ The need to reduce costs.
- ▶ The need to become more efficient.
- ▶ The need to move offices or change location.
- ▶ The need to implement new processes in order to improve management control.

Continued on page 2

Big Business - disaster avoidance, an answer!

Continued from page 1

It could be all, some or just one of the above or maybe something totally different.

A project can be for regulatory purposes such as the spate of recent projects to ensure organisations complied with the Sarbanes-Oxley Act.

A project can be in response to a competitor who introduces a new product that will eat into a company's market share and therefore has to be responded to.

A project can be a marketing initiative that is for the purpose of increasing profits such as the launch of a loyalty card to gain new customers and help in retaining existing ones.

A project can be an acquisition which has massive benefits through the synergies which can be achieved.

A project can be an IT or Systems implementation for the purposes of automation and hence cost reduction or in the interests of achieving greater sales volume and hence greater profitability.

A project can be an HR/Re-organisation project for the purposes of becoming more efficient and/or as part of an overall cost reduction program.

Although all projects are unique it is essential that there is experience and expertise available in the application of project management processes in order for the project to be successful.

Failure by business to implement projects successfully can be catastrophic and have a huge detrimental effect on an organisations ability to sustain itself. There are many reasons why companies fail or partially fail.

Some examples of what can cause problems and hence reduce earnings for a company and over a period of time lead to failure are:

- ▶ Lacking a divestment strategy when making acquisitions.
- ▶ Not divesting (when it becomes apparent that some parts of its business do not fit or have synergies with the rest of the business or become unprofitable).
- ▶ Lacking new or replacement products to bring to the market.
- ▶ Complacency!
- ▶ Becoming too inward looking.
- ▶ Taking foot off the accelerator in respect to continuous improvement and/or efficiencies.
- ▶ Becoming de-focused on the core business.
- ▶ Overstretching, losing control.
- ▶ Failing to integrate following a merger.

The expeditious delivery of business projects are the key to a successful business and its continuing sustainability.

Why?

Because until a project is delivered (or in some cases substantially delivered) the benefits from the project do not contribute to a business. This contribution can be in the form of increased profits, cost savings or being compliant or maybe one or more of a myriad of other benefits. What is sometimes not fully appreciated is that until delivered the project is often a serious drain on a company's cash and resources.

The realisation of a project takes time and during that time a company will continue to change (maybe because other projects are in progress at the same time) this situation is one that is often overlooked. The status of a company at the time the project is started with all good intent and based upon a solid business case for the project, can look significantly different when the project is finally delivered. The original business case benefits,

can have been seriously eroded sometimes to the extent of being completely negated.

This situation happens when projects are not delivered with pace, when projects overrun or when other unforeseen risks or issues occur.

So there is a need at the outset of a project to understand from a business perspective what are the risks to the project. For example a risk maybe a regulatory change in a country included within the project scope or it could be the cost of materials increasing above that planned for the project due to market demand. Many businesses run risk assessments and carry out risk analysis of their projects but unfortunately this is insufficient in this day and age where our business and commerce moves so fast and encompasses a global dimension not previously seen and sadly not always appreciated. What is also now needed is a good understanding of the interfaces and interdependencies that either will affect the project directly or may be affected by the project.

A company or organisation will need to carefully examine and understand the linkages between projects. The organisation will most probably have a portfolio of projects which need to be managed as such. The projects must be prioritised, the linkages between them understood especially where these are interfaces which have some form of interdependency that affects the delivery of the project in some way. These linkages can be through the use of a common resource(s) or reliance upon a common system. It can be that a risk or issue is created by an interface or interdependency between one or more projects such as a new credit card launch being delayed due to the inability of a back office system upgrade being delayed because of hardware availability problems. The benefits of a project may also be at serious risk due to another project being executed by another part of the same organisation and they may be calling upon the same overall pot of cash for funding! This is especially the case where projects become delayed for whatever reason and hence the benefits do not materialise when planned but costs continue thus, in effect, causing a double drain on financial resources.

Continued on page 3

Continued from page 2

If a project can be delivered on the same day that it is started then none of these problems occur, regrettably in real life this is not the case and the longer a project goes on the more likely is the case that it will suffer risks, issues, disruption and further delay that can and often does erode the value of the project.

Risks, sometimes unforeseen need to be addressed immediately and the mitigating actions necessary to remove or reduce their impact must be included within the project plan or schedule. Issues when they occur need to be clearly identified and managed through good project management.

The initial planning of a project can significantly reduce both risks and issues, it is however necessary to plan the project in some detail in order to gain the full benefit from this sometimes rather tedious process. It is also essential to continue the planning (and resource scheduling) of a project throughout its duration in order to assure success.

Another aspect of project execution within an organisation is the need to safeguard 'business as usual'. After all, this is most likely what is providing the funding for the project. Therefore when considering what resources to use for the project or organisation it is important to consider both the needs of day-to-day operations as well as the needs of the project. The sharing of resource between the two does not work.

It is vital to apply the principles of project management to any project in order for it to be successful. The essentials for success are a clear understanding of the project goal or objective, good comprehensive planning and strong leadership. A project must be delivered with pace. It takes rigor and discipline in a business environment to ensure a project is successful.

Project management must be applied in a fit-for-purpose often 'light-touch' way. You are unlikely to require the same level of

project management resource, tools and techniques for the building of a house that you are for the acquisition of a multi-billion global business.

A poor or badly delivered project will have very detrimental effect on an organisation.

A successfully delivered project will have a significantly positive impact on any company or organisation.

Author:

Bob Laslett, Global CEO of Chaucer Consulting a global management consultancy specialising in the delivery of business change and business performance projects and programs.

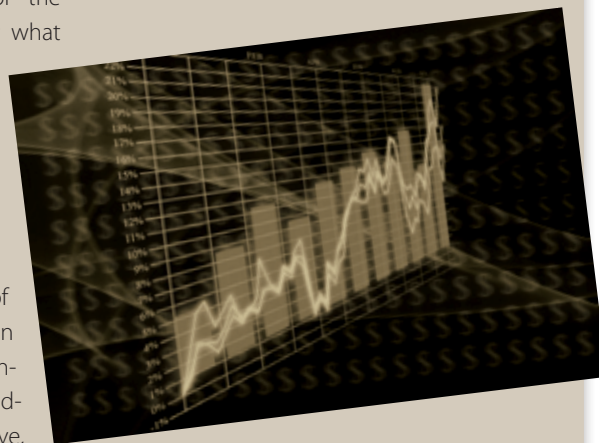
Bob Laslett



bob.laslett@chaucerconsulting.com

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* Project Management is a core discipline of Chaucer Consulting. Chaucer's experience in Project and Program Management has been built-up over many years of involvement in working internationally with numerous clients across a variety of industry sectors.



Continued from page 1

An important aspect of any integration or joining of two or more disparate organisations into a joint venture, consortium or similar, requires that the participants are completely focused on the business drivers and objectives of the new entity. To facilitate this Chaucer can provide experienced and knowledgeable support in managing the process aspects thus ensuring that the participants have the necessary space and time to concentrate on making the new business successful.

Any joint venture, alliance or consortium can pose significant risks to the parties involved and be costly to support if not successful within an agreed / planned time-frame. Conversely a successful joint venture, alliance or consortium can provide a profitable solution to a difficult situation or problem that an organisation may have or be a profitable revenue stream that also provides alternative opportunities to an enterprise.

However, in order to be successful a joint venture, alliance or consortium needs to become an efficient, profitable, standalone entity in as short a time frame as possible. To do this, often requires support from the stakeholder companies which should be provided in a structured and managed way in order to be beneficial but not become a costly drain on cash and resources.

Chaucer has experience in the formation of joint ventures, alliances and consortiums. Chaucer also has a wealth of experience in mergers, acquisitions, divestments and in the separation of organisations in preparation for an IPO or disposal. It has distilled its experience accumulated over the last 20 years into a toolbox of solutions which Chaucer can assemble to suit the specific requirements of the joint venture, alliance or consortium.

Will Pritchett



william.pritchett@chaucerconsulting.com



Continental Europe

Nick Faure has been appointed as **Head of Continental Europe** for Chaucer Consulting. Nick has been with Chaucer for over 10 years during which time he has worked on many business change and business performance projects including European and International programs for major global enterprises.

Chaucer has provided support to clients in Continental Europe since 1989. This help and support has involved clients in all the following countries:

Austria	Italy
Belgium	Luxembourg
Czech Republic	Malta
France	Poland
Germany	Portugal
Gibraltar	Slovakia
Greece	Spain
Hungary	Switzerland
Holland	

Chaucer's consulting assignments have been both varied and complex, including specific country projects as well as pan-European programs.

The industry sectors Chaucer currently work in are; Oil, Gas & Petrochemicals, Nuclear and Power Generation, Aerospace, Retail, Water Utilities, Pharmaceuticals, Banking, Insurance & Financial Services.

Chaucer provides management consultancy for clients including but not limited to:

- ▶ Strategy Review, Strategy Implementation
- ▶ Business Transformation/Re-Engineering
- ▶ Project and Program Management of Business Change & Business Performance Projects
- ▶ Operations Improvement
- ▶ Change Management
- ▶ Business Process and Business Audits, Compliance
- ▶ Risk Management
- ▶ Program Management Office (PMO), Project Support Office (PSO)
- ▶ Project Implementation, Project Audits
- ▶ M&A Project Management

Chaucer's unique expertise and experience in project and program management has provided the basis for the successful delivery of difficult and complex business change projects across Europe to the significant benefit of many Chaucer clients during the past 20 years.

Chaucer has also worked on many large cross border Merger, Acquisition and Joint Venture programs.

Nick is based in France but obviously spends considerable time travelling throughout Continental Europe in order to meet with and support clients wherever and whenever required.



Nick Faure

Nick Faure can be contacted directly on +44 7775 796094 or by email nick.faure@chaucerconsulting.com

or via Nadia Bjon on +377 678 637 360
nadia.bjon@chaucerconsulting.com

Reducing Costs

The overworked phrase 'we need to cut costs' is de-motivational. Focus should be on the positive aspects of improving cost efficiency.

Having spoken with many colleagues in the oil, gas and petrochemicals sector it is apparent that there is an urgent need to reduce costs. In addition to any continuous improvement being applied to 'business as usual' a step change to significantly reduce costs can be difficult and involve taking risks. Difficult decisions may have to be taken especially when it comes to people. Major operational improvements and/or increased efficiencies can sometimes prove illusive. Process improvements may be easy to identify but hard to implement effectively.

As well as having to respond to the normal business challenges of market place competition and pressure from top management for increased margins and from shareholders for better returns, senior management is now also faced with very tough fiscal conditions and ever tightening environmental regulations.

Any cost reduction initiative or program today needs to take into account the whole business picture, a holistic view if you like. However this picture can only be a snapshot so it is also important to project forward and consider the multitude of variables that can interface with a cost reduction program together with any interdependencies that can affect such a program.

Interfaces and interdependencies can often be grouped and ranked for the purposes of risk analysis and hence risk mitigation.

To be effective a cost reduction program needs

Continued on page 5



Reducing Costs

to be executed with pace not only to reap the benefits of such a program but also to minimise any disruption or negative effects.

A cost reduction program should not only have a clear objective in respect to savings to be banked and the timeframe in which this will happen but also highlight the wider benefits of the program. So a good program plan or schedule is essential.

The type of cost reduction and potential revenue enhancing activities that can be considered for any business are as follows:

- ▶ Asset Disposal including divestments.
- ▶ Headcount Reduction.
- ▶ Economies of Scale.
- ▶ Best Practice – e.g. taken from a review of other businesses within the same organization i.e. why are some more profitable than others, what do they do in a more efficient way for example?
- ▶ Outsourcing.
- ▶ In-sourcing.
- ▶ Operational efficiency and effectiveness.
- ▶ Process Improvements - Cost Reduction thru Efficiency Gains.
- ▶ New Approach (External - what do other industry sectors do, Internal - look at the business in terms of People/Process/Systems and see where change can be effected that reduces costs).
- ▶ Reducing all types of waste – from defects to over-processing etc

- ▶ Opportunities – new markets/x-selling, integrated marketing (Increased Revenue).
- ▶ Cash Management (Direct Profit Improvement).
- ▶ Organisational optimization.
- ▶ Asset Management / Rationalisation.
- ▶ Commodity Mappings – optimize stock and procurement processes.
- ▶ Supply Chain improvements.
- ▶ Supplier Rationalisation.
- ▶ Contract Innovation – e.g. risk/reward.
- ▶ Etc

Cost reduction programs are usually multi-workstream. In effect they can be fast-tracked by splitting the work into tranches and executing them in a staggered timeframe. This has the benefit of a) using fewer resources, b) ensuring lessons learned flow from one workstream to the next, c) being able to progress with pace, d) focusing on easy winnings first to the benefit of the organisation and e) still keeping whole initiative as one program.

The critical stage of Chaucer's cost efficiency process is in the Design. It is therefore essential to maximise the benefits of the program to complement the business strategy expertise within an organisation with experience in designing and executing successful change programs.

Whilst reviewing the business in a holistic way for the purpose of a cost reduction program it is important to also consider opportunities for increased revenue and more

importantly increased profitability as so often during a review of a business especially if carried out by an external party such as a consultancy it is not unusual to identify opportunities that can result in some increased profitability which will result in early wins.

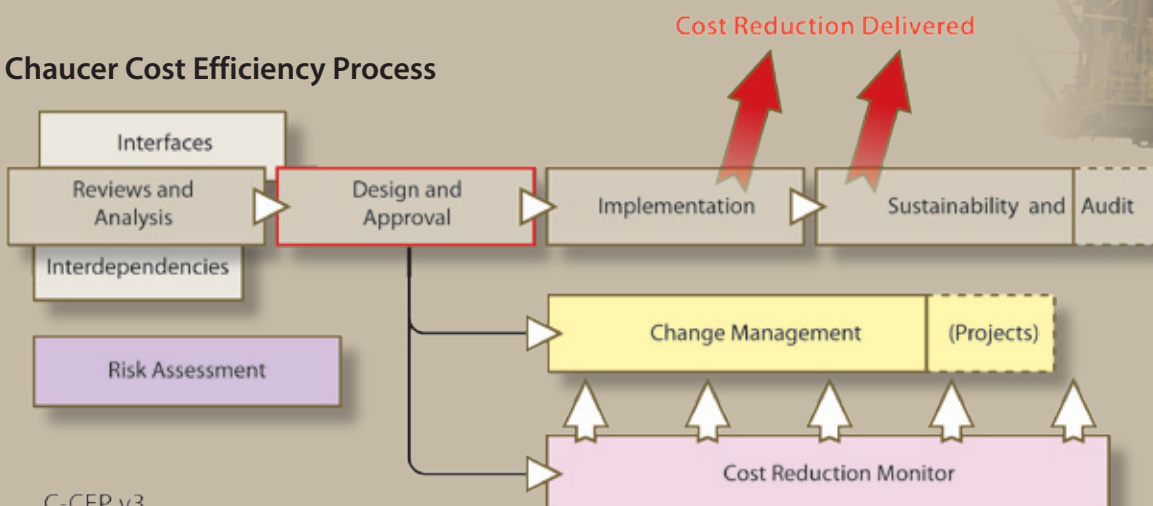
Change programs including ones for cost reduction, performance improvement, process and operational improvement, business transformation / re-engineering and strategy review/implementation are all part of Chaucer's core business. Chaucer's business cost efficiency methodology (see process diagram below) has been used effectively across a variety of industries.

For many years Chaucer has helped global enterprises to strategically improve their business performance including both major cost reductions as well as increased efficiency and profitability. Utilising this experience Chaucer has developed a cost efficiency methodology to address the current very difficult and challenging business environment.

Cost reduction is a high priority for all businesses but never more so than now.

Article by Bob Laslett
bob.laslett@chaucerconsulting.com

Chaucer Cost Efficiency Process



Risk and Opportunity

In the context of a project or program risk should include both threats and opportunities

In practice, most risk assessments focus on what could go wrong rather than seeking out opportunities. This imbalance detracts from the benefits that a formalised risk management approach brings to an organisation. It can be argued that this is more significant at the strategic level given the importance that an organisation should place on exploiting both internal (supply side) and external (market side) objectives.¹

In May 2008 the ratings company, Standard and Poor's, advised that they would take an organisations Enterprise Risk Management (ERM) capability into account when establishing their rating.

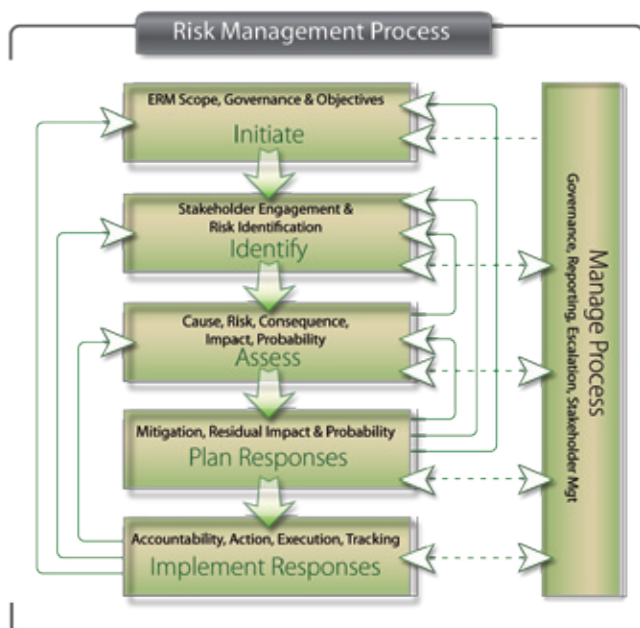
The Institute of Chartered Accountants has also highlighted the need for better risk reporting "All other things being equal, a company where management has a reputation for 'no surprises' will enjoy the lowest sustainable cost of capital and the highest sustainable share price. We believe that a company that acts in this way will probably also further enhance shareholder value by improving its risk management".²

The current economic conditions reinforce the need for a business to identify and exploit as many opportunities as possible. A formal risk management process will help them to achieve this aim.

As part of the strategy setting process organisations need to identify which initiatives they want to exploit to grow the business. It is important that the objectives set can be achieved with a manageable number of initiatives³ and by making sure that critical strategic resources will be available to work on them. Opportunity risk management can help to assess all initiatives identified as part of strategy discussions leading to an agreed set that reflect the ambitions and limitations existing in the business.

In parallel, risk management should continue to ensure that any potential downsides are eliminated or, as a minimum, mitigated.

The formal risk management process used in project management is well defined (see diagram below) and can be applied in a generic fashion throughout an organisation. There is no need to make any significant alteration if evaluating opportunity in addition to threats.



The process should be tailored for opportunity in the following sections:

Initiate – scope definition, tracking and control.

Identify – Experience shows that when considering risk most groups concentrate on the threat aspect to the success of a project or program. This needs to be complemented by putting additional emphasis on where the potential lies for increased positive outcomes.

Assess – The assessment of either a threat or opportunity should focus on;

- a) the likelihood of something happening,
- b) the impact it will have,
- c) mitigating actions to be taken if a threat, or adopt and expand if an opportunity.

Plan Responses – incorporate assessment actions into project or program plan / schedule.

Implement Responses – execution and tracking of all planned activities.

The options available to a business for managing opportunity are to exploit or maximise where appropriate, justifiable and practical.

The increasing focus for a business to demonstrate how they intend to manage risk gives added impetus to ensuring that a consistent and transparent approach is taken.

From a practical standpoint using risk management to help exploit opportunities meets the need for both consistency and transparency as the process is well defined and applicable at all levels of the organisation.

1 *Advanced Project Portfolio Management and the PMO* – Kendall and Rollins
2 *No Surprises* – Institute of Chartered Accountants
3 *Implementation* – Brache and Bodley-Scott



John Murphy

john.murphy@chaucerconsulting.com