

The Quarterly Review

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Delivering Cost Savings in the Public Sector - The Challenge?

Following the Chancellor's recent Budget Britain's public sector is bracing itself to operate with severely restricting funds over the next few years. It is increasingly clear that cuts in public spending will be expected to bear the brunt of the government's attempts to restore an unprecedented national deficit.

After much talk of efficiency gains in the public sector, there is increasing consensus that those on the front line are best placed to identify savings. It is likely that Central Government will set tough budgets, and expect local managers to find the necessary savings.

Traditional business cost-cutting measures such as staff redundancies are highly political and large scale redundancies will not necessarily be the preferred route to deliver huge savings, although public sector staff will face significant pay curbs.

So where can local management look for cost savings?

Traditionally, spend on interim posts and consultancy is drastically cut back immediately. Whilst it is sensible to look at spending on interim resources, an elimination of spend on external support would be counter productive.

There are some very difficult decisions looming, and managers will need to be equipped accordingly;

- ▶ How does one decide between injecting funds into competing departments.
- ▶ How does one decide which health /education/etc. services should be provided and where?

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Gold at the end of the Rainbow?

So the deal has gone through, your investors have slapped you on the back and you hold the keys to your new organisation. Trouble is, your backers want to be certain their investment is among the 50% of deals that provide them with a return. And the CEO is pretty keen as well to claim credit for the benefits you're on the hook to deliver. Nothing new there. To ensure real success the integration approach needs to embrace new emerging trends and robust support from an experienced integration team partner providing can-do, hands on delivery working to a great plan.

Integrating organisations after M&A Day 1

A trawl through the management literature about Post Merger Integration (PMI) published over the last five years or so indicate that Integration Officers face the same challenges as ever: investor and senior management appetite for a steady stream of tangible good news; complex international regulatory and legal frameworks; colleagues in the organisation who just can't help thinking that all this uncertainty is a threat that is doing nothing to improve their morale and stress levels. The list is seemingly endless.

And despite increased sophistication of the toolkits being used to drive progress, another thing that hasn't changed is the probability rate that all this activity is going to actually translate into net benefits - that's still only about 50% of all the deals done. Not great odds!

Chaucer Consulting has accumulated experience of several new PMI trends in the course of delivering successful assignments for our clients. What's new and how do you make sure you're counted in the right 50%?

Well, first of all there's a growing realisation that PMI is not a one size fits all activity. The rationale for M&A events these days is shifting away from a simple story in which typically synergy is the name of the game. Multiple goals are increasingly the norm in which (for example) scale, market share and access to new territory matter just as much as being able to squeeze more out through your distribution channels.

This means that integration planning needs to focus on the real benefits being delivered and the PMI team must set up and track performance measures which focus and evaluate progress towards all of those precise goals.

The same goes for timescales. While everything is still required yesterday, it's recognised that anticipated growth based on enhanced R&D may take much longer to achieve in practice than, say, benefits derived from integrating multiple ERPs. So, in addition to devising a plan which manages the typically enormous complexity of integration in a systematic manner, the PMI team must construct and successfully communicate a multi-speed calendar that manages stakeholder expectations while maintaining the pace towards explicit delivery milestones. In

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Gold at the end of the Rainbow?

The potential scope and scale of the **Integration** provides a number of strategic and delivery challenges

Strategic challenge:

- **Establishing the strategic objectives**
 - Estimating the benefits without perfect data
 - pressure to make the deal "look good"
 - under-estimating the complexity of the integration
- **Impact on the organisation**
 - Resourcing requirements: quantity and capability
 - Prioritisation and focus required
- **Prioritisation means difficult choices**
 - Too many initiatives competing for finite resources
 - Can't do everything:
 - existing change portfolios impacted
 - full integration cannot be done within the confines of a time-limited project
- **Pressure for results**
 - The market (and top management) expects quick returns; undertakings may have already been made
 - Uncertainty accelerates customer and staff attrition

Delivery challenge:

- **Potentially massive scope**
 - Large scale change, multiple dimensions, all areas of the business impacted
 - Full change lifecycle, from initial strategy development to embedded efficiencies
- **Defining the target organisation**
 - Two sets of customers, products, marketing channels – what is the target?
- **Mobilising quickly**
 - Many synergies are time critical and are lost if not released to plan
 - Business As Usual priorities can delay the benefits delivery
 - Need to take advantage of staff and customer expectation of change in the immediate post-announcement period
- **Maintaining the focus**
 - Ensuring adequate backing and commitment from the organisation
 - Managing the legacy whilst transitioning to the new
- **Overcoming staff issues and implementing the cultural changes required**
- **Ensuring the right capabilities to deliver**
 - Wide breadth and depth of experience, knowledge and capability required

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this, translating M&A objectives into programme targets and keeping everyone on message remain critical PMI team activities. As does staying on task to track the realisation of those benefits right through to the last one.

Another emerging trend is acceptance that not all the benefits to be wrung out of the integration can be anticipated or identified ahead of Day 1. This is particularly the case, of course, in contested takeovers in which the opportunity for due diligence is limited. Thus, in addition to the normal task of robust and active risk management to secure planned objectives, the PMI team should have an open, creative and can-do approach towards

maximising new opportunities as they appear.

Achieving this is a balancing act between focus on delivery of promised benefits in a situation in which there is never enough resource to go around anyway, and marshalling and managing enthusiasm to capture the full scale of the opportunity. Success here rests on proven systems and experience.

The scenario of new complexity being layered on top of the well-known integration challenges is familiar to Chaucer Consulting and, in our experience; the picture is similar across industry sectors. Our view remains that the rigour behind

great planning, explicit benefit targets and world class communications are essential. But the point of difference these days is that all this needs to be linked to a can-do approach coupled to serious pragmatism. Only then will you be able to tick all the benefits boxes at the right time.

Chaucer has worked on integration activity as part of the 50 or so M&A assignments we've undertaken in the past 15 years.

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Tim Carpenter

Delivering Cost Savings in the Public Sector - The Challenge?

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- ▶ How should these services now be delivered given the cost restraints?

Chaucer consultants have worked alongside public sector managers faced with some of these dilemmas and understand the considerations that need to be balanced. Chaucer has been able to assist by;

Reviewing current activity

It is very important that only projects that will deliver substantial financial savings be undertaken. Chaucer will work through each project to understand its background, key drivers and underlying benefits. By challenging them, we can help ensure that those projects that remain stand up to scrutiny.

Forward planning & prioritisation

With a contracting budget, rising demand (and costs) will mean that savings still need to be found even if nothing else is provided. Each public sector organisation will need a clear and concise plan on how they will achieve these savings and over what timeframe to satisfy the central government. This plan will need to be underpinned by a clear prioritisation process. Robust planning is a central pillar of the Chaucer Way.

Advising on improved management of contracts

Evidence suggests there is wastage in public funds due to lax management of existing contracts. All contracts will have specific performance terms built into them, but these are seldom enforced; an issue exacerbated by a lack of quality management information. Chaucer has experience of selecting providers and tracking performance rigorously to deliver real and anticipated value and savings.

Providing advice on divestment and outsourcing

Chaucer has managed the divestment of huge assets over the years, including complete business units within a corporation, joint ventures, petrol chains and individual oil refineries as well as the outsourcing of key business operations. In this climate, such strategies become more attractive and if managed properly then have the potential to reap significant financial savings.

Reducing duplication and simplifying governance

The public sector and big business alike have long had a reputation for over complicated governance regimes. This results in duplication

of effort and slow decision making. Chaucer is able to define and implement a robust governance regime that allows for fast, active decision making whilst maintaining strong oversight and control.

Good project management

It is vitally important that projects deliver on time and to budget, whilst realising their benefits. As demonstrated in the Chaucer Way, we are dedicated to helping clients to deliver projects successfully, having done so in a wide variety of different industries (including the public sector).

Despite the huge challenges ahead, Britain's public sector retains a passionate work-force, dedicated to delivering sustained improvements in services. Chaucer can help maintain their direction and focus and the momentum of delivery at an exceptionally low cost.



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Building Local Capability in the USA

Being able to provide people with the right skills and experience in the right place at the right time is the winning formula as far as Chaucer America is concerned.

But, to achieve this is no easy task and the management team at Chaucer has made some fundamental changes in the way we do business. Through innovation and perseverance we have streamlined our operation and focused on 4 key elements as part of a winning formula; **Business Relationships, Right People, Ability to Deploy and Capability.**

Business Relationships – The cornerstone of our business approach is how we win new work, get referrals and retain our customers. As an organisation we value relationships as a priority and this philosophy has become a deep rooted part of our culture and how we do business. It is present within every person who works at Chaucer and it is fundamental to our business.

Right People – Recruiting and retaining the right kind of people is a critical part of our core business. It underpins our capability as well as our ability to deliver high quality work. We regard our consultants as the bedrock of our successful operation and their skills matter to our clients. It's all about the human factor knowing how to evaluate a person's personality and fit, balanced with the right skills and experience and matching them to the correct job and client.

Ability to Deploy – Going where the work is! It's an old saying but true. Our clients expect us to deploy where the work needs to be done. As a company we have become adept at being mobile and flexible employing a range of approaches to service local requirements almost anywhere in the world. Technology has also played a key part in supporting this capability and as a company we are quick to adopt mobile computing solutions.

Capability – Our capability is more than just the sum of our people although they are a very important element. It is also the intellectual knowledge and experience we have distilled over the years and codified into a set of effective methods, tools, techniques and processes which we call the 'Chaucer Way'. It is the combination of an effective team using a proven approach 'The Chaucer Way' that is the capability behind our offer.

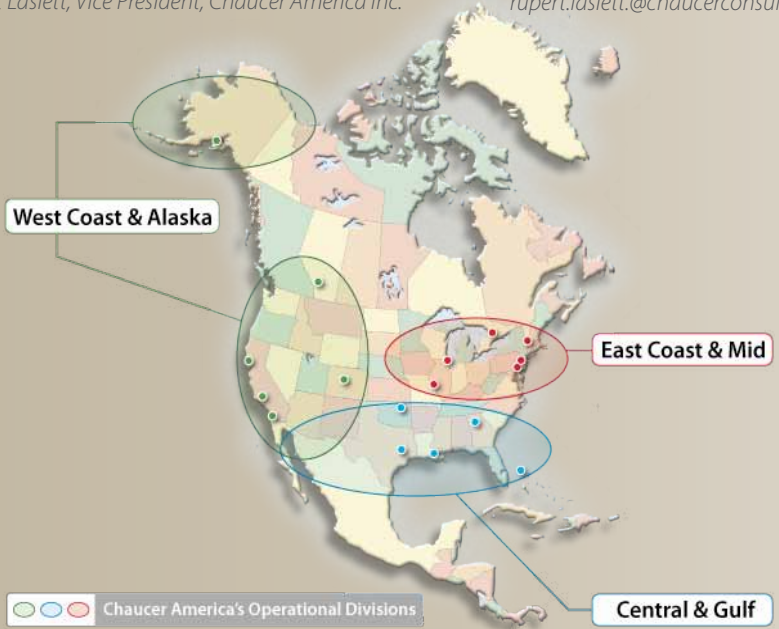
Chaucer's business in the USA has been established since 1989 and we have worked in just about every state and major city in the USA across industry and commerce. Our operation has weathered the storm of the recession and has emerged leaner and more efficient. It is upon this platform we continue to build on an already strong Chaucer American Pedigree . . .



Rupert Laslett

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Passing the point of no return



The City is still assessing the radical shake-up of financial regulation and there is foreboding about the future,

but the common view is that the worldwide financial community has brought it upon itself; a morality that inspired responsible behaviour and gained the trust of others, remains absent¹; we have passed the point of no return and the collective thinking unveiled at The Mansion House points to strong centralised control. Chancellor Osborne has passed control back from the discredited FSA to the 'twin peaks' of the Bank of England and a new consumer protection agency.

So what is coming next?

The Bank of England is now part of an emerging macro-prudential supervisory system worldwide, but with 'micro-prudential' oversight, monitoring the safety and soundness of banks, insurance companies and other financial firms². The Bank gets sweeping new powers and a 'toolkit' to help it manage risk economy-wide and within individual banks; including the ability to restrict bank lending.

The new Consumer Protection and Markets Authority will focus on treatment of customers and conduct of business, supervise markets and hopefully detect and prevent abuse, the worst of which will be dealt with by an Economic Crime Agency. There will also be a new tax on banks to help reimburse the taxpayer for the bailout. The details of the measures are expected in a consultative document before the summer Parliamentary recess

Sir John Vickers' independent commission will report in September 2011 on reducing systemic risk, mitigating moral hazard, reducing the impact of firm failure and promoting competition, including possibly splitting up the major banks into retail and investment houses.

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¹ Financial World June 2010, David Lascelles, former banking editor FT

² FT Regulating the City 18th June 2010

Passing the point of no return

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Making Hay?

So how should the Financial Community react? Making hay whilst the sun shines? Certainly they will. Change their risk approach? Not at the price of profit opportunities. Bonuses? Even when taxed. Some FSA staff will go and others will be transferred back into the Bank of England – but what will actually change? This rearranging of the deckchairs alone will not prevent the next Titanic disaster unless radical change is brought about in supervision and the existing regulatory corporate culture; new brooms, fresh staff, new technology, new approaches and radical thinking.

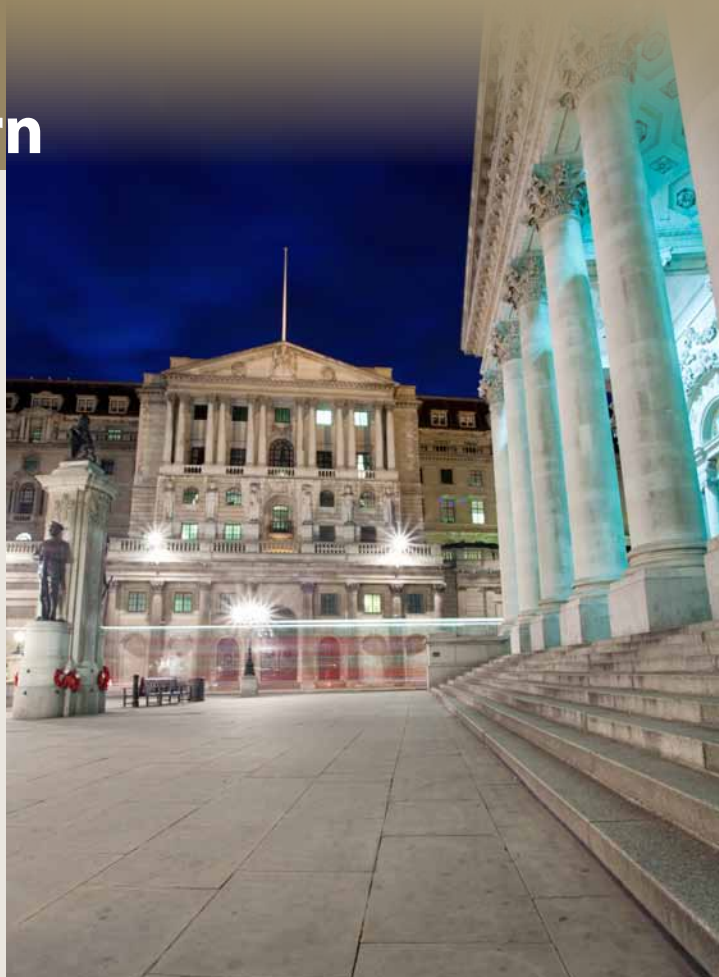
Imperatives for Change?

So what should the independent commission be looking at?

- ▶ On systemic & market risk, refreshing the teams with those who can wield worldwide economic models; information technology real-time feeds and severe amounts of processor power can better track trends and give clearer warnings. The 'old-boys' review is not quick enough even when wise and incisive. Intervention strategies need revising. Banks certainly need to keep that incisive weather eye on the trends to ensure they do not get caught when the music stops and the market slide begins. Model-building needs a severe rethink; stress-testing needs replacing by reality-testing.
- ▶ Mitigating moral hazard comes back to supervision, insightful and incisive investigations; which again come back to hungry investigators and good technology, with information feeds directly into host banking systems to run monitor programs to check activities. A periodic chat with your friendly FSA investigator or internal auditor is NEVER going to reveal the whole truth nor be in time to save the bank from wayward trading.
- ▶ Reducing the impact of Firm failure is an external assessment carried out independently to ensure customer balances can be transferred to another regulated bank or service provider immediately – which may herald further dis-intermediation of the banking process – ownership changes but operational processing remains the same.
- ▶ Market failure still remains the highest threat to firms³; in the Financial Stability Board, the G20 and the macro-prudential regulation do we put our trust? The worldwide mechanisms for monitoring and intervention need careful design to be timely and effective.
- ▶ Promoting competition by splitting up the banks between retail and investment activities will inevitably raise the cost of retail banking for the consumer. It may prevent retail funds disappearing when the investment arm fails, threatening private and commercial liquidity but the investment arms support pensions and corporate finance and is arguably as important. However, if the political will is there, significant de-merger activities will result in massive cost implications for each major bank in 2012.

The actions for a bank to take:

- ▶ A risk analysis of doing nothing – what are we already doing to mitigate these regulatory risks and is our current recovery strategy on track?



- ▶ A bank split-up analysis – what would be the costs of the full split and arms-length options? What changes operationally?
- ▶ Personnel inventory – do we have really fit and proper persons capable of meeting these future challenges and to manage the situation going forward
- ▶ Right systems – do we have the right systems going forward, with sufficient monitoring clarity to track and detect these macro and micro risks.

The Chaucer role:

- ▶ Chaucer will participate in the debate on the form of the new regulation and controls – to support the Independent Commission on Banking and help guide its thinking
- ▶ Chaucer will guide our clients in their internal assessments on prudential and operational risks and help clients manage through the radical changes that will be needed.
- ▶ Working with those regulated service providers who can in regulated fashion take on operations for banks.
- ▶ Chaucer will keep you up to date with this ongoing evolving situation, now Regulation is passing the point of no return.

³ HM Treasury Financial Secretary's Speech
12 July 2010

Roger Baker



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Project Management in a Dynamic Environment

While we all know, love or hate the structure brought to projects by methodologies such as Prince2, it is often the reality that we are not presented with a neatly packaged up project remit, or have time to set up a disciplined regime in order to deliver that perfect project. Instead we often find ourselves walking into an environment of uncertainty where deadlines have already been missed, and stakeholders are seeing failure looming large.

In such cases there is no honeymoon period, no period of grace. One is typically swamped with information overload as you walk through the door for the first time. The harassed project sponsor will brain dump all the issues, typically not in an order of priority, and once finished look at you expectantly and say: "well"?

This is a sink or swim moment.

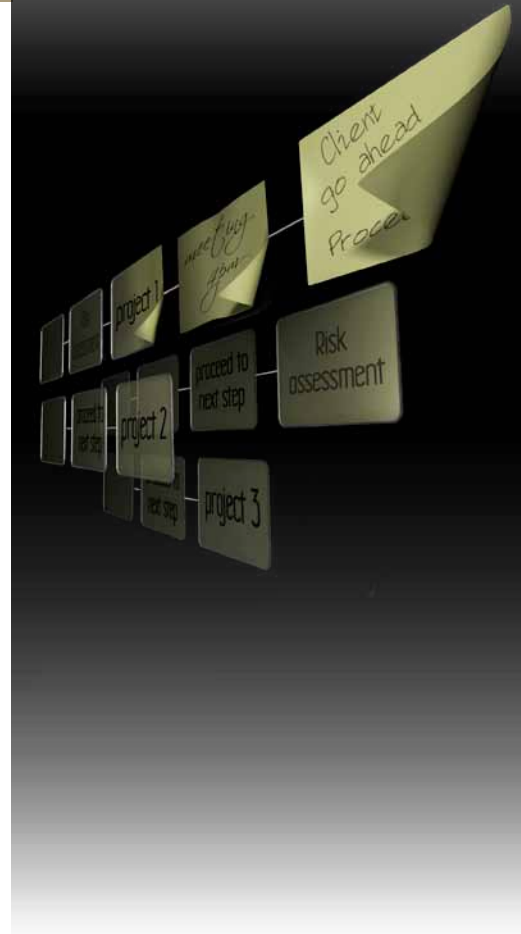
Pragmatically bring structure to the chaos

The danger here is in trying to be seen as proactive and getting caught up in the frenzy: dealing with the problems head-on in a linear fashion. Before you know it, you will get mired in the detail, and lose objectivity and value to the client.

On the other hand, there is neither appetite nor time for full-on project disciplines: such as formal detailed project plans, meeting minutes, lovingly crafted and coloured Issues log and risks register and the like. You have to bring structure to the chaos in a fit-for-purpose and pragmatic way by being both flexible and creative.

However quickly the work needs to be done, the basic building blocks in professional project management are still essential to success, they just need to be implemented with a strong dose of common sense, which everyone can buy into.

Here are some alternative deliverables that can be used. Note that over time, once the initial haste is over, it is wise to move the content of the dynamic project tools to standard ones: thus protecting the information, and re-establishing the audit trail and a sense of stability.



Project Management Element	Standard Project Tool	Dynamic Project Tool
Project Planning	Project Planning Software	Post It Notes on a wall in the Project War Room
Issues, Risks and Change Logs	Spreadsheet	Flip Chart
Action Log	Spreadsheet	Flip Chart
Stakeholder Map	Word Processor	Flip Chart
Project Management Group	Meets Weekly often by teleconference	Meets Daily or as regularly as possible in the War Room
Progress Tracking, Management Reporting	Weekly Dashboard in Presentation Tool	Ad hoc verbal report by Project Sponsor/Manager
Internal & External Communications	Email & Letter	Email, Letter and Ad Hoc Team / Stakeholder Meetings

Chaucer's experienced consulting resources, using the pragmatic Chaucer Way - Project Management Process; offer tried and tested, common sense solutions for client's urgent Change and Project Management needs. As such, our consultants are capable of delivering in the most dynamic and testing of environments.



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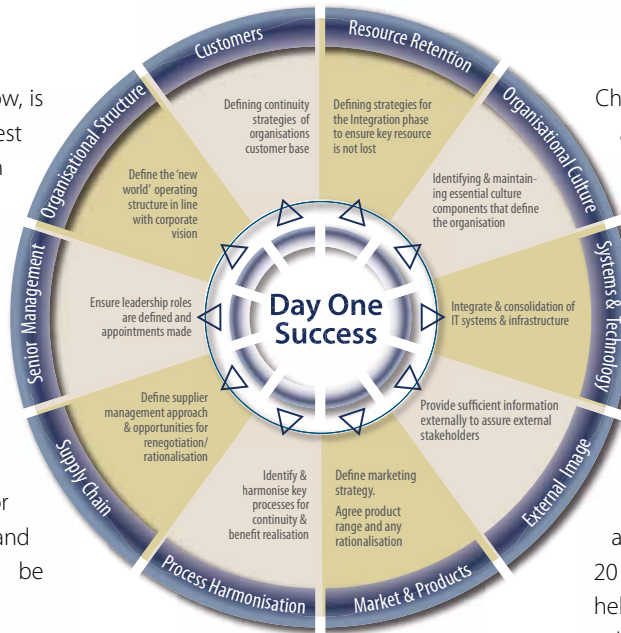
Chaucer Consulting launches its latest methodology offering real, value adding support to those managing Mergers & Acquisitions and Post Merger Integration projects.

Today's business environment, as we know, is one full of change. One of the biggest changes that any organisation can experience is as a result of Merger and Acquisition activity.

Although the size of the Merger & Acquisition (M&A - this includes acquisitions, mergers, divestments, joint venture and post merger integration) activity itself will vary depending on the size and complexity of the organisations involved one thing is for sure and that is the resulting change and organisation transformation needs to be managed robustly.

Most major industry sectors today have recently had, or are currently experiencing, this type of change. In some cases this has made front line news such as Cadburys and Kraft or Pfizer purchasing Wyeth or, more recently, Prudential and AIA.

With the current recession revealing the impact it left across virtually all sectors, the drive for growth, consolidation and improved effectiveness will ensure that Mergers and Acquisitions remain a key part of a formidable toolkit to attain strategic company corporate objectives.



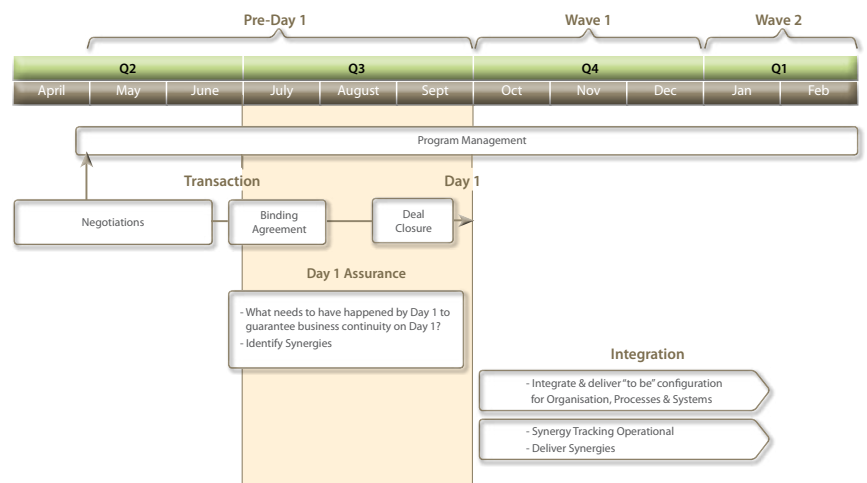
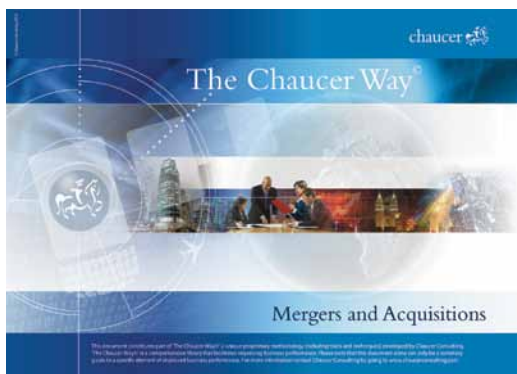
Chaucer has a flexible, pragmatic and proven approach to managing M&A activities, of all forms, as well as experienced and expert consultants that utilise and adapt the appropriate components for the relevant sector and organisation

The Chaucer Way[®] - Mergers and Acquisitions is Chaucer Consulting's methodology for the successful implementation and management of M&A initiatives – including tools and techniques. The Chaucer Way[®] - Mergers and Acquisitions is the result of more than 20 years of experience in working and helping blue chip clients around the world to achieve their M&A objectives within the oil & gas, petrochemicals, FMCG, financial services and pharmaceuticals sectors.

At Chaucer we recognise that the trademark of most M&A projects is complexity: Impacting all dimensions of the business, geographically, culturally and technically. It is perfectly right therefore, that support to deliver real results is actively sought for this type of work.

Chaucer has over 25 years of experience and a deep rooted knowledge across large scale, complex M&A projects. Delivering integration at pace and accelerating the benefits realisation process.

'The Chaucer Way[®]' is Chaucer Consulting's suite of propriety methodologies. To learn more about these or to receive a free copy of The Chaucer Way[®] - Mergers and Acquisitions contact Deborah Feakins at deborah.feakins@chaucerconsulting.com



The World Cup, Formula One and the Tour de France

It would be impossible not to realise that there are major sporting events taking place... my title represents what I am interested in but I acknowledge that there are several other major events such as Wimbledon, Test Matches, The Open, so my apologies for not including your favourite sport in the title. I do recognise they exist. Even more they all require the same key ingredient – Teamwork, even when the sport may appear to be that of one individual; a golfer, a tennis player, a cyclist, etc they actually all have or involve a team to achieve success.

The teams behind individuals can be engineers, technicians, analysts, doctors, trainers, coaches, physiotherapists, dieticians; etc etc the list is endless.

A business is no different it requires a team to be successful.

In a successful business as in a successful football or rugby or cricket team the individual players all support one another, in motor racing the complex technical team support the driver and so on.

In business the better the team, the better the support the more successful the business becomes... no different from sport.

Business requires talent, without which it stagnates or fails, business requires healthy systems and processes for its efficiency and cost effectiveness.....

To be successful in business you need to be better than your competitors, this requires that you have better people, better processes,

something unique to give you an edge – at Chaucer we call this The Chaucer Way.

All businesses need to ensure that they operate efficiently in every department, in every way, that their people are working for one another as well as themselves, individuals actions and performance has an impact on the business whether this is in creative design, an efficient back office or sales it is still vital to the overall success and health of the business.

The Tour de France is a great visual display of teamwork in action, the Football World Cup has been about many teams from around the world and it has been a wonderful advert for South Africa which has triumphed in staging a world class event.

To be successful a business needs to do many things; execute and deliver projects and programs, implement change and transformation, capture and leverage knowledge, have a continuous improvement culture, etc. These are all aspects of a business that Chaucer Consulting can and does help its clients with so they become more and more successful.

We are still in recessionary times, the market place is ever more challenging, increased regulatory compliance, the emergence of new markets both as manufacturers and consumers, the list goes on and all these and more need to be overcome, accommodated, resolved and managed if we are to improve our businesses performance, sustain its growth and increase its profitability.

It is important in today's demanding business environment for a business to be flexible, receptive to change and most importantly to be

able to deliver new projects successfully.

A business change, business performance, transformation, re-organisation or merger/acquisition project needs to be delivered with pace in order to achieve benefits quickly, efficiently and effectively. Any delay in delivering a project diminishes its value and can have a negative effect on other parts of the organisation.

Some key aspects concerning projects (or programs) that we know from experience are key to their success and hence to the benefit of the business are:

- ▶ Always plan well – in detail
- ▶ Learn from previous projects
- ▶ Be clear about objectives, their value and timing
- ▶ Understand risks, interfaces and interdependencies
- ▶ Deliver with pace
- ▶ Be innovative, consider alternatives
- ▶ Keep costs under control and keep to your budget
- ▶ Be focused and strong in leadership
- ▶ Communicate

Like sport you need a good team to deliver a project successfully – the better the team the better the chance of success.

If success is what you are looking for why not invite Chaucer to support your team?

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Bob Laslett

