

Managing for Value

Ten characteristics which will identify your company as one that manages for value



A Vision

Introduction

- This presentation details the ten characteristics that will identify any company as a company which manages for value.
- Managing for value is not something to be done and then it's done - it is an enduring way of running your business...a journey, not a destination. Whilst it is a journey, you will know you have made significant progress when we can observe these ten characteristics.
- The characteristics help you to prioritise your efforts in building the foundations and developing your skills to manage for value. This presentation is designed to build your understanding of managing for value and help guide your plans to manage for value within your part of your organization.
- These characteristics are explained in more detail on the following pages.

Managing for Value Characteristics

Summary

Managing for value is a journey, however, we will know we have made significant progress when you observe these ten characteristics across your organization

Financial Performance

1. Produces Total Shareholder Returns (TSRs) in the top tier vs. peers.
2. Your organisation and its business units meet or exceed internal and external financial performance commitments linked to achievement of the organisation's goals.

Strategic Performance

3. Each business unit has a superior business model that results in value-creating differences relative to peers.
4. Create a superior organization strategy that creates competitive advantage from its portfolio of business units.
5. Each business unit manages customer value and cost-to-serve to maximise Economic Value (EV).

Organisa- tional Performance

6. Create a high performance culture where people have superior capabilities to manage for value and are rewarded for value creation.
7. Create strategy development and agenda management processes ensure that all decisions are fact-based and value-maximising.
8. Employ a rigorous business performance management process to ensure delivery against agreed strategies and performance commitments.
9. Create a structure that establishes clear accountabilities and line of sight for "value creation".
10. Your organisation's use of management information and technology creates distinctive competitive advantage.

These characteristics, depicting the future state of managing for value are elaborated on the following pages

1. Top Tier Shareholder Returns



Produce TSRs in the top tier vs. peers

The Way We Manage

We use maximising shareholder value as our governing objective for decision making.

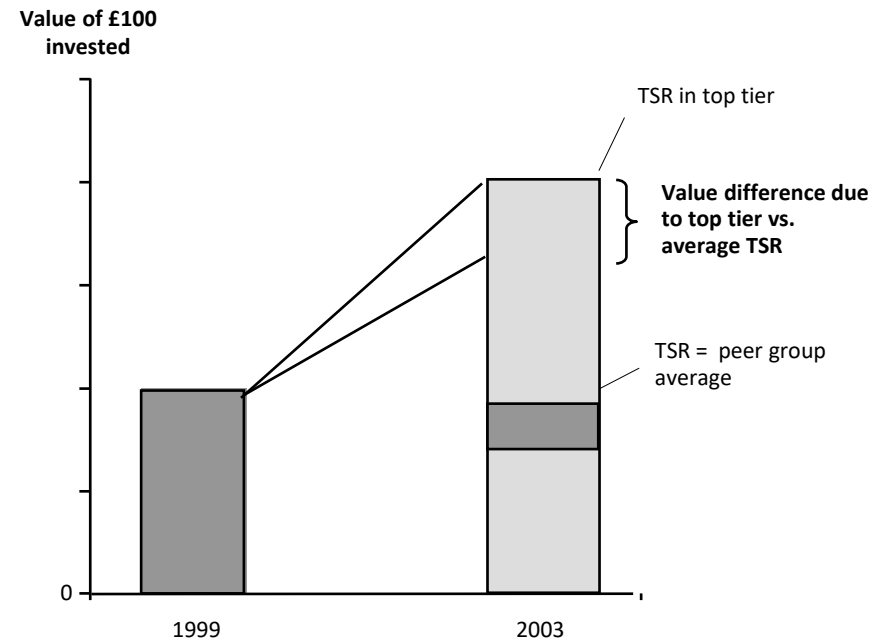
We believe the best measure of performance is relative TSR over a multi-year period.

We have an organisation TSR goal of top quartile performance relative to the ISOP TSR peer set.

We believe that to meet our TSR goal the organisation's EV must grow at a similar rate.

We build an explicit link between our TSR goal (as well as business unit and individual goals) and rewards for top management.

Illustration Top Tier vs. Average TSR



My Role: "I believe that, over time, market value follows economic value and I will set stretching goals for my business to help achieve the organisation's TSR goal"

2. Exceeding Financial Performance Commitments



Your organisation and its business units meet or exceed internal and external financial performance commitments linked to achievement of the organization's goals

The Way We Manage

We use goals to establish the right organisational mindset for ambition and pace of performance improvement.

We set EV and Economic Profit (EP) goals for the organisation and each SBU to drive stretch in strategic thinking.

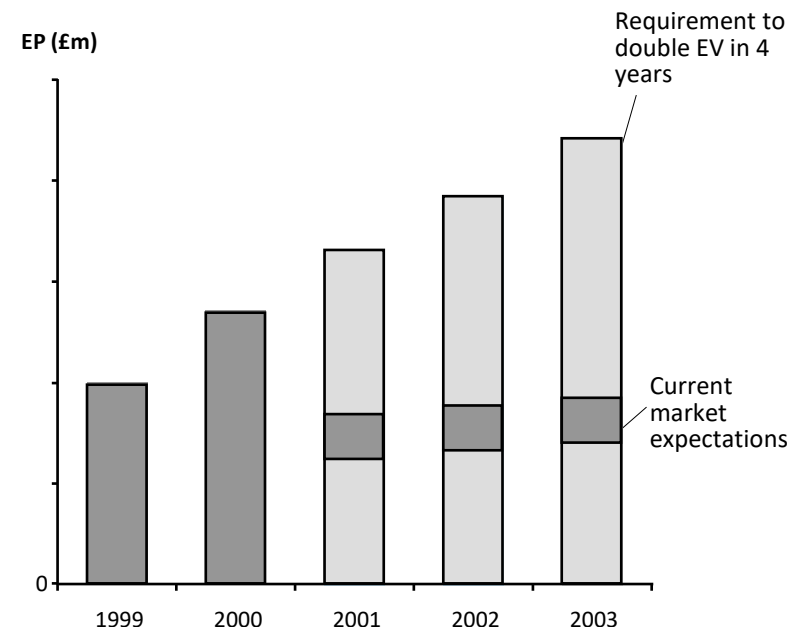
We develop strategies to achieve our EV and EP goals.

We establish aggressive, but realistic external performance commitments linked to our strategies.

We use a business performance management and reward framework to reinforce achievement of goals and to highlight and address under-performance.

We build and maintain open relationships with investors by being transparent about our value goals and financial performance.

Illustration EP Goals to Reach Double EV Goal



My Role: "I deliver on my financial performance goals, and thereby our shareholder value goals, by meeting my unit's value contract commitments"

3. Superior Business Models



Each business unit has a superior business model that results in value-creating differences relative to peers

The Way We Manage

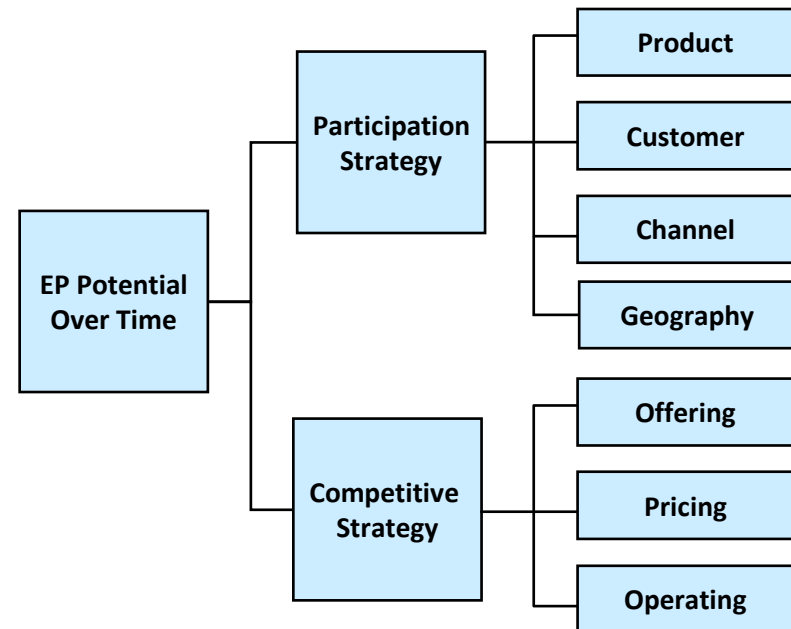
We understand that our business models are an integrated set of choices about which markets to serve and how to compete in each served market.

We participate in economically attractive market segments.

We build sustainable competitive advantage by:

- offering differentiated products and services to our customers;
- pricing our products and services to be economically profitable and to create maximum EV over time; and
- operating our assets and delivering our offer in the most cost effective manner.

Business Model Framework



My Role: “I manage our business model so that it is profitably different from our competitors”

4. Distinctive Strategy



Create a superior organisation strategy that creates competitive advantage from its portfolio of business units

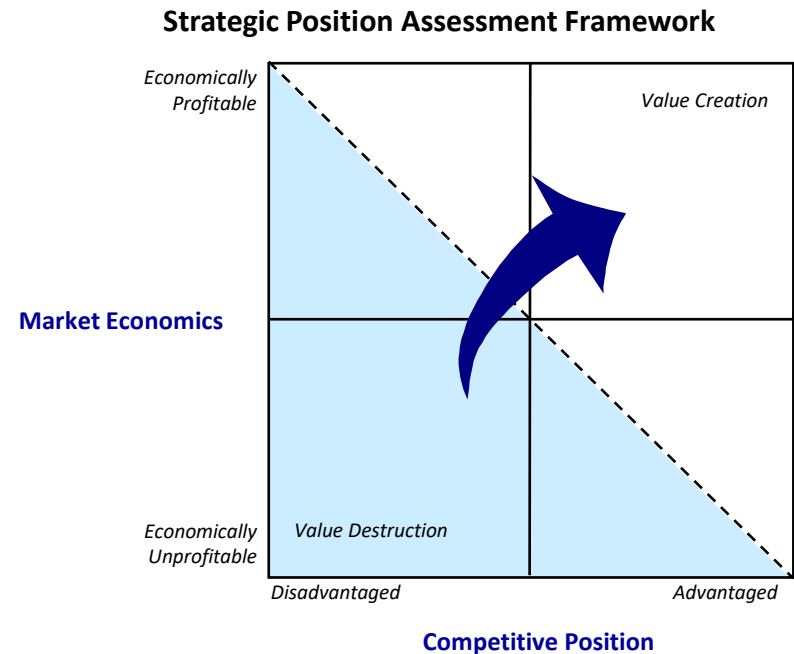
The Way We Manage

We participate in markets that are economically profitable, over time, and where we can achieve and sustain a competitive advantage.

We set clear boundaries, over time, for the market segments (e.g. products, geographies, customers and channels) where we will and will not participate.

We have a rigorous portfolio management process to ensure that we are getting the most EV out of our individual SBUs and the synergies between them.

We manage risk through focus on areas of competitive advantage rather than through diversification.



My Role: "I understand why we are competing in certain markets and not in others and I understand that achieving sustainable competitive advantage is key to value maximisation"

5. Optimal Customer Value



Each business unit manages customer value and cost-to-serve to maximise Economic Value

The Way We Manage

We develop superior insights into our customer needs.

We know which customers in our portfolio create and destroy EV over time.

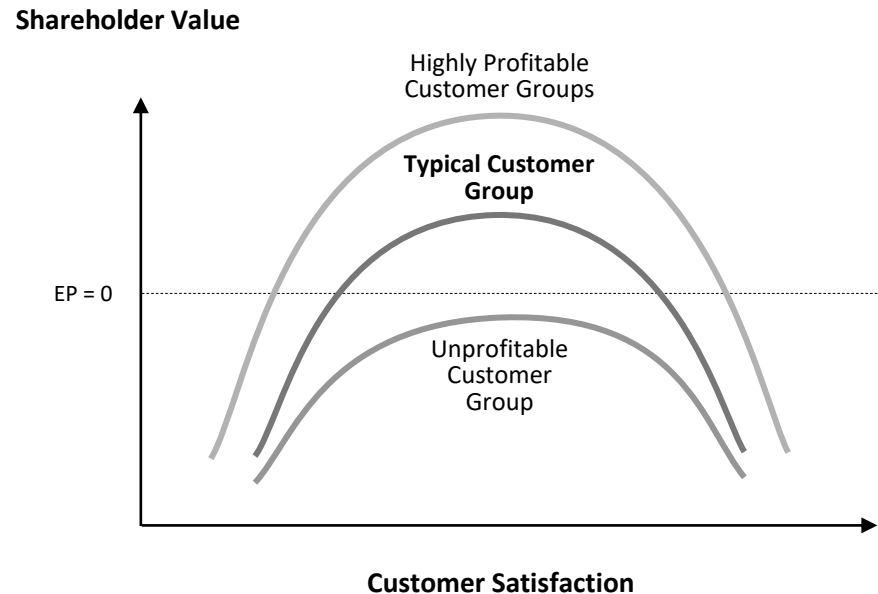
We use our knowledge of customer needs and cost to serve to design and deliver strategies that create the most EV.

We are disciplined in minimising cost which does not increase customer value.

We invest to retain and grow customer relationships which can be economically profitable over time.

We attempt to make all customers economically profitable over time, but will make difficult choices about segments which destroy shareholder value.

Customer and Shareholder Value Framework



My Role: "I create and deliver products and services which both enhance the lives of our customers and deliver profitable growth for the business"

6. Creating Opportunities for People



Create a high performance culture where people have superior capabilities to manage for value and are rewarded for value creation

The Way We Manage

We create competitive advantage through superior people management thus making your organisation an 'employer of choice.'

We recognise and develop a cadre of leaders who can achieve superior value creation and inspire others to this goal.

We place our leaders where they can create the most value for shareholders.

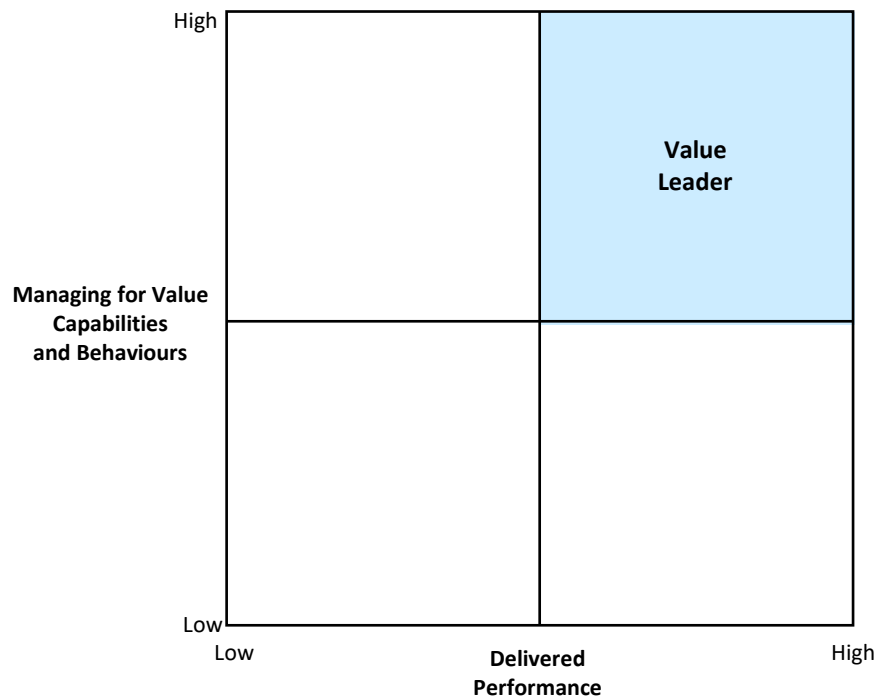
We manage and empower people through specific, clear and measurable performance goals for value creation.

We embed a complementary set of capabilities and behaviours that will drive superior value creation.

We align employee rewards with the interests of shareholders.

We put in place recruitment and resourcing plans which will deliver superior value creation performance.

Framework for Superior Managers



My Role: "I feel as though I am a scarce and valued resource in the way I am developed, managed and rewarded. I will lead and develop others to manage for value"

7. Superior Strategic Management Processes



Create strategy development and agenda management processes ensure that all decisions are fact-based and value-maximising

The Way We Manage

We establish SBU EV goals and SSU/Function performance goals to drive stretch thinking in strategy development.

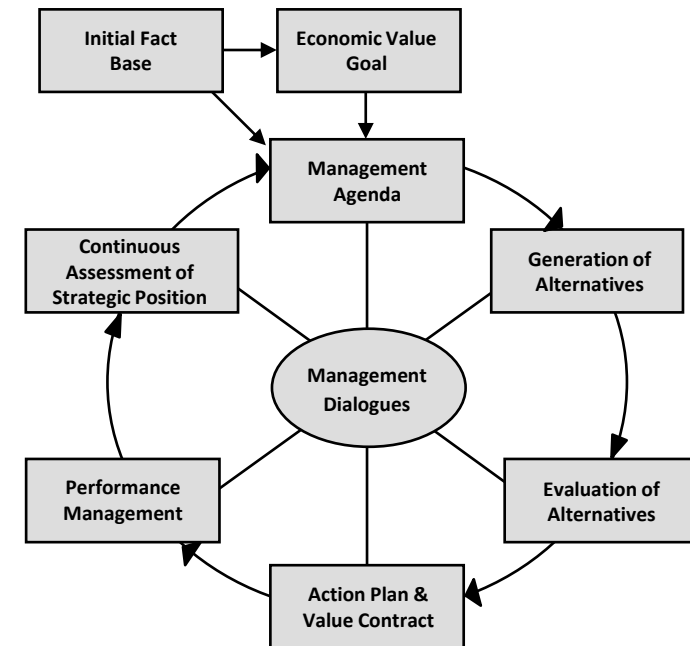
We maintain a fact base of the sources and drivers of value creation in each business unit to drive our agenda.

We manage an agenda of the highest value-at-stake issues and opportunities in each business unit that will help us focus scarce management time and stimulate ongoing strategy development.

We use organisation standards for strategy development to generate alternative business models and drive the choice of the value-maximising option.

We re-assess continually our strategic position and agenda to find new opportunities for value creation.

Strategic Management Process



My Role: "I devote the bulk of my time to resolving the highest value-at-stake issues for my business"

8. Rigorous Business Performance Management



Employ a rigorous business performance management process to ensure delivery against agreed strategies and performance commitments

The Way We Manage

We view active management of business unit performance as key to support the delivery of approved strategies.

We set challenging but grounded business performance goals, aligned with our strategies and specified in agreed value contracts.

We conduct on-going business performance reviews to stimulate timely, constructive responses to variations.

We ensure that, in each business unit, performance is delivered in line with expectations; off-track variances result in changes to strategy, action plans and/or resources allocated.

We have a zero-based mindset about the allocation of capital and will reallocate away from value destroying opportunities to profitable growth opportunities.

“On-track”

**Financial
Performance vs.
Value Contract**

“Off-track”

- Series of dialogues initiated about development of new business model
- Possible issue for Top Mgm Action Agenda
- Resource allocation delayed or amended until issue resolved

- Only regular dialogues necessary
- No change in strategy
- Resources allocated when needed
- Continued focus on implementation issues

- Strategy review initiated
- Resource allocation delayed until issue resolved
- Implementation of strategy suspended
- Remedial action taken
- Possible issue for Top Mgm Action Agenda

- Special dialogue to determine drivers and necessary actions
- SBU Agenda amended to resolve variance from plan
- Possible issue for Top Mgm Action Agenda
- Resource allocation delayed/ amended until issue resolved

“Broken”

Business Model

“Healthy”

My Role: “I provide regular and transparent information on business unit performance relative to commitments. I use that information to revise my strategy or its execution so that I deliver my value contract”

9. Superior Organisation Structure



Create a structure establishes clear accountabilities and “line of sight” for value creation

The Way We Manage

We define clear roles and responsibilities for the organisation and each business unit in maximising value.

We devolve accountability as near as possible to where revenues are generated or costs managed.

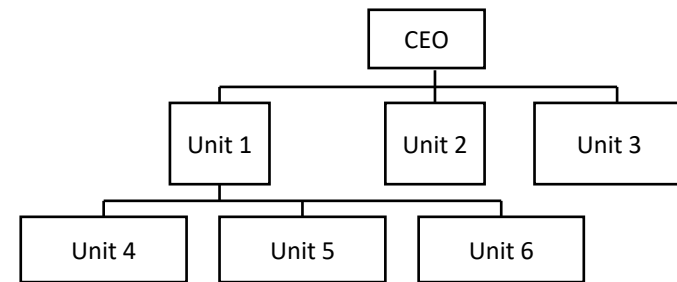
We provide a clear “line of sight” to the economic performance of each business unit.

We encourage leadership teams to optimise all dimensions of strategy within and across business boundaries (with appropriate co-ordination).

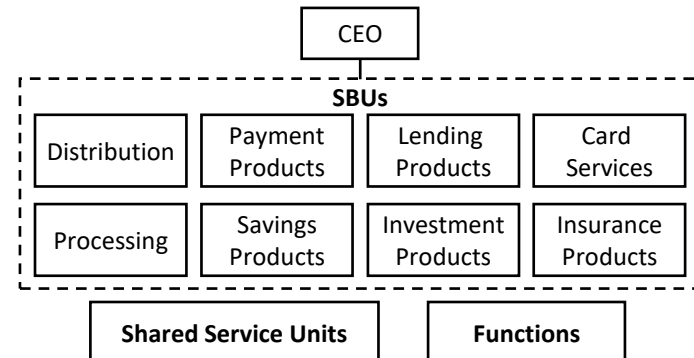
We view organisation structure change as a positive force for improving strategies, decision-making and performance.

We have simplified governance and decision making structures and strengthened control and compliance mechanisms.

Typical Old Organisational Structure (Illustrative)



VBM New Organisational Structure (Illustrative)



My Role: “I know where value is created and destroyed in my business and feel accountable for creating as much value as possible”

10. Superior Information and Technology



Your organisation's use of management information and technology creates a distinctive competitive advantage

The Way We Manage

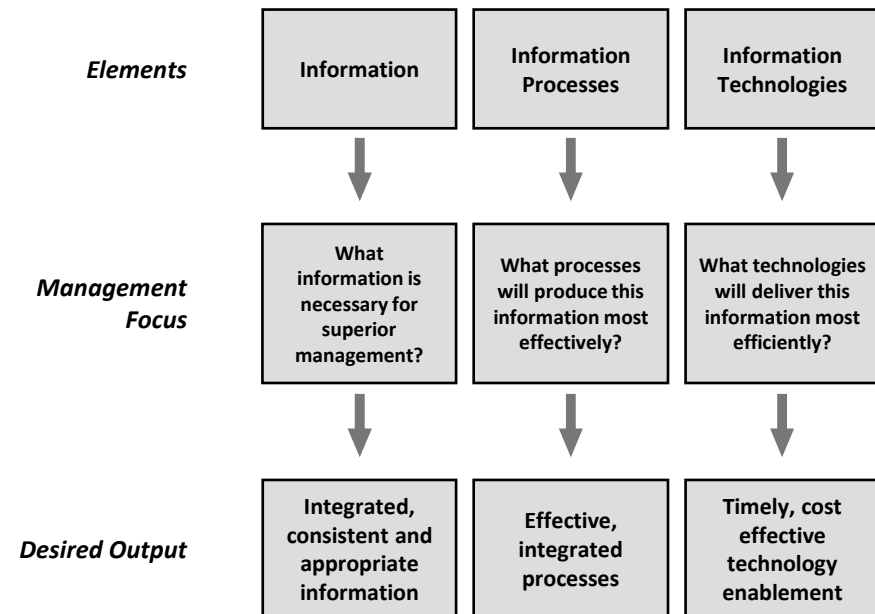
We believe that a meaningful way to differentiate us from the competition is to generate a superior information base for decision-making.

We leverage information to create profitable differences from our competitors and identify new sources of profitable growth.

We have information processes to gather and maintain a detailed fact base of economic profitability by segment and the drivers of value creation.

We use information technology to ensure this information can be delivered efficiently and cost effectively to for use in creating a competitively advantaged offering, reducing cost-to-serve and identifying new market opportunities.

Components of Information Management



My Role: "I have access to, manage and use information to create a sustainable competitive advantage for my business"



Tel: +44 (0)20 7193 2178
info@sterlingdevelopment.co.uk
www.sterlingdevelopment.co.uk
www.twitter.com/SDIconsultants