CAPEXinsights™

POWERED BY Beca

Improve your Return on Invested Capital

A guide to help you quantify capital portfolio inefficiencies

Contents

Mike Duell
Founder
and Director,
CAPEXinsights

"It's now possible to have a significant impact on inefficiencies in capital portfolio management. Our business case for change practice helps clients to measure those inefficiencies and find opportunities to help people and improve processes and systems to create meaningful change."

For further information about our business case for change practice or to discuss your needs, please contact us.

hello@capexinsights.com

The hidden inefficiencies in your capital portfolio

Capital portfolios are notoriously opaque.

Lack of visibility means organisations with hundreds of millions of dollars invested in capital projects have only a vague idea of whether they are getting the expected return on their invested capital.

Most portfolio managers are aware that, beyond the outcomes generated by individual projects within a portfolio, Return on Invested Capital (ROIC) can also be improved by changing the processes and systems organisations use to deliver those projects.

Industry research suggests that as much as 11% of portfolio investment is lost by some organisations[1]. Beca's experience is that most organisations can reasonably address between 2% to 6% of portfolio losses.

Figure 1: How much of your portfolio investment can be optimised to deliver better returns?

Clearly, this is well worth the effort. Given the quantum of capital invested by organisations, even a small change can have a big impact. Especially when compounded over time.

THIS GUIDE WILL:

- **Show you how to calculate ROIC – the value creation potential of your portfolio**
- **Introduce you to the three categories of capital portfolio inefficiency**
- **Walk you through three case studies based on the real-world experience of CAPEXinsights deployments**
- **Support you to build a business case to implement positive change in your organisation**

[1] Improving capability and performance across the capital project lifecycle, Deloitte, 2018

How to calculate your Return on Invested Capital

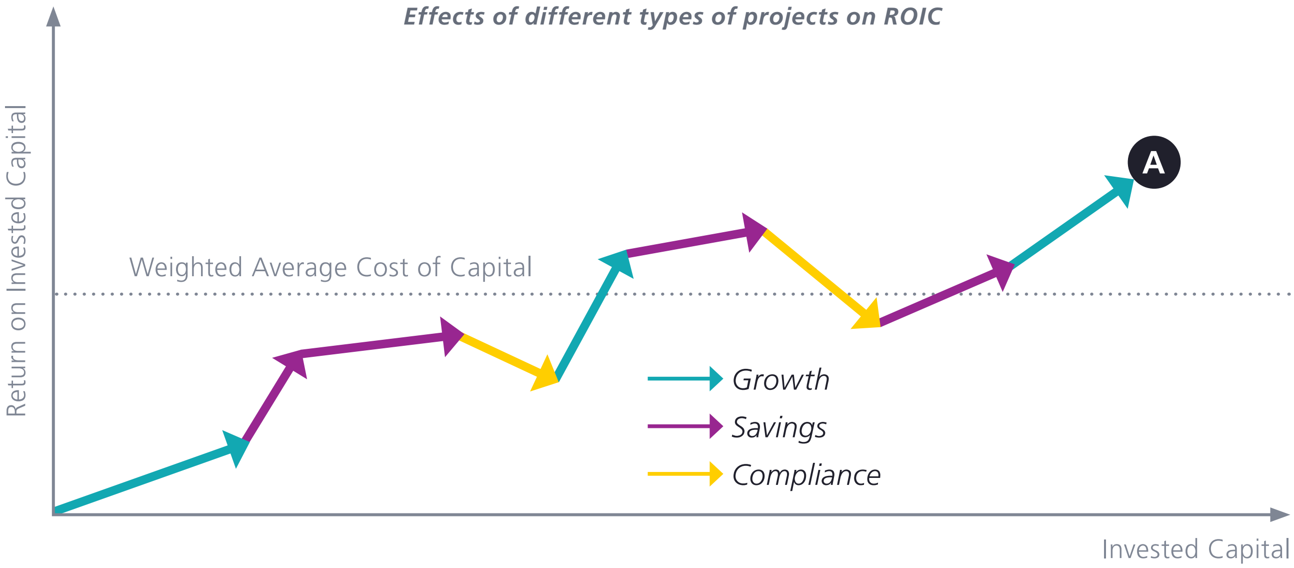
Capital portfolios contain many projects – but not all of them are designed to deliver a positive return.

Project Type	ROIC Impact	Mechanism
Growth	↑	**Increase revenue** by increasing production or output
Savings	↑	**Reduce expenses** by driving efficiencies
Compliance	↓	Improves people, safety and environmental outcomes but does not increase revenue or reduce expenses.

To calculate ROIC across your entire portfolio, you therefore need to find the average return for all projects.

ROIC is calculated by dividing Net Operating Profit after Tax (NOPAT) by Invested Capital.

We can convert this to be meaningful for capital portfolios by transforming NOPAT into the cumulative sum of profitability across projects taking into account the changes in revenue, expenses, depreciation and the effective tax rate.



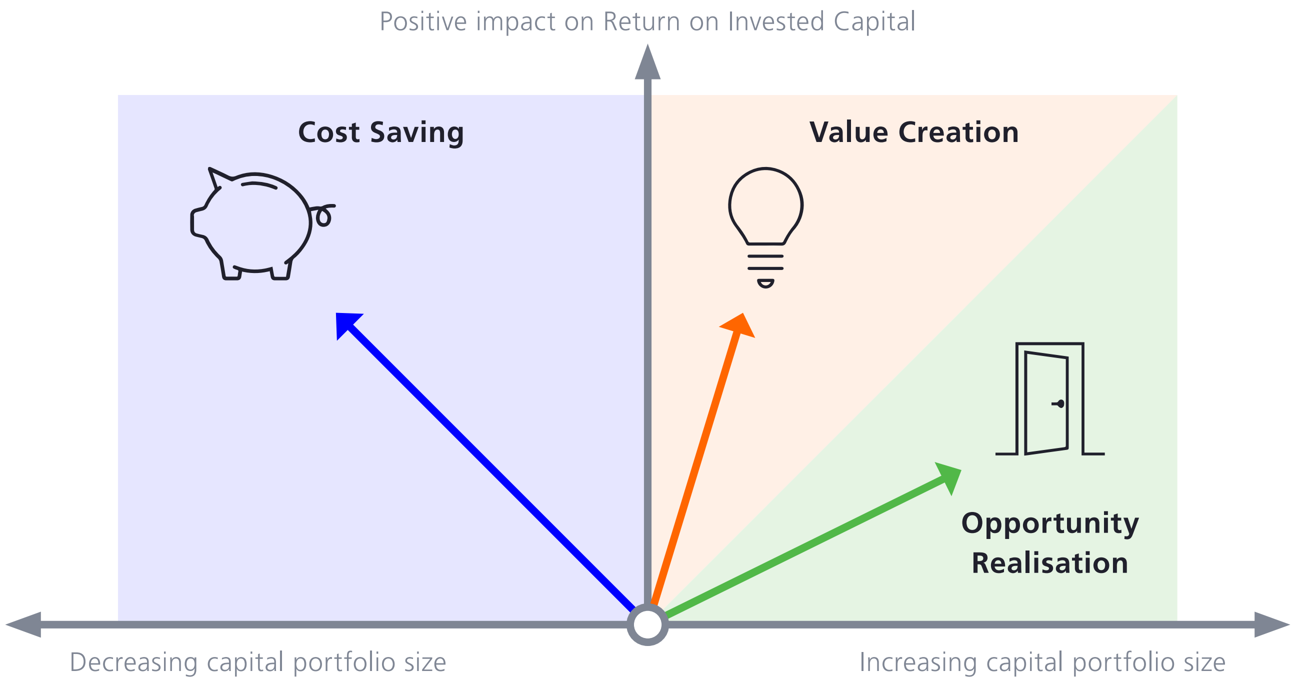
In this example, ROIC is above the Weighted Average Cost of Capital, indicating that the portfolio represents a good investment.

Three categories of capital portfolio inefficiency

In our experience, portfolio inefficiencies typically fall into three categories:

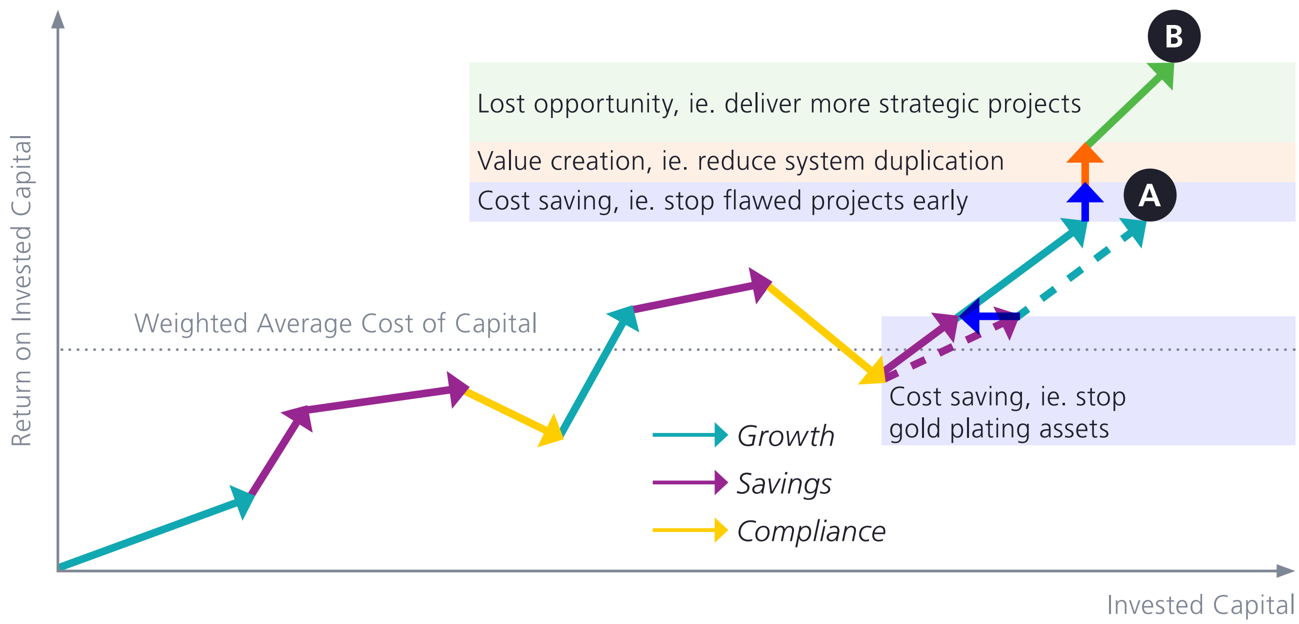
Inefficiency category	Real-world examples
Avoidable costs	• Projects overspend their budget and are delivered late • Gold plating assets • Project reporting is onerous and does not generate the right insights • Small projects are burdened with too much process • Flawed projects go all the way to the capex gate
Value erosion	• Portfolio is underspent each year • Too much duplication between systems • Poor cashflow forecasting means capital could have been used elsewhere • It is not certain that every project delivers the expected benefits • Too many projects realise risks that could have been avoided
Lost opportunity	• Strategic projects are delivered late • Poor transparency across the portfolio leads to poor decisions that could have been avoided • Not all projects are aligned with strategy

Addressing inefficiencies like these always improves ROIC. *(continued next page)*



As a portfolio manager, you can use the efficiency gains in several different ways. Some use the additional capital to deliver more projects, some invest in people development and improve processes, others return the available capital back to the organisation. Others, a combination of all three.

If an organisation typically underspends each year, they may choose to invest more in opportunity realisation and value creation, so they have a greater likelihood of delivering their expected capital portfolio spend.



Case studies: The benefit of solving portfolio inefficiencies on Return on Invested Capital

Stopping flawed projects early in the development phases.

Context

Being confident that a project will deliver the expected benefits requires upfront investment. Time and resources are needed to think about design and technology, develop cost estimates, assess risk and test the market. In large projects, these development costs can run into the millions. The trick is to find out as quickly as possible if a project is flawed, so you incur minimal development costs. This is the purpose of development gates – initially, only a little money is spent, and then as confidence builds, more effort is progressively invested in each development phase.

Problem

An organisation we worked with had development gates for large projects, but they were not enforced systematically across the capital portfolio. Most projects simply proceeded all the way to the capex gate without a rigorous check. This meant flawed projects were not identified early. Instead, the organisation was wasting valuable resources progressing unviable or uneconomical projects for months before they were eventually stopped at the capex gate.

Solution

We helped the organisation develop an automated workflow system that took project managers through a robust lifecycle development process, recording assessment answers at each stage so project sponsors could approve the release of funds for the next development phase. By updating the organisation's governance processes and supporting project reviews at development gates, flawed projects were identified early – usually at the first or second development gate. Project managers began spending a fraction of their potential development budgets, saving millions that were then utilised on other projects.

IMPACT		
	Return on invested capital	↑
	Capital portfolio size	○
	ROIC increased because the organisation limited its development costs to just 0.1%, 1% or 4% of total capital, depending on which development gate the project was declared flawed.	

John Boers
Strategic Advisor – Global Markets, CAPEXinsights

"When you have a project lifecycle that supports teams to make flexible decisions at vital milestones based on the projected outcome of each project, you can save the business lost time, cost and effort. This in return allows your team to optimise their portfolio. We see it time and time again: stopping flawed projects early in their lifecycle improves confidence in investment across the entire business leading to more successful capital portfolios."

Reducing duplication between systems.

Context

Organisations can have a surprising number of mandatory processes that require project delivery teams to work across many software applications. This is because capital projects touch many parts of an organisation – finance, operations, safety, engineering and sales and marketing.

Problem

In this organisation, project engineers had to work in as many as 15 different applications. Each individual system was well designed and achieved its purpose. However, because the systems were disconnected, significant duplication of information and effort ensued – especially when it came to maintaining the information required for cashflow forecasts.

Worse, many 'systems' were simply Excel spreadsheets leading to many errors and inefficiency.

Solution

We conducted a value mapping exercise allowing this organisation to plan out when each process was required within the project lifecycle. This both identified duplication and inefficiencies and helped delivery teams understand why and when information is required by each system. It then used a smart project portfolio management (PPM) system that was integrated with its ERP to remove system duplication and improve cashflow forecasting.

During the project, the company also realised that its small projects required far less process than its large, complex, strategic projects. Small projects didn't need to have a three-phase development lifecycle forced upon them. In response, it introduced a framework to classify projects in terms of complexity and then programmed the PPM to automatically assign each one an appropriate lifecycle with supporting workflows. This flexible lifecycle guidance ensured relevant gates, activities and monitoring tasks are completed without overwhelming the user.

IMPACT

Return on invested capital	↑
Capital portfolio size	↑

Removing system duplication reduces project delivery costs with delivery teams spending far less time on bureaucracy. The organisation can use this new capacity to deliver additional capital projects and increase the size of its capital portfolio.

Abhishek Sharma
Senior Project Director, Beca

"Today, more than ever, we need our tools to be enablers of accelerated capital delivery, facilitating collaboration, tight controls and speed of decision making. Finding the balance between standardising the process and keeping it flexible can be challenging. A one-size-fits-all process can lead to behaviours in our project teams that produce poor outcomes. Any toolset that forces team members to have "work arounds" is not configured to the mix of investment projects being delivered by the organisation. Team members can become overwhelmed with process, frustrated with duplication and the organisation becomes inefficient. Addressing this challenge is key to maximising results."

Ensuring on time delivery of strategic projects.

Context

Many capital portfolio projects underpin the ability for an organisation to realise its strategy. These strategic projects are so big and bold that they will transform the organisation.

Problem

This organisation was struggling to deliver its strategic projects on time. Investigations revealed a number of reasons, including: fast-tracking through normal risk processes, under resourcing the project delivery workforce, unforeseen approvals processes and inadequate stakeholder engagement. Many of these reasons fell under the banner of optimism bias: the strategic projects were so critical that the 'normal' rules of project delivery did not apply. In fact, as the company realised, it is never more important to implement project delivery discipline than for strategic projects.

Solution

The company developed both site and network masterplans to help forecast these large strategic projects. The company chose a horizon of five years and charted the changes that would be required in response to their customer's forecast needs – both across the entire network, and then localised impacts at each site. Importantly, the organisation implemented a project portfolio management system that could then be populated with these strategic projects from the master plans. This allowed the organisation to progress through the required development phases with adequate support and time.

IMPACT

Return on invested capital	↑
Capital portfolio size	↑

Because strategic projects are generally large, when an organisation is able to deliver them on time and more reliably, it has a positive impact on the size of the capital portfolio and ROIC.

Emma Thomas
Manager
Industrial, Beca

"With our external environmental being so volatile, it's never been more important to develop and maintain master plans. The cornerstone of these master plans are often our largest and most bold strategic projects. Being confident in the delivery of these strategic projects is critical to achieving your organisation's vision."

Conclusion

By using a smart project and portfolio management system, portfolio managers can identify and fix portfolio inefficiencies. Up to 11% of total capital project investment can be saved, ready to create value elsewhere in the portfolio. A system that brings together your unique processes with integrated technology to empower your people is the secret to unlocking greater success from your portfolio.

How do we know this? Our customers use CAPEXinsights to make every day better for the projects they deliver across a range of industries. Our customers enjoy a high standard of portfolio performance and have confidence in their investments. Learn from our 100 years of expertise to boost your efficiency.

Book a demo today

Most portfolio managers are aware that if their project managers could easily track and drill down into the data that's currently locked in spreadsheets, they would be able to improve delivery, mitigate risk and allocate resources to get better outcomes on individual projects.

All the same benefits exist at the portfolio level – offering even greater value.

CAPEXinsights solves these issues at both the project and portfolio level, allowing you and your project managers to see the big picture and make the right decisions with the right processes to deliver better capital project results. Get in touch to find out how we can support your organisation.

Book a demo

CAPEXinsights is a user-friendly software application that empowers teams to better manage their capital projects and portfolios. You can make the right decisions with the right processes to deliver better capital project results. We support you by bringing your unique processes to life including cashflow forecasting, risk management, streamlined approvals and individual task delegation.

CAPEXinsights is powered and wholly owned by Beca.

Beca is an independent advisory, design and engineering consultancy with 100+ years of experience in project management and 25 years in digital innovation.

CAPEXinsights™

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