

Dr Greg Lavery
Nick Pennell

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Unlocking New Value in a Changing World



About Lavery Pennell

Our focus is on creating tangible, practical and sustainable value for clients – that is our passion. The solutions we develop are profitable and as a result of the nature of today’s challenges, also create better environmental and social outcomes. To access this value, we bring a commercial focus, a track record of success and a combination of strategy consulting, engineering and corporate experience. We work alongside clients to build understanding and capability, create the economic case for change and gain support for solutions. Our flexibility means we are able to structure the project approach in different ways to suit the client situation and to share risks and rewards with clients.

About the Authors



Dr Greg Lavery, co-founder of Lavery Pennell, has worked around the world unlocking new value. His PhD, completed in 1998, established the economic and practical merits of environmentally considered architecture. In Australia, Greg managed a portfolio of cleantech businesses for Origin Energy. His consulting experience includes working for Bain and Booz & Company, for whom he founded the Low Carbon & Sustainability team in Australia and South-East Asia.



Nick Pennell has worked across four continents assisting companies with growth strategies and improving profitability. Prior to co-founding Lavery Pennell, Nick led Booz & Company’s Low Carbon & Sustainability team globally. In his 15 years with Booz & Company, Nick also led the Energy practices in Europe and Greater China. Nick has held operational and strategy positions with Shell and Bass and is a Fellow of the Energy Institute.

Today's business challenges present new opportunities to unlock value. Many of these remain largely untapped, creating rich returns for organisations looking to improve their bottom lines in tough market conditions. These new value opportunities are different from traditional sources of value and require an unusual combination of capabilities and a multi-pronged approach.

Responding to Today's Challenges

In addition to traditional business issues, today's companies are facing manifold new, emerging challenges:

Resource constraints including oil, commodities and talent, are causing price rises and increasing business risk.

Externalities are increasingly being priced into the economy. Carbon now has a price, water and waste disposal costs are increasing, and the value of natural systems (including forests, wind, and oceans) is an area of focus barely considered a decade ago.

Uncertainty and volatility are at all-time highs, driven by a struggling global economy, political unrest, population pressures, and increasingly severe natural disasters and weather events.

Corporate social responsibility expectations are escalating, imposed by regulators, shareholders, customers (e.g. Wal-Mart, Procter & Gamble), consumers and communities.

New technologies emerging in response to some of these issues threaten existing business models and offer new opportunities.

While many companies are responding with increased compliance and cost pass-throughs to customers, leading companies are taking a more proactive approach. They are finding significant untapped opportunity to improve profits, reduce risks and differentiate themselves from their 'compliant' competitors.

The Sources of New Value

From the many projects that we have completed through our careers, we have identified five major sources of value that arise in response to today's challenges:

1. Efficiency of operations, enabling cost savings in raw materials, labour, energy, water, waste and emissions. While not a new concept, increasing input costs and a price on externalities are more than repaying an increased emphasis on efficiency. Our experience with clients suggests that there is still substantial financial opportunity in efficiency improvement.
2. Growth opportunities from the challenges on businesses. Understanding the macro- and micro- trends behind today's challenges is enabling companies to develop successful new products and services as well as innovative new business models.
3. Strategies to cope with uncertainty and volatility are reducing risks and improving competitive positioning for companies. Tools to develop such strategies include supply/demand modelling, advanced pricing techniques and wargaming.
4. Partnering with stakeholders. Motivating staff through emerging engagement approaches is leading to productivity improvements and success in the war for talent. Working with suppliers to optimise supply chains for today's constraints is reaping significant cost savings. Collaboration with customers is leading to the development of new product and service offerings which better meet the

needs of customers and the whole value chain. Community collaboration is enhancing brand value, improving companies' licence to operate, and satisfying some of the corporate social responsibility imperatives of investors. Working with regulators can lift regulatory standards to create barriers for competitors.

5. Cleantech investment, adoption, and commercialisation. New technologies are emerging which provide opportunities both for companies to improve their efficiency (see #1) and to establish new growth opportunities for their businesses.

Comparing New with Traditional Value

These new value opportunities go beyond, and in some cases supersede, traditional sources of value.

For revenue growth, traditional approaches include cross-selling, geographical expansion, and price discounting. These are often matched quickly by competitors, such that benefits are short-lived and often expensive or risky. Emerging approaches to revenue growth include partnering with customers, better to understand their needs and add value for them, as well as new business models such as product leasing which better meet the needs of customers and enable companies to extend the life of their products – creating low-risk sustainable competitive advantage.

Similarly, many traditional cost reduction measures have proven to have undesirable side-effects which are significantly mitigated with new value approaches, as demonstrated in Exhibit 1.

Exhibit 1: Examples of Traditional and New Value Cost Reduction Techniques

Traditional Cost Reduction Techniques	Issues with Traditional Cost Reduction Approaches	New Value Cost Reduction Techniques
Squeezing suppliers on price	<ol style="list-style-type: none"> 1. Putting suppliers out of business 2. Threatening quality of products 3. Straining relationships (e.g. become non-preferred customer which creates a risk in times of high demand) 	Partnering with and educating suppliers to increase their productivity, capture synergies, improve efficiency of delivery and reduce supply failure risk
Centralised, large scale production	<ol style="list-style-type: none"> 4. High production capacity (fixed costs) in an world of uncertain demand 5. Large investment 6. High transport costs 	Local, decentralised manufacturing to minimise transport costs, stay in touch with customer requirements, and support the prosperity of home markets
Offshoring	<ol style="list-style-type: none"> 7. Loss of home market prosperity and consequent erosion of demand 8. Easily matched by competitors 	
Cutting non-line staff (i.e. 'overheads')	<ol style="list-style-type: none"> 9. Loss of corporate memory, customer understanding and risk management capability 	Deploying excess resources to manage partnerships with suppliers and customers to identify cost reduction synergies along the value chain
Optimise product design for lowest cost	<ol style="list-style-type: none"> 10. Competing on price alone against low cost manufacturing sources 11. High cost of take-back where provisions are being adopted/considered in many countries 	Design for reuse, disassembly, remanufacturing and recycling – reducing raw material costs and enabling new business models (e.g. product leasing)
Reducing staff benefits	<ol style="list-style-type: none"> 12. Lose war for talent and erode staff morale 	Aligning staff incentives with achievement of improvement goals Motivating staff through a higher purpose (e.g. business commitment to a better planet)

Sustainability as a Part of New Value

Sustainability is inherently linked to this new value. The emerging challenges of resource constraints, internalisation of externalities, corporate social responsibility, and the emergence of new cleaner technologies are all driving greater corporate sustainability.

Consistent with responses to a range of challenges facing organisations, many firms are treating sustainability as a compliance function, while others have embraced sustainability because they understand that it can add substantial value to the business.

Laggards believe sustainability adds cost to the business. Leaders have recognised its potential to, for example: motivate staff (improving productivity, attraction and retention), drive improved health and safety behaviour (minimising risks and creating a healthier workforce), create new differentiated products, satisfy shareholder demands for environmental and social improvements, increase brand appeal, secure contracts with sustainability-focussed customers like WalMart and P&G and reduce costs (e.g. through energy efficiency and waste reduction).

New value meets both short term profit goals AND longer term sustainability goals

Sustainability is therefore a key part of new value. Or, put another way, unlocking new value meets the clear imperative of increased profitability while also reducing environmental impact and enhancing social responsibility. New value meets short term profit goals **AND** longer term sustainability goals.

Capabilities Required to Unlock New Value

New value opportunities require a mix of capabilities to ensure that they attract funding and are executed with minimal risk to the business. **Engineering/technical** know-how is required to identify technical solutions, fit them into business circumstances and de-risk them. **Commercial** skills are needed to identify new business models and to develop a robust investment case to secure funding (internal and/or external) in tight economic conditions. **Organisational development** skills are needed to educate staff, suppliers & customers, motivate new behaviours, stimulate action in many instances beyond business-as-usual activities and secure support for projects. A **passion** for and **experience developing successful new value/sustainable solutions** is the final ingredient – to bring all of the relevant parties together and drive the process.

In some companies capability gaps exist amongst this skill set that need to be bridged. For others, these capabilities already exist, but rarely convene around the big challenges facing the company. This is understandable given the magnitude of the new challenges, day-to-day demands on staff, and the time required to stay abreast of (and test) new solutions and technologies.

Key issues for companies wishing to unlock the new value are therefore:

1. Whether the capabilities reside within the firm
2. If the capacity exists to address a new area of value
3. The presence of the passion and experience to drive the process

Approach Required to Unlock New Value

New value opportunities, by their nature, require a different approach to unlocking their potential.

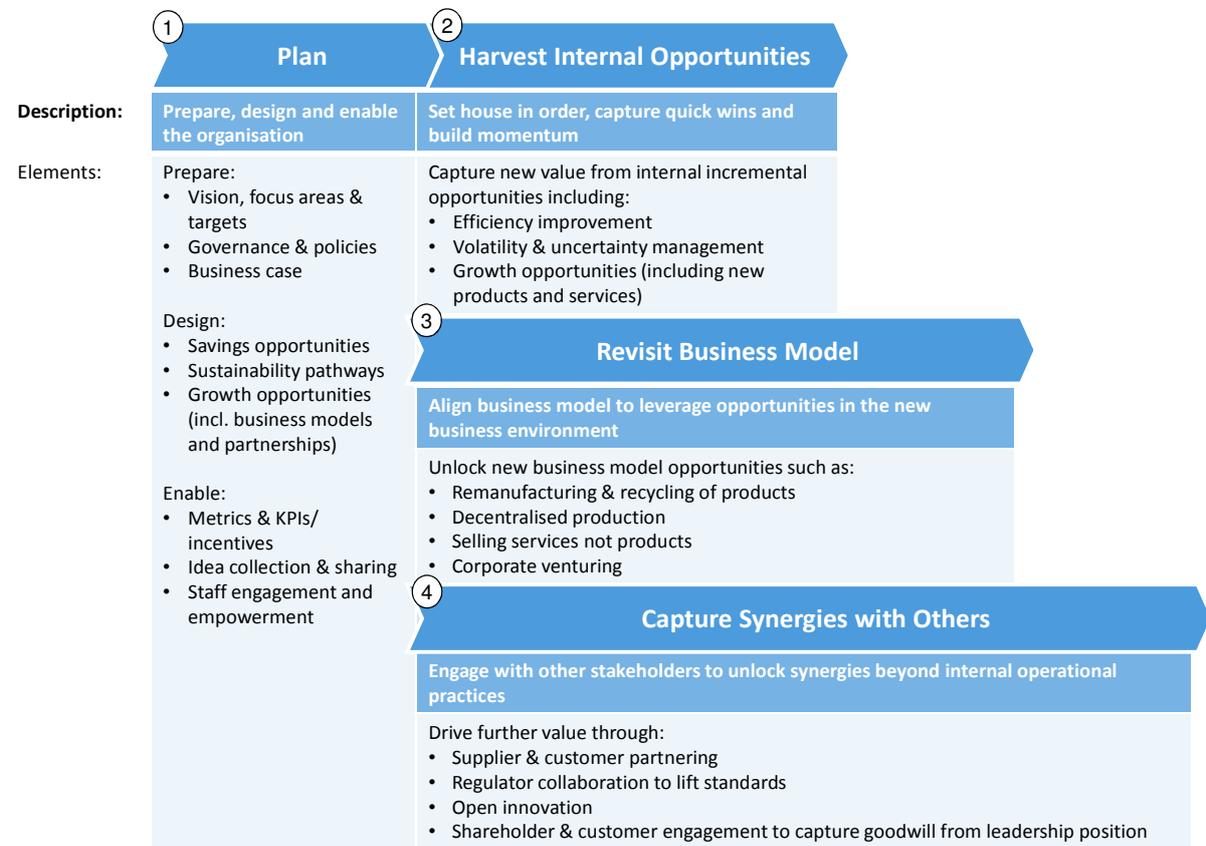
To date, the predominant approach to today's challenges has been to focus on reporting, compliance and passive adaptation. This

requires lifting prices to cover the new costs and enhancing compliance resources to meet new mandates, which can erode competitive position.

A compliance-based approach typically is seen as a cost to the business, so funding is often minimal – making it difficult bring together the relevant capabilities from inside and outside the organisation to initiate and build the business case for value adding projects.

Many organisations believe that there is a logical progression from compliance to efficiency to new business models and that compliance needs to be delivered first. In our experience, a narrow focus on compliance tends to limit value capture, letting competitors move ahead. Instead, we have found that value can come from many of these activities in parallel and companies can successfully unlock new value with a different and entirely pragmatic approach, comprising four phases illustrated in Exhibit 2.

Exhibit 2: Approach to Unlocking New Value



Step 1 is the planning phase. It requires Board/CEO inputs and involvement, including the vision for the company (the context for which new value is pursued), agreeing areas around which the company wishes to focus (such as energy use reduction or revenue from more sustainable products) and setting targets for each of the focus areas. Governance and policies must also be agreed. Perhaps most important at this stage is the development of the business/investment

case. This determines the value potential and investment required and presents the economic case for action - critical for securing executive support for the resources and time needed to unlock the opportunities.

It is here that opportunity identification also occurs, as well as the development of the critical enablers required for the organisation to pursue new value areas.

Steps 2, 3 and 4 begin in parallel following the approval of the plan.

In Step 2, organisations capture internal improvement opportunities, usually involving efficiency improvement, risk management and new products. Often the benefits provide a rapid payback, building the momentum of the program and funding longer return projects (such as those involved in step 3). This internal activity is also critical because it establishes the credentials of the organisation and creates consistency of support within an organisation. Credibility and consistency are especially important for sustainability initiatives.

Step 3 addresses further opportunities including new business models, synergistic investments and reviewing production strategies. These can have longer gestation periods (sometimes requiring assets to reach the end of their life) but can create greater value. We therefore recommend that step 3 activities begin in parallel with step 2.

In step 4, synergies with external stakeholders are pursued, including customers, suppliers, regulators, and shareholders. These synergies include better product and service design through customer involvement in product development, supply chain optimisation and brand/goodwill enhancement based on all of the activities completed and ongoing. Again, due to their longer lead time, we recommend that these also begin following step 1.

Conclusion

New value comes from today's business challenges. Unlocking it requires a combination of skills brought together with enthusiasm and experience. By adopting a logical, proactive approach, companies can improve profits, reduce risks and create sustainable competitive advantage – even in (and sometimes because of) a challenging economic climate.

Today's new value
opportunities **go beyond,**
and in some cases
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Lavery/pennell

t +44 (0) 207 947 4367
e team@laverypennell.com
w laverypennell.com
a 24 Greville St, Farringdon
London EC1N 8SS UK