Capital Efficiency: Enhancing Value Through Strategic Capital Allocation

The challenge

How effectively an organization allocates capital can make the difference between sustained success and market underperformance. Raising the stakes even further is the uncertainty and complexity that often surrounds capital allocation decisions. For example, in the natural resources industry, a company evaluating multiple investments costing hundreds of millions of dollars with a lifecycle spanning decades must take into consideration factors such as labor availability and cost, uncertainty regarding the quality and quantity of the resource and future commodity prices. In the pharmaceutical industry, an organization evaluating a portfolio of R&D investments must factor in the significant clinical and regulatory uncertainty involving lengthy and costly clinical studies into its decision-making process. Having the insights and information necessary to make difficult and timely trade-off decisions in allocating capital has the potential to provide an organization with a significant competitive advantage.

Across industries, organizations face many of the same obstacles associated with strategic capital allocation, which commonly include:

- A lack of consistency and transparency surrounding information and assumptions about capital investment alternatives
- Difficulties in making comparisons between investments given their divergence on factors such as strategic benefits, risk and reward, priorities, interdependencies with other investments, and time horizons
- Capital planning tools and processes that don’t enable decision makers to readily collect, evaluate, and compare business cases, or to recommend custom optimal portfolios under different scenarios

Without well-developed decision systems and processes to address these challenges, organizations often have few choices other than to fall back on long drawn-out debates and gut instincts.

Enhancing value through Capital Efficiency

What is your vision of improving the decision quality of capital planning and allocation?

- Investments have coherent business cases providing easily understandable and comparable information to make decisions
- Difficult trade-off decisions are informed by leadership’s assessment of what is most important to the organization, helping to align resource allocation to strategic priorities
- Investment champions and business unit leaders understand the resource allocation process and feel they received a fair ‘hearing’
- The approach is so logical and transparent that it helps eliminate the typical ‘food fight’ for resources and the heated debates
- Teams articulate the financial and strategic benefits of their projects in a consistent and supportable way that enables total value to be compared and aggregated across the portfolio
- Decision makers can readily conduct ‘what-if’ analyses to model how investment choices will impact their organization
Our solution

Deloitte’s Capital Efficiency practice helps organizations improve the quality of their capital allocation decisions by implementing tailored capital allocation processes and tools to enhance robustness, efficiency, and return on investment. In essence, we enable organizations to operate on the efficient frontier of capital allocation. The benefits of employing a strategic capital allocation process are many: more control over how resources are aligned to strategic priorities, more insight into the risk and return of your projects and portfolios, more accountability and buy-in across the organization, clear rationale for investment choices, and, ultimately, a sustained strategic advantage.

The Deloitte difference

Our approach to strategic capital allocation makes pragmatic use of tools and techniques from corporate finance, decision analysis, portfolio management, and data visualization. We deliver tailored, streamlined decision-support solutions that can enable your organization to:

- Assess and quantify strategic benefits along with financial benefits
- Incorporate risk and project interdependencies in the evaluation criteria
- Identify projects with superior return and strategic alignment given organizational constraints (e.g. funding)
- Perform ‘what-if’ analyses and portfolio assessment using a dynamic management dashboard that provides detailed information at your fingertips

A typical capital planning solution will include tailored business case templates that project proponents can easily and quickly complete and that enable those in charge of capital allocation to readily collect, analyze, compare and aggregate at the portfolio level through executive-friendly dashboards. We then help enhance the robustness and efficiency of your process by facilitating capital planning discussions, establishing a workflow and governance model, providing training and support, assisting with data collection and analysis, and delivering leave-behind, integrated capital planning tools to support resource allocation decisions year after year. Using a fit-for-purpose approach, our solutions range from simple tools to aggregate a small number of similar business cases to custom tools that can assess portfolios comprised of thousands of diverse projects.

Contacts

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