

PPM in a Financial Crisis

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Purpose of Presentation

- **To discuss how projects may be affected by the recent rapid changes in the world global economy.**
- **Discuss how organisations may need to modify strategies to adapt to the change**

Drivers in 2007

➤ **Boom times!**

- ✓ Closely aligned to growth in the Chinese economy (12% per year)
- ✓ Driven by increased demand in our commodities
- ✓ Capital funding for new projects was plentiful

➤ **Warning Signs**

- ✓ Oil prices on the rise
- ✓ Not enough physical resources to meet our own growth needs
- ✓ Labour and material prices on the rise
- ✓ Australian dollar almost at parity with USD
- ✓ Economy overheating?

Project Selection in 2007

➤ Drivers

- ✓ Value defined by Return on Investment and market share
- ✓ Focus on growth
- ✓ Keeping up with demand
- ✓ Time to market

➤ Constraints

- ✓ Limited Labour pool
- ✓ Longer lead times on material supply
- ✓ Higher cost of project delivery

Project Selection in 2007

➤ **Project investment criteria**

- ✓ Constraints based on supply of resources not capital
- ✓ External focus strategies – Customer /demand driven
- ✓ High risk – high return
- ✓ Value measured in terms of Risk, Alignment and Financial Worth to the organisation

$$\text{Value} = \text{Financial Worth} * \text{Strategic Alignment} / \text{Risk}$$

Project Execution Strategies in 2007

➤ **Emphasis on time to market**

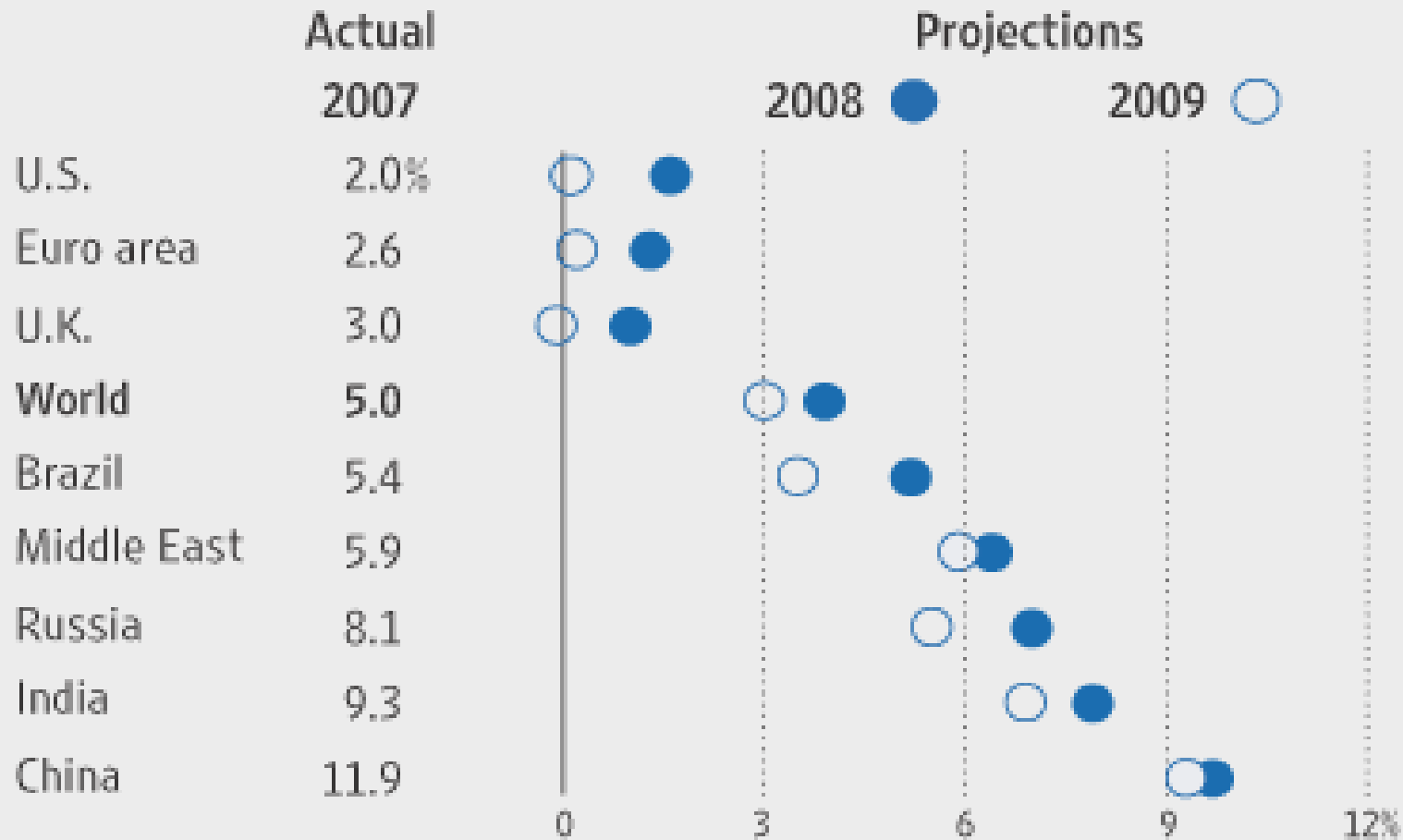
- ✓ Schedule was king
- ✓ Budget was less of a consideration but still important
- ✓ Project success measured in how much could be delivered in the shortest amount of time

2008 – Blink and you will miss it

- **Money markets seized up around the world**
 - ✓ Banks stopped lending to each other
 - ✓ 5 European banks failed
 - ✓ European governments propped up banking systems with guarantees and rescues
- **Aussie dollar dropped 30% against USD over two weeks**
 - ✓ Imports more expensive – capital project costs increasing
- **World wide growth forecasts drastically reduced**

Global Slowdown

Change from the previous year in economic output



Source: International Monetary Fund

"The world economy is now entering a major downturn in the face of the most dangerous shock in mature financial market since the 1930s"

..And Australia?

➤ **May budget forecast for 2008/09**

- ✓ Growth to slow to 2.75%
- ✓ Unemployment 4.75%

➤ **IMF October 2008 forecast**

- ✓ Growth to slow to 2.5%
- ✓ Unemployment 4.9%

➤ **“IMF is being optimistic” (Kevin Rudd, Oct 2008)**

”But all of our promises were affordable and I believe that we have implemented them in line with our election commitments. But any prudent government will look at our current situation, assess what we do next given the global shock then announce those decisions in good time.”

**Wayne Swan
Treasurer**



**”The Global Financial Crisis has entered
A new and more dangerous phase and is
starting to affect the real economy.”**

**Wayne Swan and Kevin Rudd
(SMH, 13 Oct 2008)**



Drivers in 2009

➤ **Economic Uncertainty!**

- ✓ Australian growth will slow
- ✓ Capital funding will be very tight
- ✓ Labour Resources will be still be tight (Driven by redundancies?)

Project Selection in 2009

➤ Drivers

- ✓ Focus on survival
- ✓ Return on Investment through improved efficiencies

➤ Constraints

- ✓ Reduced Labour pool
- ✓ Limited Capital funding
- ✓ Higher cost of delivery through lower exchange rates

Project Selection in 2009

➤ **Project Investment Criteria**

- ✓ Constraints based on lower capital investment
- ✓ Internal focused strategies – Efficiency, do more with less
- ✓ Lower Risk

Project Execution in 2009

- **Emphasis on efficiency of project execution**
 - ✓ Budget will be king
 - ✓ Deliver projects with less resources
 - ✓ No delays
 - ✓ Project success measured in how much could be delivered with the least amount of investment

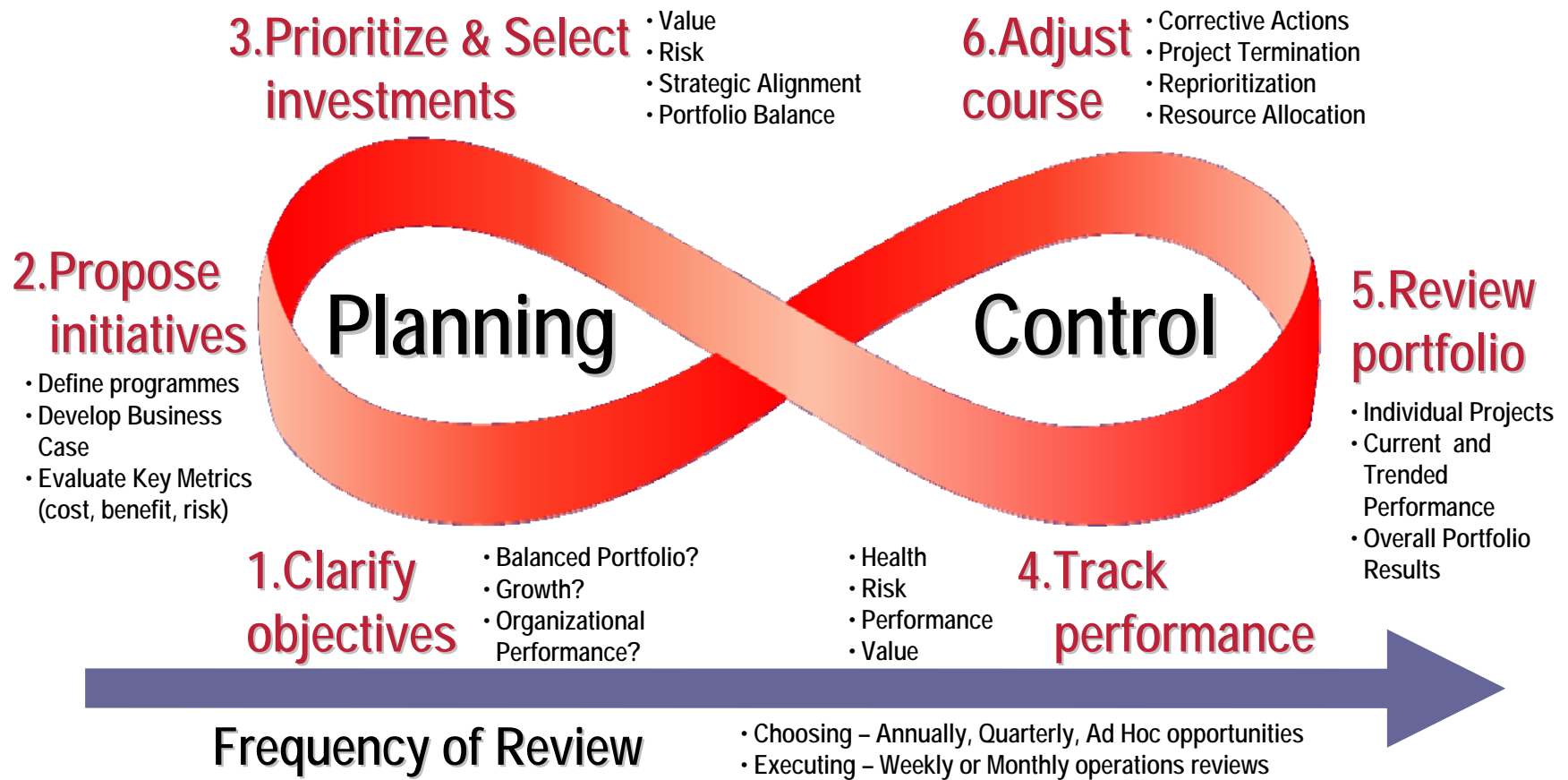
How Portfolio Management will help

- **Decreased availability of capital funding will lead to a reduction in spending**
- **Organisations will revise strategies to respond to the changing financial environment**
- **Projects that don't align with the revised strategies will have to be rationalised**
- **Failure to do this will result in capital investment being wasted on projects that no longer contribute to the revised strategic goals of the organisation**
- **It is all about visibility**

Portfolio Management

Objective: manage investments like a portfolio, enabling the leadership team to choose and execute activities that increase the value to the organization.

Key Portfolio Management Processes



Realignment of Strategy

➤ **Review the Current Portfolio Health**

- ✓ Should we invest in this / Should we still invest in this?
- ✓ Can we afford to invest in this / Can we still invest in this
- ✓ May need to Redefine the Portfolio

INFO

- Strategic T...
- Risk
- Fin Worth
- Total Estim...

FILTERS

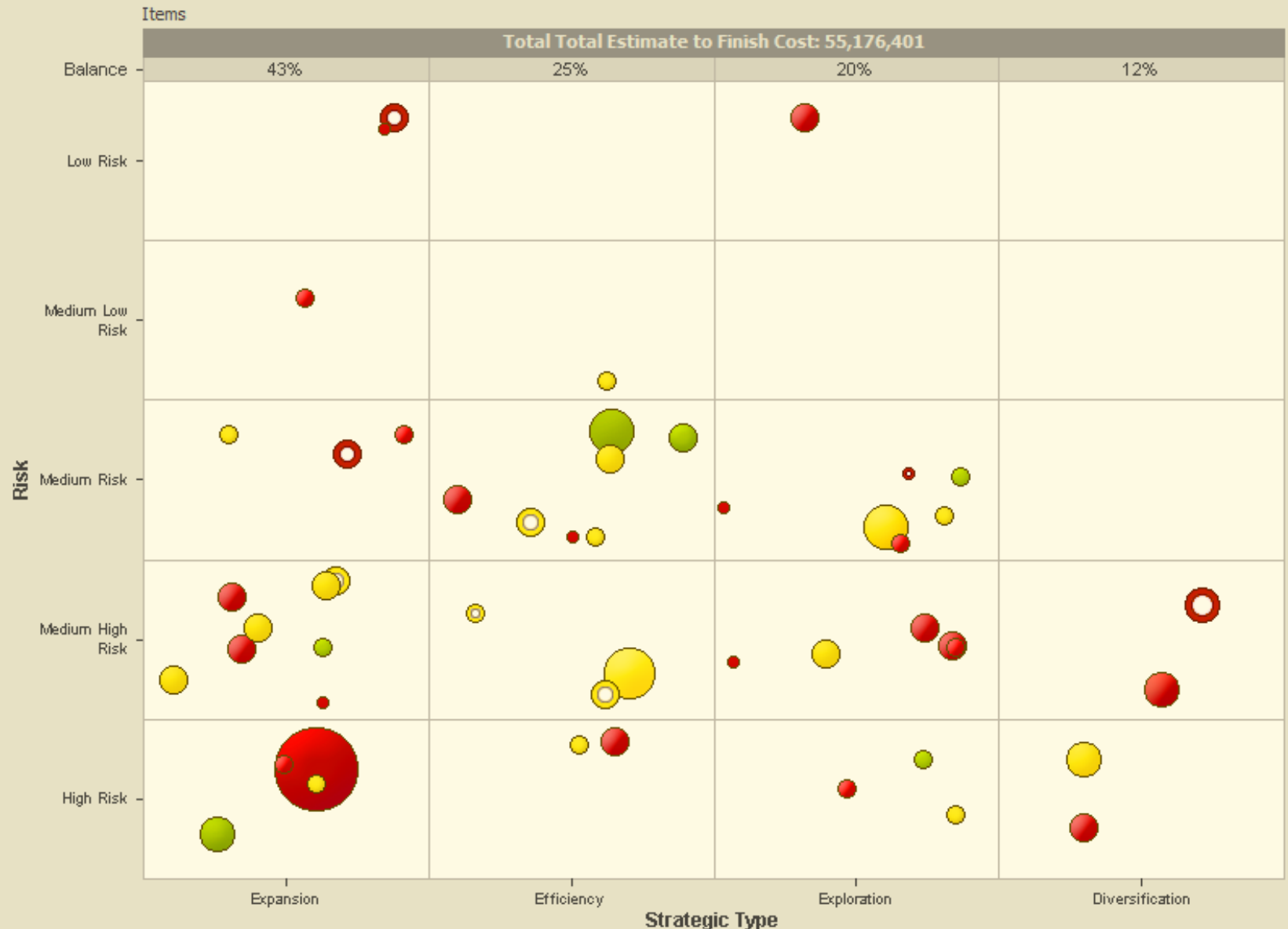
COLOR STATUS

- Red Open
- Yellow Closed
- Green Candidates
- Gray

SIZE

Min: 280,92 (280,922)

Max: 8,270,9 (8,270,9...)



Map: 2008 Current Plan

Portfolio: Current Plan

Version: < No Version >

Map | Portfolio | Collaborate | Snapshot | View | User | Setup | Tools | Help

Item view mode



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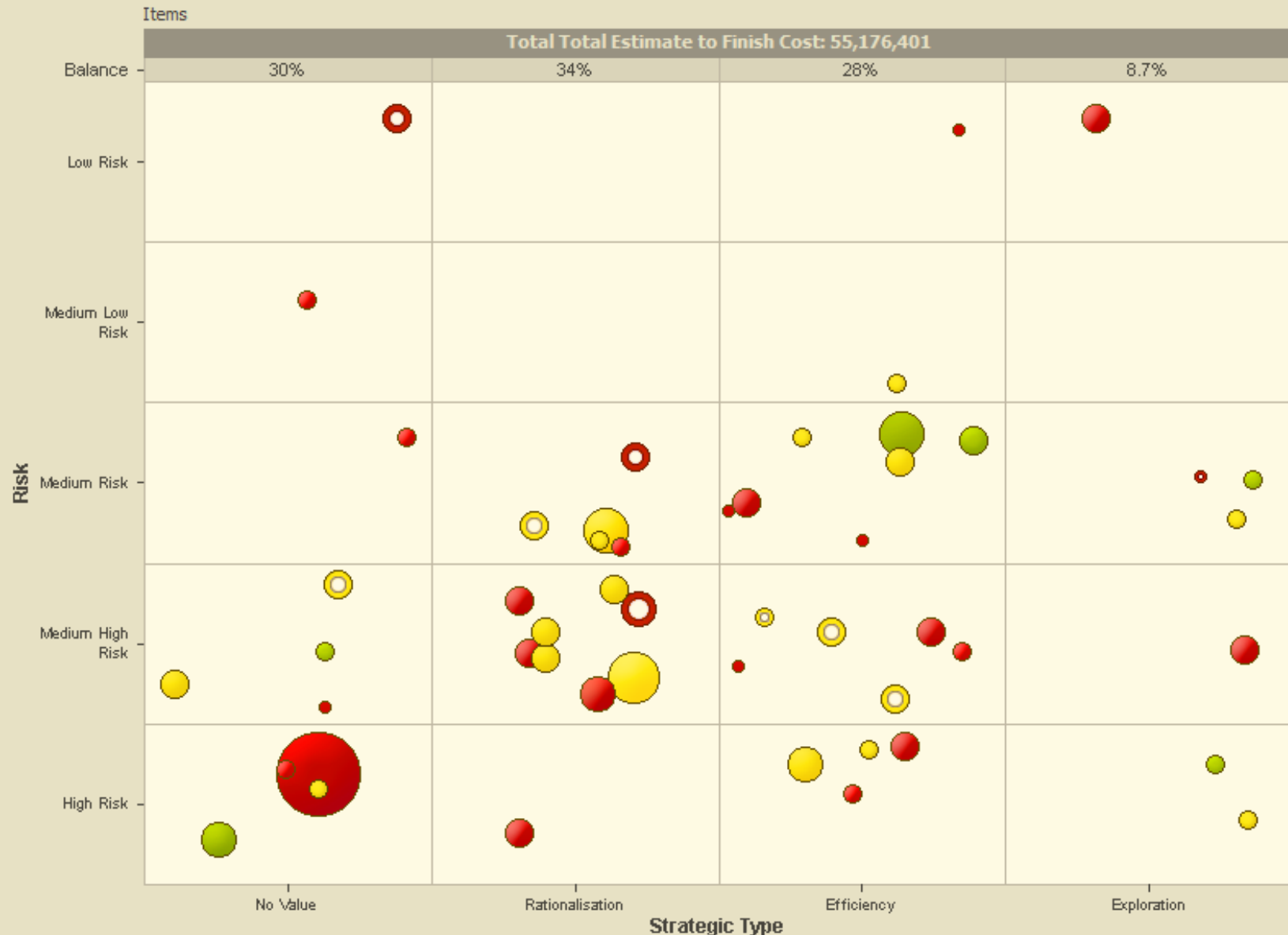
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Color by: Fin Worth

Size by: Total Estimate to Finish Cost

How Resource Management will help

- **Deliver more with less resources**
 - ✓ Utilise the project's resources more efficiently
- **Assign the resources to the projects that deliver the most to the strategic goals of the organisation (not the project)**

Project Management (Project Execution)

- **One failed project can destroy a whole years profit in lean times**
- **Greater emphasis on project controls – Visibility of Project Health**
- **Greater emphasis on project value (alignment with the organisation's strategic goals)**
- **Shareholders will demand more stringent corporate governance**
- **Greater emphasis on risk management**
 - ✓ Achieve greater confidence
 - ✓ Set appropriate expectations

Summary (1)

- **Australia's growth will slow and financial capital for projects will be reduced**
- **Organisations will need to adopt new strategies to adapt to the changing economic environment**
- **Project priorities will change as a result of this**

Summary (2)

- **Organisations must have a clear understanding of what they are doing and why, and a clear understanding of the contribution of each investment to the revised Strategic Direction**
- **The project management emphasis will be on;**
 - ✓ Selecting the right projects (biggest bank for buck)
 - ✓ Resourcing these projects from a shrinking pool (do more with less)
 - ✓ Executing the projects as efficiently as possible

Final Thoughts

- **“It is not necessary the fittest or strongest that will survive, it is those most adaptable to change”**
(sic.... Charles Darwin)
- **Organisations that are best suited to survive will be those ones more adaptable to the changing environment.**

Questions?

Thank You

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