

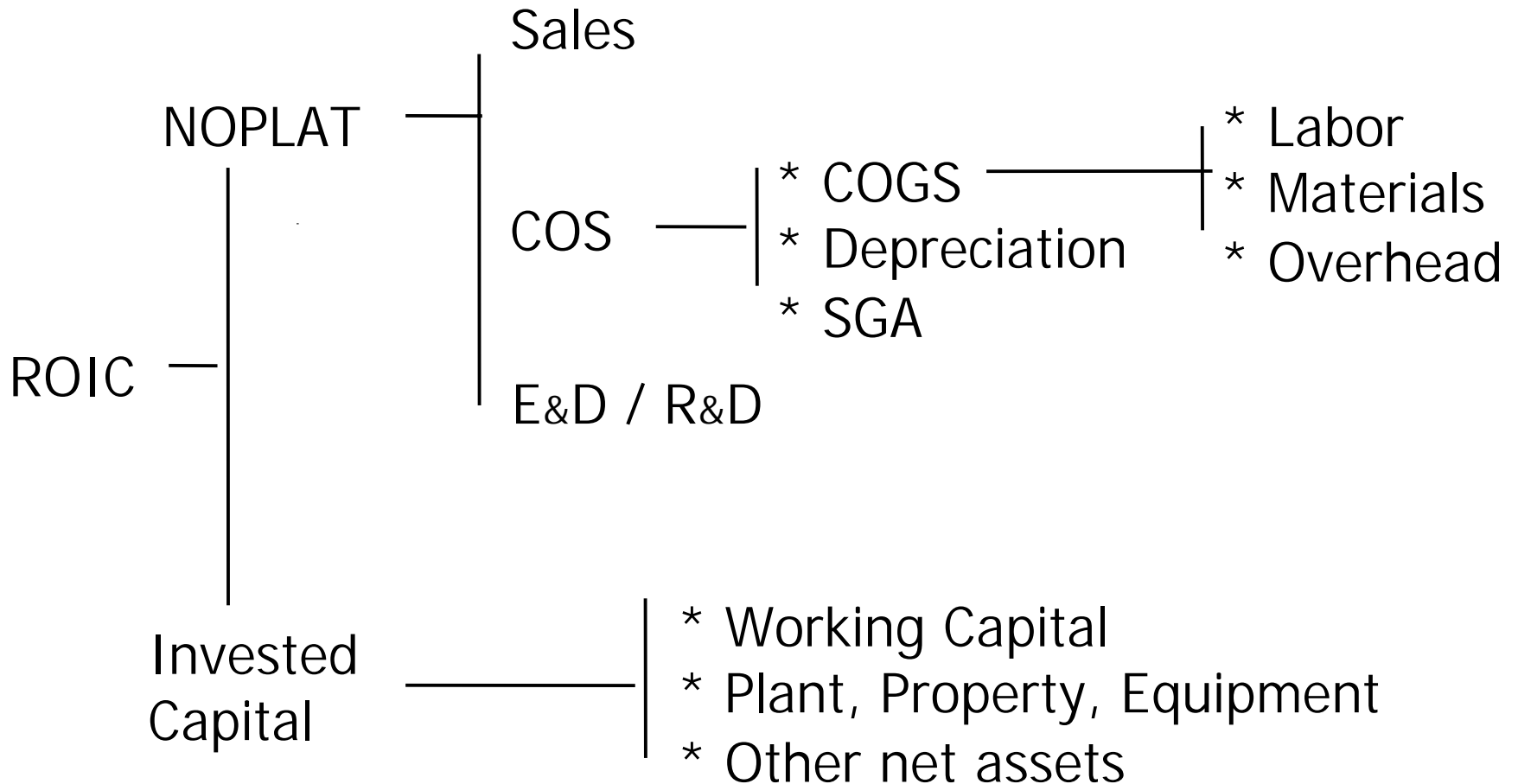
"I know no safe depository of the ultimate powers of the *business* but the people themselves; and if we think them not enlightened enough to exercise their control with a wholesome discretion, the remedy is not to take it from them, but to inform their discretion by education. " --AD adaptation of Thomas Jefferson to William C. Jarvis, 1820

\$hifting Performance Using the Value Tree

What is the Value Tree?

- Financial model of the business on one page
 - Visually oriented
 - Interactive
 - Easily understood by people
- Financial tool for developing business context
 - Interrelationships of various dollar flows
 - Drivers of business decisions
- Financial “range-finder”
 - Target identification
 - Target selection
- Financial-world de-mystifier
- Financial guidepost helping answer the essence question...“Is the institution increasing how much it’s worth (value) or destroying its value?”

The Value Tree Summary



Guiding Beliefs of the Value Tree

- Long-run institutional health = long-term value creation.
- Discounted cash flow (not EPS) is the most comprehensive valuation tool consistent with long-term value creation.
- Value is created by investing capital at returns $>$ the cost of capital.
- Equity holders require all information of all revenues and all claimants to make good decisions.
- The majority of the value of most institutions, at any time, is the cash flow derived from existing assets.
- The most significant value creator is superior performance in existing operations
- Value creation is not exclusive to manufacturing organizations.

Using the Tree

Strategic Work (Best suited for the broadest perspective and the greatest accountability)

- Crystallizing the current state-of-the-business
- Challenging the key paradigms which define the approach to product, technology and organization.
- Targeting and quantifying areas requiring organizational effort

Leadership Work (Best suited for “content experts” with industry understanding)

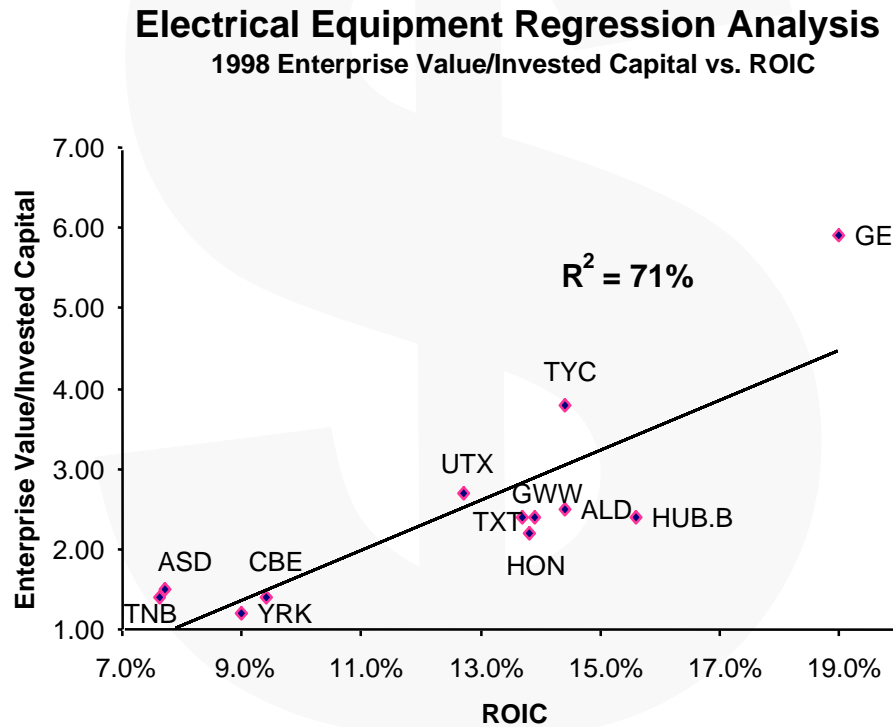
- Choosing the pallet of “world class” concepts
- Building stakeholder consensus
- Defining and designing approaches to deliver performance

Operational Work (best suited for people doing the work)

- Understanding how money flows and how they relate to it
- Applying “world class” concepts
- Monitoring performance and taking corrective actions

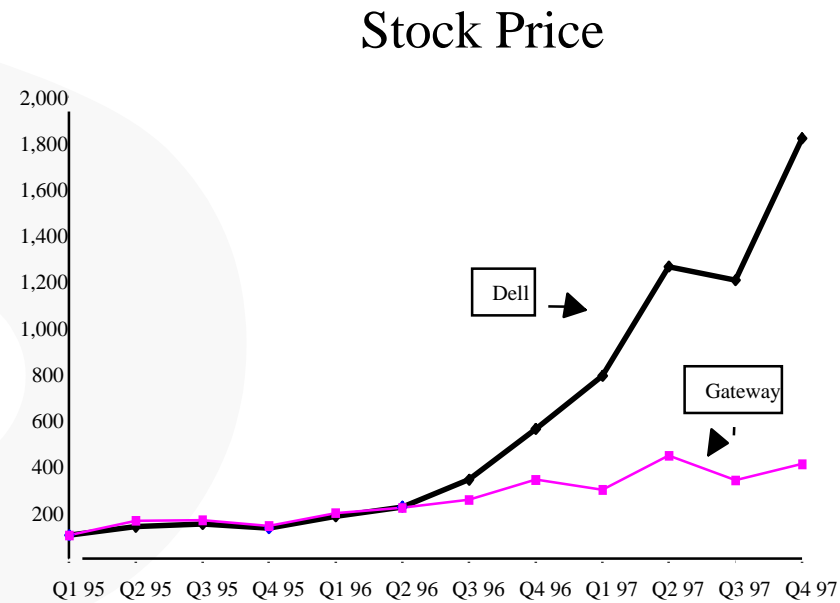
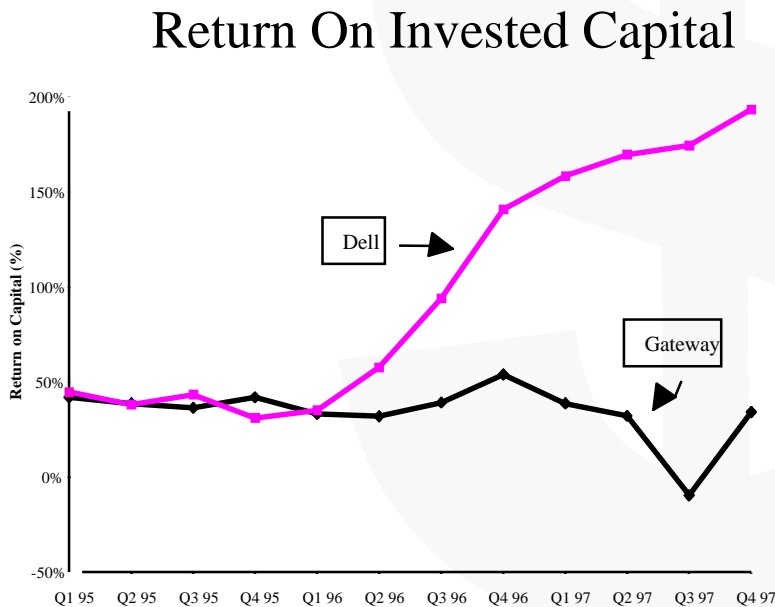
Key Principles

ROIC Explains Value



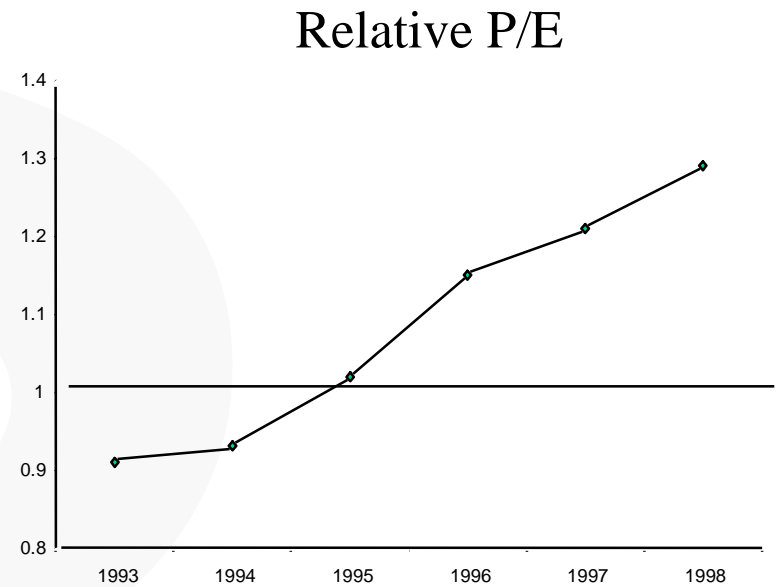
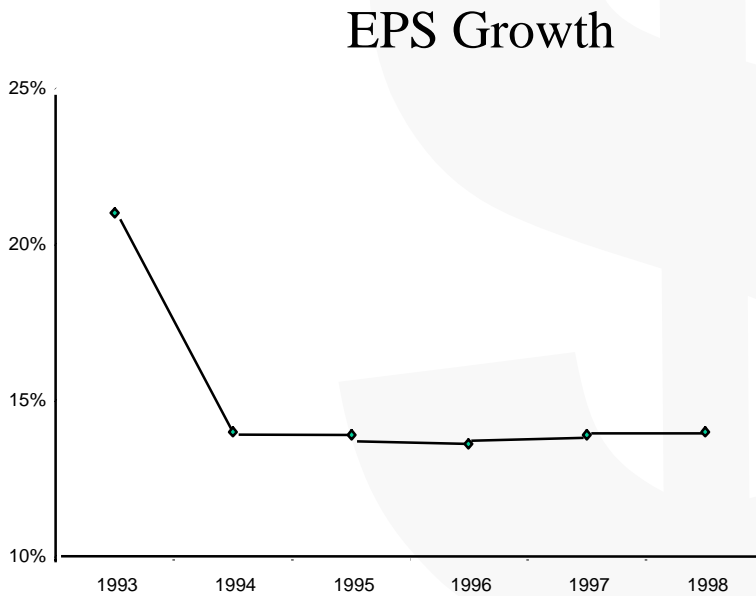
Key Principles - Examples

Capital Efficiency – Gateway vs Dell



Key Principles - Examples

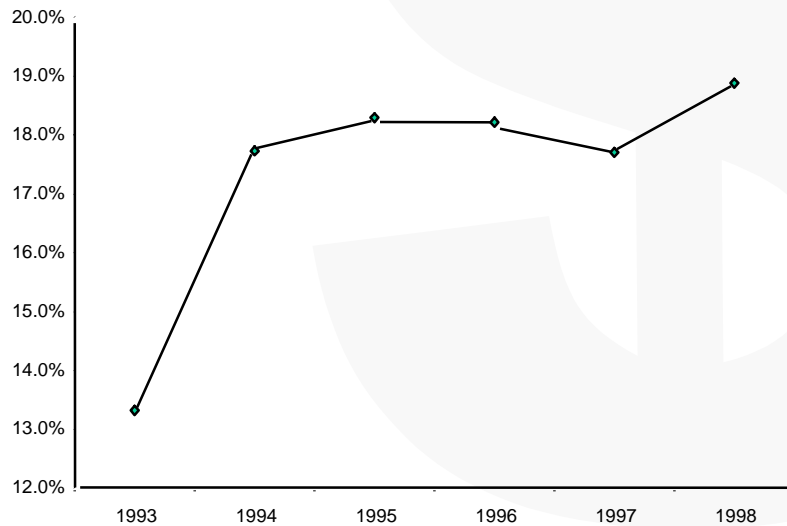
Rising Incremental Returns - General Electric



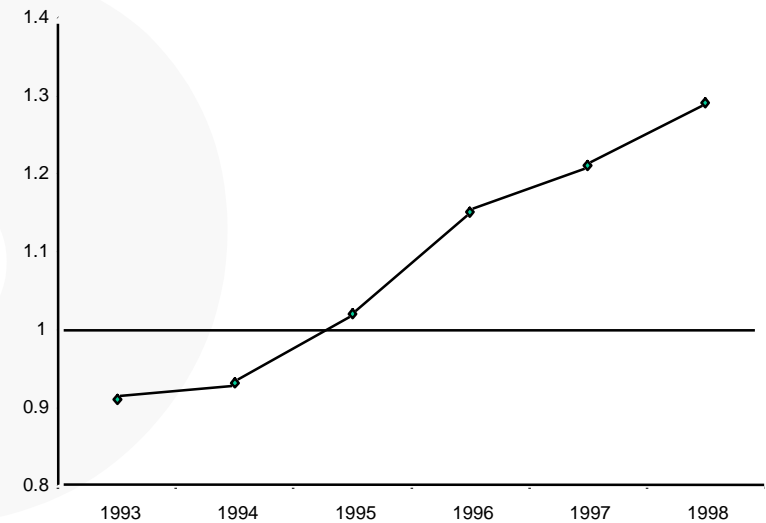
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Rising Incremental Returns – General Electric

ROIC



Relative P/E



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The Value Tree for Targeted Insight

Sales /Marketing: Quality of sales \$; preparing for improvements

Fin.Analyst: Budgeting improvements

Ops/Shop: Knowing the big “whys”

HR/IR: Enablers of change

Procurement: Supply chain mgmt

EHS/Med: Waste chain mgmt.

Quality: More than SR²

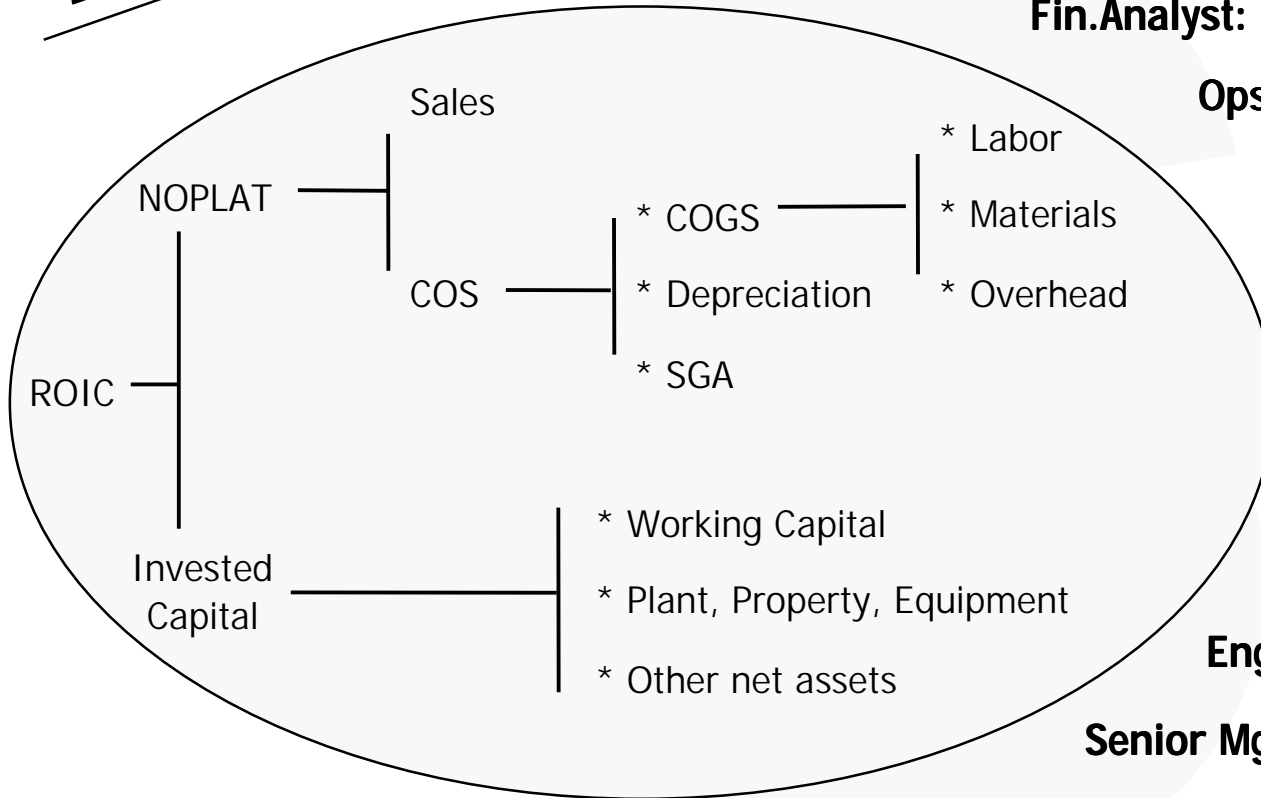
Facil./Maint: TPM & Utilization

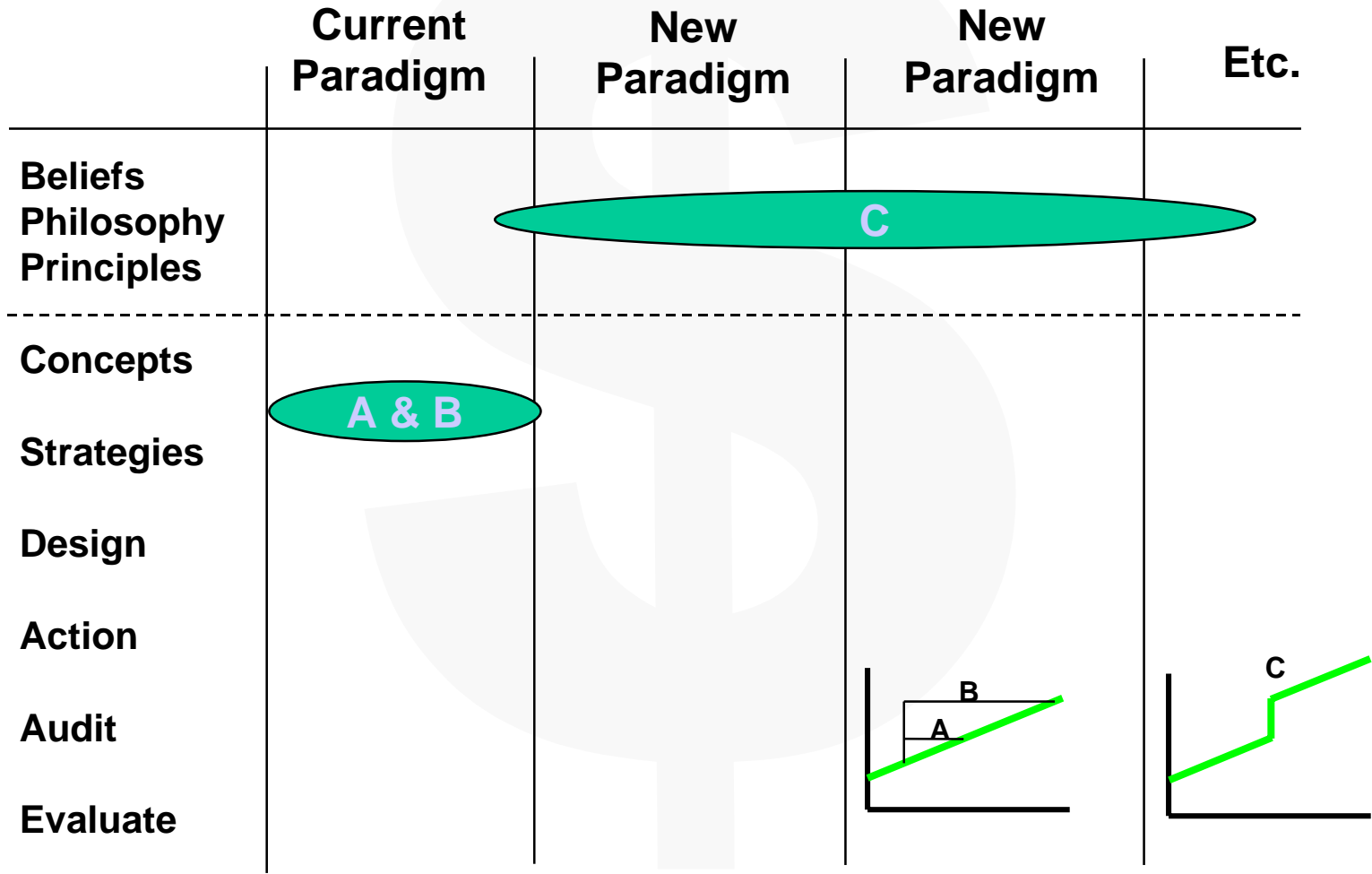
Engineering: Defining infrastructure

Senior Mgmt: Targeting & implications

Financial Planning: Detailing long-term performance

Order-to-Cash: Optimizing an enterprise flow





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A Value Tree Bootcamp



Philosophy:

The process of value creation transcends departments, thereby allowing people to become practitioners from where they work.

Concept:

Participants directly impact value drivers in a simulated environment by applying the fundamentals of best-in-class material flow and work system principles. Using this hands-on experience coupled with their work knowledge, they can discern the potential impact of various “value-creating” programs by thinking through the implications and requirements of implementation.





Purpose:

To dispel the myth that the general workforce lacks the experience to make judgments about the actions required for creating value

In a way that leverages operational experience through the application of best-in-class material-flow and work system principles

So that they are better equipped to create long-term, sustainable growth in value through thorough planning and execution ownership.

Products:

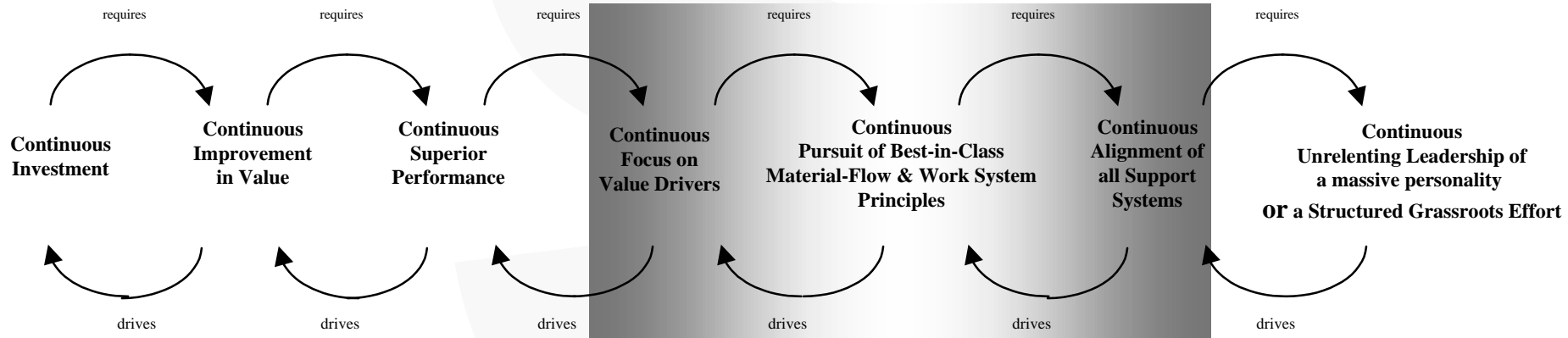
1. Knowing the basics of best-in-class material flow and work system principles
2. “Working vision” of material flow excellence for the business
3. Ability to recognize sustainable change Vs. superficial change
4. A list of implementation requirements for success



Upon Completion of the Workshop...

If the participant is given management's assessment of the broader market situation and performance requirements...
they will be able to hold a meaningful dialogue with management on the requirements of change
so that the right actions are taken and sustained by the workforce.

Context within which the Value Tree Fits



Area of concentration

