

IMPROVEMENT SKILLS CONSULTING LTD.

“Simply, improvement...”



Value Add:
How to quantify it

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“Price is what you pay, Value is what you get.” [Warren Buffet]

The focus on Value

All across the public sector, the language of “value” is more and more common. Local Authorities have been challenged to demonstrate Best Value for a number of years now and in the Criminal Justice Sector the theme of Value for Money is high on the agenda.

The challenge is to understand, first of all, what is meant by Value, then how to identify it, and finally, how to quantify it.

Understand value

Value is determined by the customer, or service user.

Having seen the reports from numerous Best Value Reviews, particularly in Local Authorities, our main criticism is that Value seems to have been defined too often from the perspective of the service provider. If you do not take the customer’s perspective, you cannot define value.

Many service organisations fail to satisfy their customers because they do not understand the customer’s requirements, expectations and needs.

-  Requirements: are those aspects of a service that can be clearly defined and specified (e.g. written as a Standard); often related to the tangible outputs of the service
-  Expectations: are the less tangible aspects of a service, which are more difficult to specify; often related to the way the customer/service user experiences the service, or how they are treated when they use it
-  Needs: are aspects of a service that the customer/user has probably not even thought of; these are the little things that, if met, really ‘wow’ the customer

It is relatively easy (or should be) to meet requirements because that is what your core processes should be designed to do. It's less easy to meet expectations, and it's the sign of a truly customer-focused organisation when needs are met.

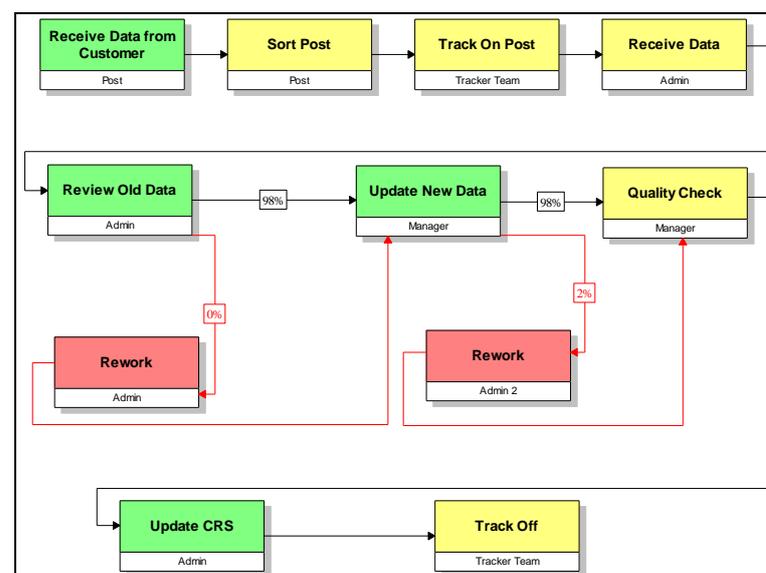
Identify value add

You identify value add by examining everything you do, from the customer's perspective. That means you have to understand what work gets done in your service delivery processes and why it is done.

The simplest way is to map your processes and classify each step as either Real Value Add, Business Value Add, or No Value Add.

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Real Value Add activities are those which must be done in order to meet the customer's requirements. Without these activities, the customer wouldn't get their desired output. A good question to ask is "would the customer happily pay us to do this activity?"
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Business Value Add activities are those which have to be done because of some business or governance requirement. They don't contribute to delivering the customer's requirements. A good question to ask is "would we get locked up, fined or put ourselves at major risk if this activity wasn't done?". If the answer is "yes", it's probably a business value adding activity.
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Non Value Add activities are waste! They don't contribute to the customer's requirements and the business doesn't need them to be done either.

A simple Green, Amber or Red colour-coded process map makes it clear.



In practice, it's not always easy to identify which of the three types an activity is. If you don't understand customer requirements, spotting Real VA will be tricky. Business VA is almost always the most contentious to identify. People will tell you "but we have to do that", for all sorts of reasons, often lost in the mists of time. Perhaps there was once an audit requirement to carry out a check at a step in the process, but does it apply now? Maybe there was a National Standard that stated an activity had to be done, but is it still required? The biggest challenges, in most public sector processes will be: "why are there so many checks, inspections and approvals required?". What value do they really add?

Those organisations applying Lean Thinking will be able to use techniques such as the Seven Wastes to help identify Non VA steps. These are the re-work steps, the unnecessary activities, the work done by the wrong grade, in the wrong place etc.

Quantify value add

You can quantify Value Add by measuring the time taken to do each of the activities in delivering a service and converting these to costs.

Do that for each of your Green, Amber and Red process steps and you'll know exactly what proportion of staff resources are adding Real Value. Any good process management tool should enable you to do this calculation. (We recommend Control 2007).

You might be surprised at the results. It would not be unusual to find Real VA to be 30%, or less, of total costs. Business VA may be 30-40% and Non VA is quite often more than 25%.

If you want to be even more accurate, you'll need to allocate a proportion of overheads for Senior Managers' time, premises costs, support functions etc. and there's some good guidance around on how to do this.

Apply Value Add Analysis across a service area and it soon becomes clear how little resource is actually devoted to meeting customers' requirements. Applied across an entire organisation, the results can be even more scary!

Now that you know the amount of Value Add, you can look at improvement opportunities. The aim should be to eliminate the root causes on Non VA activities. Business VA activities should be challenged to see if they really are necessary and then find better ways to do them. Even Real VA activities should be challenged to see if there are better ways.

This is, of course, the difficult bit, closely followed by implementation of the improved processes!

Our track record

Our consultants have been helping organisations in the private and public sectors to manage and improve their processes for nearly two decades. We have supported European Quality Award winners in their approach to process management.

We are not wedded to a particular methodology. We help clients identify their improvement goals and then develop an approach to achieve these; invariably ensuring their people develop the skills to make further improvements themselves.

Please contact us for more information about how we can help you to manage and improve your processes.

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