

Value@Risk Canvas

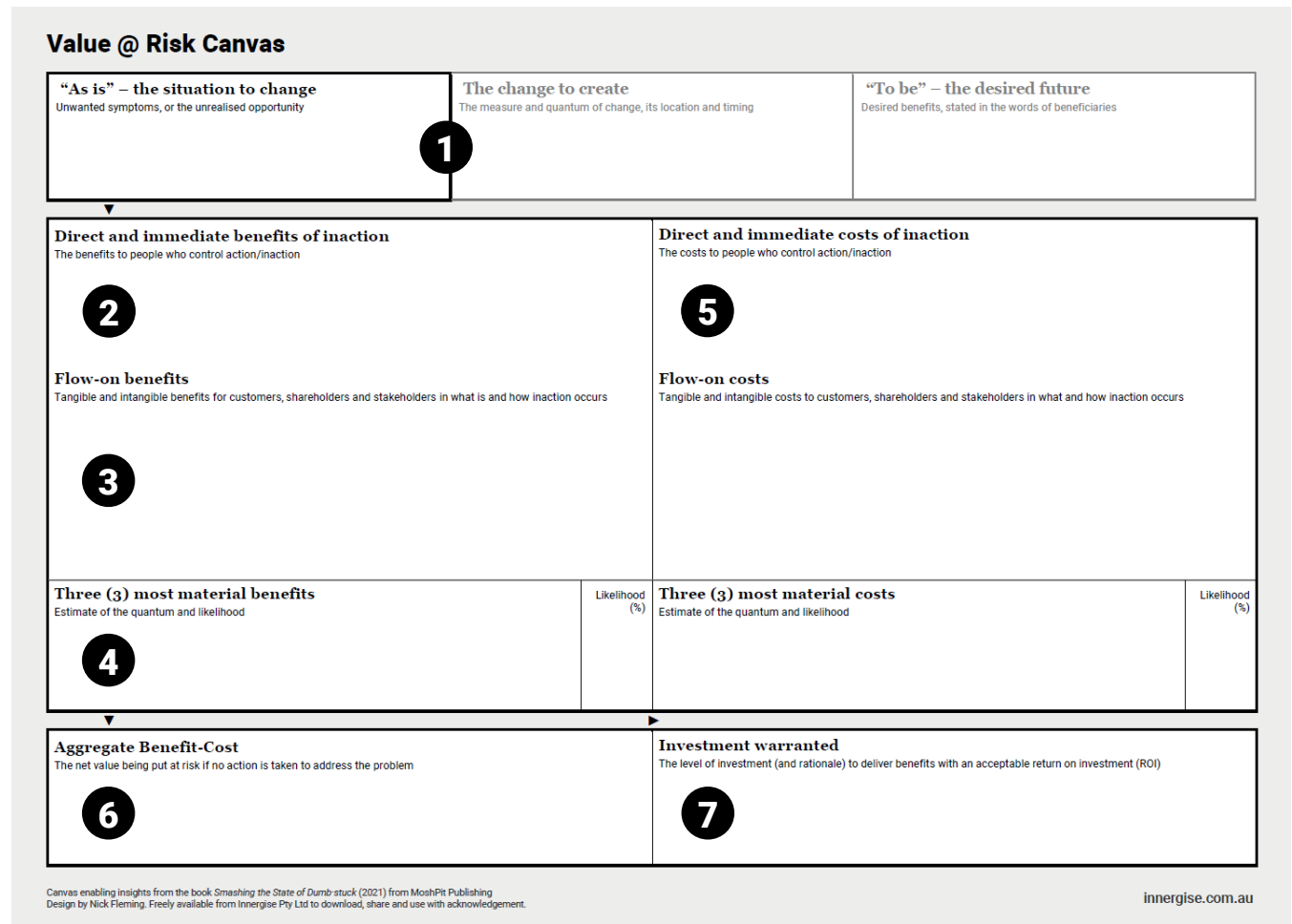
When confronted with a challenge, we often fear the costs and uncertainties of taking action. So, the problem is kicked down the road. A more useful stance is gained by assessing the value at risk from inaction.

Let's be clear, people will derive benefits and costs from both action and inaction. Rather than just assess the benefit-cost of action, it's important to consider the benefit-cost of inaction too.

It is often stated that it's not possible to quantify the cost of inaction. But that's not true. It's generally possible to identify the types of costs and benefits that inaction would incur, and then to make a sound estimate of their magnitude.

The *Value@Risk Canvas* helps structure this process and enable a rationale decision about action and investment. Further insights to establishing a case for action are found in *Smashing the State of Dumb-stuck*.

Suggestions about how to use this canvas are provided below. Explore and test your own ways to make it more powerful, sharing your experiences and examples with others.



Steps to using the Powerful Questions Canvas

1. Characterise the challenge or problem you are endeavouring to solve. (Refer to the Kick-off Canvas for directions and advice.)
2. Name the most direct benefits that the people in control of action (and inaction) would enjoy by taking no action.
3. Identify further flow-on benefits that customers, shareholders, and stakeholders would enjoy if no action was taken.
4. Select and quantify the three most significant benefits from the list developed in steps 2 and 3.
5. Repeat steps 2 to 4 focusing now on the costs of inaction.
6. Compare the most material benefits and costs of inaction to make an estimate of the net benefit-cost.
7. If costs of inaction exceed their benefits, nominate the level and type of investment that would be prudent to make to avoid those costs and the associated rationale.

Value @ Risk Canvas

“As is” – the situation to change Unwanted symptoms, or the unrealised opportunity	The change to create The measure and quantum of change, its location and timing	“To be” – the desired future Desired benefits, stated in the words of beneficiaries
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Direct and immediate benefits of inaction The benefits to people who control action/inaction Flow-on benefits Tangible and intangible benefits for customers, shareholders and stakeholders in what is and how inaction occurs		Direct and immediate costs of inaction The costs to people who control action/inaction Flow-on costs Tangible and intangible costs to customers, shareholders and stakeholders in what and how inaction occurs	
Three (3) most material benefits Estimate of the quantum and likelihood	Likelihood (%)	Three (3) most material costs Estimate of the quantum and likelihood	Likelihood (%)



Aggregate Benefit-Cost The net value being put at risk if no action is taken to address the problem	Investment warranted The level of investment (and rationale) to deliver benefits with an acceptable return on investment (ROI)
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<p>“As is” – the situation to change Unwanted symptoms, or the unrealised opportunity</p> <p>Our business is lacking customer opportunities that would sustain business competitiveness and growth beyond the short term.</p>	<p>The change to create The measure and quantum of change, its location and timing</p> <p>Year-on-year growth in the short and medium-term pipeline of profitable opportunities from all business divisions.</p>	<p>“To be” – the desired future Desired benefits, stated in the words of beneficiaries</p> <p>“An ongoing suite of exciting growth opportunities to choose from” that will attract talent, investment and retain profitability.</p>
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<p>Direct and immediate benefits of inaction The benefits to people who control action/inaction</p> <p>Avoid additional expenditure on customer engagement Maintain short-term profitability Avoid discomfort and personal brand risks with new customer engagement</p> <p>Flow-on benefits Tangible and intangible benefits for customers, shareholders and stakeholders in what is and how inaction occurs</p> <p>Clarity and certainty over the products and services being offered Confidence that product and service offerings are tested and proven Avoidance of time loss and business interruption from sales campaigns Confidence in short-term profitability forecasts Stable risk profile preserving insurance coverage</p>	<p>Direct and immediate costs of inaction The costs to people who control action/inaction</p> <p>Perception of being a poor business leader Loss of market share to competitors Reduced business attractiveness to prospective recruits and partners</p> <p>Flow-on costs Tangible and intangible costs to customers, shareholders and stakeholders in what and how inaction occurs</p> <p>Customers choose products and services considered more 'future ready' Increasing downward pressure on product and service prices Diminished business capability to innovate in response to market demands Stable or increasing supplier costs as a less attractive business partner Declining share price with diminishing investor confidence</p>
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<p>Three (3) most material benefits Estimate of the quantum and likelihood</p> <p>Avoid additional expenditure on customer engagement (\$200k/a) 90 Maintain short-term profitability (10% return on equity) 75 Confidence in short-term profitability forecasts (share price stability) 40</p>	<p>Likelihood (%)</p>	<p>Three (3) most material costs Estimate of the quantum and likelihood</p> <p>Loss of market share to competitors (\$3m/a revenue, 10% loss) 40 Downward pressure on product and service prices (15% margin erosion) 90 Declining share price with diminishing investor confidence 60</p>	<p>Likelihood (%)</p>
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<p>Aggregate Benefit-Cost The net value being put at risk if no action is taken to address the problem</p> <p>Estimated risk-weighted net cost of inaction to the business of \$285K, representing roughly 10% of current revenue, impacting the P&L. Will increase over time with ongoing loss of market share, as well as a Balance Sheet impact with erosion of share price.</p>	<p>Investment warranted The level of investment (and rationale) to deliver benefits with an acceptable return on investment (ROI)</p> <p>Business targets a 3:1 return on investment. Invest \$100K in a strategic and targeted manner in the first 12 months to avoid \$285K loss of value, with a similar or greater targeted investment in subsequent years to realise new customer growth opportunities.</p>
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