

White Paper

**The Power of Profit Momentum:
Executing for Competitive Advantage**



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The Power of the Profit Momentum

The goal of most management teams is to build a self-sustaining, profitable business. What powers the achievement of that goal is Profit Momentum. Profit Momentum is success breeding success.

Aerospace and Defense companies execute the simplified A&D business model shown in Figure 1. A company executes a program, and the profits earned are invested into creating some sort of competitive advantage such as pricing, talent, technology, or operational. This advantage is then used to win the next program and, again, generate profit. As the company becomes more successful, and its program managers more capable of making higher profits; the successive investments can create more advantages (investing in multiple types of advantages such as both Pricing and Talent) or larger advantages (creating a more significant Talent Advantage).

The key to achieving profit momentum is having program profitability with the primary mechanism being Program Management Excellence. This is the engine that builds and powers profit momentum. However, just like physical momentum, profit momentum can be lost.

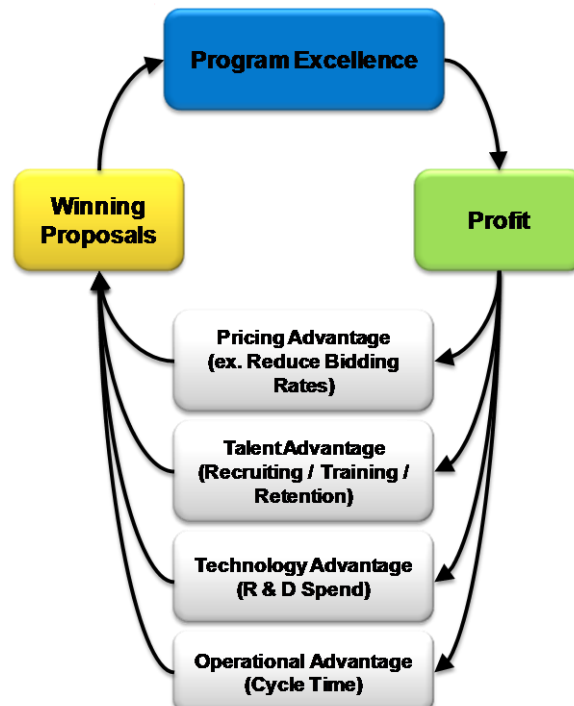


Figure 1 – Simplified A&D Business Model

Losing Momentum

Profit momentum can be lost more easily than it can be built. Oftentimes, program execution and competitive advantage investments are two areas where momentum is typically lost. For example, poor program execution results in multiple Profit Momentum losses, primarily driven by poorly run programs which produce little or no profit.

Poorly run programs burn profit from other parts of the business to meet penalties, or to fund an attempt at recovery. These poor program execution losses can destroy morale, resulting in the need to replace or rejuvenate the

talent pool. Lastly, poorly run programs destroy the customer's confidence and therefore eroding the ability to win new business.

By comparison, the momentum losses associated with competitive advantage investments are typically not as severe. It can take longer to manifest, may be more expensive, or yield limited return. The momentum losses in competitive advantage can also impact chances at winning new business. However, they typically do not result in profit destruction.

In regards to program execution, there are key warning signs where management should focus. The first is poor planning. Program management often is well versed on solid program management practices and internal company policies yet at times compromises those practices and policies. Typical rationalizations include "we need to be flexible" or "we're trying to be responsive to the customer." It's important to understand the root cause of the decision to deviate. Is it because program management did not truly understand or did they feel compelled to deviate? The answer points to radically different responses. Lack of understanding is resolved with better education and training programs, yet compelled deviation points to cultural changes.

Another warning sign is competency misalignment: an inability to get the right people on the program or the inability to find the expertise for problem resolution. Invariably, results in fairly significant drains on profit through a variety of mechanisms, such as spending unplanned resources on external experts, time loss, money and time spent on false solutions, and loss of customer confidence. Within an A&D matrixed organization, a lack of key expertise could point to a variety of problem areas – lack of a talent strategy, inability to track expertise, inability for cross-matrix solution integration, or simply breakdown of communication. In any of these scenarios, the lack of a key knowledge worker at the right time can have far reaching competitive consequences.

Tips on Creating Profit Momentum

There are three priorities to consider when creating/maintaining profit momentum. These three areas are the foundation to sustaining a profit momentum movement.

- **Program Management** –Milestones and Growth
- **Program Improvement?** Assessment and Improvement
- **Program Portfolio Monitoring – KPIs?**

In order to be successful at creating the company's profit momentum movement, all three areas need to be performing well in a synchronous fashion. These are the major components of Program Excellence, and the driver in making the profit momentum.

The first order of priority should always be the **Program Management** component. Challenging employees to become better project managers will help improve program performance and have the desired downstream impacts. The project and program managers really do have the largest impact on a project's profit creation.

The "[Growing Effective Manager's](#)" whitepaper documents the case study of improvement to a program or project managers' ability to manage their projects; by applying standardized management practices in a structured manner and assessing their program management behaviors. The case study helps to promote program excellence and accountability, transitioning culture from a fire-fighting and reactive nature to strategic and forward thinking. The program or project managers would be armed with the skills and tools needed in order to successfully manage.

The major areas for improving program management skills:

- **Clarify Expectations** - establishing the expectations of your team allows them to work toward a shared vision of success
 - Proper and Effective Communications from the leadership team to their PMs
 - Documentation of clearly defined expectations
 - Provide the information and background necessary to help the PM understand their role
- **Increase Knowledge** - a PM without the right knowledge will not be able to meet those expectations
 - Training
 - Mentoring
- **Demand Accountability** – to truly improve program management behavior in the organization, PMs must have ownership over the changes in the practices of the team
 - Provide an environment to foster growth, change, openness in communication for risks / issues
 - Opportunities to own project responsibilities in order to learn the complexities to manage
 - Allowances for failures as learning tools, support from Leadership
- **Utilize a PM Monitoring Tool**
 - The tool can measure the success and health of a program with defined criteria required by the leadership team.
 - Use of such a tool, aids in providing the structure and provides defined, standardized PM requirements and measurable success factors.
 - This further promoted the PM's ability to make improvement steps and modifications to their projects to continue to align with established best practice standards; creating a sustainable management process in line with goals of the company and drivers of the profit momentum.

Risk Mitigation			
Risks are identified and listed	Early	Y	Project Definition / Plan
Risks are prioritized by High, Medium, and Low in plan	Early	Y	Project Definition / Plan
Mitigation plans and closure are documented for each high level risk	Early	N	Project Definition / Plan
Risks are closed by the date identified in the closing plan	Early	Y	Project Definition / Plan
Lessons learned are tracked from beginning to end of project	Early	Y	Project Definition / Plan
Risks are reviewed at a minimum of once a week by the project team	Middle	Y	Project Definition / Plan
		Yellow	

(The diagram shown above is a snapshot of the PM Health Assessment Tool)

Additional areas to focus include alignment of company objectives and feasibility measures. It will certainly be a challenge to get the Program Excellence groundwork in working order; however, prioritization and incremental goal setting will be keys to long-term success. Given the limited time and resources available in most cases, the best path to achieve and maintain Profit Momentum is the through the profitable execution of programs. Effective program manager

training combined with best-in-class management behaviors are sound actions that allow the business to invest in innovation, create competitive advantage, and pursue net-new contracts in support of a self-sustaining, profitable business.

Author Bio

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About Hitachi Consulting Corporation

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