

Case Study



SISTEMA CATAGUAZES-LEOPOLDINA

Client: Sistema Cataguazes-Leopoldina (Brazil)

Industry: Electricity Supply

Objective: To apply Decision Lens as a framework for decision making in strategic planning, and to develop and evaluate a portfolio of optimum projects

Decision Lens is being used to select the best strategic direction and optimal portfolio of projects to support the strategy. This will pave the way for our future success.

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Summary

SISTEMA CATAGUAZES-LEOPOLDINA (SCL) is an electricity distribution and supply company located in Brazil. SCL is comprised of 5 Distribution and Supply Companies (DISCOS), 1 small Generation Company (GENCO) formed by small hydro plants and 1 Energy Services Company (ESCO). The total gross operational revenue of the group in 2006 is US\$1.1 billion. With over 4,000 employees, SCL has electrical generation and distribution assets throughout Brazil, serving nearly 7 million people.

SCL turned to Decision Lens for strategic planning, project evaluation and resource allocation including budgeting. The executive team of SCL took part in the strategic planning process beginning in November of 2006. Using a 2-step approach, they began with a qualitative "strategic analysis", and completed the plan with a quantitative ROI analysis including factors such as Net Present Value.

Having chosen the strategic alternative to be put into practice, SCL evaluated and selected those projects that delivered the most strategic value to the company. In December of 2006, the prioritization of the portfolio of projects was completed with a rigorous evaluation of how each project delivered against strategic and financial criteria.

Challenge

There were two key challenges faced by SCL. On the one hand, the long-term strategy had to be determined in order to achieve enterprise success and meet shareholder expectations, including targets such as minimum profitability hurdles. On the other hand, the optimum portfolio of projects had to be prioritized according to not only the strategic objectives but also the financial constraints (limited budget) related to each distribution company. These financial constraints were related to regulations as well as contractual covenants associated with the debt of the company.

In order to prioritize the portfolio of projects, SCL developed an internal methodology named Capital Ótimo (Optimum Capital), focused on planning and budgeting. Optimum Capital defines priority indices with specific weights depending on which distribution company is being taken into consideration. The differences among the distribution companies are based on their different characteristics, such as level of customer satisfaction, commercial losses, technical losses, delinquency, continuity levels, etc. Another important characteristic of the evaluation of the project portfolio is that it must balance objectives related to regulatory requirements with commercial interests, infrastructure needs, and service quality demands.

Solution

During the Strategic Planning phase, two decision hierarchies were developed. The first one included 7 criteria such as: Ability to Manage Risk Management; Strategic Flexibility; Available Attractive Financial Resources; Vocation Alignment with SCL; Synergy among Companies; Growth Potential; and Capital Market Receptivity. After evaluating various strategic directions against the first hierarchy, the top strategic alternatives were then evaluated against the second hierarchy. It was comprised of 4 criteria: Net Present Value; Internal Rate of Return; Investment required and Strategic Adherence (which score derived from the first hierarchic analysis). The decision makers evaluated the criteria in each hierarchy through the Decision Lens pairwise comparison process, and displayed the relative priority of each criterion to the team.

The next step was to prioritize the whole portfolio of projects for each operating company. They were evaluated against criteria from SCL's Optimum Capital methodology including: Safety; Expansion; Service Quality; Product Quality; Losses; Infrastructure; OPEX Reduction; Profitability; New Products; and Compulsory Obligation. In this step, key performance indicators were used to evaluate the impact of each project, and the entire project portfolio was prioritized. The final step was to apply the project portfolio to budget constraints and decide on the optimal investment mix across the project set.

Results

Thanks to Decision Lens, SCL was able to optimize its portfolio of projects in order to achieve its strategic goals. Within the next 3 years, over 140 projects will be executed based on the Decision Lens prioritization, and the team has the confidence that these are the best projects for all of the companies in the group. The total cost associated with the projects is US\$270MM. The benefits are expected to be many multiples of this, maximized in terms of reaching both the strategic and financial goals of the company.

Decision Lens had an additional beneficial side effect — it created a conscious, consensus-oriented decision making process that improved the buy-in of the team in terms of both the strategic alternatives and the final portfolio of projects.