How to Allocate Resources Effectively and Why You Should

By: Mark Payton

Fortunately (and unfortunately), not all businesses are created equal. Determining where to make your best investments of time, people, and money is of the utmost importance if you plan to succeed. And if you wish to succeed, you must plan accordingly.

Companies in the engineering and construction world are frequently faced with the situation of being in multiple businesses or markets, each of which are performing differently – sometimes substantially differently – or they are in businesses that vary significantly in size, market position, or resource requirements. Many times, management doesn't even realize this.

As a result, time is spent (and wasted) on businesses and markets that you shouldn't really be in – and the hard decision should be made to exit. I say it's a hard decision because there is typically a lack of awareness from business leaders that an exit strategy should be considered in the first place.

Why is that?

The justifications for being in the businesses or markets vary. Here are the most common:

- "We've been in 'XYZ' business for a long time"
- "The CEO came from the industry"
- "Our client's will think we're going out of business if we leave"
- "We made an acquisition, and we can't acknowledge that we made a mistake"
- And the list goes on and on

Frequently these businesses/markets are also seen as too small to worry about - until that inevitable time when a problem arises that costs the company lots of money. Or worse yet, its reputation (and this is inevitable).

What can you do to prevent these issues from arising and stunting the growth of the company?

Determining the best allocation of resources requires making some difficult choices.
These choices SHOULD be based on a real understanding of how your businesses stack up.

For example:

Is the low margin, high-risk construction business you've been in for the past 20 years really worth continuing to spend money on, versus the much higher margin, and higher growth business you could expand into. Is it really worth maintaining your small engineering business? Or is selling it to someone who can really leverage it and using the money elsewhere a better option?

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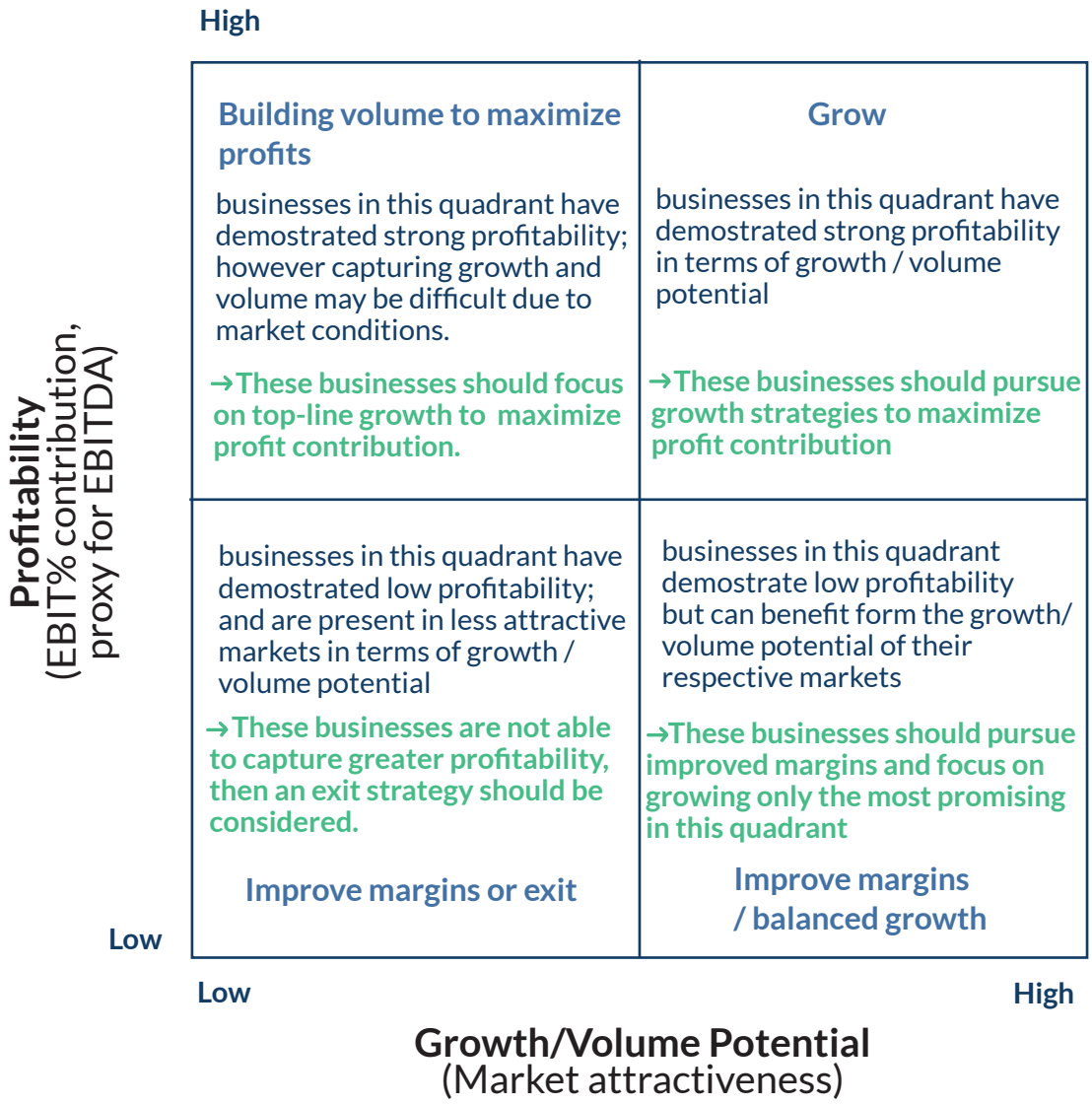
What does this approach consist of?

Generally, this involves reviewing each business in detail and comparing areas such as:

A. Market size
B. Market growth
C. Competitive intensity
D. Major clients
E. Historical financial performance
F. Market outlook
G. High level key considerations

In an effort to elicit the best results possible and strategically assess whether to maintain, grow, or exit the businesses or markets you're currently in, consider preparing a 2x2 market attractiveness matrix.

The end result will be a matrix that looks like this:



The end result will be a matrix that looks like this:

This matrix allows you to identify those markets worth growing in, those that are questionable but could grow with more investment – and those which you should leave behind.
If you're objective in your analysis, the quadrants each of your businesses fit in will be obvious.

This should drive your strategic choices and decisions on where to invest and divest, where to grow organically and/or acquire and, in short, where to best allocate your resources for success.

Questions to Consider:

- Are you clear on how each of businesses/markets/regions are performing – and how they compare with each other?

- Do you know -with actual evidence- how each of your businesses are positioned in their respective market – and whether you're spending the right amount of time/effort/money to generate optimum results?

- Are you willing to make the tough choice to invest in market with real, evidence-based potential – and exit those that aren't attractive?

Want to know how your businesses stack up? Message us and we'll help you develop a robust strategy that will appropriately allocate your resources and ensure sustainability for years to come.