

Commercial Acumen v Financial Acumen and what do you need to do to improve your staff's commercial skills



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So what is commercial acumen and why does it matter?

Commercial acumen is the ability to understand the commercial drivers, financials, industry variables and the underlying business models that your organisation utilises to make a profit and ensure an organisation is sustainable.

It is the ability to not only understand these commercial drivers but also use this knowledge to make informed decisions around your pricing, revenue streams, costs, commercial models and agreements with clients, sub-contractors and other partners.

Having a high level of commercial awareness is extremely important as you take on more senior roles, more responsibility and therefore more commercial risk. It separates those Executives who are able to think commercially with the mindset around "if this was my business, how would we spend this money".

Interestingly, that whilst financial acumen is of great focus across many subjects at university and post graduate studies, it really only refers to someone's ability to read and interpret financial statements such as a profit and loss, balance sheet and cash flow statement.

Due to a lack of understanding about what commercial acumen actually is, people often make the mistake of assuming that if they have strong financial acumen skills

that they are strong commercially. But this is not the case.

Financial acumen tends to focus on the past. What profit did we make? What costs do we have currently? How has our business performed in the past?

This is important but what is more important is around what does this mean for now?

What implications does this have for our future in terms of decision making, forecasts, costs and profitability.

Where do we need to invest, divest and continue to maintain?

What products and services are profitable and which ones are not?

All important decisions in a fast changing world and environment we are now working in.

The important thing to understand is that commercial (or business) acumen is something that can be learnt, and many of us learn the basics of these skills through the roles, projects and organisations that we are exposed to during our career.

This is often through 15-20 years of experience with lessons learnt, project successes and failures and insights from others who have been generous enough to share them. There is a quicker and better way through commercial training that is tailored for your industry and organisation aligned to upskilling and building your staff's commercial capability.

BRS undertake a significant amount of commercial acumen training for Central, Federal and state government infrastructure delivery agencies, local government authorities, contractors and consultants across Australia and New Zealand. It is seen as a critical skill for all staff involved in the planning, design, procurement, delivery and maintenance of infrastructure assets and services. It is a skill that assists government agencies working with their supply chain partners to deliver value for money outcomes for the community. Without the appropriate commercial skills, this is very hard to achieve from a whole of life perspective.

To help you determine where your level of commercial acumen is at from an organisation and staff perspective, I have included the following list of questions that we use when we are working with our clients to develop a baseline understanding of where we need to start in the development of a tailored commercial acumen training program:

1. What does value for money mean for your organisation in the procurement and delivery of your projects?
2. What are the key drivers in relation to your projects, business models and your organisation?
3. What are the key commercial drivers and metrics that influence your industry and markets?
4. What are the average margins you make on your projects or services if you are a private organisation?

5. What is an appropriate Return on Investment (ROI)/Benefit Cost Ratio (BCR) from a public perspective for this project or service?
6. Who are your top 10 most profitable clients and why?
7. What key industries that we work in are the most profitable and least profitable? Why?
8. What are your bid costs as a percentage of net fee revenue? Where are our repeat work and referrals coming from?
9. What percentage of revenue do your top 20 clients comprise? How could you increase this?
10. What is your bid success rate in terms of count % and dollar %?
11. From a government perspective, what is our whole of life cost approach to driving value for money outcomes?
12. From a government perspective, how are we viewed by our supply chain partners? Are we considered a mature and intelligent client?
13. What is the split between passive income generation and earned income generation in your services, geographies and business units?
14. What are the top three costs for the project or organisation budget you are responsible for?
15. What are the key lag and lead indicators that give you an indication of profitability in the short, medium and long term?
16. What are the different business models you utilise to demonstrate flexibility with your clients?
17. How do your suppliers and key sub-contractors make money? How do we decrease the cost of them doing business with us?
18. How well do you know your competitors' business models and commercial practices?
19. Do you know the key proposal qualifiers and assumptions to de-risk key projects?
20. What is your profit target as opposed to revenue target?
21. What three key things could drive improved profitability in your business or project?
22. Do you have a balanced scorecard in place to measure your key measures?
23. How do you hold your key staff to account commercially? Are they clear on their commercial roles and responsibilities?
24. How do you train new staff on your commercial practices and key metrics?

Asking these questions allows us to quickly identify where an organisation and their people are at with respect to their level of commercial acumen. If you have read this list and aren't able to answer some of these questions, then you have just highlighted some areas to focus on in your quest to develop your commercial acumen skills. The other way to assess this is to measure your currently baseline of commercial capability against a commercial capability matrix.

You can't underestimate the importance of ensuring your people have the commercial acumen skills and knowledge to manage your projects, business units,

service lines and organisations both in the private and public sector. If they don't, you run the risk of projects not delivering value for money outcomes, or putting your organisation at significant financial risk due to budget over-runs, delays or reputational risk.

The cost of running a commercial acumen training program is minimal in comparison to the cost of having people who don't have a strong level of commercial acumen, and are not able to make sound commercial decisions.

The team at BRS have worked with many clients across government agencies, infrastructure agencies, consultants and constructors to deliver commercial acumen training programs to improve the commercial awareness of their people. These programs are all tailored to meet the needs of the organisation and the commercial acumen level of the participants.

Some of the types of the commercial acumen training programs we have developed include the following:

- Foundation Commercial Acumen training program
- Intermediate Commercial Acumen training program
- Advanced Commercial Acumen training program
- Graduate Commercial Acumen training program
- Alliance 101 training
- Project Advisory Board (PAB) training
- Alliance Management (AMT) training
- Tender Evaluation Team training
- Positive Guidance and Interactive training
- Tender Writing Techniques training

BRS have a lot of experience delivering these courses both online and face to face and we also have an online Learning Management System that we use to support the learning of the participants beyond the initial training.

If you would like to learn more about our approach to commercial acumen training and BRS may be able to assist your organisation, please don't hesitate to Contact Kym Williams at BRS [+61 8 8212 5752](tel:+61882125752)