

CAPITAL ALLOCATION

Sequencing capital

A portfolio instrument for deciding which modernization investment deserves the first dollar.

For portfolios in which the best project and the best first project may not be the same project.

Several modernization investments have credible business cases. Capital and execution capacity are limited. Which one should go first?

PROJECT RETURN Value created inside the investment. Revenue Margin Productivity Capacity Cost reduction Cycle-time reduction Risk reduction	PORTFOLIO LEVERAGE Value created by changing what follows. Uncertainty removed Constraints removed Capabilities established Work made reusable Downstream cost avoided Later decisions improved
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The first-dollar decision considers both the economics of each project and the economics between projects.

SEQUENCING ANALYSIS BECOMES MORE VALUABLE AS			
interdependence rises	commitments become larger	decisions become harder to reverse	uncertainty increases
When projects are inexpensive, independent, and easy to unwind, speed may matter more than sequence optimization.			

Five questions for the first-dollar decision

01 RETURN

What does it return?

Value created by the investment itself.

If nothing else gets built on top of this, what did we buy?

What revenue, margin, productivity, capacity, cost, cycle-time, or risk improvement results?

How credible is the business case?

How dependent is the return on future investments?

02 LEARNING

What does it teach?

Uncertainty removed from consequential future decisions.

What consequential assumption does this investment test?

What will we know afterward that we do not know now?

Which future decision could change because of that evidence?

Will the evidence arrive before that decision must be made?

A PILOT IS NOT AUTOMATICALLY LEARNING.

The issue is whether the investment tests consequential assumptions under conditions representative enough to produce useful evidence.

03 POSSIBILITY

What does it make possible?

Downstream investments made feasible, cheaper, faster, or less risky.

Which named initiatives depend on capabilities created here?

What constraint does this investment remove?

How materially does it change the economics or feasibility of those initiatives?

04 REUSE

What does it make unnecessary to rebuild?

Duplicated downstream work avoided.

Which named initiatives need the same data, the same integrations, the same business logic, the same permissions, the same governance, or the same implementation knowledge and patterns?

03 Possibility changes what can be pursued.

04 Reuse changes what has to be repeated.

05 TIME

How quickly does the value arrive?

Whether learning and portfolio effects arrive soon enough to affect actual decisions.

SPEED-TO-LEARNING

When will decision-relevant evidence arrive?

TIME-TO-LEVERAGE

When can other prioritized initiatives use what this project creates?

A theoretically valuable capability arriving three years from now should not receive the same sequencing credit as one that materially affects a prioritized investment six months from now.

Give portfolio credit only when the adjacency is real

Hypothetical reuse deserves hypothetical value.

A downstream benefit deserves meaningful portfolio credit when the downstream opportunity is:

IDENTIFIABLE Can the organization name the actual initiative or operating use?	ECONOMICALLY PLAUSIBLE Is there enough expected value for the downstream investment to have a realistic chance of being funded?
STRATEGICALLY RELEVANT Is it connected to priorities the organization actually intends to pursue?	CLOSE ENOUGH IN TIME Is it likely to occur soon enough for today’s investment to affect its economics?

CLASSIFY EACH CLAIMED PORTFOLIO BENEFIT	
STRONG ✓✓	Named, prioritized, economically credible, near enough to affect today’s decision.
MODERATE ✓	Plausible and relevant, but timing, economics, or priority remains uncertain.
SPECULATIVE ×	Technically possible future use without sufficient evidence of demand or commitment. Discount it.

Portfolio leverage is not free

Five counterweights, answered for the candidate you are considering funding first.

01 CAPITAL

What additional investment is required to create the portfolio benefit rather than the narrow project solution?

02 ORGANIZATIONAL CAPACITY

Which scarce people, expertise, executive attention, or change capacity does the investment consume?

03 EXECUTION DEPENDENCY

How many uncertain things must succeed before the expected portfolio benefit materializes?

04 IRREVERSIBILITY

How expensive will this decision be to abandon, replace, or redirect if assumptions change?

05 COMPLEXITY

What vendors, integrations, dependencies, governance requirements, data structures, or operating burdens will later projects inherit?

Weigh the risk-adjusted value of the leverage against what must be spent, consumed, depended upon, committed to, and carried forward. Do not collapse it into a score.

Compare the candidates

Write named entries. Not "high reuse potential" but "B and C both require the asset identity layer; C is planned for Q3."

DIMENSION	A	B	C	D
NAME				
01 Direct return				
02 Information return				
03 Makes possible				
04 Reuse created				
05 Speed-to-learning				
05 Time-to-leverage				
Credible adjacency strong / mod / spec				
Capital / capacity burden				
Execution dependency				
Irreversibility				
Complexity inherited				

No weights. No composite score. The rows structure judgment; they do not replace it.

Map how the investments interact

Read each row as the source. In every cell, mark the relationship the row investment creates for the column investment.

E ENABLES Materially changes whether the other project can proceed.	R REUSABLE BY Creates something the other project would otherwise recreate.	I INFORMS Produces evidence relevant to the other decision.	C CONSTRAINS Introduces a commitment or dependency the other project carries.
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SOURCE ↓ / EFFECT ON →	A	B	C	D
A				
B				
C				
D				

POSITIVE INHERITANCE Reusable data. Integrations. Business logic. Governance. Organizational knowledge. Implementation patterns. Evidence.	NEGATIVE INHERITANCE Isolated data. Redundant integrations. Incompatible definitions. Vendor dependencies. Duplicated logic. Additional complexity.
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After this project succeeds, is the next worthwhile investment easier or harder to make?

Build the foundation through the first high-value use case

APPLICATION-FIRST, REPEATED INDEFINITELY Can create: Point solutions Duplicated integrations Incompatible logic Isolated data Repeated foundational work	PLATFORM-FIRST, WITHOUT VISIBLE DEMAND Can create: Large upfront commitments Long time-to-leverage Capabilities built for applications that never materialize Premature generalization Increased irreversibility	HIGH-VALUE FIRST USE CASE 01 Start with an application whose standalone economics justify action. 02 Identify capabilities it requires that other named, prioritized initiatives also need. 03 Build those capabilities so they can be inherited. 04 Keep everything else narrow until additional demand becomes credible.
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Generalize where visible demand justifies generalization. Keep the implementation narrow where reuse remains speculative.

A manufacturer with four candidates

ALL FIGURES ILLUSTRATIVE

A	Predictive maintenance	STRONG STANDALONE ECONOMICS
B	Automated quality investigation	MODERATE STANDALONE ECONOMICS
C	Production scheduling optimization	STRONG STANDALONE ECONOMICS
D	Shared operational identity and event capability	MODEST ECONOMICS, SUBSTANTIAL PORTFOLIO EFFECTS

STANDALONE RANKING	WHAT PORTFOLIO ANALYSIS REVEALS
A → C → B → D	D provides significant information return. D makes portions of A, B, and C easier. D contains reusable capabilities. But a comprehensive version of D would require an illustrative \$15 million and three years before the applications could fully use it.

THE FIRST DOLLAR STILL GOES TO A But A is built differently.	The scoped asset identity, event model, and integration patterns required by B and C are deliberately created as reusable portfolio assets inside A.
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Portfolio thinking changed the architecture of the first investment without changing which business problem received the first dollar.

First-dollar decision

DATE _____

INVESTMENT RECEIVING THE FIRST DOLLAR

WHY ITS STANDALONE ECONOMICS JUSTIFY ACTION

DECISION-RELEVANT UNCERTAINTY IT WILL RESOLVE

NAMED DOWNSTREAM INVESTMENTS IT MAKES POSSIBLE

WORK THOSE INVESTMENTS CAN INHERIT

WHEN THE LEARNING ARRIVES

WHEN THE PORTFOLIO LEVERAGE BECOMES USABLE

CREDIBLE ADJACENCY SUPPORTING THE PORTFOLIO CASE

ADDITIONAL CAPITAL AND CAPACITY REQUIRED TO CREATE REUSABLE VALUE

MAJOR EXECUTION DEPENDENCIES

IRREVERSIBLE COMMITMENTS AND COMPLEXITY INTRODUCED

WHAT SHOULD BE BUILT FOR REUSE NOW

WHAT SHOULD DELIBERATELY REMAIN NARROW

PORTFOLIO FUNDING REQUIRED

Incremental cost this project bears for capabilities whose benefits belong partly to other initiatives.

FINAL INHERITANCE TEST

After this project succeeds, is the next worthwhile investment easier or harder to make?