

The Lucidus approach to Causality

Causality, in this context, relates to the problem of determining the primary cause of value generation. Many organisations would like to buy and sell on the basis of 'Value' delivered and received. Such arrangements tend to founder because it is all too easy for the customer to argue that events unconnected with supplier activity either caused the value to be delivered or contributed significantly to it.

This note sets out the Lucidus mechanisms that largely neutralise this issue.

General Approach

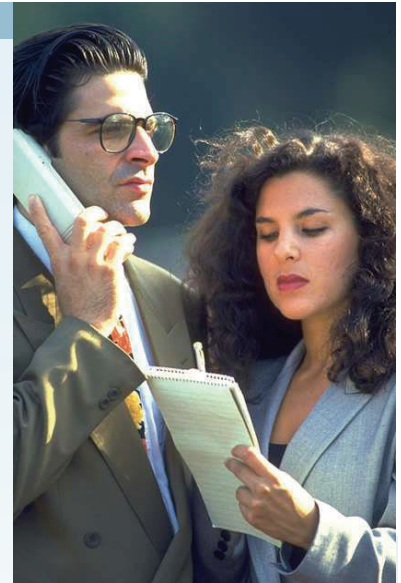
Three fundamentals must play together if Causality is successfully to be demonstrated. They are:

- A robust and granular articulation of Value
- A precise definition of responsibilities
- A clear and agreed profile of Value delivery.

Articulating Value

The Lucidus tools and techniques build and make visible the complete linkage between the:

- Target outcome
- Outcome measure
- Scale of outcome
- Solution associated with enabling the outcome



Better understanding
leads to better decisions

“When we ran the recompute post-mortem from a ‘value’ perspective, we found we were actually delivering \$2.3m of additional customer value pa that the customer didn’t know about— and neither did we — it’s why we lost”.

VP Sales - Electronics
Manufacturing



- Assumptions used when determining the strategy, source of assumption and customer agreement to it
- Nature of any business Change required to deliver the outcome
- Specific milestones to enable and deliver the outcome
- Responsible people

We tie specific outcomes to very specific actions, validate the relationships and values with the customer and get them to agree the numbers and actions. We do this in a far tighter way than anybody else and the granularity means that the individual 'agreements' are very narrow. The scope for external 'interference' to the outcomes is therefore far more limited than in the looser approaches usually adopted by others. So, whilst the customer could argue that overall the total outcome was influenced by other factors, the agreements fixed around each granule provides the evidence that demonstrates the case. **As a minimum, this mechanism dramatically reduces the scope for debate about what really delivered the results even if it does not remove it altogether.**

Because we can set out 'cause and effect' in such a tight (but operationally acceptable) way, it enables us to agree the model with the customer up front. And the nature of that agreement, using the argument above, is that granule 1 will move by x, granule n will move by y, et al - the cumulative effect is a performance increase of z. 'Do you, Mr Customer, agree that if the granules move as agreed the overall performance will be z and that the overall performance increase results from our actions?'

Our techniques mean that we are much more likely to achieve an agreement of this nature because the model breeds confidence. If external effects have achieved the results, then some of our granules will not have achieved their targets. If all granules achieve their target then there is a high probability that the improvement results from our actions. If the results are higher than we predicted then it might be that external forces have made a contribution (but see next).

A Precise Definition of Responsibilities

Since the service provider is rarely, if ever, given 'control' of their customers' businesses, they are unlikely to be in a position to 'deliver' anything. The best they can do is 'enable'.

This means that for its agreements to stick the service provider must specify

- how much Value is ultimately available,
- what enables it i.e. the service provider's responsibilities and
- what delivers it - the customer's responsibilities.

It may be that problems of causality are exacerbated because this distinction is not as clear as it should be, that expectations are inappropriately set or both

"The actions that organizations must take to nurture the new era sales culture and create the appropriate competencies are not easy to do. In fact, it can be counter-intuitive for sales people"

Rick Justice
Senior Vice President
World Wide Field Operations
Cisco Systems

responsibilities and expectations are correctly set at the outset but cannot be maintained through the life of the agreement.

By agreeing up front the distinction between Enabled and Delivered (which the Lucidus approach facilitates) vulnerability to the causality argument is further reduced.

An example may help.

The causality of cost reduction is largely straightforward when using the Lucidus tools and techniques as discussed above. However, 'increased revenue' is far more problematic.

Let's assume that you have been asked to increase the revenue of your customer and that this will involve the running a marketing campaign.

It is likely that a specialist company will run the marketing campaign. It therefore follows that you will not directly affect the outcome of the campaign. The key point here is that you cannot therefore be responsible for an increase in customer enquiries since this will be driven by the campaign itself over which you have no control. You could, however, be responsible for the way in which the enquiries are handled. So, lost calls, conversion rate, cross-selling et al become significant points at which you can make a contribution. And your contribution can easily be measured as our Call Centre models can demonstrate.

The key point is that you need only sign up for the increased revenue that it can directly enable. So, when assessing your contribution, the Lucidus approach would allow you to agree with the customer the key stages of generating revenue (in this narrow context) e.g. gaining an initial customer contact, cost of customer handling, minimising lost calls, responding to the contact, responding to complaints, closing the sale, cross-selling et al. Each stage would be weighted by the customer relative to its revenue generating contribution. It then becomes possible, based upon the agreed weightings, to determine the percentage contribution that you will make to any increased revenues. That percentage is applied to the actual increased revenue to give your fee. Everyone takes the risk that the ad campaign is good enough to generate sufficient contacts.

A Clear and Agreed Profile of Value Delivery

The mechanisms discussed above result in a logically unassailable profile of Value 'delivery' and 'enablement'.

The profile of value release gives some strong clues as to what is or is not influencing the release of actual Value

If value is being delivered ahead of the changes being made by you, by definition it could have nothing to do with you. The increase would therefore be added to your profile i.e. You must still deliver its agreed profile but the actual Value profile would be higher. More probably, the take up of new business would be impacted by the constraints that your programme was designed to address.

In this case revenue would not materially increase until you have removed the constraint in which case the increased revenue would result your action and be clearly seen so to do.

Summary

Causality will always provoke debate. The debate and the amount of your fee under debate can both be minimised if:

- Your responsibilities have been clearly focused on 'enabling' actions
- The linkage between outcome required and its delivery are logically unassailable and visible
- A clear and agreed profile of value delivery has been agreed based upon these linkages and responsibilities.

In combination, a through c dramatically narrows the debate surrounding cause and effect and the profile of value release shows the minimum fee if each enabling granule is delivered and gives strong pointers regarding the influence that you may or may not have had on any Value variation.

Using 'Value' effectively - What are the benefits?

Diagnostic Value Assurance gives the following benefits:

- Sets you apart in process, solution and performance.
- Empowers your team to engage the executive level.
- Engages all key customer people.
- Gives the customer powerful new insights into its own business that were otherwise unavailable to it.
- Empowers the customer to operate and own the value determination of value.
- Empowers the customer to differentiate between vendors.
- Documents how value achievement will be accomplished.
- Measures the value achieved to assure client retention.

Some Lucidus Clients

Boston Scientific
Pillar Data
BP Chemicals
British Airways
Ministry of Defence
H.M.Revenue & Customs
Manchester United
IBM
EDS
Hewlet Packard
Fujitsu
Kodak
Rogers Communications
Balfour Beatty
Warner Brothers
The Met Office
Pilkington Glass
Lend Lease
Invensys

The Presenter: Robert White – CEO Lucidus Ltd



Robert White—CEO Lucidus Ltd

Robert has 35 years of business experience and founded Lucidus in 1989. His experience includes the creation of a new outsourcing business for one of the global consultancy firms and he was the architect of the first Inland Revenue outsourcing deal valued at £1.7bn. With his business partner Howard Hughes, he has developed leading edge thinking and practical solutions to all of the issues associated with value and how to capture it.

The Lucidus approach to value based selling is deployed across a number of different sectors worldwide and the Lucidus pre-emptive value tracking techniques are currently deployed by the UKs Ministry of Defence to track the value from its top 50 change programmes just one of which is a £4.6bn 10 year programme of IT renewal.

About Lucidus

Lucidus is a privately owned, independent Management Consultancy that was founded in 1989. It provides impartial and objective advice to Government, Agencies and the Executive Boards of private sector companies that recognise the need for robust value management strategies in support of investment in major change programmes.

Lucidus founder, Robert White (CEO), an authority on the emerging subject of Value Lifecycle Management as a critical management discipline, has provided leading edge strategies and advice to some of the world's most successful private enterprises, public sector organisations, and high-value sales and consulting organisations.

As a value practitioner over the last two decades, Robert has made a significant contribution to the de-risking of a large number of high profile change programmes. In 1996, Gower published his book, *The Outsourcing Manual*, the first comprehensive guide for any organisation considering taking this route, which Robert wrote based on many years experience of selling and delivering Outsourcing agreements, including the Inland Revenue, arguably the first and most successful Public Private Partnership let by the UK Government after the announcement of the Private Finance Initiative by the Conservative Government in 1992.

Co-founder, Howard Hughes, is a leader in the science of 'value assessment and measurement' and the visionary architect of a revolutionary benefits assessment, modelling and predictive tracking tool (Integrated Performance Measures - IPM) which he has been developing and refining since 1995. IPM enables and delivers the value management strategies and crucially, deals with the complexity that is inherent in multiple high-value change programmes. This tool and its associated techniques have reached a level of capability and maturity that remain unique and unsurpassed some 10 years later.

In combination, they provide a coherent end-to-end Benefits Lifecycle Management process that is seen as the holy grail of benefits centred programme governance, with emphasis on achieving planned outcomes and a clear understanding of affordability versus capability. IPM has been referred to by academics as a 'thinking technology' based on its exceptional capability as a visualisation aid, enabling stakeholders, technologists and the recipients of the investment to understand how value is derived, measured and what is required of them to assure its delivery.

Lucidus' clients receive this expertise in the form of executive level management consulting that focuses on diagnosis, strategy development, thought leadership and management training, followed by delivery of a customised and appropriate end-to-end Value Lifecycle Management process, enabled by IPM. This is licensed for the lifecycle of the investment programme, and is supported by regular audit of the VLM process.

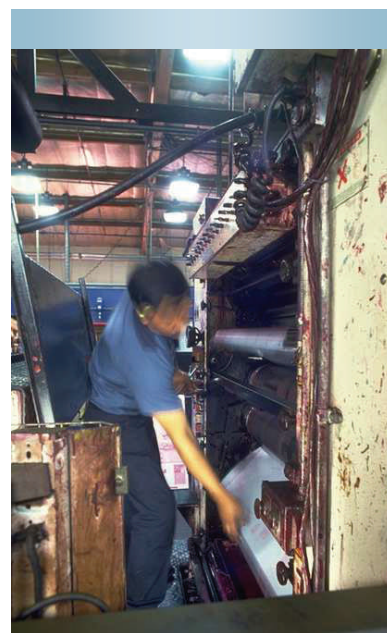
What Lucidus Customers Say

Stephen Hester Director IS&T - global PC manufacturing

“Lucidus have a unique set of skills and I am amazed at what they have managed to achieve. They showed us there was a potential to generate a further \$125 million of profit by using IT effectively. More importantly, they showed us where that value was, how to measure it and how to extract it. The key point was that we were focused on just a fraction of this potential benefit and had no sight of the true potential. It has changed our focus and investment profile.”

Marcus Klein VP Global Marketing Director - MSI

“The tools combined with the structured value presentation review were, to me, very enlightening. I know I felt we were really onto something. I think this is very powerful. The team is no longer thinking feature/function - but value / enterprise. In summary, the Lucidus approach is great! But like any approach, we need to develop the use of it around new, improved processes that I think will be very powerful.”



“Astonishing. Lucidus will enable us to have ‘grown up’ conversations across the Department. We should adopt this across the MoD for all Programmes.”

Director General Information (CIO), UK Ministry of Defence

Robert Musgrove – IBM Business Consulting Services

“Relative to other Benefits Realisation techniques, the Lucidus approach is powerfully differentiated by its ability to:

- 1. Clearly communicate the key value & benefit levers – and the breadth of factors that influence those levers*
- 2. Provide leadership with the granularity to manage a program at a strategic & operational level*
- 3. Show the implication of practical decisions on timing; Capex versus Opex investment; a risk allocation on the business case and benefit realisation profile. (showing benefits delivered and at risk)”*

Jeremy Hudson - Salesman Ark Group (using Lucidus techniques)

“The IT services market is increasingly competitive, and in order to succeed, we need a key differentiator. The Lucidus Value techniques and tools helps us gain access to power, where we can learn about business priorities, position our relevant services, and crucially articulate the business case for change. Having worked with Lucidus on some selected accounts it is already helping us to close more business, of higher value, with shorter sales cycles”



Lucidus Ltd

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Contacting Lucidus

Lucidus are always pleased to hear from our existing and potential partners. If you would like to discuss your particular requirements, you can contact us via one of the following methods:

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Lucidus

Helping with the tougher things