

# Value Based Outsourcing

There are powerful advantages to be gained from large scale outsourcing but only if you get it right. Some of the organisations in the studies below didn't.

## Dataquest Study

53% of European contracts re-negotiated once underway; 8% cancelled altogether; 16% switched supplier

## Harvard Study - Costs reduced but:

Significantly increasing I.T. staff turnover; longer time to market for new products; lower perceived product and service quality than their competitors; slower rate of increase in revenue per employee; lower return on assets

## Accenture Study

52% of executives interviewed felt they had limited success in achieving their business objectives [from outsourcing]

*"Despite the rapid growth in I.T. Outsourcing, most companies are still seeking the elusive 'added-value' they anticipated"*

**Lacity & Wilcox**

It's why we developed [Value Based Outsourcing](#). After all, when you outsource a business function, whether I.T. or business process, you want lowest cost but you also want leveraged business performance, an infrastructure that facilitates (not constrains) business agility, and a low cost of doing business with your supplier. In other words you want tangible added value.

*“When you outsource a business function, whether I.T. or business process, you want lowest cost but you also want leveraged business performance, an infrastructure that facilitates (not constrains) business agility, and a low cost of doing business with your supplier.”*

## Case Study – UK Utility Company

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Our client was being pressured into changing an existing IT outsourcing agreement to one based on "Joint Venture" partnership principles. Below is a brief outline of the major 'Before' and 'After' positions of this Lucidus intervention.

### Before

#### Existing Arrangements:

- Our client was excited by the prospect of recovering financial benefit to fund its ongoing large outsourced IT service
- The spreadsheet financial position offered by the outsourcer painted a "Rosy" picture of the upside to the relationship and, understandably, avoided potential downsides
- This relationship was to be formed and controlled by the creation of a new "Joint Venture" company



### After

#### Lucidus Intervention:

- Using Lucidus value modelling techniques, the value to each party was modelled over the estimated 20 year life of the outsourcing agreement
- Value was articulated as direct, indirect and non financial value
- Market potential for the products of the joint venture was modelled
- Both Upside and downside value to each party was modelled

#### Outcome:

- Outsourcer would make significant money on both upside and downside
- Arrangements left little incentive for outsourcer to push products of the joint venture in order to deliver expected revenues to our client
- The practical market for the proposed products of the joint venture were severely limited
- IPR in joint venture products skewed heavily in favour of outsourcer even though high proportion currently owned by our client
- Inequities of the arrangement were discussed (by our client) with the outsourcer
- Following those discussions, our client decided not to enter into the joint venture arrangement

# Value Based Outsourcing

## What are the Benefits

Assures a strong & clear linkage between your outsourced resources and business performance by:

- Optimising value from your existing programmes.
- Identifying latent value and assessing ROI potentials.
- Simplifying decisions surrounding investment priorities.
- De-scoping programmes by focusing only on the top value drivers.
- Pre-emptively tracking all benefits in terms of 'value in progress', value delivered and value 'at risk'.
- Optimising the unit cost of your outsourced resources.
- Minimising constraints to business agility from your outsourced resources.
- Providing a strong, clear Value based framework for managing your supplier relationship.

## What is it?

When you outsource a business function, whether I.T. or business process, you want lowest cost but you also want leveraged business performance, an infrastructure that facilitates (not constrains) business agility, and a low cost of doing business with your supplier. In other words you want tangible added value. But adding value is really hard and the work of Jeff Thull at Prime Resource explains why:

*"A complex world means its difficult to assess the nature and degree of the business problems you must resolve and the complexity of the services/technologies that will provide the solution. And some are not well equipped to understand and manage the organisational change issues - and only 'Change' delivers Value. Finally, some may not have the ability to measure and recognize the incremental value provided by the solution supplier."*

VBO overcomes these barriers - and it does so by combining the capabilities of our approach to Value Management as embodied by our Value Lifecycle Management services with the ability to track your Supplier's performance across a range of strategically important areas. This means that it is now possible to leverage your outsourced resources by ensuring that your supplier is always focused on the strategically important issues and is managed and paid on the basis of value delivered rather than inputs provided.

## What does it Produce?

VBO will provide you with the following:

- It gives you the ability to locate, scale and clearly articulate business value and then tell your supplier what you want in terms of clear, measures based outputs. In other words - it gives you control over what your supplier is doing without prescribing the solution.
- It allows you and the supplier to understand and agree upon the value to be delivered and how it will be tracked
- It measures the performance of the supplier across a range of strategic issues so you are never in the position of paying for something you have not received.
- It guides both parties to adopt the right behaviours needed to secure agreement on what is valuable and how best to deliver it.
- It dramatically reduces contractual disputes
- It will prevent your outsourcing contract becoming a 'straight-jacket' and transform it into a powerful tool supporting your strategic objectives

For ore information, please go to the Lucidus web site (<http://www.lucidus.co.uk>), drop us an email to [sales@lucidus.co.uk](mailto:sales@lucidus.co.uk) or give Robert White (CEO) a call on +44 (0)1608 678 134.

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## Some Lucidus Clients

Boston Scientific  
Pillar Data  
BP Chemicals  
British Airways  
Ministry of Defence  
H.M.Revenue & Customs  
Manchester United  
IBM  
EDS  
Hewlett 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.

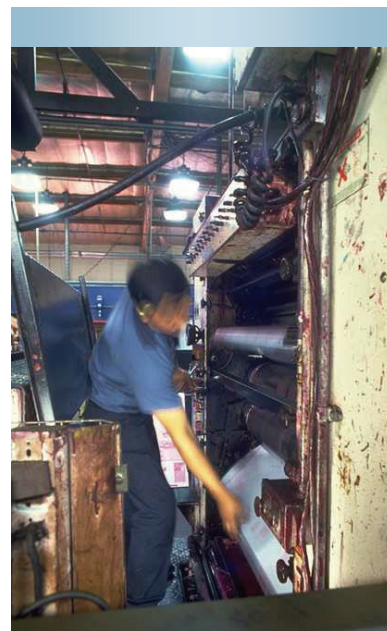
# What Lucidus Customers Say

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.”*



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*“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

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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"*



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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