

Q. Value Based Engagement?  
Insights, Thoughts and Ideas

**MCA: Consultancy Buyers Forum**  
**16 January 2014**



## So why value “Value”?

**Transforms our client relationships**

**Delivers extraordinary value to clients and to us**

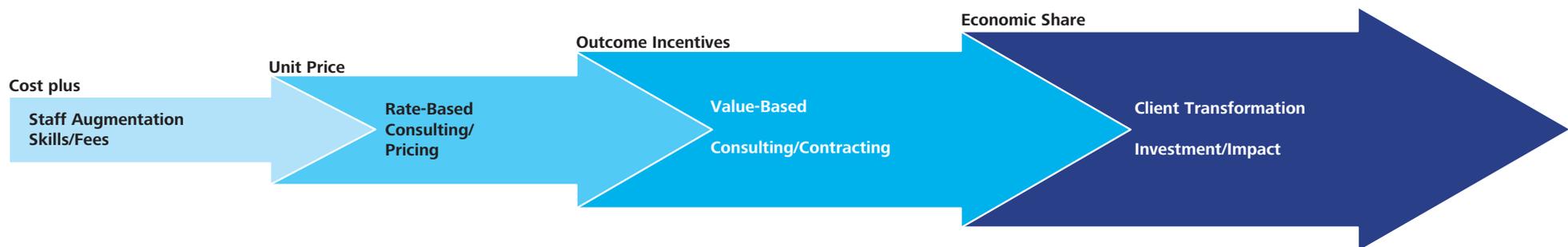
**Builds our brand**

**Expands our value proposition**

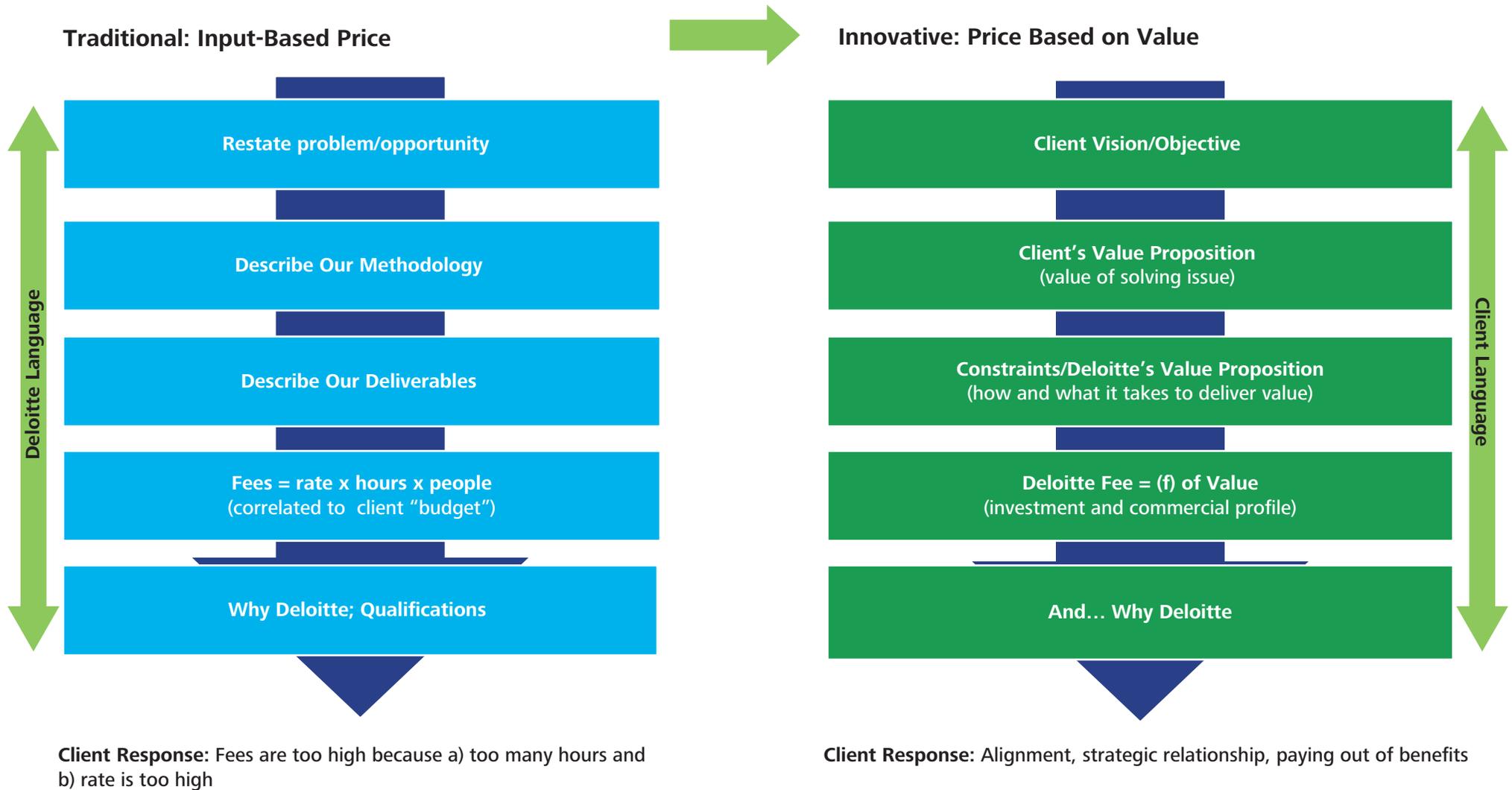
**Drives growth above and beyond leverage model**

# What is value based selling?

- Value based selling creates a client proposition that is based on and entirely in the language of the value to the client.
- We start by framing the objective/vision or outcome the client wants to achieve entirely in their language.
- We then state what it is worth to the client to get this right, quantitative economic value, expected outcomes and qualitative value.
- We then provide specific examples of what we will do, working with them, to overcome these specific challenges which govern the scope and nature of our services (which we need to be confident we can deliver).
- Finally we propose commercial model options that allows both parties to invest in the situation, share risk and share value based on outcome (this will range from value based billing to incentives to fixed price scenarios and elements of time and materials).



# What is value based selling?



# What is value based selling?

Client considerations should be evaluated before engaging in Value Based Selling

<b>CXO Level Relationship</b> Have the platform for the ask & skin in the game	<input checked="" type="checkbox"/>	<b>Time to Results/Money</b> Speed to value	<input checked="" type="checkbox"/>
<b>High Importance to Client</b> Clear recognition by client that solving issue is core to the client's agenda	<input checked="" type="checkbox"/>	<b>Capital Outlay/Cost/Investment</b> Size of required Deloitte and client investment	<input checked="" type="checkbox"/>
<b>Client's Ability to Execute &amp; Commitment to Success</b> Evidence exists of client's success with similar efforts	<input checked="" type="checkbox"/>	<b>Independence Overlap/Touch Points</b> Doesn't have significant, known Independence issues	<input checked="" type="checkbox"/>
<b>Alignment with Core Competencies</b> Existing Deloitte capability or targeted growth capability	<input checked="" type="checkbox"/>	<b>Alignment to Brand</b> Solution aligns to Deloitte brand or is a targeted at expanding Deloitte's brand in a specific area	<input checked="" type="checkbox"/>

 Fundamental to Value Based Selling

# Commercial Options for Value Based Sales



Model	Description	Commercial Options
<b>Milestone model</b>	Payment of fees is triggered upon reaching certain key non-Financial milestones throughout (including deliverables) the course of the delivery of the project.	
<b>Contingent fees</b>	Where our fees are held back and only paid when certain non-Financial outcomes or criteria are met. Contingent fees may be on top of a fixed fee.	
<b>Outcome-based payment</b>	Our fees are paid in proportion to non-financial outcomes achieved, often based on a number of measures in a scorecard.	
	Incentive mechanisms such as contingent fees, success fees, milestone or outcome based payments which are linked to outcomes such as speed of delivery, on/off budget, error rates, process efficiency, customer satisfaction or volume of services also carry significant commercial opportunity and risks.	
<b>Value model</b>	<p>Similar to outcome model above, but fees are linked on a sliding scale based on a financial or economic outcome/financial measures which improves as a direct or indirect result of our services.</p> <p>Structured with a base fee estimated on T&amp;M effort at a low RRR, with incentive fees rapidly rising in line with the measure at an agreed rate.</p>	

- Clear and more stringent internal Deloitte approval is needed
- Typically, risk/reward mechanisms cannot be used on Audit clients (contact national QRM – Independence for advice)
- Outcomes based fees introduces incremental risk in terms of fees and reputation (our reputation becomes clearly linked to the performance of their business)
- Final payment can be many months after the engagement has finished (cash flow implications)

# Value Engagement – Guiding Principles

**Transparency** – The client is entitled to know what the fees would be if the job was priced traditionally. The client should have the option to procure the services with or without risk/reward.

**Measurement and Baselines** – During the initial phase of the work explicit, measurable goals must be defined and the means to compare those measures to a baseline must be established. Goals must be related to economic benefit achieved. It is not appropriate to enter risk/reward arrangements tied to ideas, plans or forecasts.

**Risk/Reward** – A portion of Deloitte fees will be invested in the success of the programme. If the programme is not successful, or only moderately successful, some portion of the invested fees will be forfeit. If the programme is highly successful, Deloitte will earn an incentive fee that is greater than the fees invested. Upside will be capped. The upside potential must be commensurate with downside risk.

**Goal Alignment** – It is essential that all stakeholders that will influence the success of the programme have goals aligned with it.

**Scope Commensurate with Goals** – The scope of work provided by Deloitte must be commensurate with the goals and measurement of the risk/reward arrangement.

**Beneficiary is Sponsor** – The executives whose span of responsibility is most impacted by the programme must be the key programme sponsors.

**Exit Conditions** – Conditions may occur that render this type agreement unfair to one party. These conditions should be identified at the outset and a pre-agreement reached to terminate the risk/reward arrangement in a manner that is fair to both parties.

# Value Engagements – Overview

## Value-Based Billing with Deloitte

1. Motivates a constant focus on results.
2. Forces the discipline to determine what must be measured and to deploy the resources to measure and report on those metrics.
3. Causes goal alignment. First, it ensures that our goals are aligned with yours, and a direct by-product is that we make sure your key people also have aligned goals.
4. Ensures that Deloitte concurs with and engages in the business imperative.
5. Inspires the creativity, imagination and ingenuity of the combined team and our entire firm to achieve business results.
6. Aligns programme cash flow with incremental profits realised.

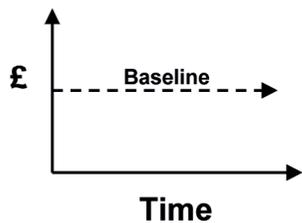
## The Concept

1. A diagnostic results in agreement on baselines and potential improvement.
2. Our compensation includes a base fee – paid during delivery, and an incentive fee – paid when results are measured.
3. The incentive fee is linked to results achieved –
  - If expectations are met, the incentive fee results in reasonable compensation.
  - If we exceed expectations, compensation is increased.
  - If we do not meet expectations, compensation is reduced.
4. The incentive fee may be based on a combination of:
  - Actual results.
  - Milestones: Events that can be measured that indicate the client should realise value.

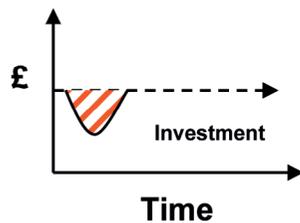
# Value Engagements – Improved Outcome

The Value-Based Billing programme improves ROI for our clients because:

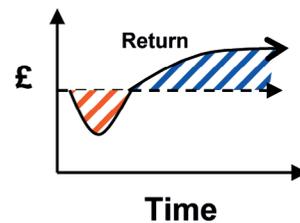
- Clients realise better results, faster.
- Client objectives, measures of success, and returns are aligned with ours.
- Client investments are more closely matched to returns.
- Deloitte’s invested fee and premium is returned via a share of *incremental* profits.



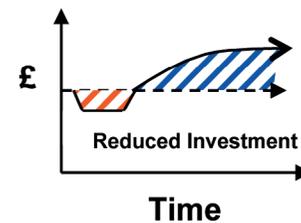
The “Baseline” is the expected earnings if nothing is changed.



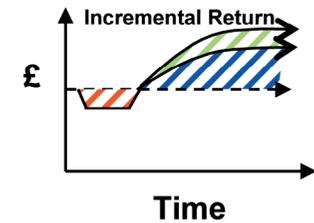
Transformation programmes require an investment – decreased profit and/or capital deployed.



Results are realised and profit above the baseline is earned, representing a “Return on Investment”.



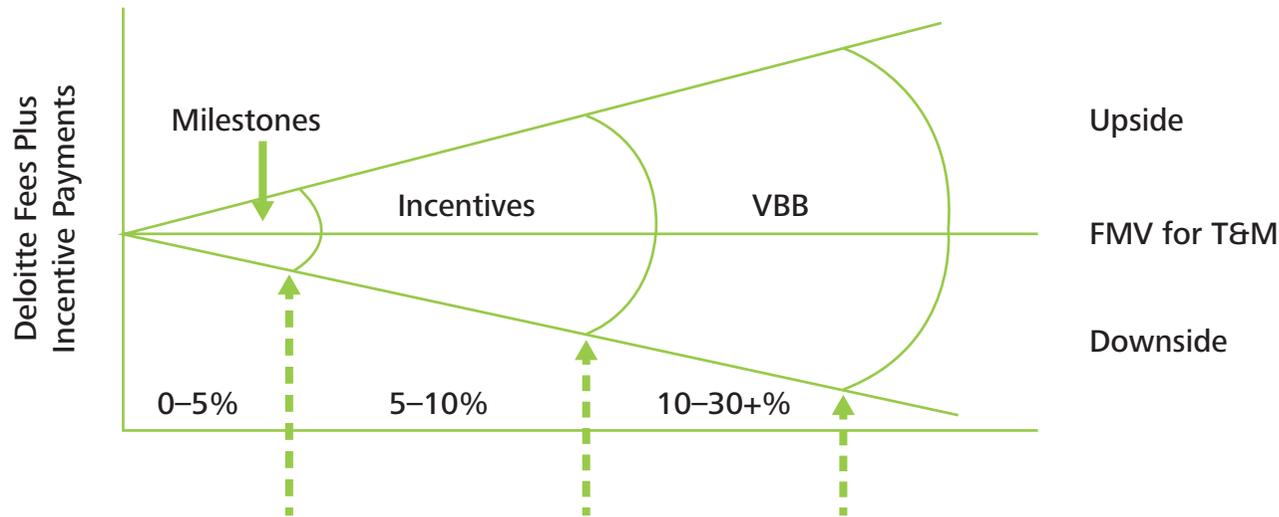
With a VBB arrangement, Deloitte supports you and funds part of the investment – reducing cost to the Client during the Investment Phase.



Results are generally higher and realised sooner. Deloitte receives a return on investment that is a share of the incremental earnings.

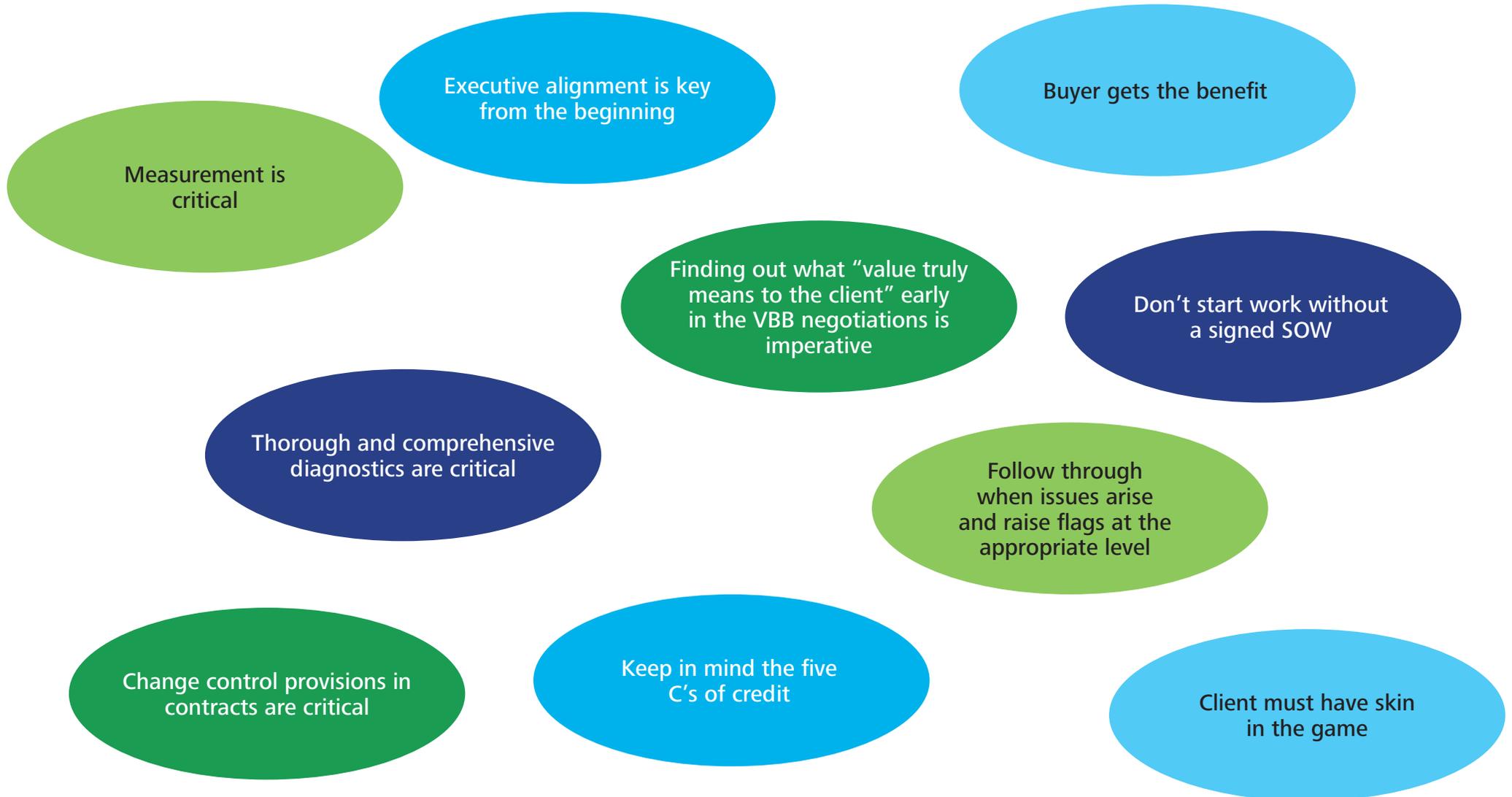
# Value Engagements – Calibrating Commercial Risk

The amount of our fees we will invest depends on multiple factors:



<b>Scope of Influence</b>	Discreet tasks only	Exclude major elements	Full scope	The more influence we have over the results, the more we'll put at risk
<b>Range of Impact</b>	Engagement Performance	Business Performance	Business Results	The more significant the impact of the work, the more we'll put at risk
<b>Reward Potential</b>	Limited Opportunity	Moderate Opportunity	Significant Opportunity	Too much risk for given reward = bad deal for Deloitte. Too much reward for given risk = bad deal for client and reduced likelihood of structuring deal/getting paid
<b>Client Factors</b>	Poor or Unclear	Moderate and Somewhat Clear	Strong and Well Understood	e.g., relationship, risk appetite, incentive alignment, experience with risk-based deals

# Value Engagements – Top Ten Tips



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