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Module Eight:
Practical CSM Framework Phase 6: Value Realization
Workbook Four

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In this final workbook for Module Eight we are focusing on Practical CSM Framework Phase 6: Value Realization, and in the first two videos we have explored the concepts of value realization from the perspective of promised and anticipated value. We then looked at *performance management*, starting with some of the problems associated with value realization and then going on to review the two aspects of measuring value, namely progress tracking and calculating financial returns. We went on to examine the steps in performance management and then looking at the first two of those steps in more detail, namely defining the outcomes requirements and the KPIs. Finally we discussed the need to convert indirect value into direct (ie financial) value so that the financial returns from the investment can be calculated and shown alongside the costs associated with it.

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Practical CSM Framework Phase 6: Value Realization – Agenda Video 3

➢ Using Consultative Questioning to Determine Outcome and KPI Requirements

➢ Reporting on Value Realization

 ➢ Progress towards Outcome Attainment

 ➢ Reporting on the Financial Returns from the Investment

In Workbook 4 we are going to continue our examination of performance management but this time we're going to focus on the practical side of things. There are two parts to this workbook. In the first half we will focus on how we can use consultative questioning techniques to help the customer's stakeholders determine and document their outcome and KPI requirements. In the second half we will examine how to report on value realization, which we will divide into reporting for progress tracking and reporting to show financial returns.

Using Consultative Questioning to Determine Outcome and KPI Requirements

We are now going to turn our attention to the challenge CSMs have of using consultative questioning skills to help the customer's stakeholders get to the point where they have agreed between themselves what outcomes they are looking for from their initiative, and have clearly defined and documented these outcome requirements for everyone to see, and then to determine what KPIs (key performance indicators) should be used to track and measure progress towards those outcomes, and how each KPI should be measured. This can be very simple and straightforward if the customer's stakeholders already know their outcome requirements and have already determined their KPIs and have already documented it all. On the other hand sometimes (even with large companies executing important initiatives that have senior decision makers as stakeholders) this is not the case – or not to the level of detail required for value realization purposes – and more work will need to be done by the CSM to help the customer's stakeholders get to the bottom of it.

It's difficult to provide a lot of explicit advice on consultative questioning, as it's really something that is best learned through shadowing and observing others, through being mentored by a more experienced colleague and ultimately of course through the cycle of practice followed by evaluation of performance that enables us to become expert at such skills as these over time. This being the case, we will use a fictitious example of a live customer success engagement as a way to show how this consultative questioning might be achieved.

Let's say that you are in a meeting with the customer's stakeholders, and you are discussing value realization with them. They have told you that an important outcome that they require from their initiative will be an increase in employee engagement. That's a great start point but now we need to think about KPIs for measuring it, and we'd ideally like to find ways to measure performance early on, in order to be able to analyze that performance and make changes to activities in order to bring the initiative back on track if that turns out to be necessary, and we'd also like to somehow turn that indirect value that the stakeholders have expressed into something more tangible and meaningful from a financial perspective, because then we can measure it in financial terms to help prove that the value being returned from the initiative is greater than the cost of the initiative.

As The CSM, we can ask our customer's stakeholders various exploratory questions to understand more about their situation and requirements. There are all sorts of questions we could ask; so let's use a fictitious scenario to examine some examples of the types of questions CSMs might pose to the stakeholders, along with some examples of the types of answer that might be given. I have chosen an employee engagement initiative that the customer has purchased our company's solutions to help them with as the scenario, and we (as the CSM) are talking to the customer's stakeholder (perhaps to the SPL for example) about this initiative:

How important is employee engagement to your organization?

SPL

It's critical to us. We rely upon our employees to perform what can sometimes be very hard work under difficult conditions, so we need them to be fully engaged in order for their performance to be sufficient.

CSM

The CSM starts off with a closed question to establish the relative priority level of this outcome of employee engagement that has been mentioned. His question is "*How important is employee engagement to your organization?*" and the SPL responds by saying "*It's critical to us. We rely upon our employees to perform what can sometimes be very hard work under difficult conditions, so we need them to be fully engaged in order for their performance to be sufficient.*"

In what ways will an increase in employee engagement impact your business?

SPL

Increased employee engagement should lead to increases in productivity which is currently very low, and this in turn will mean that we can get back on track to hit our target in terms of the numbers of clients we can provide our service to, which is what it's all about at the end of the day.

CSM

Now that the level of importance is defined, the CSM will want to start asking open questions to understand the situation as much as possible, and in particular to start exploring the types of value that the customer is looking for. His next question is "*In what ways will an increase in employee engagement impact your business?*". The SPL's response is "*Increased employee engagement should lead to increases in productivity which is currently very low, and this in turn will mean that we can get back on track to hit our target in terms of the numbers of clients we can provide our service to, which is what it's all about at the end of the day.*"

How much or what level of employee engagement currently exists?

SPL

We're not really measuring it as such, but we know from our line managers and job satisfaction surveys that employees are generally not as happy in their role as we'd like them to be. And of course we can see from the performance statistics that we are not hitting performance targets in terms of numbers of clients helped, and in fact that statistic has gone down over the past eighteen months, when really we needed it to go up.

CSM

Having gained some valuable information about the customer's outcome needs and challenges, the CSM asks a closed question to try to establish the current baseline. The CSM asks "*How much or what level of employee engagement currently exists?*" to which the SPL replies "*We're not really measuring it as such, but we know from our conversations with line managers and also from our general annual employee job satisfaction surveys that employees are generally not as happy in their role as we'd like them to be. And of course we can see from the performance statistics that we are not hitting performance targets in terms of numbers of clients helped, and in fact that statistic has gone down over the past eighteen months, when really we needed it to go up.*".

The CSM now decides to try to understand the scale of the challenge, and to do this he asks: "*Do you have a feel for what level of employee engagement increase your company needs to experience?*" The SPL's reply in this case is "Well… no, we haven't really set a specific target for it, but we do know it definitely needs to increase.".

So if I understand you correctly, you know that employee engagement needs to be increased in order to increase productivity levels, which will in turn increase the numbers of clients served, but you do not as yet have a way of specifically measuring employee engagement, or a specific goal in terms of what level of employee engagement is enough. Is that right?

CSM

SPL

Yes that's correct

The conversation has gone well so far, and the CSM thinks it would be a good idea to consolidate this part of the conversation by using a paraphrased question to summarize what the SPL has told him and check that he has understood her properly. To do this he asks: "*So if I understand you correctly, you know that employee engagement needs to be increased in order to increase productivity levels, which will in turn increase the numbers of clients served, but you do not as yet have a way of specifically measuring employee engagement, or a specific goal in terms of what level of employee engagement is enough. Is that right?*". The SPL confirms he has indeed got it right by saying "*Yes that's correct.*".

Part 2: Determining General Outcome Requirements

What you hopefully can see from this not untypical conversation is that as things stand this particular customer (or at least this particular stakeholder) has a basic understanding of what immediate outcome (engaged employees) and business outcome (increased number of clients served) is required from their initiative, but they don't really know how to measure it.

Let's continue the conversation, and perhaps the CSM can help the customer to find a way to measure progress towards the results they will be getting from their planned initiative:

Let's talk about the ultimate results you want to see from this initiative, which you have explained is increases in employee productivity, leading in turn to an increase in the number of clients you provide your service to. Do you have targets for this?

CSM

SPL

Oh yes, absolutely we have targets for this, and the department is under a lot of pressure to hit those targets in this upcoming financial year, because we've failed to hit our targets for the last two years running.

The CSM kicks off the conversation with a direct, closed question, asking the SPL about existing targets. This makes sense, because if the targets (ie the outcomes) are already known then this will make things a lot easier all round. His question is "*Let's talk about the ultimate results you want to see from this initiative, which you have explained is increases in employee productivity, leading in turn to an increase in the number of clients you provide your service to. Do you have targets for this?*" and the SPL replies by saying "*Oh yes, absolutely we have targets for this, and the department is under a lot of pressure to hit those targets in this upcoming financial year, because we've failed to hit our targets for the last two years running.*".

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OK, so can I take it that numbers of clients serviced is something you measure? How often is this measured and do you know what the current level is and also what your target is?

SPL

Yes we do measure the number of clients serviced, and this is one of the main numbers we report up to Head Office each month. We have an annual target which last year was set at 25,000 and which we missed by about 15% coming in at 21,400. This year's target was actually higher at 26,000, but our levels of service have remained static at just under 1,800 per month on average, although that figure does fluctuate seasonally as we're busiest in the winter months.

The CSM now asks a follow up question to explore the matter further and gain more information. His next two questions come together: "*OK, so can I take it that numbers of clients serviced is something you measure? How often is this measured and do you know what the current level is and also what your target is?*" The SPL responds with some great, detailed information about how things are measured currently. Her reply is "*Yes we do measure the number of clients serviced, and this is one of the main numbers we report up to Head Office each month. We have an annual target which last year was set at 25,000 and which we missed by about 15% coming in at 21,400. This year's target was actually higher at 26,000, but our levels of service have remained static at just under 1,800 per month on average, although that figure does fluctuate seasonally as we're busiest in the winter months.*".

OK, so if my math is right, with a target this year of 26,000 and a projected actual figure of around 21,400 you are currently on course for a 20% shortfall this year, is that right?

SPL

Yes that's right, and this is why we have purchased your service, to help us to reduce this shortfall by at least a half this year so down to a 10% shortfall, and our goal is to hit 100% of next year's target, although we do not yet know what that target will be.

CSM

The CSM wants to make sure that he understands the meaning of these targets, and that he has a feel for their relative difficulty to achieve. He does a quick spot of arithmetic and then checks his math by asking: "*OK, so if my math is right, with a target this year of 26,000 and a projected actual figure of around 21,400 you are currently on course for a 20% shortfall this year, is that right?*". The SPL's reply is in the affirmative. She says "*Yes that's right, and this is why we have purchased your service, to help us to reduce this shortfall by at least a half this year so down to a 10% shortfall, and our goal is to hit 100% of next year's target, although we do not yet know what that target will be.*".

So at this stage, what the CSM has learned is that the customer takes monthly measurements of how many clients they provide a service to, which varies seasonally but which they average out on an annual basis. He has learned that their baseline measurement is an average of 18,000 clients serviced per month. He has also learned that they have two outcome requirements; one for the current financial year, which is to attain 90% of the target set by Head Office, where they are currently on track to attain only 80%, and one for the next financial year, which is to attain 100% of that year's (as yet undisclosed) target.

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Part 3: Securing the Need for Early Indicator KPIs

We now have a way of measuring outcome results, which is great. However it is entirely likely that this will be a lagging indicator from the perspective of employee engagement, since employees will need to be "more engaged" first and presumably for a while before any real performance changes start to make appreciable differences to productivity levels. So whilst it's perfect for measuring actual outcomes and for proving the ultimate value, measuring numbers of clients serviced is unlikely to be a good early indicator of change because it won't start to happen in significant numbers until later on in the initiative.

Having an early indicator of change would be very useful, since otherwise there is no data on which to know whether the initiative is working or not in its early stages, and therefore it will be difficult or even impossible for the customer's stakeholders to make decisions regarding amending, refining and improving their initiative to ensure that it gets on track and remains on track. As the CSM we should recognize this situation when it occurs and take it on ourselves to explore the possibilities of finding an early indicator. Remember however that not all customer stakeholders will share this understanding, and it may need to be explained to them. Let's continue the conversation with the customer's stakeholders:

May we go back to what you were telling me earlier in our conversation about how you know that employee engagement is currently low because of the conversations you have with line managers and because of the annual job satisfaction survey?

SPL

Yes sure.

CSM

To begin this part of the conversation, the CSM explains what he wants to discuss next, to make sure the customer's stakeholder understands what is being discussed. The CSM asks: "May we go back to what you were telling me earlier in our conversation about how you know that employee engagement is currently low because of the conversations you have with line managers and because of the annual job satisfaction survey", and the SPL agrees to doing this.

I am assuming that it will take a certain amount of time to increase employee engagement by a significant enough amount to make a difference, and then a further amount of time after that for the effects of this increased employee engagement to start to show up in the measurements in terms of actual numbers of clients serviced. Is that right?

Yes that is the case, it will inevitably take time for the changes to show up – probably six months I should think

SPL

CSM

The CSM now wants to help clarify the situation with the stakeholders in order to focus them on the challenge of finding a leading indicator, ie an indicator that will help to track early indications of progress. To do this he makes a statement which he follows up with a closed question to try to gain their agreement on what needs to be done. He says: *"I am assuming that it will take a certain amount of time to increase employee engagement by a significant enough amount to make a difference, and then a further amount of time after that for the effects of this increased employee engagement to start to show up in the measurements in terms of actual numbers of clients serviced. Is that right?"*. The SPL replies by saying "*Yes that is the case, it will inevitably take time for the changes to show up – probably six months I should think*".

What I think we ideally need then, is something other than the numbers of clients serviced that we can measure on either a weekly or monthly basis. We want something that will help us to get a feel for the level of change that is happening earlier on during the first few critical months of the initiative, so that we can either be sure that the initiative is working, or if necessary take corrective actions to fix any problems. Does that make sense to you?

Yes that does make sense.

The problem is clearly exposed, so the CSM can now address the issue directly, again using a statement with a closed question to try to secure commitment. He says: "*What I think we ideally need then, is something other than the numbers of clients serviced that we can measure on either a weekly or monthly basis. We want something that will help us to get a feel for the level of change that is happening earlier on during the first few critical months of the initiative, so that we can either be sure that the initiative is working, or if necessary take corrective actions to fix any problems. Does that make sense to you?*". Again the SPL answers in the affirmative.

At this stage as the CSM we have managed to get the stakeholders onboard in terms of understanding *why* an early indicator is important, and we are now ready to move the conversation forwards into a debate or brainstorming session to explore what that indicator or those indicators could or should be. Note that it may well be the case at first that the stakeholder or stakeholders you are talking to cannot come up with any ideas, or think that there are no suitable indicators that can be used.

Part 4: Selecting Early Indicator KPIs to Track Progress

Remember that whereas for some stakeholders with more of a business analysis and business strategy and planning background, the process of selecting KPIs might be quite comfortable for them. However for other stakeholders who do not have that sort of background or experience, they may feel (or be) completely out of their depth with this, and they may struggle to make sense of the situation and understand how to think about it. Also do bear in mind that you may not have the right stakeholder or stakeholders in front of you. The SPL for example might know very little about the specifics of this particular group of employees, what might make them more or less engaged and how that might be measured. On the other hand department heads, team leaders, process owners, HR specialists and so on might be much better informed and better able to assist. As the CSM then, you will need to decide how to play it, ie whether to discuss it in this meeting, or hold another meeting to which relevant other stakeholders will be invited

Assuming they have the right person or people in the room, the CSM can go ahead with a brainstorming session, perhaps by asking an open question such as "*What are the possible things we might be able to measure, that could potentially give us this early indication of increased employee engagement?*". In this example the SPL comes up straight away with a possible suggestion, which sometimes happens, although on other occasions it might take more time spent thinking about the issue first. Her reply is "*Could we perhaps use our annual employee satisfaction survey in some way?*".

Yes that's a good idea, however of course if it is only completed on an annual basis then we will not be able to use it to take regular measurements. Could you perhaps conduct a shorter, more informal survey of a small, representative subset of your employees on a more regular basis - perhaps once a month – where you just ask questions relating to their engagement levels?

Yes, that might be possible, although we'd have to get HR involved of course.

Whilst using an annual survey will not itself provide early indications of success, since of course it's only conducted on an annual basis, the concept of surveying end users is a good one in principal. The CSM explains this, and proposes a counter suggestion that builds on the SPL's own suggestion by saying "*Yes that's a good idea, however of course if it is only completed on an annual basis then we will not be able to use it to take regular measurements. Could you perhaps conduct a shorter, more informal survey of a small, representative subset of your employees on a more regular basis - perhaps once a month – where you just ask questions relating to their engagement levels?*". The SPL is basically happy with this amendment to her idea, though she does point out a minor issue with it. Her reply is "*Yes, that might be possible, although we'd have to get HR involved of course.*".

Great. Let's note it down and continue brainstorming for now. What other ways might of measurement might give us an early indication of increased employee engagement?

SPL

We could ask the managers if they are seeing any changes occurring.

CSM

The team now have one idea for a KPI that might potentially be used as an early indicator of progress. Maybe there are others, so the CSM opens up the conversation again to continue exploring. He says *"Great. Let's note it down and continue brainstorming for now. What other ways might of measurement might give us an early indication of increased employee engagement?"*. Again, the SPL comes up with an idea. This time she says *"We could ask the managers if they are seeing any changes occurring."*. In addition to coming up with a second and potentially even better suggestion, note the subtle change in the SPL's language. In her previous suggestion she phrased it as a question, indicating that perhaps she was unsure if the suggestion was a good one or not. This time however she couches suggestion as a statement, which indicates that potentially she is more confident now that she "gets" the concepts behind identifying early indicators and is now fully engaged in the brainstorming session.

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I think that's a great idea. Perhaps we could create a specific questionnaire that asked line managers to rate their team members' engagement levels in a number of critical areas from say 0 to 10, and then get them to complete the same questionnaire each month. Would something like that work?

SPL

Yes I think that might work. Again, we'd need to consult with HR on it, but I think they'd be happy with us doing that.

CSM

Again, the CSM explores this option a little more, and he uses his experiences of similar situations in previous engagements to propose a way in which the SPL's suggested KPI might be measured. He says: "*I think that's a great idea. Perhaps we could create a specific questionnaire that asked line managers to rate their team members' engagement levels in a number of critical areas from say 0 to 10, and then get them to complete the same questionnaire each month. Would something like that work? If so we could easily create it electronically and automate the process. What do you think?*" Her reply is in the affirmative. She says "*Yes I think that might work. Again, we'd need to consult with HR on it, but I think they'd be happy with us doing that.*".

Alright, let's document these two ideas we have had so far and continue brainstorming for further ideas...

...

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...What other ways might of measurement might give us an early indication of increased employee engagement?

SPL

CSM

The brainstorming session is going well, so perhaps at this stage the CSM will decide to document the two current ideas on the whiteboard or whatever other presentation tool is handy. After this, the conversation could be continued if necessary.

Hopefully you have grasped the idea of how the consultative questioning approach works. We will leave it there, but in the above scenario the real CSM might continue the brainstorming session to explore further options, and might end up with perhaps two or three more ideas to add to the list. The point of course is that the end result might be two to five well thought out KPIs that can be measured at regular intervals, at least some of which will provide early indications of change that will ultimately lead to additional clients being serviced.

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Part 5: Measuring the Financial Value

What we have got so far is a way to track progress towards outcomes attainment. What we may not yet have is a way of measuring the financial value from attaining those outcomes. Obviously it depends upon what the outcomes are. If the outcomes lead to direct financial value (ie if they directly create increases in revenues or reductions in expenditures) then we need go no further because no conversion from some other meaning into a financial meaning is required. A lot of the time however this is not the case. The outcome requirement in the scenario we have been discussing is an example of an outcome that is currently measured in employee engagement levels, not in revenues earned. If financial value is required to be shown then a conversion needs to be applied so that movements in the number of clients being serviced can be equated to movements in financial value being created.

Would I be right in saying it would be helpful to have a way to show value from a financial standpoint, especially since I know that you need to report progress for Phase One of your initiative back to your senior management team, and that your CFO has clearly stated that the project must show a net positive return on investment in Phase One in order for the company to consider funding Phase Two onwards?

SPL

CSM

Yes, there's definitely pressure place upon us by our senior management team to prove the return on investment for Phase One. But we're not sure how this should be done, since what we are measuring is customer engagement rather than financial value.

The CSM now wants to explore the idea of financial value, with a view to working out how this might be measured and calculated. He needs to explain the requirement and then open up the conversation in the new direction. He starts off by picking up on something the SPL told him earlier in the conversation about targets. He says "*Would I be right in saying it would be helpful to have a way to show value from a financial standpoint, especially since I know that you need to report progress for Phase One of your initiative back to your senior management team, and that your CFO has clearly stated that the project must show a net positive return on investment in Phase One in order for the company to consider funding Phase Two onwards?*". The SPL replies by saying "*Yes, there's definitely pressure place upon us by our senior management team to prove the return on investment for Phase One. But we're not sure how this should be done, since what we are measuring is customer engagement rather than financial value.*".

Agreed. What we have to do is find a way to link improvements in employee engagement to revenues, right?

Yes.

The CSM now wants "permission" to explore this area further, so he says: "*Agreed. What we have to do is find a way to link improvements in employee engagement to revenues, right?*" to which the SPL agrees.

Let me summarize where we are and what we need to do. What we already know is that increases to employee engagement levels will lead to increases in numbers of clients being serviced by your department. So, is there an average revenue or profit value that we can place on each client that gets serviced?

SPL

Yes. It does vary a lot from client to client, but we do have an average value, which is $375 per client serviced.

CSM

The CSM now explains what he thinks they need to do, based upon his experiences of resolving similar challenges with previous customer engagements, and then he asks the SPL for her ideas. He says "*Let me summarize where we are and what we need to do. What we already know is that increases to employee engagement levels will lead to increases in numbers of clients being serviced by your department. So, is there an average revenue or profit value that we can place on each client that gets serviced?*". The SPL is able to answer this in the affirmative and she tells him "*Yes. It does vary a lot from client to client, but we do have an average value, which is $375 per client serviced.*".

If your current run rate remains static at 1,800 clients serviced per month, then effectively your department's revenues per month would be around $375 x 1,800, which is $675,000 per month, or $8.1m per annum. However, if we look at your target of 26,000 clients per annum, then 26,000 x $375 comes to $9.75m, which in financial terms leaves a shortfall of $1.65m. Have I got that right?

Yes, that sounds right.

More math is needed at this point! After a few calculations, the CSM asks the SPL to confirm his work. He says "*If your current run rate remains static at 1,800 clients serviced per month, then effectively your department's revenues per month would be around $375 x 1,800, which is $675,000 per month, or $8.1m per annum. However, if we look at your target of 26,000 clients per annum, then 26,000 x $375 comes to $9.75m, which in financial terms leaves a shortfall of $1.65m. Have I got that right?*". She follows his logic so she says "*Yes, that sounds right*".

So what we need to do then is determine the link between increases or decreases in employee engagement levels and increases or decreases in numbers of clients serviced. What data do you have on that?

Well we don't actually calculate that, but we know that the link must exist, so I guess we could review the last three or four years' historical data to determine what that link is.

Now that the math is agreed, the CSM can start to suggest a possible way forwards for calculating the financial value that gets generated by the employee engagement initiative, assuming there is any data that could be used. He says "*So what we need to do then is determine the link between increases or decreases in employee engagement levels and increases or decreases in numbers of clients serviced. What data do you have on that?*". She replies "*Well we don't actually calculate that, but we know that the link must exist, so I guess we could review the last three or four years' historical data to determine what that link is.*".

Hopefully you see where this conversation is going. Perhaps (as is the case here) the data is not to hand, but there should be a way for the customer to calculate a financial value for each indirect value. In this instance perhaps after doing sufficient homework this company finds that if they measure employee engagement on a scale from 0 to 10, then every integer increase in employee engagement (ie an increase from say a current value of 6 to a new value of 7) equates to a 5% increase in numbers of clients serviced.

Since the "per client serviced" value is known, there is now a way of linking employee engagement levels with revenues via numbers of clients serviced. By creating this link, we have established a way to calculate and show outcomes from a financial perspective, which means that we can create a cash flow spreadsheet that compares expenditures on the initiative with additional revenues created by the initiative to calculate the value being returned. Or if the customer prefers, and if there is a known value for profitability (for example 40% of revenues) then the spreadsheet could compare costs with profits to show a more accurate picture of the financial returns on the investment being made.

Please note that some customer stakeholders are going to need a lot more work than others to first of all convince that such a link exists (even though patently it must do, or they wouldn't be undergoing the initiative in the first place) and secondly to put a value on it. Much of this comes down to previous experiences (and especially what job roles the stakeholder has held) and personality type (some people will be much more comfortable with making intuitive leaps of logic, if I can put it that way, than others will be, for example.)

Reporting on Progress towards Outcome Attainment

➢ The CSM should make sure that measurement are taken and the data is stored

➢ The data is often in the format of (or can easily be converted to) a series of integers or percentages

➢ The customer's key stakeholders must decide how much movement towards outcome attainment each integer or percentage change will represent
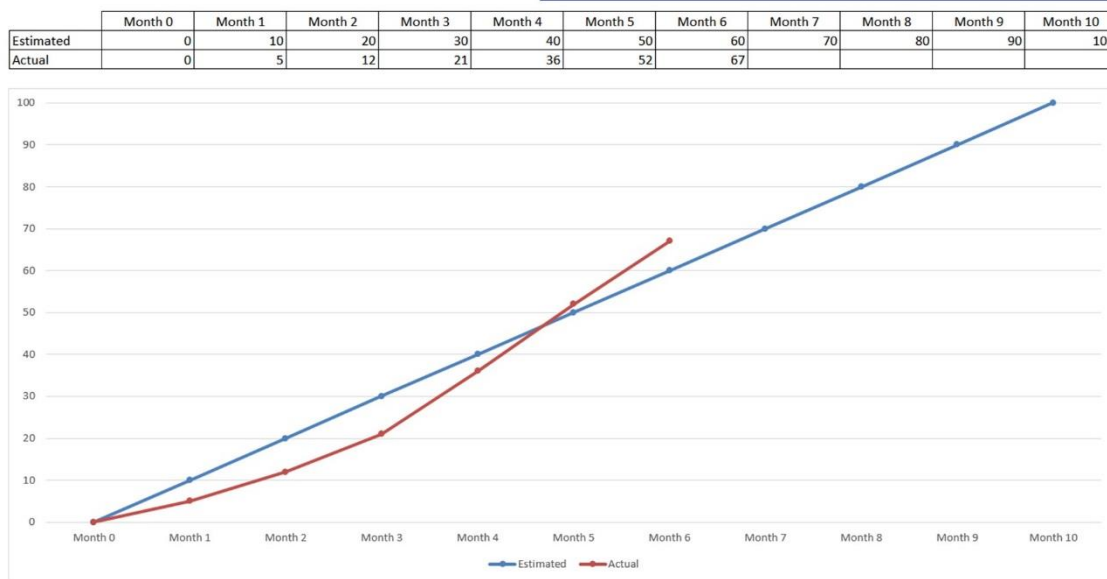
Once the CSM has a definitive list of outcome requirements together with a list of data to collect to track progress towards their attainment (ie KPIs) and also ways to collect it (ie measurements) such as was brainstormed in the above scenario, this information can be documented and stored, ready for use. As the initiative moves forwards the measurements can then be taken and collected in a database ready for analysis. It is oftentimes not the CSM's job to take these measurements nor to record or store the data, but once again the CSM should make sure that these activities are occurring and wherever possible that they have access to the data.

Very commonly the date that is being measured is in the format of (or can easily be converted to) a series of integers or percentages that indicate a ratio or level of increase or decrease in whatever is being measured. So for example the measurement might be increases or decreases in customer satisfaction levels that are measured from 0 to 10, or increases or decreases in utilization of a collaboration tool, measured as a percentage, or increases or decreases in the percentage of customer problems that are resolved within 24 hours of being reported, or increases or decreases in the number of days taken to received goods from suppliers from the time they were ordered, and so on.

The point is that all of these measurements can be manipulated in a way that enables them to be viewed on a scale where 0 is the baseline and positive numbers represent positive change (ie progress towards outcome attainment) and negative numbers represent negative change (ie progress away from outcome attainment). What the customer's key stakeholders need to agree is how much each value that is measured equates to how much movement on the chart that show progress towards or away from

outcome attainment. This agreed movement can then be used to create the milestones on the journey towards outcome attainment.

	Month 0	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10
Estimated	0	10	20	30	40	50	60	70	80	90	100
Actual	0	5	12	21	36	52	67				

You may recall this chart that we used in Module 7 when we were discussing Adoption. We will use it again here, but for a different purpose:

Maybe the vertical axis represents the percentage of improvement in the performance of a process, compared with the level of performance experienced prior to the start of the initiative, and the horizontal axis of course denotes time, so if a measurement is taken at the end of each month then those measurements can be plotted on the chart.

Maybe this particular process that is being measured is for example the end-to-end process of taking a customer's order, processing the payment, picking and packing the items they have ordered and shipping it out to them. Perhaps the target outcome is to reduce the time taken to perform this end-to-end process from the current level of 30 days to just 15 days within ten months. In other words the prior level of performance (as seen by the measurement taken at "Month 0" at the start of the initiative) is 0%, which therefore indicates a process time of 30 days, and the desired level of performance (as seen by the measurement taken at "Month 10" at the end of the initiative) is 100%, which therefore indicates a process time of 15 days. The stakeholders believe that the improvement made each month is likely to be fairly linear each month (and thus it will be a good measurement of progress towards outcome attainment), and this is represented by the blue line which connects each milestone that needs to be attained by the end of each month if the initiative is going to succeed in achieving the full outcome by the end of the ten month period.

The red line on this chart connects the "actual" data points that have been measured thus far in this initiative, which in this case happens to be up to the end of Month 6. As can be seen by the angle of the connecting lines during the first three months, improvements were occurring (because the line never dips downwards) but were nevertheless not being made at a fast enough rate to enable full outcome attainment. During months 3 to 6 however, the angle of the line is now steeper than that of the baseline, indicating that improvements in the delivery time were not only occurring but were occurring at a faster rate than necessary. This causes the red (actual) line to cross the blue (projected) line during the second half of month 4, so that from this point onwards the initiative can be said to be ahead of schedule in terms of its ability to deliver the full outcome by the end of month 10.

Reporting on the Financial Returns from the Investment

➢ To calculate the financial value of an initiative, both the expenditures and the incomes from the initiative must be known (or at least estimated)

➢ Financial decision makers usually require some sort of financial estimate of expenditure and income to be calculated before a Yes/No decision can be made

Of course it's not always possible to know absolutely every detail of every cost in advance – particularly for longer lasting and more detailed business initiatives, but nevertheless, the costs need to be calculated as best as possible ahead of time, so that a go/no go decision can be made based upon (where possible) accurate data and (where necessary) sensible assumptions. But if you think about it, the expenditure is only half of the story, the other half of course being the income. Half of a story is as dissatisfying to a financial decision maker as it is to a child being given a bedtime story. If they want the financial decision makers to be happy, the person or group of people who are writing the business case need to give them the *whole* story, not just half of it.

The other half of the equation is the financial value that is (or will be) returned by the initiative. Sometimes this is easy to calculate. For example, let's say that the initiative is an advertising campaign that is similar to other advertising campaigns that have previously been run, and as such a similar level of performance is expected to be attained from this campaign compared to those previous campaigns.

	A	B	C	D	E
1		Expenditure	Increased Revenues	Net Cash Flow	Cumulative NCF
2	Week 0	20,000	-	- 20,000	- 20,000
3	Week 1	20,000	-	- 20,000	- 40,000
4	Week 2	20,000	12,000	- 8,000	- 48,000
5	Week 3	20,000	14,000	- 6,000	- 54,000
6	Week 4	20,000	18,000	- 2,000	- 56,000
7	Week 5	20,000	22,000	2,000	- 54,000
8	Week 6	20,000	25,000	5,000	- 49,000
9	Week 7	20,000	30,000	10,000	- 39,000
10	Week 8	-	25,000	25,000	- 14,000
11	Week 9	-	22,000	22,000	8,000
12	Week 10	-	18,000	18,000	26,000
13	Week 11	-	14,000	14,000	40,000
14	Week 12	-	12,000	12,000	52,000
15	TOTAL	160,000	212,000	52,000	
16					
17				Profit	52,000
18				ROI	133%
19					

Maybe the company can produce a simple cash flow spreadsheet to show both when the (probably known for certain in advance) costs occur and how much they are, together with when the (not known for certain but anticipated based upon previous performance) revenue increases from additional sales will likely occur and how much they will be. It might look something like this:

In this simple cash flow we see the costs and the increased revenues for each week of the campaign shown in columns B and C respectively. Then we see the net of these two columns (ie revenues minus expenditures) for each week shown in column D and the cumulative net cash flow (ie each new week's net cash flow added to the previous amount to get a running total) in column E.

Simple math shows us that (always assuming these figures are sufficiently accurate), the amount of profit returned by the proposed advertising campaign is going to be around 52,000, which can also be shown as an ROI of 133% (which is income divided by expenditure and then expressed as a percentage).* Of course as with most projected future figures, the actual values that occur will differ somewhat. Investment decision makers will know this, and may want to know what the level of accuracy is and how you have determined this. So for example, maybe the analysts who created the business case consider the increased revenues to be accurate to within plus or minus 10%, and (as we have already said) they have based their revenue figures upon the results of previous similar advertising campaigns. Generally of course all or at least most of the larger costs associated with an initiative are known in advance since estimates and/or quotations for capital and ongoing expenditures will already have been researched.

*Note that many analysts will more properly calculate and show the ROI as being 33% rather than 133%, however unless I am presenting to financial experts, I prefer to show it as 133% since if you think about it, what has been returned by the investment is indeed 100% of the investment plus another 33%. You may want to check what your customer's stakeholders do when they calculate ROI and then perform your calculations accordingly.

Of course this is just a very simple cash flow model. It doesn't for example allow for any reductions in the future value of money compared to the value of money right now, which is what a discounted cash flow would do, showing new present values rather than simple cash flow values, but that's an advanced financial modelling technique that is beyond where we will get to in this module.

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	Expenditure (est)	Expenditure (act)	Increased Revenues (est)	Increased Revenues (act)	Net Cash Flow (est)	Net Cash Flow (act)	Cumulative NCF (est)	Cumulative NCF (act)
Week 0	20,000	20,000	-	-	- 20,000	- 20,000	- 20,000	- 20,000
Week 1	20,000	20,000	-	-	- 20,000	- 20,000	- 40,000	- 40,000
Week 2	20,000	20,000	12,000	9,656	- 8,000	- 10,344	- 48,000	- 50,344
Week 3	20,000	20,000	14,000	12,340	- 6,000	- 7,660	- 54,000	- 58,004
Week 4	20,000	20,000	18,000	20,200	- 2,000	200	- 56,000	- 57,804
Week 5	20,000	20,000	22,000	28,400	2,000	8,400	- 54,000	- 49,404
Week 6	20,000	20,000	25,000	24,030	5,000	4,030	- 49,000	- 45,374
Week 7	20,000	20,000	30,000	27,650	10,000	7,650	- 39,000	- 37,724
Week 8	-	-	25,000	TBA	25,000	TBA	- 14,000	TBA
Week 9	-	-	22,000	TBA	22,000	TBA	8,000	TBA
Week 10	-	-	18,000	TBA	18,000	TBA	26,000	TBA
Week 11	-	-	14,000	TBA	14,000	TBA	40,000	TBA
Week 12	-	-	12,000	TBA	12,000	TBA	52,000	TBA
TOTAL	160,000	160,000	212,000	122,276	52,000	TBA		

Profit (Estimated)	52,000
ROI (Estimated)	133%
Profit (Actual)	TBA
ROI (Actual)	TBA

The cash flow we have previously looked at here may have been created at the start of the initiative, or even during the development of the business case prior to the initiative being approved. How the CSM can use a simple cash flow like in their regular reporting on progress with customer stakeholders is to create additional columns for "actual" values to display alongside the "estimated" ones, which might by the end of week 7 look like this:

Of course at this halfway-ish stage in the initiative, the final results are not in and so the actual profit and ROI from the initiative cannot yet be calculated. But at this stage, what customer stakeholders will want to know is "are we on track to hit our targets?" and in this instance the answer is "yes".
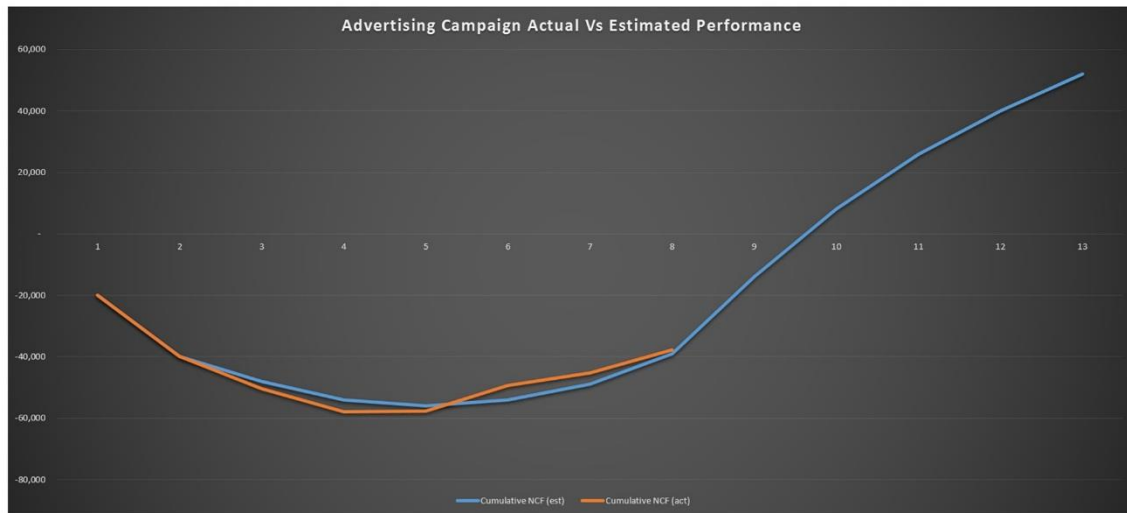
This could probably be made much clearer to them by creating a chart that because of its visual format, makes the analysis of the information much easier for stakeholders to understand what is happening, which could for example look like this:

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	A	B	C	D	E	F	G	H	I
1		Expenditure (est)	Expenditure (act)	Increased Revenues (est)	Increased Revenues (act)	Net Cash Flow (est)	Net Cash Flow (act)	Cumulative NCF (est)	Cumulative NCF (act)
2	Week 0	20,000	20,000	-	-	- 20,000	- 20,000	- 20,000	- 20,000
3	Week 1	20,000	20,000	-	-	- 20,000	- 20,000	- 40,000	- 40,000
4	Week 2	20,000	20,000	12,000	9,656	- 8,000	- 10,344	- 48,000	- 50,344
5	Week 3	20,000	20,000	14,000	12,340	- 6,000	- 7,660	- 54,000	- 58,004
6	Week 4	20,000	20,000	18,000	20,200	- 2,000	200	- 56,000	- 57,804
7	Week 5	20,000	20,000	22,000	28,400	2,000	8,400	- 54,000	- 49,404
8	Week 6	20,000	20,000	25,000	24,030	5,000	4,030	- 49,000	- 45,374
9	Week 7	20,000	20,000	30,000	27,650	10,000	7,650	- 39,000	- 37,724
10	Week 8	-	-	25,000	29,900	25,000	29,900	- 14,000	- 7,824
11	Week 9	-	-	22,000	18,455	22,000	18,455	8,000	10,631
12	Week 10	-	-	18,000	15,777	18,000	15,777	26,000	26,408
13	Week 11	-	-	14,000	18,765	14,000	18,765	40,000	45,173
14	Week 12	-	-	12,000	14,500	12,000	14,500	52,000	59,673
15	TOTAL	160,000	160,000	212,000	219,673	52,000	59,673		
16									
17						Profit (Estimated)	52,000		
18						ROI (Estimated)	133%		
19									
20						Profit (Actual)	59,673		
21						ROI (Actual)	137%		

Just to complete the sequence for you, by the end of the period, the cash flow and chart might look as follows:
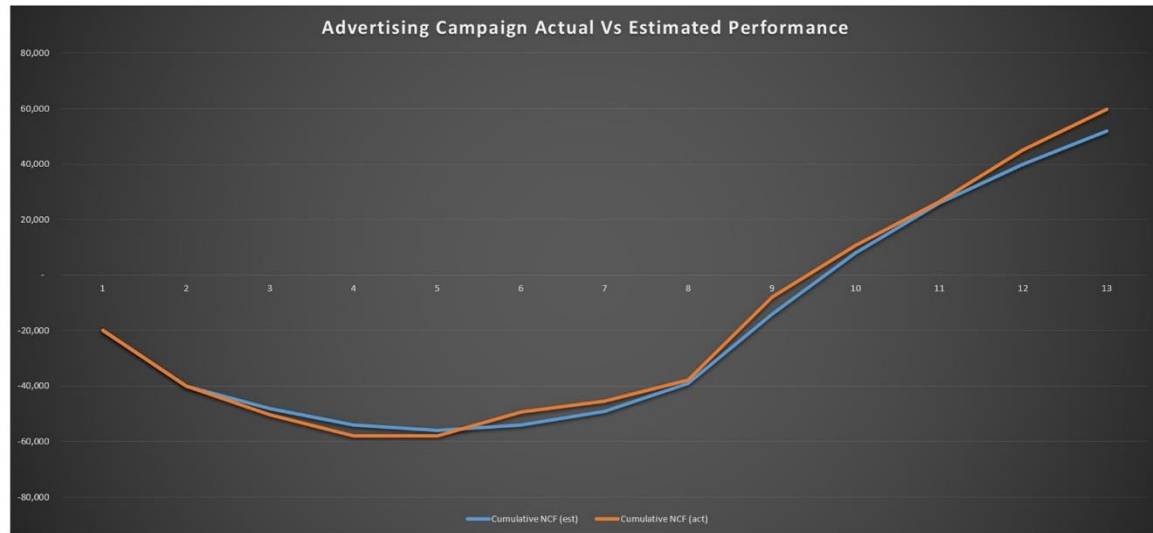
And the final chart with the completed actual data points would therefore look like this:

The combination of both estimated and actual data in the cash flow spreadsheet and the additional graphical representation of the data in the chart provides excellent information to include within the regular reports that the CSM creates and presents (or is involved in creating and presenting) to customer stakeholders. Stakeholders are much more easily reassured when they see the data shown in this sort of format, and the results can of course be discussed and where necessary any corrective actions to get the initiative back on track can be agreed, using the data as the start point for these discussions.