



Defining the Business Value from Your Technology Investment

Defining the Business Value from Your Technology Investment

Most decisions on technology investment, like decisions in other business areas, are often tied to expected benefits or value. Typically, these benefits are identified as cost savings, greater efficiencies, “best practices”, or more sales. But how can you isolate the true costs saved, from other cost components? How exactly *do* best practices yield new value for an organization? Too often the value promised by adopting new technology is misinterpreted or misunderstood by the business. The result: mismanaged expectations or, even worse, business decisions made with faulty information.

The value promised by adopting a new technology should always be placed in the context of quantifiable business objectives and their priorities to the organization. The questions to keep asking are how does this technology contribute to meeting an objective, and what is the measure of this contribution? More importantly, what measures matter to the executives reviewing investment decisions? Building a case for the value promised by adopting a particular technology should clearly show how that technology supports the priorities of the business. In this way executives can make investment decisions that have the greatest impact on the performance of the organization.

Frequently, quantifying this value requires examining not only the business area directly impacted by the technology, but how business processes in other areas are impacted as well. The following steps can help identify the business value from your technology investment.

1. **“Value” only makes sense if it’s been quantified.** These days, investments can no longer be justified on the basis of concepts such as “this will allow us to enter new markets”, or “improved decision making.” While valid, concepts alone can’t assess the impact of technology on business objectives. Estimates need to be made of how much impact a technology will have on business performance. These estimates are not subjective. They are based on the experience of IT professionals and business users who have seen similar projects in the past. Companies often use a range of estimates – high, medium, and low – as a way to manage the uncertainty of quantifying business value.

An additional benefit of quantifying the value of new technology is that it helps a company actively manage all returns on its collective investments. Companies can move beyond the exercise of managing the return on investment (ROI) on individual projects and adopt the more advanced practice of managing a portfolio of projects and make investment decisions that maximize overall ROI for the company and its shareholders.



2. **Value in one business area often impacts others.** The value from adopting technology in one business area often affects others as well. By following the overall impact of a technology investment, it's often possible, and even probable, that the sum of the changes to multiple areas has a greater value than originally conceived. Conversely, it can happen that the value realized by process improvement in one area actually is negated by the impact on other areas. In this case there is no overall gain from adopting the technology and its impact on the organization's goals is negated.



3. **Value is not always in savings.** Reduced costs, reduced time, fewer resources needed are common benefits expected for technology investments. But technology can also generate value can come from exploiting opportunities. Using technology investment as an enabler can create greater value for an organization than simply utilizing technology to cut cost. There are even situations where a technology investment can positively impact both the top line and bottom line. For example, an integrated marketing management system can help consumer retailers generate new revenue by increasing the amount of average purchase, while reducing the overall costs of customer communications. An overly narrow focus on savings can mean your organization is leaving value on the table.

4. **Value must be measured in a timeframe.** This should be done for two reasons. First time has value and long term benefits must be discounted since their value to the organization is not immediate (the "time value of money"). Secondly, there is greater risk to realizing benefits expected to be delivered in the future. The longer the timeframe to realizing benefits, the greater the likelihood other events can diminish the expected benefits. Future benefits can be discounted either by decreasing their estimated contribution, or by using a higher discount rate in the ROI calculation.

5. **Hidden costs have to be found.** Often the most significant costs are buried deep within the process and are difficult to find. These are the costs that have resulted from processes not accurately captured by existing performance indicators and business metrics. These costs are not limited to inefficient technologies, and are often the

result of an inefficient application of the technology. An organization will need to take a forensic approach to discovering these costs and should look in a variety of areas such as; overtime, unnecessary ad-hoc reports, or turnover.

- 6. **Putting on blinders doesn't add value.** Existing technology investments should be reviewed for the value they provide just as much as proposed new investments. Failure to do so can result in a loss of value to an organization. Adopting a strong portfolio approach to the management of technology will result in improved and well-timed investments and ultimately drive new value to the bottom line.

Every IT investment -- whether it is a system currently in operation, an IT project under way or under consideration, or an organizational initiative such as a training or quality-improvement program -- must be linked to a specific business priority and assigned performance metrics that will allow their success to be measured in terms of its contribution to the success of the organization.

Simply put, value from adopting technology can be, and needs to be, quantified. It needs to be measured in the light of ultimate impact on the organization's success, and must be measured within a scope that considers all relevant costs and constraints. Finally, value of technology must be compared to a "status quo" scenario. It's always possible that the perceived benefit

from any business investment can be reaped without that investment; in effect, it's low hanging fruit waiting to be picked.

The process of defining value based on these principles also helps drive support and understanding from the business itself. By demystifying technology investment and putting the benefits into a frame of reference that "C" level executives understand Chief Information Officers demonstrate both their focus on the organization's success and their appreciation for the decisions that must be made. By taking this step, they help cement the concept of IT as a business partner to the organization and a group focused on increasing value throughout the organization.



About the Institute for Value Creation

Delivering exceptional results requires exceptional knowledge—of industries, of solutions, of market conditions, and of business processes. Impart Solutions’s Institute for Value Creation (IVC), provides understanding and solutions to key management issues through IVC’s series of research, events and whitepapers.

Contact ivc@impartsolutions.com for questions or comments on this and other whitepapers and events produced by the Institute for Value Creation.

Impart Solutions, Inc.

714 W. Burlington Ave.

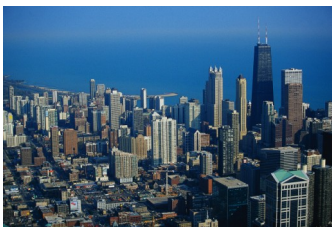
La Grange, IL 60525

(708) 354-8302

(312) 577-0978 fax

www.impartsolutions.com

info@impartsolutions.com



About the Author

Jay Dumphy

Jay Dumphy has over fifteen years of experience working with clients to align their technology capabilities with their business strategy and needs. He has helped clients in a variety of industries plan for and achieve significant value from technology investment and deployment. Prior to joining the team at Impart Solutions, Jay held senior level positions with both regional and global consulting firms focused on technology and business alignment.