

Executive Summary

Developing Viable ROI Solutions to Justify New IT Infrastructure Projects

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The shift in power from the CIO/CTO to the CFO for technology project justification is a fact of life that all of us in the technology industry are familiar with. We no longer have to sell the techies on the value of new IT projects, we have to sell to the financial part of the organization: the business. It seems a common belief that cost-justifying technology projects is difficult, if not impossible, especially if those projects represent infrastructure upgrades rather than improvements to business processes. You can cost-justify large IT infrastructure projects. In the accompanying *Executive Report*, we examine methods for discovering the business value in a potential IT infrastructure project and discuss methods by which those value statements can be communicated to financial decision makers.

TARGET AUDIENCE

This report is intended for those in the IT industry who have a need to explain value to executive stakeholders (i.e., internal or external customers who may wish to invest in an IT project believed to be of value). It is not intended as a comprehensive work on how to create a complete financial model or as a guide for financial professionals.

Too often in technology we get caught up in the “gadget culture.” Most of us who have gravitated to IT have

done so because deep down we are technophiles. In today’s world, the techies rarely hold the purse strings (at least to the big projects) and to get an organization to buy into a new technology project, we have to persuade those stakeholders that the project is worthwhile.

People don’t just buy cars because they cost less; sometimes they buy them because they are red or because they like the company that makes them. So many other factors go into convincing the unconvinced that a project is “worth doing.” For that reason, we will focus less on the term “ROI study” and more on the term “business case.” A good business case will inspire an organization to pursue a goal, and while a financial case may ultimately be necessary to realize that goal, the inspiration to move in a given direction can indeed occur before that case is developed. A good business case helps an organization achieve consensus. As such, a successful business case needs to be written from the audience perspective, not the writer’s. In the case of technology projects, that means the business case dwells less on the virtues of the proposed technology and more on the business value it represents.

DISCOVERING AND QUANTIFYING BENEFITS

A good business case always begins with the discovery of *benefits*. A benefit, for the purposes of this report, is some quantifiable statement of potential economic (i.e., monetary) value. Each different *type* of cost reduction or revenue increase should be counted as a separate benefit of the solution. Benefits generally fall into one of three major categories. These benefit areas are, in order of importance:

1. Reduced costs
2. Increased productivity
3. Increased revenue

Reduced costs and increased productivity are both types of cost reduction, but they are calculated and evaluated by stakeholders very differently.



Reduced Costs

Benefits that result in reduced costs are often known as “hard-dollar” savings; they represent benefits that reduce the amount of money that needs to be spent by the organization. Hard-dollar savings are generally the most compelling type of benefits to present in a business case.

Increased Productivity

Increased productivity is another type of cost-reduction benefit, but not usually as compelling as the hard-dollar cost benefits discussed so far. Productivity increases are often categorized as “soft-dollar” benefits; soft in the sense that they may or may not be realized as actual savings. In most cases, productivity increases don’t translate directly into such cost savings (although sometimes they can).

Increased Revenue

The third and final category of benefits represents opportunities for increasing revenue for an organization. Unlike cost-reduction benefits, increased revenue benefits are generally considered the least credible of potential benefits. In my experience, cost savings benefits sell a business case, not revenue increases.

BUILDING AND PRESENTING THE BUSINESS CASE

If I could summarize my experience in presenting business cases into one sentence, it would be the following: *it is more important to be credible rather than accurate.*

Don’t misunderstand; accuracy is important. But unfortunately, when we are dealing with a client with an economic interest in a project, we are ultimately more interested in achieving the client’s buy-in for the

project rather than his or her agreement that the accuracy is correct to the third decimal place. When presenting the business case to the intended audience, you generally want to present it in the following sequence:

1. **Summarize the status quo.** What is the organization doing in this area today?
2. **Introduce the proposed solution.** What will the proposed project do differently?
3. **Present the benefits of the proposed solution.** What are the major benefits the project will realize?
4. **Present the costs of the proposed solution.** What will be the major costs incurred with the project?
5. **Present the ROI calculations.** What does the cash flow, net present value (NPV) look like for the project?

It is far preferable to present this information in person as a short (under one hour) presentation, with perhaps an additional period of 30-60 minutes for discussion and questions. The idea behind the presentation is to not only present credible evidence that your project is worth doing, you are also trying to enlist hearts and minds to evangelize the benefits of the project elsewhere in the organization.

CONCLUSION

A former colleague of mine made an interesting statement about business cases and finding value: if you are solving a real business problem, a business case is always possible. The flip side of that statement is if you are developing a business case and can’t find sufficient benefits to economically justify the project, then perhaps you aren’t solving a business problem.



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