

“The Bottom Line

Companies that are one step ahead of the ROI hype know that there's only one way to measure and manage the value of any investment, IT or otherwise: a credible ROI analysis.”

ROI: Separating Fact from Fiction

Now, more than ever before, companies are looking closely at the impact of IT spending on their bottom line. Economic pressures, coupled with years of heavy IT spending without clear returns, have driven corporate demands for a tighter rein on IT expenditures and clear justification of every dollar being spent. Technology and finance decision makers need metrics and measures they can trust to ensure that they are making IT decisions that will have a positive impact on the corporate bottom line.

The proliferation of ROI sales calculators, ROI marketing spins, and new models from analysts and accountants that attempt to measure the value of technology have failed to satisfy the needs of decision makers. However, they have yielded some valuable lessons for both vendors and users of technology, including the following:

- ✚ ROI is not about a number; it's about understanding the ongoing costs and benefits from a project. The ROI from technology in an organization depends on the existing technological environment and how users adopt technology—and maximizing ROI is an ongoing process based on advancing technology and a changing business environment.
- ✚ A "black box" approach to ROI that uses simplistic tools or calculators with general assumptions, is not sufficient to justify an individual investment. ROI sales tools and Web-based quick calculators simply generate numbers. These numbers may be interesting, but they cannot be trusted unless all calculations, formulas and data inputs are clear and objective -- and all assumptions are specific to an organization.
- ✚ Those with something to gain from a technology project — project champions, consultants, vendors, or analysts working for vendors — may not objectively analyze the financial impact of a project. Even if they are objective, their findings are likely to be questioned, and CFOs want ROI calculations they can trust and understand.
- ✚ An understanding of business operations and finance, not just of technology, is critical to understanding and calculating the bottom-line impact of IT. Traditional technology analyst firms can provide opinions on market leadership, product functionality, and vendor strategy, but they

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lack the financial knowledge and in-depth understanding of users' businesses to evaluate ROI and other financial metrics. Some have developed and branded "metrics" that look in some way at the value a technology provides to companies. However, those models fall short of providing CFOs with a consistent way to evaluate the financial impact of IT projects because they are based on opinion and cannot be compared with other standard financial measures.

ROI AVERAGES DON'T APPLY

Traditional IT analysis firms without a financial focus have attempted to provide users with financially focused recommendations by surveying existing companies about their ROI. Although average ROI provides interesting historical information about the relative success companies have had in deploying technology, it cannot be used to predict another company's results because ROI is an individual measure based on a specific project.

Other analysts have developed calculations or ratings to evaluate technology that fall outside the library of standard financial metrics used by the CFO. Although CIOs and users of information technology may find some of these metrics interesting, they do not support the goal of providing the CIO with a clear measure of the financial impact of technology returns, nor do they offer a means to compare technology investment decisions with other investment decisions.

WHY QUICK CALCULATORS WON'T WORK

Many vendors of technology have looked to internal teams or external vendors to develop ROI tools or quick calculators to give prospects an indication of the potential ROI of their solutions. Initially, the market embraced these tools as a way to justify technology decisions; however, under scrutiny by the CFO, many tools failed to live up to their promise. Decision makers realized that many vendor-provided tools lacked clear assumptions and equations, relied on general or average data instead of company-specific inputs, or had a structure that in many cases oversold the benefits of a project.

As the popularity of ROI tools and quick calculators wanes, CFOs and decision makers need to quantify technology through a means that is clear, open, and structured; customized to the needs and characteristics of the organization; and clearly from an objective source.

WHAT MOST FIRMS ARE MISSING

Many accounting and consulting firms have provided ROI analysis for their clients as part of the overall technology strategy, decision, and implementation process. Unfortunately, it is often difficult for a CIO to know if the analysis is

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based on the real needs of the organization, survey data abstracted from other companies, or the desire of the vendor to continue the project implementation. Companies need an independent voice from a trusted, reliable source that has nothing to lose — or win — by helping them accurately quantify the ongoing costs and benefits of an IT project.

REAL ROI GOES BEYOND A NUMBER

Return on investment is not about a percentage but about a thorough understanding of the costs and benefits associated with a technology deployment — and an ROI analysis is only as good as its weakest assumption or data point. To have confidence in an ROI calculation, a company needs not just a number but a full explanation of the assumptions and calculations used to derive it —and full confidence in those assumptions and calculations. For ROI to be useful for evaluating projects across a company, the methodology to calculate it needs to be consistent and repeatable.

FINDING THE REAL ROI

Companies that make sound IT decisions know they have done so because they have quantified ROI. With an ROI road map for the life of a technology deployment, companies can understand, on an ongoing basis, the impact each decision about the technology has on the corporate bottom line. When projects lag, consulting costs rise, or adoption slows, they know how all the unexpected delays will impact the returns from a technology project — and they can use that knowledge to keep maximizing returns in the face of political pressures, aggressive or weak consultants, or other challenges.

Companies that are one step ahead of the ROI hype know that there's only one way to measure and manage the value of any investment, IT or otherwise: a credible ROI analysis. They follow simple rules that ensure their technology decisions deliver maximized returns:

- ✚ Successful companies link the best practices of technology. Pure financial analysts are challenged to calculate ROI from technology because they don't know the assumptions in the model — and the CIO doesn't want to have to learn finance to prove ROI from projects. Effectively, ROI analysis of IT projects links the skill sets of finance and IT, ensuring that IT investment decisions are in line with other decisions a company makes.
- ✚ Independent, transparent ROI analysis is critical. Every organization is different, and each may value various financial metrics or calculations in a different way. Open financial modeling tools enable a company to review equations, modify

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calculations to meet its specific needs and investment structures, and understand the source and assumptions behind every number.

- ✚ The ROI from technology is not about assigning a number but about ensuring that the business benefits of every purchase outweigh the costs. Successful companies continually review IT investment decisions and projects to understand the ongoing financial impact of their IT investments and to maximize benefits and minimize costs for the entire useful life of the technology.
- ✚ A standard enterprise-wide ROI methodology enables companies to evaluate each IT investment in a consistent fashion against other non-technology investments. In addition to measuring projects throughout their life cycle, successful companies use a standard measure across all IT projects, enabling them to compare and prioritize projects based on risk and return.

Finding the real ROI is not about generating a number, but about using a common methodology and structure to evaluate the true costs and benefits of an investment.