



## SmartAdvice as seen on InformationWeek.com

The Advisory Council (TAC) is an Internet-based IT advisory service that connects IT leaders with world-class experts to provide fast, focused and actionable advice. SmartAdvice is a weekly column on InformationWeek.com featuring TAC Experts and Thought Leaders answering questions from IW readers regarding technology, management and career issues.

**Topic:** How can we quantify business-productivity improvements when analyzing IT return on investment?



**Expert:** Ian Hayes, TAC Thought Leader, has extensive experience in improving the business returns generated by IT investments. He's the author of three IT books and hundreds of articles, a popular speaker at conferences, and his clients include many of the world's top corporations. He helps companies focus on value-creating projects and services by better-targeting IT investments, improving the effectiveness of IT execution, optimizing the sourcing of IT activities, and establishing measurement programs that tie IT performance to business value delivered.

**Our Advice:** One of the biggest challenges when performing IT ROI analyses is finding and quantifying business benefits. Benefits such as improved morale and enhanced customer satisfaction sound great, but are in most cases impossible to quantify in financial terms. Since cost savings are the simplest benefit to quantify, too many ROI analyses fall into the trap of relying entirely on costs to justify investments. For example, getting a 10% improvement in productivity for a 10-person team means you effectively gain an extra person. From a cost-savings viewpoint, you receive the salary, benefits, and overhead from one eliminated job. But what's the value of that person's production? Assuming they produce business value in excess of their cost (for example, a \$100,000 salesperson may bring in \$1 million in revenue), the better calculation focuses on the increased value gained from the enhanced productivity.

All financial benefits come from either lowering costs or increasing revenue, but six broad categories to explore for finding quantifiable benefits are: increasing sales (revenue), increasing productivity (revenue, cost savings), reducing operational costs (cost savings), improving customer satisfaction (revenue, possible cost savings), improving safety (cost savings), and enhancing competitiveness (revenue). Dollar value isn't the only factor when quantifying benefits. Also consider the following attributes:

- Substance -- Is the benefit tangible and quantifiable? For example, increasing revenue by 10% is a tangible benefit, while improving employee satisfaction is almost impossible to tie to bottom-line dollars.
- Potential -- How large is the benefit if fully received? In our example, the cost savings potential is \$100,000 while the revenue potential is \$1 million.
- Certainty -- How likely is the company to receive the benefit? Replacing a telephone service plan that costs \$40,000 a year with an equivalent one at half the cost generates \$20,000 of highly certain benefits. Improving sales productivity by 10% should increase gross revenue by 10%, but there are no guarantees, therefore lowering the benefits certainty.

Although cost savings are the easiest benefit to quantify when evaluating productivity improvements, try to consider the value that can be generated by the extra productivity first. It's often larger and more attractive than the cost-savings approach.

For more SmartAdvice, or to learn more about The Advisory Council, our experts or our services visit: <http://www.TACadvisory.com/>