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Funding for BI: It's All About ROI, ROI, ROI

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Information Management

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Introduction

This paper is summary of the 2nd webcast in a series sponsored by IBM and developed specifically for IBM Cognos Innovation Center for Performance Management members. The series is designed to empower IT and Business Unit managers to develop a strong business case for the return on investment (ROI) of their business intelligence initiatives and effectively communicate that value to their business leaders. The series will help you:

- Get the attention of senior management;
- Position the business value of BI to their specific needs and wants;
- Obtain management buy-in and approval for BI investments

The 2nd webcast in the series focused on the topic or return on investment (ROI) use different types of ROI to build a strong case for BI investment.

While the greatest value may come from intangible ROI, the more compelling justification comes from tangible ROI.

The ROI Conundrum

Historically BI investments have been justified via intangible values such as a single version of the truth or faster and more accurate decision making. These intangibles certainly provide value to the business but in today's economy tangible or "hard" ROI is becoming more important in competing for limited funding.

The ROI conundrum is that while the greatest value from BI may come from the intangibles, the best justification for BI spending comes from tangible ROI. If BI will save or make money it is easier to justify spending than if it just "makes resources more efficient". To deal with this conundrum an ROI case needs to have the right blend of tangible and intangible ROI.

When we think about tangible ROI we think about cost reduction, revenue improvement, headcount reduction and decreased IT costs.

Tangible ROI

The definition of tangible is 'capable of being appraised at an actual or approximate value'. When we think about tangible ROI we think about things like cost reduction, revenue improvement, headcount reduction and decreased IT costs. These tangible benefits are calculated by establishing baseline costs and identifying opportunities for BI to eliminate some of these costs. For example it may be possible to eliminate some systems, reduce the cost of performing a process or eliminate that process altogether. Often your BI vendor or a research firm such as Nucleus Research will help you calculate tangible ROI.

Break ROI into smaller pieces

If you have trouble attaching specific value to a tangible ROI benefit, consider breaking the benefit into smaller pieces which can make it easier to attach a specific value. For instance, breaking down inventory optimization into smaller "chunks" like back orders, fill rates, or aged inventory to which specific value can be attached.

Of course BI ROI is not limited to cost reduction; breaking down revenue enhancement into smaller pieces also makes it much easier to assign a tangible value. See table 1 for examples of breaking down cost reduction and revenue enhancement into smaller pieces.

Table 1 – Tangible Value Drivers

Cost Reduction	Revenue Enhancement
Inventory Optimization	New Revenue Streams
IT Infrastructure	Customer Profitability
Resource Load Balancing	Extranet Revenue
Return on Assets	New Deal "Wins"
Customer Support	Cross-sell, Up-sell
Contracts Negotiation	Churn
Procurement	Optimized Pricing
Distribution	Defects & Returns
Printing & Paper	Out-of-Stock
Marketing Campaign Cost	Fraud Detection
Shrinkage	Write-offs

Through inventory analysis a manufacturing company was able to reduce excess inventory by 1% resulting in a $2M cost saving.

It is OK to Estimate

We often think of tangible value as having an exact number attached it. But it is important to remember that the definition of tangible is '…appraised at an actual or approximate value', it does not have to be an exact number. If, for example, analysis of customer data uncovers opportunities to increase cross-selling success rate by just 2% that might equate to several million dollars in cost savings. Can you attach an exact amount? No, but is OK to apply some estimates to determine approximate value as long as you can apply a logical defense to the estimate. This defense can be based on what other companies have accomplished.

Measuring these intangible benefits, while challenging, can be done by creating a series of assumptions to determine the impact these types of benefits can have on the bottom line.

For example, through BI analysis a manufacturing company was able to improve fill rates, reduce back orders, and improve inventory turns. This resulted in a reduction in excess inventory by 1% and a savings of $2M. From this example you can estimate what the impact would be if your business could reduce excess inventory by 1%. This way a tangible value can be applied without a detailed ROI analysis.

Intangible ROI

The definition of intangible is "inability to assess the value gained from engaging in an activity." There is little debate that there is value in the intangible benefits of BI such as faster and more informed decision making or one version of the truth. The question is how much value do these intangibles provide?

Monetizing the intangibles

How can we measure the impact of intangible benefits? Again it comes down to breaking the intangibles into smaller pieces and building a logical argument for a tangible impact. Table 3 provides a list of internal and external intangible values that can be extrapolated from values like: single version of the truth; better decision making; process improvement; and resource efficiency.

Table 2 – Intangible Value Drivers

Internal	External
Faster Decisions	Improved Customer Service
Timely Access to Information	Customer Retention
Right-time Data to Right People	Customer Acquisition
Data Accuracy and Integration	Customer Satisfaction
Trending & Predictive Analysis	Sales Effectiveness
Collaboration	Supplier Relationships
More Productive Employees	Compliance
Employee Attrition	Sustainability
Value from Transaction Data	Company Image

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Monetization Examples

To be clear, it is not always possible to monetize intangible value. This is where prioritization becomes important. Take a look at your expected intangible values, which are most important to your business strategy, which will have the most visibility internally, which can you apply "real life" examples to? Answers to these questions will help you to determine where to focus your efforts. As a starting point, here are a few examples of ways to quantify intangible BI value.

Value from Transaction Data

In an Aberdeen Group research report, The ERP/BI Connection: Adding Value from Actionable Intelligence, it was cited that leading business drive more value from their ERP via BI. The report suggests that leading businesses achieve an 18% reduction in operating costs. What would the tangible impact of reducing the operating costs of your business by 18%?

Sales Effectiveness

> *Calculate the increase in pipeline that additional calls will create. Apply your projected close rate for your pipeline to calculate the revenue impact of the increase in pipeline.*

By providing customers access to information directly through a customer portal an office supplies company freed up the sales force from administrative and support activities to allow them to make more sales calls. This doesn't sound very tangible you can estimate a tangible impact for this. Calculate the savings of not hiring additional reps. Calculate the increase in pipeline that additional calls will create. Apply your projected close rate for your pipeline to calculate the revenue impact of the increase in pipeline. These numbers estimate the tangible impact of improved sales effectiveness.

Employee Productivity/Attrition/Retention

More productive employees mean getting more from less but how do you quantify that? One Fortune 500 company calculated their total spend to support BI including both internal resources and external consulting. By more efficient use of resources (they created a BI Center of Excellence) they were able to reduce their internal spend on BI support by $6M and their external consulting costs by $9M. Another global company found that via call center analytics they could reduce and better allocate call volume. This more balanced burden on their call center staff lowered their attrition rate which saved $1.25M in hiring and training costs while improving customer satisfaction.

Sustainability

Many think of sustainability as strictly a public relations effort with some cost savings sprinkled in via decreased energy consumption. These are both valid values and certainly the cost savings is tangible. However, it can also have a tangible benefit on the revenue side. By being able to prove their reduction in energy consumption and increased usage of energy from sustainable sources, a small textile manufacturer won a $20M government contract.

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Whenever possible examples like these should be used to quantify intangible value. However, expect some pushback on estimates and external examples. It may be necessary to ratchet back some of the numbers to get buy-in. Even if your numbers are reduced by 50% they can still greatly influence the perceived value of BI investment.

Building a strong case

The strongest cases for BI investment include a strong case for both the tangible and intangible value that BI will bring to the organization. Below are 10 steps that that can help guide the development of a strong case.

Table 3 – 10 Steps for Building your Case

Step	Description
Interview	Understand the business need and what value drivers are most important to achieving the business goals in different parts of the business.
Compile	Compile the needs, wants, goals from the various constituents. Look for commonalities and consistent value drivers.
Strategize	Review results with the executive sponsor and get buy-in on the value drivers that are important to the business.
Prioritize	Prioritize the list based on perceived value, time to value, and cost to deliver. Determine a realistic scope considering resource and time constraints.
Monetize	Determine which intangible values can or should be monetized. Build a strategy for how the case for monetizing them will be developed.
Present	Present the ROI case to the executive sponsor. Role play how other executives might object and a plan to address potential concerns.
Defend	Determine what elements of the case are objected to. Build a defense to real or anticipated objections. Find internal or external examples that defend your logic. Apply a correction factor give the calculated impact more credibility.
Market	Take the plan to decision makers and influencers and sell the value to get their buy-in. Use other internal BI success stories as "proof points".
Repeat	The journey never really ends. Once you have been successful, take that success and actively market it to other parts of the organization. Find out their value drivers and start the process again.

Summary

Gaining funding for BI can be challenging. Building a strong case that includes both tangible and intangible ROI will provide the best opportunity to effectively compete for limited funding. The key to success is to understand the key value drivers of the business, give high priority to those value drivers, and monetize them when possible.

About Pervasive Performance Group

Pervasive Performance Group is a provider of advisory services on performance management and business intelligence. Our focus is helping businesses expand performance management from finance or IT-centric initiatives to an enterprise-wide and enterprise-deep approach that increases the return on their BI and PM investments.

Pervasive Performance Group provides advice, insight, and direction that help businesses recognize and break down the barriers that inhibit wider deployment and limit return on technology investments. Our services help companies progress to a performance-driven culture that empowers IT to expand the reach and impact of technology. We do this by helping companies recognize the tangible and intangible value of expanding performance management from isolated initiatives and departmental fiefdoms to a collaborative performance culture.

About the IBM Cognos Innovation Center for Performance Management

The IBM Cognos Innovation Center is dedicated to transforming routine performance management practices into "next practices" that help cut costs, minimize risk, streamline processes, boost productivity, enable rapid response to opportunity, and increase management visibility. Visit: http://www.cognos.com/innovationcenter

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