Justifying and Measuring the Success of e-Business Investments

Uncovering the Business Value of e-Business

Michael Harrison
Regional Director –
Enterprise Business Value
micharr@microsoft.com
+65 98291969

Microsoft Business Value

Outline

- Part 1: Justifying e-Business Investments
- Microsoft's Offer to Assist
- Questions
- Part 2: Measuring the Success of e-Business
- Questions

Microsoft Business Value

Part 1: Justifying e-Business Investments

Building a Business Case for e-Business Investments

Microsoft Business Value

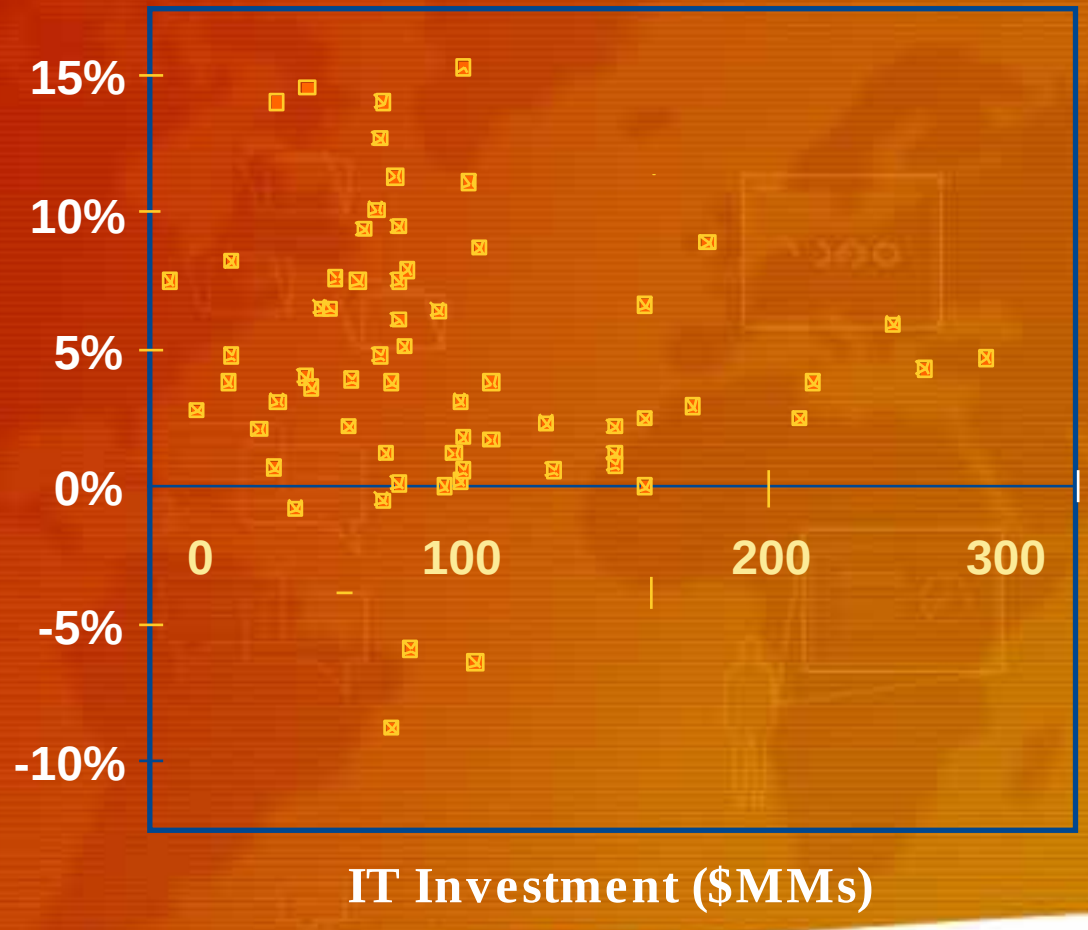
Technology is Driving Business

"The newest innovations, which we label information technologies, have begun to alter the manner in which we do business and create value, often in ways not readily foreseeable even five years ago."

Alan Greenspan
Chairman, US Federal Reserve

Microsoft Business Value

Competitive Advantage?



Source: *Information Week* 500

Microsoft Business Value

Questions

- What are organizations currently doing as far as justifying e-Business Investments?
- What measures are used to calculate a “good” or “bad” e-Business investment?
- How is the “BUSINESS VALUE” of e-Business currently calculated?

Microsoft Business Value

CEOs are not amused!

- 57% say IT is key to competitive advantage
- 91% expect IT to have significant bottom line impact
- 52% say they are not getting their money's worth from IT

Why?


Management

SQUEEZE PLAY

"OK,

EXCLUSIVE CEO/CFO SURVEY

Source: *Computerworld* study

Microsoft Business Value

Answer

- Organizations – Small, Medium and Large do not spend enough time in evaluating the business benefits of IT and e-Business projects
- e-Business investments are highly risky, expensive and have great upside if managed correctly – they can also be a great waste of money and resource if not managed correctly

Microsoft Business Value

The CEO's Priorities for IT

- IT to create new business opportunities:
  - Direct impact to revenue and profit
  - New products, markets, or businesses
- Measurable productivity to the business
  - Lower cycle time, operational efficiency
  - Better customer satisfaction /loyalty, lower cost of sales
- Greater operational efficiency for IT
  - Lower cost of ownership

Microsoft Business Value

Does this sound familiar?

"IT" Pitch for IT Investments – why?

...so, you can see it provides **cool directory services, video conferencing services** and it has an **awesome web client – Every customer is asking for *that*.**

.... sounds just like what we need, **but what does it do for the business?**

Microsoft Business Value

Why is this?

- IT traditionally focuses on selling *features and not value*
- Inadequate understanding of the "core business" – CEOs are now demanding *"Business Understanding"*
- IT Professionals have difficulties in communicating the value of technologies or services to the business
- Relationships are transactional
- Limited access to the business and the business managers

Microsoft Business Value

Does this sound familiar?

"Core Business" Pitch for IT Investments – why?

... our competitor have this new portal thing, their business is growing at 20% y/y. Lets implement the same technology and it will give us the advantage we need to compete **– Every customer is asking for *that*.**

.... sounds like a good idea BUT – what are the risks, costs to implement and operational costs going forward? What is the ROI for *OUR* business. **We are a difference business – right?**

Microsoft Business Value

Why is this?

- “Core Business Leaders” traditionally focuses on selling IT investments on the “Fear Factor”
- Inadequate understanding of the way IT can provide competitive advantage. CEOs are now demanding IT-Business Alignment
- “Core Business Leaders” have difficulties in communicating to IT their vision and strategy for the Business
- Relationships are transactional
- Limited understanding of the technology

Microsoft Business Value

Does this sound better?

...so, we can help you get your **products to market faster by improving the communicatio n channel**, and **decreasing travel costs** by utilizing it's video conferencing capabilities.

....sounds just like what we need to **grow our business** – **funding is approved!**

Microsoft Business Value

What Needs To Be Different ?

- **Better understanding of the business**
  - Business objectives, organizational objectives, critical success factors, and key metrics
- **Addressing the business "pain" with IT "medicine"**
  - Align solutions and services to the business issues/objectives
- **Building better relationships**
  - Learn with the business owners, think "long-term" and build a "partnership"

Microsoft Business Value

The e-Business Investment Challenge

- How to measure, communicate and justify the value of e-Business to the business ?
- It is not just Return on Investment (ROI)!
- What about productivity, services levels, customer satisfaction and quality?

Microsoft Business Value

Quantifying and Optimizing e-Business Investments

- Microsoft realized that we needed to develop a framework that quantifies and optimizes the business value of e-Business for our customers
- Key Requirements:
  - A framework that is business centric
  - Established tools and methodologies
  - Independent review/audit
  - Results understandable by business managers and owners

Microsoft Business Value

REJ™ Framework

5-Step Process

Identify key stakeholders, their CSFs, strategy to achieve CSFs, and the KPIs.

Leverage modeling tools to optimize the analysis and quantify business costs and benefits.

Profile and quantify risk, using sensitivity analysis to optimize the economic impact of the investment.

Analyze business processes against desired outcomes and propose solutions.

Project impact of the e-Business investment in financial terms such as marginal EPS, IRR, ROI and Payback.

Alignment

Value / Speed

RAPID ECONOMIC JUSTIFICATION

Questions

- When building a business plan / proposal for an e-Business investment – who is involved in putting together the plan?
- What costs are taken into account when making a decision on an e-Business investment?
- What approach is used to track operational costs and are executive measured on lowering these costs?
- How and when is risk assessed in the proposal process?
- What type of risk categories are assessed?
- How is the Business Value of the e-Business captured?

Microsoft Business Value

Phase 1. Business Assessment

- Task: Describe the business
  - Stakeholders
  - Key Markets
  - Core Services & Products
  - Core Business Processes
  - Strategic Management Processes
  - Infrastructure Processes
  - External Forces & Agents
- Action
  - Research Annual Reports, Management Reports, Strategic Planning documents
  - Meet with the leaders in the business to capture their needs
  - Identify priority areas of the business for early migration
  - If necessary, hire external consultants to do this

Microsoft Business Value

Phase 2. Propose Solution

- **Task: Develop a detailed understanding of the products/solution**
  - Detailed review of product features to map them to the business requirements for each department and/or process
  - This is a team effort - not just a management task!
- **Action**
  - Create an initial “Value Map”
    - describe the product features that are of most relevance
    - Map these features to business needs/goals
    - Describe the metrics at a high level

Microsoft Business Value

Phase 3. Estimate Benefits & Costs

- **Task: Develop Financial Model that depicts IT Value:**
  - **“Benefit” model that measures potential business value**
  - **Cost model for implementation and operations**
- **Actions:**
  - **Create a “Chart of accounts”**
  - **Determine how “better is measured”**
  - **Develop “Value Statements”**
  - **Determine potential benefit of each value statement**

Microsoft Business Value

Phase 4. Risk Assessment

- Task
  - Assess Risk Exposure Broadly
    - Alignment Risk
    - Solution Risk
    - Financial Risk
    - Project/Organizational Risk
    - Technology Risk
    - Operations Risk
- Action
  - Profile Risk factors
  - Agree process for Risk weighting
  - Create a Risk Table to document the
    - Risk impact

Microsoft Business Value

Phase 5. Calculate Financial Return

- **Task: Develop Cash Flow Projection**
  - Calculate and verify the expected return on investment
- **Action**
  - Select the approved metric
    - NPV, IRR, ROI usually
  - Engage a Financial / Business Analyst
  - Estimate cost of risk factors
  - Engage an impartial, skilled reviewer
  - Re-iterate until agreed by all parties

Microsoft Business Value

Phase 5. Calculate Financial Return Result

Cash / Value Flow Analysis	Year 1	Year 2	Year 3
Implementation Costs	(4,683,844)	(4,033,680)	(3,983,618)
Operating Costs	(103,011,942)	(103,011,942)	(103,011,942)
Solution Benefit	25,392,496	50,784,992	50,784,992
TCO Delta	4,362,455	8,596,602	12,830,749
Net Annual Benefits - Costs	(77,940,835)	(47,664,028)	(43,379,819)
Net Annual Costs	(107,695,786)	(107,045,622)	(106,995,560)
Net Annual Benefits	29,754,951	59,381,594	63,615,741
Net Cumulative Benefit	[illegible]	89,136,545	152,752,286
Hurdle Rate	14.70%		
Net Present Value (NPV)	$113,235,197		
Payback (Months)	3		
Return on Investment (ROI)	46%		
Internal Rate of Return (IRR)	288%		

This is the business case

Microsoft Business Value

REJ™ – Is only a Framework

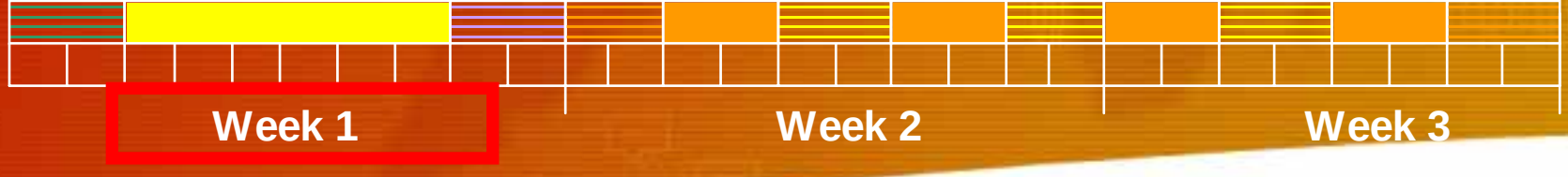
- **REJ framework:**
  - **Enables better understanding of the business**
  - **Drives greater alignment between business and IT – A key element for the success of e-Business investments**
  - **Identifies and quantifies both costs AND benefits for an e-Business investment**
  - **It is based on business input and the business is the owner of the business case**

Microsoft Business Value

Where to from here?

Overview of the Training and Mentoring Program

- **Day 1: Ramp up**
  - Microsoft Business Value Consultant reviews organizational needs for the REJ Framework and customize training/workshop.
- **Days 2/3/4: REJ Framework Training**
  - **Day 2 - REJ Training – Financial Fundamentals**
  - **Day 3 and 4 - REJ Training – Framework Training**
- **Days 5: Tools Training / Workshop**
  - Detailed look into Microsoft's BVA (Business Value Advisor) tool.
  - Start to workshop an example project – such as an e-Business project.
- **Days 6 – 10: Mentoring**
  - Work with the business on utilizing the REJ Framework to develop qualitative data to build a strong internal business case. (1 day on / 1 day off)



Microsoft Business Value

Part 2: Measuring the Success of e-Business Investments

Case Study: IT@Intel

Identifying and Assessing Value Levers for e-Business Investments

Microsoft Business Value

Case Study – IT@Intel

- Case study of how Intel categorize the success of e-Business in terms of Business Value
- Explanation of 17 “Value Dials” or “Value Levers” that best describe the success of e-Business in all forms
- Each of the “Value Dials” will be explained in detail:
  - Concept
  - Example
  - Measurement

Microsoft Business Value

What is e-Business?

- ***"…the automation of the entire spectrum of interactions between enterprises and their distributed employees, trading partners, suppliers and customers.."*** ***Aberdeen Consulting Group***
- ***"…the application of electronic network technologies to transform business process…"*** ***The Giga Group***
- **The VALUE of e-Business is in the reduction of complexity of standard business processes.**

Microsoft Business Value

Standard Measures for e-Business

- **When e-Business transforms standard business process to add value and improve transactions within the value chain – Business Value is created:**
  - **Lowering the cost of sales**
  - **Lowering capital expenditure**
  - **Better working capital position**
  - **Increasing market share and position**
  - **Productivity gains and efficiency improvements**

Microsoft Business Value

Categories of e-Business Value

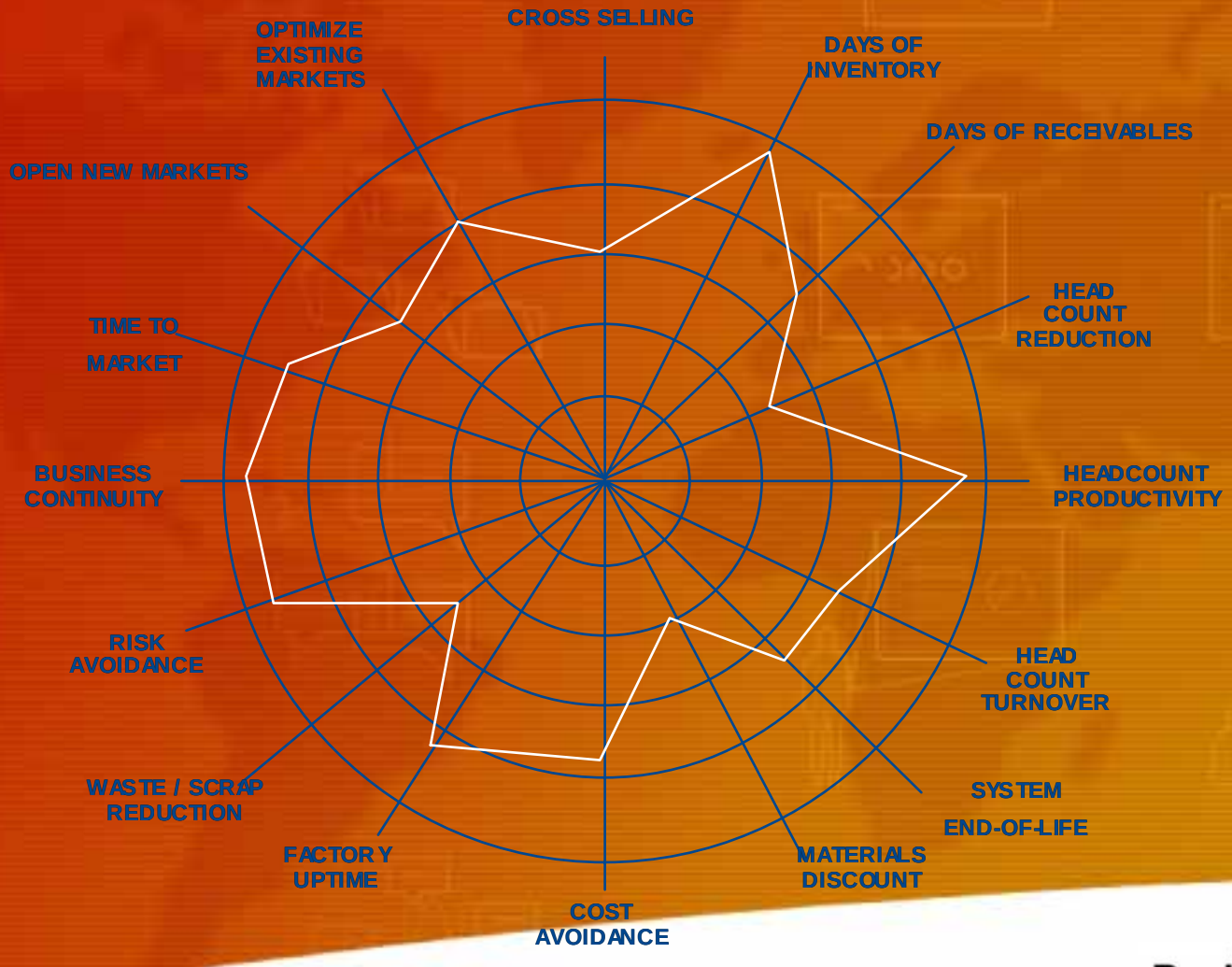
- **Major categories of e-Business Value add:**
  - Cash cycle / cash flow
  - Operational efficiency improvements
  - Stabilizations
  - Market optimization

Microsoft Business Value

Source:
"Defining the Value of e-Business"
White Paper May 2003 – Intel Corporation

		Value Dials	Supplier				Empl/ Internal		Customer		Infrastructure			Manufacturing			
			Inventory Management	Planning Systems	Materials Procurement	Warehouse / Deliver	Self-Help Empl HR Tools	Financial (GL, AP. . .)	Order Mgt & Customer Supt	Conveyance of Product Info	Uptime / Reliability / Design	Remote, Down-the-Wire	Mergers & Acquisitions	Factory Tool Allocation	Equip Performance Monitor	Excursion Mgt	Capital / Inventory Mgt
Cash Cycle	1	Days of Inventory	X	X		X											X
	2	Days of Receivables						X									
Efficiencies	3	Headcount Reduction		X	X	X	X	X	X			X					
	4	Headcount Productivity		X	X	X	X	X	X		X	X		X	X	X	X
	5	Headcount Turnover		X	X	X	X	X	X								
	6	System End-of-Life		X	X	X	X	X	X	X	X	X	X		X	X	X
	7	Materials Discounts			X												
	8	Capital, HW/SW Avoidance									X		X				X
	9	Unit & Other Cost Avoidance	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
	10	Factory Uptime									X			X	X	X	
	11	Scrap Reduction	X	X											X	X	
Stability	12	Risk Avoidance: Process	X	X	X	X		X	X		X	X				X	X
		Business Continuity						X	X		X						
Optimizing Markets	13	Time-to-Market								X							
	14	Open New Markets								X							
	15	Optimize Existing Markets	X							X							
	16	Cross-Selling								X			X				
	17	Vendor-of-Choice	X	X	X	X			X	X			X				

Overall e-Business Evaluation



Microsoft Business Value

Success Indicator #1

Days of Inventory (DOI) Reduction

Concept:

"Any e-Business process that allows an organization to operate with lower levels of inventory than otherwise possible creates value."

Example:

"By obtaining demand information more quickly, with fewer errors, and interpreting that demand information into a timely plan-build reset … we will need less inventory."

Microsoft Business Value

Success Indicator #2

Days of Receivables (DOR) Reduction

Concept:

"Days of receivables is very similar to the DOI concept. By collecting accounts receivable from A/R to cash on the balance sheet"

Example:

"… Applications that help organizations receive payments from customers faster produces benefits ... and needs to be measured. As an example – electronic funds transfers …"

Microsoft Business Value

Success Indicator #3

Headcount Reduction and Avoidance

Concept:

"When e-Business process automation replaces people, by reducing or eliminating the core task that an individual performs - we can apply this concept to many parts of the Value Chain…"

Example:

"… Implementing an electronic account payable process to verify invoices and relay payments can eliminate the need for accounts payable clerks …"

Microsoft Business Value

Success Indicator #4

Headcount Productivity

Concept:

"… Subjective .. Headcount productivity is applied when people are going to become more effective and efficient because they will have fewer non-core tasks to perform…"

Example:

"… Human resources or employee-facing applications of e-Business tend to concentrate on headcount productivity… web-based applications such as self-help, on-line forms and searchable databases of company policies as but a few examples"

Microsoft Business Value

Success Indicator #5

Headcount Turnover

Concept:

"… By their nature, some jobs entail a high percentage of low-satisfaction activities, resulting in high turnover rates that have an undesirable financial impact on the organization …"

Example:

"… Many jobs within an organization involve data-reconciliation or analysis tasks that produce little real value-add for the company .. Replacing these tasks with e-Business systems will reduce headcount turnover …"

Microsoft Business Value

Success Indicator #6

System End-of-Life (EOL)

Concept:

"… Most of the time after deploying a new e-Business application (internally or externally) – many other systems are replaced … this replacement creates value for the organization …"

Example:

"… Standardizing and internationalization on cross geographical systems provides scope to reduce the number of systems used with an organization…"

Microsoft Business Value

Success Indicator #7

Materials Discounts

Concept:

"… Paying less for materials or reducing the cost of the procurement process achieves savings and needs to be measured as a indicator of success …"

Example:

"… Direct contractual discounts … discount for early payments … new methods of buying are all examples of benefits that can be achieved …"

Microsoft Business Value

Success Indicator #8

Capital, Hardware and Software Avoidance

Concept:

"… Modifying methods or systems can reduce, avoid, or delay the need for installing new hardware and software …"

Example:

"… Correct application of e-Business solutions can created lower infrastructure costs in other areas of the business …"

Microsoft Business Value

Success Indicator #9

Unit (and other) Cost avoidance

Concept:

"… Other business costs can be avoided or reduced by correct application of e-Business …"

Example:

"… Processes that track product shipments, and correctly target certain shipments for expedited services and others for standard freight, can save significant dollars in freight billing…"

Microsoft Business Value

Success Indicator #10

Factory (and Production) Uptime

Concept:

"… This category of e-Business success is best described by the implementation of e-Business applications that enable the production of more of *x*, with higher quality …"

Example:

"… Production automation, loading and manufacturing resource planning all require time … reduce this time with the correct application of e-Business and you create greater value and more success…"

Microsoft Business Value

Success Indicator #11

Scrap / Waste Reduction

Concept:

"… All manufacturing or production produces waste. Reducing the production of waste will create value to an organization …"

Example:

"… Sometimes organizations build the right produces but in the wrong amounts … basically due to incorrect forecasting of incorrect decisions being made on demand … the decision maybe correct but the inputs wrong …"

Microsoft Business Value

Success Indicator #12

Risk Avoidance

Concept:

"… Business processes supported by control systems can perform checks and balances that locate errors, highlight potential fraud, an assure the accuracy of an organizations reporting …"

Example:

"… There are two basic levels of risk avoidance. Business process risk avoidance and business continuity risk avaoidance …"

Microsoft Business Value

Success Indicator #13

Time To Market

Concept:

"… Time-to-market (TTM) is a key factor in being first to market a new service or product. If an organization is able to lower the TTM it is able to create competitive advantage and thus success …."

Example:

"… Delivering, marketing and selling a service or product via e-Business will reduce the TTM of that service or product … web marketing and e-commerce are both good examples of such e-Business"

Microsoft Business Value

Success Indicator #14/#15

Opening New Markets and Optimizing Existing

Concept:

"… Sometimes an e-Business capability allows a firm to access a market that was otherwise unreachable or cost prohibitive to enter …"

Example:

"… Delivery of marketing collaterals, product specifications, personalized history are all examples of optimizing existing markets…"

Microsoft Business Value

Success Indicator #16

Cross-Selling

Concept:

"… Cross-selling occurs when selling one product opens the door for selling another, complementary product …"

Example:

"… Organizations can deploy a content infrastructure that relates component products according to compatibility …"

Microsoft Business Value

Success Indicator #17

Vendor Of Choice

Concept:

"… The VOC *value dial* lets firms account for the good will benefit that occurs when certain programs deliver features that pleae customers but do not necessarily deliver specific, quantifiable $ value…"

Example:

"… An organization can modify its order management automation to allow direct feeds from its customers systems. This process eliminated the need for customers to enter data and makes the customer happier to transact with your organization …"

Microsoft Business Value

Summary and Questions

- Very quick overview of some indicators of e-Business success
- Special thanks to IT@Intel – white paper can be downloaded at

  http://www.intel.com/business/bss/infrastructure/managing/define_value.htm

- QUESTIONS ?

Microsoft Business Value

Resources

www.microsoft.com/VALUE

Mike Harrison (APAC/GCR):

micharr@microsoft.com

Microsoft **maximizes the business value of agility through e-Business**

Microsoft Business Value