

The Strategic ROI Imperative: Where Has All The Money Gone?

Introduction

Understanding the value derived from investments in information technology solutions is a strategic imperative in today's economy. The uncomfortable fact remains, however, that most companies have done an abysmal job of accurately determining the total cost of ownership (TCO) of, and returns on, their IT investments. This trend is especially true of more recent investments in supply chain management and collaborative commerce systems.

There is little doubt that most of these solutions can add significant value to an enterprise. More efficient planning and execution decrease operating costs and increase customer service levels. Collaborative commerce would not be possible without them. The key problem, however, lies in many companies not being able to distinguish the positive-ROI investments from the negative-ROI investments.

The reasons for this problem are several. Solutions providers are quick to pitch their value proposition during the sales cycle, but many are reluctant to credibly back up those claims over the lifecycle of their solutions. Customers conduct too little analysis during the pre-implementation decision process to determine exactly what is supposed to be gained. Moreover, far too many solutions are either not leveraged optimally, not implemented correctly, or are implemented and then sit idle. In all of these cases, because no definitive value target has been set, and no mechanism is in place to verify progress toward that target, companies have trouble determining if or when they reach it.

The results are apparent from the current environment. Since the returns on previous investments are unknown (and in many cases unknowable,) it is difficult for executives to justify more of the same. The resulting inertia has long term effects, which can only exacerbate current problems. The internal backlash against IT solutions seen by many executives compels them into a knee-jerk negative reaction to any new initiative. We are seeing a zero-tolerance mentality toward investments in supply chain solutions—many executives are demanding unrealistic short-term benefits before investing a dime. This clearly obstructs future revenue growth. Solutions providers, reeling from deep revenue losses, cut back on research and development, which inevitably will lead to inferior products in the future. The market is experiencing a self-reinforcing cycle wherein lack of confidence in previous decisions has nearly ground progress to a halt.

Recommendations

Several important challenges must be overcome in order to reverse this trend:

- Verifying and communicating the TCO and ROI of IT solutions investments over their lifecycle
- Creating the operational and cultural capability to realize the solutions' potential ROI

- Providing the flexibility to evolve solutions over time to maximize ROI and minimize TCO

The responsibility for addressing these challenges must rest both with the IT solutions providers and with their customers. First, the time is right to require from solutions providers more justification for their value proposition claims. This requirement begins in the sales cycle but does not end with implementation: Customers will no longer accept promises made in the sales cycle that have little chance of being verified. Solutions providers must be willing to continually *prove* their value over the lifecycle of their solutions. The optimal method for accomplishing this is through TCO/ROI modeling and scenario building.

On the customer side, it must be admitted that not all value drivers are within the solution providers' control. IT solutions customers must begin to approach solutions implementations differently if value is to be captured effectively. To start with, they need to become more willing to honestly assess their internal business processes and cost structure. Many executives and managers are reluctant to conduct the (enlightening) self-examination required to understand those internal factors, which effect TCO and ROI. Once these factors are understood, customers need to focus more intently on catalyzing the internal environment necessary to realize the solutions' value.

TCO/ROI Analysis and Scenario Modeling

The primary component in the vendors' toolkit will need to be a data-driven tool that both vendor and customer use to understand the ongoing IT-related cost drivers throughout the customer's enterprise. A robust, modular application will create visibility of total costs and return on the investment throughout its lifecycle. This tool should perform several functions:

- Facilitate the collection, monitoring, analysis, and communication of detailed fixed and variable IT cost components globally
- Provide multiple permutations of TCO, ROI, NPV, and payback across business units and operational processes
- Provide recurring (monthly/quarterly) analyses of pertinent financial information for executive decision making
- Create a sound justification for justifying claims of strategic and intangible benefits
- Allow decision makers to track performance of multiple cost drivers and respond to alerts of under-performance
- Offer scalability through phased implementation, and at different levels of granularity based on the customers' needs.

Ideally, this tool will be built on a base package of repeatable functionality (to be used for all customers to minimize the vendor's marginal costs) combined with customizable components to fit each customer's unique requirements. Most importantly, the tool must be intuitive and easy to use.

Dashboard visibility of IT cost drivers across the company will also enhance the customer's ability to use the solution optimally. This visibility consists of trend analysis, alert monitoring, and granular data analysis. Executives and managers

with knowledge of cost-driven events and trends can make more effective decisions and take preemptive actions. For example, if a given business unit has a cost overrun in hardware acquisition, executives will have immediate knowledge of how that overrun adversely affects total cost of ownership and the resulting ROI. Currently, many executives would have little ability to perceive, and hence act upon, this event. The dashboard is the vehicle through which the vendor provides real-time and continual proof to justify the customer's investment decision.

The second component in the vendors' toolkit is scenario modeling. Using the TCO Model, customers can run "what-if" scenarios to verify the model's assumptions and test alternative strategies, including competitor's offerings. Close customer involvement in the scenario development can avoid biased results and overcome hesitation about sharing proprietary cost data. These scenarios should be used not only in the initial sales cycle (to contrast alternatives) but more importantly throughout the lifecycle of the solution (to measure and track against what was positioned in the sales cycle.)

There are several quality software products on the market today that address the issues of TCO/ROI and scenario modeling. The lack of their widespread use, however, is another indication of the same problems. Requiring solutions providers to deploy this type of tool will greatly increase the likelihood of successfully capturing the expected value from supply chain IT investments.

Internal Transformation

Our experience with dozens of leading companies embarking on supply chain or collaborative commerce strategies makes one fact perfectly clear. Investing in a solution is the easy part; actually using and optimizing it is quite the opposite. Many executives will attest to encountering significant resistance to these solutions from internal groups. In fact it is common to encounter more difficulty in overcoming cultural roadblocks than technical ones. There are many reasons for this resistance, including:

- Lack of incentives to support, contribute to, and use the solutions
- Uncertainty over the value gained by individuals and groups, in addition to the company's gain
- Comfort with existing systems and process
- Perception (or reality) of exclusion from the selection and implementation process
- Users' fear of being "scrutinized."

Many or all of these factors are usually present, and the presence of any will always result in sub-optimal deployment. Of course all these factors can increase exponentially when multiple trading partners are involved in the solution. Compounding the problem is that fact that companies are frequently aware of this sub-optimization, but have neither the means nor the willingness to counteract it. ROI and TCO not only are invisible (due to lack of a measurement tool), but worse, can't be improved. The end result is a "black hole" of IT investment—no one knows for sure what they're getting for the money.

In the go-go days of the dot.com hype, it was easy for some companies to ignore the black hole. But not this time. No longer can one group assume that the logic or strategic value or competitive advantage they see in a new solution will be agreed to by others who will presumably use it (or help pay for it). Nor can success be willed into being by squeezing vendors' margins and forcing employees to play along. Extracting real value out of existing and future IT investments will require changes in thinking about how we approach implementations.

The critical point many executives are missing is the need to put in place a mechanism to ensure that the organization is *capable* of maximizing value over the long term. But the evidence is pretty clear that current organizational theories haven't been able to accomplish this. "Change management" projects simply don't work. People rarely modify their behavior just because a "change management" project has been announced. Executives should instead begin to engender *cultural evolution* in their organizations.

Cultural evolution is a process, not a project; it's a continual mode of working, not a deadline-driven initiative. Companies launching complex supply chain and collaboration initiatives must create an internal environment that will *allow* the transformation that's required to realize value. In order for real recovery to begin, corporate leaders need to place far more emphasis on communicating the reasons and expectations for deploying a given IT solution. Part of this emphasis must include becoming more willing to assess internal operations and deploying incentives for the improvement of these operations—thereby opening the door for value capture. Most importantly, the intended users and beneficiaries of the new solutions must be shown what's in it for them. People will need to see tangible value in exchange for modifying their behavior. Cojent Consulting, a boutique supply chain consulting firm, has proven methodologies to guide companies down the path of cultural evolution. These are founded upon the following key elements:

Key Element	Examples	Benefits
Communication	<ul style="list-style-type: none"> ○ Clearly communicate what is changing ○ Segment the audience 	<ul style="list-style-type: none"> ○ Respects the views of those affected ○ Matches messages with needs ○ Reveals vulnerabilities
Incentives Alignment	<ul style="list-style-type: none"> ○ Ensure that IT staff have a reason to contribute ○ Involve staff in the changes 	<ul style="list-style-type: none"> ○ Creates fair standards and expectations ○ Facilitates compliance
Innovation Catalysis	<ul style="list-style-type: none"> ○ Create the proper environment for implementing changes ○ Require innovation 	<ul style="list-style-type: none"> ○ Increases risk tolerance ○ Balances accountability and responsibility
Skills Alignment	<ul style="list-style-type: none"> ○ Match requirements with capabilities ○ Continually realign 	<ul style="list-style-type: none"> ○ Ensures the organization is capable of change ○ Guides change in the right direction

Summary

We believe the approach outlined here will create lasting benefits for both solutions providers and their customers. For the providers, it will allow for accelerated sales cycles, more cooperative and longer-term relationships with customers, and a valuable reserve of fact-based information they can use to justify their solutions to new customers. For the customers, we see accelerated implementations, deeper support across the enterprise for minimizing TCO and maximizing ROI, and more sound justification for ongoing strategic investment. Finally, this collaborative approach will give both providers and their customers clearer visibility of the degree to which the solutions' value proposition is being realized.

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