

Business Impact and ROI Analyses that Support Project Funding

Activity-based, Integrated Planning and Budgeting Results in Credible ROI Analyses that get Funding.

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Management continues to focus on improving the use of resources. The value of this strategy has been apparent over the last years as overall productivity continues to increase, driving both corporate and economic performance.

There is, consequently, a growing sophistication and an emerging set of concerns in management groups on how value is understood, measured and presented. Since most project proposals require a business plan (embodying the benefits, Total Cost of Ownership (TCO) and Return on Investment (ROI) measures), the quality of these **Business Impact Analyses** is becoming a determining factor in obtaining the funding that enables managers to pursue projects they feel are important.

This paper outlines a process that has been used successfully for creating high quality Business Impact Analyses that are a foundation for obtaining project funding. In particular, this paper addresses the concerns that upper management is expressing about most analyses they receive, including:

- Typical ROI analyses are suspect because they focus on a narrow view of change, for instance, “4 Full Time Equivalent Personnel saved”, and do not position the project’s benefits in terms of impact on the overall business unit over time.
- There is no way to capture or quantify cross-elasticity with other projects that may either enhance or reduce the benefits of the project in question. When is this project addressing the same benefits addressed by others?
- There is no way to measure whether the projected results have actually happened, especially if there are multiple projects affecting performance, so there is a high degree of uncertainty about the decisions to be made. “Did we get the benefits we were promised?”

Example Business Impact Analyses

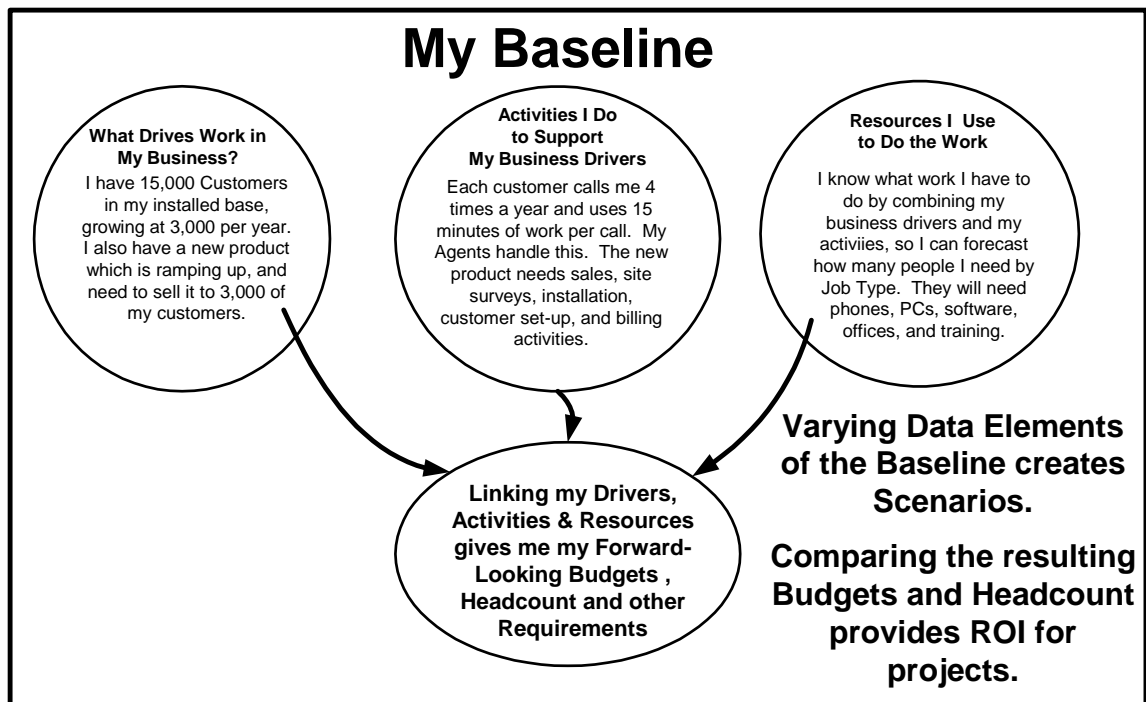
Examples of several analyses are available on the Primary Matters Web Site, at [Example Business Impact Analyses](#). These are generic examples based on multiple projects completed for organizations. These often resulted in funding for the projects under discussion.

In order to address these concerns, an organization should create a Baseline of their organization. Such a Baseline starts with the work performed in the organization to produce the operations, labor and other costs and ultimately the group’s total budget. The impact of project proposals can then be evaluated against this Baseline to determine their financial viability, thus ensuring there is a common framework for evaluating and ranking projects.

Creating a Solid Business Impact Analysis requires a Baseline of the Organization

The credibility of an analysis is improved significantly when an accurate portrait of an organization is the foundation of the analysis. This **Baseline** is the ‘before’ scenario, and should include:

- A forward-looking view of what drives the business operation, whether it be an installed base of customers or products, that projects the current and forward-looking demand on the organization.
- The headcount and cost of all the employees by major personnel category who may be affected by a project.
- The costs of the systems, office space and services that support the personnel.
- The demand on and costs of other systems that are required to accomplish the organizations work.
- The overall budget for the business operation.



With this information, the Baseline becomes the foundation for mapping the impact of proposals and projects on the organization. It captures the core data which will be varied by the changes that a proposed project will make on the organization.

By understanding these changes, which become the “after” Scenario for the project, a comparison of the Baseline (before) and Scenario (after) will provide the data supporting the Business Impact Analysis.

Building a Business Impact Analysis for Approval

The following outlines some major steps for building a Business Impact Analysis that, if a project has merit, will be accepted as foundation for funding.

1. **Define the Project**
 - Describe the project. What are its goals?
2. **Determine and Document the Benefits**
 - Are there changes in Business Processes? Will there be a personnel reduction? Will some work be offloaded to technology or eliminated? Might there be an increase in number of customers or customer satisfaction? Will revenues change? Will the customer life cycle lengthen?
3. **Create the Baseline of the Organization**
 - What are the Business Drivers that cause work to be done? A customer or product base? New sales?
 - What activities (business processes) are done to support the business drivers? How much time do the activities require? What personnel categories accomplish them?
 - What and how many personnel are there by major Personnel Category? What are their costs and productivity?
 - What systems support personnel, including hardware, software, offices, and services?
 - Are there processing systems, such as Integrated Voice Response, Web Sites, or manufacturing solutions?
 - What is the total Budget for the business operation?
4. **Determine the Total Cost of Ownership of the Proposal**
 - Include capital, upgrades, system integration, ongoing development, maintenance, operations resources, training and management.
5. **Produce the Financial Analysis**
 - Using the Baseline data, map the changes in Business Drivers, Activities (business processes) and labor that will occur.
 - Attach the associated costs and benefits, including changes to other systems (PCs, software licenses), office space, and services (telecom).
 - Input investment costs of the project, over time.
 - Compare the Baseline budgets and headcounts with those of the impact Scenario.
 - Create the ROI and other financial measures.
6. **Document the Business Impact and ROI Analysis, including:**
 - The project definition and goals,
 - Assumptions about cost and benefits,
 - The Baseline –the organization before the project, and
 - The ROI Scenario –the organization after the project.
7. **Release to the audience. Get edits. Do updates. Reach agreement.**
 - It often takes 4 to 6 iterations before all the players are satisfied.
 - This is as much a communications process as it is an analytical process.
 - The goal is to reach an agreement with all of the players.

The Primary Matters Guide™

The Guide is Primary Matters' flagship software product. It is next generation activity-based planning and budgeting solution used in a number of large and small organizations. This software product is also the foundation of Primary Matters' Business Impact analysis consulting and is used for that purpose by consultants as well as management groups in companies.

Users of The Guide usually produce sophisticated Baselines in 1 to 3 days of work and fully documented Business Impact Analysis in 4 to 10 days.

For most projects, this process may take only a few weeks and about 5 to 10 person days of effort depending on the complexity of the project. Obviously, extremely complex projects turn this exercise into a full time activity for one or more persons, but very few business impact analyses require this level of effort.

An Example Executive Summary Business Impact Analysis Table

The following table provides a high level summary of a Business Impact Analysis. The Baseline and Scenario headcount are identified, as well as the Total Cost of Ownership for the project. The resulting cash flow changes in the Budget are then listed with the pay-back periods clearly identified. The typical financial calculations, such as Present Value, Net Present Value and the Return on Investment are then itemized.

A manager can look at this and immediately see what the impact will be on their bottom line performance.

**Example of a High Level Business Impact Summary
 Changes in Personnel, Budgets, TCO and ROI**

Headcount Comparison												
	Q1FY04	Q2FY04	Q3FY04	Q4FY04	Q1FY05	Q2FY05	Q3FY05	Q4FY05	Q1FY06	Q2FY06	Q3FY06	Q4FY06
Baseline Variable Employees	1,038	1,058	1,079	1,099	1,120	1,142	1,164	1,186	1,209	1,232	1,255	1,279
Scenario Variable Employees	1,038	1,058	1,064	988	923	924	925	925	927	933	938	943
Personnel Reduction	0	0	14	112	197	218	239	261	282	299	317	336
Investment and Expenses - Total Cost of Ownership (TCO)												
Total	\$ 405,000	\$ 2,123,175	\$ 1,766,826	\$ 1,072,338	\$ 1,480,866	\$ 986,512	\$ 989,023	\$ 491,415	\$ 494,803	\$ 499,434	\$ 503,876	\$ 508,308
Summary Financial Results in \$000's												
Baseline Budget	\$ 20,380	\$ 20,418	\$ 20,733	\$ 21,185	\$ 21,642	\$ 22,155	\$ 22,602	\$ 23,189	\$ 23,704	\$ 24,271	\$ 24,729	\$ 25,325
Scenario Budget	\$ 20,772	\$ 22,835	\$ 21,944	\$ 19,435	\$ 19,330	\$ 19,162	\$ 19,276	\$ 18,884	\$ 19,043	\$ 19,256	\$ 19,454	\$ 19,651
Savings	(\$393)	(\$2,417)	(\$1,211)	\$1,751	\$2,312	\$2,993	\$3,326	\$4,305	\$4,661	\$5,015	\$5,275	\$5,674
Cumulative Savings	(\$393)	(\$2,810)	(\$4,021)	(\$2,270)	\$42	\$3,035	\$6,361	\$10,666	\$15,327	\$20,342	\$25,617	\$31,290
Annual Cash Budget Comparison												
		Year 1	Year 2	Year 3								
Baseline		\$82,716,616	\$89,588,346	\$98,029,071								
Scenario		\$84,986,573	\$76,652,394	\$77,404,761								
Annual Cashflow Savings due to Initiative		(\$2,269,957)	\$12,935,951	\$20,624,309								
Investment/TCO		\$5,367,339	\$3,947,815	\$2,006,422								
Cumulative Return on Investment/TCO for Scenario Scenario		-42%	115%	276%								
Discount Rate	15.00%	PV of Investment/TCO	\$8,646,729	NPV of Cashflow	\$20,082,665	ROI	232%					

Appendix 1: The Primary Matters Guide™: An Activity-based, Integrated Planning and Budgeting Solution

The Primary Matters Guide™ (www.primarymatters.com) is a powerful activity-based integration planning and budgeting tool. When deployed to create budgets and resource requirements, or used as a diagnostic probe, a change management counselor, or a forward-looking planning tool, The Guide plays an important role in the management of organizations. The Guide is also Primary Matters' publishing platform. It holds information about typical systems, personnel and service costs, enabling the user to simply 'click and choose' what is most important for their environment, and to investigate potential changes to that environment.

The Guide is a sophisticated planning tool. Yet it addresses the biggest problems with tools of this nature-- that of complexity, long time to benefit, high expense, and lengthy training requirements. It has been designed so that the user focuses only on the factors that will make a material difference to The Guides' results and its ability to support critical business decisions. Many organizations receive formal training and, literally, within three to five days, are obtaining significant business benefits from the environment.

What does The Guide Do?

The Guide provides a managerial tool and decision support system that enables executives and managers to *create budgets & resource requirement forecasts*, *evaluate* the current performance of their business operations, *manage* their business operations, *plan* for future growth, and *test new scenarios*. Just answer a few basic questions — projected activity volume, tasks that must be accomplished, technologies, and anticipated growth — the Guide builds a complete business model and produces a wealth of management information in hours rather than weeks or months. The Guide:

- Provides an accurate, three -year, line item budget covering fully-loaded labor costs, external labor costs, technology operation and maintenance costs, telecommunication and other service costs, facilities, marketing, travel, and miscellaneous costs.
- Unearths the fully allocated and variable costs of the Activities and Tasks a company must do to meet its goals, whether they be for sales, customer service, installation, or other functions.
- Specifies resource requirements to achieve target growth objectives — staffing, skills, systems, equipment, facilities, etc.
- Examines 'what-if' scenarios, showing the impact of alternative work processes, personnel programs, contact methods, and technology on resources and budget.

Historically, budgeting and forecasting have been the Achilles heel of managers, consuming hours of valuable time. The Guide delivers a quantum improvement in information richness, detail, and accuracy. Established companies, with large mature operations, as well as startup operations have embraced The Guide.

What Makes The Guide Unique?

The manner in which people, systems, and activities are defined and linked to enable forward looking projections of resource requirements and costs is patent pending.

- The structured, easy to follow user interface creates Baseline Budgets and Resource Requirements in hours not weeks.
- Activity-based costs are a part of the Baseline Reports, and enable targeted cost cutting at the task level.
- Every single data element is may create a potential scenario, with comparisons to the baseline produced in seconds.
- System Categories and Templates are pre-populated with production data, producing ROI reports in seconds.
- Activities can be reengineered and the results evaluated in minutes--prior to spending money and talent.

- Business Drivers--your installed base, your new customers, your sales goals, etc., are linked to activities, and become important sources of 'what if' analyses. Instantly understand the impact of an improved sales process on your contact volume.

The Guide gives you revolutionary planning and decision support ability. Users of The Guide will be trained and receiving value from The Guide in days.

About the Author: Gregory Borton, CEO, Primary Matters, Inc.,

Mr. Borton has spent over fifteen years designing technology to improve the performance of the customer contact and sales disciplines. During this time he has served on the advisory board of five contact center and CRM companies, and has consulted to both the vendor and end user communities. He is the inventor of The Primary Matters Guide™, and participates in its architecture design as well as development.

Mr. Borton launched his career at Digital Equipment Corporation in the Telecommunications Marketing Group. He then moved to R&D, and become involved in customer service applications as a planner and product manager at Digital, where he is widely credited, with several others, of inventing the concept of computer-telephony integration (CTI). As a product manager, he shipped the first CTI products available on the market. Digital's CTI product line was sold to Intel, and is the foundation of Intel's CTI product line.

Mr Borton founded and served as CEO of Nabnasset Corporation, a successful CTI software products company. With an installed base of over 100 sites in large financial, manufacturing, and service organizations. He sold Nabnasset to Quintus Corporation in 1997. Quintus was sold to Avaya in 2001, and the product set continues on as Avaya's Interaction Server.

He is a graduate, cum laude, of Harvard College in the sciences.