WHITEPAPER

PRIORITIZING PROJECTS TO MAXIMIZE RETURN ON INVESTMENT (ROI)

CC PACE

INTRODUCTION:

WHY FOCUS ON ROI?

In today's rapidly evolving business landscape, it is critical for organizations to strategically invest in projects that will deliver maximum value and return on investment (ROI). Companies that take a systematic approach to predicting, measuring, and managing the ROI of their projects and technology investments gain a distinct competitive advantage.

However, very few organizations implement robust ROI analysis processes proactively or as a core strategic capability. More often, businesses realize the painful consequences of misalignment only after experiencing depleted budgets, ineffective projects, and strategic initiatives that fail to reach completion.

For over 40 years, our firm has been working closely with clients across industries to help them maximize the business value and impact of their technology investments. We have developed a flexible yet rigorous framework for conducting ROI analyses to align proposed projects with core business objectives and projected returns.

This white paper provides both a high-level overview of our ROI analysis framework as well as detailed descriptions of the step-by-step processes and guidelines we utilize. Our approach emphasizes critical techniques such as:

- Leveraging lessons learned from past projects to inform future projections
- Weighing and balancing corporate strategic priorities
- Thoroughly evaluating problems with current processes and systems
- Identifying and vetting new initiatives with transformative potential
- Rigorously assessing alternatives and trade-offs
- Developing comprehensive implementation plans tailored to the organization

By leveraging the strategies outlined in this white paper, organizations can make smarter, more data-driven IT investment decisions, increase alignment between technology projects and business goals, and ultimately execute initiatives that accelerate growth and deliver maximum ROI.

GETTING STARTED:

LAYING THE FOUNDATION

The quality of the data and information used in analyzing the potential ROI for a portfolio of projects directly impacts the quality of the analysis results. Often, key information needed for robust ROI projections is not available in a format suitable for direct use in modeling. Relevant data may be buried deep in hefty corporate documents or retained informally across decentralized systems. This requires upfront work to locate, extract and structure the data for analysis.

The core information required to establish a solid foundation for technology project ROI analysis typically falls into several key categories:

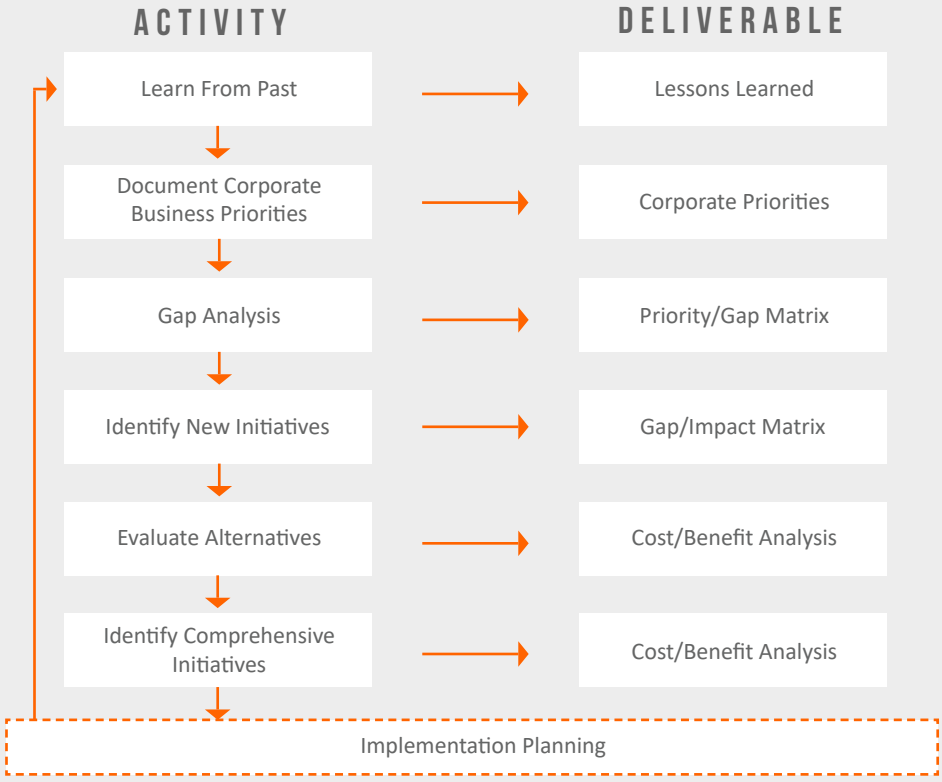
- Previous Project History: Evaluating prior project benefit and cost projections versus actuals provides valuable insights to inform current and future analysis. Comparing anticipated metrics to real-world outcomes helps refine projections.
- Ranked Business Priorities: Ensuring tight alignment with quantified strategic business objectives is critical for project success. Prioritizing goals aids in assessing the business value of potential initiatives.
- Current Organizational Metrics and Trends: Documenting performance metrics tied to corporate goals helps evaluate project ROI. Relevant metrics may include revenue, customer satisfaction, operational costs, and other KPI trends.
- Internal Cost Benchmarks: Compiling data on resource availability and internal cost structures is essential for evaluating required project outlays accurately.
- Organizational Status: Technical, organizational, and business factors that may impact project success should be noted. Current and planned technology architecture are key inputs.
- Assumptions: Explicitly documenting the hypotheses, assumptions, and uncertainties underlying decisions provides the ability to revisit and update priorities as the future unfolds.
- Establishing this comprehensive fact-based foundation upfront enables data-driven analysis, believable projections, and confident ROI and project prioritization decisions.

PUTTING IT TOGETHER: A SYSTEMTIC PROCESS

Implementing a systematic, well-structured process for organizing, analyzing, and prioritizing proposed projects is critical to enable data-driven decision making and justify chosen investments. By formalizing and documenting the end-to-end ROI analysis process, organizations can:

- Ensure the foundational information and data inputs are as comprehensive, accurate, and objective as possible. A reliable fact base is the cornerstone of credible analysis.
- Provide consistency in evaluating potential projects by the same clearly defined criteria. Documented frameworks reduce bias and subjectivity.
- Continuously incorporate business and market changes by revisiting underlying assumptions to keep analysis relevant as internal and external dynamics shift.

The discipline of a formal ROI process also facilitates reevaluation of in-flight projects to confirm they remain aligned with business objectives and are delivering anticipated returns. A structured approach leads to smarter investment decisions and greater business impact.



FRAMEWORK OVERVIEW

LEARN FROM PAST PROJECTS

Many organizations and project teams focus heavily on analysis and projections during pre-project justification, but conduct little post-implementation review of actual costs, benefits, and outcomes. While avoiding scrutiny may be politically expedient, failing to learn from the past squanders opportunities to refine processes and improve future results.

Comprehensive post-project analyses should evaluate:

- Anticipated versus actual direct and indirect costs, along with the accuracy of schedule projections. Understanding deviations leads to better estimates.
- Projected business benefits compared to real-world benefits achieved once live. Were expectations met?
- Sources of both positive and negative variances from the plan. Documenting the drivers behind unexpected costs and benefits allows more accurate modeling.
- Required business process and staffing changes that were overlooked during planning. How could projections better reflect real-world impacts?
- Requirements changes during and post-implementation. Can project and change management be improved?
- Successful project elements that should be replicated. What worked well and why?
- Mistakes made or lessons learned for avoidance in the future. How can adverse risks be mitigated proactively?

Making post-project reviews standard practice provides data to refine projections, processes, and planning. The key is applying lessons learned to future initiatives so the organization continuously improves.

DOCUMENT CORPORATE BUSINESS PRIORITIES

Corporate strategies and objectives evolve rapidly in response to market conditions, competitor actions, and business realities. While business goals are moving targets, maintaining an up-to-date scorecard representing leadership's ranked priorities provides critical alignment between those priorities and technology investment decisions.

Where possible, quantifying the relative weight of each business goal, even simply on a 1-10 scale, enables easier comparison of potential IT and process initiatives to determine which projects demonstrate greatest strategic alignment and impact.

- Common categories of ranked corporate priorities include:
- Revenue, market share, and customer engagement goals for specific products/services or the overall portfolio- including customer retention, acquisition, increased order volume, and maximized lifetime value.

- Efficiency and quality targets for key business processes, which may involve reducing costs, shortening cycle times, or minimizing defects. Internal process improvement goals are often set based on external best practice benchmarks and competitor comparisons.

- Subjective, qualitative goals like improving customer or employee satisfaction and loyalty. Useful for evaluating the effectiveness of processes, support functions, and experiences.

- Financial health objectives related to profitability, cost structure, working capital, debt levels, and inventory turns.

Documenting and quantifying business priorities guides technology and process initiatives towards maximum strategic alignment and business impact. Regularly revisiting and updating leadership's ranked priorities keeps decisions aligned as strategies shift.

IDENTIFY GAPS IN ACHIEVING OBJECTIVES

Many ROI frameworks start with proposed technology projects and try to backwards-justify business alignment. We recommend inverting this approach by beginning with clearly defined business priorities and strategically probing the processes that may inhibit achieving those goals.

For each quantified business priority, thoroughly analyze the associated processes and systems to identify root cause gaps that pose barriers to success. For example, for a priority around increasing revenue and market share, review processes tied to customer acquisition, retention, and satisfaction.

Potential areas to analyze for gaps relative to a revenue goal:

- Customer Analytics: Are we optimizing cross-sell/up-sell to maximize wallet share among existing customers?
- Market Analysis: Are we selling the optimal products and solutions that target markets want to purchase?
- Customer Service: Are we efficiently and effectively answering buyer questions, handling requests, and managing orders?
- Inventory Management: Are we forecasting, stocking, and delivering to meet buyer needs?
- Production: Are defects impacting quality or costs?
- Distribution: Are we delivering the right products in the right quantities to the right places at the right time to meet buyer requirements?

Methodically identifying specific process gaps provides focus for technology and process initiatives aimed at closing those gaps to achieve business goals. Beginning with priorities guides investments toward maximum strategic value.

IDENTIFY NEW INITIATIVES

INCREMENTAL INITIATIVES

The most cost-effective, fastest, and easiest approach to achieve a business goal is often incrementally improving existing processes and systems. Consider both current manual and automated processes, as most initiatives require optimizing both how work is performed and the systems supporting that work.

Potential incremental changes may include:

- Application enhancements like new reporting capabilities
- Process measurement additions or reporting relationship changes
- New purchased or custom-developed applications to augment capabilities

Incremental initiatives balance returns with smaller, targeted investments leveraging existing platforms.

NEW/COMPLEX INITIATIVES

While major transformation initiatives have risks, it is prudent to evaluate large-scale process or technology changes to solve persistent issues or gain competitive advantage. The key is realistically assessing benefits, costs, and risks to avoid "flavor of the month" syndrome.

First, identify gaps inhibiting business goal achievement. Next, research best practices and brainstorm process and technology innovations that could significantly improve performance.

New models could involve:

- Outsourcing previously in-house functions
- Reorganizing processes, staffing, or metrics
- Adopting emerging technologies or channels
- Implementing new data-driven capabilities like predictive analytics
- Leveraging innovations and best practices from other industries

QUANTIFYING INITIATIVE VALUE

Quantifying potential value is challenging but vital. Analyze factors like:

- Impact and cost of process problems
- Likelihood initiative will resolve targeted problems
- Success rate for similar past initiatives
- Process improvement value related to goal

Categorize initiatives by type and estimated value in addressing gaps. Many organizations find value in quantifying initiative value/impact on a relative scale. Comparing options leads to more objective, data-driven prioritization.

EVALUATE ALTERNATIVES

COST ESTIMATION

Developing comprehensive and accurate cost estimates is crucial for effective project prioritization and planning. Carefully consider both direct expenditures and indirect costs:

- Direct costs require specific cash outlays such as hardware, software, third-party services, training development, facilities, licensing, and more.
- Indirect costs represent the opportunity cost of internal resources that could be allocated elsewhere absent the project. These include existing staff, equipment, office space, and general overhead.

For large, longer-term initiatives, discounting projected multi-year costs to net present value enables proper comparison, as near-term expenditures are weighted higher than future costs due to the time value of money.

Capturing all direct and indirect project costs provides the foundation for realistic planning and success.

HIDDEN COSTS

Beyond obvious out-of-pocket expenses, changes in processes, systems, and organization often incur subtler hidden costs:

- Learning curve productivity impacts as workers gain proficiency with new systems, processes, roles.
- Overcoming organizational resistance and fear of change requires additional communication, training, and support.
- Lost opportunity cost of displaced resources who are no longer conducting their previous duties.
- Cultural and morale impacts of major changes.

Consider both one-time transition costs and recurring hidden costs that may continue for years.

IMPLEMENTATION RISK ASSESSMENT

An initiative's feasibility and merit cannot be fully represented by financial factors alone. Organizations should also evaluate risks such as:

- Overall complexity and integration requirements with existing systems and processes
- Availability of sufficiently skilled internal resources versus need to build or acquire talent
- Magnitude of required organizational change management
- Past successes and failures with similar projects

In general, implementation risk increases proportionally with project duration, so shorter timelines are preferential when viable.

BALANCED DECISION-MAKING

There are always difficult trade-offs to weigh across options when it comes to cost, benefit, risk, and resource constraints. Taking a portfolio approach enables data-driven decisions based on the full context.

Leadership should collectively define the weightings for each evaluation criteria to reflect organizational priorities and realities. An impartial external view can further reduce biases in decision-making.

Common prioritization frameworks include:

- Top tier cut-off based on benefit/cost ratios
- Ranking all options by total expected business value
- Investing available budget in order of value

Re-evaluation at milestones validates chosen initiatives remain strategically aligned and deliver anticipated returns. A structured process leads to smarter capital allocation.

IDENTIFY COMPREHENSIVE INITIATIVES

Analyzing the full portfolio of proposed initiatives and identified gaps may reveal common underlying organizational, technical, or architectural weaknesses. Addressing these systemic issues can provide cascading benefits.

Potential broad opportunities to evaluate include:

- Improving strategic alignment within business units as well as across the enterprise
- Increasing collaboration and reducing silos between business and IT organizations
- Addressing technology infrastructure shortcomings such as:
  - Lack of critical staff skills and competencies
  - Persistent reliability, performance, or security issues
  - Ineffective systems integration and interoperability
- Need for modernization
- Enhancing project delivery and management disciplines

Once systemic gaps are identified, comprehensive initiatives to address them can be defined, assessed in terms of business value, and evaluated for implementation costs and risks.

This activity provides the opportunity to identify high-impact foundational initiatives that could benefit multiple projects while coordinating implementation plans across chosen initiatives and goals. Thinking expansively can reveal overarching vulnerabilities and opportunities.

IMPLEMENTATION PLANNING

This activity brings together the preceding work into an integrated implementation plan. The project portfolio analysis is synthesized into a comprehensive schedule, resource plan, and consolidated budget.

Supporting artifacts may include:

- Documenting resource dependencies across projects
- Quantifying the expected business value benefits of each initiative
- Defining interim checkpoints to measure progress and validate return

The ROI planning process need not be excessively detailed or prolonged. First-pass prioritization can be completed quickly using high-level assumptions to identify top-tier projects. More rigorous data collection and analysis can then focus on refining planning for approved initiatives.

Remember prioritization is an ongoing exercise rather than a one-time effort. Schedule regular reviews as projects progress to re-evaluate risks, costs, and anticipated business value compared to initial plans. Monitoring validated progress triggers adjustment or cancelation for initiatives no longer aligned.

A structured, adaptable process leads to agile course correction and confident investment in technology that delivers maximum business impact.

SO, WHAT'S MOST IMPORTANT?

Implementing a disciplined ROI analysis process is critical for organizations to maximize returns on technology investments. Based on our experience, the most essential elements for success include:

- Always aligning initiatives tightly with clearly defined business goals and challenges. Avoid the common pitfall of starting with technologies and then back-justifying business utility.
- Completing ROI analysis both retrospectively and prospectively. Evaluate past project outcomes compared to estimates to refine projection models and assumptions. Learn from history.
- Recognizing most goals require blended changes to processes, organizations, skills, and technologies. Purely technical solutions are unlikely to be sufficient in isolation.
- Leveraging creative approaches to quantify expected benefits where possible, while also allowing for subjective assessments of value for intangibles.
- Continuously revisiting prioritization as business environments evolve. Initiatives delivering maximum value change over time.

With a structured, adaptable ROI analysis framework in place, organizations can confidently pursue technology initiatives that move the needle on business performance while pragmatically navigating investment trade-offs. Please reach out if we can help assess your portfolio and pipeline opportunities.