IT Projects - Measuring and Maximizing Return on Investment (ROI)

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Conclusions

- ROI measurements can help IT managers validate and prioritize projects

- Maximizing ROI occurs when you consider **all** costs and **all** benefits

- Project approval is achieved by matching project type with an organization's technology adoption profile

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What is Return on Investment (ROI)?

- ROI is commonly expressed as a percentage derived from dividing revenue by investment

- ROI is an estimate of the financial benefit (the "return") on money spent (the "investment") on a particular project

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Why is ROI important?

- Evaluate competing projects

- Provide metrics for business case

- Measure managerial effectiveness

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Costs and Benefits

**Costs
(Investment)**

Direct Costs

Known, expected costs

Indirect Costs

Less identifiable, usually
distributed costs

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Costs and Benefits

**Benefits
(Revenue)**

Hard Benefits

Easier to measure and
quantify in actual
dollars

Soft Benefits

Harder to quantify in actual
dollars even if they can be
measured

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Cost Calculation Factors

Direct Costs

- Acquisition
- Development
- Operation and maintenance
- Implementation
- Training
- Staffing
- Conversion

Indirect Costs

- Utilities
- Rent
- Communications
- Management

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Benefit Calculation Factors

Hard Benefits

- Increased revenue
- Reduced expenses

Soft Benefits

- Customer and employee satisfaction
- Improved decision-making

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IT Project Types

Invention

Improvement

Focus on creating new processes, products, markets

Focus on efficiency

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Improvement Projects

Example:

The acquisition and implementation of a new off-the-shelf application to improve contracts management

Improvement Projects
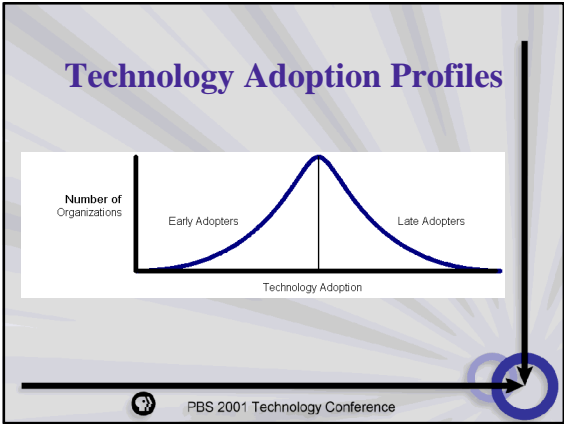
Example:

The acquisition and rollout of desktop printers

Invention Projects

Example:

The development and implementation of an e-business initiative to manage grants processing

Technology Adoption Profiles

Number of
Organizations

Early Adopters   Late Adopters

Technology Adoption

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Early Adopters

- Aggressive (high risk)

- Focus on creating new processes, products and markets

- Emphasize soft benefits

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Late Adopters

- Cautious (low risk)

- Focus on efficiency

- Emphasize hard benefits

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Project Approval

Adoption Profile

	Early Adopters	Late Adopters
Project Type Improvement	More Difficult	Less Difficult
Invention	Less Difficult	More Difficult

Project Approval
Effectively Communicating ROI

- Explain costs and benefits clearly

- Hard benefits first, soft benefits second

- Numbers, numbers, numbers!

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ROI Mailing List

http://mailman.cpb.org/mailman/listinfo/roi

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