

# Microsoft

## Business Value

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### ***An introduction to the Rapid Economic Justification (REJ) framework***

#### **Introduction**

IT investments are becoming larger and more strategic to most organizations. As a result, CFOs and CEOs are increasingly demanding *quantifiable benefits* to the business from these investments. Company executives want to know the business impact of investments in IT infrastructure in relation to investments in other strategic parts of the business, such as R&D, manufacturing, and sales and marketing. Some companies are even requiring IT investments be mapped to shareholder value. **Bottom line: IT Managers today must be able to show their CIO or CFO in hard numbers what kind of a return they can expect on their IT investment.** But determining the bottom line when it comes to IT investments isn't always an easy thing to do.

Traditionally, companies evaluate IT investments on the basis of cost improvements, primarily within IT. Methodologies tend to focus on Total Cost of Ownership (TCO) and the strategic role of IT driving new opportunities for the business is largely ignored. In this light, IT's benefits to the business can be difficult to quantify, and as a result are often left out of the business case. But though traditional accounting methods make it awkward to absolutely quantify IT's value, that doesn't mean the issue of IT's value should be ignored.

This has created a need for a more refined approach to IT investment - an evaluation framework that can identify and quantify the payoffs from IT across functions, departments and value chain over a period of time.

The economic justification of IT projects has been researched extensively in the past decade. While the models and techniques developed through this research provide a high degree of precision and mathematical certainty, they require extensive data and time to prepare. Our research shows that IT managers need a new, pragmatic, and quick approach to understanding and quantifying the value of IT investments.

#### **What is Rapid Economic Justification?**

Rapid Economic Justification (REJ) is a framework to help IT professionals analyze and optimize the economic performance of IT investments, and appropriate optimal resources and capital for IT projects. The core premise of this framework is that it is "business centric" and drives to align business priorities and IT investments. The focus is on business improvement, which may include operational efficiency as an important element, but not the primary focus. In a collaborative process, REJ enables both business and IT stakeholders to understand how technology capabilities can improve the metrics that define success for the business.



**Figure 1 - REJ Steps: The REJ process consists of five individual steps, resulting in new optimization opportunities for your IT project. Each step focuses on a specific dimension of the economic analysis.**

REJ work starts with the understanding the business and ends with the metrics. Each step is articulated in the *language of the business*, so business executives clearly understand the tangible impact of the IT initiatives and gain a greater understanding and appreciation for the strategic implications of IT investment. This method is faster and more flexible than traditional methods, and produces just enough data to avoid the analysis paralysis that can often occur in developing a business case.

## How is the Rapid Economic Justification Framework Used?

The REJ Framework follows five logical steps represented below to derive the business value.

### Step 1: Understand the Business

Value, like beauty, is "in the eye of the beholder," which is why the business and IT team members need a clear map to achieve a common perspective of what really drives the business and its investments. The Business Assessment Roadmap, shown below, identifies the key stakeholders, their critical success factors (CSF), the strategy to achieve them, and the key performance indicators (KPI) that determine success.

**Business Assessment Roadmap**

Stakeholders	CSF	Strategy	KPI	Current	Desired	Process	Owners
CEO							
CFO/MP							
COO							
IT Staff							
Resellers							
Suppliers							

Figure 2 - Business Assessment Roadmap

### Step 2: Understand the Solutions

Next, the project team will work with the owners of the key business processes using flow charts, fishbone graphs, and process analysis to identify ways of applying technology solutions to increase alignment with the organization's critical success factors.

### Step 3: Understand the Benefit/Cost Equation

The benefit calculation in REJ goes beyond just an itemized list of benefits for the IT budget owners, traditionally found under the Total Cost of Ownership (TCO) umbrella. Benefits can be expressed in many ways, but they often fail to communicate in the language used by the business decision makers.

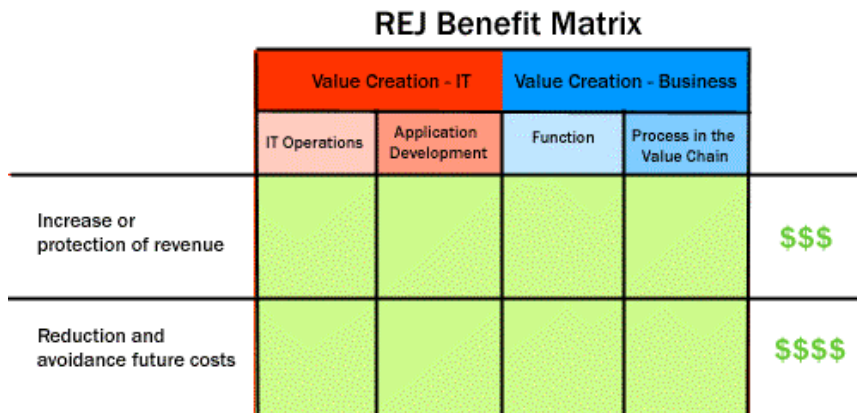
In order to communicate effectively, the team uses tools and best practices that take the process from planning to implementation analysis to establishing metrics, where BDMs can evaluate the IT scenarios in terms of business value.

**Table 1 - Profiling Benefit**

<b>Analyze</b>	Use well-known functional categories that give credibility to the analysis. An example would be use of a work breakdown structure (WBS) diagram to represent a process.	Automation, disintermediation, or from the book " <b>Information Economics:</b> " Value Acceleration, Value Restructuring, Value Linkage, or TCO Savings.
<b>Profile</b>	Identify <u>all</u> of the benefits associated with a project, not just the 2-3 most obvious benefits. This can be derived from the analysis in the previous step.	REJ Benefit Matrix
<b>Quantify</b>	The common and unifying language for IT and non-IT management is money.	Model and project data from best practices examples using techniques like Expected Monetary Value (EMV)

For example, an IT manager **analyzes** a Microsoft® Office 2000 upgrade and determines that the improved reliability and functionality for the company's employees will result in a 10% cost reduction in system management and support.

In the next step, the IT manager looks beyond IT impact and **profiles** which business tasks, functions, and processes can be improved using this technology. This will often involve a close investigation of how the technology is used in different departments across a company and determining how the new functionality will impact these business practices.



**Figure 3 - Benefit Matrix**

The Microsoft® Windows and Office 2000 upgrade will, for example, help the sales force more effectively communicate with customers and improve collaboration internally, which should help reach next quarter's sales goals. The same upgrade will also help the Human Resources department manage and share documents better, which will improve the turnaround time for making new hires. The same IT solution implemented in different

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situations creates very distinct returns on the company's investment that are only discovered through a careful inventory of company business processes.

Finally, the team will **quantify** benefits using tools such as Expected Monetary Value, Real Option Theory, Five Steps to Productivity, etc. In our scenario, using the web collaboration features of Microsoft Office 2000, the sales department will be able to complete 20% more proposals with the same staff. This means x% more revenue and y% larger market share, resulting in a value chain reduction of the cost-of-items sold by z%. Benefits may be expressed in many ways, but the key is to express them in terms that match the needs of the business, and evaluate the total cost to achieve those benefits. REJ provides the modeling tools that leverage rich industry databases from the Gartner Group, CNI, IDC, BRG, and others to optimize the cost/benefit analysis.

#### Step 4: Understand the Risks

Many IT projects successfully build an economic justification identifying benefits and costs, but then fail to live up to the expectations of senior management or stakeholders. Accurately profiling potential risks of an IT investment can help avoid pitfalls by identifying various forms of risk, developing risk mitigation solutions, and adjusting the estimates of benefits and costs accordingly.

The various categories of risks are profiled for their probability and impact using a matrix. This provides a visual representation of the risks associated with the project and the ability to perform sensitivity analysis and develop the necessary risk mitigation plans to optimize the economic impact.

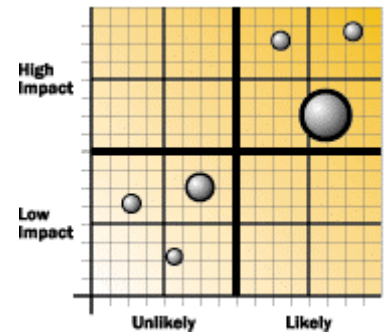


Figure 4 - Risk Profiling

#### Step 5: Understand the Financial Metrics

Finally, the team projects the impact of the proposed IT investment in financial terms (such as IRR, NPV, and payback period) used by a specific company to present the business case for *any* investment.

### Summary

The Rapid Economic Justification framework builds a bridge of common language between IT and business executives to demonstrate how investments in IT benefit the business. This framework ensures that the IT projects are aligned with the specific business strategies and priorities; and that all stakeholders (business and IT) are committed to both the process and the final results.

### For more information

For additional information about the Microsoft Rapid Economic Justification offering, please contact your local Microsoft office or your authorized Microsoft Solution Provider. Please also refer to <http://www.microsoft.com/value>, or email: [value@microsoft.com](mailto:value@microsoft.com).