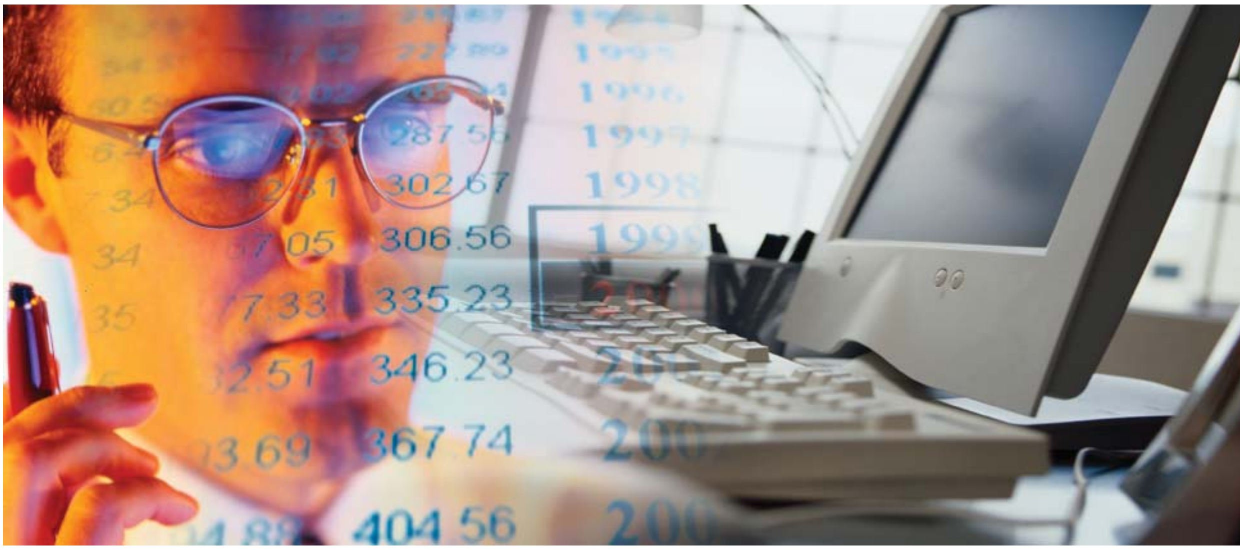

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THE IT BUSINESS CASE

Keys to Accuracy and Credibility

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Revised October 2005

Price: US $10.00

Solution Matrix Ltd

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Keys to Accuracy and Credibility

by Marty J. Schmidt, MBA, PhD

Since the mid 1980's we have worked with many dozens of CIOs, IS/IT directors, and financial executives, worldwide, to build the business cases for planned IT actions or acquisitions. This paper presents some practical findings from this experience—proven techniques for bringing credibility and accuracy to the IT business case.

What these IT managers had in common was a need to build a business case...but few were truly comfortable with their own ability to estimate IT costs and benefits..

These managers started with a wide range of personal motivations and needs. Some focused on getting funds for specific IT projects, others wanted high level "buy-in" for strategic decisions, a few needed to justify their stewardship of IT money over the last few years. What they had in common was a need to build an accurate, credible business case. Most had already developed positive ROI figures of their own before we started working together (few had started out expecting to show a net loss). To an individual, however, they reported frustration in trying to "sell" the business case inside their own organizations. Few were truly comfortable with their own ability to estimate IT costs and benefits in advance.

A short list of what it takes to produce a good IT business case holds few surprises: one needs to be thorough (track down all possible impacts, costs, and benefits), clear and logical (articulate the cause and effect chain that leads to each cost/benefit impact), objective (unbiased, including everything that is material, good or bad), and systematic (have good models and rules for finding and summarizing values). Financial talent also helps as does a solid grasp of the interplay between IT capacity, service levels, user needs, and IT resource requirements. Intelligent managers appreciate this much already and—as you know if you've heard from the IT consulting community lately—there are many new methods on the market claiming these virtues. Yet IT ROI figures still fail to "come true," still raise cries of "Soft Benefits!" and still fail to instill confidence in senior management. Why? What can be done about it?

IT ROI figures still fail to "come true," still raise cries of Soft Benefits, and still fail to instill confidence in senior management.

Following are ten key contributors to business case success—requirements for success in many cases—that are not always present. If you have ever proposed an IT investment and then failed to gain approval, or failed to deliver expected returns, you may find here just what was missing. If you are about to propose an IT acquisition or action, consider carefully how you would address the issues behind each item.

The contents of this paper are covered in more detail in the book *The Business Case Guide* (ISBN 1-929500-01-7). For more information on the *Guide* please visit www.solutionmatrix.com/guide. For more business case resources, visit the Solution Matrix Ltd. web site at www.solutionmatrix.com.

Key 1: Recruit and Use a Reference Group

Don't Do It All Yourself

If you are preparing a business case for your own management, and you see your own organization as the primary beneficiary of the proposed technology, it is tempting to take sole responsibility for building the case that will justify it: have your staff go off and find all the costs and benefits, give yourself the job of adding up their cost/benefit lists, and then present the results to your manager or the Capital Review Committee. If you are a consultant building the case for a client, it is also tempting to do the case yourself—to be sure it comes out "right" and to highlight your own expertise and value. There are serious risks, however, in the "solo" approach to building an IT business case.

IT actions have financial consequences that cross boundaries of all kinds.

The problem is the nature of information technology in business today: IT is integral to almost every functional area and IT actions have financial consequences that cross boundaries of all kinds (organizations, management levels, budget categories, planning periods). As a result, good IT impact analysis in a complex environment requires assumptions, arbitrary judgments, and the development of new data—new information that goes beyond existing budgets and business plans. This means that two people working independently can evaluate the same IT investment proposal, use correct financial arithmetic, and still produce quite different business case results.

All of this adds to the reasons for recruiting and cultivating a "Reference Group" to help you design the case and establish credibility. This group is not the project team that actually does the hard, time-consuming work (digging into databases, interviewing experts, analyzing workflow in detail, and so on). The Reference Group might be also be called the "Review Committee," "Steering Group," or something similar, because it has a very specific "executive" role to play.

When recruiting a Reference Group, try to include IT users and their managers, senior financial managers, and other high level executives directly responsible for the company's financial performance. Look especially for senior managers in organizations outside your own that will be impacted by your proposal: these people are truly "stakeholders" in your proposal.

Here is what the team can accomplish for you in perhaps three or four meetings over the course of the business case project. The first kind of team contribution is obvious to all:

Add Authority and Credibility

The Reference Group will help fill in the cost and benefits models with line items and ideas you may otherwise overlook. The team can also bring other critical expertise and information to the table. Their contributions will add authority and credibility will be difficult to achieve if you "do it yourself."

For instance:

- Line managers on the team can help "cost" and "value" the operational impact of IT actions in their own areas (manufacturing, procurement, marketing, sales, customer service, facilities, shipping, etc.).
- A financial expert can help connect the IT business case with the organization's long-range business plan—a great aid to "sizing" IT contributions to expected business benefits.
- A Human Resources expert can help identify and gauge the "people costs" of the action: job levels, salaries, overhead, training requirements, hiring and relocation, and so on.
- Very senior managers should be able to help prioritize, legitimize, and assign value to any IT contributions to the organization's strategic business objectives.

The Reference Group can add authority and credibility to your case that will be hard to achieve if build the case solely on your own.

That much of the Reference Group's role is obvious. Some other roles for the team are less obvious but equally crucial. From the project owner's point of view, these might even look like steps in the Machiavellian direction. In reality, however, they are just good common sense.

Spread the Sense of Ownership

Effective use of the Reference Group can help spread the sense of ownership for the case.

The Reference Group can be the vehicle for spreading a sense of ownership for the business case. Those who get involved with producing a business case naturally develop a sense of ownership for it.

In meetings and discussions, team member contribute to case design and development. Inevitably, it becomes their case coming up for review as well as it is yours. That is an advantage for you, because most people do not want something they work on, and own, to fail.

Communicate Rationale and Expectations for Outcomes

In a competitive or critical setting, your arbitrary or subjective judgments will not have to be announced and defended at the same time—if they are worked out early and communicated widely by the Reference Group.

The IT business case report has a lot to communicate, in fact, usually too much to get across in a single reading of a report or a single slide presentation. The Reference Group can serve as an effective communications channel between the case building team and the people and organizations who will be impacted by the proposed IT action.

By opening the communication channel during case building...you avoid critical surprises late in the game.

By opening the communication channel during case building, before the final report is delivered, they can help set expectations for the business case results and establish the rationale that legitimizes benefits for the case (see Key 3, next section). When review day comes, critics may still argue your interpretation of case results, but you leave them little room to question your methods or data, and you avoid critical surprises late in the game.

Further Information

For More Information

The contents of this paper are covered in detail in the book *The Business Case Guide* (ISBN 1-929500-01-7) For more information on this book visit www.solutionmatrix.com/guide

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About the Author

Marty J. Schmidt is founder and President of Solution Matrix Ltd. Dr Schmidt has twenty years business experience, managing software development, international marketing and sales support, and, (since 1987) management consulting on business planning and business case analysis.. He is a recognized authority on the application of cost/benefit analysis and business case development.

Dr. Schmidt also taught graduate and undergraduate statistics at the University of New Hampshire, is the author of a college textbook on applied statistics, and publishes often on professional management and business issues. He holds the Ph.D. degree from Purdue University and the M.B.A. from Babson College.

About Solution Matrix Limited

Solution Matrix Ltd. is a management consulting firm dedicated to helping executives, managers, consultants, and other professionals understand the impact of management actions on business performance. Our clients include individuals and organizations on five continents, in business, government, education, the military, and non-profit organizations. For more information on our products and services, visit www.solutionmatrix.com. For the latest schedule of "Building the Business Case" seminar offerings visit www.solutionmatrix.com/seminar.

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