



Building the Business Case for Technology Investments



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Agenda

- What to Expect Today
- Understanding Business Drivers and Financial Measures
- Quantifying Technology Benefits
- Building the Business Case
- Surviving the Boardroom
- Questions/Answers

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What to Expect Today

- Identifying Business Drivers & Financial Measures
- Quantifying Benefits of Investing in Technology
- Building a Business Case
- Getting the “Go Ahead”

Understanding Business Drivers & Financial Measures: *Getting to First Base*



Understanding Business Drivers



- What are Business Drivers?
- What are *not* Business Drivers?

Understanding Business Drivers
& Financial Measures:
Advancing to Second Base



Quantifying Technology Benefits



- Benefits can be categorized two ways:
 - Quantitative
 - Qualitative

Quantifying Technology Benefits: Converged Environment Example

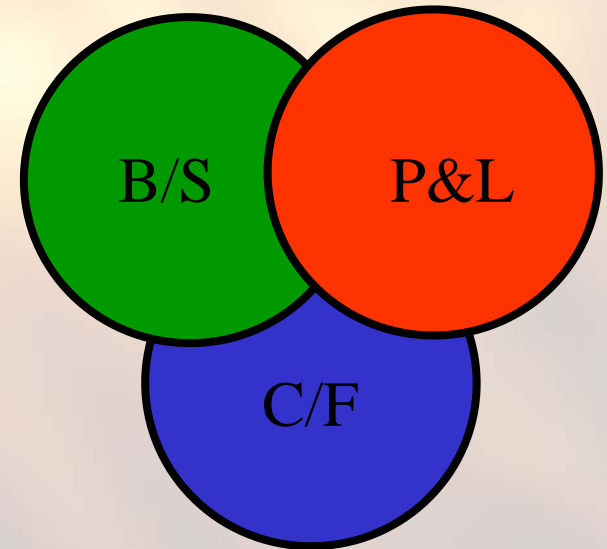
Hard	Firm	Soft
Reduced hardware costs	Increased productivity through new applications (personal assistant, Unified messaging etc.)	Improved business operation & efficiency
Reduced call costs	Flexible staff placement	Revenue generation
Reduced carrier costs	Agility in deployment and expansion	Employee retention
Zero cost moves	Improved real estate management through "virtual office" approach	Improved competitive positioning
Reduced maintenance	Access to comprehensive call billing and management information	Faster application deployment
Elimination of PBX TIE line network	Reduced PC costs through use of IP phone for web access	Improved Customer Satisfaction
Reduced Support costs	Increased Operations staff productivity	
Reduced implementation costs		
Elimination of centrex costs		
Reduction in wiring costs		
Reduced audio conference bridge costs		
Reduction in international roaming costs for mobile handsets		

Understanding the Numbers: Key Financial Statements (cont.)



- Illustration of relationships between three basic financial statements

- Balance Sheet
- Income Statement (P&L)
- Cash Flow



Understanding the Numbers: Key Financial Terms



- **Cost of Capital:** A calculation of an entity's opportunity cost weighing each category of capital proportionately, or Weighted Average Cost of Capital (WACC).
- **Present Value (PV):** $PV = FV / (1 + r)^n$
- **Future Value (FV):** $FV = PV * (1 + r)^n$

Understanding the Numbers: Key Financial Terms (cont.)

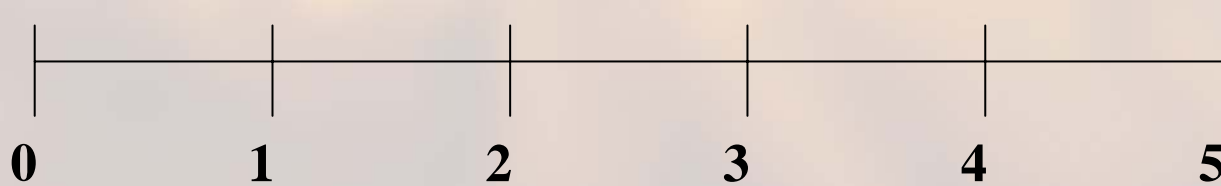


PV

FV

\$

\$



Understanding the Numbers: Key Financial Terms (cont.)



- **Net Present Value (NPV):**

$$\text{NPV} = \text{Sum} (\text{PV} (C_n)) - i_0$$

Understanding the Numbers: Key Financial Terms (cont.)



NPV Example:

What would the Net Present Value for a project with an initial investment of \$40,000 and the following net cash flows be if the company's cost of capital is 5%?

Net Cash Flows for Year 1 is \$25,000, for Year 2 is \$36,000 and for Year 3 is \$5,000.

Year	NCF	x	PVIF @ 5%	PV
1	\$25,000	x	.952	\$23,800
2	\$36,000	x	.907	\$32,652
3	\$5,000	x	.864	\$4,320
Sum of Discounted Cash Flows @ 5%				\$60,772
Less: Initial Investment				\$40,000
Net Present Value				\$20,772

Understanding the Numbers: Key Financial Terms (cont.)



- **Internal Rate of Return:**

$$0 = CF_0 + CF_1/(1 + r)^1 + CF_2/(1 + r)^2 + CF_3/(1 + r)^3 + CF_n/(1 + r)^n$$

Understanding the Numbers: Key Financial Terms (cont.)



Internal Rate of Return Example



Understanding the Numbers: Key Financial Terms (cont.)



- **Payback Period:**

$$0 = (\text{Cumulative Cash Outflows}) - (\text{Cumulative Cash Inflows})$$

- **Total Cost of Ownership (TCO):** Cost of owning a particular investment over a specified time period and includes both the acquisition and ongoing support costs.
- **Return on Investment (ROI):** The expected return on an investment in technology over a defined period of time.

Building the Business Case: *Moving Over to Third Base*



Building the Business Case



- Optimize vs. Invest
- Identify the Business Drivers
- Identify the Key Stakeholders
- Identify the Critical Success Factors
- Quantify the Current State
- Quantify the Goal State
- Create a Gap Analysis

Building the Business Case: Optimize vs. Invest



- Technology Optimization – when an entity tries to resolve business issues by better utilizing its existing IT assets and resources.
- Technology Investment – once an entity has concluded that further optimization is not possible, investment in new technology to resolve business issues is necessary.

Building the Business Case: Identifying the Business Drivers



- What problem(s) will the investment resolve? (Issues)
- How is the problem(s) measured or observed today? (Evidence)
- How will solving this problem help? (Impact)
- What are the consequences of not solving the problem? (Impact)

Building the Business Case: Identifying the Key Stakeholders



- Who is currently experiencing the “pain”?
- Who will provide input during the project?
- Who will benefit from solving this problem?
- Who needs to approve the project?
- Who will be accountable during the implementation process?

Building the Business Case: Identifying the Critical Success Factors



- What measures will be used to determine if the project was a success?
- When (and how often) will measurements be taken?
- What necessary corrective actions will be made during the measurement period?

Building the Business Case: Current State Analysis



- Build a baseline of existing environment:
 - Capital expense
 - Operating expense
 - FTEs
 - Changes in volumes
 - Service Delivery
 - Current exposure to Risk

Building the Business Case: Goal State Analysis



- Build a projection of the new environment:
 - Capital expense
 - Operating expense
 - FTEs
 - Changes in volumes
 - Service Delivery
 - New benefits
 - Exposure to Risk (and how it will be mitigated)

Building the Business Case: Gap Analysis



- Quantify the incremental changes (+/-) between the Current State vs. Goal State.
- Apply financial metrics to determine ROI of project.
- Illustrate when measurements will be taken.
- Tie financial analysis to Business Drivers and Key Stakeholders.
- Make recommendations based on results of analysis.

Surviving the Boardroom:
Getting to Home Plate to Score



Surviving the Boardroom: Getting to Home Plate



- Know your audience
- Understand the agendas, professional and personal
- Know the Approval Process (Capital Budgeting Process)

Surviving the Boardroom: Know Your Audience



Apps Rollout/ Delivery	Network doesn't support systems	Cost reduction	Performance	Service Delivery/ SLA's	Defining a policy	Assets used efficiently?
Network doesn't support apps	Performance Issues	Service Delivery (serving the business)	Service Delivery	Skills/Support for new technologies	Implementing perimeter infrastructure	Can I reduce costs?
Performance Issues	Storage strategy to reduce costs	Support for new apps	Compliance & Security	Tools/Process	Managing costs	Help me save \$\$\$ now
Capacity Planning	Disaster Recovery/BC	Performance		Should I outsource?	Evaluating alternatives	Better return on my assets?
	I need to do more with less	Should I outsource?				

Surviving the Boardroom: Concerns and Responsibilities (cont.)

- CIO Concerns:



Security/Regulatory Policies

Bus. Continuity

Capacity & Growth

Secure Funding

Manage Op/Cap Exp

SLA Definition

Consistent Vision



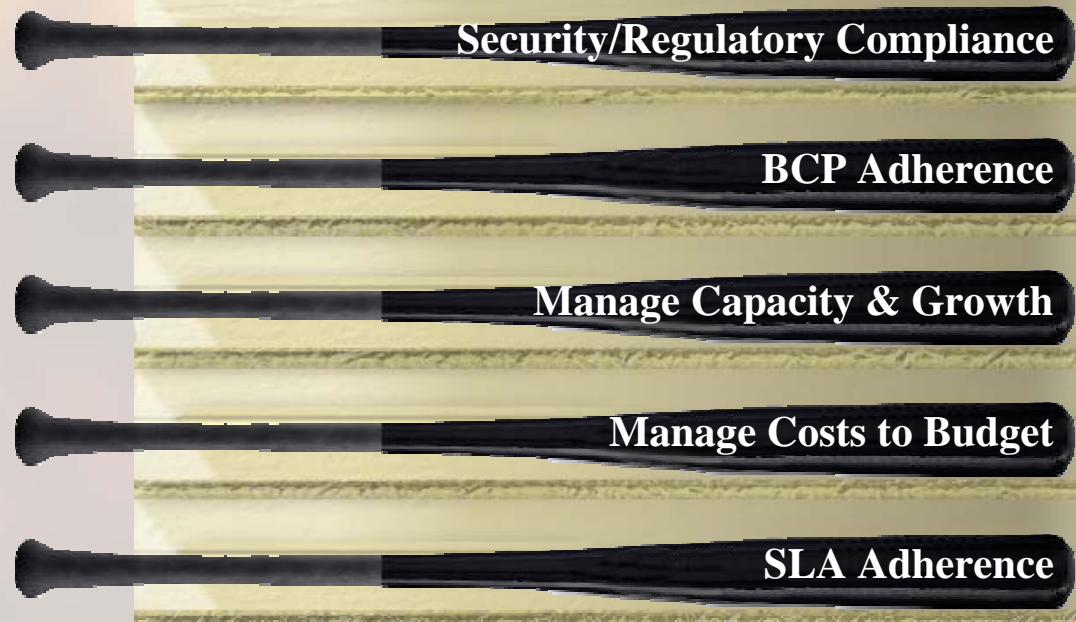
Surviving the Boardroom: Concerns and Responsibilities (cont.)

- CIO Responsibilities:



Surviving the Boardroom: Concerns and Responsibilities (cont.)

- VP/Directors Concerns:



Surviving the Boardroom: Concerns and Responsibilities (cont.)

- VP/Director Responsibilities:



Manage Performance

Set Dept. Priorities

Manage Dept. Spend

Own/Build Relationships

Leverage Technologies

Distribute Initiatives

Translate Vision to Plan



Surviving the Boardroom: Concerns and Responsibilities (cont.)

- **Manager Concerns:**



Surviving the Boardroom: Concerns and Responsibilities (cont.)

- **Manager Responsibilities:**



Surviving the Boardroom: Agendas



- Professional agendas:



Improving existing Service Levels



Demonstrate value of Current Environment



Little faith in new initiative



Little confidence in resources



Prioritization of Project Funding

Surviving the Boardroom: Agendas (cont.)



- Personal agendas:



Personal visibility & profile



Strengthen position relative to rivals'



Maintain/increase power base



Distancing from risky project



Job preservation/justification



Fear of change

Surviving the Boardroom



- Budgetary process is where the agendas and concerns become the most visible.
- Tactics can become complex.
- Strategies, Plans, or Projects are delayed or slowed.

Surviving the Boardroom: What is Capital Budgeting?



- **Capital Budgeting Analysis:** Process of evaluating how a company invests in capital assets, or assets that provide cash flow benefits for more than one year.

Surviving the Boardroom: Why Have Capital Budgeting?

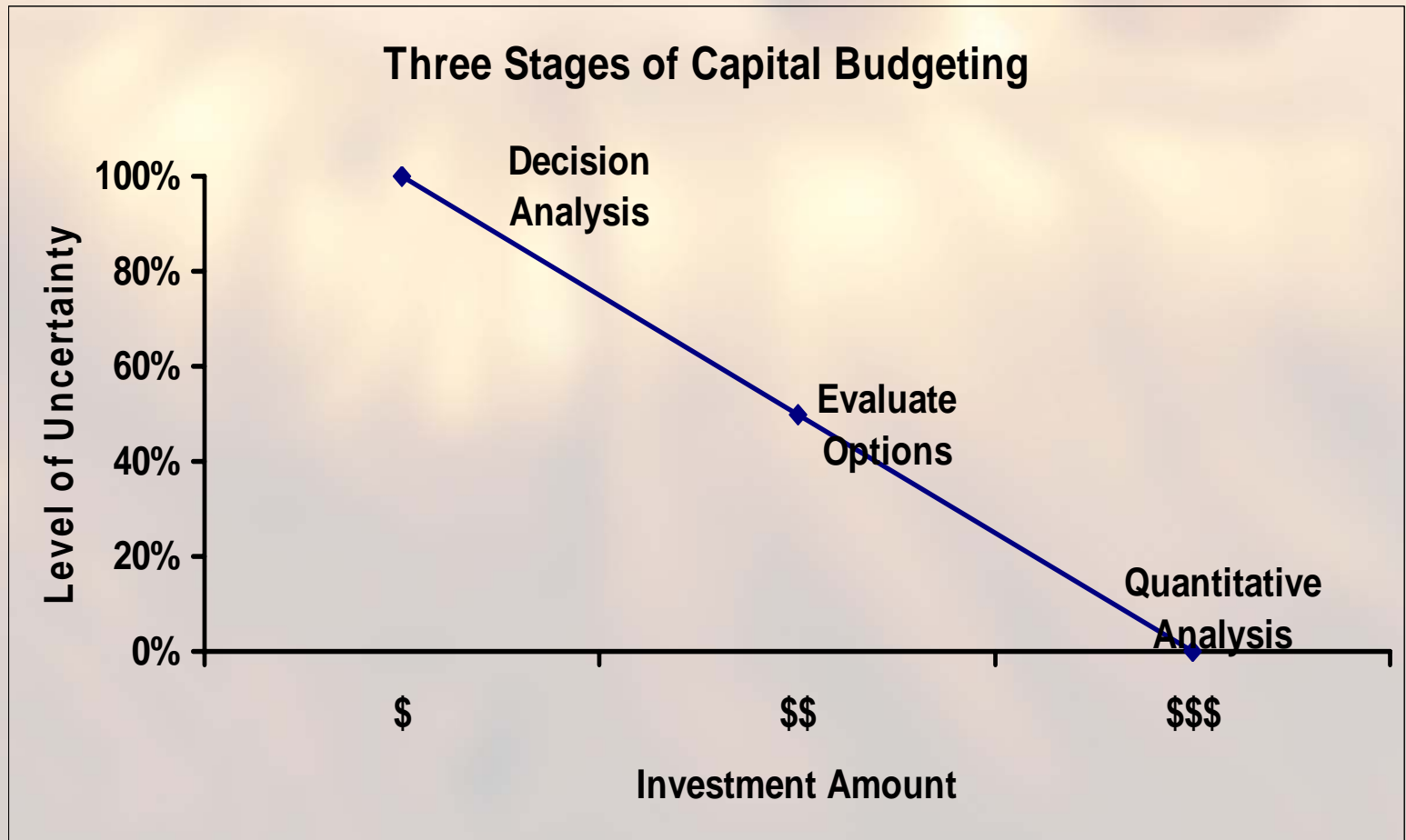


- Corporate strategies link to capital investments
- Shareholder value
- Allocation of resources
- Total cost of investments
- Performance benchmarks

Surviving the Boardroom: Capital Budgeting Process



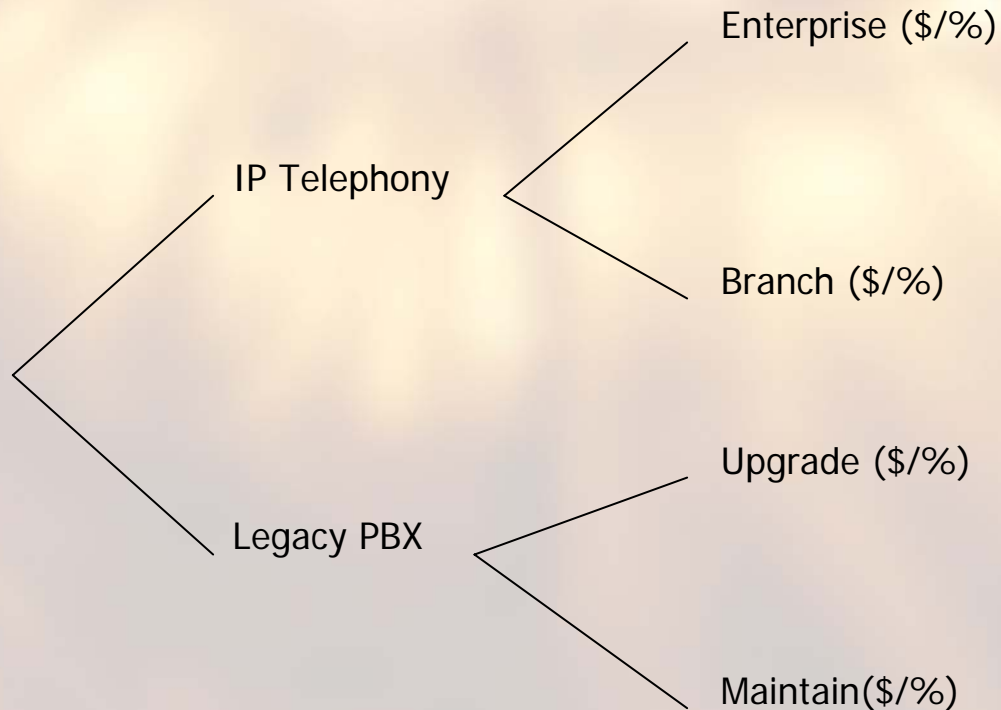
- 3 stages of Capital Budgeting Analysis:



Surviving the Boardroom: Capital Budgeting Process (cont.)



- Stage 1: Decision Analysis



Surviving the Boardroom: Capital Budgeting Process (cont.)



- Stage 2: Evaluate Options
 - Timing
 - Abandonment
 - Growth

Surviving the Boardroom: Capital Budgeting Process (cont.)



- Stage 3: Quantitative Analysis
 - Financial metrics
 - Sensitivity Analysis

Surviving the Boardroom: Submitting a Capital Budget



- Identify end users
- Calculate cost to implement and support
- Ensure that initiative aligns with corporate strategy
- Consider alternatives
- Leverage other initiatives when possible
- Illustrate tangible & non-tangible benefits of project

Surviving the Boardroom: Approving a Capital Budget



- Understand all variables of project
- Consider short-term and long-term impact
- Analyze cost/benefit data to ensure positive ROI
- Compare projects competing for finite capital resources on a “level playing field”
- Link project to overall corporate strategy

Surviving the Boardroom: Approving a Capital Budget (cont.)



- Develop plan to measure progress of implementation with major milestones identified
- Create “go/no-go” points throughout implementation and project life
- Manage and measure results throughout project life and identify accountable individuals

Surviving the Boardroom:
SAFE!!



A wooden baseball bat and a white baseball are positioned in the top-left corner of the slide, partially overlapping the title.

Summary

- Identifying Business Drivers as problems to resolve with technology
- Understanding general financial terminology
- Communicating the quantitative and qualitative benefits of an initiative
- Building a business case that stands alone
- Knowing those empowered to authorize projects and the process of approval



Q&A

