



# Value Generation: The True Measure of IT Project Success

## Part One: A Blueprint for Estimating and Delivering Project Value

By Jim Huskisson, Vice President and PMP, RiverPoint

In part one of this two-part series, we examine the critical steps that must be undertaken in order to define and forecast project value at the highest level. In part two, we drill down further and introduce a pragmatic valuation technique that enables project teams to effectively determine and calculate intangible benefits to ensure the estimated project value is accurate and highly likely to be achieved.

*'On time and on budget' delivery is immaterial if a project has little or no impact on the bottom line. The true measure of project success must be 'of value' and that value has to be substantive and quantifiable. Yet many organizations continue to focus planning efforts on cost estimates and timetables while short-changing the critical process of defining the value a project will bring to the organization and how that value will be captured, quantified and reported.*

### Successful projects must be value-focused

With budgets tight and shareholder expectations high, executives are keeping a watchful eye on IT spending and investing only in high-value projects targeted to make the most impact on the business. The reality is that only strategically aligned initiatives projected to deliver quantifiable results are likely to see the light of day. How then, does a project team accurately forecast—and ultimately deliver—project value?

Estimating project value requires the involvement of stakeholders, team members and end users to ensure there is consensus on the project's anticipated value, how this value will be generated and when the value will be realized. A value-focused team employs a systematic approach to project planning that includes these steps:

1. Define project goal, scope, budget, deliverables, benefits, risks and estimated value
2. Identify project value drivers linked to strategic goals
3. Establish quantifiable performance metrics for each driver
4. Obtain baseline metrics
5. Implement framework for tracking, measuring and reporting performance
6. Determine ultimate project value at end of lifespan

### Identify value drivers

Value drivers are measurable business variables (such as sales growth, cost savings, customer satisfaction or process improvement) that will positively impact one or more strategic business objectives. Identifying project value drivers that support strategic goals is a critical first step in the planning process, however there isn't always a clear connection

between IT initiatives and bottom-line improvement. The technology project's deliverable, such as a new software application, is often two-to-three steps removed from its actual impact on the bottom line. For example, a new technology is implemented that improves product performance, which in turn boosts sales growth. The key is to demonstrate and measure the cause and effect relationship between the project (in this case, the software implementation), its value driver (improved product performance) and the business goal (increased sales). This is where performance metrics come into play.

### Establish performance metrics

To show a real and measurable link between technology and business results, value drivers must be boiled down into performance criteria that can be monitored, quantified and reported throughout the product's lifespan.

To accomplish this, the project team needs to conduct a sound analysis of how each value driver will affect the bottom line and define the metrics that will prove this impact. Both quantitative and qualitative ("intangible" or "soft") drivers must have measurable performance indicators. Intangible drivers of the project such as customer satisfaction and employee motivation can and must be quantitatively measured, as demonstrated in the example on page two.

### Obtain baseline metrics

In order to accurately track, evaluate and report on a project's value, current baseline performance metrics must be acquired for each performance indicator. The baseline data will be the starting point against which progress toward goals will be tracked. Failure to establish these metrics will make it impossible to determine the project's true value.

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Define Goals  
& Budget

Identify  
Value Drivers

Establish  
Performance  
Metrics

Obtain  
Baseline  
Metrics

Implement  
Measurement  
Framework

Calculate  
& Report  
Ultimate Value

## Converting Intangible Benefits to Tangible Value

Let's say that one of a major retailer's primary strategic objectives is to increase online sales by 15% over the next 12 months. The IT department is proposing the development and implementation of a new software application that will simplify the online ordering process, making the customer experience much easier and faster. In turn, this ease of ordering will increase customer satisfaction and generate higher online sales – the company's number one goal.

This sounds great in theory; but how is an increase in a "soft" variable such as customer satisfaction calculated? And how is a distinct cause-and-effect relationship between the new system implementation and the increase in revenue validated? The key is boiling down intangible value drivers, e.g. customer satisfaction, into performance measurements that can be calculated and tracked throughout the project's implementation and beyond. This takes a thoughtful assessment of the observable changes that result from the so-called intangible driver.

Below is a high-level overview of the steps necessary to project and measure intangible benefits to ensure the total project value is accurately estimated, captured and reported. This process will be covered in detail in part two of this series.

1. State how the project is linked to a strategic goal.
2. Identify intangible value drivers.
3. Establish tangible performance measurements for each intangible driver.
4. Calculate estimated value.

The retailer's intangible conversion steps might look like this:

1	2	3	4
Project alignment with strategic goal	Intangible value driver	Tangible performance measurement for intangible driver	Estimate value
Implementation of software application will simplify online ordering process, leading to increased sales.	Increased customer satisfaction	<ul style="list-style-type: none"> <li>• Increase in repeat business tracked as a % of transactions</li> <li>• Increase in new business tracked as a % of transactions</li> </ul>	<ul style="list-style-type: none"> <li>• x% increase in repeat business = incremental sales \$</li> <li>• x% increase in new business = incremental sales \$</li> </ul>

Although the baseline varies from company to company, typically the average performance for each metric from the most recent 12 months is used. Future comparisons of actual-to-baseline performance should then be calculated on a 12-month rolling average.

### Implement measurement framework

A custom framework for measuring, monitoring and reporting project success must be designed and implemented. The framework will vary depending on existing project management methods and business intelligence tools such as scorecards and dashboards. What matters is that the framework enables the team to capture, analyze, monitor and report on project performance from inception through implementation and beyond.

### Calculate and report ultimate project value

Although modern technology can be implemented quickly, project-driven results aren't normally realized until months or years post-implementation. Therefore, it is imperative that responsibility and accountability for continuous tracking of the project's performance and business impact throughout its lifespan be assigned to an integral team member so that its ultimate value is calculated and communicated to the organization.

### On Time. On Budget. Of Value.

Project teams must never lose sight of their ultimate goal: to deliver technology that adds measurable business value to the organization. Successful teams keep this value proposition front and center by:

- Collectively defining the direct cause-and-effect relationship between the proposed IT project investment and the bottom line
- Creating value drivers and performance metrics clearly aligned with strategic objectives
- Developing an infrastructure for tracking, measuring and monitoring progress in meeting performance objectives from project inception to delivery and beyond
- Consistently communicating incremental value achievements to maintain project visibility and justify investment

Keeping projects focused on value will also decrease the tendency of project teams to become so concerned about other metrics such as time and cost they lose sight of the value-generating reasons the project was launched. Value is what matters most.

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