BUSINESS CASE FOR VALUE REALIZATION
DURING IMPLEMENTATION
DELIVERING PROJECTS ON TIME, ON BUDGET, AND ON VALUE
The Business Transformation Services group of SAP Consulting has the experience and tools to effectively engage with your organization in the use of the value realization best practices during the entire lifecycle of your implementation.
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In the current economic environment, managing IT projects based on budget, time, and scope is no longer sufficient. Scarce economic resources and greater focus on business benefits create a new set of challenges for teams who must:
- Understand the potential value of a project and what is required to deliver results
- Formalize practices to build value realization into a project
- Increase focus on business requirements as well as tactical issues
- Measure progress and success based on value, in addition to budget and time
- Demonstrate tangible business value after implementation

Executives need their organization to execute projects consistently and expect projects to drive aggressive returns.

**Value Management Disciplines**

Successful companies have identified means for overcoming challenges to increase value from their initiatives and have developed the following set of disciplines to manage IT investments:
- Alignment of business strategy and IT
- Justification
- Performance benchmarking
- Value realization
- Governance and portfolio management
- Organizational excellence

Among these disciplines, value realization is tied most directly to implementations.

**Alignment of Value Realization with Implementation Projects**

Top performers have delivered IT-enabled programs with value realization as a critical discipline and, in the process, reduced their risks in execution. The following value realization practices can be built into each project phase to bring a value focus to the entire initiative:
- Value discovery during portfolio management
- Value determination at project preparation
- Value design in blueprinting
- Value audits during configuration or development
- Value tracking and reporting after going live

The objective of this paper is to answer the following questions:
- What are the value realization practices that should be built into every implementation project?
- How should value realization practices be built into the project lifecycle?
- What is the business case for using value realization practices during implementation?
The economic downturn of the past two years has affected the way organizations evaluate and invest in their IT projects. Despite the recession, most organizations recognize IT as a strong component of their business strategy. The difference is that now organizations are willing to invest only in projects that provide tangible value.

With tighter budgets, the allocation of resources becomes more competitive between the different lines of business and the portfolio of initiatives. IT projects are required to prove they can deliver business value. At the same time organizations want to know if their current IT investments have been leveraged to their full potential.

In the 2009 ASUG value management survey, 97% of the companies still see an opportunity to derive more value from their existing investments. On the other hand, only 19% of those same companies measure benefits consistently after going live.²

While most of the organizations are concerned with obtaining and showing business value from their technology investments, only a few are taking actions to proactively manage the value realization process. Projects often start without a clear idea of how much business value the organizations are planning to realize from their investments and what the potential for improvement is.

The adoption of value realization practices, in conjunction with the other value management disciplines, has been shown to increase return on investment. Based on the results of the value management survey conducted jointly by Americas’ SAP Users’ Group (ASUG) and SAP, the following observations were made when comparing low practice adopters to high adopters:

- High adopters have 1.7 times higher benefits attainment than low adopters.
- High adopters have 3.0 times higher return on investment than low adopters.
- 2.3 times more companies with high adoption achieved value on time or ahead of schedule compared to low adopters.¹

These findings can be extrapolated to a difference of up to US$18 million higher net present value (NPV), on average, when comparing the value obtained by high-value-realization adopters with the value obtained by low-value-realization adopters.³

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² Ibid. Calculation details (see Figure 2 and Figure 3 in this document) are for companies investing between $16 million and $23 million in a five-year period.
³ Ibid.
VALUE REALIZATION BEST PRACTICES

VALUE REALIZATION: CENTRAL TO VALUE MANAGEMENT DISCIPLINES

Among top-performing companies, six disciplines have been identified in the ASUG value management survey to have impact on the level of value achieved through IT investment:

- Business strategy and IT alignment: Ensure objectives are aligned among business process leads and IT
- Justification: Justify investments that involve stakeholders across the business
- Performance benchmarking: Measure and compare the organization's performance internally and externally to identify value opportunities
- Value realization: Design the solution to ensure the realization of the value identified during the development of the business case and the creation of a key performance indicator (KPI) framework with ownership and accountability
- Governance and portfolio management: Engage leadership in ensuring project success
- Organizational excellence: Staff and manage programs with a talented team that is measured on its ability to achieve value

Although value realization is just one of the value management disciplines identified, it is not an independent discipline.

Synergy Between Justification and Value Realization

The value realization discipline involves the practices for building a value approach into the project implementation. Value realization is not independent of the other disciplines. Rather, it draws on the other five disciplines as well as promotes the increased adoption of them.

This collaborative relationship among the six disciplines can be seen, for example, between justification and value realization. Project justification helps to identify the investment opportunities and to set the basis for the value alignment of the solution design. The justification also provides the baseline for measuring the success after going live, facilitates project scoping, and defines the major pillars for change management.

According to the ASUG value management survey, around 59% of the companies in the study have been able to set up a formal justification process, but only 20% of those companies take their business case into the next phase and actually use the business case as the basis for value realization.5

The most common use of IT business cases is to obtain funding. Once the budget is approved, the business case goes into the drawer and is no longer used during or after implementation.

According to Gartner’s AMR Research report How Do You Expect To Get Value From ERP If You Don’t Measure It?, there are eight best practices in business case justification and value realization that can help companies achieve value on or before the expected time.6

Although the business case is a good step toward improving the value achieved from IT projects, the next step, value realization, is critical to delivering the return on IT investment.

Two major issues have been identified as the causes for the disconnect between the business case and value realization during project implementation:

- No formal knowledge transfer
- Lack of integration with the implementation methodology

Usually there is a time gap between the project evaluation and selection process and when the actual execution occurs. By the time the project implementation starts, the team that conducted the discovery sessions and business justification may have already moved to a different initiative. With the original team moving on and the typical practice of shelving the business case after the project budget has been approved, the main challenges and value drivers collected during evaluation and discovery are forgotten. A high number of key business drivers that justified the implementation are not taken into consideration in the solution design, reducing the potential value from project inception.

The second issue is the lack of formal components and deliverables of value realization in the actual implementation methodologies. Traditional project management methodologies base project success on the factors of time, budget, and scope. No formal activities are included to assure value-based solution design and to measure project success based on value achieved.

4. Ibid.
5. Ibid.
6. Bill Swanton, Lucie Draper, How Do You Expect To Get Value From ERP If You Don’t Measure It?, AMR Research Inc. [acquired by Gartner Inc.], February 2010.
The solution to the knowledge gap and misalignment between the justification of projects and the actual value achieved is to formally build value realization practices into the implementation methodology.

**Value Discovery – Portfolio Management**

Starting from the project portfolio or opportunity management process, evaluation priorities need to be aligned with business value. Organizations should try to quantify at a high level each opportunity based on current performance and internal as well as external comparisons and benchmarks. The main driver should be business value and not a political or personal agenda. A value approach to portfolio management also helps to secure the budget for the actual project realization.

In addition to evaluating projects based on value, it is important for organizations to create a road map of the identified initiatives for the following three to five years. The road mapping process includes the identification and listing of all initiatives and the definition of prioritization criteria based on corporate strategy. Organizations then prioritize the initiatives and define the road map for the following three to five years, taking into consideration constraints like budget, dependencies, and business cycles.

The road map process provides near-to mid-term planning for value-based portfolio management. It helps support the organization’s directional objectives and reduces the influences of tactical priorities of individual organizational units or functional areas within the organization.

**Value Determination – Project Preparation**

Once a project has been selected and approved and a budget has been allocated, the project moves to the preparation phase. In this phase, it is important that all the knowledge and key business drivers that were discovered when the project was selected are transferred to the actual implementation team in a formal exercise. Three steps need to be taken during project preparation.

First, all key value drivers justifying the implementation should be communicated clearly to the implementation team, including assumptions, risks, and dependencies. Second, perform an analysis to make the business case actionable. An actionable business case includes a list of major process changes required to directly support business case objectives and value drivers, a defined set of KPIs to measure business outcomes, and a list of process performance indicators (PPIs) to track and measure improvements in business process performance.

The required process changes to deliver value should be discussed in cross-functional workshops where stakeholders and implementation team members work on identifying the process changes required to impact the business case objectives and financial KPIs. Multiple approaches (Six Sigma, lean Six Sigma, lean manufacturing, and other benchmarking best practices) can be used during these workshops to identify and define the process improvements, but the resulting outcome should be tied back clearly to the business case financial driver. PPIs should be identified at this step, in addition to process changes, to ensure the effective measurement of the adoption or impact of identified process change.

Once the process changes have been identified and defined, the third step is to understand the possible barriers for change. It is important to identify all significant organizational barriers to adopt the key process changes, assign ownership to each barrier issue, and develop mitigation plans to enable the change.

There are multiple barriers for value delivery, such as unclear business policies, misaligned compensation plans, organizational structure, technology limitations, wrong skill sets, and poor master data. Here is where exercising organizational excellence is key for value attainment. Transformation projects should be staffed and managed by a talented team that is measured on its ability to achieve value.

Ownership is a key component of the steps of this phase. Each KPI, process change, and barrier for change should have an owner. It should be clearly stated who is responsible for tracking the KPI value, measuring the process change adoption, and removing the organizational barriers for value achievement.
Value Design – Blueprint

When the project preparation phase is completed, the next step in the project lifecycle is the blueprint. The blueprint – also called design documentation – needs to consider the major process changes and should be fully aligned with the most significant financial value drivers.

At the end of the blueprint phase, the key process changes should be clearly reflected in the new solution design. During this phase, KPIs and PPIs should be finalized, with a clear understanding of data sources and how they will be presented or reported. It is imperative that the presentation of KPIs and PPIs becomes a key project deliverable because “what gets measured gets done.” Well-defined metrics make it very clear how success will be measured for those who will be held accountable for delivering value – stakeholder alignment and ownership is critical to drive value. An additional benefit of following the value realization approach during the blueprint phase is avoiding scope extensions and budget overruns. Any change identified later in the process needs to be fully justified by a business requirement.

Value Audits – Implementation and Configuration

In the implementation and configuration phase, it is important to focus value audits on value realization. A formal validation needs to occur to ensure that the value scope defined during the blueprint phase has actually been implemented. Additionally, presentation of KPIs and PPIs should be verified in a meaningful and usable dashboard accessible to all stakeholders.

Value Tracking – After Going Live

In terms of value realization, the completion of the project is not the final step. The success of the project is not only based on the release of functionality but should include the ownership of tracking and reporting. A project will be considered successful only if business benefits can be measured. If the identified benefits are not being achieved after the implementation, corrective actions should be put in place to ensure that value is realized.

SAP has made an investment in value realization with the end goal to make every business a best-run business by achieving the greatest value out of its transformation investments.
Value realization enables the alignment and prioritization of business and IT investments. It provides the foundation for the ownership of project success across the enterprise and defines a shared value proposition for all projects aligned to the business strategy.

The business case for the implementation of value realization practices is supported by the following:

- Increase in benefit attainment
- Improvement in time to value
- Reduction of project costs

Increasing Benefit Attainment

Increase of benefit attainment is derived mainly by the focus on tangible financial KPIs and process changes that have direct impact. According to the ASUG value management survey, companies that adopt value realization practices attain 1.7 times higher value from their implementations (see Figure 1). A key learning from implementation experience is that the KPIs defined to measure the success of a project have to be aligned with the creation of business value. Otherwise the organization will be urging its staff toward value destruction, and the result of the value realization program could be counterproductive to the company’s strategy.

Improving Time to Value

The second benefit dimension is an improved project delivery timeline. The ASUG value management survey shows that 2.3 times more companies deliver projects “on time to value” when projects are managed with a high adoption of value realization practices.9

The on-time factor is influenced by the following best practices:

- Securing executive sponsorship at the highest level. Decisions are made quickly, and budget is secured for on-time execution.
- Aligning IT and business. There is less confusion and rework of requirements. IT is aligned with business and delivers what the business requires.

Reducing Project Costs

The third dimension impacted and influenced by value realization practices is execution within the budget. High adopters adhere to the following directives, enabling them to complete projects on time and lower project costs:

- Determine early the critical dependencies, constraints, and change barriers
- Resolve conflicting priorities between business units based on a set of objective criteria
- Focus on what is key for the business, invest time and resources in projects that drive value, and avoid nonproductive projects
- Align justification with implementation to avoid additional requirements gathering activities

Achieving a Higher Return on IT Investments

Combining the three factors (increasing benefit attainment, improving time to value, and reducing project costs) shows that companies with a high adoption of value realization practices obtain 3.0 times higher return on investment from their IT solutions (see Figure 1).

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8. Ibid.
9. Ibid.
An analysis of the data obtained in the ASUG value management survey, with a focus on average benefits and average investment in IT (see Figure 2), shows that high-value-realization organizations are optimizing their investments and realizing close to 1.7 times the value with a smaller investment when they are compared to low adopters.10

### Order of Magnitude Estimates

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>Low Adoption</th>
<th>Mid Adoption</th>
<th>High Adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software1</td>
<td>US$3.5 million</td>
<td>$3.5 million</td>
<td>$3.5 million</td>
</tr>
<tr>
<td>Maintenance (ongoing)2</td>
<td>$0.8 million x 5</td>
<td>$0.8 million x 5</td>
<td>$0.8 million x 5</td>
</tr>
<tr>
<td>“External” implementation3</td>
<td>$7.5 million</td>
<td>$13.2 million</td>
<td>$5.5 million</td>
</tr>
<tr>
<td>Value management services4</td>
<td></td>
<td>$0.5 million</td>
<td>$0.5 million</td>
</tr>
<tr>
<td>Hardware and other capital expenses5</td>
<td>$1.0 million</td>
<td>$1.0 million</td>
<td>$1.0 million</td>
</tr>
<tr>
<td>Hardware maintenance (ongoing)6</td>
<td>$0.1 million x 5</td>
<td>$0.1 million x 5</td>
<td>$0.1 million x 5</td>
</tr>
<tr>
<td>Total 5 years investments7</td>
<td>$16.3 million</td>
<td>$22.6 million</td>
<td>$14.8 million</td>
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<tr>
<td>Total 5 years benefits8</td>
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</tr>
<tr>
<td>ROI</td>
<td>81%</td>
<td>95%</td>
<td>245%</td>
</tr>
</tbody>
</table>

### Key Assumptions

1) Software cost estimated based on % of total project investment
2) Maintenance calculated at 22% rate of software
3) Consulting costs estimated based on % of total investment
4) Estimated the cost of a full implementation of a value management office and practice/20 weeks
5) Average cost of hardware for projects
6) 10% annual cost of hardware investment
7) Based on average ROI of value management benchmark study aligned to best-practice adoption
8) Based on average benefit attainment of value management benchmark study aligned to best-practice adoption level

Figure 2: Return on Investment by Level of Adoption of Value Realization Practices11

10. ibid.
11. ibid.
For an average company in the survey, the difference between investing in projects with low-value-realization adoption versus building these practices into the implementation process could represent a gain of US$18 million in a five-year period, even considering the additional cost of building value realization practices into projects (see Figure 3).\textsuperscript{12}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure3.png}
\caption{The Cost Benefit of Building Value Realization Practices into Projects\textsuperscript{13}}
\end{figure}

\textsuperscript{12} Ibid (based on Figure 2 and Figure 3).
\textsuperscript{13} Ibid.
SAP has witnessed the change in the marketplace and in its customers’ project expectations. SAP realizes that its customers not only want projects to be delivered on time, within budget, and within scope, but now there is stronger pressure to deliver on value.

Based on this new market reality, SAP has been working to evolve its ASAP methodology. ASAP is a phased, deliverables-oriented methodology that streamlines implementation projects, minimizes risk, and reduces total cost of implementation. It takes a disciplined approach to project management, organizational change management, solution management, and other disciplines applied in the implementation of SAP® solutions.

The ASAP methodology for implementation delivers new content, including accelerators, templates, and best-practice documentation, for consistent implementation of solutions based on value realization practices. A road map guides your project team in linking the business case into appropriate activities and deliverables throughout the project, with the main objective to carry through the focus on realizing value.

The Business Transformation Services group of SAP Consulting has the experience and tools to effectively engage with your organization in the use of the value realization best practices during the entire lifecycle of your implementation. Consultants with the Business Transformation Services group average over 10 years of consulting experience and 20 years of industry experience.

SAP has made this investment toward value realization with the end goal to make every business a best-run business by achieving the greatest value out of its transformation investments.

For More Information

To find out more about how value realization practices can help your company, contact your representative or visit our Web site at www.sap.com/usa/services/consulting/bts.