OpenText

Building a Business Case for BPM – a Fast Path to Real Results

Nathaniel Palmer, Transformation+Innovation

BUSINESS PROCESS SOLUTIONS | WHITE PAPER

Consultant Tip

Use 'Quick Wins' to Establish a Track Record for Gaining Sponsorship of Larger Projects

Summary

Business Process Management (BPM) initiatives are growing in popularity – largely because so many organizations have proven the value that BPM can deliver. With a relatively low investment in technology and resources, huge gains in process efficiency, productivity, control, and business agility can be achieved. But unfortunately a large number of BPM projects fail to launch at all due to the inability of business or IT managers to build the credible business case needed to get upfront sponsorship and funding.

The real value of BPM is realized from continuous planning and measurement, and the business case needs to be developed with transparent success criteria and "real world" metrics in mind. Yet any business case is only as good as the validity and trueness of the project's architecture and assumptions. Prioritization and validation of assumptions is part process (methodology) and part tools (simulation and modeling). An iterative approach should be taken to enable closed-loop analysis or a "round-trip" approach for comprehensive modeling, validation, implementation and refinement for continuous process improvement.

This white paper is designed to provide a repeatable framework for developing a business case for new or continued justification of BPM projects – with the objective being to help accelerate the startup time and enable more organizations to realize success from BPM.

Realizing Enterprise Process Advantage®

The opportunity for realizing business value from Business Process Management (BPM) initiatives is significant and unlike virtually any other area of software. This is due in part to the intimacy and interplay between BPM systems and the core business activities within which they exist.

When done right, successful BPM initiatives (herein referring to projects involving both business process analysis and the implementation of business process management software) change the entire notion of applications, by allowing core systems to respond to process context, rather than driving processes around the limits of technology. In this way BPM changes the nature of application management and the notion of "applications" altogether – allowing both IT and business users to avoid the complexity of disparate, siloed systems and instead focus on business processes at a higher level. This opens up the opportunity to improve cross-departmental processes and leverage process efficiency and excellence as a means to drive strategic advantage – or an *Enterprise Process Advantage*®.

There are three fundamental characteristics of BPM that make this technology the game changer—

1. **BPM is Incremental.** One of the core advantages of BPM is that it need not require you to conquer all problems at once in order to deliver results. Rather projects can start small, while still making a large impact. As management sage Peter Drucker observed in his seminal work Management Challenges for the 21st Century, "Continuous process improvements in any one area eventually transform the business. They lead to innovation. They lead to new processes. They lead to new business." To paraphrase, it is less important to start with the perfect process candidate than it is to establish a leverage point from which to extend into other opportunities.

2. **BPM is Measurable.** BPM is unique among technology-based initiatives in its ability to incorporate metrics and measurement parameters at the outset of the project and to automatically capture and track them along the way. BPM presents the opportunity for an immediate and material impact on business performance and visibility.

3. **BPM is Repeatable.** BPM presents a compound benefit where the skill set and competencies gained from the first process deployed can be leveraged to automate and improve multiple processes throughout the organization for years to come.

Consultant Tip

Avoid the Path of Least Resistance; Spend the Time Necessary to Develop a Validated Business Case

Gaining and Maintaining Project Sponsorship

After nearly a decade of market research on what drives successful BPM implementations, the answer for what *prevents* them is consistently "lack of sponsorship" by upper management. In other words, the single largest hurdle to BPM implementation is cited as finding someone (an executive or a department) to pay for and champion it. Often departmental teams find the opportunity but not the resources to implement a BPM project, and are unable to win management support despite what may be to them an obvious need or potential benefit.

There is no doubt that budget plays a role in whether or not sponsorship is found. Yet another factor is the perception of career endangerment. A new project – and particularly one which involves changing IT infrastructure – can be viewed as a distraction for the core business or even worse as a potential career-killer. Who wants to take on another ERP project and all the inherent risk it carries with it? Too often, timidity and a lack of available attention span exceed the spirit of innovation otherwise needed by senior management to spearhead BPM initiatives.

Yet when successfully implemented, BPM initiatives can be a great career enhancer. One of the best secondary outcomes of a successful BPM project is the establishment of a BPM "Center of Excellence" or competency center. Because BPM can be introduced incrementally, it lends itself to multiple projects and viral adoption. As nothing succeeds like success, a successful project in one area of the firm inevitably leads to demand in other departments. BPM can create heroes, and many BPM project leaders evolve their role to become enterprise-wide process consultants and transformation agents.

Gaining sponsorship is about building and presenting a credible business case. If sponsorship is lacking, it is almost always because a convincing business case has not been developed. A lack of sponsorship, even in the face of such compelling benefits as described above, can be a blessing for a prospective project, as it requires its promoters to more carefully scrutinize the business case and in doing so removes much of the potential risk and uncertainty. In contrast, one of the worst ways to begin a project is by sacrificing focus for the sake of adapting to meet the agenda of any sponsor willing to fund the project – especially if there is not a sound business case to back up the change in focus. Too often, the need for sponsorship and funding forces project leaders to compromise preferred approaches and target areas, resulting in a BPM initiative that is set up for failure right from the outset. A carefully prepared business case can help prevent this tragic mistake.

The right way to win sponsorship is by using short-term project wins to show proof-points and build credibility, and then to leverage these wins to initiate and deliver change across larger project areas – in other words, leverage the *incremental* and *measurable* qualities of BPM to achieve *repeatable* success.

Developing a Business Case

BPM initiatives succeed or fail based on the business case. It is both the means for gaining and maintaining management support and the mechanism by which you validate the project's success. Even with project sponsorship in place, at some point it will be necessary to present the forecasted benefit anticipated through your proposed BPM deployment. This requires an understanding of the business benefits and how they will be derived. The question then is "What will you present to illustrate and prove these benefits?" The answer is the business case.

In simple terms, developing a business case for BPM requires the articulation of how things are done today, how they can be done better, plus the cost and benefit of

getting from the former to the latter. In more specific terms, a successful business case requires the development of a step-based business value framework that follows a core set of activities and objectives:

Step One: Validate the Starting Point

Step Two: Benchmark the Current Process State

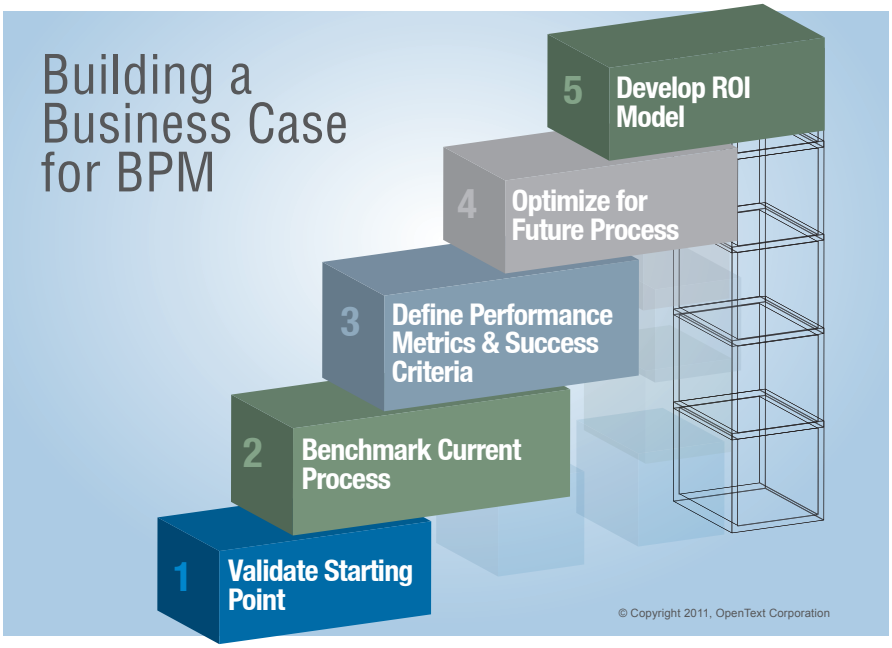
Step Three: Define Performance Metrics and Success Criteria

Step Four: Optimize for the Future Process State

Step Five: Develop a Return on Investment Model

Consultant Tip

Start by Focusing on "What" and "When" Rather Than "Why" and "How"



This framework presents a high-level methodology or logical approach for developing a business case, which also serves as a benchmark for tracking performance to plan during the implementation. While it is not meant to replace the implementation methodology, it is an appropriate framework for managing the first phases of decision-making, leading up to the selection and procurement of a BPM solution. And once you have a BPM technology solution in place, this framework can be repeated over time for each new process project to be deployed on that solution – creating a series of "mini" business cases to ensure that you remain focused on driving business value in all of your BPM initiatives.

Step One: Validate the Starting Point

Before developing a business case, you must identify and gain consensus on the first process or set of processes to be included in the BPM project. Whether or not sponsorship is in place, there needs to be a clearly understood process area as the starting point. Because it is the initial proof point of the BPM initiative, it should be a process that offers a strong chance for success. The proof-of-concept stage is the wrong time for heroics, so begin where a quick win can be realized.

Avoid overly complex, politically charged, or highly distributed processes that require buy-in from many parties outside your own domain. Generally this also means initially avoiding processes that are already rigidly defined. These will be much harder to change and improve than more ad hoc processes.

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Leverage Visual Process Models to Engage Stakeholders in Defining Their Roles in the Process and to Reduce Resistance to Change

In addition, look for processes that are causing immediate pain in the business. These processes will allow you to demonstrate a compelling need to move quickly and will often have a clear sponsor who can be leveraged to help champion and fund the effort. You will get a double win in these cases – delivering business value and solving a known problem or challenge that will make business users happy.

Examples of processes that often meet these criteria are new customer intake, contract management, procurement, product change reviews, human resources processes, or instilling control and visibility for a particular compliance deadline. These processes are typically manual, paper-intense, ad hoc, fraught with inconsistency and inefficiency, and a source of frustration for those involved – characteristics that make them perfect candidates for BPM.

Step Two: Benchmark the Current Process State

Once the area of focus is identified, the next step is to establish a "current state" benchmark of the process. This is not intended to be a comprehensive re-engineering exercise, but rather an opportunity to better understand the process in question. This can be achieved by examining the "what," "when," and "by whom" work is performed – a good way to capture and document this information is by interviewing key stakeholders and process participants.

This exercise is also an opportunity to begin understanding stakeholder motivations and process legacy. Each process has a history and may or may not reflect how it should be performed in the current business environment. Often this offers great opportunity for improvement. Yet overly scrutinizing this at the beginning can lead to a political battle or cause stakeholders to become defensive. So rather than getting entangled in politics, begin by simply documenting how things are done today, including specific steps and activities, the frequency with which they are performed, and the duration of individual activities – and be sure to note obvious bottlenecks, issues, or areas of improvement.

Next, start to identify the interdependencies and links between activities in terms of individual roles. Examine each individual's role in the process, asking "when do you...?" and "why do you...?" questions about process "steps." The goal is to build the context around process steps, so that a process can be defined and modeled as a set of interrelated but discrete activities, rather than simply a loosely defined sequence of actions. In addition, start to identify system dependencies in the process – what data is accessed when and by whom and in what system does it reside? Also, are there steps in the processes that are purely system-based? If so, those should be noted. This information will be helpful down the road in defining integration points and, because the ability to tie together disparate systems under a single process layer is a key benefit of BPM, information on the systems involved in the process and how often they are accessed will be useful input to the business case.

Next, focus on the "white space" between activities, specifically the precedents (what happens before) and dependents (what happens after) as well as the flow of information and how it changes from one activity to another. This is also an opportunity to identify bottlenecks, without directly implicating any specific roles or individuals. Do this by asking questions such as "What are you waiting on most often?" and "How could the process be improved without changing your job?"

During the first phase of process capture, most of the work is spent in defining and capturing basic parameters, such as activity names, roles, information sets, as well as goals and metrics. This can be done with a spreadsheet or other tool for capturing notes, but it also presents a great opportunity for introducing a process modeling tool. Visual tools allow people to more clearly see linkages between roles and activities, and even more importantly, allows you to develop models that can be easily evolved into the "future state" of a process, whereas a spreadsheet or paper document does not offer that value.

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Identify Activities, Develop Into Individual Roles, and Expand Into Flows of Work Across People

An important caution, however, is to avoid the "analysis paralysis" that is often introduced with complicated modeling environments. Rather, look for tools which enable high level, incremental modeling and iterative definition of roles and activities – and preferably one that will generate models that can easily be fed into an automation engine. With these caveats in mind, using a visual modeling tool offers a great advantage in validating the business case.

How Do You Get the Model Right? Make it Visible

Visual models that show both process activities and organizational resources give stakeholders the chance to literally see themselves in the process and provide a broader horizontal perspective of the entire operation, rather than being limited to a single function area. This represents a critical benefit – it allows process participants to validate their roles and other assumptions and gives them the opportunity to make corrections and become engaged in the project. This gives you a tremendous opportunity to gain buy-in from these key stakeholders and creates a preemptive strategy for overcoming the cultural resistance that is often the greatest hurdle to any significant process change.

Step Three: Define Performance Metrics and Success Criteria

As you are capturing the current state of the process, take the time to develop consensus on a common vocabulary and a standard set of terms for describing the process. This is not only necessary for the final implementation, but it is also critical for accurate validation of the process and for gaining buy-in from stakeholders and project sponsors. This should also include the establishment of specific goals and metrics for measuring project success.

Goals and metrics are integral to every BPM initiative, and should be defined in the beginning stages of process definition. You cannot improve what you cannot measure, so clearly defined metrics and success criteria are essential to the business case and to the success of the overall BPM initiative. The business case must always include:

- Validated and clearly understood project goals;
- Clearly defined success criteria that are agreed to by all stakeholders;
- Milestones that indicate how and when success will be measured;
- A high-level outline that maps process metrics to corporate objectives.

The map of process metrics to corporate objectives is extremely important because it allows you to adjust metrics as corporate objectives evolve. Keeping metrics aligned to corporate objectives is the key to understanding how to continually improve processes and resources to most effectively contribute to the organization's overall goals. This visibility is the foundation for continuous process improvement.

Continuous process improvement requires the flexibility to support an iterative process lifecycle. This means that BPM projects are never "finished" but rather support the refinement of processes over time through iterative analysis and adaptation. For this reason the calculation and determination of a project's success should be based on milestones and measurable goals, not an arbitrary notion of completion. While the business case requires structure, it should also be fluid and adaptable. Business performance is dynamic and therefore the guidelines for measuring performance must remain flexible, particularly during the formative stages of the business case. One way to incorporate flexibility is to ensure that metrics are both quantitative, such as time and cost variables, as well as qualitative, such as being easier to do business with, increasing visibility, or improving employee productivity.

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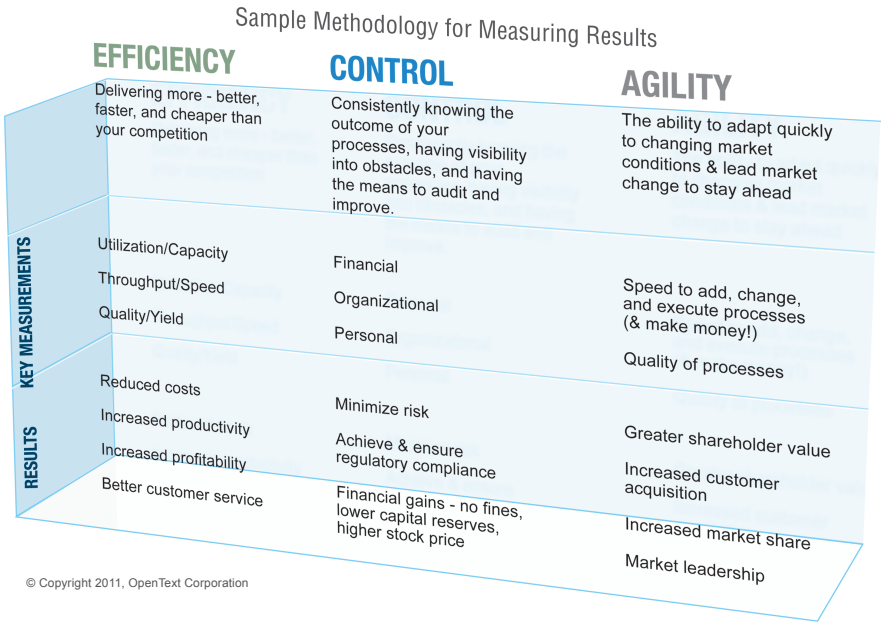
Focus on Defining Measurable Outcomes to Support Higher Level Goals and Objectives

At the end of the day, however, the greatest benefit of any successful BPM initiative is the agility gained by having access to data and visibility across the business that you have never had before and having the tools in place to allow you to adapt processes, actions, and measurements accordingly. This enables you to develop a closed-loop environment to support a rapid roundtrip from "information-to-action" through an increased ability to forecast, assess and respond to internal and external change.

This agility comes from a variety of factors that a BPM solution affords – including accelerating effective exception handling, enabling the separation of business logic and application logic, and allowing application behavior to be driven by process context. While agility may seem at first like a difficult benefit to define and describe, the measurable indicators of agility are reduced rework, faster problem resolution and other cycle times, reduced downtime, minimization of an IT backlog, or increased customer self-service.



Most organizations have existing performance goals and objectives. These may be explicitly defined as Management by Objective (MBO) or as a Balanced Scorecard. Otherwise they may be more strategic in nature such as "Reduce customer service calls by 30%" or "Increase new account revenue by 25%" – most often these do not have any specific process tied to them so it represents an opportunity to identify the processes that will directly influence these objectives and show how improving those processes can improve overall business success. Although BPM initiatives should not be force-fit to arbitrary goals, the ability to align process improvements directly to corporate objectives provides a clear and effective framework for illustrating business value and gaining executive sponsorship.

Step Four: Optimize for the Future Process State

Once a process is captured in its current state and associated metrics are defined, it can be leveraged to model a more optimal future state. Improvements can be identified in part through process modeling and simulation alone but the greatest opportunities for improvement, however, will come from the successful deployment of a complete BPM suite – which will provide not only modeling and simulation, but also the automation, management, and analysis capabilities necessary to realize the

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When Identifying Areas for Process Improvement Look for Handoffs of Work Between Roles

full potential that true business process management has to offer. A complete BPM suite also automates the collection of metrics and creates a valuable audit trail.

Improvements can be made in both the human-centric and system-based activities associated with a process. Simulation can be applied to both types of activities. Because a change in one area might impact the results of another, the ability to model and simulate both system-facing and user-facing activities in the same solution offers substantial advantage over specialty tools that focus only on human-centric processes or only on system-to-system integration. A combined view allows for the discovery of process inefficiencies, design problems and potential application improvements across the entire process, all during the analysis stage when changes are the easiest and least costly to make. A word of caution, however, simulation introduces the risk of focusing on sizzle over substance. When presenting the business case it is better to avoid hyping animated simulation and instead focus on the quality of the data and the degree of "what if" analysis supported.

Finally, do not spend too much time trying to create the perfect process. Often getting a process automated and deployed even in its current state yields fast cost savings and productivity improvements. It is better to realize these savings early and then focus on analyzing the real data captured by the BPM suite to simulate and apply process improvements. For this reason, many organizations opt to leave process simulation to the end of the implementation – a decision that has paid off in high return-on-investments and fast wins to justify additional process deployments.

BPM and the Mythical Man Month

"The Mythical Man-Month" is a book by Fred Brooks first published in 1975, which illustrates that adding manpower to a late engineering project only makes it later. Brooks first presented this analysis focused on software engineering, however, it has been shown to be true for other "knowledge work" requiring skilled individuals, such as claims processing or mortgage origination.

This theory, commonly referred to as Brooks' Law, holds that the productivity of any group is reduced by the number of participants in the process and is negatively impacted by the introduction of new works. This is largely caused by the need for education of new resources and by increased inefficiency in communication and the overhead of coordination between greater numbers of individuals. This notion also presents a compelling case for the value of BPM, by leveraging the ability to streamline communication, facilitate handoffs, and embed instructions within work items.

For example, when an insurance claim is transferred from a customer service rep to an adjuster, it typically requires further research and information gathering, and then is subject to the interpretation and assumptions of the individuals involved. By managing these handoffs within a BPM suite, much of the uncertainty and inconsistency in work quality can be eliminated through data validation and skills-based routing. For this reason, Brooks' Law presents an opportunity for uncovering and identifying existing soft dollar costs wherever handoffs between roles can be found.

Case Study

Justifying BPM across the Enterprise – One Step at a Time

Company Stats

- Pharmaceutical/Healthcare
- #23 on Fortune 500 List
- 14,000 employees

Keys to Justifying the First BPM Process

- Started with one visible, high-return project.
- Identified several additional processes where BPM could be applied in the future.
- Leveraged ROI model to justify investment BPM technology – with added benefit that the technology could be leveraged across additional processes in the future.

Keys to Extending BPM across the Enterprise

- Estimated ROI for each project.
- Focused only on high-value processes for BPM projects.
- Created a Process "Center of Excellence" or "Steering Committee" to assess new BPM projects.
- Leveraged ROI/benefits model to justify investment in services, hardware, and additional software needed for each project.
- Negotiated an Enterprise License Agreement with a proven BPM vendor to get maximum value.

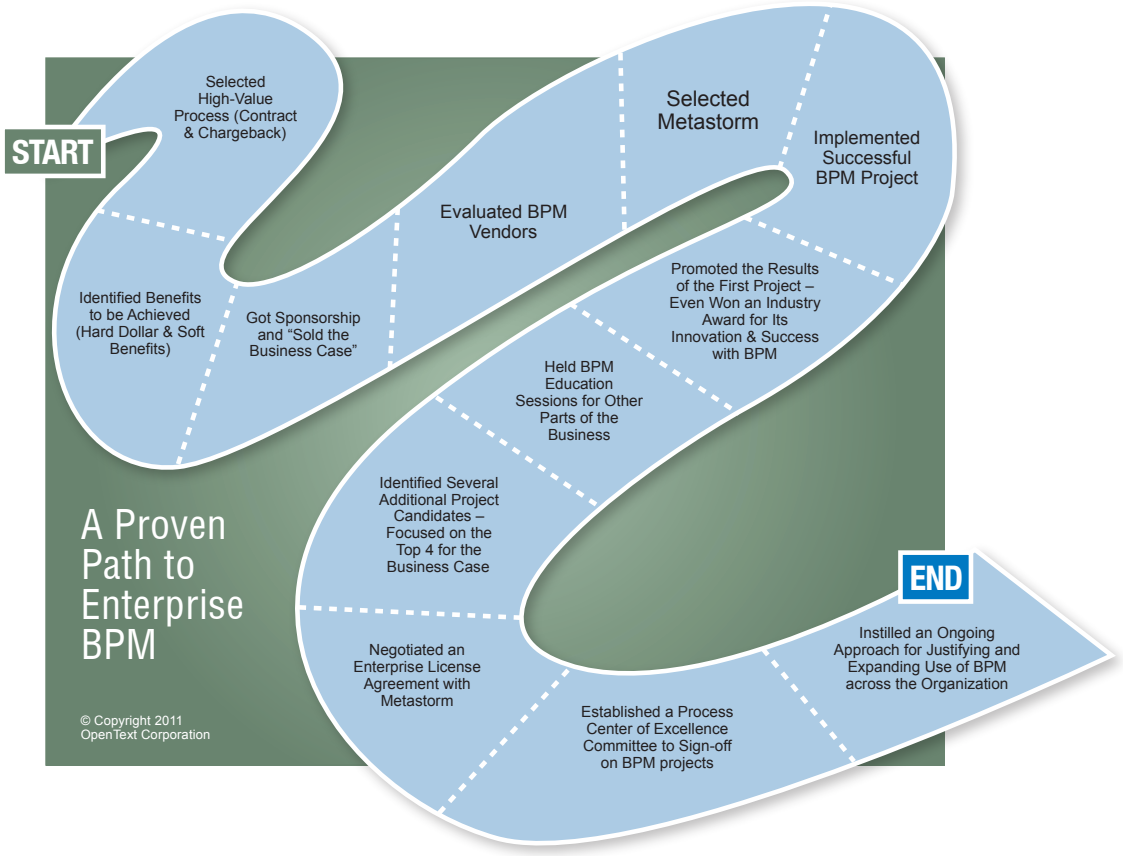
As a very large distributor in the pharmaceutical industry, the company had numerous relationships with manufacturers, pharmacies, and hospitals. In addition, the company managed distribution of both brand-name and generic drugs.

The company is challenged not only with physical distribution and inventory management, but also by the complexities of contract and relationship management with its many manufacturers and customers. Managing the contract and pricing details associated with each of these relationships is people-intensive and time-consuming – but it is also critical to the company's bottom-line profitability. And as a large multi-billion dollar organization with over 14,000 employees, the company has numerous processes that are candidates for increased efficiency.

These characteristics all point to the need for effective Business Process Management (BPM).

In 2004, the company selected its Contract & Chargeback process as the first candidate for a formal BPM project. This is the process that drives the establishment of pricing and terms with each of its manufacturers and then controls compliance with pricing terms and payment of rebates from the manufacturer if the company is forced to sell at a lower price to compete. The process represents a cash flow of approximately $10 billion a year – and any disputes or inaccurate pricing data result in costly delays in getting the refunds the company is owed. The company built a business case to justify this BPM project – focusing on the hard dollar benefits it would realize in the form of lower headcount, fewer disputes, and more accurate pricing information as well as soft benefits such as faster processing of price changes and better supplier and customer relationships.

The company also outlined several additional processes that could be candidates for BPM in the future, selecting several of the highest-value ones to cite as part of the business case – this helped make the business case for investing in BPM technology even stronger as it would be a technology that could be leveraged across other areas of the business.



The company selected OpenText Metastorm BPM (MBPM) and successfully implemented the Contract & Chargeback process with one of its largest manufacturers. The project was extremely successful and delivered a high return on investment – thus building the foundation of credibility the company needed to expand the use of BPM to other areas of the business.

Having established a close relationship with OpenText as its BPM vendor, the company was able to work with the vendor to hold educational workshops in other departments to educate them on the value of BPM and help them identify processes that would be potential candidates for use of the technology.

OpenText helped the company fine-tune the business case for several of the projects that were identified during the education sessions and to negotiate an Enterprise License Agreement that would allow for extensive use of the software at much lower price than they would pay if each project were licensed separately.

The company also established a Process Center of Excellence – a panel of key business and IT people who assess processes, help with business case development, and oversee BPM projects to ensure they are successful.

This company is a role model for the right way to justify BPM – start with high-value project, invest proven BPM technology from a proven vendor, leverage results to extend BPM to other parts of the organization, and iterate the process of building a business case for each project to ensure it is successful. By taking the time to build a strong business case and secure sponsorship for its BPM initiatives, the company has saved millions of dollars and established BPM as a credible and critical part of its IT and business infrastructure.

Consultant Tip

ROI Models Should Show 3 to 5 Year Projections, But Should Also Reference Non-Cash Benefits

Step Five: Develop a Return on Investment Model

The Return on Investment (ROI) model quantifies all of the benefits you captured in Steps 1-4, correlates them with anticipated costs, and identifies the savings potential. The primary goal of the ROI model is to provide a quantified assessment of the anticipated value-added from the BPM deployment, specifically to estimate both the cost and net benefit expected. A secondary goal is to frame expectations for the planning and design of the BPM deployment initiative, in particular as it relates to the procurement of BPM software.

ROI in basic terms is Profit divided by Investment. For the purpose of the business case, it is the total value anticipated to be returned from the BPM initiative minus the anticipated investment required (net return) divided by the investment. For some firms Return on Equity (ROE) is of greater interest, as this captures the value realized from existing assets. However, for your first BPM business case, a new investment in software will be required and thus ROI is the more appropriate metric.

A positive ROI is realized when net value exceeds the cost of the investment and is stated as a percentage greater than zero. Because returns are realized and investments are made over a period of time rather than in a single year, typically the business case is based on a 3 to 5 year horizon and the calculation of ROI needs to be made in terms of Net Present Value (NPV) or a discounted cash flow stream. It is also worth noting that actual cash flow is likely only a fraction of the value measured and you should expect the majority of the business case to be presented in terms of non-cash benefits.

Calculating NPV requires an understanding or estimation of the firm's Cost of Capital. The cost of capital is literally the cost of debt or equity required for obtaining funds and it is generally used as the minimum rate of return a firm requires for any single investment. In general it is the rate of return that is of most interest, since the BPM initiative alone is not likely to directly involve borrowing to pay for it. Organizations use the rate of the return as the hurdle rate for determining the lowest level of acceptable ROI. For some firms the Weighted Average Cost of Capital (WACC) or the average of debt and equity cost is a known and valuable factor and can be used as the driving factor. For firms where this information is unavailable, a conservative cost of capital can be used for estimates.

When building an ROI model, typically two scenarios are modeled – the first is labeled as "conservative" and includes minimal projections and easily verifiable data, and the second is labeled "aggressive" and outlines the potential for greater return factoring in a wider range of potential benefits and incorporates more optimistic return forecasts. In both scenarios the cost basis is the same. The difference between the two is meant to illustrate the spread of reasonable expectations.

As it would be impractical during the business case stage – that is pre-solution deployment – to analyze all possible BPM benefits, only a discrete number of project areas are factored into the analysis. These should be used to illustrate how BPM benefits can be derived, and should not be presented as the limit of potential value. It should be explained that the benefits of the BPM deployment can also be applicable to other project areas and that additional benefits are likely to be realized.

Consultant Tip

Look For Measurable and Material Impacts and Avoid the Trap of Tiny Numbers

When identifying quantifiable benefits, an important caveat is to avoid the temptation of simply aggregating lots of tiny time-savings, such as 10 minutes of every employee's schedule every day. These sorts of micro productivity improvements are expected to be absorbed and of no real measurable benefit. What would you do with an extra 10 minutes a day? Probably not much compared to saving hours at a time. Concentrate your ROI calculations on areas where time saved impacts real transaction overhead, such as verifiable labor savings or reduced workload with actual redeployment of resources.

Overall, benefits should be grouped into distinct categories, including:

1. Hard-Dollar Benefits. Fewer dollars actually being spent, therefore allowing identified monies to be allocated elsewhere; direct and measurable cash flow reductions.

2. Soft Benefits. Bottom line improvement where the impact may be challenging to quantify in dollars or to pinpoint in specific operations; improved revenue from existing operations and increased efficiency of information management functions.

3. Strategic or Operational Benefits. Areas where the BPM deployment positively impacts the success of the organization, improves customer service or increases agility. These benefits are not included in the ROI calculation but are an important part of the business case.

The data and metrics defined in Steps 2 through 4 for each process improvement area can be mapped out in terms of measurable hard and soft dollar benefits.

A case study example of calculating an ROI model is provided in Appendix A.

The Real Cost of Implementing BPM

When presenting a business case to management, the first question is invariably "How much will this cost?" This is understandably a difficult question to answer during the early stages of a project – especially in the case of a first BPM initiative where a software solution has not yet been selected and there is no experience benchmark for estimating consulting services costs.

However, in order to develop a business case, you must establish some estimate of cost. The fact that this will indeed be an estimate further supports the need for a structured yet fluid model, as cost is one of the key variables that will have to be continually refined during the discovery and due diligence process. Analysts and BPM vendors can be a good source to turn to in helping establish a project cost estimate.

Often, the greatest cost of BPM is not in the software license and maintenance fees but in the business resources or consulting services required. Although BPM does not impose anywhere near the10-to-1 services-to-software ratios imposed by other technologies, it is possible that you could experience a ratio of 1.2-to-1 on services to software. This is determined largely by your ability to leverage existing skill sets versus outsourcing to external parties or attempting to hire new skill sets in house.

One of the biggest caveats to keep in mind when evaluating the cost of a BPM initiative is that "free" BPM technology can often become the most expensive option. BPM technology that comes free with other infrastructure, such as an application server, can introduce a great deal of operational risk to the project, starting with

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Look For Solutions Which Leverage Existing Skill Sets, and Hire-out Programmers Before Business Experts

miscommunication between business and IT. The transition points between business logic and application are often points of failure. The key to avoiding this is to establish strong communications between business users and IT staff early in the project. Process design environments offer a tool to facilitate this collaboration and they play a significant role in the success of BPM. A good graphical process design tool makes processes easier to understand and simplifies their definition, shortening the time taken to define a process while at the same time reducing the risk of misunderstandings and expensive re-work later on in the project.

Conclusion

Business Process Management (BPM) is not new – it is an established, proven discipline that combines a focus on process with an integrated set of specialized software tools to deliver real business results.

Organizations around the world and across industries have proven the value that BPM can deliver – greater efficiency, increased visibility, better control, enhanced operational agility, and measurable ROI in the range of 10-300%.

You too can realize this success, but to do so requires focus. That focus starts with learning how to implement a repeatable framework for evaluating processes, defining distinct BPM projects, and building a business case to justify the investment of time, resources, and money.

Developing the business case for the first BPM initiative will be the most time-consuming and the most important because it will include the evaluation, selection, and justification of a BPM software suite to support the implementation. It will also serve as the first proof-point for BPM in your organization. To ensure success, follow the steps outlined in this white paper and keep the tips and pitfalls in mind – the result will be a strong business case and a set of valuable metrics to monitor and measure results during the implementation. From that point on, you will have a repeatable approach, a solid technology foundation on which to build, and a set of benefits and benchmark ROI numbers to make justifying future BPM initiatives a breeze – putting you on the fast path to realizing continuous process improvement and strategic business value from BPM.

www.**opentextbps**.com
bps@opentext.com

Common BPM Pitfalls to Avoid:

Missing the Opportunity of Repeatability

Although the majority of your first BPM business case will be calculated based on a discrete BPM initiative, the true long-term value to your organization will come from developing a repeatable methodology for evaluating and deploying processes across the enterprise. To govern this, a practice area or Center of Excellence can be established. Each BPM project should be measured and promoted so that it can justify the next BPM initiative. It is critical when you are building the first BPM business case to keep this in mind and to highlight the long-term potential as part of the justification. It is also very important that you ensure that any software solution you select has the ability to meet your long-term enterprise needs.

Following the Path of Least Resistance and Avoiding the Sponsorship Challenge

Too often wishful thinking takes over and project teams assume sponsorship is committed when it is not. Do whatever is necessary to eliminate ambiguity surrounding budgets and ownership. Executive sponsorship is critical to success. Ensure that your business case is reviewed and bought into by key stakeholders and that someone at a senior level is committed to supporting the project. If you lack an executive sponsor, you may realize small gains at a project level but you are unlikely to ever realize the true enterprise value that BPM has to offer.

Neglecting Stakeholders When Validating Process Designs

One of the best and traditionally underutilized resources for validating the process are the stakeholders themselves – and not just business process owners but end users. Leverage them to not only ensure accuracy but also to gain support for the initiative.

Getting Stuck in Analysis Paralysis or Trying to Conquer Too Much

Do not fall into the trap of “analysis paralysis” during process definition. Establish consensus on something that is good enough and get it in front of the stakeholders for validation. BPM technology is intentionally architected to be flexible and allow for rapid process changes, so if the process is not ideal you can always fine-tune it later when you have better data. Remember the importance of iterative success – do not try to achieve too much at one time but rather define and implement a well-defined process scope, prove results, and then extend out from there.

Selecting Cheap or Free BPM Technology

Sometimes “free” BPM is the most expensive option. Look for alignment with your resources and business objectives over just price, and check customer references to ensure the solution has delivered proven results in a timeframe that is acceptable to you.

APPENDIX A: CASE STUDY EXAMPLE OF ROI MODEL – U.S. ENGINEERING SERVICES FIRM

Soft Benefits Calculation

To illustrate the type of details and calculations that should be included in the ROI model of the business case, we use an ROI assessment performed at an engineering services firm. The first example is that of a Soft Benefit calculation, where an identifiable qualitative benefit is developed into a quantitative cost savings. In this case, the process of reviewing the ongoing sales pipeline is part of a fixed-price operations and management agreement and represents a cost center. Because the process involves a number of handoffs and data-checking activities, each cycle introduces the potential for redundancy and rework by expensive engineering resources. The ability to automate the process and maintain greater continuity between handoffs represents a measurable cost-savings enabled by the introduction of BPM. This cost-savings opportunity was identified based on interviews of personnel, which revealed that these handoffs represented a huge source of process inefficiency, consuming approximately 6 out of the total average 40 hours spent on pipeline evaluations.

Pipeline Evalutations	**Year 1**	**Year 2**	**Year 3**
Number of Evaluations Per Year Per Team	6	6	6
Man-Hours Per Job	40	40	40
Rework Per Job	15%	15%	15%
Rework MH per Job	6	6	6
Total Annual Rework Reduction	36	36	36
Licensing Man-Hour Cost	$80	$80	$80
Cost Savings/Team	$2,880	$2,880	$2,880
Number of Team	8	20	50
Cost-savings Per Year	***$23,040***	***$57,600***	***$144,000***

Based on these assumptions as well the validation of specific metrics such as labor costs and job frequency, a realistic cost savings estimate can be developed. This exercise should be repeated for each of the key benefit areas and process improvements identified in Steps 2 to 4 of the business case development process. Again, this is not meant as an exercise in re-engineering – focus on areas that offer the highest value and the fastest impact.

Each calculated figure should be broken out individually and explained in terms of its assumptions and data sources. The same should be done for the cost side. A single table should be developed for all of the information so that it can be viewed comprehensively at once.

Total Projected Project Costs Example

Projected Cost Summary	**Year 1**	**Year 2**	**Year 3**
BPM Administration	$75,000	$75,000	$75,000
BPM Development & Customization	$120,000	$120,000	$80,000
Training	$50,000		
External Professional Services			
BPM Process Consulting	$250,000	$134,800	$50,000
Application Development	$308,800	$150,000	$40,700
Integration Services		$152,400	$30,000
BPM Software			
Software License			
Phase 1 (server license and integration adapters)	$300,000		
Phase 2 (additional user licenses)		$75,000	
Design Tools and developer SDK	$100,000		
Software Maintenance	$32,000	$38,000	$38,000
Hardware/Equipment			
Production Servers and Design Studios	$16,000	$26,000	
Total Projected Annual Costs	***$1,251,800***	***$771,200***	***$313,700***

ROI Calculation

When presenting the ROI model in the business case, each cost and benefit should be broken out so that the numbers are transparent and believable, then each number should be rolled up into a single table showing the comprehensive costs and benefits. The ROI is calculated as 131% here, meaning that $1.31 is returned on top of the original investment for every dollar spent, or alternatively that $2.31 is realized for every $1.00 going out. Keep in mind this is not cash flow specific but represents value-add from both reduced transaction costs and revenue increases. A large area of value in the model is *Reduction of Current Project Transaction Costs*, representing the BPM deployment's impact on productivity – relating to how the BPM deployment can be leveraged to perform more work with the same resources or perform the same volume of work with greater efficiency. As such they are presented as *Soft Benefits* rather than *Hard-Dollar* savings or direct cash flow reductions. In each case specific dollar values are identified based on existing processes, validated costs and, forecasted revenue amounts. In contrast, the *Automation of Engineering Change Orders* leads to a significant redeployment of staff, resulting in measurable *Hard-Dollar* savings by redeploying staff and reducing a considerable amount of travel.

Aggressive Scenario

	Year 1	Year 2	Year 3
Hard-Dollar benefits			
Reduced Print & Distribution Costs	$21,600	$33,200	$49,500
Automation of Engineering Change Orders	$240,000	$336,000	$470,400
Elimination of Engineering Re-Work	$51,840	$72,576	$101,606
Soft Benefits			
Pipeline Evaluation Labor Savings	$23,040	$57,600	$144,000
Information Management Related Productivity Gains	$330,000	$396,000	$475,200
Reduction of Current Project Transaction Costs	$410,118	$706,738	$1,056,100
Revenue Improvement Through Engineering	$82,000	$127,000	$324,000
Annual Totals of BPM-Provided Benefits	**$1,158,598**	**$1,729,114**	**$2,620,806**
Total Projected Annual Costs	$1,251,800	$771,200	$313,700
Annual Payback	**($93,202)**	**$957,914**	**$2,307,106**
Net Present Value of 3 Year Investment Dollars	**$2,296,481**		
3 Year Project New Present Value	**$3,013,327**		
3 Year Project ROI	**131%**		
Year in Which Breakeven Occurs	**Year 2**		

- *ROI is calculated as 3 Year Project NPV / 3 Year Investment NPV*
- *Net Present Value (NPV) is calculated using a constant cost of capital of 3% and discounting each year's net benefit after Year 1.*
- *The discount factor is calculated as (1+ the cost of capital)Year-1*
- *Year 2's net benefit is discounted by 3% or (1.0+0.03)1 and Year 3's is discounted by 6% or (1.0+0.03)2*

The difference in the Conservative Scenario ROI model is largely found in the *Reduction of Current Project Transaction Costs*, which is a Soft Benefit based largely on assumptions. Nothing changes in the Hard-Dollar benefits or the cost sides of the equation as these are based on verified numbers. In the Conservative Scenario the initiative pays for itself in Year 3, and over the period of three years it returns $1.39 in value for every $1.00 invested. This initiative is indeed "profitable" and earns more than 10% annually compared to an alternative investment, so even as a Conservative Scenario it makes a compelling business case.

Conservative Scenario

	Year 1	Year 2	Year 3
Hard-Dollar benefits			
Reduced Print & Distribution Costs	$21,600	$33,200	$49,500
Automation of Engineering Change Orders	$240,000	$336,000	$470,400
Elimination of Engineering Re-Work	$51,840	$72,576	$101,606
Soft Benefits			
Pipeline Evaluation Labor Savings	$23,040	$57,600	$144,000
Information Management Related Productivity Gains	$110,000	$132,000	$158,400
Reduction of Current Project Transaction Costs	$210,118	$252,142	$302,570
Revenue Improvement Through Engineering	$82,000	$127,000	$324,000
Annual Totals of BPM-Provided Benefits	**$738,598**	**$1,010,518**	**$1,550,476**
Total Projected Annual Costs	$1,251,800	$771,200	$313,700
Annual Payback	**($513,202)**	**$239,318**	**$1,236,776**
Net Present Value of 3 Year Investment Dollars	**$2,296,481**		
3 Year Project New Present Value	**$885,915**		
3 Year Project ROI	**39%**		
Year in Which Breakeven Occurs	**Year 3**		