

A Process for Managing an IT Project Portfolio using **Total Value of Ownership** to measure true **Return On Investment**

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Founded in 1992, Integrated Management Associates (IMA) is a full service Global Management Consulting and Training company.

It provides to its clients best practice knowledge and expertise through;

- Management Consulting
- Information Technology Infrastructure Consulting
- Project Management Implementation Consulting
- Project Management Seminars

Agenda

- Issues Facing CxO's
- Resolution - Project Portfolio Management
- Reasons to adopt Portfolio Management
- Evaluation Methods
- TVO & ROI
- Baseline
- Q & A

**IT Budget Approval**

Managers tried new approach at end of year



**Issues**

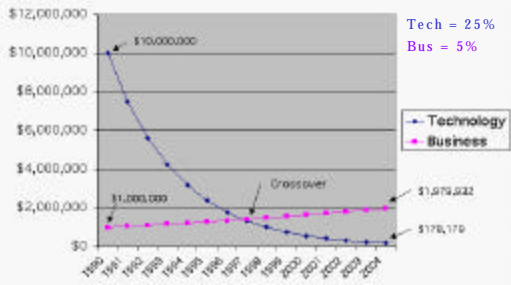
- Drive top quality
- Reduce Cost
- Start new projects
- Stop projects that aren't working
- Standardize
- Shrink infrastructure investments
- Be strategic
- Minimize development

Traditional Evolutionary Stages of IT to Business

Service-Order Taker	Business Enabler	Business within a Business	Full Business Integration
<ul style="list-style-type: none"> <li>• IT not considered strategic supporting Business growth</li> <li>• Cost Management</li> <li>• Operational Efficiency</li> <li>• Benchmarking</li> <li>• Downsizing</li> </ul>	<ul style="list-style-type: none"> <li>• Support Growth</li> <li>• Enhance Profitability</li> <li>• Aggressive IT Investments</li> <li>• Balanced Scorecard Projects</li> </ul>	<ul style="list-style-type: none"> <li>• Cost &amp; Performance Standards</li> <li>• Free market Competitor</li> <li>• Comparison to External World:</li> </ul>	<ul style="list-style-type: none"> <li>• IT Managed as a Business</li> <li>• Manages Portfolio</li> </ul>

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The Compounding of Technology vs Business use of Technology Costs



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Reasons to adopt Portfolio Management

- Businesses have invested too much on technology and seen too little return. IT investments are falling short of corporate goals.
- IT organizations can select best projects for the business and not just keep up with demand for technology innovations.
- IT focused too much on home run technology - the "Killer App".
- Standish Group Study
  - 9% technology investments completed on time, on budget & scope
  - 29% completely failed (wasting \$80- \$145 billion)

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The portfolio management process

- Continuous management:
  - "Static" assets (existing applications hardware, etc.)
  - "Active" assets (projects, etc.)
- Continuous analysis
  - New opportunities
  - Performance of existing assets
  - Interaction of devoting resources to new opportunities.

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The IT portfolio consists of:

- Application systems, products, and suites - either COTS or in-house
- Processing hardware infrastructure and operating systems
- Network equipment and software
- Services (including consultative)
- Distinct technology products
- Human resources - internal and external contract
- Data/information

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There is also an IT project portfolio, which includes projects that :

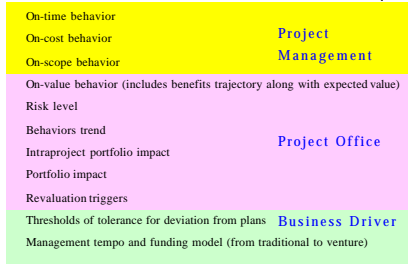
- Expand the portfolio
- Renew elements of the portfolio
- Correct problems within the portfolio

Other, less tangible portfolio holdings include:

- Knowledge and experience embedded in people, processes, systems, and databases
- Intellectual and innovation capital
- Customer/user assets
- Relationship assets

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Project Attributes for Portfolio Management





Measuring IT Value

Businesses are under a lot of pressure to justify the IT budget and put a measure on value that may not be obvious.

One way to make the value of IT more obvious is to adopt a logical, repeatable framework—a valuation methodology.

Adoption of a valuation methodology helps:

- Establish a clear connection between IT and business strategy,
- Link technology initiatives to shareholder value,
- Facilitate negotiations with the CFO,
- Ultimately optimize the budget for IT and spend it where it does the most good.



Valuation Methodologies

Traditional

These methodologies have their roots in the world of financial measurements, with IT-specific metrics and attempts at risk assessments.

- Economic Value Added (EVA)
- Total Cost of Ownership (TCO)
- Total Economic Impact (TEI)
- Rapid Economic Justification (REJ)



Valuation Methodologies

Qualitative Methods (Heuristic)

These methods attempt to round out quantitative measures with subjective and qualitative inputs to assess the value of people and processes.

- Balanced Scorecard
- Information Economics (IE)
- Portfolio Management
- IT Scorecard



Valuation Methodologies

Probabilistic Methods

These methods use statistical and mathematical models to calibrate risk within a range of probabilities.

- Real Options Valuation (ROV)
- Applied Information Economics (AIE)



**Total Value of Ownership (TVO)**

Includes Both  
Technology & Business  
Metrics

Value = Benefits – Risk

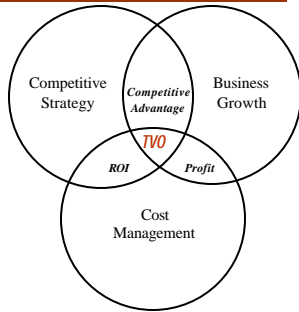


TVO Provides

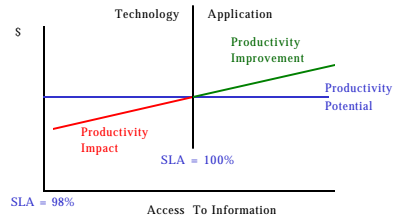
1. Metrics for assessing the Technology delivery system(s)
2. User productivity and business revenue impacts and/or benefits
3. Measurement of realistic IT delivery service levels supported by a balanced TVO (IT & Business)
4. Payback period (ROI) for the proposed Technology delivery system(s)
5. Indicators for the justification of management software and/or support personnel based on productivity improvements seen in the business units

Why TVO?

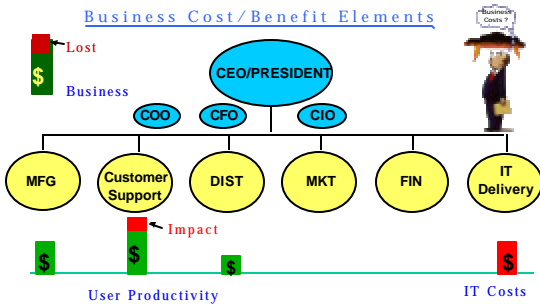
Well...  
Where Do  
You Want To  
Go?



Business Community Productivity



Business Cost/Benefit Elements



Levels of TVO

Component	Focus	Example
Hardware	Technology	CPU, Storage, Server, Network
Software	Technology	OS, DB, Ntwk., Shrink-Wrap
Support	Technology	Ops., Tech Supt., Consulting
Availability	Business	User, Outage Impact
Performance	Business	User, Productivity
Recovery	Business	User, Restoration

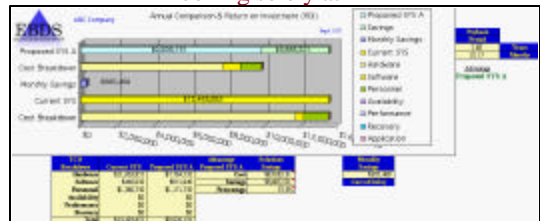
Baseline

Building an IT Portfolio Approach Starts With the  
Baseline ROI based on TVO

Current Systems & Proposed Projects

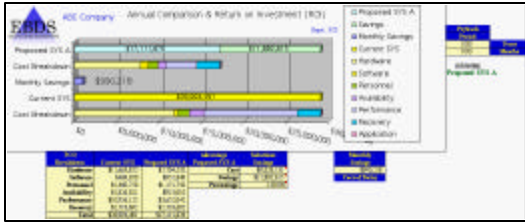
- Hardware
- Software
- Personnel
- Recovery
- Performance
- Availability

ROI based on TVO of Proposed Solutions  
Looking solely at IT

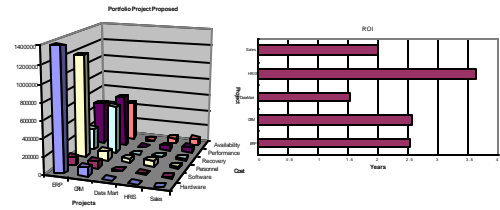


EBDS URL-<http://www.esandb.com/>

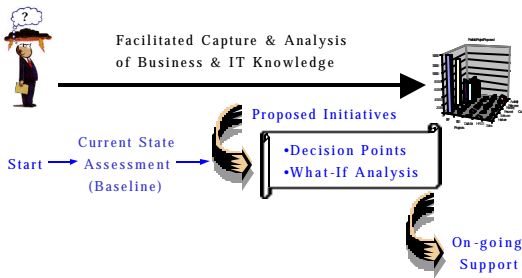
**ROI based on TVO of Proposed Solutions**  
Looking at IT & Business



**Portfolio Component Cost Comparison**



**TVO Process Implementation**



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