



## Picking Your Investments – Building a Business Case for Your Strategic Technology Investments

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In today's challenging economic environment, it is essential that we leverage our resources as thoughtfully as possible. Cost-cutting is a mandatory measure that all businesses must make today, however we also need to seek methods for increasing revenue and profits by investing in appropriate technology. A carefully thought-out Strategic Technology Plan can lead to a reduction in expenditures and align the use of emerging technologies to enhance our bottom line.

So what does "investing in technology" really mean? It means treating your technology investments like you would any other investment made by the financial institution. We must return to the question of "What is the expected Return on Investment (ROI) for this Project?"

I find it valuable to divide IT expenditures into two major categories:

1. Efficient Operations: non-strategic, keeping the lights on.
2. IT Investments: leveraging technology, increasing franchise value.

By dividing expenditures between these two major categories, we can begin to investigate our output vs. our return and ask the appropriate questions of ROI in a more meaningful way.

For non-strategic operational costs, our sole aim would be a reduction in cost or an increase in efficiency. I've always found it interesting that historically, the financial services industry bases IT spending on asset size. As asset size increases, so does the IT budget. Taking a fresh perspective, it is actually more logical to base IT spending on a per employee (FTE) basis. Through this sound business approach, as the institution becomes more efficient (more assets per FTE), costs are not rising in lockstep. Planning future expenditures based on future head count becomes easy, and the institution can calculate the true cost burden of hiring that next employee.

We should take a cold, hard look at what IT functions can be outsourced, and what should appropriately be kept in-house. Items such as patch management, desktop management, server monitoring, network monitoring, backups and the like, are better managed and maintained outsourced to a third-party provider. No defensible position can be taken for bank personnel to be tasked with these responsibilities that are not relevant to the institution's core competencies. Also, hosted services, such as email and voice/ phone service should be considered for their substantial cost savings potential. There is no justifiable reason to pay for the licensing, care, and feeding of an in-house email server or VoIP Call Manager. The servers have left the building, and that's a good thing.

In your strategic planning efforts, don't fall into the hypnotic lure of the increase to efficiency trap. Remember that increased efficiency is only beneficial if the newly created time or space is repurposed to either reduce cost or increase revenue.

For strategic initiatives, or IT investments, we can now apply the same rigorous standards we would to any investment, holding the IT department responsible for performance of the investments "portfolio".

In the past, it has been shamefully easy for IT departments to gain approval on pet projects without submitting a case proving an increase

to the franchise value of the institution, or alignment with the vision and mission of the institution. We need to make a paradigm shift from spending on IT to investing in IT.

How do we build better habits? We start by requiring our IT departments to create a Business Case for each and every investment proposal. Before embarking on any new project, we must take the appropriate steps in due diligence:

1. Verify Organizational Alignment. Does this project enhance the mission and vision of the institution?
2. Define the Scope. Many IT projects fail due to a lack of planning from the start. We should be asking questions to fully gain an understanding of the true outcomes of the undertaking: What is the true cost of the project? How much will it cost to build? How much will it cost to operate in the future? What resources will be taken up by this project? What other initiatives will be affected or delayed items? Will this require additional staff or training to either build or operate? etc.
3. Perform Financial Benefits Analysis. Now that we have an understanding of the expected costs, four simple financial measures can determine whether the institution can make a sound business case for the proposed investment:

- Increasing revenue or profit.
- Decreasing costs.
- Accelerating time to market (thus increasing revenue sooner).
- Delivering a significant competitive advantage (measured again by revenue).

4. Perform Non-Financial Benefits Analysis. This is where it gets tricky, and I'll bet that this is the gray area in which IT departments have gotten away with some pretty outlandish pet projects. In today's economic environment, if no direct financial benefit can be proven,



we must exercise extreme caution when considering non-financial benefits.

- Increasing or enhancing brand recognition.
  - Building better client relationships.
  - Improving governance or regulatory compliance.
  - Decreasing business risk.
5. Outline Assumptions and Risks. Going into any project, certain assumptions are made. We need to ascertain that those assumptions are fully understood and the business risks are fully outlined.
6. Define Measurement Criteria. A clear expectation of the costs, benefits, risks, and expected return should lead to hard Key Performance Indicators (KPIs) that can be used to hold your staff accountable for the investment's performance. These KPIs should be baked into the compensation of your IT staff to ensure maximum chance of success.

In conclusion, by enforcing the practice of sound Strategic Planning and using the Business Case method, we can more easily ensure the success of our investments. Furthermore, we can accurately understand our failures as well, helping us to make better, more informed decisions in the future. Through strong management practices we ensure that we our money is wisely spent and we chart the optimal course to gain significant advantages in this difficult market.