

**Ingenuus Active  
Packet Technology  
Provides:**

- ◇ Control
- ◇ Visibility
- ◇ Predictability
- ◇ A Great Return on Investment

# Return on Investment Analysis

## White Paper

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# White Paper

## Executive Overview

This white paper will focus on the Return on Investment for Business Process Management [BPM] software. Companies deploy BPM solutions to solve real business problems. Most often, companies are looking to shorten process cycle times.

One BPM publication interviewed companies that had deployed a BPM solution, They discovered:

- ◇ 100% reported increased productivity
- ◇ 95% reported improved quality of service
- ◇ 82% reported lower operating costs
- ◇ 82% reported shorter process cycle times

80% of the respondents said they reduced operating costs more than they expected while 89% increased their productivity more than expected.

These revelations show that a BPM solution provides many more benefits than just shorter cycle times.

When analyzing returns on investment [ROI], there are generally 2 key areas to analyze - hard costs and soft costs.

Hard costs are those costs that happen all the time and are relatively easy to document. If a process used to take 20 days and now it takes only 10, you ought to be able to come up with some real dollars.

Soft costs are 'soft' because either they don't happen all the time or you will have some difficulty putting a dollar value against them. A mistake could cost you very little or be devastating - what number do you put in an ROI analysis? If you just wish to be more organized, what number do you put on that?

This whitepaper will go into more detail in later pages.

Over the years, we have come to several conclusions:

- ◇ A successful BPM implementation will always pay for itself
- ◇ Overall business benefits realized exceed expectations

Companies are always looking for that competitive advantage - Business Process Management can be your Competitive Advantage.



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### The Value of Business Process Management

The dictionary defines value as relative worth, merit or importance. An alternate definition is estimated or assigned worth. No matter how you look at it, you will have to estimate or assign worth to the benefits.

Under the category of hard costs, here are the key areas to look at:

- ◇ Efficiency - increased productivity
- ◇ Reduced Cycle Times - Change requests go from 45 days to 5
- ◇ Reduced Operating Costs - Automation replaces non-value-added tasks

Under the category of soft costs, here are some places to look for benefits:

Improved quality of service - Intuitively, you know that this is good for your company, what \$ value will you put on it?

Move to a Paperless office - At the very least, it is easier to find a document on a computer than someone's desk.

Visibility - Many companies hire 'program managers' to manage a process. They spend a great deal of their day determining the status of something within that process. Computer software can provide this information in seconds.

Time to Market - Key benefits of getting to market sooner include: More revenue; More market share; More mind share; Better product positioning; etc.

Mistakes - Mistakes always cost something. The dollar amount is fairly small in early design stages, but when you are ready to ship to the customer, the mistake can be in \$ millions.

And, after you have gathered all of this information, what does your company like to see in a return on investment? Payback in months? Annual dollar savings? Net present value? Future value? Internal rate of return?



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## Hard Costs

Most return on investment analyses begin with hard costs. We usually begin here because there are fewer debates.

Hard costs are those costs that happen all the time and are relatively easy to document. Make sure you identify all your assumptions and then generate the values. The only discussion should be on the assumptions.

We have identified some places to look for hard costs.

### 1) Shortened cycle times

Interview workers in the process. Document their process. Pass this document by the people interviewed to check for accuracy. Determine how long each of the tasks take within a process. Determine a cost for the entire process, or a month's worth, or a year's worth.

### 2) Automation of certain steps within a process

Measure the time it takes to perform an activity that can be automated and then eliminate that time after it is automated.

### 3) Ease of use

Measure the time it takes a user to perform a task currently and then measure the time after the new system is implemented.

### 4) Removal of duplicate steps or activities

The time it took to perform the duplicate step will be eliminated.

This list is not meant to be inclusive. You could come up with others based on your company's culture.



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## Soft Costs

Soft costs are 'soft' because either they don't happen all the time or you will have some difficulty putting a dollar value against them. A mistake could cost you very little or be devastating - what number do you put in an ROI analysis? If you just wish to be more organized, what number do you put on that?

It is more difficult to put dollar amounts to soft costs. This becomes very subjective, but we can identify some places to look.

Efficiency has several sub categories.

- a) Shorter time to market - Some of the benefits of getting to market sooner include: More revenue, More market share, More traction in the mind of the consumer, More easily position your products, Begin developing a 'barrier to entry' for competitors sooner, Etc.
- b) Product Quality - If you have more time during your process cycles, you should be able to improve the quality of your product.
- c) Shorter processes should reduce product costs - Lower costs will give you more latitude in pricing.

Mistakes/Errors - Some mistakes may not be that costly, however we know of one aerospace/defense contractor that had a mistake cost them \$2 million.

Company Image - Your efficiency may be a marketable advantage.

Again, this list is not meant to be inclusive. You could come up with others based on your company's culture.



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## Return on Investment Analysis

There are many different ways to view your ROI analysis.

One way is to take some known information and extrapolate the amount. InformationWeek says that Engineers spend 25% of their time looking for information. If you have 10 engineers being paid \$100k/year, you could save \$250k per year if you were paperless with an indexed search.

Another way, InformationWeek says that 75% of a company's projects don't finish on time. You could look at the costs of over-runs and project cancellations.

Another way, many studies say that it costs \$2,500 to manage a change request manually. An automated solution would cost an order of magnitude less. If you generated 1,000 change requests per year, you could save \$250k a year with an automated system.

And the most common way, we have created a very thorough ROI spreadsheet to work through business process management solutions.

It contains 4 main sections:

### Vault

The Vault section deals with information. How will you see or access the information in the vault? How long does that take?

### Process

The Process section deals with tasks. What tasks will be performed? How long does that take? What information will they need to perform the task? How long does it take for them to get it? What information will they create as a result of their tasks? How long does that take?

### Collaboration

The Collaboration section deals with information again. How will you share information with others? What information will you share? Will you be jointly working on some information? How long does that take?

### Results

Since companies have differing views of how they like to see a return on investment, we have created a spreadsheet that generates the most common results - Annual Savings; Payback in months/years; Net Present Value; ROI as a percentage; and Internal Rate of Return.

| Return On Investment Analysis |           |           |             |             |       |  |
|-------------------------------|-----------|-----------|-------------|-------------|-------|--|
| Some Alternatives             | Savings   | Costs     | Net         | NPV         | ROI   |  |
| Year 1                        | \$430,544 | \$175,300 | \$255,244   | \$255,244   | 146%  |  |
| Year 2                        | \$469,685 | \$31,500  | \$693,429   | \$602,981   | 459%  |  |
| Year 3                        | \$469,685 | \$31,500  | \$1,131,613 | \$855,662   | 873%  |  |
| Year 4                        | \$469,685 | \$31,500  | \$1,569,798 | \$1,032,167 | 1353% |  |
| Year 5                        | \$469,685 | \$31,500  | \$2,007,982 | \$1,148,070 | 1878% |  |

A thorough return on investment analysis would likely include a spreadsheet with the hard dollars and could include a tab for soft costs or a separate document identifying the soft cost issues with some dollar amount assessed.



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### Conclusions

We have been helping prospects/customers with ROI analyses for nearly 20 years.

1) Over those 20 years, we have never seen a BPM solution that didn't pay for itself.

As an example, the simple process of managing the creation of legal documents [our smallest ROI] will happen in about 6 months. Whereas, our largest customer [a contract manufacturer] is saving about \$1 million a year.

We have created a very thorough spreadsheet over the last dozen years that will uncover your hard costs. We do provide some guidance on where to look for soft cost savings. Since soft costs tend to be subjective, you will need to provide the dollar values.

2) Most of our customers say that the overall business benefits that they realized from their BPM solution exceeded their expectations.

3) After they have been using our BPM solution for a while, they realize that business process management could be their competitive advantage.



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