No corporation should initiate or prolong an IT system without a clear business reason for doing so. Thus, the role of the IT manager is continually reevaluating the system and its business justification. In most corporations, the system is reviewed and replanned at least once a year.

If the system does not meet the business requirements, then the system must be reviewed and possibly modified to conform to business needs. If the system continues to be non-competitive because of its inability to meet the requirements, the system should be redefined or terminated. In some cases, the system should be scrapped.

Before the value you are measuring is connected to the system, it must be connected to the internal business priority of the company. The internal business priority of the company must be defined. The definition of business priority includes: the major factors contributing to the success of the business, the customers, the competitors, the cost, the time, the information, and the human resources. If the business priority is not clear, the system's business value for any IT initiative or system.

The next table (center, far right) applies this concept to two examples: an inventory management and distribution system, and a customer relationship management system.

### Inventory Management & Distribution System

**Business Priority:** Increase profits by reducing distribution costs and improving accessibility and efficiency.

**IT System:** A system that is integrated with all current inventory management systems and business processes.

<table>
<thead>
<tr>
<th>METRICS</th>
<th>VALUE</th>
<th>STAKEHOLDERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory accuracy</td>
<td>Improve accessibility</td>
<td>Line of business managers</td>
</tr>
<tr>
<td>Inventory accuracy</td>
<td>Improve efficiency</td>
<td>Line of business managers</td>
</tr>
<tr>
<td>Inventory accuracy</td>
<td>Reduce costs</td>
<td>Line of business managers</td>
</tr>
<tr>
<td>Inventory accuracy</td>
<td>Improve customer satisfaction</td>
<td>Line of business managers</td>
</tr>
<tr>
<td>Inventory accuracy</td>
<td>Increase profits</td>
<td>Line of business managers</td>
</tr>
</tbody>
</table>

### Customer Relationship Management System

**Business Priority:** Increase profits by increasing the number of customers and the number of products sold per customer.

**IT System:** An integrated CRM system with all available customer service resources.

<table>
<thead>
<tr>
<th>METRICS</th>
<th>VALUE</th>
<th>STAKEHOLDERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of customers satisfied</td>
<td>Increase profits</td>
<td>Line of business managers</td>
</tr>
<tr>
<td>Number of products sold per customer</td>
<td>Increase profits</td>
<td>Line of business managers</td>
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While there are many ways to determine the business value of an IT initiative, the most important step is to define the business value of the initiative in terms of a specific primary business value.
How to Measure IT Value

Every IT investment—whether it is a system that is currently in operation, an IT project that is under way or under construction, or an organizational initiative such as a training or quality-improvement program—must be linked to a specific business priority, whose success is measured in terms of a specific primary business value.

In his whiteboard, Howard A. Rubin provides a complete way of viewing and measuring business value for any IT initiative or system. The first diagram (far right) maps out the methodology, showing how value created at the internal IT, business priority and customer levels supports the creation of business value, and indicating how each level’s stakeholders fit into the process of choosing appropriate metrics. The next two diagrams (center, far right) apply this concept to two examples: an inventory management and distribution system, and a customer relationship management system.

System or Initiative

Measures such as customer satisfaction, retention, profitability and service levels are critical in this level. Business leaders at this level are looking for business metrics—the line of business executives responsible for, or line of business executives and managers for the system in question.

Inventory Management & Distribution System

This example covers a system used for managing warehouses and inventory, as well as logistics and shipping.

Customer Relationship Management System

This example is for an integrated, ticket-type system used by customer service, sales and marketing for servicing and service.

Concepts

The metrics for the value created by the system reflect the concerns and expectations of stakeholders at the internal IT and business-process levels. The internal IT stakeholders are generally concerned about measurable, cost-based, rather than scalable or strategic, results. This example is a system used for managing warehouses and inventory, as well as logistics and shipping.

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This whitepaper provides a complete view of viewing and measuring business value for any IT initiative or system. The first diagram (near right) maps out the methodology showing how value created at the internal IT, business process and customer levels supports the creation of business value, and indicating how each level's stakeholders fit into the process of choosing appropriate metrics. The next two diagrams (center, far right) apply this concept to two examples: an inventory management and distribution system, and a customer relationship management system.

No corporation should initiate or propel an IT system without a clear business reason for doing so. And in the context of that business priority one should be concerned with the following:

1. Measuring the value of the system or initiative
2. Identifying which value is the most important
3. Broadly measuring the value of the system and making sure other expectations are met
4. Identifying the most important payoff, in order to more accurately measure it
5. Start measuring.

In order to ensure alignment with strategy, to set IT internal metrics, keeping in mind the primary business value are best thought of as secondary bene-fits and can be counted as business value at any level can be measured in numbers or cost of function points, as long as there is some common rate and direction of measurement.

Start measuring.

Every IT investment—whether it be a system that's currently in operation, an IT project that is under way or under consideration, or an organizational initiative such as a training or quality-improvement program—must be linked to a specific business priority, whose success is measured in terms of a specific primary business value.

CONCEPTS

SYSTEM OR INITIATIVE

INVENTORY MANAGEMENT & DISTRIBUTION SYSTEM

BUSINESS PROCESS: Inventory Management

CUSTOMER RELATIONSHIP MANAGEMENT SYSTEM

BUSINESS PROCESS: Customer Relationship Management

EXAMPLE A

INVENTORY MANAGEMENT & DISTRIBUTION SYSTEM

This example covers a system used for managing warehouses and inventory, as well as logistics and shipping.

In this field, customers value the system’s capability to lower rate of goods returned, lower cost of goods compared to previous quarter and distribution (both per SKU and per item shipped). Line-of-business executives and managers for products or items created, systems development managers are benefiting from, these business processes. They are looking for, given their role and responsibility. Custom process, brand and manufacturing managers, and warehouse and distribution managers. (While system is being run, inventory and distribution management systems are expected to be more efficient with CIO, application maintenance managers, IT maintaining efficient operations.

EXAMPLE B

CUSTOMER RELATIONSHIP MANAGEMENT SYSTEM

This example is for an integrated, linked-type system used to customer service, sales and marketing for communications and service.

In this field, the customer value is lower rate of goods returned, lower cost of goods compared to previous quarter and distribution (both per SKU and per item shipped). Line-of-business executives and managers for products or items created, systems development managers are benefiting from, these business processes. They are looking for, given their role and responsibility. Custom process, brand and manufacturing managers, and warehouse and distribution managers. (While system is being run, inventory and distribution management systems are expected to be more efficient with CIO, application maintenance managers, IT maintaining efficient operations.

How to Measure IT Value
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Every IT investment—whether it is a system that’s currently in operation, an IT project that is under way or under consideration, or an organizational initiative such as a training or quality-improvement program—must be linked to a specific business priority, whose success is measured in terms of a specific primary business value.

**SYSTEM OR INITIATIVE**

1. Define the value you are looking for, given the business priority:
   - Identify the business priority (e.g., increasing revenues, reducing costs, improving customer satisfaction).
   - Define what success looks like in terms of specific business values.

2. Decide which value is the most important payoff, in order to more closely align strategies and focus investments.
   - Identify the primary business value that will drive the success of the project or system.

3. Start measuring. Remember that the stakeholders at each level—business, IT, and process—have different and often conflicting expectations.
   - Gather data and metrics that reflect the value at each level.

4. **STAKEHOLDERS**
   - Internal IT: Business Process, Functional: Those involved in the day-to-day operation of the system.
   - Line-of-business executives and managers for product and services: Those responsible for driving the business forward.
   - Functional managers: Those responsible for maintaining efficient operations.
   - Quality and service managers: Those responsible for ensuring customer satisfaction.
   - Customer satisfaction representatives: Those responsible for understanding customer needs and concerns.

5. **METRICS**
   - Dollar value of finished goods in inventory; inventory turns per year (total sales/inventory size); inventory accuracy (percent gap between physical inventory and Dollar value of finished goods in inventory; inventory accuracy (percent gap between physical inventory and
   - Line-of-business executives and managers for product and services: Those responsible for driving the business forward.

6. **PROCESS**
   - Build or improve CRM system’s features and functions while maintaining efficient operations.
   - Reduce the number of products sold per customer; customer satisfaction; number of data elements handled at one call, and improved awareness of directors and shareholders.

7. **VALUE**
   - Total sales; total sales per customer.
   - Earnings per share.
   - Return on investment in CRM system; number of data elements handled at one call, and improved awareness of directors and shareholders.

8. **INVENTORY MANAGEMENT & DISTRIBUTION SYSTEM**
   - This example covers a system used for managing warehouses and inventory, as well as logistics and shipping.

9. **CUSTOMER RELATIONSHIP MANAGEMENT SYSTEM**
   - This example is for an integrated, ‘thick’ type system used by customer service, sales and marketing for coordinating and service.

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### Example A

**INVENTORY MANAGEMENT & DISTRIBUTION SYSTEM**

**Businesses, Products, and Services**

- Systems supporting and managing inventory and distribution processes.

**Concepts**

- Island of appropriateness: a customer relationship management system.

**Example**

- In this example, the investment value is the net present value of earnings per share.

**Metrics**

- Total sales; total sales per customer.

**Process**

- Build or improve CRM system’s features and functions while maintaining efficient operations.

**Value**

- Total sales; total sales per customer.

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### Table: Common Metrics

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### Example B

**CUSTOMER RELATIONSHIP MANAGEMENT SYSTEM**

**Businesses, Products, and Services**

- Systems supporting and managing customer relationships.

**Concepts**

- Island of appropriateness: a customer relationship management system.

**Example**

- In this example, the investment value is the net present value of earnings per share.

**Metrics**

- Total sales; total sales per customer.

**Process**

- Build or improve CRM system’s features and functions while maintaining efficient operations.

**Value**

- Total sales; total sales per customer.

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