Planisware

Making the Business Case for Strategic Portfolio Management Software

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Overview

Who should read this guide?

This guide is designed to help make the case for investing in SPM software to automate and modernize SPM processes.

Specifically, we wrote this guide for:

Business Leaders

Depending on your use cases this includes general managers, COOs, CIOs or any senior manager concerned with more efficiently driving revenue and reducing costs through better fact-based investment decision making.

Enterprise PMO Leaders

This guide is for EPMO leaders that need a more repeatable, systematic approach to driving more effective cross-functional investment business impact analysis, initiative prioritization, selection, results tracking, and continuous improvement.

IT Leaders

This guide is for IT executives that want to achieve the highest level of maturity when it comes to optimizing the deployment of financial and people resources and improve agility when those resources need to be re-directed.

What is Strategic Portfolio Management (SPM)

Strategic Portfolio Management (SPM) is a systematic top-down approach to managing an organization's projects, programs, investments, business capabilities, digital and physical products, and applications to align them with strategic goals and understand their impact across portfolios. It involves overseeing portfolio analysis and optimization to select, prioritize, initiate, continue or terminate a mix of initiatives and investments to maximize value and achieve short and long-term strategic objectives.

What will I learn?

This guide will help you learn ways to build a business case for investing in SPM software. It will help you reason about how to breakdown and value the various strategic benefits in a logical—and to the extent possible—quantifiable way. The goal is to justify your investment, increase your confidence in the business case, and use that case to get stakeholders excited about moving forward. Then you will be ready to move on to the next step in your buying process: *Selecting the Right Partner.*

Are you ready?

SPM is a top-down strategic initiative by definition. As a result, this guide assumes that you have already:

- Identified an executive sponsor or champion to drive internal stakeholder collaboration in developing and implementing the necessary processes.
- Reached a consensus on key strategic challenges, pain points, and preferably specific use cases the SPM initiative aims to address. Use cases may include Strategy Execution Management (SEM), Enterprise Program and Portfolio Management (EPPM), and Integrated IT Portfolio Analysis (IIPA).
- Achieved a basic level of process maturity in identifying, prioritizing, communicating key strategic objectives to execution stakeholders across and down the organization, and measuring and reporting progress.

Approach

Let's get started

The most effective way to justify any software initiative is to base it on hard quantifiable financial benefits, generating an ROI estimate for comparing competing initiatives on an "apples to apples" basis. However, ROI estimates can be unreliable and difficult to trust particularly when:

1. The goals are to improve process effectiveness and not just efficiency.
2. Modeling requires several sensitive assumptions not supported by available data.

Given that SPM focuses on enhancing executive decision-making (in addition to efficiency) and requires making several sensitive assumptions to model benefits comprehensively, achieving a precise ROI model with high confidence may not be feasible.

However, following a structured process to develop an ROI model, even with placeholder data and assumptions, can clarify the value of an SPM investment by teasing apart and highlighting various components of value. This approach can increase confidence in the investment's ROI, even if precise estimation is challenging.

Here are three steps to building and evaluating the potential ROI:

1. **Identify Value Components:** Articulate various mutually exclusive and collectively exhaustive sources of business value without double-counting their benefits.
2. **Determine Value Gaps:** Assess the gaps between your current strategic portfolio planning processes and outcomes compared to your target performance.
3. **Quantify the Financial Value:** Estimate the financial value of closing these gaps.

As indicated, quantifying the financial value in Step 3 may not always be possible. However, a clear model can help propose and answer hypothetical questions or reach conclusions, such as: "If the value of this benefit alone is estimated at over $X million annually, the ROI would be a compelling 100 times our expected investment."

Your target performance can be driven by industry performance benchmarks for "best-in-class" competitors and/or aspirational goals.

Determining your performance gaps

Here is a template for determining the maturity gaps between your current Strategic Portfolio Management process and your target process leveraging a modern SPM software technology.

Value Components / Metrics	Average Performance	Best-in-Class	Performance Gap
Enhanced Strategic Alignment % of all projects and initiatives that are in line with strategic goals.	45%	80%	35%
Optimized Resource Allocation % resources that are allocated efficiently across the portfolio to maximize value and minimize waste at any point in time.	40%	70%	30%
Improved Risk Management % of projects that meet goals (on-time, on budget, in scope, achieved desired outcomes).	56%	80%	24%
Increased Transparency and Governance % of major portfolio decisions (e.g. prioritization, budget) made with SPM team oversight and stakeholder visibility to ensure accountability.	50%	80%	30%
Better Decision Making % of strategic portfolio investment decisions (e.g. project or product program approvals) subject to comprehensive portfolio analysis and reporting.	60%	75%	15%
ROI-based Investment Prioritization % of investment proposals prioritized based on a consistent business value and impact assessment methodology.	55%	80%	25%
Enhanced Agility and Responsiveness % of investment portfolio subject to quick adjustments in response to changing market conditions and strategy shifts because of better project visibility	50%	70%	20%
Improved Performance Tracking % of strategic projects monitored at SPM level for progress and outcomes to ensure they meet expected benefits and performance criteria.	55%	80%	25%
Balanced Short-term and Long-term Goals % of managed portfolio investment elements considered in assessing balance between immediate operational needs and long-term sustainable growth.	75%	90%	15%
Cost Efficiency % cost improvement efficiency achievable as a result of reducing redundancy and optimizing project costs through better portfolio management practices.	0%	30%	30%

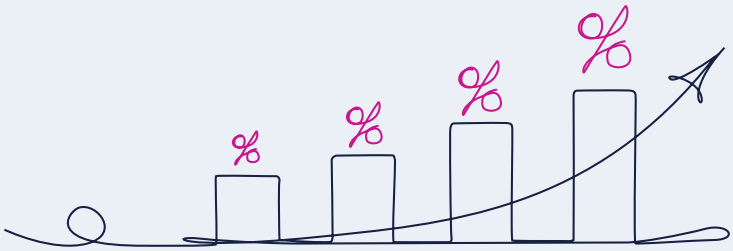
Replace the Average Performance placeholder numbers with your own best guess to identify your largest gaps relative to top performers. Based solely on this gap analysis, these areas may indicate areas of highest potential value for improvement.

Average Performance numbers are placeholders and starting points for estimating your own relative company performance along this dimension. They are based primarily on industry data and/or Planisware guesstimates based on customer experience. Best-in-class numbers come from industry studies conducted by organizations such as the Project Management Institute (PMI), Gartner, McKinsey & Company, Deloitte, PWC, and Standish Group. These numbers reflect the experiences of businesses that have optimized each of these activities and are considered "high performing", "mature" or have "strong governance frameworks" in place. You may choose to set aspirational goals based on your unique business context rather than relying solely on industry benchmarks.

How to read the table below: This table presents industry data points and sources corresponding to the metrics described for each value component listed above. The first percentage represents a relative score for the average performing company in that dimension, while the second percentage, separated by a pipe symbol (|), represents the score for top-performing or highest maturity level organizations. Some data points map directly to dimensions and metrics defined above, while others are inferred from available data.

Value Components	PMI	Gartner	McKinsey	Other	Range
Enhanced Strategic Alignment	-- | 80%	45% | --	50% | --	-- | --	45% | 80%
Optimized Resource Allocation	55% | --	40% | 70%	-- | 60%	--| --	40% | 70%
Improved Risk Management	56% | 80%	-- | --	-- | --	69% [1]| --	56% | 80%
Increased Transparency/ Governance	-- | 80%	-- | 75%	-- | 75%	-- | 70%[2]	-- | 80%
Better Decision Making	-- | 75%	-- | 75%	-- | 70%	60%[3] | --	60% | 75%
ROI-based Investment Prioritization	-- | 80%	-- | 80%	55% | --	55%[4] | --	-- | 80%
Enhanced Agility and Responsiveness	-- | 70%	-- | 65%	-- | 60%	-- | 60%[4]	-- | 70%
Improved Performance Tracking	-- | 70%	-- | 65%	-- | 60%	55%[6]|80%[7]	-- | 80%
Balanced Short/ Long Term Goals	-- | --	-- | --	-- | --	-- | --	-- | --
Cost Efficiency	-- | 20%	-- | 25%	-- | 30%	-- | 25%[8]	0% | 30%

"Other" sources: 1, Standish Group | 2, PWC | 3-8. Deloitte



Quantifying Hard Benefits

The next step is to quantify the financial value of closing the relevant performance gaps. Relevant performance gaps are those that apply to the use case(s) you plan to address. The value components can be divided into two types:

1. **Efficiency drivers.** These are the value components that minimize investment waste (i.e., result in cost avoidance). These lend themselves to some quantification logic and therefore may be considered "hard" benefits.

2. **Effectiveness drivers.** These may lead to hard cost savings or revenue impact (e.g. increased selling days associated with new product program investments), but there is no reliable way to model the benefits in quantitative terms. These are the "soft" benefits.

   As a result, the ROI analysis should be structured to provide a sense of hard benefit value and then soft benefits can be layered on top to provide a comprehensive view of the total value proposition.

Let's define the efficiency drivers and how they minimize investment waste. And, then we will be ready to introduce some simple value quantification logic

Value Components	How these value components minimize investment waste and result in cost avoidance
Improved Strategic Alignment	Avoid investments that are not strategically aligned providing dubious value and are therefore potentially wasteful.
Optimized Resource Allocation	Avoid waste from sub-optimized resource deployment (e.g assigning someone with the wrong skill set to a project).
Improved Risk Mitigation	Decrease project failure rates resulting in wasted financial and people resources.
ROI-based Prioritization	Avoid opportunity costs associated with investing resources on lower priority projects.
Cost Efficiency	Avoid waste associated with redundant projects and inefficient portfolio management.

Now you can adopt an approach to thinking about and valuing the various SPM value components in a way that is logical, credible and consistent across value drivers. The key is to apply a common quantifiable metric: resource efficiency. The single key assumption is that the performance efficiency gaps in percentage terms are highly correlated to wasted work on strategically unaligned, low-priority, redundant, and failed projects, or projects staffed with the wrong resources. Since we know the cost of a resource, we know the cost of a wasted resource.

Thus, the simplifying assumption is that if a resource that costs $100,000 per year is 10% more efficient by not spending time on work that has no certain value, that represents a $10,000 annual savings. Therefore, efficiencies are achieved by diverting resources to projects that are the most strategically aligned, match available skill sets, have less risk of failure, have highest priority, and are not redundant.

The table below provides a starting point for valuing potential savings for each value component for every 1,000 resources with an average cost of $100,000 per resource (i.e., headcount).

Value Components	(A) Resources	(B) HC Cost/ yr	(C) Perf Gap	(A*B*C) Potential Savings
Strategy Alignment Cost avoided by deploying resources only on strategically aligned projects	1,000	$100,000	35%	$35M
Optimized Resource Allocation Savings from sub-optimized resource deployments (not including redundant projects)	1,000	$100,000	30%	$30M
Risk Management Savings from deploying fewer resources on failed projects	1,000	$100,000	24%	$24M
ROI-based Prioritization Savings from diverting resources from low priority projects to high-priority projects	1,000	$100,000	25%	$25M
Cost Efficiency Savings from eliminating redundant projects and better portfolio management	1,000	$100,000	30%	$30M

To use this table

1. Insert values

- Column A: Your relevant resource capacity.
- Column B: Average annual headcount cost.
- Column C: Performance gap estimate.

2. Multiply A * B * C to estimate potential savings

Note on potential savings: The potential savings shown in the last column represent the absolute best-case scenario for each value component. This is a theoretical ceiling, and actual savings will likely be less. This is primarily due to the oversimplification of assumed correlations (e.g., not all strategically unaligned and lower-priority projects provide no value).

Note on non-accretive savings. Potential savings are not cumulative across value components. The total potential savings from your SPM initiative are not the sum of individual components. The financial value is subject to double counting in this simple model. For example, a project eliminated due to redundancy may also have been scuttled due to a lack of strategic alignment, low priority, or high failure risk.

Reasoning about the hard value of SPM efficiency drivers for your organization. The simplicity of this model is intended to minimize complexity that can result from integrating additional layers of assumptions. While such assumptions may provide more transparency to the underlying logic and risks of oversimplification, they are unlikely to improve the confidence level of the estimates. The goal is not to generate a single ROI calculation to drive your investment decision. Rather, the goal is to cultivate ways to think about the value of SPM and then guide and justify an investment decision using logic supported by data.

For example, you can:

- Focus on a subset or even a single value component you are confident about in terms of understanding your performance gap and the potential value of closing it.
- Consider all efficiency value components soft benefits.
- Then for a particular value component(s) you can ask yourself: What potential savings would have to be achieve to justify an SPM investment? Specifically, how much do we need to improve our project success rate to achieve a compelling ROI or how much would it be worth to ensure all projects are strategically aligned and no resources are spent on unaligned projects? If any one of these answers provides a compelling investment justification or ROI proxy, you can make a strong case without further monetization exercises.

Factoring in the Soft Benefits

The table below reviews the value components deemed effectiveness (as opposed to) efficiency drivers and as a result deliver soft benefits. You may want to highlight one or all these benefits in your business case, especially those that have been challenges.

Value Components are Effectiveness Drivers	How these value components deliver business value
Increased Transparency/ Improved Governance	Project outcomes are improved by increasing accountability and ensuring teams understand their roles, responsibilities, and impact of actions.
Improved Decision Making	A common refrain in many businesses is that a single bad investment decision can torpedo annual profit and growth targets.
Enhanced Agility and Responsiveness	The ability to manage internal and external forces of change is either a source of competitive advantage or an existential threat.
Improved Performance Tracking	Consistent tracking of success/failure adds to institutional knowledge of what real benefits and outcomes look like so success can be replicated.
Better Balancing of Long- and Short-term StrategicGoals	Sustaining success over a longer planning and execution environment creates a healthy environment for all SPM stakeholders.

Conclusion

The Intuitive Case for SPM Software

SPM software is an enabler for improving every C-level metric and business driver from revenue to operating costs and addressing every competitive imperative including optimal strategic alignment, agility and adaptability, and resource utilization. As a result, if implemented well, SPM may arguably be the most important technology investment you can make to drive maximum value creation.

It does this by, for the first time, instrumenting the most powerful levers of value creation alluded to above, and integrating them into a single, strategic planning and execution platform. Currently, you are likely performing all SPM functions at some level of competency, leveraging a combination of manual processes, point tools, and a patchwork of application integrations.

Setting aside the ROI-related numbers for a moment and relying on your gut instinct, the question your management needs to ask is "Are we positioned to survive and thrive without a strategy for making SPM a core competency?" SPM software tools built on SPM best practice automation provide the blueprint for improving SPM competency.

You may appreciate the intuitive case for SPM software and even put it in the "no brainer" category. If not, hopefully this guide increases your confidence in making the case and can be used as a tool to persuade skeptical stakeholders. Once you have arrived at that point in your journey, you are ready to move to the next stage: *Selecting the Right Partner.*

Planisware

www.planisware.com

info@planisware.com

343 Sansome St #500
San Francisco, CA 94104
E: info@planisware.com