THE POSSIBILITIES ARE INFINITE

White Paper: Application Value Assessment

Abstract

The amount a company invests in each business application should directly correspond to the value and the impact to the business. By treating all the company's applications as a total investment "portfolio," and by applying portfolio management best practices, it is possible to quantify the business value of each application, and reprioritize applications spending to enhance the business contribution with the same level of investment. The starting point of this process is an Application Value Assessment.

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Optimize and Rationalize Application Spending Utilizing Portfolio Management Best Practices

by Alan Shefveland

Why Reprioritize Applications Spending?

Theoretically, the amount invested in a particular business application should directly correspond with the amount of value the application contributes to the business. Those applications with the most value should receive the most funding, and vice versa. Unfortunately, this rarely occurs. For example, legacy applications with heavy maintenance requirements often absorb a disproportionate share of the budget. In this situation, new strategic spending becomes severely limited. Or, conversely, a major new application initiative can stretch internal resources so thin that routine maintenance suffers. Users complain, day-to-day business operations start to degrade, and the replacement application starts developing a bad "rep" before it even has a chance, slowing its adoption when it eventually does go into production. Other worthwhile projects get ignored or undertaken as back-door projects, and the company's applications "strategy" spirals out of control.

A portfolio management approach, in which applications spending across the company is treated like any other investment portfolio, offers a coherent, holistic strategy with clear ROI. The approach is not new. Two years ago, the Gartner Group made the following statement:

> *Enterprises that use a portfolio management approach for the first time typically identify opportunities to improve efficiencies by cutting project expenses from 10 to 30 percent … even before the portfolio is balanced or adjusted. (Gartner 2001)*

Looking even further back, to 1998, Fujitsu Consulting wrote the first book applying the principles of financial portfolio management to information technology, The Information Paradox, by John Thorp. The book detailed how to get more value out of IT investments using three fundamentals: (1) good program management practices, (2) portfolio management, and (3) full cycle governance. Many companies have profited from this approach over the last 5 years, and Application Value Assessment is largely an application of these same fundamentals.

However, like any discipline, portfolio management must become embedded in the company culture if it is to be effective. The old truism, "there's no silver bullet," is still true. Employing portfolio management to reprioritize applications spending takes commitment at every level of the organization.

Ideally, it should be possible to prioritize all the company's applications and balance business risk across the entire portfolio—without disrupting day-to-day operations.

The potential rewards are significant:

- Comprehensive view of total application spend
- More flexible, cost effective operations as a result of rationalizing and decommissioning some applications
- Improved focus on current business requirements through re-allocation of application support budgets and resources
- High confidence that new applications investments will be aligned with and contribute to strategic business objectives
- Better decisions about the best sourcing strategies for reducing the cost of applications support while still meeting service needs and managing risk
- Faster rollout of new products when supported by optimized applications

Understanding the basic concepts for evaluating the application portfolio and prioritizing associated investments is the first step to realizing these rewards.

Concepts for Prioritizing Application Value

Portfolio management offers a set of best practices for selecting and optimizing investments to provide the greatest value while balancing risk and protecting day-to-day interests. These best practices can be segregated into three basic concepts: level the playing field amongst all budget contestants, ask the right questions, and compare apples-to-apples.

Level the Playing Field

Viewing applications as one portfolio, as opposed to a set of sub-portfolios with distinct performance goals, makes it difficult to access the change demand against the business criticality of an application. Competition for funding typically consists of responding unilaterally to users' incremental requirements instead of focusing on the business criticality of the application. Over time, users tend to request funding for requirements without ongoing evaluation of the business value of those requirements.

Portfolio management levels the playing field by first making sure all spending for applications budget is properly categorized and employs a consistent, high-quality format focused on business benefits.

Proper categorization is essential. If all current application funding cannot be divided into "must do's, "will do's," or "would like to do's," the budget prioritization process is flawed from the outset. Categorization reveals the true "degrees of freedom" available to decision-makers. Some decisions are not optional at all, such as initiatives mandated by government agencies for regulatory compliance. Others come down from "on high," i.e., the corporate main office. Then there are decision categories such as "sustaining current capabilities" through renewal of obsolete infrastructure and "growth of existing services." Finally there are "prototype development" and "new business opportunities," where more discretionary spending exists and decisions are correspondingly harder to make.

Categorization also reveals where current application funds are being spent, which can be very enlightening.

Ask the Right Questions

For all applications and associated budget requests, key information about the application needs to be gathered so the total spend of the application portfolio can be evaluated against certain criteria. At the top level, these criteria consist of the following questions, which Fujitsu Consulting calls the four "are's":

1. *Are we doing the right things?* What is proposed, aligned to what business outcome, and how do the projects contribute?
2. *Are we doing them the right way?* How is (or will) work be done, are we incrementally sub-optimizing the business process, and what is being done to ensure that it will fit with other current or future capabilities?
3. *Are we getting them done well?* What is the plan for continuing the work or doing new work, and what resources and funds are needed?
4. *Are we getting the benefits?* How are (or will) the benefits be delivered? What is the value of the program (financial worth, alignment, and value risk)?

Assigning all application spend to proper categories and answering the four "are's" provides a sound basis for prioritizing the whole application portfolio correctly.

Compare Apples-to-Apples

It's critically important to compare apples with apples across all "silos" of the company. Only then can we apply sophisticated evaluation techniques. For example, a weighted scoring process can be applied to the value of each current or proposed application project. The ability to apply such techniques is the basis for a consistent applications strategy tied to the present method of operation, the future method of operation, and a roadmap of how to get there.

As strategies change, an apples-to-apples approach positions the company to cut costs in one area and actually harvest that budget to enable new business objectives. Investment and sourcing strategies become part of the total portfolio approach. Applications declining in value can be proactively phased out with applications increasing in value, rather than fighting a war of attrition.

Proven Best Practices

As part of our Portfolio Management consultancy, Fujitsu Consulting has developed a framework of best practices for Application Value Assessment (Figure 1). The practices in this framework take a hard look at the alignment of the application portfolio with the business strategies, technical direction, market direction, spend strategies, etc. They also focus on identifying where an organization may be at risk; for example, dependence on expensive skill sets or legacy technologies that may not be able to respond quickly to market changes.

Please note that while the re-usable framework described in the following text is based on experience, there is no “one size fits all” solution. In part, this is because “value” is defined uniquely by every organization. To be of maximum value, the framework and best practices must be fine-tuned to the strategic goals and specific organizational context.

Prior to moving into an assessment it is necessary to organize the assessment project and identify sources of information. The scope of the portfolio to be assessed is confirmed and information is collected related to the portfolio and the value of the portfolio to the business.

Inventory Applications

The Inventory Phase gathers information on the selected applications in the portfolio. Critical to the success of this phase and succeeding phases in the framework are a series of criteria in the form of “scorecards.” These scorecards rate a number of dimensions for each application and the overall portfolio. Specific information on each application is collected that will assist in making application strategies which could include spend and sourcing decisions. This information is analyzed and is displayed in visual maps, which can be used to determine the most appropriate strategy for a particular application or suite of applications. Visual maps provide a multi dimensional perspective on the portfolio to quickly relay the relevant information to the senior decision makers. Visual maps also allow effective monitoring of the portfolio as it is balanced or adjusted.

Evaluate Applications

The Evaluate Phase identifies the contribution of each application to the business and seeks opportunities to optimize the overall information technology spend related to the evaluated portfolio. When application data is collected and maintained in a single repository, that repository becomes a valuable resource for comparison and decision-making. Sub-portfolios can be grouped by common application management strategies, the evaluation of priorities for immediate re-mediation because of change backlogs or poor service levels, or the clustering of applications by technology profile to allow investigation into economies of scale.

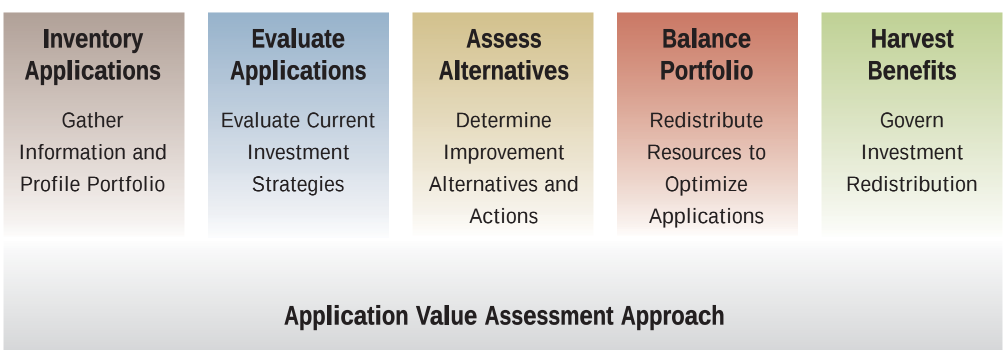

Figure 1. Application Value Assessment portfolio management approach

Assess Alternatives

The Assess Phase identifies and models alternative application portfolios to optimize application spending. This may include a model portfolio to reflect alternative sourcing strategies, identification of the impact of alternatives on spending strategies, identification of the impact of alternatives on human resources. The final result would be to evaluate the alternatives and select the most effective option balancing factors of value and risk.

Balance Portfolio

The Balance Portfolio Phase considers individual portfolio options identified in the assessment phase, and selects and adjusts these to ensure the entire portfolio is optimized and reflects the application investment and management strategies. The intention is to finalize an optimized application portfolio structure, create a transition roadmap reflecting the priorities and performance objectives of the portfolio and identify the cost and benefits to be obtained.

Harvest Benefits

The Harvest Benefits Phase governs the portfolio transition roadmap to ensure the benefits projected are received. This includes creation of appropriate governance processes to support the portfolio adjustments. It also allows the re-adjustment of these plans and roadmaps based on changes in the organization such as new business strategies, new spend strategies etc. It provides the ongoing framework that will allow the monitoring and adjustment of the application portfolio.

Summary

Portfolio management practices and tools, applied to applications, provide an objective, "value-based" analysis that clearly identifies areas where action should be taken. They enable "what if" analyses to determine the best return and evaluate alternative actions to balance the portfolio. The payback is immediate, high-ROI guidance on how to prioritize applications in the portfolio, leading to the following results:

- Identification of the true business value and contribution of the portfolio of applications
- Reduction in the overall cost of supporting the current portfolio of applications and identification of how total cost of ownership can be better managed
- Re-direction of portfolio savings and resources to strategic business applications and new strategic initiatives that better support the business strategy
- Creation of a sustainable end-to-end process and governance structure to ensure continued optimization of the applications portfolio, from the initial investment decision through to application decommissioning

To sum up, a good portfolio management strategy for applications is distinguished by clearly defined connections between investments and outcomes, consistent investment criteria, and end-to-end best practices for ongoing evaluation of investment effectiveness. Application Value Assessment is the critical first step in developing such a strategy.

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