



*Published in
DM Review
Online in May
2004.
Printed from
DMReview.com*

Eye on ROI : Measuring the ROI of IT Consulting Services

by The Gantry Group

The topic of this month's Eye on ROI column was inspired by a question submitted by one of the DMReview.com subscribers: how can the ROI of an IT expert consultant be measured? At first blush the quantification of IT consulting services may seem to be intangible, eluding formal measurement. While one could argue that a skilled expert consultant could accomplish a specific task in half the time that two internal IT engineers would take to do it, it is difficult to follow that savings to the bottom line - even though the savings from avoided wasted time can be measured. A better means of measuring the economic value generated from an investment in an IT consultant is to consider the business value gained over the time line of an entire IT project.

The issue of measuring the ROI of IT consulting will gain increasing momentum and significance for the foreseeable future. In DM Review's 2003 Annual Readership survey of IT executives and management, respondents reported spending nearly 25 percent of their IT budget on consulting, as compared with 21 percent in 2002.¹ Given the growing complexity of enterprise IT systems and restraints on new hires, consulting expenses will only continue to rise as a percent of total IT budget.

But - are IT expert consultants worth as much or more than the cost of the IT project being implemented? You can determine this using ROI assessment modeling.

Consider the Full Context

The hiring of expert IT consultants and other professional services firms is essentially the outsourcing of intellectual capital. While human services are clearly associated with different investment models than technology systems, the ROI equation does not change: $ROI = (Net\ Benefits - Investment) / Investment$. But a closer look at the components that make up the investment and benefits, reveals drivers that are specific to IT consulting services.

IT consulting services cannot be reasonably assessed in a vacuum. They are typically tied to discrete IT projects or implementations in areas where the in-house IT team (if there is one) does not have deep expertise or the necessary skills to carry out the project successfully. Because the value delivered by an IT consultant is so tightly interwoven with the IT solution itself, isolating the incremental added value of the consulting service is difficult if not impossible to do. Instead, the cost of the consultancy should be ***added to the investment side of the ROI equation*** as part of the total cost of ownership (TCO) of the IT application to which it is tied. That is,

the ROI of the IT consultant should be considered in the context of the overall IT investment for which they are being hired.

However, simply including the costs of an IT consultant's services is not sufficient to model their impact on the bottom line.

Attributing ROI

The IT consultant's contribution should affect the payback on the technology purchase. To put it another way, the economic benefits that drop to the bottom line as a result of implementation of that technology should be - in part - due to the expertise of the consultant. Exactly *what percentage* of the benefit outcome is directly due to the consultant however, is a highly subjective guess. There is simply no basis to accurately decide what percentage of an IT investment's success is reasonably attributable to the consultant. Is it 20 percent? Or is it 50 percent? At the extreme, it could be assumed that without expert guidance, an IT implementation might never get off the ground, resulting in zero ROI. But attributing 100 percent of the ROI generated by the solution to the consultant is not a reasonable assumption given the numerous other forces that influence the implementation of an IT solution.

Typically there are multiple factors affecting the success or failure of an IT investment, including the vendor whose solution was selected, existing infrastructure within the enterprise and the vendor's implementation skills. Does this mean it is not possible to assess the ROI of an expert consultant? Not at all - a good IT consultant will enable an enterprise to achieve a higher ROI from an IT investment by lowering the overall investment amount, decreasing the time-to-benefits and increasing the probability of project success (or decreasing the risk and liability of the project).

Finding the Points of Impact

In order to determine the added value that a consultant brings to an IT solution, it is necessary to consider the specific points of impact that the consultant will have on the enterprise business processes associated with procurement, customization, configuration, implementation, testing and enterprise deployment of the IT solution under consideration. Some of these impact points are quantifiable and some are not. The ability to distinguish between these types of impact is key to a valid outcome of your ROI assessment. We recommend using only those impacts that are tangible.

Tangible points of impact are strongest in the area of configuration design, implementation, testing and deployment. A good consultant can mean the difference between a one-year implementation and a three-year implementation. Since deployment costs are such a major component of TCO, this difference has direct bearing on the payback horizon and the total ROI of the project. Costs for application customization and integration are two other areas where the right IT consultant can result in quantifiable savings.

An example of an intangible ROI impact is the value of knowledge transfer. Not only can an IT consultant accelerate the time to bring an application "live," they can also transfer skills and best practices that ensure proficiency of the internal team members after the consultant is gone. This reduces the likelihood of future reliability failures and the lost productivity that would result from them. While this is an

important benefit, the reduction in risk of system failure is difficult to accurately predict and quantify, and is best left out of the ROI calculation.

The way that IT consultant services impact the net benefits of an IT solution is through the reduction in the implementation time. The sooner a solution is up and running, the sooner the enterprise can begin realizing the economic benefits that accrue from it. In a longer implementation, the time to payback will be stretched. Therefore IT consultants impact implementation in two ways: by lowering the overall deployment cost and by shortening the time-to-benefits.

Quantifying the Value

The best way to quantify the added value from an IT consultant is to first develop an ROI assessment model for the **overall IT solution** being considered. (See Eye on ROI, April 23, 2004.) We are going to make the assumption that the ROI of the IT solution as a whole over a three-to-five-year time horizon is compelling. Run the ROI modeling tool under two conditions: with and without assuming the services of an expert IT consultant. Comparisons of the two ROI outcomes will quickly reveal the change in economic impact between the two scenarios and guide your decision.

The scenario where the IT consultant is hired will add to your upfront investment but should reduce the time to implementation, costs of testing and deployment, and costs of customization. If your TCO is not lowered in this scenario, you should not engage the consultant. On the benefits side of the equation the economic improvements should be apparent sooner with a consultant, which will result in faster realization of the ROI of the IT solution (and again, greater total ROI). In the consultant scenario therefore, your payback horizon should be reduced compared with the alternative scenario.

References:

1. *DM Review Magazine*, 2002, 2003 Annual Readership Survey conducted and managed by Gantry Group LLC.

Editor's Note: *We are very interested in addressing ROI-related topics that are on your mind. We invite all of our readers to submit questions and issues associated with ROI measurement to the Editor at Webeditorial@dmreview.com.*

Dawna Paton and Dale Troppito are managing partners of the Gantry Group. Paton has helped guide the Gantry Group's rigorous ROI best practice models based on a 25-year career as chief executive officer, CFO, sales and marketing executive, and venture capitalist in high technology companies. You can reach her at dpaton@gantrygroup.com. Dale Troppito, company cofounder, believes that the technology leaders of the future will be those that understand the crucial role that a market-validated, value delivery strategy and compelling ROI play in shaping corporate competitiveness and customer satisfaction. You can reach her at dtroppito@gantrygroup.com.