

THE BOTTOM LINE COLUMNS

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Measuring intangibles in your ROI

By Daniel Brody



DANIEL BRODY,
managing director of
STEELMAN Software
Solutions Inc.

“Jump on the e-commerce bandwagon or waste away” is a phrase that resonates with the business community. But an ever-growing number of businesses have no idea how to measure their online success. Most businesses try to measure their e-business tools with the traditional return on investment (ROI) models. However, not all benefits of e-business can be measured this way. Invariably, a company measuring its website’s success with a ROI model will be disappointed with the perceived return and will pull resources from development. The effort will languish before the real benefits can be realized.

Ultimately, those who hold the purse strings want to know one thing: With a low or negative ROI, can e-commerce technology actually be profitable? The simple answer is that it depends on how the revenues and savings generated from a technology project are captured and valued.

Corporations will typically assign a zero value to the revenue generated by the non-commerce portion of a site. Simply put, “We don’t sell anything there, so how can we have revenue?” For the commerce portion, “We sold \$X on the Web.” In both scenarios, corporations are excluding a basic revenue source: Customer education and service.

Recent studies show between 50 and 75 percent of people use the Web to gather information before making major purchases. Without online information, the product might not be purchased, resulting in lower sales. A value needs to be assigned to the website ROI model to account for this uncaptured factor. How many automobiles do you think the big manufactures sell on the Web? The safe guess is zero, or close to it. But all have information-rich websites that detail new models and services.

Here are some steps to take when trying to calculate ROI:

Identify your information assets: Assets can be a resource, a product, the networked computing infrastructure, protected health information, or customer or employee data. Losses in confidentiality, integrity or availability can have a specific dollar value or be intangible, as with loss of reputation.

Identify threats and vulnerabilities: Anything that causes an unwanted outcome is a threat. Threats come in many forms and have varied effects. Vulnerabilities and the absence of adequate safeguards are examples of weaknesses.

Do an asset valuation: Why go full bore on a project to secure an asset that is not of high value to the organization? First, create a matrix and value your assets in terms of high, medium and low value to the organization. For each asset, consider the total cost, initial and ongoing, to the organization for the life cycle of the asset. Second, determine the value in terms of production, R&D and criticality to the business model (tangibles and intangibles). Third, determine the marketplace value of the asset, including intellectual property rights.

Once you understand what you have, you need to understand what it would cost the company to lose it versus safeguarding it. There are standard formulas that can be used: For example, the Exposure Factor (EF) for a particular asset is the percentage of loss if an event occurred.

Example: A primary e-commerce portal server is compromised and becomes unavailable. The server has been valued at \$10,000. The EF has been deemed to be 75 percent.

Single Loss Expectancy (SLE) is the specific dollar amount assigned to the event if it occurs.
Asset Value (\$) x EF = SLE

Example: The asset valued at \$10,000 multiplied by 75 percent equals \$7500. This is the cost for a single occurrence of the corporate portal being unavailable. Annualized Rate of Occurrence (ARO) is the estimated frequency in which the event could occur.

Example: The ARO has been estimated to be three times per year based on types of vulnerabilities and threats that are known and documented that relate to the type of server. Annualized Loss Expectancy (ALE) is derived by the following formula: SLE x ARO = ALE

Example: $\$7500 \times 3 = \$22,500$. You have a list of assets; you have ranked them according to importance to the organization (qualitatively and quantitatively); you have attached dollar figures to the loss or unavailability of the asset. You begin to understand the risk. There is no fear in these calculations; rather, there is a realization of value and risk. The need to place a priority on technology projects should be clearer.

I am oversimplifying this, but if you can get this far, you will have ventured farther than most organizations. Information managers' have been searching for a way to justify new business tools financially for a long time. The ROI and quantitative risk approach is reasonable for a few areas with real cost/benefit and investment data behind it. For other areas, I believe the right equation for now should be (1) totaling cost of ownership; (2) finding ways to blend technology investments more effectively into all areas of the enterprise; and (3) lowering the total costs of running development, production, engineering and operations.

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STEELMAN Software Solutions Inc., specializes in the development, implementation and installation of Oracle-based software products customized exclusively for the steel industry. Contact Brody at 416/495-6939 or by e-mail at danielb@estelman.com.

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Phone: 312/654-2300 Fax: 312/654-2323

info@modernmetals.com