

Run Budgets as Investment Portfolios



Maximising total value, managing risk

One of the secrets to maximising the value of your IT budget is to treat it as investment portfolio. Like investing in the stock market, and just as risky.

Managing IT investments is like any other type of investment. Your aim is to deliver the maximum short- and longer-term value from a limited pot of money. When times are tough, funds become scarcer, their performance more carefully scrutinised and the need to deliver value is paramount. This is IT strategy at its most challenging – and therefore most rewarding.

Portfolio management is a valuable way of achieving success. Like most good ideas, it has been around for many years. It means treating your projects as an investment portfolio, and grouping individual projects according to their primary business objective, or value (for example Customer retention, sales growth or cost reduction). There are real benefits to be had from this approach, especially if it used to manage all business investments, not just IT.

For a start, it creates an investment plan that people can discuss in purely business terms. They don't need to know about technology to decide how much to invest in a given business objective. IT planning can become a truly collaborative process. It also helps everyone prioritise projects based on relative value and risk, within each grouping and across the entire portfolio.

Managing investments as a portfolio helps cut out wasted investment and ensures that projects don't double-count benefits. I once worked in a company where a number of projects were promising to improve Customer retention. When we added them together to create a portfolio, we found that the total number of Customers that they expected to retain exceeded the number they were losing. Each business case looked fine on its own, but nobody was managing the overall investment in Customer retention, nor checking that the value was worth the total cost.

A portfolio approach also helps everyone to identify synergies and economies of scale across the investment plan as a whole. It provides a sound business framework for assessing the potential of technology trends, and for driving IT suppliers to deliver to your company's agenda.

Investment portfolios can be created either bottom-up or top-down. A bottom-up portfolio builds groupings out of your existing projects. A top-down approach starts by assigning investment to business objectives and then determining the best portfolio of projects in which to invest.

Building a bottom-up portfolio is typically a once-off activity. Each existing project may be trying to deliver to a number of objectives, making it difficult to build a relatively 'clean' portfolio. So your first step will probably be a matrix that shows the complex links between your existing projects and the overall business objectives.

This is, in itself, valuable business knowledge and helps to illustrate why managing the value of IT investments is proving difficult. Once the initial portfolio is created, and people start to understand the benefits of the technique, it's usual to switch to a top-down approach.

Either way, the objectives that drive the portfolio must come from your business strategy and business plans. It's also vital that the IT investments are seen as just a subset of the wider investment plans. Nobody should be taking IT investment decisions in isolation of their impact on the business plan as a whole.

The IT market is a turbulent place, so every IT investment is risky. IT Directors need to act as investment managers on behalf of their Board and executive team, with a robust strategy for balancing value and risk. Like any good investment strategy, having a grip on the total portfolio is the key to success.

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