

Agile methods start the benefit stream earlier, generating more valuable returns from frequent, incremental product deliveries.

Benefits Realization

A companion whitepaper to
“Agile Project Management:
Making it Work in the
Enterprise, Second Edition”

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Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning.

Winston Churchill

There is no need to do a project if the business does not benefit. Simple stuff, but in the long run, a project's success will be judged more on the satisfaction of the beneficiaries than on the performance of the project. Look only to New Coke or the Apple Newton for examples of successful projects with unhappy endings.

Plan-driven project development lifecycle (PD-PDLC) methods often struggle with benefits realization, largely because everything comes at the end of the project cycle, and long after the opportunities are first identified. But the fix is in: agile shortens the delivery cycle, increases the delivery frequency, demands timely employment of deliverables, and facilitates feedback to drive improvements!

Benefits Are Part of the Plan

Every benefit plan begins with the business case and its business sponsor. The benefit plan addresses each beneficiary's rights and responsibilities, and the returns each should expect from a successful project. Persuasion of managers and executives to buy into the benefits plan begins with the business case. Both the enthusiastic and the reluctant, whether visionary or opportunistic, are constituents of the business plan.

Chapter 2 of "Agile Project Management, making it work in the enterprise, 2nd edition" covers the business case in detail, and the decision making that goes along with it. Recall from the book that we posit three levels of business case, largely segregated by the impact to the business:

0. Level 0 is only a simple form handled easily by workflow. Level 0 benefit measures are functional key performance indicators (KPIs) or balanced scorecard metrics.
1. Level 1 is a bit more complicated than Level 0 because more is at stake. Even more so, at
2. Level 2 serious benefit analysis is required; a revamped balanced scorecard may be required.

Benefits Manager

Post-project success may well rest on the business unit manager who is going to own the business results. *Ownership* means that the manager accepts responsibility to drive deployment within the business, although many stakeholders will be individually accountable for business results. The benefit manager's task is a bit like herding cats: someone needs to keep all the players moving in the same general direction.

From each segment of the businesses' scorecard, there are key performance indicators affected by the project's impact. Examples abound, such as:

- Lower operating expense,

- Increased revenues,
- Better-trained and more capable staff,
- More satisfied customers,
- Lower warranty costs,
- Quicker call-center response time,
- Better first-time maintenance fix rates, and many others.

There are likely to be many beneficiaries who are not stakeholders—beneficiaries such as customers who buy products and use services. And, there could be many others involved in post-project success who functional participants are doing their job—such as call-center operators who answer customer questions.

The benefits manager may not be a single person but rather a group joined by the common objective of making the project a success. In that event, the group needs a leader:

- For Level 0, the benefits leader is more likely a functional unit manager
- For Level 1 the leader may be a senior manager
- For Level 2, the benefits leader may be an executive, sometimes called a Program Executive Officer (PEO)

Business Preparation Work Stream

It may seem odd to speak about convincing the organization to accept the project results, to employ them, and take advantage of their capabilities. But many projects require organizational change to incorporate outcomes; it is not news that change is difficult to accept, often resisted, and that benefits tied to change are the most difficult to realize.

Change is not something that happens casually:

- It often requires inspirational and motivating leadership.
- And, it often requires the slog of day-to-day attention to a myriad of details that define and implement a road map.

Business preparation is the name we give to all the work required to deploy new functionality or process and then reap a benefit. Business preparation is often its own work stream. Business preparation is chartered to develop and implement post-project capabilities.

The business may be required to:

- Hire staff,
- Train or retrain existing staff,
- Put new supply capabilities in place,
- Prepare product support capability, and
- Develop sales and marketing materials.

Business preparation may also address compensation plans and balanced scorecard objectives, even P&L adjustments.

Avoiding the Big Bang

Unlike the *big-bang* plans of the PD-PDLC, agile methods make multiple releases to build acceptance and trust, and adapt to evolving need with each release. Change occurs incrementally:

- Everyone's business data will not change overnight,
- Everyone's job will not change on go-live morning, and
- All the moving parts that serve customers will not be changed and reordered in a stroke.

Even though many stakeholders, users, and customers will be involved over the lifecycle of the project, at any one release the number is likely to be smaller. For instance:

- Not everyone will have their password changed at one time,
- Not everyone needs to be trained within a few days of go-live, and
- The communications message to those affected can be more targeted and timely.

Driving for Benefits

There is no autopilot for benefits. Realizing benefits is hard work and requires dedicated attention.

Step 1

The first step is to actively work with the organization to find an attractive means to incorporate project results in the day-to-day routine. If the benefit plan extends over any length of time, then there will be changes in the business unrelated to the project. Business changes will disturb the planned benefits and require the plan to be modified to accommodate new benefit targets—remember: planning is everything, the plan is nothing.

Step 2

The second step is measure actual results. Our definition of benefits is the flow of KPI results that begin with product delivery.

Take note: *at the moment of delivery, the customer recognizes value, but no actual business benefits have been realized.*

At that moment, benefits are a forecast; benefits are “unrealized”. For monetized benefits, the forecast is customarily risk adjusted by applying discounted cash flow (DCF) methods. Over time, as benefit forecasts become benefit realities, the business value of the project opportunity is earned, and benefits are then “realized”.

Thus, benefit realization is a matter of timing, and within timing, it is a matter of sequencing.

Sequencing for Benefits

Deliverables are sequenced at each release according to this ordering:

1. Foundational capability driven by technical sequencing and architecture constraints—that is, the walls before the roof
2. Functional capabilities that are highest in priority to the customer by importance and urgency
3. Functional capabilities according to their impact on benefit cash flow

Sequencing impacts benefits directly so the order of delivery is determined by the team, i.e. technical sequencing is determined by the product architect, and functional sequencing is determined by the embedded business user or analyst.

Time is of the essence; the rhythm of releases is important for maintaining pace and momentum. With the rapid pace of agile projects—faster than the surrounding business cycles of strategic planning, quarterly P&Ls, and annual reports—only the most involved stakeholders will be able to affect benefit priorities, and they do this by committing resources as product masters and embedded users.

Ambassadors of Benefits

The embedded users and product masters are the ambassadors of benefits. In many cases, the embedded users do the heavy lifting of evangelizing the benefits case.

- They carry the business message to the project, affecting outcomes and priorities.
- They also interpret activity and report to their business chain about progress and problems.
- During business preparation, they more than anyone are capable of explaining outcomes to other functional users and customers.

The embedded users quickly become product experts. Their expertise is valued by functional managers and the stock of these individuals often rises. They are often deployed in temporary roles as coaches, troubleshooters, and even trainers. Indeed, if business preparation produces a train-the-trainer program, then users from the project, as subject-matter experts, often participate as trainers.

Adoption

Benefit tracking begins with the first release. Adoption may be slow. Because of the natural reluctance to change, embracing new capabilities may not be automatic. To encourage adoption, competing or legacy capabilities should be withdrawn as soon as practical. It may be possible to help adoption by having the first few iterations produce product increments that are naturally attractive and capable of creating a buzz.

There are, of course, early adopters who will eagerly grab new capabilities, especially technology capabilities rich in software features and functions, and especially those that are user-configurable. But early adopters are only one of five personalities in the body of knowledge known as *diffusion of innovations*.¹ The five are:

1. *Innovators*: Anxious to work with the product in a preproduction or beta status and take risks with immature product; usually very personable and networked individuals, well connected with technology, and able to handle a high degree of uncertainty
2. *Early adopters*: Opinion leadership eager to put product through its paces and be first on the block to have the advantage of a new capability
3. *Early majority*: Willing to adopt after visible proof that the bugs have been worked out and operational effectiveness has been proven
4. *Later majority*: Reluctant but willing, not too comfortable giving up what they know best
5. *Laggards*: Might never adopt and so drop out of the pool of users

Innovators often make their own decisions to engage using new ideas; they are often in at the beginning and may be drivers behind the original vision. Early adopters may wait for official sanction before taking up a new product; later adopters may be forced by decision makers to get involved. Regardless, Everett Rogers, one of the early academics in the theory of diffusing innovation, posits that everyone passes through a five-stage decision-making process, albeit on different timelines.² Roger's paradigm is:

1. *Seek knowledge*: Seek basic information to become familiar and acquainted with a new idea, product, or service
2. *Accept persuasion*: Evaluate benefits in the context of personal use and application
3. *Decide*: Decide to adopt or reject
4. *Implement*: Begin to apply the product or service to the everyday routine
5. *Confirm*: Accept the product as a fully qualified alternative to the prior capability

In the agile space, this five-step process repeats with every release, although the steps begin to merge and the timeline is shorter as each release builds upon the past. The mission of business preparation is to smooth this decision process as much as possible; to prepare the knowledge base; and to prepare persuasive information so that moving to implementation and confirmation is as rapid as possible.

Handing Off for Benefits

Although agile methods avoid handoffs and rely instead on long-term commitments and multifunctional teams that carry on for the lifecycle of the project, the fact is that a handoff must occur between the project and the business. At some point the project will be completed, although in the agile space, a handoff happens at each release; project completion is a milestone at the last release.

Handoff happens when the project drops support for deliverables and the business begins support.

- Handoff is also marked by activating business scorecards and dashboards.
- Workflow is rerouted from the project to the business.
- The governance council continues its activity, but now the council works at the behest of the business rather than the project.
- Incentives and compensation agreements are activated.
- The balanced scorecard KPIs are started anew at the next business cycle.

Handoff may trigger other activity: there may be customer or user communications distributed, new or changed support procedures initiated, new supply-chain links activated, or even functional reorganization.

Measuring Results Drives Improvements

Measurements begin with KPIs from the balanced scorecard:

- Decide what is to be measured—look to the business plan and the balanced scorecard. Reach an agreement with the project sponsor and other affected stakeholders about what the expectations are for improvements.
- Determine a means to measure and gather the data—be wary that an intrusion to make measurements may influence the measured value.

- Determine a baseline of the current state of the business—obtain buy in from all affected functional and executive managers for the baseline estimates.
- Measure and gather data onto a scorecard—maintain awareness that one release may affect the benefits of another.
- Analyze the data, interpret results, and report information.

Then, of course, use benefit data to drive continuous improvement. Synchronize project-benefit data collection with business key-performance measurement cycles. Be wary of short-term transient effects that are unrepresentative of long-term benefits.

Measurements Scorecard

Releases influence what is measurable, modifying the possibilities with every production go-live. Consider a back-office application project for *order entry* as an example:

- Perhaps after Release 1 (R1) there is a new capability for simple order entry; the operational efficiency of simple order entries is the measured KPI.
- At Release 2 (R2), perhaps additional functionality allows an order to be priced according to a contracted price list, changing operational efficiency of Release 1 simple order entry. In other words, separate functionalities can cause benefit cause-and-effects to become intertwined.
- After Release 2, there is a need to recognize that effects will be felt on the benefit stream associated with Release 1.

All of the business effects from the various releases are planned for and tracked on a benefits scorecard. The benefits scorecard tracks benefit performance incrementally as the product base is updated by each release. To set up the scorecard, the scorecard bookkeeping should account for the release schedule.

Baseline performance measurement

A baseline performance measurement is to be taken in a period before the first release. That baseline measurement should accurately portray the state of the business before any effects from project outcomes. Subsequently, and after each release, additional business measurements are made to verify and validate business improvements.

Transient Benefit Effects

Figure 1 shows a common phenomenon: introducing a change may actually make business performance worse until it gets better. At Release 1 (R1), the introduction of a new functionality has adversely affected operating efficiency. Agile does not cause this circumstance, but may affect it in several ways:

1. The short cycles of releases may impact the ability of business preparation to properly initialize the business for the oncoming change. Training, communications, support, inventory, and distribution may have difficulty reacting in short cycles.
2. Frequent releases may have a pile-on effect as the next release comes shortly after the prior release. Users are unable to follow all the changes to make maximum use of the capabilities.
3. Incremental deliveries may require temporary business workarounds for functionality not yet delivered. Workarounds are first learned and then unlearned, causing friction and churn within the organization.

4. The development teams may have to deliver temporary functionality that becomes a throwaway. Temporary interfaces, workaround functionality, manual overrides, and other manual scripts may be required. These artifacts detract from value-added throughput and add to the support burden in the short run, even as they impact operational efficiency.

Improvements in operation efficiency come only after transient effects from change are overcome.

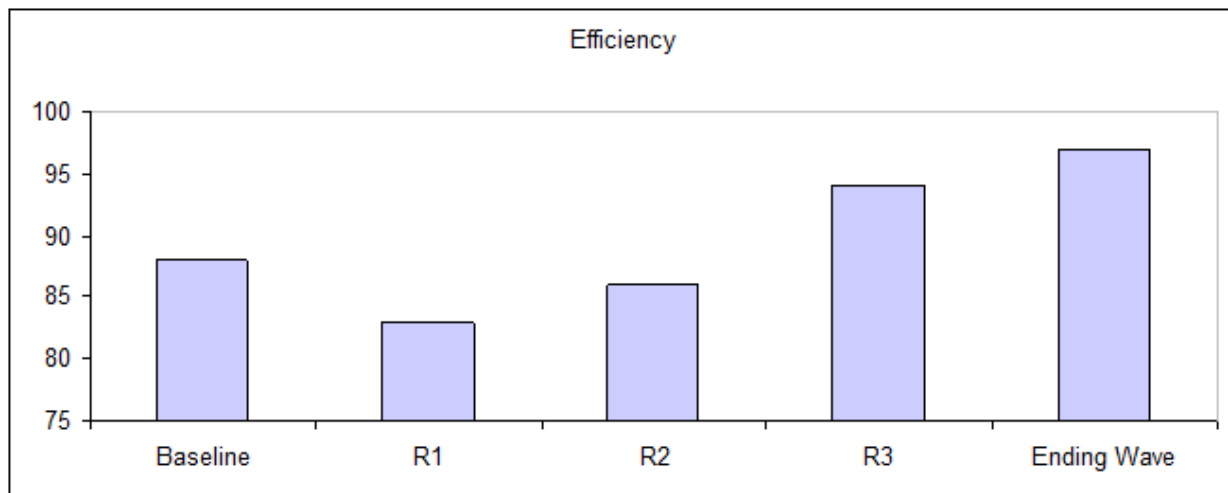


Figure 1, Business efficiency

Discounting the Future

Most financial forecasts take a discount for risks. After all, the future is only an estimate, not a fact. Discounts are usually taken over longer periods of time, typically years. Obviously, most projects will end well before the benefit period expires, even if benefits start early on as in agile projects. There are two popular discounting methods that fortunately arrive at the same evaluation for the cash value of a benefit stream:

1. Net present value (NPV) and
2. Economic value added (EVA).³

NPV is probably more familiar, so we will refer to it in the discussions in this paper. Working in present value offers a risk manager a choice:

1. Receive a lesser cash amount today—called a discounted present value, or:
2. Take the risk to wait some number of periods for the undiscounted cash to be paid in the future

In other words, the choice might be to take \$1 today or to wait two years and receive \$1.25. The future value of \$1.25 is discounted to a present value of \$1 to recognize the risk of waiting. If the risk manager's attitude is neutral, then the manager will not prefer one choice over the other. Both have the same *present value, net of cost—Net present value (NPV)*.

In the example given in Figure 2, there are two factors always present that inform the present value

1. The time period for waiting for benefits
2. The discount rate during that time period

The present value of a future benefit is discounted for the uncertainties that lie in the future. Those uncertainties determine the discount rate for the business financial officer.

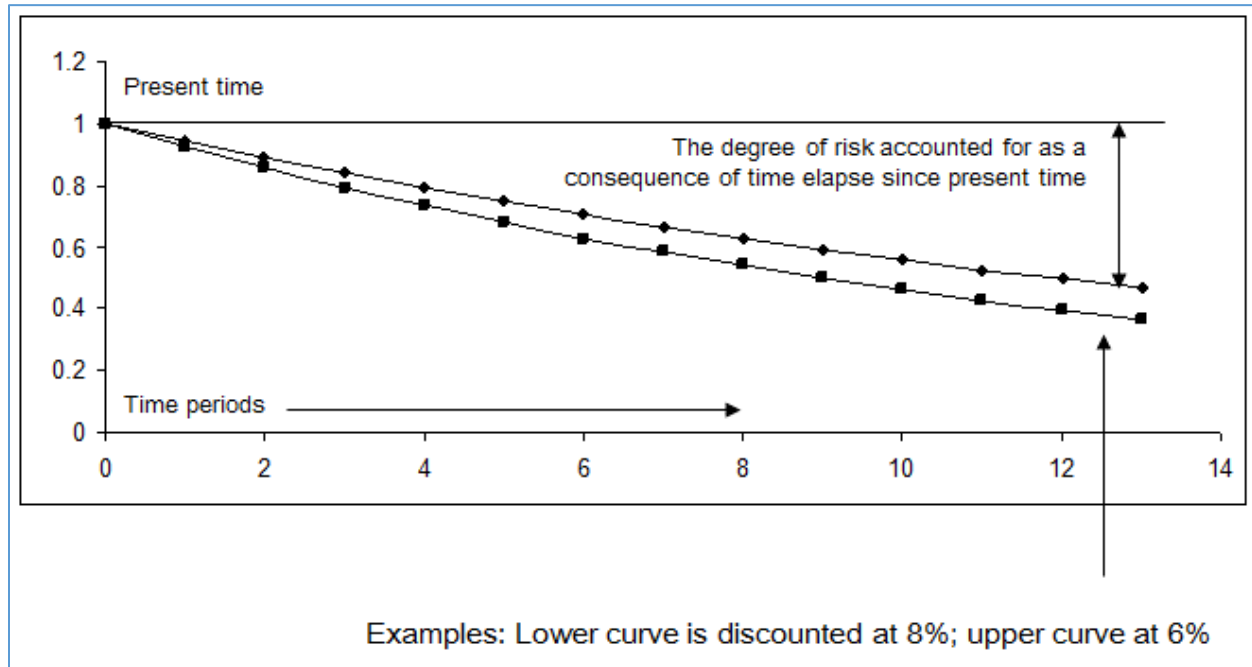


Figure 2, Discounted benefits over time

The discount rate takes into account multiple factors, all influenced by time:

1. The willingness and capacity of the customer or the market to pay—and continue to pay—during the discount period
2. The time value of money (money present now usually has a higher utility than future payments)
3. The stability of the business over time such that the benefits can actually affect the business as described in the business plan.

The acceleration of releases that thereby accelerates benefits is a plus for agile methods. Such accelerated benefit flows go directly to the first two benefits, as above, and good be influential on the third point.

Summary and Takeaway Points

In this whitepaper we develop this theme: *Agile methods start the benefit stream earlier, generating more valuable returns from frequent, incremental product deliveries.*

The incremental nature is a big driver on the benefit plan. But no benefit plan will be worthy unless it is tied into the real business by a connection to the business scorecard. Moreover, benefits will not be fully

realized unless someone takes ownership and drives for benefit realization. There is no autopilot for benefits.

There is an important role for a benefit owner acting as the benefits manager. Handoff is made from the project manager to the benefit manager, a bit of ownership passing with each increment. Because many stakeholders come into the picture release by release, the benefit manager's management challenge is to align all their interests as best possible. The incremental character of agile projects affects planning for business preparation, affects the measurement cycle, and presents opportunities to optimize the benefit stream for larger near-term returns.

Indeed, by taking a risk-adjusted view of the benefits, the early and incremental nature of agile projects can significantly amplify the benefit value during the project lifecycle. It might even be possible to make agile projects self-paying from the early and more robust benefit stream.

About the author

John C. Goodpasture, PMP is a program manager, instructor, author, and project consultant specializing in technology projects

For many years, he has been one of the instructors for an online distance learning course in Agile project management. He was project director of an E-Business application development unit at Lanier Professional Services where his team delivered a number of successful projects using agile principles and practices.

He is the author and contributing of four other technical books in project management, numerous magazine and web journal articles in the field of project management, and has been an invited speaker at many professional project management events.

After graduating with a master's degree in engineering, John was a system engineer and program manager in the U.S. Department of Defense leading high technology programs. Subsequently, he managed numerous defense software programs while at Harris Corporation in Melbourne, FL., eventually finishing his corporate career as operations vice president for a document imaging and storage company.

He has coached many technology teams in new product development and functional process improvement, both in the United States and abroad, in industries as diverse as semi-conductor manufacturing and retail mortgages.

For more on the subject of project management and Agile methods, check out these websites: John blogs at johngoodpasture.com, and his work products are found in the library at www.sqpegconsulting.com.

Many of his presentations on agile methods are found at www.slideshare.net/jgoodpas. John maintains a professional profile at www.linkedin.com/in/johngoodpasture

Endnotes

1. Rogers, *Diffusion of Innovations*, 23, Chapter 7.
2. Rogers, *Diffusion of Innovations*, 21.
3. Goodpasture, *Quantitative Methods in Project Management*, Chapter 5, 124-147.