

Making the Case for BPM: A Benefits Checklist

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Business Process Management (BPM) has become a top priority for companies in 2006 and 2007. A recent survey of more than 1,400 CIOs revealed that the top business priority identified by their company was business process improvement. Of course, there are many options for improving business processes – ranging from complete process re-engineering to adopting new process management methodologies, such as Lean Six Sigma, or adding new capabilities to existing systems. An investment in BPM software, coupled with new approaches to project implementation, enables companies to institutionalize a sustainable business process improvement program.

This paper is intended for groups who want to make the business case for investing in BPM to drive process improvement. It provides an overview of the areas of benefit that companies can expect from BPM, as well as concrete examples of value. It also compares the use of BPM to alternative approaches for driving process improvement. Finally, this paper provides a basic introduction to the costs associated with a BPM initiative.

The Strategic Value of BPM

Better processes produce lower costs, higher revenues, motivated employees, and happier customers. The most dramatic examples of economic value driven by process improvement come from the companies that have led the adoption of the Six Sigma (and Lean Six Sigma) methodology – most notably, General Electric (GE). Mikel Harry, one of the founders of the Six Sigma methodology, has documented the economic impact of focusing on process improvement. Using the base measure of his methodology – Sigma, Dr. Harry provides a tangible example of how companies like GE have benefited from a commitment to process improvement:

*With just a one-sigma shift, companies will experience a **20 percent margin improvement**, a **12 to 18 percent increase in capacity**, a **12 percent reduction in the number of employees**, as well as a **10 to 30 percent capital reduction**.¹*

When you consider that GE achieved multiple Sigma shifts on their core markets, it is clear why they have become a top competitor in any market in which they compete. Their costs are lower and their quality is better.

Of course, GE also made Business Process Management a core part of their corporate culture – from the CEO down. Most groups making the case for BPM cannot assume such commitment – at least not to begin with. Not a problem. Even a basic investment in a BPM suite (BPMS) can yield significant returns. Without any process redesign, Connecticut-based research firm Gartner indicates that companies can still expect to receive significant operational improvements for any given process. Gartner claims that by simply “making the current-state handoffs, timing, and responsibilities explicit, productivity improvements of more than 12 percent are normally realized.”² For many processes, that is just the start of the efficiency gains. Later in this paper, we will compare a BPMS investment to other alternatives for driving process improvement. However, we can already see that even a basic BPMS investment can drive significant value. In fact, typical BPMS projects are driving more value – a lot more. In another report, Gartner indicates that 78%

¹ *Six Sigma: The Breakthrough Management Strategy*, Mikel Harry, Richard Schroeder

² “*Business Process Management’s Success Hinges on Business-Led Initiatives*,” Gartner, 26 July 2005

of projects see an internal rate of return (IRR) of greater than 15%³. The same report indicates that these projects were deployed quickly (67% in less than six months, 50% in less than four months). So companies are realizing significant value with rapid returns by driving process improvement with BPM.

A Benefits Case Study: Logistics

The concept of continuous improvement is at the heart of the BPM value proposition. In fact, the ability to continuously improve processes and gain incremental ROI on a consistent basis is what sets a BPMS apart from other means of driving process improvement. So, when making the case for BPM, it is critical to consider not only the first iterations of processes and what value they might bring; it is essential to consider the incremental value that will be added over time.

A large computer manufacturer identified a process improvement opportunity in their logistics operations. Products that could not be delivered (referred to as “distressed shipments”) were costing the organization millions of dollars per quarter in lost revenue. Process analysis confirmed that

- Improvements were needed in many areas, and, because internal departments and external partners were involved, a complete view of the order as it progressed through the process was difficult to obtain;
- The window of opportunity to save a shipment was a short 48 hours, and work priorities, task completion, and escalation were crucial to successful resolution;
- Data about the order was often too little and too late. The organization needed real-time notifications in order to save the shipments.

The initial process deployment monitored and notified the customer service team the instant an order was marked “distressed.” Resolution deadlines were automatically assigned and tasks routed so that shipping problems could be addressed immediately. The process also enforced standard procedures so that call center agents were guided to the best options for the customer.

The results of proactive management of the current process yielded outstanding results. With each new version of the process, they moved their key metric of *Percentage Saved* from 5% to nearly 70%. That represents a savings of over \$2 million each quarter. With continued global growth, that number continues to increase.⁴ But this company is not done. They are using the analytical and simulation capabilities within a BPM suite to identify the next round of improvements. In the 2006 BPM Wave Report, Forrester confirmed that the leading BPM suites offer customers “unparalleled process optimization with self-diagnosing processes.”⁵ In addition to simulating the behavior of business processes, they also can recommend workarounds for process bottlenecks and even guide the analysts step-by-step to make the process change. The logistics team has identified new steps to proactively notify customers of pending deliveries and enable the customer service agents to confirm delivery details before delivery is attempted. Based on pilot results of this newest process version, the team estimates that there is a potential to raise the *Percentage Saved* to above 90%.

³“Justifying BPM Project,” Gartner, 2004

⁴“Minimizing Distressed Shipments,” Lombardi Software, 2006

⁵“Lombardi Raises the Bar in Human-Centric BPMS With Rapid Process Design,” Forrester Research, 2006

Identifying Your Potential Benefits

The basic operational value proposition of BPM is the ability to process more with less effort and higher quality. So BPM has become a cornerstone technology for companies that must grow revenues quickly while containing their growth in headcount. These companies have made the case for BPM based on three core benefits – efficiency, effectiveness, and agility. Depending on the process, these different benefits will be realized in different proportions and in different cycles.

Efficiency

It is typical for a company to first see efficiency benefits when deploying BPM. Most processes have significant waste because of manual effort, poor hand-offs between departments, and a general inability to monitor overall progress. The initial deployment of a BPM solution eliminates these problems – and the benefit is typically expressed in full-time equivalent time saved. For example, one healthcare company realized a savings of 21,000 hours (10 FTEs) for their employee on-boarding process in the first year.

Effectiveness

Once a company has realized the basic efficiencies that a more controlled process brings, they will often focus on making the process more effective. These are where some of the largest gains are realized. The returns here are typically expressed in the context of handling exceptions better or making better decisions. One telecommunication service provider found that by better controlling their billing disputes process they were able to reduce by \$3 million the amount they were paying out each quarter (approximately 10%). Their BPM deployment helped them identify duplicate issues, research disputes more completely, and enforce more consistent payout policies. For processes that are regulated, this level of control and consistency provides an added benefit – the avoidance of fines because of incorrect or inconsistent execution of the process, or the lack of a timely execution of the process. In some cases, this benefit can be monetized (e.g., reduction in fines), but often this compliance benefit is viewed as critical even if a financial benefit cannot be directly associated with it.

Agility

The final key benefit BPM provides is agility. In the era of the Service Oriented Architecture (SOA) and On-Demand, agility is a well-understood concept. In the world of Process Management, the ability to change quickly is essential. Our customers change their key processes 4-7 times per year. The driver for change can be internal or external. New opportunities can arise. New partners or customers need you to support a different way of doing business. Federal or international regulations can require you to change your processes. BPM provides the platform you need to be able to change your processes – faster and in a more controlled fashion than any other option. Agility benefits typically include supporting federal regulations faster – eliminating chances of fines or delays in approval. Another example includes the ability to change a process to accommodate unforeseen events. An insurance agency can quickly adjust its claims approval threshold upward when a natural disaster happens in a specific part of the country. It can be difficult to calculate hard returns from agility, although most organizations recognize that the ability to quickly adapt processes is a critical competitive capability.

A Benefits Checklist

Below is a checklist that you can review for each of your candidate processes or to get a general sense of the types of benefits you can expect from BPM.

Benefit	Example
Efficiency	
Eliminate Manual Data Entry	Reduction in time to add a new employee record into the HR system from 9 hours to 10 minutes.
Reduce Process Cycle Time	Reduction in compensation processing timing for 12,000 sales reps from 33 days down to 7.
Reduce Manual Analysis/Routing	Elimination of 80% of the manual work previously required to route invoice exceptions to the appropriate resolution teams.
Effectiveness	
Handle Exceptions Faster and Better	Evolve process from saving 5% of distressed shipments to saving 70% - yielding \$2M per quarter in saved revenues.
Make Better Decisions	Better review process results in \$3M saved in billing dispute write-offs that would formerly have just been processed because the process was poorly controlled.
Consistent Execution	Customer satisfaction improvement to 92% based on proactive tasks that help ensure the home loan process executes better and faster.
Agility	
Faster Regulatory Compliance	Change customs related processes after September 11, 2001, within 90 days to comply with new federal regulations for better shipping visibility.
Support New Business Models	Ability to change shipping partners within 10 minutes in core process allows manufacturer to change primary shipper every quarter – based on best bid provided.

Figure 1. BPM Benefits Checklist

Comparing the Alternatives

Typically, there are three possible alternatives to using BPM to drive process improvement. These include buying a packaged application that addresses the process or functional area; extending an existing software application; or custom developing a solution to address the organizations needs.

Buying an Application

There are four problems with buying applications to solve process problems – time to value, risk of adoption, responding to change, and expanding scope.

- **Time to Value** – According to Forrester Research, the industry average for installing new applications is 14.5 months – and 36% of the projects are delivered late⁶. When compared against the data for BPM installations, many BPM deployments would have three or four versions of a process deployed in that time, each generating significant business value. Additionally, most applications require organizations to start with their core data model and base functionality. A great amount of time could be spent implementing capabilities that are not directly relevant to your process problem, but are required for the proper execution of the application. There are no such start-up costs for working with BPM.
- **Risk of Adoption** – Users often resist having to learn an entirely new application. Worse still, if the capabilities do not match the users' needs, then the application will not be used and process efficiency will get worse, not better. In contrast, leading BPM solutions can bring process into the tools that users are familiar with today – like Microsoft Outlook. This virtually eliminates training and adoption hurdles. Furthermore, BPM allows project teams to focus on the specific capabilities needed by participants in the process – and no more. No time is lost identifying which application capabilities will not be used or need to be customized.
- **Responding to Change** – Once the application has been installed, organizations are often faced with difficulties keeping the application synchronized with the changing priorities of the business processes. Applications are not designed to accommodate frequent change; they are focused on standardizing actions and processes. In fact, customizing a standard application often introduces additional problems and costs, as discussed in the next section.
- **Expanding Scope** – Process improvement requirements can come from all parts of the organization. While the first problem might be in on-boarding new employees, the next could be in managing shipment logistics. Buying specific applications for each of these process problems would not be practical. In contrast, a BPM suite can be used to improve any process.

Extending an Existing Application

If an existing application is in place, some companies will evaluate extending that application to help drive improvement in key process areas. There are three problems with taking this path: cost, complexity, and immaturity.

- **Cost** – The cost of purchasing additional modules and the development tools required to customize the existing application can often be extensive – more costly than buying BPM.

⁶ *Business Technographics Study June 2003, Survey of Corporate Executives*, Forrester Research, 2003

In addition, extending the applications often requires unique, expensive skills. Often, applications must be extended using proprietary application specific languages. Contracting consultants with this knowledge can be expensive. In contrast, leading BPM solutions are standards-based, and many consultants have been trained in the core skills and technologies required for deployment.

- **Complexity** – Extending packaged applications generally makes future upgrades more complex – sometimes significantly more complex. Most application vendors advise clients not to extend or customize their applications. They suggest a “vanilla” implementation in order to make future upgrades possible. In addition, extending a transactional application to support process management capabilities often means that companies will have to custom develop capabilities like workflow and reporting. This exposes development teams to the greatest possible risk: They are constrained by the existing application on things like data model and user interaction, yet they must also custom develop complex new capabilities specific to process management.
- **Immaturity** – While many application providers are adding process to their applications and platforms, their offerings are still immature. According to Gartner, “many of the large vendors (such as IBM, Microsoft, Oracle, and SAP) moving into the BPMS market are trying to capitalize on the current hype and interest in process improvement and adaptability, but they are looking forward to a time (circa 2009) when BPMS capabilities are part of a larger product offering.”⁷ In short, the process management capabilities offered by the large vendors cannot presently drive process improvement.

Traditional Application Development

Most companies have the capability to develop applications in-house. So, it is not uncommon for these companies to evaluate whether they can use their traditional application development instead of using a BPMS. There are two areas where traditional application development is a poor fit for driving process improvement – requirements and time to market.

- **Requirements** – According to Forrester Research, 57% of application development projects are poorly scoped and 30% have unattainable requirements⁸. These same percentages, or worse, can be expected using application development for process improvement. In contrast, BPM project success rates – over 90% – suggest that BPM is a superior technology for getting process improvement requirement right.
- **Time to Market** – BPM projects tend to be delivered faster, cheaper, and more reliably than most application development projects. How much faster? Based on our research with customers that have existing application development capabilities (e.g., Java-based development), BPM delivers productivity gains in virtually every phase of the project delivery.

⁷ “Business Process Management: Act Strategically and Buy Tactically,” Gartner Group, June 21, 2005

⁸ *Business Technographics Study June 2003, Survey of Corporate Executives*, Forrester Research, 2003

Typical BPM Project Phases	% of Project	Productivity Improvement
Functional Requirements and Functional Design	25%	50%
Development	50%	20-25%
QA/Testing	25%	30%
Business Rollout	N/A	N/A

Figure 2. Productivity Improvements across Project Phases (Source: Lombardi Software)

There are several reasons for this improvement in productivity. First, BPM provides the key functionality necessary to define process improvement requirements and implementation – modeling, workflow, simulation, etc. These are all capabilities that development teams will need to custom develop or integrate if they are using traditional application development tools. Second, all of those capabilities are integrated into a cohesive development environment in leading BPM suites such as Lombardi Software and others. This integration simplifies implementation and change management. Finally, leading BPM suites support graphical development of process solutions instead of requiring complex coding. Not only does this speed development, but it also means that less skilled technical resources are required to deploy BPM.

Common Areas of Cost

By now, the benefits of BPM should be clear. But what does it cost to implement this type of solution? What should companies include on the cost side of the BPM equation? The primary cost areas are software, people, and hardware. The sections below provide an introduction to the key considerations in each area.

Software

A detailed review of pricing models from various BPM vendors is beyond the scope of this document. An organization investigating BPM must ensure that they completely understand what “software” includes. Some vendors license components individually or require additional software to support the BPM deployment. BPM suites that are based on industry standards like TeamWorks are more likely to be successfully deployed using the existing infrastructure components of organization. Most BPM vendors support the ability to buy BPM at the departmental level and grow that license to the enterprise as requirements grow. This allows companies that wish to grow their BPM footprint more slowly the ability to get started with process improvement at the departmental level.

People

An organization should plan for a project manager, a subject matter expert, 1-2 business analysts, and 1-2 developers. This core project team aligns the Business and IT organizations to ensure project success. The team is generally made up of customer resources, system integrators that may be contracted by the customer and BPM vendor Professional Services team members. This may seem like a small project team when compared to traditional development technologies. That is the value of the productivity BPM brings for delivering process improvement. For example, one Fortune 1000 company manages almost 100% of their manufacturing and logistics process through a BPM suite with a core team of only 5-6 people. This deployment supports over seven core procurement and logistics processes. Compared to their ongoing SAP deployment support staff, the BPM team investment is a fraction of their overall staffing costs.

Companies seeking to drive continuous process improvement must recognize that these teams need to be dedicated to ongoing BPM projects. They do not work and then disperse to other projects. This means that staffing BPM capabilities becomes an ongoing investment and one that will grow as companies add processes. Recognizing this, some companies set up Centers of Excellence (COE) for BPM through which all process management projects pass.

Hardware

Ongoing hardware costs are comparable to other application deployment needs. BPM allows organizations to start with a modest infrastructure and grow over time as their process portfolio grows. As always, organizations should remember to account for different environment needs, such as development, QA, and production environments. Organizational requirements, such as CPU Utilization guidelines, must also be accounted for when reviewing the minimum hardware-sizing estimate provided by a BPM vendor.

Summary

BPM is the best investment a company can make in establishing a platform for continuous improvement. The challenge for many companies is justifying the BPM investment instead of using traditional paths for solving process problems – like buying an application or building a custom application. When developing a business case for BPM, examples of successful BPM projects can help frame a value proposition or even highlight areas of benefit that may not have been considered. Using the customer stories and benefit checklist outlined in this paper, an organization is armed with the information required to make the case for BPM as the lowest risk, highest return investment a company can make to drive process improvement.

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