ROI = COD

“There is nothing more difficult to plan, more doubtful of success, nor more dangerous to manage than the creation of a new system” – Machiavelli (1518)

When organizations take on projects such as the selection and implementation of a new ERP solution, purchase of new equipment or the implementation of Lean initiatives, most of those projects will have several common metrics for being deemed fully successful, partially successful or failed. These metrics typically include:

Return On Investment (ROI)

- Depending upon the type of project (ERP, equipment or Lean), the ROI calculation may be based on several factors which can be calculated based on both quantitative and qualitative factors. Then those calculations can be factored into a value which becomes the expected monthly value of the return on the investment for the project.
    - Cost of acquisition which includes the capital cost, the implementation or installation costs, any human change management costs and internal resource costs (e.g. team members allocated employment costs, facility utilization costs, meal and beverage costs, etc.)
    - Expected productivity gains, cost savings such as reduction in paper, electricity, setup time on operations machinery, etc. or faster response times to business issues and risk management.

On Time Completion (OTC)

- Often, specifically in ERP implementations, the initial date will be missed but that will be recognized early in the implementation project and a second date is accepted by a Steering Committee and signed off by senior management. If the second date is missed, the metric = FAILED

Cost of Delay (COD)

Based on the ROI and OTC data, an organization can now state that any delay in the implementation of the project will have a negative impact on the organization equivalent to both the monetary value and impact on competitve improvement values (typically qualitative). In addition to the actual COD, there will also be additional direct costs to the project that would not likely have been included in the original budget.

The net result of failing to be on time will create the COD situation and, potentially, create issues with some stakeholders.

Avoiding COD

Any project should have a project plan that is being kept current. The status of the project timeline and resources constraints should be reported to the Steering Committee / Senior Management / Executive Champion on a regular basis. As the project gains speed and begins hitting milestone dates, the reporting becomes more frequent and the Project Manager is typically in frequent communication with the Executive Champion who has the role and responsibility to make decisions to remedy issues or constraints.

If a situation occurs where the project completion date is in danger of not being met, it is the role and responsibility of the Executive Champion to determine the corrective actions to be taken. The logic of what to do begins with a complete understanding of the ROI / COD calculations. Then a determination is made regarding whether reallocation of existing resources or the addition of new resource would allow the project be completed on time. If the project can be completed on time at a cost equal to or less than the COD calculation, the new project plan and resources are approved.

Of course, the first key to minimizing COD is having the ability to recognize when a project has the potential to not hit the expected completion date as early as possible during the project. That means that you have a project plan that's well developed at the beginning of the project and the project is being managed jointly by the Project Manager and Executive Champion.

The second key to minimizing COD is knowing when to ask for expanded resources, where to get the resources and ensuring that the rest of the Steering Committee is informed properly of the changes to the plan, potential changes to roles within the project and the cost of the new plan.

"Inaction is not an option" – Winnipeg's Mayor Brian Bowman (2020), Barack Obama (2012) & George W. Bush (2002) to name but a few.

Other Metrics to Consider

Employment Turnover

- Depending upon the type of project, organizations will track unexpected employment turnover which was the result of the employee's dissatisfaction with factors related to the project being tracked. If the human change management effort has been properly planned and executed, this metric should equal zero.

Employee and Stakeholder Value Indexes

- Organizations that have recognized the fact that stakeholders of all types impact the results that the organization will achieve often conduct value index initiatives. These can take many forms but have a consistent goal of measuring how the organization is performing in regards to the values held to be important by each stakeholder group. Stakeholders typically monitored include customers, suppliers, employees and their families, community groups and associations that can have impact on the organization. The appropriate value indexes are identified at the time of developing the 'as is' statement for the project, have expected outcomes with timelines identified as the 'to be' result and have an executive assigned to be an "Index Champion" responsible for monitoring the index.

About the Author

Ken Cowman's career has spanned over 48 years with 11 of those in operations management followed by more than 37 years as an enterprise solutions and continuous improvement project manager, educator, seminar leader and management coach. He has had over 70 articles published in various magazines.

A founding executive of the APICS Peel Chapter, Ken was part of the OMERIC team that wrote the Fundamentals of Operations Management courses for APICS. He is also the past Chair of the Business Operations Management Program Advisory Committee at the School of Business at Centennial College. Ken currently serves as a volunteer director of the Veterans Helping Veterans charity and voluteer advisor to the Peel Halton Workforce Development Group.

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