Business Rule Solutions

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The Value of Decisions

Cost-justification of business rule initiatives has always been a challenge. Enterprise Decision Management (EDM) provides new and exciting ideas for this important area. As explained in this issue's column, cost-benefit analysis under EDM is based on the question, "What is the economic value to your company of its front-line decisions?" This high-potential approach is just the ticket for people seeking to demonstrate convincingly that it is possible for their organizations to act cheaper, faster, and smarter.

New Ideas on the ROI of Business Rules

Cost-justification of business rule initiatives has always been challenging. In our experience, most have never been cost-justified at all – rather, they are undertaken because management comes to understand there is no viable alternative for some critical problem at hand. And when the initiatives prove successful, there's no need to deconstruct their success.

But management has a right to want analysis of the ROI, especially in companies without prior experience in the area. Now there is a new way to think about the ROI of business rules. Ironically, it comes from *not* looking at the rules at all.

In their new book, *Smart (Enough) Systems*[1], Neil Raden and James Taylor argue convincingly that you should look look at some operational *decision* that rules can be used to make, rather than at rules per se, It's that decision – not the rules – that provides the actual value-add for the business. The rules are simply the means to an end. So the EDM message is that you shouldn't talk to business executives about the means (rules) when it's the ends (operational decisions) that really matter. It's simply the wrong artifact. Extrapolating, it's the ROI from the decision, not from the rules per se, that should be examined if you want to do cost-benefit analysis.

Cost-benefit analysis under EDM is therefore based on the question, "What is the economic value to your company of its front-line decisions?" These front-line decisions are everywhere – so numerous, in fact, they are easy to miss. Consider the following example: You send promotional letters to 10,000 prospects. Decision?

Of course, but as Raden and Taylor point out, not just 1 decision, but 10,000 decisions – sending the letter to each individual prospect is in itself a decision. Although the value to the company of each individual decision may be relatively low, here's the kicker – they add up *big-time!* Consider that you might also make the 10,000-prospect decision not once, but many times during a year.

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[1] **Smart (Enough) Systems**: *How to Deliver Competitive Advantage by Automating Hidden Decisions*, Neil Raden and James Taylor, Prentice-Hall, June 2007, ISBN: 0132347962.

Moreover, you might also make it through multiple channels. The value of a particular kind of front-line decision is therefore generally as follows:

> Value of a kind of front-line decision =
> Value of each individual decision x *Total* number of decisions made

How do you measure the potential value of improving a front-line decision?[2] In traditional thinking about cost-benefit, there are three broad approaches (in order from easiest to hardest): Doing things *cheaper*, doing things *faster*, and doing things *smarter.* Potential evaluation criteria for each of these approaches under EDM are given in the table below.

Table of Evaluation Criteria for Analyzing the Potential Cost-Benefit from Improving a Decision

Approach	Evaluation Criteria
Doing Things Cheaper	Determine savings from reduction or elimination of costs for • Staff time to make decisions manually • Exception handling and associated research time • Iterative acquisition of missing or incorrect data • Fraud • Fines and penalties for non-compliance • Unnecessary inspections • Settlement disputes • Do-overs
Doing Things Faster	Determine the value of sales or deals potentially lost due to delays from • Manual intervention, review, oversight, etc. • Queuing of work • Inability to make on-the-spot decisions
Doing Things Smarter	Determine the value to the company of its being able to • Cross-sell or up-sell more effectively • Counteract a competitor's operational move quickly (e.g., to offer a new product, introduce new pricing incentives, etc.) • Exploit a new operational market opportunity quickly • Identify micro-market segments • Offer more personalized service • Provide a consistent cross-channel customer experience • Upsize or downsize more quickly • Remedy a shortfall in product or service delivery deftly so as to retain customers • Diagnose equipment or other failures at a very high rate of accuracy • Demonstrate compliance with little or no additional effort • Avoid litigation by ensuring compliant transactions in real-time • Retain know-how when in-house experts are lost

To fully analyze ROI, you must consider not only potential value, but also cost. How should costs be viewed under EDM?

Raden and Taylor make the crucial observation that a focus on EDM permits an organization to "decouple its expense growth from its revenue growth." Here's what I take them to

[2] In an appendix, Raden and Taylor introduce a new approach to evaluate the ROI of decisions, not discussed here, called *Decision Yield*.

mean. In traditional IT development, almost every corporate initiative, large or small, requires a concomitant and more or less proportional investment in systems development. EDM liberates the organization from this lock-step paradigm. By externalizing as much of the business logic as possible to business people, and providing a persistent, generalized infrastructure for making changes to that business logic, investment is spread across an ever growing number of realized business opportunities. To say that differently, you move business people away from competing for IT resources and toward managing rules.

In short, “decouple expense growth from revenue growth” simply means turning a liability into an asset. That’s exactly how Raden and Taylor describe operational decision-making under EDM, which is very good news for people who believe it is possible for organizations to act cheaper, faster, *and* smarter.

For more information on EDM and related ideas by the authors of Smart (Enough) Systems, access a free recent webinar with James Taylor at:
http://www.businessrulesforum.com/webinars.php
(in the Webinar Archives section).
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