

Can you measure return on knowledge?

- [Kim Ann Zimmerman](#) of KMWorld Magazine

By Kim Ann Zimmermann

It has always been a little tricky to cost justify a KM system. How can you measure the value of knowledge? It's not the same as, say, scrimping on office supplies or watching your travel expenses more carefully. Those kinds of cost-cutting measures have an immediate impact on the bottom line. It's harder to place a dollar figure on sharing data because the benefits are often realized over time.

Adding to the difficulty in calculating a KM system's return on investment is that it is not just a matter of installing new software. Maximizing your KM investment requires a change in business processes and practices—where the benefits are not often obvious or immediate.

The benefits of KM systems have traditionally fallen into the “soft dollars” category—e.g. improving the flow of information, keeping employees and customers happy and promoting a team atmosphere because everyone is sharing information for the good of the customer and the company.

But tough economic times spotlight the need for concrete returns on any technology investment.

Identifying benefits

“What we really do is link the technology investment to the financial statement,” says Ray Trotta, co-founder of [iValue](#), a consulting firm focused on analyzing return on technology investments, including knowledge management systems. “People often talk about KM systems in terms of improving employee productivity and satisfaction. That's all well and good, and those are admirable goals for the company, but you also have to be concerned with the bottom line.”

Trotta provides some examples of how those seemingly “soft” benefits can be linked to the bottom line. Employee satisfaction can mean less turnover, which in turn reduces the costs involved in recruiting and training new employees. Improved workflow can mean that a customer's complaint is addressed in a timely manner and that the customer continues doing business with the company. And having greater knowledge about customers and prospective customers can mean less money spent on marketing and promotion because the message can be targeted to specific demographics.

“Customer satisfaction and retention, price premiums and cross selling are all very measurable,” Trotta says.

Another way to measure the value of knowledge is to evaluate what it would cost to purchase the same information from the outside. Trotta explains, “What if your salespeople didn't share information on their customers and prospects, which happens frequently, and you had to buy a database? Get a handle on

what that knowledge is worth on the free market.”

Check the track record

One of the biggest mistakes that companies make when trying to determine the return on their investment in a KM system is assuming that everyone in the company is going to use the system.

“Knowledge is a very personal thing, and you can’t make your ROI determinations based on the fact that you think everyone will embrace the system right out of the box,” says Christopher Gardner, co-founder of iValue. “You have to expect a certain degree of resistance. You always want a 100% adoption rate, but be honest in your assessment of how much people will hold back and resist.”

He suggests looking at the track record for adoption of other technologies in your organization when determining how many will embrace KM. “And don’t stop there,” he adds. “Look at other companies within your industry and also look at companies in other industries.”

Some organizations err by setting unrealistic expectations. Trotta had one company project an enormous return on investment, “but when we dug under the covers, it wasn’t nearly anything close to that number,” he says. “Some think that calculating ROI is punching numbers into a spreadsheet. It has to be a realistic assessment of how your company will benefit, or it is a useless exercise. ROI is not a spreadsheet, it’s a method of careful analysis.”

Company politics can present another roadblock to determining true ROI. Gardner says, “It really requires an organizational political shift. This type of detailed analysis changes the dimensions of the decision-making process. Someone might have been recommending a particular KM project or other technology investment because it is his or her pet project. But if the ROI analysis is done correctly, it might not look like such an attractive investment.”

Gardner continues, “What you have to figure out is what is driving the economic engine of your company and determine how this technology can improve those numbers. When we say what are the drivers of value, we define value as share price. How can a KM system or any other technology contribute to the price of a company’s share?”

Trotta and Gardner say they often come across companies that are looking to justify an investment in technology once they have already spent the money. “There are a lot of cases out there where the vendor said, ‘Try it, you’ll like it,’ and the company has already spent \$10 or \$20 million,” Trotta says.

Experts argue that there are plenty of hard-dollar savings to be realized through investing in a KM system. One example: [Eminent Research Systems](#) performs and manages more than 50 clinical studies per year, and each study must be reviewed and approved by physicians and researchers across the United States. By setting up an extranet using [Stellent’s](#) content management system to share knowledge, Eminent says it realized an annual cost saving of \$500,000 in shipping, printing and employee salaries.

Tools for calculating ROI

“When you’re asked about the return on the investment and all that you’re able to say is that you can save every employee 20 minutes a day, that is not going to work any more,” says Dan Ryan, Stellent’s senior VP of marketing and business development. “For example, [Kia Motors](#) is using an extranet to share information with its dealers rather than spending money shipping documents. If all we could say is that their dealers will have better information and have it in a more timely manner, that’s great but it doesn’t provide a return on the investment. But what really makes it concrete is when we can say they will save millions of dollars by not having to overnight information to dealers.” Some KM companies, including

Stellent, are acknowledging the increased emphasis on hard-dollar ROI and are providing their customers with tools to help them justify the investment.

“We know the soft-dollar savings are there. We know that they will improve communication and people will get their jobs done more efficiently,” says Ryan. “But we also need to provide them with a way to show upper management that there will be money coming back to the bottom line.”

Bottom-line benefits

- Employee satisfaction means less turnover, which reduces recruitment and training costs.;
- Improved workflow can mean quicker response to customers' questions and complaints, ensuring a longer customer relationship.;
- Having greater knowledge about customers and prospective customers can reduce the amount spent on marketing and promotions.;
- If salespeople don't share information on customers and prospects, a company might have to purchase outside information.;

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