Apigee Institute Survey | *Special Report*

Three ROI Criteria to Drive Digital Success

There is a strong relationship between achieving market-leading performance on digital capabilities and building organizational alignment on digital strategy. In this special report, we focus on one element of organizational alignment: choosing ROI criteria that drive better decisions about digital investments. Using three specific criteria, in combination, surfaces as a pattern empirically associated with success: customer satisfaction, efficiency, and financial metrics.

We concluded our first report on the impact of digital capabilities with a piece of advice: to *excel, build alignment.*[1] IT and Marketing leaders at Top Digital Performers—those companies most skilled at using data analytics, deploying apps, and operating APIs—report stronger business results in the last 12 months, anticipate more impact from digital capabilities long-term, and express greater optimism about their competitive trajectory over the next five years than weaker performers.

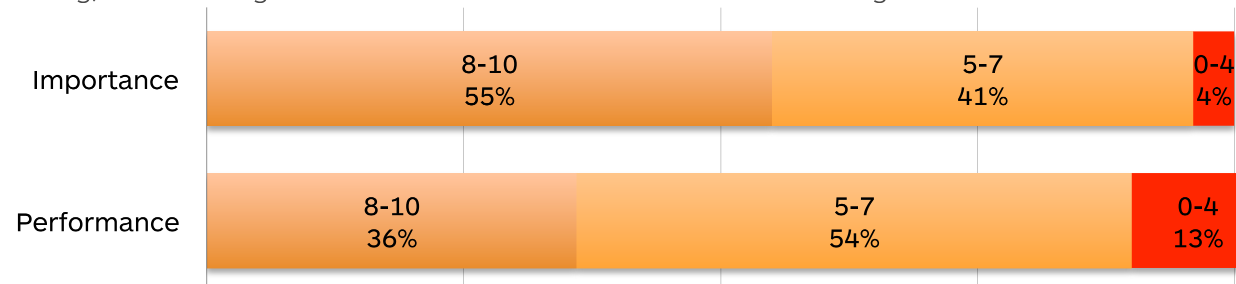
We found that three measures of organizational alignment strongly predict digital performance, providing a way forward for any company to build its capabilities in order to achieve similar results:

Measures of organizational alignment...		... Measures of digital performance
•Ensuring alignment between Marketing and IT •Establishing a framework to connect digital investments more directly to enterprise KPIs •Choosing ROI criteria that drive better decisions about digital investments	**Predict →**	•Using "big data" and analytics to enhance internal processes, existing products / services, or new offers •Deploying apps such as mobile or tablet applications to employees, customers, or partners •Operating APIs to make systems and data available for self-service access or mash-ups

This special report drills down on *choosing ROI criteria that drive better decisions about digital investments* in order to take our analysis to the next level of actionability for those who want to strengthen digital capabilities by building stronger organizational alignment. We find a specific pattern associated with success: using customer perception, efficiency including time-to-market and re-use of existing assets, and financial measures *in combination* predicts both confidence and results.

ROI criteria: performance lags behind perceived importance

Importance (10-point scale, 10 = extremely important) and performance (10-point scale, 10 = very strong) on "choosing ROI criteria that driver better decisions about digital investments."



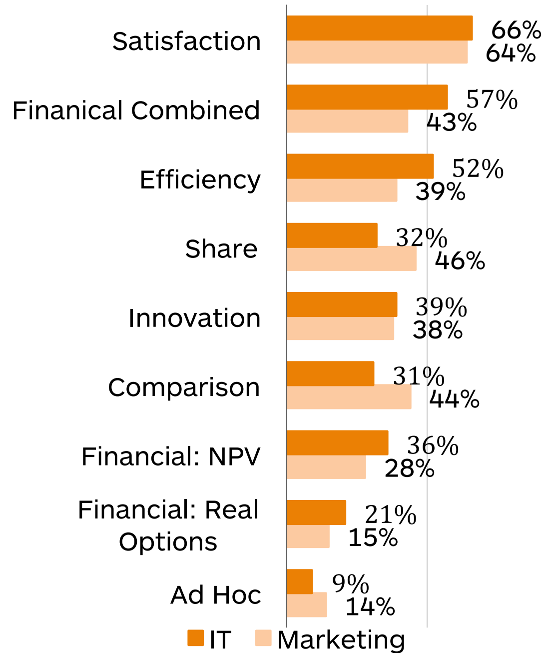
[1] "*Apigee Institute Survey Report*: **An Emerging Digital Divide**" (May 22, 2013). Available at http://pages.apigee.com/institute.html.

Situation Analysis

"Choosing ROI criteria that drive better decisions about digital investments" is one of three measures of organizational alignment that strongly predict skill at using data analytics, deploying apps, and operating APIs. Consistent with this, 55% of executives believe it will be very important (8-10 on a 10-point scale, where 10 is "extremely important") in determining the overall market position of companies in their sector over the next five years. Only 36%, however, rate their company's current performance as highly. Three times as many (13% versus 4%) indicate they are struggling to find the right measures (rating their company's performance 0-4 on a 10-pont scale, where 0 is "very weak").

IT, Marketing largely agree on "best"

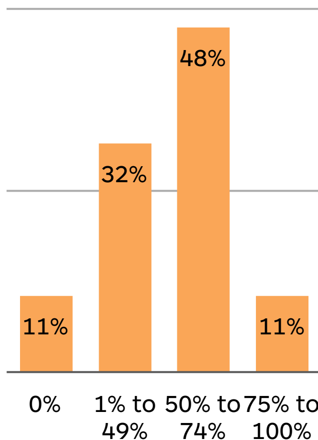
Best criteria for driving decisions delivering long-term, strategic value for a company (top three)



IT and Marketing executives generally agree on which criteria for evaluating and making decisions about investments in technology-enabled capabilities are *best* for driving the most long-term strategic value for a company (see the Methodology sidebar on page 3 for full descriptions of each criteria). Both embrace the value of Satisfaction, with about two-thirds identifying this as one of three they see as best, making it the most selected single criterion. Likewise, both are skeptical toward ad hoc decision-making.

Best / Frequent Match

% Of companies (Y axis) with degree of alignment (X axis)



IT endorses financial criteria more strongly than Marketing—although between specific approaches such as net present value (NPV) versus real options valuation, both favor the former by just shy of two-to-one. IT is also more likely to see greater value in making decisions based on increasing efficiency—at 52%, their second-most selected single criterion. Conversely, Marketing is more bullish on outward-facing goals: share or market penetration is their second-most selected single criterion (46%), followed by comparison with competitors' capabilities (42%).

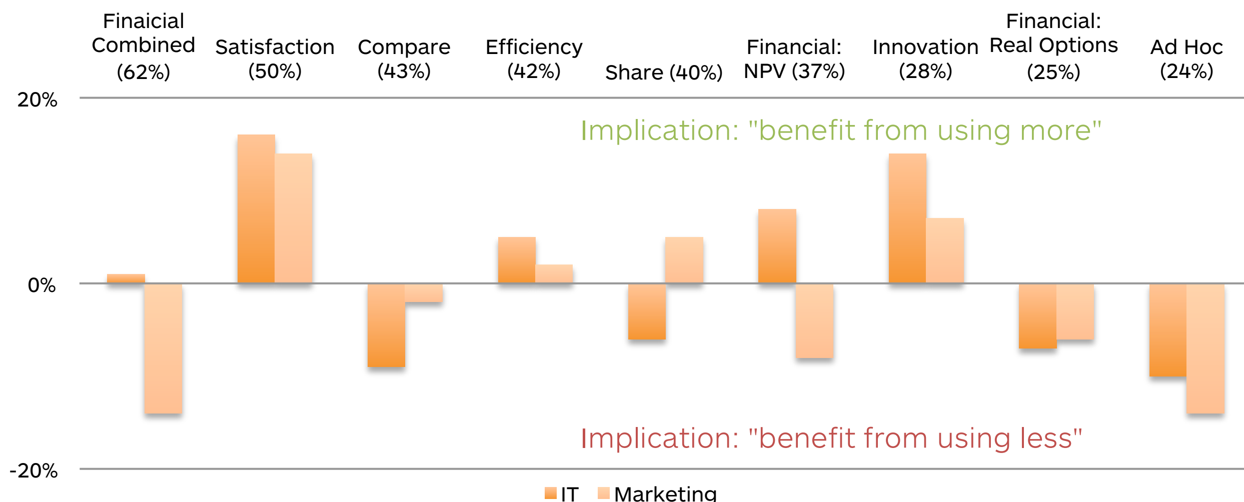
One cause of the "importance/performance" gap may be a "best/frequent" gap. There is full alignment between the criteria cited as best versus reported as *most frequently used* in barely more than one in ten companies (11%). The overall average degree of alignment between the (up to) three ROI criteria identified as best for driving long-term strategic value and the (up to) three reported as most frequently used in a company is only 52%.

Methodology

At separate points in our survey, we asked IT and Marketing executives to select which *three* criteria for evaluating and making decisions about technology-enabled capabilities were *best* as well as most frequently *used at their company*, respectively, from a list of eight. (Respondents could offer fewer than three in both cases.) The full text from the survey instrument and the short labels used in this report are listed below.

Label	Full Text
"Best"	Which three criteria for evaluating and making decisions about investments in technology-enabled capabilities such as "big data" and analytics, digital marketing, apps, or APIs you would say are the best for driving decisions that deliver the most long-term, strategic value for a company?
"Frequent"	Which three criteria are used most frequently in your company to evaluate and make decisions about investments in technology-enabled capabilities such as "big data" and analytics, digital marketing, apps, or APIs?
"NPV"	Financial metrics, using approaches such as discounted cash flow (DCF) and net present value (NPV)
"Real Options"	Financial metrics using approaches such as real options valuation and Monte Carlo simulation
"Comparison"	Comparative targets such as matching best-in-class benchmarks or competitor capabilities
"Efficiency"	Efficiency goals such as reducing time-to-market or increasing re-use of existing assets
"Innovation"	Innovation targets such as percent of sales through new offerings
"Satisfaction"	Customer satisfaction or brand reinforcement goals
"Share"	Share, adoption, or market penetration goals
"Ad Hoc"	Ad hoc criteria or manager discretion

Differences between what executives in general believe to be the best criteria and what they report as most frequently used point to other areas where preferences align. Satisfaction is used at fully half of companies, but responses from IT and Marketing alike suggest they believe wider adoption would drive more long-term, strategic value. Ad hoc decision-making is common in nearly a quarter of companies (24%): IT and Marketing agree this should decrease. Efficiency goals and innovation targets are used in about the same percentage of companies (43% and 42%, respectively)—but directionally IT and Marketing appear to favor somewhat more use of the former and less of the latter. In contrast to Marketing, IT sees the frequency with which financial measures are used (at 62%, the most common type of criteria) as about right; however, both seem to be uncomfortable with how often real options valuation is used (even though it is frequent at only 25% of companies).



Implications

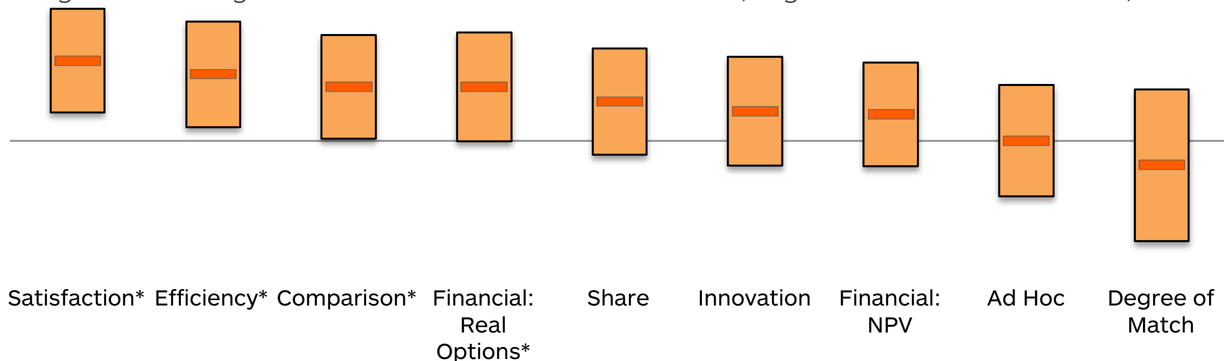
Situation analysis of preferences and practices relating to ROI criteria raises three questions:

- Complete consistency between what is felt to be best and what is most frequently used within a company is rare: would consistency, independent of the criteria used, lead to better decisions?
- Some criteria are favored—even in excess of widespread use (e.g., satisfaction)—while others are disfavored even when used rarely (e.g., real options-based financial approaches). To what extent is stated belief about what's best versus the fact of what is in common use be a better guide?
- Across an enterprise combinations of criteria could be mutually reinforcing. For example: IT's second-most favored criterion Efficiency (which includes faster time to market) could complement Marketing's second-most favored, Share (which includes new market penetration).

To take multiple variables into account, we regressed each company's reported score on choosing ROI measures that drive better decisions on the frequent use of each criterion at the company and the degree of match between what was characterized as best versus frequent. The overall model is weakly explanatory—implying that there are other factors that drive overall performance—but there are statistically meaningful patterns. Specifically, satisfaction, efficiency, comparison, and real options are reliably associated with higher than average performance. Degree of match and ad hoc criteria are as likely as not to be associated with lower than average performance.

Pattern versus preference: four criteria reliably predict higher performance

Point estimate and 95% confidence intervals for contribution to performance above or below the average on choosing ROI criteria that drive better decisions (* significant at 95% confidence)



Statistical techniques cannot replace judgment. But the model gives us one more point (alongside perception and frequency of use) with which to hone in on the best building blocks for success.

Join the conversation. Power the ecosystem.

Share your perspective on digital ROI criteria and aligning marketing and IT

To increase data for benchmarking, the Apigee Institute will host an open survey until July 12, 2013. It will take less than five minutes to complete. After completing the survey you can sign up to receive a complimentary report consolidating analysis from this report and the new data. The survey can be found at: http://pages.apigee.com/institute.html.

Recommendations

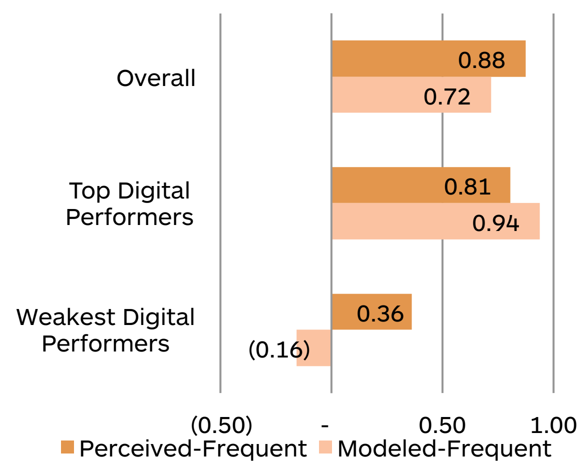
We undertook this special report to help identify better ways to evaluate and make decisions about digital investments. We were motivated by patterns described in our last research note: top digital performers report stronger business results now and more confidence looking forward, and three measures of organizational alignment—alignment between Marketing and IT, connecting digital investments to enterprise KPIs, and choosing ROI criteria that drive better decisions about digital investments—bear a strong relationship to those capabilities. We conclude with three recommendations for more effective ROI criteria based on patterns in our data on 200 companies.

1. Perception deserve respect—but make data your guide

There are positive correlations across what executives believe to the best criteria, what our model surfaces as most effective and the frequency with which criteria are used. But on balance the model derived from analyzing frequently used criteria in relation to reported performance on choosing ROI criteria that drive better decisions appears to be a better guide to achieving stronger digital performance than beliefs about what's best.

Digital strength best tracks model

Correlation (Pearson's r) between *frequently used* and *perceived* best versus *modeled* best



Overall, executive perception about the value of criteria bears a somewhat stronger relationship to what is most commonly used. But this pattern is reversed when we segment out digital leaders: among Top Digital Performers the correlation between what they report as using most frequently and what the model suggests is stronger than the correlation with perceptions of what's best. Among the Weakest Digital Performers, there is an *inverse* relationship between what the model recommends and what they report as frequently used.

2. Don't leave decisions to chance

"Ad hoc" and manager discretion as a criterion is rightly least frequently selected as one of the top three best for driving long-term strategic value by both IT and Marketing executives. Across the board, frequent use of ad hoc criteria is a negative indicator. Companies frequently using ad hoc approaches report on average lower confidence in their ROI criteria as well as weaker overall organizational alignment and performance using data analytics, deploying apps, and operating APIs.

3. Adopt satisfaction, efficiency, and financial measures *in combination*

We chose two ways to make a final test of ROI criteria: association with a higher *average* score on performance choosing criteria that drive better decisions as an indicator of greater effectiveness, and with *less variation* in the score as an indicator of greater ability to consistently outperform. The resulting pattern comports with our and others' experiences with top digital performers:

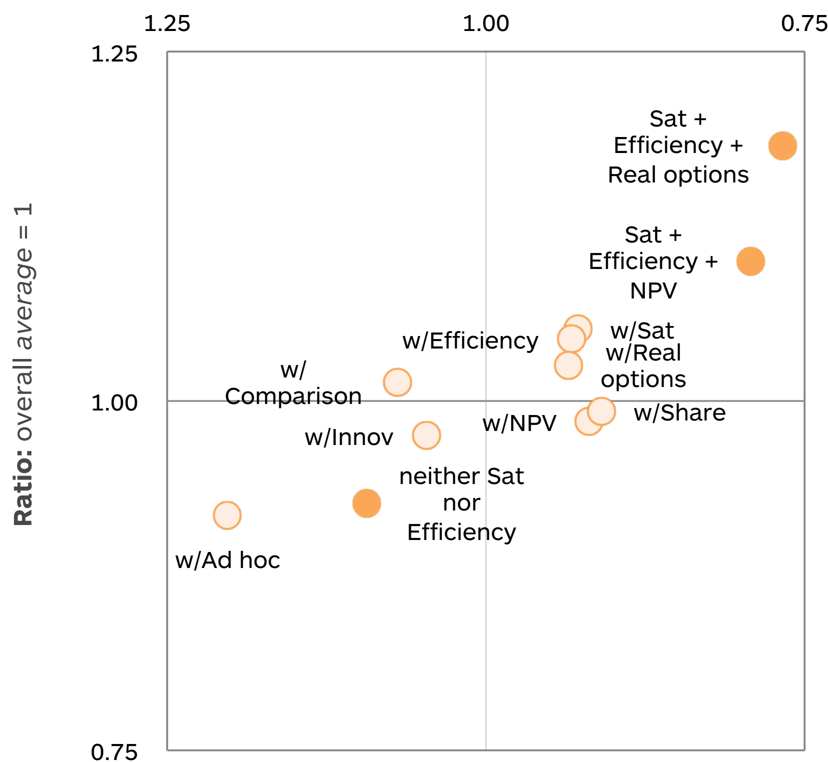
Efficiency and Satisfaction goals *in concert* may drive digital transformation. When IT can deploy new capabilities quickly, Marketing can offer new customer experiences before competitors. But as one senior developer at a large Telco explained to us, for digital leaders "time to market" is about more than just being marginally faster—digital transformation changes how they do business:

> *[when marketing had an idea for a new product] instead of the long and uncertain traditional product development process, because of APIs we were able to put a prototype in the market in two weeks with a small team…we not only understood real demand better, but also how to deliver exactly what users wanted.*

NPV alone may not be enough to drive growth—or fight off disruption. Sustainable innovation must contribute to the bottom line. But financial approaches such as NPV are at their best under stable conditions either improving existing products or incrementally expanding familiar lines of business. As one guide to managing innovation as a portfolio spanning "core, adjacent, and transformational" goals notes, "using [traditional financial metrics] too early in transformational efforts can kill potentially great ideas."[2]

Satisfaction, Efficiency & Financials *together* win

Performance "choosing ROI criteria that drive better decisions" based on presence of criteria in frequently use at the company[5]



Moreover, the power of digital ecosystems enabled by platform technology and business strategy is changing the basis of competition.[3] "Radical adjacency" moves are both a tool for growth and a threat.[4] Google's success with Android and Amazon's relentless march into new areas are archetypal cases, but the same dynamics are emerging in every industry.

Approaches such as real options valuation may be challenging but best suited to today's challenges—and most powerful in concert with a portfolio-based approach to innovation and ROI metrics that include financials external perception, and internal capability.

[2] B,Nangji and G. Tuff, "Managing Your Innovation Portfolio," Harvard Business Review, May 2012.
[3] For more on digital ecosystems see "Programmable World, Programmable Enterprise," Apigee Institute, May 2013.
[4] H. Shaunghnessy, "The Rise of Radical Adjacency," Forbes.com, July 2011; see also and his commentary on the "elastic enterprise"
[5] Performance on choosing ROI criteria that drive better decisions about digital investments averages 6.89 (on a 10-point scale where 10 is very strong and 0 very weak) with a standard deviation of 1.91.

Next Steps

Subscribe

To receive the future research report and notification of other Institute publications, go to http://pages.apigee.com/institute.html.

Follow

@ApigeeInstitute

Join

The Apigee Institute invites executives in Global 2000 corporations, academic researchers and domain experts who believe in the business value of mastering the art and science of creating digital ecosystems and are willing to participate in building a body of real-world data as a shared resource. To request an invitation, contact institute@apigee.com.

About the Apigee Institute

The Apigee Institute delivers strategic insights and practical recommendations based on real-world benchmarks and original research, with a focus on guiding organizations as they build strong digital ecosystems through apps, APIs and data. Learn more at http://pages.apigee.com/institute.html.

About Apigee

Apigee is the leading provider of API technology and services for enterprises and developers. Hundreds of companies including AT&T, Walgreens, Bechtel, eBay, Pearson, and Gilt Groupe as well as tens of thousands of developers use Apigee to simplify the delivery, management and analysis of APIs and apps. Apigee's global headquarters are in Palo Alto, California, and it has offices in Bangalore, London, Austin and Detroit. To learn more, go to www.apigee.com.

This work is licensed under a Creative Commons Attribution-ShareAlike 3.0 Uported License.