

revenue enhancements, or improvements in the speed, quality, or efficiency of key processes that help achieve competitive advantage (note the difference between tangible and intangible measures in this proposal).

- Evaluate and choose alternatives. Make sure to identify any alternatives to the project implementation and provide a justification for each.
- Complete a risk assessment of all risks associated with implementing the project using an enterprise risk management (ERM) model.
- Describe total cost of ownership and include descriptions of implementation project and ongoing maintenance costs.
- Explain the benefits of the project, which include tangible and intangible benefits.
- Fully justify a recommendation with a compelling proposal that aligns to the business goals.

Expected Response:

Describe the measureable value. This includes a cost-benefit analysis, such as payback period or ROI that relies on tangible measures of organizational value through cost savings, revenue enhancements, or improvements in the speed, quality, or efficiency of key processes that help achieve competitive advantage (note the difference between tangible and intangible measures in this proposal).

- Using the data above the payback period is around five years. The system will have saved \$50,000 at the start of the fifth year and then will save \$300,000 for each additional year the system is in operation assuming no other additional support costs are added. The cost for the system in the first year is \$950,000 ($\$1.2M + \$250,000 - \$100,000 - \$300,000 = \$950,000$). The cost of the system for each additional year is \$250,000 with \$500,000 saving for an overall saving of \$250,000 a year. Assuming no additional costs (interest) the investment balance would be \$700,000 the second year, \$450,000 the third year, \$200,000 the fourth year, with a savings of \$50,000 at the start of the fifth year, and a \$300,000 saving for each additional year the system is in operation. At the end of the ten-year lifecycle the system will have saved \$1.3M for Centervale Apparel.

Evaluate and choose alternatives. Make sure to identify any alternatives to the project implementation and provide a justification for each.

- There are numerous alternatives that might provide cost savings or provide a better fit to the balanced scorecard. For example, the ROI and payback period only takes into account the savings from replacing the old system and does not take into account the potential growth of the company. Growth is a critical part of the balanced scorecard and should be reviewed as part of the alternatives. The company could view the increase in efficiency of the data entry staff as room to expand the capabilities of the organization. If the organization did not reduce the data entry staff the pay back would extend to the eighth year and save an additional \$150 per year thereafter. If the rate of return on the data entry staff was available, the increase in capabilities could be calculated as a benefit. The alternative would be to assume the increase in capacity could be used to generate additional profits for the organization. Assuming that the FTE data entry staff cost \$50K a year per person (\$100,000 total) we could assume that the organization has a 220% markup on each individual. The total cost of the FTE data entry staff is \$100,000, but the potential profit would be \$120,000 a year if management could use the system to process more orders. The full utilization of these newly freed resources would be \$120,000 a year. The increased capabilities of the existing resources would mean a saving of \$150,000 at the end of year 5 with an additional \$270,000 savings a year thereafter.

Complete a Risk Assessment of all risks associated with implementing the project using an enterprise risk management (ERM) model.

- The ERM model can be used to categorize the different risks associated with a project by assessing the impact and probability of a risk (see example below). High impact, high probability risks management should focus on avoiding the impact by tightly mitigated and controlled factors that give rise to the probability of the risk. High impact, low probability risks should be shared or insured with the risk spread around the organization and, if possible, some insurance should be procured to minimize the impact of the risk. Low impact, high probability risk management should focus on reducing the factors that increase the probability of the event. Low impact, low probability risks should be accepted based on a cost/benefit decision.
- The risks associated with the project should include potential issues in the cost estimates associated with the project. The system might cost more than \$1.2M and cost more to support than \$250,000 annually. Assuming that the supply chain management (SCM) system is purchased as part of a commercial product and not custom built, the probability of this risk is low but with a potential high impact if the cost was to change during implementation. The risk could be shared with the vendor by making sure the contract is a firm-fixed-priced contract with the vendor for the system and the support.
- The implementation of the new system makes the removal of the legacy system and associated maintenance a low risk and low probability event. The removal of the old system is part of the cost/benefit of the new SCM system and therefore the risk should be accepted as part of the SCM system project.
- Additional risk could include the failure to save the \$100,000 by reducing the data entry staff from 10 FTE to 8 FTE. The probability of this is high but the impact is low because these resources could be allocated to different functions or the payback period would need to be increased to justify the cost. This risk can be controlled by making sure the SCM system project contains clear requirements for the reduction of data entry activities.
- The highest risk would be the failure to reduce the inventory carrying cost of \$300,000 a year. This would be a high impact and high probability event. The implementation of an SCM system does not always guarantee that inventory carrying costs will be reduced but that the SCM system provides a system that allows the organization to manage the inventory in a manner that would facilitate this capability. Management might not take the opportunity to reduce inventory carrying cost just because the SCM system is operational. This is a high risk because without this savings the new SCM system would never be a good ROI and cost the organization an additional \$50,000 a year to support with no payback period. This risk should be tightly controlled and mitigated to make sure the primary focus of the implementation is on making sure the SCM system can reduce inventory carrying cost by \$300,000 a year with complete stakeholder buy-in by management to utilize the SCM system for these functions.