

CALCULATING RETURN

Turning Knowledge Into a Collective Asset

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Imagine your colleagues' knowledge could be digitized, made searchable and delivered at the exact moment you need it and in the format you require.

Customer-satisfaction levels would skyrocket—because not only would your call-center staff know everything about the account on the phone, they

would also know why the person was unhappy the last time. For similar reasons, the ratio of winning pitches made by your sales team would rise sharply.

But even though software programmers may like to think of knowledge as a reusable asset (sort of like computer code), the lack of a market leader sug-

gests knowledge management is an area that's resistant to automation.

Still, technology vendors keep trying—and users with them. Below, *Baseline* offers a scenario for how a knowledge management project could pay off, as well as for some of the risks along the way. ◀

SCENARIO: GETTING A POSITIVE RETURN ON KNOWLEDGE MANAGEMENT

This example shows the costs and benefits over five years of a company deploying a system—in this case, from Cadenza Inc.—to a quarter of its 40,000 workers. The example, for a \$10B company, was

created for *Baseline* by consultant Tim Powell of The Knowledge Agency (WWW.KNOWLEDGEAGENCY.COM). You can fill in your own variables at WWW.BASELINEMAG.COM/KM.

Labor

As became clear in the early '90s with the emergence of Lotus Notes, it isn't the technology of knowledge management systems but the challenge of fostering its use that ends up costing buyers the most. Our scenario acknowledges this by assuming the company will need to assign several people—in the startup phase, at least—to act as champions of the project.

Enhanced revenue

Salespeople can benefit by knowing a client's history of interactions with the firm.

Displaced costs

There is some evidence that knowledge systems can help human resources departments redeploy staff efficiently during economic downturns.

Cash-flow conjecture

This hypothetical project turns a profit in Year 2 and takes off from there. But the outside ROIs listed here assume executive support, adroit management and usage that's perfect—or close to it. Without all these things, the project could be less profitable or could even get dumped in Year 1, while it's still a loser.

COSTS	Item	Assumptions	Costs	
			Startup	Annual
Hardware	Client/server architecture	Multiprocessor server	\$ 15,000	\$ -
Software	System license	10,000 seats	75,000	20,000
Labor	Training	One hour at \$33/hour for 10,000 users; 1,500 new users trained yearly. Also included: outside trainer's fee	355,000	62,000
	Data population	Profiles must be done for all 10,000 users. Thereafter, average user spends 30 minutes/year adding data	165,000	177,375
	IT support staff	2 people to start; 1 ongoing	130,000	65,000
	Internal marketing	Project champions needed	500,000	\$150,000
TOTAL COSTS			\$1,240,000	\$474,375

BENEFITS	Item	Assumptions	Value in Year 5	
			Enhanced revenues	Displaced costs
Enhanced revenues	Increase in number of sales proposals	System ultimately results in Year 5 in a sales gain of 1.5%, off a base of \$10B. Firm has net margins of 8%	\$12,000,000	
Displaced costs	20% reduction in consultants' fees	Current spending on related consulting projects: \$5M		1,000,000
	Reduce turnover from 15% to 13.5%	System simplifies shuffling of staff, reducing severance and recruitment costs		3,432,000
TOTAL QUANTIFIABLE BENEFITS IN YEAR 5			\$16,432,000	

CASH-FLOW CONJECTURE	Year 1	Year 2	Year 3	Year 4	Year 5
	-\$1,214,375	\$2,025,625	\$4,525,625	\$8,525,625	\$15,957,625