Measuring Technology ROI

By Anthony Garritano, Editor, Mortgage Technology Newsletter

Everyone wants to know how to measure technology return on investment. While getting a hard number is always difficult there are methods that can be used.

In the April/May issue of Mortgage Technology a group comes together to discuss ROI candidly from both a vendor and a lender perspective. For a teaser read on. To get the whole transcript look out for the April/May print edition.

Specifically, representatives from two lenders (IndyMac Bank vice president Adam Hall and North Mortgage Group president David Sanders), two mortgage technology vendors (Desert Documents president and CEO Ruth Thompson and CoreLogic president Steve Schroeder) joined CC Pace consultant Craig Hughes in sharing their views on ROI for mortgage technology projects. Here is some of what they had to say:

QUESTION: Often it has been said that most lenders do not track ROI effectively. Is that generalization accurate?

DAVID SANDERS: I believe the generalization is correct. Most do not track it effectively. We tend to measure ROI as a trade-off in the number of loans needed to cover the cost of the product, not the reduction in people as touted by most software vendors. The technology allows us to close more loans quickly, so we are able to put more loans through our system, thus reducing our payback time.

STEVE SCHROEDER: Our experience with the lenders we work with is that they hold us to fairly rigorous standards when it comes to measuring the ROI on what we are offering. While their methodologies may vary, we've found most of the approaches take into consideration a reasonable set of variables -- and we are often able to participate in the development of the ROI formulas. Where we tend to see less rigor within our customer organizations is on the back end in terms of measuring whether expected results were really achieved.

RUTH THOMPSON: I don't believe that lenders fail to track ROI effectively. I believe it has more to do with not understanding the overall reach into the business road map. To reach the goals of a good measure of ROI, it's important for lenders and their technology partners to establish clear pre- and post-project cash flow benchmarks. They must start with a clear understanding of the business road map.

Many of the IT projects are integrated into other operational and IT departments. They need to ask and understand what was the cost/revenue associated with the process prior to implementing the project and what was the cost/revenue associated with the process after implementation. Without these benchmarks it is impossible to determine the actual ROI of a project.

CRAIG HUGHES: At the risk of sounding overly cynical, I believe it is an accurate statement to say that most lenders do not track ROI, period. Vendors sometimes over-promise on productivity gains, often because they are not involved in the change-management aspects of implementation that are critical to realize ROI. Their focus is on theoretical productivity gains based on system functionality, not adoption, training, and process redesign, which are significant to realizing your goals.
Lenders develop cost/benefit analyses up-front sufficient to justify project initiation, but too often, when the dust settles after a lengthy project, the lender is just happy to have it finished. The last thing they want to do at that point is evaluate whether they are experiencing the expected ROI.

**ADAM HALL:** For larger lenders like IndyMac, measuring and tracking ROI is an important and significant part of the overall project process. We have a formal proposal, approval and measurement process for all projects, and the level of detail required effectively eliminates fudging on the numbers. Plus, we have financial staff independently review them. We demand that each element be justifiable, with appropriate backup materials if necessary.

As for vendor ROIs, since they can't know our internal cost structure, any ROI numbers they give us are just discussion points. We do our own analysis before committing to any vendor related project.

**QUESTION:** In tracking ROI, should you be looking at overall cost and the benefit accruing to the company's bottom line, or is it more effective to isolate the metrics for each project or software application?

**CRAIG HUGHES:** The former. Only by looking at the whole picture can you really judge the impact. A project could look successful on its own terms, yet have negative impacts on other parts of the organization that put you at a net loss rather than a true positive ROI. Rigorous isolated metrics can run the risk of "over-optimizing" a single process with no measurable improvement to the overall cost structure.

**RUTH THOMPSON:** Statements like "the new system we implemented generated a 40% ROI within 18 months of deployment" are often misunderstood. While that specific IT project may have achieved a 40% ROI, I would expect that several of that organization's other IT projects had far less favorable returns. The problem is that the 40% return is not blended into the portfolio of IT projects that impact the business road map. IT projects are very risky investments and therefore should have the potential to generate significant ROIs.

However, the reality is that only a fraction of IT projects will actually achieve these returns while the rest will fall somewhere short of this target. In order for managers to achieve a "reasonable" ROI target across all IT projects they need to consider both the "big win" and the "base hit" projects in their ROI analysis.

Just because an IT project doesn't meet its target ROI objective doesn't mean it wasn't successful. A lot of that ROI objective is associated with the risk that the project will fail completely. If the project is successfully implemented and achieves its stated business objectives, that should not be lost on the management even if the anticipated 40% ROI doesn't materialize. Look then to the business goals and the business road map overall. Good metrics will allow you to see if the IT projects worked in harmony with the business goals. If the strategic objectives are met, and costs are effectively managed and controlled, the end result should work to increase market share and revenues, and, increase your margins.

**ADAM HALL:** Each project has to be considered on its own merits, except for those which are mandatory for reasons like regulatory compliance. When there are a large number of competing projects, with limited resources (and who doesn't have that situation?) there must be a way of prioritizing and scheduling development work. By measuring individual ROIs, we can create a "portfolio" approach to the decision of which projects to work on, and when to do them.

**STEVE SCHROEDER:** We tend to look at ROI across five categories -- sales, productivity, operational costs, customer satisfaction, and competitiveness. When looking at each of these, we consider whether the benefit is tangible and quantifiable, how large the benefit will be if fully received, and how likely it is to occur.

**QUESTION:** [asked of Adam Hall, David Sander and Craig Hughes] Please offer an example of a project where the ROI achieved was beyond dispute, the metrics were appropriate and the results have proven replicable.

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ADAM HALL: A year ago our servicing division centralized some of our post-closing functions, and offshored an additional portion of them. Prior to the project, we had associated costs of $75 per loan, and upon completion, the costs dropped to $48 per loan. These were accurately measured (the project manager was a Six Sigma black belt), and the actual modified internal rate of return was calculated at 92%, just a little less than the original projection of 103%, and the revised 97% projection at completion. We first rolled it out in a pilot phase to verify the benefits, and then fully implemented it when the results proved out.

DAVID SANDERS: We use SwiftSend for all our B2B e-delivery. We are able to track the exact cost per document per transaction. The security offered via SwiftSend is much cheaper than any add-on product we would have had to purchase to send electronic documents via email and much less burdensome to implement. We have been able to track cost savings in printing, package shipments, and lost man hours used to prepare overnight shipments. SwiftSend is a proven cost savings to our organization.

CRAIG HUGHES: After we helped implement a fraud system for a large lender, the lender detected almost $2,000,000 in clearly fraudulent loans in pipeline within the first month of use. The project paid for itself many times over virtually immediately, even if only a percentage of those loans, had they closed, would have resulted in real losses. The lender undershot some of their operational costs, but these were reset after implementation to make the ROI criteria even higher. The payback was still tremendous. Wherever possible, we find it advantageous to break large projects into smaller ones, as smaller projects generally have better track records for ROI.