



# USING INVESTMENT TO ENSURE ROI ON KM EFFORTS

PCF 12.3.1 DEVELOP KM STRATEGY



Investment in time, money and work force should be used to leverage knowledge management (KM) efforts and measurably increase return on investment (ROI).

## APQC'S PERSPECTIVE

Leading organizations in an APQC study of KM ROI, by median, have a 200 percent ROI on their total knowledge management investments. The size of the investments varies widely, ranging from \$1 million to \$100 million annually, depending on the objectives, scale, and scope of the knowledge management activities and how integral they were to the core business process. For them, the impact of knowledge management programs justifies the investments. The annual impact of their knowledge management programs ranges from \$7 million to \$200 million, with a median impact of \$15 million (Figure 3).

**FIGURE 3: Financial Impact of KM in Partners**

	Partner (n=5)	Partner (n=5)
	Median	Range
Financial impact	\$15 million	\$7 million to \$200 million
Cost per participant	\$152	\$33 to \$771
Impact per participating employee	\$357	\$100 to \$1,100

*Note: Only includes data provided in sufficient detail to be part of the analysis*

This ROI was not necessarily a function of maturity or age of their knowledge management programs. Halliburton and Caterpillar were recent adopters of knowledge management; others such as Ford, IBM, and Schlumberger had eight years or more experience with knowledge management. But all of the organizations focus their knowledge management programs on business objectives and measuring the tangible outcomes.

Figure 4 shows that the partners' total knowledge management costs are higher than the comparison group of study participants. Partners also have almost double the employees participating in knowledge management programs than do others. Both of these findings would indicate that the partners programs are more widespread and better funded. However, rather than amortizing the costs over a larger number of participating employees, it appears that the cost per employee is actually higher as well. The partners' median annual cost per participant is about \$152, and the median impact is \$337 per participating employee. This is a significant ROI, because most of these organizations had thousands of employees participating. The positive ROI has led to continued and increased investment on the part of the management. All of the partners report continued investment in and expansion of knowledge management activities.



**FIGURE 4: Knowledge Management Investments and Participation**

	Partner (n=5)	Partner (n=5)	Sponsors and Others (n=10)	Sponsors and Others (n=10)
	Median	Range	Median	Range
Total KM costs (2003)	\$6.4 million	\$1 million to \$33 million	\$2.9 million	\$25,000 to \$18 million
Number of participating employees	42,000	7,000 to 210,000	24,363	136 to \$128,529
Cost per participating employees	\$152	NA	\$119	NA
Budget for KM core group	\$2 million	\$200,000 to \$8 million	\$1.3 million	\$412,000 to \$6.2 million
Number of FTEs in the KM core group	14 (n=6)	4 to 200 (4=6)	7 (n=20)	1 to 71 (n=20)

Note: "N" indicates the number of partners and sponsors providing data in sufficient detail to be part of the analysis. NA indicates that not enough participants were able to supply data for the calculations to be meaningful.

The funding model in these leading organizations is quite different from the comparison group:

- Knowledge management budgets are higher and have been so from the inception of the program.
- Over time, costs have shifted to the business units.
- Core group costs are only one third of the total knowledge management program cost.
- Fifty percent of partners' knowledge management costs are funded by business units. Because partners have business units involved in funding approval, there is accountability to the business units for relevant results.

### CASE EXAMPLE: HALLIBURTON ENERGY SERVICES CO.

Halliburton's business case for knowledge management was based on the first-year projected savings from faster problem recovery and fewer rebates to customers. The projection was only that the communities would cover their costs in the first year. Instead, the results have far exceeded this modest expectation, with a 50 percent return on investment in the first year, 2002. One community, focused on production enhancement, saw maintenance costs decline from \$4.5 million to \$3 million from 2001 to 2002. All of the eight communities that started in the first year will continue with minimal additional investment, beyond the time of the participants. Based on their initial success, other communities are in the process of launching.

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### CASE EXAMPLE: FORD MOTOR CO.

Ford's Best-Practice Replication process captures hard-dollar savings that come through energy savings, labor savings, and scrap reductions. Communities show enough hard-dollar savings to keep management interested. Since 1995, the most visible gains have been in manufacturing, which has seen \$300 million in captured savings during banner years and averages \$100 million a year. The cost of the Best-Practice Replication process itself is calculated to be less than \$500,000 per year (not including the costs of implementing the transferred processes).

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