

## **Calculate ROI and Allocate Budget**

### **INCREASING REVENUE**

First, you can assess its revenue creation ability, most notably in external facing departments such as sales, marketing, and customer service. AI can identify new potential customers for the sales team, facilitate personalization to improve conversion rates and decrease churn, and power customer service bots to provide higher quality service and generate repeat business.

To calculate revenue gains, make predictions on price changes and the volume of sales. Will the quality of your service increase substantially, and will that allow you to adjust your prices? The opportunity may not be large enough for the multiplier effect to be worth it. If you're operating off of a miniscule customer base, then even a 200 percent increase in a key metric may not lead to meaningful boosts to revenue. If the problem is worth pursuing, then how much can better conversion rates and longer lifetime values improve sales volume?

If you're partnering with a vendor, ask them for performance metrics. What results have other clients seen? What is the upper and lower limit of improvements? When did they begin to see results?

### **DECREASING COSTS**

Measuring the ability to reduce costs is another popular way to assess returns on AI investments. AI promises greater operational efficiencies, predominantly in middle and back office functions, such as in legal, finance and accounting, operations, and human resources. However, efficiency alone is not valuable. Focus instead on the increased output or decreased human capital costs that are made possible by efficiency gains. Don't forget to include potential cost reductions that result from improved compliance and decreased legal risks.

To calculate potential cost reductions, map out the current situation. Follow the operational procedure and note all of the steps that employees must perform as well as the number of employees needed for each task. How long do they need to finish each step? How many total man-hours are spent on the project? What is the fully-loaded cost of these full time equivalents (FTE)? How often is this process repeated?

Then, consider whether these employees can be retrained to perform higher value and more lucrative work. Keep in mind that automation generally only eliminates a fraction of an employee's responsibilities, so be sure not to overestimate potential gains.

Third, consider the intangible benefits that you may reap. Investing in AI has been associated with improving corporate culture and encouraging innovation. Automation in the customer service sector has freed up human agents to focus on more interesting and complicated cases, leading to higher morale and lower turnover. Investing in automation can also foster innovation and creative thinking as well as enhance productivity. If deployed wisely, automation will be welcomed, not feared, by your employees.

Finally, what is the opportunity cost of inaction? Your competitors will invest in AI capabilities even if you don't. They will leverage their capabilities to offer a better product at a lower price. By that time, you may not be able to catch up.

## **MEASURING ROI**

Benchmarking human work gives us a baseline against which we can compare AI systems. Machine learning solutions do not need to be perfect to provide value. To be worth your investment, the technology may only need to perform at near-human levels. You can buy more computers and run them 24/7 more easily than you can hire, train, and manage staff to perform the same tasks. Machine learning

systems will also improve over time with proper data management and fine-tuning.

The total time scale for calculating ROI for projects varies. Most AI projects should aim to break even within a few quarters, at most a year. Specific estimates will depend on project complexity and whether you are building the solution in-house or using an external provider. Well established providers can offer faster roll-out times, leading to quicker ROI, with some solution providers even promising gains on the first day. Especially for pilots, you should see returns through cost reduction, risk mitigation, or revenue generation within a year, if not significantly sooner.

### **PORTFOLIO APPROACH**

Consider taking a portfolio or a venture capitalist approach to evaluating returns on AI projects. View these early investments as research and development (R&D) ventures and assume that lots of failures will accompany each success. Many of the projects with the biggest ROI also take the longest to mature, require the most investment, and involve the most risk. Therefore, select a variety of projects based on their respective investment requirements, expected time to results, and likelihood of success. Schedule the experiments across multiple quarters and intersperse sure wins with riskier projects. If you're restricted to testing one project at a time, prioritize likely wins in order to gain credibility and flexibility for future projects.