PAT ON THE BOTTOM

HELPING TO CALCULATE THE BOTTOM-LINE IS NOW A CRITICAL REQUIREMENT IN MANY DEALS

BY MARC BEISHON

Since the dotcom crash IT buyers suddenly began to ask serious questions about the return on investment (ROI) of their systems – and several firms have spotted the potential for supplying tools that can help cement deals. At the top end there is a firm called Alinean which we have mentioned briefly in *Salesforce* before. It operates mainly in the US at present, and claims to have justified more than $31 billion of IT spending using its software. Gartner, too, has done a lot of vendor work on ROI, and Ovum has launched an ROI service with Nucleus Research.

A company that's making waves in the UK is the cutely named Shark Finesse. Founder Martin Southern explains that the Shark part comes from "Sales Help And Resource Knowledgebase" – the Finesse was added for elegance – and the core offering is a tool first developed at a telecoms equipment firm he worked for up until 2002. The tool was needed because customers started to ask awkward questions like, "If I buy your equipment what impact will it have on EBITDA?" and as Southern says, "I hadn't met a salesperson who knew what EBITDA was and most were too embarrassed to ask."

What his software does is help a salesperson develop a realistic ROI model in conjunction with the customer, using the kind of measures that people such as financial directors are familiar with. The key, says Southern, is that the sales team does not need to get bogged down with trying to prepare complex spreadsheets on measures that may well be outside the salesperson's level of competence. Instead, he says the software handles three core factors:

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– MARTIN SOUTHERN

Payback is the amount of time taken for the benefits from a solution to repay the original investment cost – spend £100 today, gain benefits of £10 per month, after 10 months the original spend is paid back. A simple measure everyone can understand.

IRR – Internal Rate of Return – is the percentage annual return rate calculated by comparing the financial benefits against the original cost, valued by when they are paid and received. So spend £100 today and receive a single benefit in 12 months time of £120 ... this is a £20 net gain compared to the £100 original spend received in exactly one year's time and equals a 20% return per annum.

NPV – Net Present Value – is the total profit stated in today's terms by taking the original spend, the interest cost, the solution benefits etc. This represents the increase in business value as a result of commencing the solution. So invest £100 today and receive a one time benefit in 12 month's time of £120 – but an interest cost must be deducted (say £10) leaving £10, and money received in a year's time is worth less than today – so how much would we have to put into a bank today at 10% per annum to get £10 in a year's time ... answer £9.09, the profit in today's terms.

"We argue that clients need to make the input into the business case – only they know the savings they want for their situation," says Southern.

A complex spreadsheet is likely to make any client's eye glaze over, he reckons. Instead, asking the client what he'll save on say network access costs will result in the input of a realistic figure into the model, and not one derived from the often silly claims made by your marcoms people. An IT director just wants a safe, solid bet he can take to the board – and any overperformance he can then claim later. What's not wanted is a salesperson who rushes in with a full monty of claims that will be laughed down by the board.

Clearly, though, his tool will need to be tailored with the typical arguments used for a particular vendor, and any salesperson should make an effort to understand why these economic factors are important, even if they couldn't do a presentation on EBITDA. SF

More at www.sharkfinesse.com www.alinean.com www.ovum.com

A TYPICAL DEAL

(courtesy Shark Finesse)

A UK stationery distribution business had operational problems caused by inefficient legacy systems. New ERP software would run their business more effectively but it needed evidence that the cost would be more than covered by economic benefits from it. The solution would take six months to implement so no benefits would accrue until seven months after purchase. Also, the client required at least 10% returns a year on this extra investment.

Solution cost	£300,000
Monthly maintenance and support etc	£4,000
Minimum annual return requirement	10%
Period of review	48 months

Total investment of £492,000 over the four year period.

By working with the customer and reaching agreement on realistic – not over-optimistic figures, this spend was justified by the following economic benefits arising from the solution.

Stationery savings – £26,000 per annum (the legacy solution could only be printed onto non-standard documents)

Outgoing IT supplier – £36,000 per annum in support charges saved

Stock obsolescence – £100,000 per annum – better visibility of slow stock, avoiding reorder of slow items, special incentives/procurement

Faster cash collection – a two day improvement in cash collection for this £80 million turnover business. The interest saving was £44k a year.

These benefits, only valued from month seven onwards, delivered the following:

Payback	30 months
IRR (rate of return)	28% per annum
NPV (increase in shareholder value)	£123,157

The technical sale – which everybody wanted – was supported by a business justification to make the decision quickly, and fended off the risk of "doing nothing".