

USING BUSINESS CASES TO JUSTIFY TECHNOLOGY SPEND

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Many things have been written over the years by business gurus about the latest trends in sales, technology, business ethics, dotcom booms and the like. Whilst these fads have come and gone, some of the basic principles of doing good business have remained the same.

Fundamentally, businesses exist to generate profits and serve the community at large to improve everyone's standard of living. Good business decisions are essential to protect long term business strength and ensure benefits for everyone.

But what constitutes a good business decision and how can these be determined from an economic perspective? Let's get in the mood with a simple example.....

Assume your mobile phone bills are £100 per month and a rival operator offers the same service for £70 – if there truly was no difference in the service everyone would look to ways to cut the costs...this is pretty obvious.

However, what if the new operator charged £200 to transfer to the new service – how many people would consider this a good deal? There are a number of technology, service, and coverage questions, but the hard headed business decision is:

“Am I prepared to spend £200 now to reduce my bills by £30 per month?”

This is exactly the same scenario that many businesses face when examining whether to invest in ERP / CRM solutions for their business. They already have solutions that work, are producing profits, altogether successful...so why do I need something new that's going to cost money, at this point in time?

Traditionally, these discussions have been based around features of a solution rather than its economic impact on the company. That's because everyone can understand the technical terms, but quantifying what it will do for the business P&L, and proving that the large up front cost is justifiable....now that's scary !

So, let's find some benefits.....and the first rule here is that the sexiest features don't always deliver the biggest economic benefits. One customer looking at an ERP solution found that the biggest savings came from an ability to produce information on plain A4 paper instead of the old preformatted continuous stationery. Hard to believe....no, the previous system was from the early 1990's and ran their distribution operations very well...its just that an annual “forms” stationery spend of £22,000 per annum was now being incurred. The company had grown, and not changed this element of its operations. That itself justifies £60,000 of technology solution from this most simple and in many ways “unexciting” feature.

To find these economic benefits, we need to turn our minds to the language of savings that are understood by our financial friends.....because it's those hard £'s that are going to justify the investment spend required. Try some of the terminology around improvements in invoicing for example:-

<u>Technical says: -</u>	=	<u>Economics are:-</u>
Electronic invoicing	=	Avoid postage, stationery costs, manual time
Auto posting to customer ledger	=	Faster invoice approval and payment
Avoid manual input	=	Fewer errors, fewer concessions and faster cash

If we can find these economic saving, we can prove that the additional up front investment is more than covered by the benefits that will be generated. Always remember that the “do nothing” decision is available at all times, but if we can prove the benefits are good enough, then everyone will be happy to move forward on the economics as well as the technical aspects of the solution being reviewed.

What measures do finance people use to assess what is a good return? There are 3 of them:-

Payback At what point in time will the economic benefits recover the original costs?
In the mobile phone scenario above it is 6.7 months....being £200 up front cost divided by the £30 per month savings. The answer is a time saving.

But now you ask, “What happens after the 6.7 months period?” the decision just gets better, so how do we find the annual percentage return on the £200 just like we would be quoted an APR% on a loan....we can all understand that.

IRR Internal Rate Of Return...the percentage rate of return on the incremental spends, over a selected time period, by comparing all the benefits with the original cost.

OK, now I get it, but let's say that I am borrowing money at 6% to fund my extra spend, what profit do I make over time, using a cost of money, and turning this into a £'s value?...a sort of increase in shareholders worth. This is...

NPV Net Present Value...a £'s profit in today's terms, comparing costs out, savings in, and an annual cost of money.

So, now that I have all three measures, if I could identify solution benefits I can deliver a full ROI based business case for my technical proposal. Let's see this in action...

A department store spends £250,000 on an ERP solution. The owners agree benefits will accrue from reduced queuing time (1 in 12 would previously have left the queue), reduced stockholding, and better buying margins. Benefits totalled £18k per month, but supplier would charge an extra £2k per month for the service.

Over a 36 month review period and a 10% cost of money ...is this a good deal?

Who can possibly tell unless we look at the 3 key economic measures?

Payback	16 months	(OK...but not that exciting)
IRR	89% per annum	(fantastic)
NPV	£249,000	(increased shareholder values)

It's now plain to see this makes sense and the technical decision is now supported by the financial language that business people understand.

Shark Finesse and Company X allow these discussions to take place and quickly identify benefits to produce these 3 key economic measures. Knowing proposals make economic sense is an essential part in moving forward – and deciding that “Do Nothing” is a more expensive option.

Good luck, and don't be intimidated by the finance community...remember they are only trying to protect the cash and profitability of your company. Turn up with the measures they need and you may even see them smile...well just a little.

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