



The *iStart* guide to buying IT

*Last issue we revealed that half of all IT projects fail to deliver on expectations. If you don't want this to be you then you had better get your metaphorical ducks in a row. To help you out we asked **Xavier Russo** to probe the collective wisdom of *iStart*'s readership and vendor community...*

When the board or senior leadership team decides they want to take a closer look at a technology solution, attention often turns to what it will cost and how long it will take. This is a perfectly understandable response, given the reputation of IT projects for running over-budget and over-time.

But, according to insights garnered from in-depth surveys with more than 100 software vendors and a multitude of recent buyers over the year, this is absolutely the wrong way to buy IT solutions for business. Instead, they say, you need to define the true return on investment that a potential solution might offer.

Qualification

If you've been tasked with considering a new technology solution or business system, the place to start is to ask: "why?" In other words, what is the business outcome that the board or executive team is seeking to achieve by investing in IT and will an IT solution actually solve it?

Some common motivations for investing in technology can include:

- Streamlining business processes
- Reducing re-work and manual entry
- Consolidating multiple systems into one
- Increasing the firm's capabilities
- Providing a scalable platform for growth

- Improving customer or supplier relationships
- Getting better visibility into operations to improve decision-making

Some of these factors relate to problems and others to opportunities. Problems such as inefficient processes and multiple systems are usually strong motivators for investment in IT because it's easy to see how you can reduce costs by investing in a new system. Opportunities like new capabilities, better customer relationships, improved data access and better decision-making tools can bring even more significant boosts to the bottom line, but the results are less certain so they are seen as riskier projects by many.

Regardless of your specific motivation(s), you need to identify and quantify the true value that you will gain from a new solution.

For example, let's say that to process an order your team needs to take data out of one system and put it into another. This manual process takes longer and has more errors than if you had a single integrated system [as several of the case studies in this issue attest. Ed]. The proposal being considered is whether to invest in a new integrated ERP that replaces the two existing systems.

With a bit of effort, you can quantify what fixing this situation is worth to your business. At a minimum, there is the cost of employee time in re-entering data, identifying and fixing mistakes, and dealing with customer issues that arise from those mistakes. You may also benefit from less wastage or lower inventory requirements,



increased sales due to better and faster customer service, lower IT maintenance costs, and so forth.

There will always be an element of judgement in this process, but by articulating exactly where you expect to derive value and your method of calculation, you can eliminate or reduce the 'battle of opinions' and focus instead on determining the likely business value, rather than focusing on the initial costs.

The lack of understanding around what systems actually cost continues to be a chief frustration for vendors. One survey respondent said: "Most buyers see IT as a cost and not an investment with payback." Another said: "Prospects have a difficult time relating cost to value and determining budget."

When you look at it logically, a purely cost-focused approach implicitly assumes all outcomes are equal and that value comes from minimising the time and money put into a project. By doing this you risk being left behind by competitors and running an inefficient operation by not investing in the appropriate systems. A third survey respondent made a pertinent comment on the danger of arbitrary budget constraints: "Low budgets are set at board level for approval and managers are reluctant to go back for more, so it squeezes project implementation and leads to a lack of training investment."

Think about your own personal investment: you wouldn't buy shares based on some arbitrary budget.

Instead, you'd look at the expected return from owning a stake in those businesses, both in terms of dividends and capital growth, and invest accordingly. The prudent buyer looks at the value that each system will deliver, and compares it to the investment required.

It's the same with IT best practice; you should consider both the investment – cost and time – and the return – better business outcomes – for a technology solution. Remember, it's not just about the absolute dollars you spend, but what you get for your money. Yes, there may be budget or capital constraints to consider, but it's wise to start by focusing first on the 'return' side of the ROI equation.

At the end of this process, you'll be able to make a credible case that investing in the new system can provide a benefit of X dollars per annum to your company, thus qualifying the project as worth the investment. This also provides the frame of reference by which you can judge whether any given investment is worthwhile.

Preparation

Before you investigate potential solutions you need to prepare thoroughly. This includes defining the end outcome that you want; putting a value on what the solution is really worth to you business-wise; scoping out your requirements with plenty of input from all parts of the business; and identifying any must-have needs or deal-breakers.

When you ask people about the cost of an IT investment, they often jump straight to the software licensing costs and associated support, upgrades and maintenance. However, in a typical enterprise software project, industry benchmarks show these costs are only one-third of the total budget required. In fact, some of the biggest costs are actually the least 'visible'.

To avoid unpleasant surprises down the track, make sure you consider the full range of costs involved in adopting your prospective IT solution. This may be higher

ADVICE FROM THE TRENCHES

iStart asked dozens of software vendors for the advice they would give a prospective buyer to help them make an effective decision on a new system. Here are some of the best tips:

- Find out what you need first, then work on the budget.
- Determine what it's costing you to NOT have the service.
- Talk to vendors early. Get input to set an appropriate budget to avoid surprises later.
- Get an appreciation of the different levels of systems available for your size and type of business.
- Keep asking questions until YOU understand the answer. This will help you understand the value and not just the supplier's excitement.
- Be very realistic about what you are trying to achieve. Understand that software is initially expensive however the cost diminishes dramatically after the first year and can allow you to reduce staff as processes improve. It will pay for itself usually within the first one to two years.
- Don't ask for unreasonable discounts as it will come back to bite you in poor support.
- Work out what you want and get the internal groundwork agreed before looking. Cost overruns often occur because of poor planning and requirement creep.
- Be clear about your expectations and define the must-haves and nice-to-haves. Shop around and ask comparable businesses who recently implemented similar systems.
- Read plenty of case studies to get a feel for the outcomes you can expect and the options that are available.

than people in your organisation were expecting, so start by focusing their minds on the value to be captured through business improvement and then relate the total investment to the expected return.

Our vendor survey shows that almost all of the time buyers consider the software license cost, and 70% always or usually factor in implementation costs. But this drops to 50% who consider ongoing support and upgrades, 50% for training, 30% »

for customisation, and a mere 11% for other costs. What's more, some costs may be considered but significantly under-estimated, particularly in the case of implementation and customisation.

Here are some broad categories to consider when budgeting for an IT investment:

- **Software licenses:** The right to use the software in your business regardless of whether it is installed on your servers or hosted by the vendor. Usually linked to the number of users, either who is permitted to access the system (named users) or how many can access the software at any one time (concurrent users).
- **Ongoing support:** Access to future upgrades and limited 'break-fix' support from the vendor, often as a maintenance fee expressed as a percentage of software license fees. With software-as-a-service (SaaS) or cloud-based solutions, this ongoing support is typically bundled into the monthly or annual software subscription costs.
- **Implementation:** Upfront services work to get you up and running on the new system, including (where applicable) installing the software, migrating your data, setting up standard processes, and testing to ensure everything is working. Web-based solutions may still have migration/integration and testing costs to consider.
- **Customisation:** Additional services work to customise the system to suit your specific business needs, instead of relying on the out-of-the-box setup. This is often overlooked when it comes to cloud solutions, and can add significantly to the overall cost of getting a system set up to the point where your business can use it.
- **Training:** Ensuring your people are trained up in how to use the system properly. Different training may be required for different types of users, depending on their roles in the organisation. Online help resources are increasingly common but some investment in upfront training is usually recommended.
- **Other costs:** Can include project/change management costs, hardware upgrades, disruption to business-as-usual productivity, downtime, opportunity costs, etc. This is arguably the most overlooked category of costs and can be significant.

Selection

Effective buyers of IT solutions start with a good understanding of what they want to achieve and go to the market with a realistic understanding of what it is worth to them. But that's just the start of the process.

Getting the expected return on your IT investment requires thoroughly evaluating your options, selecting the right system, implementing it properly, and making sure your business takes full advantage of its capabilities. Once you have a full understanding of the business case for the solution and potential budget you can begin to explore a range of available options and what they are likely to cost. Narrow this down to a shortlist of the most relevant solutions and engage in a detailed evaluation against your must-have criteria and key usage scenarios. Make sure you organise demonstrations, thoroughly check out reference clients, and verify their implementation and support capabilities before you make your decision.

Implementation and beyond

Now the familiar work begins: implementing and customising the solution for your business so that it delivers the expected value. A key part of this is devoting adequate time and resources to training and change management – any system with large expected benefits will probably involve significant changes to business as usual, so don't believe the hype and go into this vital phase with your eyes wide open, and prepared to go and ask questions and challenge your chosen vendor.

Some comments from our vendor survey highlighted the following common issues with client projects:

- Buyers often have little idea of the cost of implementation, integration or customisation.

CALCULATING ROI ON YOUR NEW SYSTEM

Here is a detailed suggestion from David Kellam from CoreMind on how to calculate ROI:

- 1) Work out the business value first. Express everything – your value and your costs – in net present value (NPV) terms with an appropriate discount rate. Figure out how to do this or get a contract CFO if you don't know how.
- 2) Judge the technical complexity of the project and the likely execution ability of the company delivering it before you begin. Get external advice if you don't have these skills in-house.
- 3) Compare the business net present value (NPV) with the risk-adjusted cost of the solution. Make sure there is sufficient gap. We typically advise custom clients they should be getting a five-plus times return on investment or not to bother. This leaves room for scope creep and unforeseen technical complexity, whilst still delivering a significantly positive ROI. More line-ball projects can expect issues down the track.

- There is a perception that if the software is that good then it must be easy to get started – but usually they don't realise that data conversion and reporting vary for every implementation.

- Key factors such as modernisation of infrastructure and change management are not factored into the costs.

- Buyers typically under-estimate implementation costs for data migration, integration, customisation and for training.

Once the system is in place, make sure you use it to the full. Don't let the expected benefits slip away now that you've made the investment. Verify that the new business processes are working as they should, and provide ongoing training and support to all users to ensure they have the requisite skills and confidence.

After implementing your new system, review how the process went and whether you achieved your expected return on investment. Capture the lessons learned and share them broadly for future use. Also remember that as your business grows, your needs will change – so it's wise to periodically review your systems to ensure they support and not inhibit your continued success. 