How Do I Measure Return on Investment?

Now there's a damn good question!! Opening the corporate wallet for any capital expenditure, particularly on IT systems is pretty tough in the current climate. Given the parlous state of the automotive sector, frankly it's even tougher.

Any executive signing off on a project is unlikely to remain a payroll statistic for very long unless they at least attempt to quantify why they are putting their name to a project with a significant price tag attached to it unless they can identify where the return comes from. Quite where that return is generated from is often the challenge.

I have seen marketing blurb for systems that claim % improvements in bottom line etc as a blanket sales pitch for their product. Quite how this can hold water is a loss to me as the dynamics to be considered relate not only to a piece of software or infrastructure, but also to the pre-existing environment that it is going to be applied to.

An organisation with a simple client challenge that is managed by attentive and communicative managers (even unaided by databases and systems) will derive less benefit from an IT solution from one where the client demands are difficult, and the management is haphazard and uncommunicative.

Nonetheless I think you can analyse the areas where an IT investment can provide an ROI.

Capacity

There can be no doubt that a good database solution allows an operation to transact more units. This does not of course mean that just by spending £xK on a new shiny bit of kit that you will sell, rent or make more widgets – the market has a bearing on that. But if market conditions allow, one of the biggest returns a system can bring is increasing capacity. A 100% increase in transactions may well yield an increase many times greater in margin, and it's the increased margin as a percentage of investment that is the number.

Efficiency

A similar equation to above. Maybe the market place doesn't allow the investor to capitalise on volume increases. The market may already be saturated. But by investing in the Acme Whizz Bang operating system, you can transact the same with less resource. It is much harder though to leverage ROI from efficiency as people are more complex creatures than machines, and with more rights. Nonetheless, that reduced overhead as a percentage of discounted investment costs do represent ROI. Don't expect though the numbers to look anywhere near as inviting as those coming from capacity increases.

Quality

To me one of the greatly underestimated returns that systems investment brings is in the area of quality. Properly implemented systems bring about consistency. Consistency is the keystone of quality. Quality allows you to maintain and increase price even under competitive pressure.

Put simply, a well set up system will allow 'cock-up free' operations. It takes a really brave customer to change from a supplier that never gets their product or service wrong. The value here is massive – ask any salesperson who's gone into a renegotiation looking for an increase only to be handed a big pile of customer service issues. They've lost before they started.

Data

Give a data literate manager access to a 'sliceable and dice able' picture of their portfolio, and then they should be able to make management decisions that increase margins. Put together a KPI suite that is generated from totally objective data extracted in an identical manner every time, then the appropriate department or manager will perform against that KPI.

In the absence of such measures, ask managers to justify performance, will initially at least generate waffle on a grand scale.

Understanding this benefit in a quantifiable way is very difficult. My experience however is that the benefit is substantial. It is often the case that massive commercial issues can only be identified from the dispassionate data that any good business system will yield up.

People

Good people will bloom and blossom given good tools to use. Whilst we have all met the pressure junky who loves the cut and thrust of chaos, usually their badge of honour is surviving each day. The thoughtful diligent type who often are the ones who can add value, quality and culture to a great operation, is the person who will thrive and make your business bloom. If you stick with spreadsheet and whiteboard city, they'll eventually move on and you'll be left with 'Nutty Frank' on his nineteenth coffee who worked until ten last night (but made loads of errors and was rude to your biggest customer).

Again difficult to quality, but a real and significant return on your investment. Good technology and great staff attract each other.

So there are numerous areas of return for you to consider.

Next time I'll look at the quantification process and also consider risks. Embarking on any systems investment is a journey with many pitfalls. The return has to be realised and as Granny would say "There's many a slip twixt cup and lip"!!

20th February 2012

Home Page

www.wollastonconsulting.com