ROI: WHAT DOES IT REALLY MEAN?

Return on investment, or ROI, is a technique that helps you understand the benefits your business can obtain from a specific technology purchase. It can show you how long it will take you to see tangible, positive results from your investment. There's no standard means of measuring ROI; results depend on your specific goals and the benefits you're trying to achieve.

One approach to beginning to calculate potential ROI is this: consider the costs involved with purchasing software and its implementation. Know how many licenses you'll need and approximately how much (and what kind of) data will be migrated to the new system. There may also be fees associated with the software's installation, modification, and integration with existing systems, as well as with maintenance and training costs.

Then, create a list of the benefits you're planning to see. These benefits can include:

- Increased productivity – Streamlined business processes may allow your employees to accomplish more in less time.
- Lower labor costs – Automating certain applications can reduce the number of people required to support your business.
- Better financial performance – More accurate financial reporting can speed receivables or give you a more accurate picture of your short- and long-term balance sheet.
- More accurate inventory management – Keeping a closer eye on inventory can speed inventory turns and reduce the amount you must spend on slow-moving products.
- Precision pricing – Real-time financial reporting may give you a clearer picture of your overall costs and help you improve margins on your products or services.
- Increased customer revenue – By using customer relationship management software to recognize customer needs, you can increase revenue per customer or reduce customer turnover rates.
- Less costly technology maintenance and support – Less money may need to be spent on maintaining out-of-date legacy systems, improving your bottom line.
- Improved processes – You may be able to eliminate certain costs through automation; for instance, electronic billing can reduce paper invoices, mailing costs, and even certain bank deposit fees.

To calculate ROI, weigh the risk (financial, competitive, technological, etc.) of not implementing the business management software against the benefits of implementation. You might find the following questions helpful to consider:

- Will you be able to meet customer demands quickly and accurately using the systems you currently have?
- Will customers give their business to competitors that are more responsive?
- Will your existing systems be compatible with those of your partners, suppliers, and customers?
- Is there a long-term growth path for your existing software? Does your current vendor have plans to release new upgrades, add functionality, and support the platform down the road?
- Is your current vendor at risk of being acquired by another software vendor? If so, will your existing software be discontinued?

While you're thinking about those questions, keep in mind that ROI can be incremental, yet dramatic. Let's take a fictional consulting company as an example. This consulting company can drastically improve the way it tracks time spent on project. It may need a better way to document billable hours, improve receivables, and generate more revenue per customer. It can implement business management software to help manage the organization's contracts better, improve the accuracy of its invoices, and improve overall customer retention through better service. By doing so, it can see improved revenue per consultant. A manual time-tracking process can result in losing up to 5% of potential revenue because the work done isn't being billed correctly. Automating the process can reduce this amount by 0.25% or more.

While the ROI discussed above is incremental, over time it translates to real, substantial revenue. And that's only one example of how this consulting company could earn ROI on their business management software.

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