



Work in process

BY MICHAEL BURNS

USING TECHNOLOGY TO IMPROVE THE WAY YOU DO BUSINESS

System selection done right — Part 4

Since January/February, we've looked at the software selection process from start to finish.

We've also considered the roles and responsibilities of the people involved. But before even getting

on the road toward a new system, you need to present a good business case. Sometimes that might be easy because the existing system is no longer supported or the business itself has changed. But what if you are frustrated with your existing solution and don't know what to do? If your frustration is limited to specific parts of the system — reporting, for example — it might be enough to zero in on that part alone. For example, some companies move their data from their legacy system to a data warehouse that maintains their data in a format suited for reporting by a business intelligence system. But if your frustration runs deeper, you should prepare a business case to present to the steering committee.

A business case usually contains a number of sections, including executive summary, objectives, methodology, cash flow, return on investment (ROI), assumptions, intangible benefits and recommendations, as well as appendices for the preliminary work done, such as the business process review and the request for proposals. The chart shows sample cash flow with ROI.

Don't be surprised by a negative ROI. In fact, don't believe anyone who says you will get a positive ROI when you select a new system. That is because many of the benefits are intangible. For example, suppose you want to improve the decision-making process. With a new system you might be able to reduce the time needed to prepare the reports — and this can be calculated. But it's impossible to calculate the benefits of making better decisions without making wild guesses.

The easy part of preparing the ROI is the number crunching. The hard part is backing up the numbers. Here, the business process review (BPR) discussed in the January/February issue can be useful. The BPR sets out the problems and their impact. The tangible benefits can be de-

rived by extrapolating the benefit of fixing the problem with the new system. But you need to make sure that the business process owner agrees with the impact and that the new system will in fact fix the problem. Also, plan a staged realization of the benefits over a number of years. And don't expect to achieve all of them.

To estimate the cost of the new system, you can take an average of the figures supplied by the vendors in their proposals. Don't underestimate the costs as they will not disappear after the first year. You can expect maintenance fees, more licence costs (more users), upgrade costs and internal costs to continue. Internal costs can be calculated based on the number of months required for the implementation x the number of people x their cost to the company. For example, the internal costs for four subject

Don't believe anyone who says you will get a positive return on investment when you select a new system

matter experts for 10 months with an average annual cost of \$75,000 would be \$250,000 (10 x 4 x 75000/12).

As mentioned, the ROI will be negative. But at least you will have an idea of what it will really cost to invest in a new system. One way to achieve some perspective is to divide the ROI by the number of people in the organization. A better way is to analyze the impact of the new system against the organization's critical success factors (CSF) — what it must do well in order to succeed. To see whether the CSF have been attained, key performance indicators (KPI) are used. An improvement in the KPI can be used to show the benefit of the investment. For example, a public financial-services company might currently take 10 days to issue financial statements. The new system will allow the company to issue the financial statements in two days. Or a distributor currently takes on average three days to ship an order. The new system will allow the company to ship the order in one day. Management needs to assess whether the investment is justified based on these improvements.

Some companies do a decent job in preparing the busi-

Sample cash-flow estimate for new system (\$)

	Calendar years					Total
	2012	2013	2014	2015	2016	
Cash inflows/benefits and gains						
Accounts payable	22,440	67,320	89,760	112,200	134,640	426,360
Finance and accounting	5,040	15,120	20,160	25,200	30,240	95,760
Inventory	31,800	95,400	127,200	159,000	190,800	604,200
Purchasing	9,400	28,200	37,600	47,000	56,400	178,600
Operations	86,000	120,000	196,000	245,000	294,000	941,000
Estimating	11,880	35,640	47,520	59,400	71,280	225,720
Avoid maintenance cost on current system	35,000	35,000	35,000	35,000	35,000	175,000
Total cash inflows	201,560	396,680	553,240	682,800	812,360	2,646,640
Cash outflows/costs and expenses						
Licence	450,000	9,000	13,500	18,000	22,500	513,000
Implementation fees	100,000	450,000	207,598			757,598
Maintenance	90,000	91,800	94,500	98,100	102,600	477,000
Travel	68,000	17,000				85,000
Postimplementation/upgrades					103,799	103,799
Infrastructure changes	33,000					33,000
Internal costs	445,000	100,000	100,000	100,000	100,000	845,000
Total cash outflows	1,186,000	667,800	415,598	216,100	328,899	2,814,397
Cash-flow summary						
Total inflows	201,560	396,680	553,240	682,800	812,360	2,646,640
Total outflows	1,186,000	667,800	415,598	216,100	328,899	2,814,397
Net cash flow	-984,440	-271,120	137,642	466,700	483,461	-167,757
Net present value at interest rate of 4.7%				}	Inflows:	\$2,250,290.62
					Outflows:	\$2,545,301.46
						-\$295,010.84
						ROI: -12%

ness case but when the investment is approved, promptly forget about it. The business case, and especially the KPI goals, should be kept on hand to measure the success of the investment. Don't celebrate when the system is on time or on budget. Break out the champagne when your KPI goals have been realized.

Michael Burns, MBA, CA-IT, is president of 180 Systems (www.180systems.com), which provides independent consulting services, including business process review, system selection and business case development. Contact 416-485-2200; mburns@180systems.com