



## **Software Purchasing: Doing an ROI on the Intangibles**

For any growing and changing business the purchase of capital goods is standard. Equipment is fairly easy to assess the return on investment (ROI); however, a non-tangible product such as software can be more challenging in creating a true return on investment and determining the total cost of ownership (TCO.)

As with any ROI model, three dimensions should be incorporated at minimum.

1. The net tangible benefits or the net financial savings or gains that can be easily quantified
2. The net intangible benefits, the net savings or benefits from the solution that are significant to business goals, strategy or operations
3. The risk of implementing the solution such as the management of cost and fallout of not implementing the software solution

Because the tangible benefits such as capitol expenses, labor costs and savings, support and time savings, I will focus more heavily on the intangible benefits and how to assess them in a software purchase.

One of the greatest intangible benefits gained is the intellectual capitol of your staff that will be using the software product. However, there is a learning curve for all software and this must be examined. How long will it take to become proficient in the software and by that time will it become obsolete? You can obtain this based on the vendor (which will be low), ask your references (discussed later) or guess on your own. Whatever numbers you come up with, add 30%.

Another aspect to review is the competitive advantage you may achieve over your competition by better meeting the demands of a changing market. Analyze the software brand name as well. Does the brand offer any advantage that you may trust and will they support you for the months and years to come.

Finally, analyze the overall risk of not implementing the software solution. Risk can be measured on the probability of occurrence, and the likely impact on the costs and benefits, in some instances, discounting the value of the project significantly. When analyzing risks, look at several factors such as labor resources available for implementation and training and ongoing internal support.

User acceptance within the organization is critical because if the users don't accept the solution, only use a small feature sets, or reject it altogether then the benefits are substantially reduced. Make sure to review how compatible the software will be with all your operating systems, network solutions, hardware platforms and other software. Make



sure your vendor is able to deliver the solution in the promised time frame and to the required specifications.

Do diligent research and obtain reference information from users via direct contact, blogs, and list serves. Check to see how long the vendor has been in business and check references. At minimum, you should talk to five other reference users or install locations in similar industries or applications to yours. Obtain the benefits they themselves found from the software. For every ten thousand dollars in capital expense I would add one more reference to the total amount. For example, if you are purchasing software that costs \$45,000 get at minimum 9 references. When asking questions, take notes and ask them all the same as not to taint the results and compare “apples to oranges.”

This ROI model may be difficult, tedious and anal at times to follow. By making use of it, you should be able to assess the intangible to some degree.

**Tyler Anderson, IT Director, immedia**