

HOW TO GET THE BEST DEAL

Check the fit

Know your supplier and use your negotiating skills to get the best IT investment. Only then can you gauge ROI, writes Keith Power

How do you measure your return on a significant IT investment? The answer is with great difficulty, according to John Roberts, vice-president and director of research, Gartner (and no doubt according to many CFOs).

Roberts says the reason for this is that while most people today put together some sort of business case for why they're investing in a particular solution, most times that business case is based on an estimation of the savings that will be obtained. Once the project has then been implemented, though, he says that you end up with a new base case, and the old way of doing things has disappeared.

"It's what we've [Gartner] labelled the elusive business value of IT, because every time we do something new, it becomes embedded in the way we now do business. So, in hindsight you're left with: 'Why did we do this? What

return did we get?' Unless people have very clearly baselined their business metrics for implementing an IT project, once it's installed they don't know what the return really looks like.

"Take e-mail. What's your business case for using e-mail? What return have you got? You couldn't live without it anymore, but what productivity saving did you get? Where was the business case, and the return on investment (ROI) to be skilled up to use e-mail versus the old way of doing things?"

Most organisations tend not to have those sorts of business metrics readily available, though, and in addition, half of all IT expenditure goes on infrastructure, such as servers and networks, which have no intrinsic value themselves, according to Roberts.

"Most of the emphasis there is on cost efficiency. It's only the applications running on those platforms that actually deliver any sort of business ROI," he says.

Not all is lost, though. Roberts does believe that organisations will progressively become smarter at understanding their end-to-end business process metrics. They will then see the contributions that each IT project makes. However, that is a fundamental move away from the budgeting processes of most organisations, which he says don't focus on process but rather on what individuals are in charge of and how much their budget is.

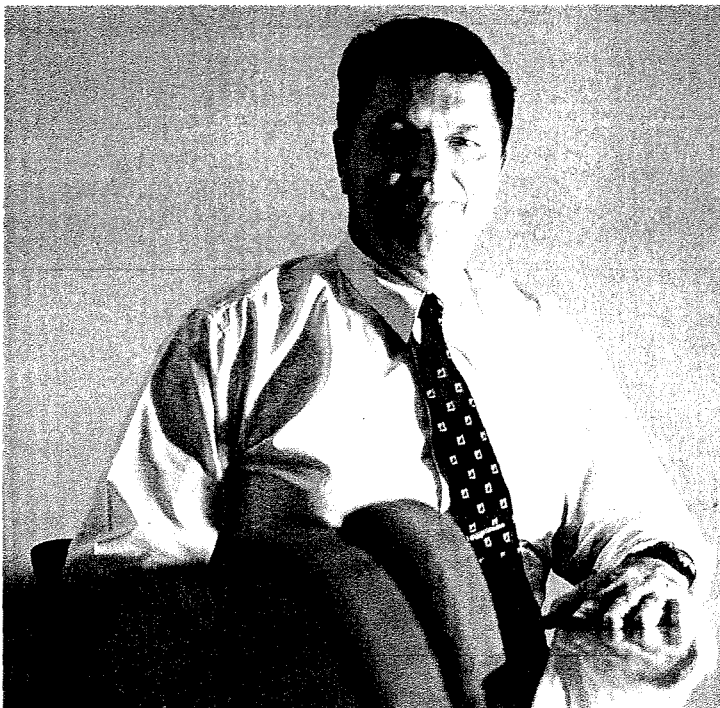
For unlike most other investments that are essentially in physical things, where one can see if a profit is being made or not, IT is not a factory in its own right, simply an enabler of something else and so its value is of an embedded nature, Roberts says.

He also thinks that CFOs can play a role in better mapping the unit costs of business processes, or activity-based costing. At the same time, though, he admits that most organisations are reluctant to start doing cost allocations in another way and take on the associated overheads.

"Yet intrinsically that's where the value of IT is predominantly going to be in terms of streamlining processes. So for CFOs, the key will always be to ask

Danny Wain, City of Whitehorse: cheapest is not always best

what the baseline metrics are before the project is implemented and what they will be after it is implemented," he says.



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The other side to getting a positive return on a major IT investment is of course to ensure you get the best deal from your supplier in the first place. According to Roberts, there is still no better way than through competitive bids, although he concedes this is sometimes a challenge in the IT industry where in some cases there are not many players.

Even when you have to tender, though, as is the case for the City of Whitehorse (greater Melbourne) for any expenditure over \$10,000, you're not bound to go for the cheapest solution, according to the council's chief financial officer, Danny Wain. Nor is cheapest always the best, and other criteria, such as reference checks and product demonstrations, must have proper weighting in the selection process, Wain says.

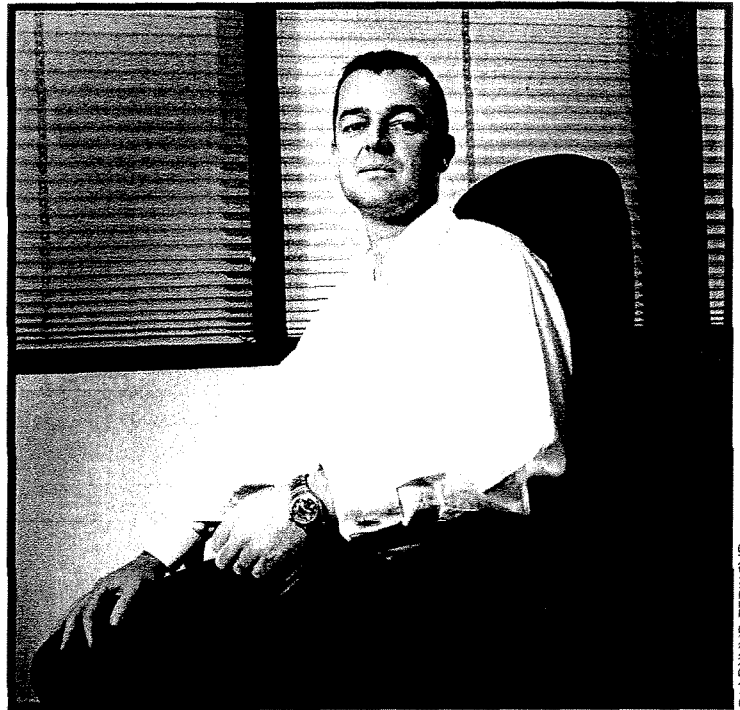
The City of Whitehorse runs a diverse range of systems. When looking for a new or replacement system, Wain says he would typically establish the selection criteria, go to open tender and shortlist two to three products. He agrees with Roberts in that it can often be a limited field for council's needs, but that on the other hand the products that are available are often widely used elsewhere in local government. So the council can reference check and see them in use early in the process.

"A tender will tie you to a price for the software [itself] but you can still negotiate maintenance fees and implementation costs," Wain says. "One key thing to ensure is that the vendor has a good support network. Dial-in facilities are essential, as is over-the-phone technical support and a good account manager relationship."

In fact, the City of Whitehorse now has a preferred supplier relationship with financial systems vendor AXS-One and as part of this relationship, Wain says the council can negotiate special deals. The council has also opted to be the pilot site for new AXS-One products, as has been the case for purchasing and GST software. This provides benefits and helps the council further leverage its relationship with AXS-One.

For Blair Hope, scale is an important factor in securing the best deal. Hope is general manager, commercial, for Consumer Brands with overall responsibility for finance, IT and strategic sourcing. As part of Carter Holt Harvey, he says Consumer Brands is able to leverage the group's economies of scale, greater buying power and prospects of future licence sales for the vendor, as well as achieve some synergies in the process. As he points out, Carter Holt Harvey couldn't afford to have 30 businesses all go down a different path, as the support costs would be astronomical.

In addition, given that most vendors in the IT world are US companies, Hope says that December can be a great time to leverage the vendors' year-end sales targets



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Blair Hope, of Consumer Brands: concern for long-term strategic fit

and get better deals. "If you can hold out till then, it's a lot cheaper to buy in December."

According to Wain, the City of Whitehorse invests about 2.5 per cent of its turnover in IT. One benchmark of its return, he says, is meeting statutory deadlines, and also that the intangible benefits of IT can be demonstrated in his relationship with other managers. "Financial systems are the main repository of management information, and if they aren't working well, [the other managers] will let you know. Such benefits are hard to quantify, but they stand out when the systems are working well and people are happy."

Consumer Brands has standardised on SAP as its platform as choice. However, Hope says, this was more to do with getting a consistent view of information that would generate more efficiency and thereby provide the opportunity for other consolidation of costs or incremental sales, rather than just around a direct return on investment.

His main concern regarding major IT expenditure is its long-term strategic fit.

"The worst thing we can do as a business is not tie in with that, so we don't go and get flavor of the month. Just because I thought I'd save \$X thousand by haggling with someone and then ultimately find that support is going to be poor, or it's not going to tie in with other parts of our business, or it's not going to meet end user needs, I've achieved nothing," Hope concludes. ■