

A director's guide

Making the business case for software change

An information guide from Access



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Recognising when your system is no longer fit for purpose

Is your current software holding your company back?

If you recognise any of the issues below, then your organisation has probably reached or even surpassed the limits of your current software and it now represents a barrier to growth. If you can demonstrate some or all of these characteristics in your systems, you can start to build a case for change:

- Your software just isn't performing, e.g. runs too slowly and is prone to failure
- The software is unable to cope with increased transaction volumes or staff numbers
- There's a lack of user confidence in the figures presented by your current software
- You're not getting the depth of analysis you need, based on restrictions in the software
- Your financial data is always out-of-date
- The production of Management Reports is an onerous task every month
- You are unable to share essential information with other areas of the business because your systems are not seamlessly integrated

- You have developed 'work-arounds' outside of the system to overcome software limitations
- Staff and customers are demanding specific reporting that you can't provide
- The software's processes and workflows do not match those of your business
- Your software cannot meet the latest regulatory requirements, e.g. carbon emissions tracking
- Reconciliation processes are manual rather than automated
- Most time is spent managing the data and inputs, rather than working with the outputs
- Your IT department is inundated with requests for bug fixes and changes to the underlying functionality

Businesses change over time. They grow, move in new directions, become acquired or split up, and it is often the case that systems are slow to react to this change, mainly due to the perceived pain and cost involved in replacement.

By recognising these indicators in your business, you can see that it is time for your systems to catch up.

Quantifying the impact on your business as a result of failing systems

You've identified that your systems are no longer fit for purpose, but what is the tangible impact on the business? Maybe the perceived pain of using the current system is outweighed by the fear of something new (better the devil you know).

Unless you can start to quantify the impact of the system on key areas of the business, your business case will not stand up. Here are some impacts you may want to consider, which start to move your case from the emotional to the tangible:

- Poor systems to manage credit control can mean high aged debt, impacting on cashflow

- Failing stock control systems can mean you are holding the wrong stock, impacting working capital, increasing stock wastage, and reducing availability
 - Delays in processing project-based costs (e.g. timesheets and expenses) mean you can't calculate profitability, can't predict budget overruns, and can't bill the client on time
 - Days (and costs) are consumed in Finance as staff spend their time performing mundane, manual tasks when they could be adding value to the business
 - Lack of integration means your staff are operating in isolation e.g. Sales still selling to a customer when Finance are chasing them for outstanding payment, increasing aged debt
 - Lack of system scheduling and forecasting capabilities mean that key resources (staff, stock, equipment) go unutilised, reducing margins and losing potential sales revenue
 - Too many manual processes, duplication and re-keying of data which is costly from a process perspective, causes errors, and means there is no "single view of the truth"
 - Bottlenecks in the Finance Department cause delays in workflow e.g. expenses, meaning staff are reimbursed late, impacting staff engagement
 - Risk is increased through lack of control e.g. company policies are not being adhered to with regard to project, budgeting & cost approvals
 - Your staff are frustrated by the software's processes and workflows which do not match their own – they are working for the system rather than the other way around
 - Delays in processing customer orders result in poor customer satisfaction levels and high customer turnover
- Identifying the tangible impacts of system failure raises the discussion above the level of gut feel and

anecdotal evidence, and will help to make a scientific case for change. By talking to key operational users about their specific systems issues and also the business impacts, you will also increase their buy-in to the project.

Gaining buy-in to the need for change from key business stakeholders

Within any business there is rarely one person who is able to make a major IT investment decision. The decision makers will have differing requirements, varying levels of authority and contrary experiences with software packages. This can make them more or less inclined towards any business change, and software investment is no exception.

Primary stakeholders could include:

- Managing Director
- Board of Director
- IT Director
- Finance Director
- Heads of Department
- Members of the Finance Team
- Other 'heavy' users of the systems

Secondary stakeholders may also be involved. They may not be part of the formal decision making process, but may have an opinion upon which they should be consulted:

- Staff who submit purchase requests, timesheets, expenses and make absence requests
- Indirect users of the system such as staff who request information
- Customers
- Suppliers
- Prospective customers
- Auditors

If you can identify the stakeholders, and also their current position with regard to change, you can tailor an approach which addresses their specific needs and concerns, and greatly improve the chances of your business case being approved.

Take the time to review the emerging business case with the key stakeholders to get their input prior to requesting signoff – you don't want any surprises at a later stage.

Quantifying the Return on Investment (ROI) in financial terms

The decision to invest ultimately rests on proving that the additional up-front investment is more than covered by the benefits that will be generated.

Even when you have general agreement that a system needs to be replaced, a business case may still be rejected if the figures don't add up.

Where do you start?

Having a clear understanding of the impacts is a great place to start. Depending on the type of business in which you operate, there may be specific financial benefits, but many benefit types are common across all businesses.

Some broad benefit areas are outlined below (there are plenty of others depending on the business you are in):

- Resource cost reduction – time will be saved through the new system, reducing the need to recruit additional staff to cope with business expansion, or reallocating to other tasks
- Sales impact – increased profits are projected through better information relating to products or customers, or better stock availability
- Working capital reduction – greater system accuracy allows a reduced stock holding, generating working capital benefits
- System cost reduction – the old system requires expensive hardware or support, that will be reduced with the new system
- Reduced loss and wastage – greater accuracy reduces wastage in the system e.g. stock loss
- Efficiency improvements – reduced downtime of equipment, more efficient use of assets, improved throughput and margins

Care must be taken in each of these areas to ensure that the benefits can be directly linked to the system implementation, and that they are achievable.

For example, it is not valid to identify cost savings relating to resources if there is no plan for associated headcount reduction or re-assignment. Also take care not to double count – if another department is introducing efficiencies in the same business area as you, there may be similar claims in another investment case.

Hidden cost savings in your business

Having gathered the 'obvious' cost savings in your business case, it is now important to consider how the system will benefit the wider organisation.

By revealing hidden inefficiencies and quantifying how the system will address them, we may find additional cost savings that can be factored in. We can see how this works in the following example:

Case study

A car rental company had grown so quickly it needed better software systems to manage its business. The Finance Director had set aside some time to discover reasonable benefits that could arise. He spent two hours looking for the classic benefits, such as time savings achieved through avoiding re-keying of data and despite this, could only find hard financial savings to cover about half of the project cost and was ready to give it up.

The Operations Director then joined the discussion and casually asked "will we be able to track all the mileages of the vehicles that we have on the proposed system?"

After confirmation that it would, the Operations Director then explained that with accurate mileage tracking, he would be able to get the vehicles serviced at the proper intervals rather than overrunning the mileage and incurring penalties that currently equated to £165,000 per annum.

The moral of the story? A system that was assumed would benefit Finance had uses that were far more valuable to other margin-generating areas of the business.

What do we mean by ROI?

When putting together a case for investment – or at least, having some influence over the decision to purchase – it is essential that the benefits can be articulated in financially recognised terms. Finance teams traditionally use three measures to assess what makes a good return on investment:

- Payback – How long will it be before the original investment is repaid through reduced costs or increased revenues?
- IRR (Internal Rate of Return) – The percentage rate of return on the incremental spend, over a selected time period, comparing all the benefits with the original cost (if the IRR is much better than the bank interest rate, this is a good investment)
- NPV (Net Present Value) – A £'s profit measure in today's terms, comparing costs out, savings in, and an annual cost of money.

With a combination of all three measures, it is possible to deliver a full ROI based business case for review by the stakeholders who will be making the investment decision. It is worth considering that the stakeholders may also be reviewing other cases for investment, and your case needs to be stronger in order to ensure signoff.

Worked Example

A department store proposes to spend £250,000 on an ERP software solution.

The owners agree that benefits will accrue from reduced queuing time (1 in 12 people waiting would previously have left the queue), reduced stockholding, and better buying margins. Benefits totalled £18,000 per month, but the supplier would charge an extra £2,000 per month for the service.

Over a 36 month review period and a 10% cost of money... is this a good deal?

By using the three key economic measures, we can calculate:

- Payback of 16 months (company standard is 18 months, so meets this investment criteria)
- IRR 89% per annum (fantastic, much better than money in the bank)
- NPV £249,000 (a solid increase in shareholder value)

It's now plain to see this makes sense and the decision to invest in the new financial system is now supported by the financial language that the board will understand. Be careful however, as many business cases fail at this stage due to a lack of confidence in the underlying benefit calculations. If the savings or benefits are not fully researched, or exaggerated, this will undermine confidence in the overall ROI, and it will be rejected.

Navigating common stumbling blocks, objections and misconceptions

Ensuring competitiveness may mean continued investment – yet convincing the board that they need something new, that's going to cost money, at this point in time, can prove a thankless task.

The decision to invest in business software is not to be taken lightly – and it is understandable that, faced with the decision to invest, businesses often have other, non-ROI related concerns, some of which are covered here:

'It's not a good time to upgrade, we need access to the system'

Good vendors employ consultants who are qualified in industry-standard project management procedures and who apply their expertise to ensure that a business gets close to 100% availability during changeover.

A stepped implementation process is designed to ensure that the new software can be actively used without the need for expensive parallel running. The final stage becomes a simple 'switch over' from your old systems so keeping downtime to an absolute minimum, and the business case sets the criteria for go-live readiness.

'Our system has been heavily developed over time and would be too costly to recreate'

Systems that are developed on a bespoke basis have a comfortable 'bedded in' feel which brings about a certain sense of loyalty from its users. But however complex the existing system, a good software vendor will be able to configure the new system to your unique ways of working in a cost-effective manner. Modular solutions are ideal for this task.

Not tackling this issue may expose your business to the following risks:

- **Suppliers drop support for the application** – systems that are technically difficult and expensive to expand are not easily able to support flexible ways of working, for example, online ordering
- **Loss of data** – systems that are continually re-developed may become unwieldy as optimal data capacity is exceeded, exposing data to corruption and even loss
- **Security issues** – older systems are not subject to the stringent multi-level security measures found in modern applications such as user-level privileges, roll-back facilities and protection against hackers and viruses

'Our users like our system; re-training would take significant time and money'

Developing the right solution for your business should not come with prohibitive training costs. At the top level, integration tools can initiate links with existing applications to third-party systems, including web services, in such a way that the user requires minimal training, if any.

Further down the line, an accounting or other system based on the familiar Windows operating system will lessen the learning curve.

A vendor's ability to tailor the new system to existing working practices (adding user-defined fields for example and configured to their specific workflows) will allow procedures to be picked up more quickly.

Demonstrating the benefits that a new system will bring

There are obvious cost savings for the business which come as a result of implementing more efficient and effective business systems.

There are also additional non-financial benefits which will bolster a business case based on a solid ROI:

- **Better access to information** – pre-definable workflows manage the exchange of information, allowing for greater visibility of data and more efficient processing
- **Flexibility** – for example, a web-based timesheet function would allow all staff to enter their time quickly and easily and remotely
- **Control** – An approval system based on multi-level routing streamlines your control processes
- **Customisation** – the system is driven by the customer's needs, and is flexible enough to be developed in line with their processes
- **Integration** – Disparate data systems can be eliminated by integrating all your systems and bringing all the data into one robust industry standard SQL database
- **Access to key data** – Distribution of reports and information to people outside of the traditional accounts department is quick and easy
- **Scalability** – In a growing business, the software can keep up with the volume of transactions, growing numbers of users and changing business requirements

- **Compliance** – You will meet regulatory requirements e.g. payroll, data protection, carbon emissions tracking
- **Staff engagement** – Staff are happier with the new system, which has removed mundane tasks and duplication of data entry, and provides prompt expense payments

These benefits alone may not convince an investment committee of the need to change, but they will definitely help tip a solid financial ROI over the edge, and should not be underestimated.

Summary

Management teams are happy to invest money where the case shows a strong net financial improvement – but faced with a proposal that fails to demonstrate hard returns, they will ensure that the project is rejected out of hand. Fear of change may also be a stumbling block, resulting in 'Do Nothing' being the preferred option.

As an IT or Finance professional faced with the ever-increasing pressure to optimise operational efficiencies, challenging the status quo is not necessarily an easy task, but is one that can be achieved given a structured approach to building a business case for change.

Only by taking a comprehensive look at the operational processes outside of the finance department, and collating the financial and other benefits in terms that the management team can understand, will your business case be successful, guaranteeing maximum returns for your organisation.

Further information

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