White Paper

There are a number of golden rules that hold the key to constructing workable and accurate ROI calculations, says Simon Clayton, Director at CS Group Learning Solutions.

There are seven golden rules for calculating Return on Investment (ROI), says Simon Clayton, Director at CS Group Learning Solutions.

1 Everyone starts from a different place

Every return on investment case is unique.

Every business starts from a different place – whether that is a simple desire to streamline back office booking processes or the desire to drive training requests on-line. As a result, your ROI calculations will be unique to your organisation.

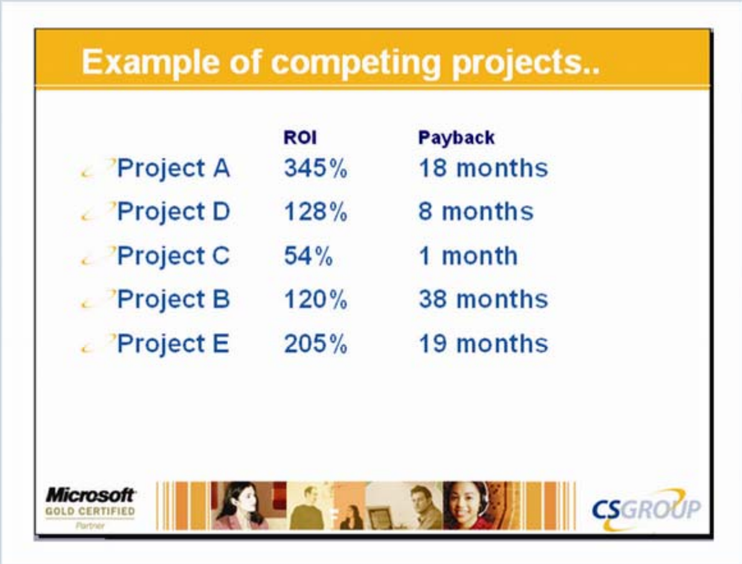
Don't be fooled by simple supplier-provided ROI calculators. Instead, concentrate on the pain points for your business. An internal audit that focuses on your bottlenecks and draws out any inefficiencies in the current systems is a useful starting point.

Obvious improvements within your business may not be itemised on your supplier's checklist. Try not to refer to the supplier's checklist until you have created your own. They may be able to add additional benefits to your list, but beware of trying to fit square pegs in to round holes! Not all benefits proposed on a supplier-provided ROI calculator tool will fit your business and by concentrating on these 'red herrings', you may be blinded to some of the other ROI benefits and values which apply to your organisation.

2 Benefits need to be calculated in financial terms

We understand that the LMS system has to fight with other 'drains' on funding in the business – whether that be a new payroll software application or a new roof! The key to making your business case justifiable is to express the benefits in financial terms.

It is a near impossible task to understand which proposal has the most potential benefit for your organisation. Only by using ROI metrics in the same way for every proposal can decision makers understand which use of funding and resources will have the best result for the business.



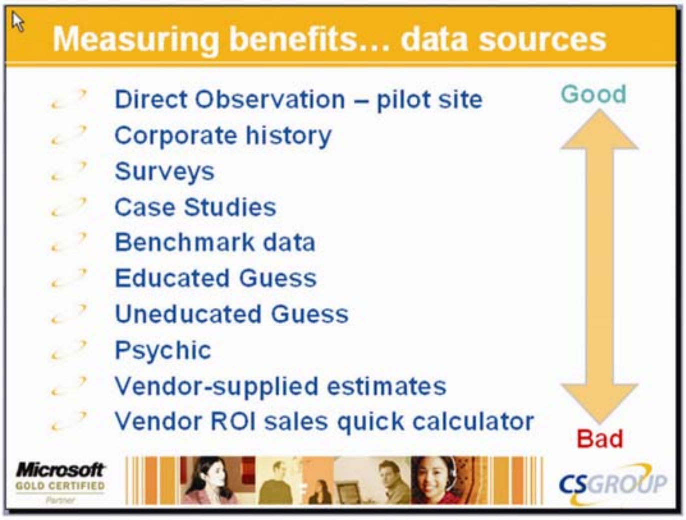
This slide illustrates how ROI calculations should be expressed: as a percentage of the cost of investment paid back over a period of time.

Figure 1: It is not always easy to see which investment will give the best return, even when comparing like with like.

The ideal would be for ROI to be calculated for every proposal in an agreed way through-out the business. Then funding decisions can be made on a like by like basis. If this isn’t possible, get a head start for your own proposal and make sure that the ROI metrics you are compiling for the LMS proposal are calculated in financial terms.

3 It is your business case

Benefits need to be measured in order for you to translate them in to financial terms. Measurement presents a problem, because much of it is inevitably hypothetical. The key to building a convincing ROI case is to try to eliminate hypothetical measurements wherever possible.



This slide illustrates a 'sliding scale' of tools which can be used to measure the benefits within your ROI calculations.

Figure 2: It is your business case. Try to ensure that when you measure benefits you are measuring the benefits for your organisation.

You have a variety of tools at your disposal when measuring ROI. The ideal, most robust estimates are based on direct observation. Here, your internal audit is helpful. If possible, a pilot site is an excellent source of proven, quantifiable measurements, but this is not always possible – or desirable – in every case.

There isn't a 'one size fits all' way of estimating pay-back, so don't try and cut corners - in order to establish a compelling ROI case, your calculations need to be mapped to your organisation and your processes. By all means, ask your supplier to work with you to construct the case, but make sure they are helping you build YOUR case, not the case of a hypothetical organisation.

4 Estimate conservatively

Benefits produce savings that offset costs, but overstating the benefits or the savings will not encourage senior level buy-in.

If a benefit or saving looks overstated to you, then it will to others. Try to under-estimate the likely benefits where possible. Obviously, you don't want to do this to the detriment of the ROI case you are compiling, but if you know that the likely benefits from certain functions or tools are likely to be higher than that expressed in your ROI calculations it is likely that others will too.

The situation you are aiming for is for your decision makers to tell you that your ROI estimates are too conservative and that your project will see greater returns than your already convincing ROI metrics would suggest.

Under-estimating lets decision makers know that you have already allowed for an element of contingency in your ROI calculations and that your ROI metrics can be trusted to deliver - at the very least - what you have predicted.

5 Everything has its place

Your ROI is just one part of the buying decision process and your case for investment.

Technical and feature appraisal, combined with assessment of the services and support that your supplier(s) can provide, backed up with case studies and reference sites from existing customers, will all combine with your ROI calculations to play a part in the decision making process.

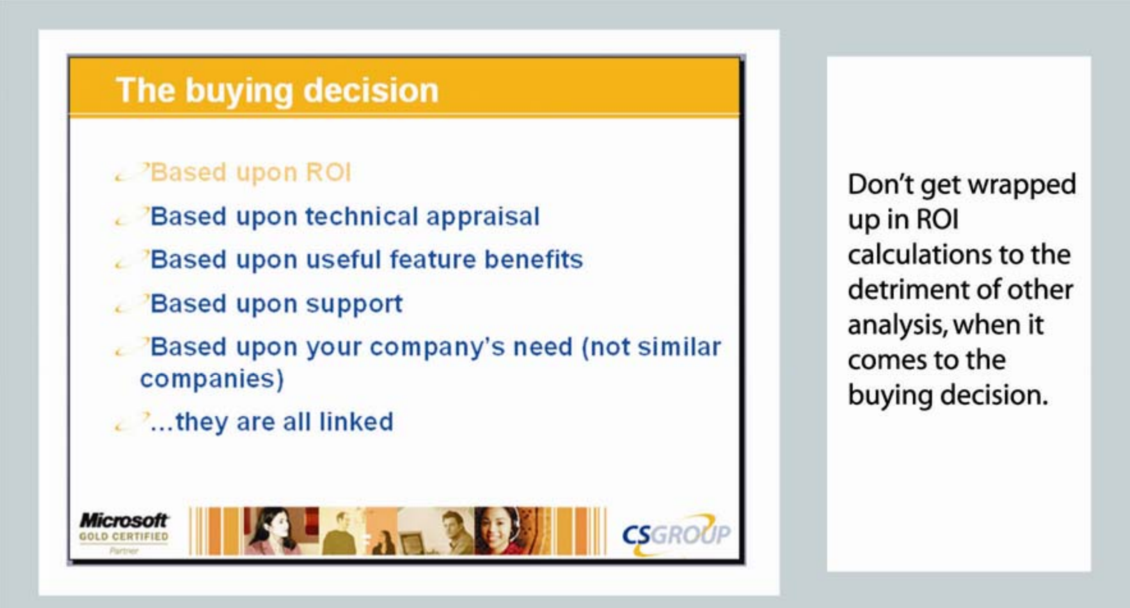


Figure 3: Everything has its place. ROI is just one part of the buying decision.

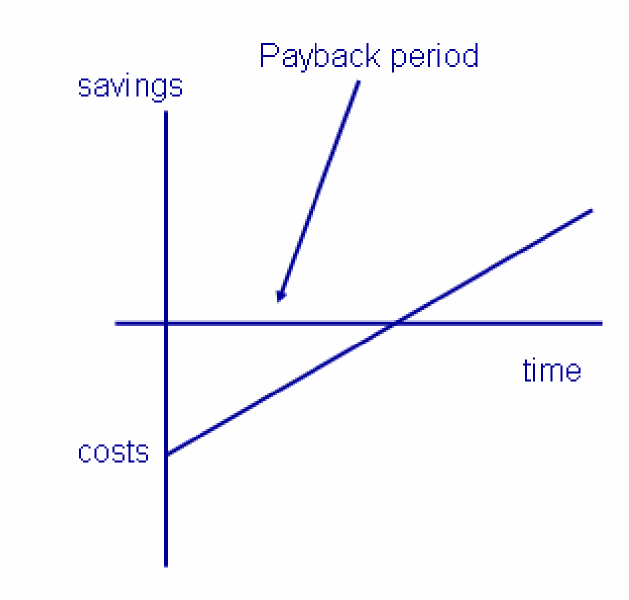
However, used judiciously, your ROI calculations could be a useful tool for comparison analysis between suppliers. If you adopt the same ROI tools and measurements with each of your prospective suppliers, it could be possible to compare the like for like benefits and costs; creating a different, but comparable case for investment for each potential solution.

6 Work with your short-listed suppliers

You know about your organisation. Your supplier knows about its products. To build the most convincing ROI case you need to bring these two areas of expertise together.

Yes, any benefits and savings need to be measured according to the idiosyncrasies of your own organisation and processes. But they also need to be grounded in the functions – and constraints – of the product and the supplier organisation(s).

And you need to have a clear understanding of the costs, in order to work out the payback period. Only your supplier can give you this information.



But the input of your suppliers needn't just be limited to providing the cost part of the equation. Please don't be afraid to ask your supplier for support. They may be able to identify additional areas where valuable ROI can be accrued, once they get to know you, your organisation and processes.

In addition, working with your supplier on ROI calculations, to help build the case for investment, can be a great opportunity for you to get to know your supplier(s), their levels of knowledge and expertise, their relationships with their existing customers and the quality of information and support they can give you.

7 Make your ROI calculations work for you after purchase

Your ROI calculations should be a living document. It is vital to revisit your metrics in order to ensure that ROI is being delivered, to demonstrate value and to hold your vendor to account.

Measuring ROI sounds like a scary prospect, but it should be seen as an opportunity to shine – not something to be frightened of. This is an opportunity for you to demonstrate your success to the rest of the business and business decision makers. Being able to prove delivered ROI, as predicted, can only assist in other requests for investment that you may make.

Having estimated your calculations conservatively, you should be seeing – at least – the predicted returns.

Plus, having already identified tools for measurement during the building of your original ROI case, going back and using these tools again should be relatively pain-free prospect. You are comfortable with them, and you already have a set of figures for comparison.

But what if you don't see the expected returns? Unlikely, having taken this rigorous approach but, if so, better to be fore-warned surely?

Take the assessment of ROI as an opportunity to ask 'why not?' Have you simply pushed a bottleneck elsewhere? How can you remove this new bottleneck? Can your vendor offer any advice? Are there other areas where you have made unexpected savings? How can these be built on? How can you build internal capacity for adoption and improvement and sustain and share the gains of deployment and subsequent improvements?

Not only is this an opportunity for you to demonstrate value, and hold the vendor to account, revisiting ROI calculations is an opportunity to keep the project alive. Keep the business interested in the project and the improvements you are delivering, and ensure buy-in from the business, key stakeholders and your learners. That way your ROI is not just proven, but sustainable.