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trekking

a newsletter on practical strategic thinking and action
issue #33: the software roi paradox

editor's message

It's hard to be in business today and not get involved with software in some way—it is an integral part of almost every organization. Given some recent experiences of ours, we thought we would share some observations on what we are calling the software ROI paradox.

When people talk about software for their business, whether it's traditional client-side installed or software as a service, the conversation always ends with a discussion of ROI (return on investment). In *Strategic Thinking*, we'll explain the ROI paradox—that bigger investment proposals lead to bigger returns. In *Strategic Action*, we'll explain how to apply this thinking to maximize the ROI on your IT and software decisions. Our *Industry Spotlight* highlights some experiences we have had recently in software implementations, and our *Reading List* reviews *The Long Tail*.

strategic thinking

The Paradox

Determining ROI on software investments can be a tricky subject. Most people will tell you that it is very hard to measure true ROI...and it is. But we have a suggestion that will help you get a better handle on it.

In order to maximize the ROI on a software investment, start by maximizing your investment.

We are not encouraging you to spend more money but, rather, to recognize what you will have to spend to succeed. When people talk about ROI, they often focus on the direct investment required to purchase software. But the true cost can be four to five times that of the software itself—a successful installation requires additional investment in process design, customization, organizational changes and training, not to mention the cost of employees' time and the opportunity cost of working on planning and implementation. Thus, the only way to ensure a successful implementation is to understand upfront the tasks, changes and costs—and to be prepared to pay for the full package.

When you look at the software cost in isolation, it is very hard to identify, let alone deliver, the expected return. However, if you really dig in to understand all the changes (and costs) that new software will entail, you will embark on a learning process that will better prepare you for success.



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So load that investment number up. Tell your boss or your board how expensive the whole process will really be. It is the only way to prepare your organization to maximize the return on the investment.

-Mary Adams (adams@trekconsulting.com)

strategic action

Maximizing Your ROI

So, how do you make sure that you are on the winning side of the ROI paradox? Be clear on what it will take to succeed:

- Training – A software vendor told us recently that 20% of his clients don't pay for training. Don't make the same mistake. *Pay for training.*
- People – Sometimes it is not just about specific software training; you may need new skills or knowledge. *Get the right people on the job.*
- Processes – Software is really just a new way of implementing an existing business process. If the process is bad, the software implementation won't work either. *Get the processes right.*
- Information – It's still garbage in and garbage out. Do you have the right information? If not, why not? *Get the right information into the new system.*
- Technology – We heard a story recently about companies implementing design software without investing in the high resolution monitors required to use the software. *Don't make the software investment if you aren't going to get the right support technology.*

All of these items are necessary complements to the basic software investment. You won't be successful unless you make them. In fact, by forcing a conversation upfront about the true total investment required, you will end up better prepared and have a better chance of maximizing your ROI.

- Michael Oleksak (oleksak@trekconsulting.com)

industry snapshot

Doing Your Homework

We got involved in a software implementation recently with a client as part of a project to help them catch up with and sustain their meteoric growth of recent years. We were very diligent about talking with everyone upfront to understand their work flow. We found some real gaps in process and communication as well as a number of places where people in different departments were doing duplicate work. After a number of months, the team was able to reach a point where

there was consensus on the right software and business solutions to help solve their pressing issues. To facilitate the next steps, we developed a working group to oversee the business side of the implementation (there were other people on the technical side dealing with pure software issues). We were being very deliberate, and we were making good progress.

But we still made a mistake. There was a crucial group within the organization that had been consulted early on, and we thought we understood what they did. But no one from this group was part of the new software implementation working group. By chance, we discovered that this group was already doing a great job at a key task that another team was trying to automate. Luckily, there was still time to involve this group in developing the right solution.

As it turned out, the right solution in this case required a much lower investment. It will end up reducing work load, shortening implementation time, and, we all think, will enjoy a higher probability of success.

The lesson? Talk to everyone...over and over. Trust, but verify. Keep questioning. And talk to everyone again. Software requires systemic change—keep cycling through the whole system to get it right.

reading list

The Long Tail – Why the Future of Business is Selling Less of More

By Chris Anderson

Chris Anderson, editor in Chief of Wired magazine, examines the impact of digital technology and the World Wide Web on today's retail businesses. He focuses his discussion on certain industries (bookselling, music distribution, general merchandise, media and video), and describes how "selling less of more" will become the predominant model as the availability of greater selection becomes the norm due to the minimal cost of digital inventory.

Anderson also addresses the impact of blogs and public opinion forums such as Wikipedia, MySpace, and Craigslist (tastemakers) and how they influence choice and sales

Although the writing is a little dry, the book is essential for anyone who needs to understand the state of retail as we start 2007. To read definitions that relate to The Long Tail, visit Wikipedia (http://en.wikipedia.org/wiki/Long_tail). For more information about this book, visit Amazon.com (<http://www.amazon.com/Long-Tail-Future-Business-Selling/dp/1401302378>).



announcements

Mary Adams' article, "The Intangible (But Very Real) Opportunity for Management Consultants" appeared recently in Management Consulting News. The article explains the growing importance of information about intangible resources to the success and growth of American corporations. It also explains why management consultants have an opportunity and an obligation to help their clients generate better information about this critical class of assets.

You can read the article at [managementconsultingnews.com](http://www.managementconsultingnews.com) (http://www.managementconsultingnews.com/articles/adams_intangible.php).

In next month's issue, we pose the question, "Are you playing defense or offense?"

about trek consulting

Trek Consulting LLC helps companies to face the challenges of growth, building value and dealing with change. Since 1999, we have been a valued partner to business owners and leaders on their arduous journey to business success. We know that we cannot make this journey for our clients, but we can make it easier and more successful. We focus on getting you the best information available, facilitating sound planning and decision-making, making sure you have the right skills and resources to face your challenge, and coaching you through the roadblocks that invariably arise along the way.

Our clients report improved market focus, greater revenues, better margins and increased profits. To learn more about Trek Consulting and how we can help you improve your company's results, visit us on the web at www.trekconsulting.com or call us at 781-729-1008.