ROI: The New IT Selling and Buying Process

The impact of the Business Case in IT investment — Essential reading for IT buyers and sellers.

Abstract

Recent economic trends have forced c-level executives—in most companies—to demand that their IT department managers prepare business cases in order to justify requests for IT investments. Subsequently, this has put a lot of pressure on IT vendors to demonstrate to their clients the ROI, TCO, and economic value of their systems and services.

Most IT managers and IT sales professionals are aware of the need to use ROI in their selling or buying process; however, while some welcome the opportunity to assess and discuss ROI, others are not comfortable with the subject and do not like to spend time in linking their technology projects to economic value and ROI. The reasons vary, but generally, the top reasons are: People don't want to change the way they do things—if they have been successful until now, why change? Others are afraid—they are just not comfortable with economic and financial terms. Others do not want to be accountable for operational improvements beyond technical areas.

This white paper presents a summary of best practices, from IT vendors and IT buyers, for using ROI in their selling and buying processes and creating economic value with IT. If you are an IT sales professional, this white paper will assist you in understanding how you can use ROI and economic value creation in an objective and meaningful way for your clients—increasing the chances of closing more orders. If you are an IT manager, this white paper will help you ensure that your vendor's willingness to do an ROI study or business case is helpful to you, as you try to determine if you should, or should not, make investments in IT.

Glomark
corporation

The Rules Have Changed for Selling and Buying IT

Budget freezes, capital expense reductions, and the need for developing business cases have moved IT investment decision-making up to what is now called the c-level (CIO, CTO, COO, CEO, VP of IT). IT projects that were easily approved by mid-level managers in the past, are now only approved in many companies by senior executives, often the CEO himself. This means that the approach to buying IT has changed: Companies are no longer buying "bits and bytes" –and vendors are forced to sell economic value. Even successful IT providers, like SAP and Cisco, where in the past managers used to believe that ROI and economic value assessment was not a necessity in selling their solutions, have found themselves with the need to sell ROI and economic value.

Today, new technology initiatives in most companies are not approved unless executive buyers see an acceptable and clear ROI.

In addition, IT organizations have been lately adopting and implementing new IT practices, such as the balanced scorecard, governance of the IT portfolio, project management offices (PMOs) among others, which put more emphasis and focus on assessing and tracking operational measures and ROI.

For the last twelve years, Glomark Corporation has been tracking and surveying the IT market to understand the use of ROI and the business case in IT organizations. The results are shown on the graph to the right.

As we can see in this graph, the practice of using ROI in the IT buying process didn't increase considerably from 1985 to 2000. In fact, the practice of projecting and measuring ROI decreased from 1995 to 2000; this was as a result of Y2K. Right before the year 2000 companies were able to justify many IT investments, including very large ERP investments, solely on the basis of Y2K compliance; however after Y2K, the events of 9/11 and the resulting economic slowdown, companies have considerably increased the demand for economic justifications and understanding of their projects' ROI.

- ▨ Measuring ROI after implementation
- ▩ Comparing ROI of multiple projects
- ▤ Projecting ROI prior to IT investment

The most impressive statistic is the increase in "Projecting ROI prior to IT investments" which is now over 50%. That means that for every two IT initiatives that occur in the Americas and Europe, one of them has a business case prepared prior to the buying decision. And the trend doesn't stop there—according to the companies surveyed, the number of business cases done for projecting the ROI prior to an IT investment decision will increase to over 60% by 2008.

Another interesting trend is the number of companies that are now comparing the ROI of multiple projects prior to making investment decisions. Buyers know that they have multiple alternatives (for scope, vendors, and strategy of implementation), and choosing the right technology and vendor prior to moving forward with an IT project is very important. Often it is not just about knowing if a project will have a positive or negative ROI—it is about which option has the best ROI; and that, by the way, it is not necessarily just about the project with the lowest TCO, but also about the one with the highest TBO™, or Total Benefit of Ownership™.
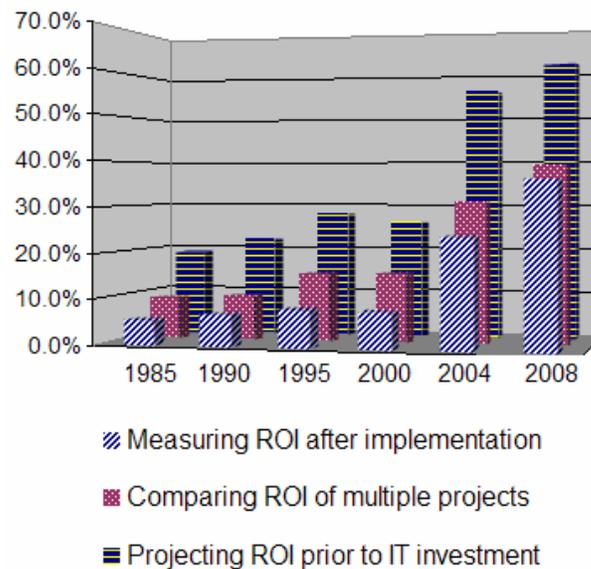
The number of projects where companies are "measuring ROI after implementation" is another attention getter. That number has grown from roughly 6% to 21%, and will continue to grow to 35% by 2008. This means that by 2008, one out of every three IT projects will be measured with ROI during and after the project implementation.

What does all of these mean for IT buyers and vendors? We need to have the skills and tools to link technology to ROI in an objective and effective manner, or we will be left behind. Forecasting, comparing, and measuring ROI is now an integral part of the IT world, and it is no longer just about bits-and-bytes—technology features and capabilities are and will always be very important, but so will understanding the impact in business operations and the impact on the bottom line.

The New IT Selling and Buying Process

This white paper section presents a summary of recommended ROI and business case tactics for the major phases of the IT selling and buying processes.

ROI in the Need Assessment Phase:

Before IT buyers agree to receive a proposal from an IT vendor, they need to understand if they do have a technical and/or operational need for the proposed solution. In selling this is called "consultative selling"— sales gurus advise: don't discuss a solution with an IT buyer unless you have discussed and agreed on the need. Unfortunately, as simple as it sounds, we tend to forget this step of the buying and selling process. It doesn't mean that vendors and buyers generally don't understand the needs—no—it means that we often fail to make an objective needs assessment and communicate it effectively to senior management. We can have a business case with a fantastic ROI, but if the business case fails to clearly explain the business needs, then the business case is not compelling to the person(s) making the final decision to invest.

Needs can problems and/or opportunities. Some IT purchases are made to solve specific problems, but many investment decisions are made not because something is wrong, but because there is an opportunity to improve something.

IT Buyers:
Best Practice example on the use of ROI to win Top Award in IT Innovation.

In 1998, Vitro (NYSE: VTO), a $2 billion, world-class glass manufacturing conglomerate, decided to implement a governance practice to assess and measure ROI of their IT projects. Vitro had been successfully using (and is currently using) EVA as a financial indicator to measure the performance of their management team; however, the IT department didn't have a methodology and framework to link financial indicators, such as EVA, to individual IT projects.

After looking at different ROI and TCO companies, Vitro decided to adopt Glomark Corporation's EVC™ (Economic Value Creation™) methodology, and invested in Glomark Genius tools and training.

After five years of using EVC and Glomark tools, Vitro won the top award in IT innovation from InformationWeek Mexico magazine. In a press interview, Vitro's management indicated the use of Glomark Corporation's Economic Value Creation methodology was a key ingredient for their success and for being able to achieve the first place within the "50 most innovative companies in Mexico".

"Top management's support and the internal management practices in the IT area have allowed us to incorporate new technologies and apply them into our Company. We have defined the corporate governance model to segment all initiatives and approvals, therefore all of the initiatives are aligned to the business strategy and justified under the Economic Value Creation (EVC) methodology," said Hector Pro, Vitro's Director of e-business and IT.

Vendors must be aware that the use of an ROI practice doesn't mean that all projects presented with a business case are automatically approved for investment. According to Gustavo Benitez, IT planning manager for Vitro, "one of the main benefits of using the EVC methodology is having the ability to identify investments that won't pay off. We have stopped several IT projects prior to implementation because after preparing the business case we identified lower benefits and higher costs than originally forecasted".

The success of the use of the EVC methodology in Vitro was not an overnight success. It required development of ROI and business case skills in the IT staff; investment in tools, training and expert support; as well as IT management commitment and governance to get this level of results.

A good practice for the IT vendor and IT buyer is to review the current conditions of the operation, and discuss how and if the technology features and capabilities of a new solution would make sense or not. The best IT needs are also those that are aligned with or help in meeting a strategic objective; whether it is meeting an IT strategic goal (i.e., consolidation, standardization) or a business area strategic goal (i.e., selling to new customers, expanding production capacity).

An effective business case preparation starts with a clear identification of the technical features and capabilities that will apply for a specific company. How many times we have heard of features of a technology solution that are not utilized? Vendors are good at highlighting the technical features of their services and solutions; so this is not a difficult task. We just need to be sure that those features and capabilities will be used in our company; otherwise the operational and economic benefits related to those un-used features will not occur. For example, if you are going to make an investment in Office 2003, are all of your PC users going to use all the features available in the Office 2003 system? If the answer is yes, then all the benefits presented by the IT vendor will apply; but if there are some users that will not use some of the features available in Office 2003, then those economic benefits should not be considered in the business case, or the number of users should be factored in the assumptions used in each benefit. This is another thing that, as simple as it sounds, the process of identifying the specific features and capabilities that apply to specific companies and linking those features to the operational benefits is something that is often not done by IT buyers or sellers.

Once features and capabilities are clearly identified for a specific company's conditions, then as an IT buyer (or vendor) you should clearly identify the operational improvements (KPIs)—such as more or faster transactions, less FTEs, an increase in the number of orders, etc.—which can then be used in the means of quantification (formulas) for the expected economic benefits. It is not the intention of this white paper to provide the complete EVC methodology from Glomark Corporation for quantifying benefits and building an effective business case; it is however, to illustrate basic, but important activities that IT buyers and vendors must consider when preparing a business case and prior to making an IT purchase.

During the needs assessment phase of the IT buying and selling process it is acceptable to do high-level business cases. What is a high-level business case? A high-level business case is one where estimations, and not necessarily actual

---

IT Vendors:
Best Practice example on the use of ROI to achieve a near perfect close-rate in the selling process.

IDX Systems Corporation (NASDAQ:IDXC) decided to implement an Economic Value Creation and business case practice in their selling process; and after careful evaluation, IDX implemented the EVC methodology and Genius tools from Glomark Corporation. Today, IDX Groupcast goes far beyond Return on Investment in their selling process with a solid and objective economic value selling strategy. IDX is extremely focused on helping new and existing customers bridge the gap between technology and business, and as a result, and after four years of continuously increasing their closing-rate, the Groupcast division of IDX has achieved a closing rate close to 100%. "Almost every project pursued where a business case is prepared and presented to the customer is closed," said Jon Mayette, senior project leader for IDX.

Initially, IDX sales people were afraid of the EVC methodology because they didn't want to discuss business and financial terms with their clients; but after seeing the positive results of using the business case in the selling process, IDX leaders decided to implement a program that would make the sales professionals comfortable.

Interestingly, and different to what many sales professionals originally thought, IT buyers tended to be very interested and willing to work with IDX on ROI and in preparing a business case.

"The key for success is to get the customer to share operational and financial data in order to build the foundation of our partnership. In the end, it's our customer's business case. We can provide some expertise, tools, and proven methodology, but ultimately the business case is the customer's. They love that approach. As soon as we get them engaged, they understand that this isn't just a vendor ROI—which is not effective and can diminish credibility," said Mayette.

"At first, we thought this was just a sales tool, but our philosophy has changed to better understand the customer's business. Now, we bring a business case to the table with the Glomark tools," said Chris Powell, Vice President of Sales in IDX. "We align opportunities with our solution and map that out, and use it as a driver in the sales cycle. We understand our customers' business better and that improves our ability to deliver and meet their expectations. And our win rates have been staggering."

Glomark corporation

data, are used for the variables (assumptions) of the business case. This is an acceptable practice because the purpose of a high-level business case is to be able to see the "magnitude" of the benefits and costs, and the magnitude of the ROI. If a high-level business case shows an unacceptable ROI, then why should we spend more time doing a comprehensive business case and waste time in gathering actual values? In this case, the IT buyer and/or vendor may instead be looking at a change in the scope; or revisiting the operational benefits identified. If, on the contrary, the high-level business case shows an attractive ROI and economic value; then the buyer can proceed to gather actual data, and spend more time working with the vendor in a more detailed business case.

If you are an IT buyer, be aware though, that there are some vendors with quick or simple ROI calculators that don't have a solid business story behind them. Many of these ROI calculators do not clearly present the quantifications and assumptions used in the benefit formulas, and the reports and assessments cannot be fully customized to the specific IT buyer's situation. There are some vendors however, that do indeed have effective and objective tools to create business cases (see www.glomark.com for information on such tools).

A final note on this phase. Before approaching a customer with an ROI study or Business Case, vendors need to do their homework. Study your customer's business situation, look at their annual report to identify major business and financial goals, and then run a business case with your own assumptions. This will give you an initial idea of what kind of benefits and ROI your customer could be achieving with your solutions. Then invite your client to collaborate in the process of preparing a business case, and start with assisting the client in identifying potential business and economic improvements.

ROI in the Solution Development Phase

The media and IT magazine writers and editors often critique IT vendors who present business cases or ROI studies to their clients—and with a good reason—a good number of the ROI studies presented by some vendors are very vague and do not clearly indicate how their technology solutions create operational value. Many vendors' business cases do not present a good link or explanation of how the technology features make an impact on the business processes, and even worse, often there are no explanations for the formulas used to quantify the economic benefits.

The good news is that there are some IT vendors, like IDX who was mentioned earlier in this white paper, that do have the necessary skills, tools and methodology to prepare objective business cases for their customers. IDX is not the only vendor doing this. Some of the large IT companies are indeed teaching their sales professionals how to properly collaborate with their clients to jointly prepare an objective business case.

If the IT buyer, with or without the help of an IT vendor, has done a high-level business case for the project, then you may consider updating the assumptions of the business case with actual data. In many cases, IT buyers opt for moving forward with the investment decision with only a high-level business case, and this is an acceptable practice too, because even if it doesn't have exact data, the estimations provide the IT buyer with a good idea of the potential operational improvements and economic impact for their corporation. Remember that for decades IT buyers have made technology decisions without a business case or ROI study, therefore, even when estimations are used in the projections, it is better than not doing a business case at all, and better than making an investment decision only on the basis of a technology improvement.

Often, in this phase of the selling or buying process IT buyers request a complete business case. Generally, the final level of complexity in the Business Case depends on the type of solution assessed. Many IT decisions are done with simple or high-level business cases (using estimations); but others do require detailed business cases and the use of actual data in the assumptions. Generally, the larger the project, the more detailed the business case is. This is not just because a larger scope has more benefits; sure, that is one reason, but decision-making executives have a lot more questions when larger investments are made.

Sellers often lack the skills and advanced tools needed to do comprehensive business cases; when this is the case, sales professionals should look for internal or external experts to assist in the customization of a detailed business case. This could mean changing depreciation rates, different realization time for the different benefits, changing the formulas of quantification, etc. While these are things that sales professionals can also do, sales professionals starting in an ROI and business case selling practice should initially look for help with some of the more advanced business case adaptations.

The financial measures area (e.g., NPV, IRR, ROI) is the area of the business case that takes the least amount of time. After all, financial measures only tell you if the investment is good or not. Sellers and buyers of IT don't need to be experts at calculating financial measures; if the costs and benefits are properly quantified, calculating the financial measures can be easily and automatically done by tools (such as the Glomark Corporation Genius tools). What is important to understand is the meaning of these indicators. For example, if the NPV of an IT investment is $100,000, what does that mean to the buyer? Simply, that the buyer will get $100,000 more than putting the total money invested in a safe investment, such as putting the money in the bank. While some of the financial measures have complex formulas, the meaning of these measures is not difficult to comprehend.

About the use of benchmarks

Using reference data from previous implementations in other companies—known as benchmarking data—to back up the projections of a business case is a good practice because it helps reduce uncertainty. However, making all investment decisions with benchmarking data can create a problem for IT buyers; particularly for companies that are or want to be market leaders and believe in innovation. Having benchmarking data to support all business cases requires that all the technologies or initiatives have been in the market for a while, that several implementations have already taken place for each technology under consideration, and that someone in these organizations has already taken the time to measure the actual operational improvements. While this is helpful when making investment decisions, if a company has to wait until other companies have implemented a new technology (potentially including competitors) it puts the company as a "market-follower" instead of a "market-leader".

For that reason, it makes sense that for certain non-critical technologies, companies can wait until the technology is proven, and good benchmarking data is available; but for other technologies and initiatives—like the ones that can provide strategic benefits and market leadership—it is better if those are made sooner rather than later, even without good benchmarking data, and even with uncertainty in the projections.

Now, how can we reduce the risk of failure, and handle investment situations when there is no benchmarking data available?

First, we must keep in mind that it is better to do a business case without benchmarks than making a technology investment decision with no business case at all. Even without benchmarks, a business case can define the expected operational measures and improvements—not just the technology features—which can be the basis for measuring the success of an IT project during and after implementation. This helps to reduce the risk of project failure.

Second, when there is a high uncertainty in the projections, and there are no benchmarks, doing a scenario analysis—entering the worst case, most likely and best case values—in the assumptions where there is high uncertainty is a good practice because it can increase the objectivity of the business case. A good business case should help us determine what would happen if all the key assumptions are run under the worst case scenario. There are advanced techniques and tools available that IT vendors and buyers can use to do risk analyses (like the Glomark Corporation Genius Analyzer™) that permit scenario analyses, or even advanced sensitivity analyses using tornado charts and Monte Carlo simulations.

Glomark corporation

And last, even without enough benchmarking data, a good business case that clearly links the features of the technology initiative to operational improvements and to the economic benefits, provides executives in the buying organization with a good idea of the "magnitude" of the benefits that can be compared beside the project costs.

Once, an IT sales professional refused to present a business case to a customer without benchmarking data. The customer was very interested in the new technology but needed some help with the justification. The sales professional's argument was that any projection without benchmarking data was not credible at all. The client comment was: Benchmarking data is ideal, if you have it-great; but if you don't have it available, do you want us to buy your technology solely on the basis of technology features? Without helping us understand what improvements and benefits we can get in our operations? Wouldn't we be better off with a business case even without enough benchmarks than making the investment in your solution with no business case at all?

Interestingly, the issue of having benchmarking data is more an issue for the vendors than an issue for the buyers. IT buyers are generally OK with business cases with little or even without benchmarking data, as long as they can factor the uncertainty (entering worst case values in the assumptions); however, IT sales professionals tend to have a problem with this because they are afraid of suggesting potential improvements to their clients without something to backup the projections.

At the end of the day, the business case should be the IT buyer's business case; not the vendor's business case. IT buyers must agree 100% with the values and estimations entered in all the assumptions of the business case, and should be able to drive any assumption up or down.

ROI in the Contract Development Phase

When a decision to invest is being made, and the vendor and buyer start the negotiation phase, it is not the best time to start working on a business case. At this juncture of the selling-and-buying process, a business case must have been already completed. Trying to start to present a business case to an IT buyer when the IT buyer is ready to negotiate price and terms is not a smart idea; actually, it is too late to start the business case discussion.

Reactive sales professionals wait for the procurement department to ask for a proposal instead of proactively assisting the client to identify and assess technology needs. When a person in the procurement organization asks for a proposal, the business case should have been already completed and already presented; otherwise it is too late. Trying to start working on a business case when a procurement manager is involved, in most cases, it will be a waste of time. Procurement professionals tend to ignore (or appear to ignore) the value of an investment; they focus on the contract, and they want the best price and terms. They would rather spend no time discussing benefits and value with the vendor because that works against what they are trying to achieve—reducing the vendor's price.

However, at this time IT vendors can— if they were able to work with the buyer in the preparation of their business case prior to the request being submitted to procurement—use the ROI and benefits identified to defend their price and margin. Again, buyers always want to obtain the best price for their companies, and that's fine—there is nothing wrong with that—on the other hand, vendors need to make a good margin on their project as well; and for instances where the IT buyer wants a win-lose (buyer wins, vendor loses) using a business case to review the costs-versus-benefits of the project is a good practice for IT vendors. IT buyers must welcome the invitation from a vendor to prepare a business case; because that is an indication that the vendor is interested in assisting them to create operational and economic value, as well as in having, in the long-term, a profitable deal for both parties.

Glomark corporation

ROI in the Post-Implementation Phase

Once an IT investment decision had been made, another best practice for creating economic value is tracking the project's KPIs (Key Performance Indicators), and going back to the original business case to re-apply the actual operational improvements in the benefits and cost assumptions of the business case to see the actual ROI achieved during and after the project implementation.

Interestingly, as the graph on page 2 of this white paper shows, today only 21% of IT projects are measured with an ROI approach. A larger percentage of companies are tracking KPIs through different methods, such as balanced score cards, but most of these initiatives are only tracking operational measures and IT service performance levels; and many IT managers are not taking the time to update their original ROI projections and business cases to see if the actual ROI and economic value created after the project implementation is lower or higher than forecasted.

If you are an IT buyer, and an IT vendor offers you their assistance to track the KPIs and ROI of the system or service they are selling you, you should welcome that opportunity; that is an indication that the IT vendor is not just "pushing boxes". Vendors that want to assist you in the measurement of their solution's operational and economic value are concerned and interested in helping you improve your company's business process and create economic value.

Some IT professionals have the perception that tracking and measuring ROI is complicated; when actually it is not. If the business case was properly constructed, and the technology features and capabilities of the project are clearly mapped and linked to operational improvements (KPIs) and to the benefits' formulas; the ROI and economic value tracking is not a difficult task.

Beyond ROI: IT Economic Value Starts With Strategic Alignment

Let's assume that two projects are presented to a CEO for consideration. Both projects require the same initial investment, and both will result in about the same ROI; however, only one of the two projects is aligned with the strategic goals of the corporation. If the CEO decides to invest in only one of these two projects, which one do you think he will chose? The answer is obvious—the one that is aligned to the company's strategic objectives. This simple example illustrates the importance of understanding and assessing how and if an IT initiative, submitted for investment approval, is aligned with the business' strategic goals.

That is why the best business cases are those that clearly identify and describe how, and if, a technology solution would help a company in a strategic way.

Internally, as an IT manager you must understand what the key goals are of your IT strategic plan— Standardization? Reduce TCO? Improve IT service performance levels? IT consolidation? Enable business area goals on time? Ask your CIO or your senior IT executives if you don't know these goals—if there is no written IT strategic plan, they will tell you what your company's IT strategic goals are.

Something that IT sales professionals often forget is that enterprises—including IT organizations— have planning cycles, where their key goals and needs are defined. The ideal time for vendors to start an economic value creation and ROI discussion is when the IT buyer is in the planning cycle. This is the time when IT buyers can share with vendors their technology and business challenges and strategic needs; and it is the time for the vendors to describe how their solutions and services can be aligned with the IT buyer's strategic goals. The best vendor-buyer relationships are the ones that are long-term and strategically oriented.

Besides strategic planning cycles, companies also have budget planning cycles and these are also good times for vendors and buyers to discuss technologies and initiatives that can reduce the TCO of existing IT assets, and how to use technologies to enable the strategic goals of the business units and departments of the corporation.

Glomark corporation

The goal of this white paper is not to describe what an IT budget or strategic plan are; yet, it is intended to explain why IT vendors and IT buyers can benefit if an economic value creation discussion starts during the strategic or budget planning cycle; prior to the time when specific IT buying decisions are made.

IT buyers should not be concerned about getting their key vendors involved in their strategic plan; after all, IT managers don't have to share everything with vendors. But, IT buyers can learn a lot about strategy from their vendors; including what a vendor has learned and accomplished in other companies.

A final comment on strategy: Strategic benefits can be quantified in economic terms and included in a business case. The issue, often, is that strategic benefits tend to be uncertain, and therefore some people consider them as "intangibles". However, intangible benefits can be quantified in economic terms as long as they are "measurable" from an operational perspective. There are simple techniques, such as the scenario analysis described earlier in this white paper, that can factor the uncertainty and increase the objectivity of the economic quantification of the intangible benefits. (The Glomark EVC methodology and Genius tools contain principles and features that allow the quantification of intangible benefits).

Conclusion

For a long time, IT buyers have made investment decisions solely on technology features and capabilities. To most executives, this is no longer an acceptable practice— Business and IT managers do care more now about their companies' profitability.

Not using a business case to support an investment decision is not a good practice, even in cases when the IT buyer knows that there is no option— that a technology investment must be made. Still, in these cases, doing a business case is a good practice because it allows the IT staff to choose the best scope for the project and the best implementation strategy. Besides, the business case can help the IT buyer to determine the assumptions that can be tracked to minimize the risk of project failure.

Finally, sellers and buyers need to know that a business case is not a one-step activity in the IT buying or selling process. A best practice is when IT buyers and vendors work in synergy during the IT buying and selling process, and jointly assess the operational and economic value of a project. Their joint efforts result in an objective and effective business case that maximizes the chances of achieving economic success on any project.

Glomark corporation

Appendix: IT Value Personalities
Suggested reading for IT sales and marketing professionals

Do you have an IT value oriented personality? Everybody does –sellers and buyers— but at different levels. Let's look at an example: Let's assume that a company that has a large IT organization needs to make an investment in a good amount of spare parts for some of their new servers that run critical applications. To an IT administrator, the value of buying these parts and having them available onsite means being able to fix a hardware problem quickly, and deliver the expected IT service level. The value of the same spare parts to a business area manager is keeping the applications with minimum downtime, to ensure that all the expected business transactions (i.e., orders received, products shipped) are done as projected. And finally, to the CEO of the same company, the value of the spare parts means having the ability to have uninterrupted production with steady revenue in order to meet the company's financial goals, and to satisfy shareholders. This simple scenario illustrates the difference in value personalities.

Value Types

While there are many types of buyer and vendor value personalities, we can group all of them in three major levels of value: Technology Value, Operational Value, and Economic Value. Let's discuss each of them.

Technology Value

This is the type of value that the majority of sales and IT people are comfortable with. Technology Value means that the person is focused on explaining the features of a product or service, and when s/he talks about benefits they are talking about technical benefits. An IT storage solution sales professional will sell Technology Value, for example, by describing the flexibility of modular disk technology. A support services sales professional will sell the feature of having the ability to respond to a client call request within three hours (for example); and so on. A simple way to define Technology Value is: The technical features of the vendor's solution and/or service levels that the vendor company provides to a buyer. It does not include the impact on the IT buyer's operations, but rather what the vendor provides.

There is nothing wrong with selling and buying Technology Value. Many people purchase products and features based on the Technology Value and nothing else. The issue is that not all business buyers make purchases based only on Technology Value. Technology Value is generally the focus of technology oriented individuals, such as technical managers, technicians, engineering or R&D staff. Middle or senior level managers in business areas such as in marketing, human resources, finance, procurement, etc., generally do not purchase products or services based on Technology Value –they may care about it, but the main reason they will make an investment decision is based on the impact on their company, and that is where the next two types of IT values come in place.

Operational Value

Operational Value is best described as: The impact of an IT product or service in the IT buyer's operations, or the positive change in business processes. For example, an IT storage solution sales professional presenting Operational Value to a client will say: "The flexibility of modular disk technology (Technology Value) will reduce the number of new servers purchased by the company (Operational Value). The support services sales professional will say: "The faster response time (Technology Value) will result in less business process downtime (Operational Value)." Someone may not care about flexible modular technology, but may care about reducing their annual IT budget by purchasing less hardware. As you can see in these simple examples, to clearly understand Operational Value one needs to link it to the Technology Value. It is hard to appreciate one without the other.

Operational Value is the way to sell (internally or externally) to operational and business area managers. Will a Purchasing Manager buy a new software application because it has the latest web technology? Most likely no—s/he will buy it if it improves their purchasing functions, such as spending less time to prepare purchase orders, easy management of purchasing requisitions, or more accurate information from suppliers (Operational Value).

Economic Value:

This is the area where many IT managers and sales professionals are not skillful. However, as presented in this white paper, in today's difficult economic times, IT sales professionals that do not have this competence are heading for failure.

Economic Value is the effect on profits from a product or service. It is not necessarily ROI (but an ROI estimation would help). Selling Economic Value means presenting the economic outcome, expressed in currency ($), derived from the operational impacts created by a technology or service solution.

In the case of the storage solution example, the reduction in the number of new servers purchased by the company (Operational Value) will result in a hardware cost reduction: A reduction in the cost of capital from a lower acquisition of hardware (Economic Value). In the case of the support services example, the reduction in business process downtime (Operational Value) will result in increased revenue (Economic Value), assuming that the revenue (e.g., products shipped, or orders received) is a direct impact of the storage system increased uptime.

With very few exceptions, senior managers such as the heads of business units, Presidents and all the now called chief-level officers such as CEOs, COOs, CFOs, CTOs, and CIOs, are very focused on economic value. As said before, business-to-business sales professionals that can't sell and communicate value at this level are in trouble.

The best IT managers and IT sales professionals are the ones that can, not only explain these three levels of IT value, but are the ones that can easily and clearly link the three levels of IT value described above.

If you are interested in training your IT staff or sales force in how to communicate IT value, and equipping them with the tools to easily and consistently produce objective business cases, please contact Glomark Corporation at 614-459-5282 (US eastern time), or visit our website (www.glomark.com) for information on the Glomark Regional Director closest to you.

About Glomark

Glomark Corporation helps technology providers and buyers assess the value of technology solutions and services by giving them the methodology, training, advisory and software tools they need to effectively assess risk and economic value. Glomark has tested and refined the Economic Value Creation™ (EVC™) methodology for more than a decade, bringing to market a proven, complete solution that allows buyers and vendors to organize a technology project, define each component's value, and quickly create situation-specific business cases. The suite of Glomark Genius software tools allows vendors and buyers of technology do from simple to comprehensive TCO, TBO and TRO studies of technology assets and services.

For more information, please see www.glomark.com or contact our main office at (614) 459-5282

About the EVC Methodology

The Economic Value Creation™ (EVC™) methodology from Glomark Corporation—which is often mentioned in this white paper and is contained in the Glomark Genius tools—includes models and processes to assess the Total Benefit of Ownership™ (TBO™), the Total Cost of Ownership (TCO) and the Total Risk of Ownership™ (TRO™) of investments in information and communications technology and services.

About the Author

As founder and CEO of Glomark Corporation, Ruben Melendez's main focus is to constantly study Glomark Corporation Clients' needs and to guide the Glomark team to ensure successful delivery and maximum utilization of the EVC™ programs implemented by Glomark Clients. During the last twelve years, Ruben has worked with many corporations around the world, including vendors and buyers of technology and services, and has lead the effort to continuously enhance the portfolio of the Glomark Economic Value Creation™ tools, training programs, and consulting practices to ensure they meet the needs of the constantly changing IT marketplace. Prior to Glomark, Ruben worked for Thermo Electron, AccuRay Corporation, Combustion Engineering and ABB, in various engineering, sales and marketing management roles. Ruben has a B.S. degree from the IPN Engineering School in Mexico City. His studies also include a multitude of business management, economics, and finance courses attended over the length of his career. Ruben has been a frequent speaker in industry conferences and in global events for some of the largest IT companies in the world.

Glomark
corporation