

# Building a financial business case

# ROI

CREDIBILITY

## START

Gather initial costs and costs for the first 3 years. Keep these 2 numbers separate.

342% 234% 103789% 9134%  
2% 567%

*It's not the highest ROI that wins, or the lowest ROI that loses, it's the most believable ROI that drives a successful business case.*

1025% 24567% 673% 99% 4114%  
4% 44% 341% 622%  
35%

Finance is not trendy. ROI and payback have been around since the beginning of time.

## :: ROI

The average annual benefit over three years divided by the initial cost. This is an annual number directly comparable to the cost of capital or other bank investments.

## :: PAYBACK PERIOD

The time from the point the project is deployed until the cumulative net monthly benefits equal the initial investment.

Estimate the total benefits through year 3.

1 or 2 benefits drive a technology decision

2 3

2 or 3 benefits support the decision

Focus on making the few important benefits stronger.

More than 5 benefits and you've probably made a mistake.

## WINNING MOVES

### PAYBACK

It's easy for people to understand payback. "How long until we cover our costs?" is the question to answer first.



### WORST CASE

For the skeptical calculate a worst case ROI and payback. Presenting a good "worst" case can show that the downside of the project is not that bad.

Calculate the ROI by dividing the average annual benefit by the initial cost.

### HAZARDS

Without a residual value in the payment stream NPV will undervalue a project. Better to use ROI.



Use benchmark data only to validate your own estimate.

IRR is not ROI, it's just NPV solved for (i). It's often mistakenly used as ROI.

VALIDATING BENEFITS

## ROI case studies

Survey users

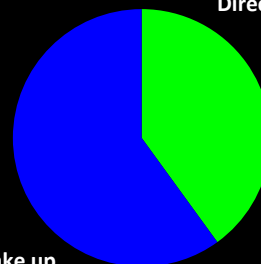
Check references

Results of a pilot site

Benchmark and industry data

BEST!

## BENEFITS



Direct benefits include immediate reductions in costs or increases in profit.

Direct benefits usually make up less than 50% of the total project benefits.

Indirect benefits typically make up more than 50% of the benefits and include productivity gains and expectations of future profit.



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