

# Why ROI / TCO is Required - Now More than Ever!


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The economic downturn has IT executives scrambling to defend budgets, avoid cutbacks, and help the business survive. In times of crisis, CFOs invariably turn up the heat on CIOs, and although IT spending is a modest 3.1% of revenue on average, because IT is seen within most organizations as a cost center, it is usually at the top of the list for spending cuts.<sup>1</sup> Unfairly, as prior times of crisis have proven, IT is cut proportionately more than most other business groups.

The IT budget holders will invariably turn to solution providers to demand greater discounts, slash unnecessary projects and proposals, as well as seeking guidance on the best cost savings / fastest payback projects.

According to the latest selling and marketing effectiveness research from SiriusDecisions, business value selling is an important driver to sales success, especially as the economy continues to tighten.<sup>2</sup> When asked to rank order five prominent inhibitors to a salesperson's inability to make plan, when aggregated, the inability to communicate value messages to customers and prospects finished at the top of the list.

Clearly, B2B sales and marketing professionals are concerned about their ability to prove value to customers and in need of methods and tools to help better quantify and communicate the value of proposed solutions to ever more frugal prospects.

 *Successful reps know that establishing credibility and providing value to a prospect or customer throughout the buying cycle is the difference between closing the deal and losing it.*

*The successful sales representative must ask the right questions, gather data and coherently identify need in the context of an opportunity, then be equipped with the proper tools to quantify savings and value as the opportunity progresses.*

- Joe Galvin Vice President,  
Service Director of SiriusDecisions

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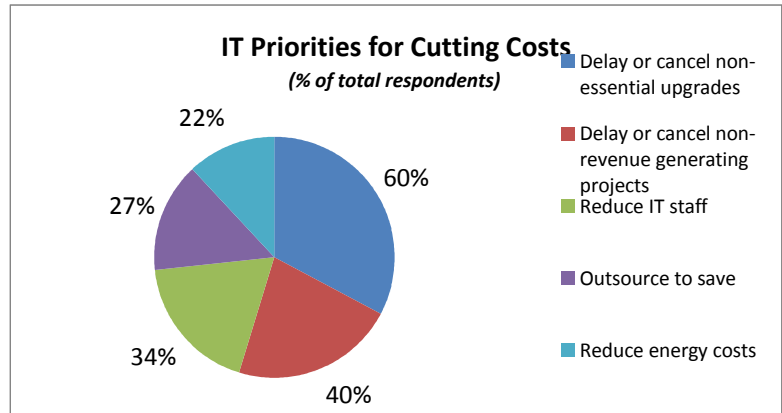
<sup>1</sup> Alinean ValueIT™ database of 20,000 worldwide company's IT Spending vs. Financial Performance – 2008.

<sup>2</sup> Findings from the SiriusDecisions Sales Readiness survey which polled more than 120 sales and marketing executives in organizations ranging in size from \$10 million to more than \$2 billion in vertical markets that included technology, financial services, healthcare, information services and others.

## Buyer Sentiment Continues to Decline

According to a Tech Target survey of 268 IT decision makers, the pressure is clearly on IT to cut costs with:

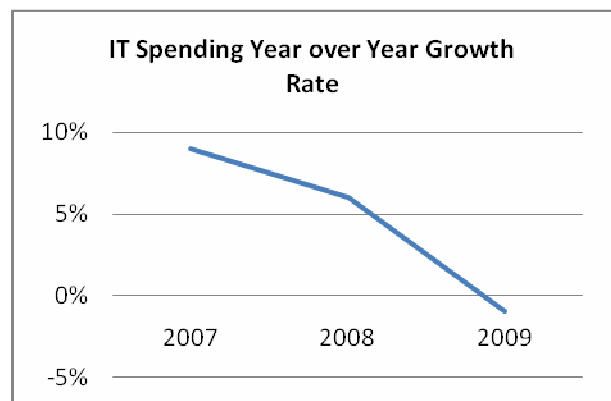
- 75% of respondents indicated that the overall economy is having a significant impact on their IT budget,
- 50% indicating a decrease greater than 10%,
- 68% indicate that more budget cuts are likely if the economy does not improve in the first half of the year (2).



Tech Target 2009 IT Priorities Survey, 268 respondents (September 2008)<sup>3</sup>

Goldman Sachs' latest IT spending survey predicts the impact these individual budget cuts are having on IT spending worldwide, where in 2009 for the first time since the bursting of the tech bubble in 2001/2002, annual growth in IT spending is expected to be negative. The estimate is for a -1% global decrease - a year over year 116% decline in growth (down from +6% growth in 2008, and +9% growth in 2009), that although expected by Goldman Sachs' analysts not to last as long as the last slowdown because spending prior to the pullback was more modest than the run-up to the tech bubble, still promises to have a substantial impact.<sup>4</sup>

Rather than be victimized, it is essential that savvy IT executives proactively prepare tangible plans for how they are going to help their organization weather the downturn. For commercial companies with declining revenues, in order to maintain profitability, the organization needs to find ways to gain scarce revenue (which is tough), or better, to reduce overall business costs.<sup>5</sup> Governments and not-



Goldman Sachs' IT Spending Survey highlights the precipitous decline in overall IT spending worldwide for 2009.

<sup>3</sup> Survey: Economy puts nonessential IT projects on back burner, Linda Tucci, 12 November 2008, SearchCIO.com / Tech Target


<sup>4</sup> IT Spending Survey: 2009 Under the Knife, Sarah Friar, Goldman Sachs IT Spending Survey of 100 managers with strategic decision-making authority at multi-national Fortune 1000 Companies, November 10, 2008, SandHill.com

<sup>5</sup> Comparing two projects, one that generates a dollar of cost saving to one that generates a dollar of revenue, the dollar in cost savings is often worth 3 to 5 times more bottom-line (profit) impact to the company. This is because that for every dollar in revenue generated as a result of a project, only a fraction of that dollar actually reaches the bottom-line, because every dollar has a cost of goods / service, and a variable sales, general and administrative (SG&A) expense. For every revenue dollar, an average contribution of less than 30% is realized in profit.

for-profits face similar issues with declining tax basis, donors and other sources of funding leading to budget cuts.

Of course IT cost cutting can contribute to help meet tight budget goals, but often the best way to cut total business costs, is not by reducing IT spending significantly, but showing how select IT investments on specific business projects can in fact help drive business costs down and boost profitability.

Most important, when times are tough, smaller projects with faster paybacks are king. As a result of the tight budget, the organization gets more conservative, losing the chutzpah for blockbuster projects, and moreover wanting to assure that any monies invested today, start contributing to profitability (paying off the original investment and then yielding positive returns) in the same calendar or even fiscal year. Projects with soft benefits and big claims will not fly.

 *Selling to the IT buyer will be increasingly difficult as we ride a roller coaster of economic confidence.*

*A multi-faceted program that provides a tailored value proposition to meet each buyers needs will achieve the highest degree of success in uncertain times.*

Bill Kirwin,  
ex-Gartner research VP  
and renowned TCO expert

## What is a Vendor to do?

As IT budgets come under more pressure than ever there will be a strict focus on cost cutting above all else, investing limited only the quickest payback projects, even less to spend on new and innovative projects, , and a clear dominance of the frugal buyer. Sales professionals will hear time and again from these buyers, “If you can’t prove a payback to me in less than 12 months, and can’t contribute to my cost cutting imperatives, I cannot give you the time of day.”

An increased competitive marketplace necessitates that IT solution providers make a business case for proposed solutions and upgrades, and connect with buyers directly on how the initiative can help cut IT and business costs.

Solution providers need to pay attention to the clear trends quickly emerging as a result of 2009 IT budget tightening and cutbacks:

1. Getting prospects interested in new projects will be more difficult as discretionary spending will see the biggest cutbacks - making it harder to get attention for any new proposals not already on the planning roadmap.
2. Getting on the roadmap will rely more than ever on quantifying return on investment and proving quick payback.
3. Gaining approval will require a business case that demonstrates cost savings or other benefits that are clear, concise and credible. Soft / intangible benefits will not be considered.
4. Sales cycles will be longer for projects that lack a clear tangible cost savings and paybacks longer than 12 months.


Recent surveys of IT buyers indicate record percentages that require cost-justification of all initiatives. Over 94% of all IT projects now require cost-justification, a clear indication that as the economy tightens, that cost savings scrutiny will only increase. Not surprisingly mimicking survey results from the tech bubble burst of 2001-2002, the vast majority of IT buyers are now only considering projects with rapid payback periods of 12 months or less, with a large increase in those demanding a rapid 6 month or less payback. The CIO sentiment is that if the project is not going to contribute to immediate cost savings or revenue goals, with low investment requirements and quick return on investment, then the project will be placed on the back-burner until economic conditions improve. From these survey results, it is apparent that economic buyers absolutely require vendors to proactively justify investments and prove quick payback.

**The bottom line is clear:** Those vendors that recognize the changing IT spending environment and proactively put in place cost savings programs for customers and tools to prove the ROI and payback will have a clear sales effectiveness advantage.

Those IT vendors using ROI analysis to quantify the cost savings of their solutions, especially those projects with low initial investments and quick payback will garner their share of prospective customers' tightened budget. Others will quickly be shown the exit door.

As a result of the new economy, Alinean is recommending the following 3 pronged approach for IT solution providers to address the emergence of a more frugal buyer:

- Develop new and hone existing cost savings marketing messages and programs to generate interest and position properly in a more competitive and frugal landscape. Some vendors are implementing "war on costs:" initiatives to deliver the message to buyers that they have a partner they can trust to help them meet drastic cost cutting goals. If the messages are not about cutting costs, or driving near term revenue with low investment, quick payback programs, buyers will not be paying attention.
- Generate interest in the war on costs programs with lead generation white papers and web-site calculators to help prospects quickly understand what the programs could mean to them. Back up the claims with evidence such as case studies which prove that others in similar industries and regions have enjoyed realized savings.
- Arm the sales force, consultants and partners with tools to quantify the cost savings and impacts of proposed solutions and projects in order to prove ROI and quantify quick payback. The tools need to be easy to use and adopt, producing turnkey PPT and Word reports for customers with as little sales / customer input as possible (resource cuts will mean less time to spend on any single task, especially project research and planning).

 *Marketing and selling IT solutions is becoming more competitive each year, especially in light of tightening budgets into 2009, making improving selling effectiveness with business value more important than ever.*

*IT providers must continually help their customers - the CIOs - to market and sell IT solutions within their companies.*

Randy Perry,  
VP of Business Value  
Strategy at IDC

As an example of one such campaign from Microsoft which focuses on quick payback cost savings projects, visit <http://www.microsoft.com/optimization/default.msp>

## Credibility is King

One of the most important aspects in implementing these initiatives is independent 3rd party validation. Unfortunately vendor ROI/TCO claims are often overstated in homegrown white papers, tools and programs, and lack credibility with skeptical buyers. As a result, survey's of buyer sentiment on ROI/TCO from vendors stresses the need for independent third-party validation behind a business value assessment, to add credibility and overcome this skepticism. Moving business value selling programs to an independent 3rd party best practices leader has been demonstrated to improve the validity and receptiveness to business cases by 150% or more over in-house programs.

## About Alinean

Alinean develops software and solutions to streamline the B2B selling process with business value selling solutions – using ROI/TCO and business case analysis to prove and improve the value of solutions to prospects and customers. The company's founding team pioneered the concept of interactive ROI and TCO software in 1994, developing award-winning solutions for leading B2B vendors and consultants. Its research methodologies and software tools are used by analyst firms and consultancies such as IDC and B2B leaders such as Oracle, HP, Dell, SAP, Microsoft, Symantec and IBM, and have helped justify billions of dollars in IT spending and derived value. For more information, visit <http://www.alinean.com> or call 407.382.0005.

