



THE ROI DILEMMA:

Selling the Value of Enterprise Software

DEVELOPED BY KOTLER MARKETING GROUP &
SOFTWARE & INFORMATION INDUSTRY ASSOCIATION (SIIA)

Software & Information
Industry Association
www.siaa.net



ABOUT THE AUTHORS

Kotler Marketing Group (www.kotlermarketing.com) specializes in helping technology companies - from startups to the Global 2000 - to build a compelling, ROI-based business case for their solutions. They offer a range of services including the development of customized ROI tools, ROI research and in-depth case studies, and training in ROI-based sales & marketing. Philip Kotler, the world's foremost marketing expert, is their Principal Associate.

The Software & Information Industry Association (SIIA) has brought together the leading companies of the software and information industry, expanding market opportunities and forging the way toward a stronger industry. SIIA is the only trade association with a global reach that provides a credible, unifying voice for all businesses that provide the software and information that underpin the digital economy.

For more information on Kotler Marketing Group and their ROI services, contact Reuben Silvers rsilvers@kotlermarketing.com or Tony Kotler tkotler@kotlermarketing.com at 202.331.0555.

For more information on the SIIA, contact Fred Hoch at fhoch@siaa.net or visit their site www.siaa.net

© 2004-2009 by Kotler Marketing Group (KMG) and The Software & Information Industry Association (SIIA). All rights reserved. The text of this publication, or any part thereof, may not be reproduced in any manner whatsoever without the written permission of the copyright holders.

TABLE OF CONTENTS

EXECUTIVE SUMMARY3

WHO IS RESPONSIBLE FOR BUILDING THE BUSINESS CASE?5

HOW ENTERPRISES EVALUATE SOFTWARE ROI6

 A. ENTERPRISE CUSTOMER RESPONDENT PROFILE6

 B. ENTERPRISE CUSTOMERS & BUSINESS CASES7

 1. When A Business Case Is Required7

 2. Financial Metrics9

 3. Required Payback Period9

 C. SOFTWARE BENEFITS INCLUDED IN BUSINESS CASES12

 1. Importance of Different Software Benefits12

 2. Difficulty of Quantifying Different Software Benefits15

 3. Quantifying the Value of Improved Productivity17

 D. WHAT ROLE SHOULD VENDORS PLAY?18

 E. ENTERPRISE CUSTOMERS' COMMENTS ABOUT VENDOR ASSISTANCE WITH BUSINESS CASES21

 1. What Enterprises Find Most Helpful About Vendor Assistance21

 2. What Enterprises Find Least Helpful About Vendor Assistance.22

 3. How Vendors Can Be More Helpful23

VENDORS' ROI SALES & MARKETING STRATEGIES26

 A. THE ROI IMPERITIVE27

 B. DEALING WITH CUSTOMER SKEPTICISM29

 C. ORGANIZING THE ROI INITIATIVE31

 1. Types of ROI Collateral Developed by Vendors33

 2. When Vendors Use ROI in the Sales Process36

 D. THE BENEFITS THAT VENDORS PROMOTE38

 1. Front-Office Application Vendors40

 2. Back-Office Application Vendors41

 3. Content-Management Application Vendors43

 E. PERCEIVED EFFECTIVENESS OF ROI INITIATIVES45

 F. VENDOR COMMENTS ON KEY CHALLENGES47

METHODOLOGY50

 1. Enterprises' purchasing decision process50

 2. Vendors' ROI-based sales & marketing strategies and practices50

Index of Tables..... 51

ABSTRACT

There was a time that enterprise software vendors did not feel the need to clearly communicate a business case for their solutions. This study confirms that times have changed -- and dramatically so. Vendors no longer feel they can rely on enterprise customers to make a leap of faith about software investments.

And with good reason. Among enterprise IT decision makers and influencers surveyed for this study, 70% said their organizations require a quantitative business case for IT investments of \$100,000 or more.

Responding to the reality of this tougher sales environment, many vendors are learning to speak about return on investment (ROI) and other quantitative measures of value. *70% of vendors report they have developed a business case and ROI collateral. Indeed, it is hard to read an IT vendor press release these days without coming across the term "ROI," or a claim that the company's solutions deliver "bottom line results."*

A key question to ask then is: How successful have these efforts been? From the vendors point of view, the assessment is mixed. *Only 23% judge their existing ROI-based sales & marketing strategy to be "extremely effective." Most vendors describe their ROI strategy as only "somewhat effective."*

The findings in this study suggest a basic dilemma that helps to explain this vendor ambivalence. On the one hand customers not only need to develop a business case, they want vendors' assistance in doing so. On the other hand, customers regard vendor ROI claims with strong skepticism.

Given this complexity combined with vendors' recent rush to develop ROI collateral, it is not surprising that the study found indications that vendors could benefit from re-examining current approaches. The study identifies several problems in particular that vendors need to avoid.

This report's findings can be used by IT vendors in two ways:

- 1. To better align ROI marketing efforts with the customer decision process.** The first half of the report focuses on how customers use business cases and ROI in their IT-purchase-decisions; their opinions of what vendors role is and should be; and it details the benefits they consider most important for various types of software, and which of these are easiest/most difficult to quantify in a business case.
- 2. To benchmark ROI marketing efforts against other software vendors, as well as suggested best practices.** The second half of the report focuses on vendors' attitudes and opinions on the subject of ROI; current practice and efforts to-date; what they believe the major challenges to be in implementing a successful ROI strategy; and priorities for future work. Again, specific benefits are analyzed in terms of perceived importance and the difficulty of quantifying them in a business case.

METHODOLOGY

Kotler Marketing Group and the Software and Information Industry Association (SIIA), in association with Line56, the e-business executive daily, undertook a survey of key decision makers within both enterprises and technology vendors. The focus of this research is to analyze each group's attitudes, opinions, and overall approach to measuring and evaluating the business value - or return-on-investment (ROI) - of various types of technology products.

Two key business factors form the center of this study:

1. Enterprises' purchasing decision process

We asked enterprise decision makers, including CTOs, CIOs, IT managers, eBusiness executives and analysts, as well as technical specialists, about their organizations' processes for evaluating technology investments.

2. Vendors' ROI-based sales & marketing strategies and practices

We asked sales, marketing, and business development personnel about their current and planned ROI strategies & practices. We wanted to identify and understand the ROI collateral and tools that vendors have developed, how ROI is being used in the sales process, assessments about the effectiveness of the current ROI sales strategies, and what the primary challenges have been.

In total, over 450 enterprises and over 220 vendors responded. In this report, we provide industry-specific breakdowns for key questions, based on SIC classifications. Industries addressed include:

- Banking & Finance (includes insurance, wholesale and retail banking)
- Manufacturing
- Transportation & Utilities
- Services Firms (includes education, consulting, legal)
- Information Technology
- Government (federal, state, and local)

In addition, we have organized enterprise and vendor responses by application type as follows:

- Front Office Enterprise Applications (e.g., CRM)
- Back Office Enterprise Applications (e.g., HR, Finance)
- Infrastructure/Middleware (includes tools, languages, and utilities, as well as database and desktop applications)
- Portal/Content Management Applications

INDEX OF TABLES

Table A1: Investment Size Requiring A Business Case	8
Table A2: Required Payback Period By Industry	10
Table A3: Importance of Benefits, By Application Type	13
Table A4: Importance of Benefits, By Industry	14
Table A5: Difficulty of Quantifying Benefits, By Application Type	16
Table A6: Vendor ROI Collateral Used, By Industry	19
Table B1: Vendor Reasons for Taking ROI-Based Approach	28
Table B2: Vendor Plans for ROI Collateral Development	35
Table B3: Stage of Sales Cycle Where Vendors Use ROI	36
Table B4: Importance of Benefits: Vendor View vs. Enterprise view (All Vendors).....	39
Table B5: Importance of Benefits: Vendor View vs. Enterprise view (Front Office)	41
Table B6: Importance of Benefits: Vendor View vs. Enterprise view (Back Office).....	42
Table B7: Importance of Benefits: Vendor View vs. Enterprise view (Portals/Content Management)	44
Table B9: Perceived Effectiveness of ROI Initiatives, By Type of Application Sold	46