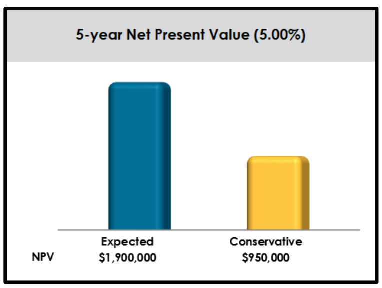
Best Practices in ROI Modeling

Introduction

The FiscalHealth Group has been creating ROI sales tools since 2007, and its principals have many years of ROI modeling expertise from previous positions. We'd like to leverage this experience and expertise by sharing some of our best practices that we use when creating ROI models. We will review modeling approaches and "helpful hints" that have been successful for us in the past, and identify approaches that didn't resonate so well with our financial audiences. Below are some of our favorites.

Provide a Range of Financial Benefits

If we were to describe CFOs in one word, it would be "Conservative". In our experience, CFOs are trained to evaluate proposals with a skeptical (e.g. conservative) perspective, looking to minimize the investment risk. A common strategy is to reduce the magnitude of the potential financial benefits included in an ROI analysis, so there is more upside to the proposal.



We recommend anticipating this CFO conservative mindset by providing a range of benefits in your ROI analysis. Examples of ranges we have used include High/Low, Best Case/Worst Case, and (our favorite) Expected/Conservative.

Incorporate Benefit Phase-in Timing

A common flaw in ROI models is the assumption that financial benefits are realized immediately. In other words, Year 1 of the ROI analysis assumes benefits are realized immediately. This is rarely the case. Any number of variables can impact how quickly, and to what extent, benefits are realized. For example, the implementation period, staggered product implementation, product roll-out timing (e.g., different floors), training, user learning curve, and user adoption rates.

We recommend including this important modeling technique in your ROI models. While the benefits and ROI will be a bit lower using this approach, the financial impact will be minimal relative to the enhanced financial credibility generated with CFOs.

Benefit	Year 1											
	M1	M2	M3	M4	M5	M6	M7	M8	M9	M10	M11	M12
Cost Savings	0%	0%	0%	25%	50%	75%	100%	100%	100%	100%	100%	100%
Staff Productivity	0%	0%	0%	0%	0%	25%	25%	50%	50%	75%	75%	100%

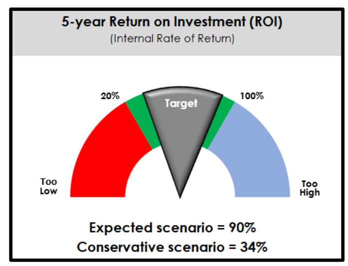
Be Transparent with All Calculations

In virtually every ROI presentation we have given, CFOs have shown great interest in the financial calculations and assumptions used, including benefits, expenses, net cash flow, Internal Rate of Return (IRR), and Net Present Value (NPV). They are not interested in a "black box" approach where they see the projected results and are expected to simply trust the supporting calculations and assumptions are correct.

The opposite is true; CFOs can't get enough detail supporting the calculations and assumptions used in a financial model. We have given many presentations where an otherwise quiet CFO was following along with her calculator, checking our calculations as we talked! We recommend providing the detail supporting your ROI model in your deliverables and to maintain an ongoing dialog with the CFO to ensure she understands and is comfortable with the benefit calculations and assumptions.

Bigger Benefits are Not Always Better

From a sales perspective, it is tempting to assume that the bigger the projected benefits and ROI of your product, the better. However, as discussed above, CFOs are very conservative and typically view very high benefits and ROI as less credible - "too good to be true". Your analysis may be recognized as a sales pitch instead of a serious financial analysis.



Even if a CFO finds the large benefits in your ROI analysis credible, he will associate these benefits with a higher risk (i.e., more difficult to achieve higher benefits) – and CFOs want to minimize risk! It is better to be conservative in your financial benefit calculations, signaling to your financial audience that your modeling approach is conservative in nature. CFOs will appreciate the greater financial upside to your conservatively calculated benefits/ROI than the larger downside risk associated with more aggressively calculated benefits/ROI.

More Benefits are Not Necessarily Better

On a related topic, more (quantity) benefits are not necessarily better either. Experienced sales professionals understand the "show up and throw up" approach of showing many financial benefits, hoping some will "stick", is not an effective sales technique. By including more financial benefits than necessary in your ROI analysis, you are hoping enough of these benefits resonate with a CFO to generate credibility. CFOs will recognize this strategy.

In our experience, it is more effective to focus on fewer benefits that will best resonate with your customer and you can spend more time and effort discussing, explaining, and defending these benefits.

Include a Variable Time Horizon

Traditionally, most ROI financial analyses cover a 5-year time period or horizon. A 5-year horizon is a long enough period to cover initial capital investment costs as well as software upgrades and hardware replacement in future years. Additionally, when multiple products are included in an ROI analysis, and particularly when the products take multiple years to be implemented, the analysis horizon may extend to 10 years or more.

However, more recently, most (but not all) software solutions in Healthcare have been shifting to subscription-based pricing. With lower initial investment costs (sometimes $0), CFOs are more frequently looking to evaluate proposals over shorter time horizons. If your solution offers a 1 or 2-year subscription contract, CFOs will look at a 1 or 2-year analysis horizon instead of 5 or more years. To meet the expectations of your CFO customers, your ROI model needs to be flexible enough to cover analysis horizons from 1 or 2 years, and potentially up to 10 years. Additionally, the analysis horizon may need to vary monthly as well (e.g., 18 months) to better handle shorter analysis horizons.

Professional Presentation

A professional presentation used to communicate your ROI results is a critical component in your ROI sales success. Too often we see Excel-based presentations that are ineffective because they are either too complex to follow or too simple to have value. Sharing a spreadsheet with tables and calculations doesn't provide the opportunity to effectively share your sales story (favorable, credible ROI analysis) and objectives you are trying to accomplish (creating a compelling business case to purchase your product). We strongly recommend sharing the results of your ROI analysis using a professional sales presentation that is consistent with your company branding and product messaging.

Summary

Following these ROI modeling Best Practices will help ensure you develop and utilize an effective ROI sales tool that is credible, effective, and financially viable with your economic buyers, including CFOs, CEOs, and other finance professionals.

About The FiscalHealth Group (FHG)

The FiscalHealth Group is the leader in identifying the Financial Value and Return on Investment of Healthcare solutions. We are dedicated to assisting Healthcare vendors quantify the Financial Value and ROI of their products by creating customized sales tools to communicate this value to economic buyers, including CFOs, CEOs, and other finance professionals. Visit www.thefiscalhealthgroup.com for more information.