



Return on investment argument

When considering a purchase of any kind first consider whether it is truly an investment.

An investment is a particular type of purchase - it's when you buy something that will return a profit to you at a later date.

Sales people of all types will try to convince you that each purchase you make is an investment. You need to decide for yourself whether something is an investment or not. How do you do that? By making a rational assessment of the cost of something versus the return it will give you.

To do this you need to consider the full cost and the full return. One taken from the other yields profit.

The full cost will include:

- The up-front purchase cost including any hidden charges.
- The on-going cost of owning the purchase over the life of the purchase. This can include on-going maintenance and support costs, costs of replacement, and perhaps even costs of disposal.
- Note that the current taxation regime may allow you to spread costs of ownership over the life of the product.

The full return:

- The return to the business in the short-, medium- and long-term.
- The return in hard and soft terms - for example, in financial rewards (hard) and things like reputation, getting people's needs met, and even feeling good about the contribution you are making to clients (soft).
- The return across all areas of your business: people, marketing, sales, product/service development, delivery, administration, finance etc.

Why would you make an investment?

At some stage every entrepreneurial person makes an investment. When starting up any kind of business an investment is made in people, offices, furniture etc. The reason for making this investment is a belief that this investment will produce a return later in life.

Obviously a key thing here is ownership of the venture. If the business owner knows that the return will come to them then they are in a good position to be able to make that investment decision.

This is equally true when the business has been running for a while and needs to invest again. There must be a reward structure of some type whereby the investor gets personal value from the investment they make.

In many businesses this will be a profit sharing arrangement whereby the business owner gets a share of the rewards for the investments they make. This needs to be suitably motivating but can be in the form of money, time or control.

Remember the return also needs to be considered against the costs of change - psychological and emotional as well as actual. These always exist when any kind of change is made and they exist for the business owner initiating the change and for anybody else who may be affected by the change.

One way to look at the business owner role is that this person is the leader and visionary who encourages others to accept short-term change (and discomfort) in order to get benefits in the longer-term.

Reasons why you wouldn't want a return

Because you believe that return is not a good thing. This may seem strange but some people don't want to earn rewards (e.g. psychologically don't believe it is a good thing for them).	Answer: look at yourself!
Because the tax man will take it all anyway.	Taxes are good (within limits) - they pay for useful things.
Competition is better than collaboration	See below

Reasons why you wouldn't reduce costs

I don't like being the entrepreneur	Smell the coffee!
Its not true that its possible to save	There are always examples where good cost savings have been made - look at other industries.

Reasons why you wouldn't increase revenue

IT confers no competitive advantage when everyone has it.	Need to keep up so that you can occasionally get ahead. People who are far behind definitely won't have opportunities to take advantage of new innovations like new technology.
Our income stream is specialised or limited	Need to introduce multiple revenue streams in order to realise value from reputation (brand recognition)
Its not true that its possible to increase revenue	There are always examples where good revenue has been made - look at other industries.

How to reduce costs

IT systems can reduce costs. That is they have the potential to do this, if managed well.

They can do this by:

- Replacing people's effort with systems.
- Reducing costs of hiring people.
- Reduce costs of training people
- Ensuring people don't overspend on projects

How to increase revenue

IT systems can increase revenue. That is they have the potential to do this, if managed well. They can do this by:

- Ensuring work done is billed for.
- Giving more value to clients e.g. through creating better contact with them
- Giving more value to clients - through better risk management - seeing what might be going wrong and “heading it off at the pass”.
- Various marketing activities - from targeted campaigns to general brand/ reputation building - all communication is a chance to brand build.
- Planning and assessing yield of e.g. new revenue streams

People and value

People and value are central to this argument.

Why does profit come.? **Because people add value to other people.** The more value you add the more profit there will be.

Profit is a good thing because it helps you invest in the business and thus build it so that it can add more value to other people.

This is also good for the people - everyone wants meaningful work as well as just pay. In fact meaningful work is more significant a motivator once subsistence levels are met. So it is a win-win - good staff add more value - add more profit and they will stay with you longer.

(The argument that good people will leave - yes some will. Most won't. And the ones that leave help create a market of skilled people who you can access).

Can be a unique creation - collaborating doesn't mean losing uniqueness. Successfully collaborating with profit means setting things up exactly as you want them to be - hiring the people you want etc etc.

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