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Build v. Buy in a Post-SOX Environment

The "Build v. Buy: A Common Dilemma" article is one of the most frequently downloaded documents on our website. The article outlines some of the steps a company should take when considering the options for implementing a trade promotion management solution, starting with the common question: Should we custom build or buy an existing software solution?

Now that the compliance deadline for Section 404 of the Sarbanes-Oxley Act (SOX) passed on November 15, 2004, we hear this question with more frequency and with an increased sense of urgency. Let's take a moment to re-visit the steps that we suggested in the original "Build v. Buy" article, but within the context of a post-SOX environment.

Section 404 of SOX requires that publicly held companies must establish and assess internal controls. According to the SEC, "…internal controls are a process designed by…management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP." Internal controls relate to the maintenance of records, separation of roles, assurances that transactions are properly recorded and classified, and that there is timely disclosure of any material changes that may impact the financial situation of the company.

When developing or assessing a channel or trade promotion program, companies now need to look at things differently. Historically, many companies determined a budget for channel programs and then decided how to best use the money to meet company objectives. While this approach worked in some situations, homogenous channel programs quickly grew stale overall. In the face of a more competitive and cost-conscious economy, many companies are outsourcing to make better use of their money and resources. They have come to realize that "one size fits all" programs are not cutting it with partners. Further, they are realizing that manual systems for managing channel and trade promotion programs are cumbersome, error-prone and costly. Not only are such systems a poor use of their resources, but using manual systems may also be problematic when it comes to data analysis and legal compliance.

If you are currently in the process of deciding whether to custom build or implement an existing trade promotion or channel management system, we recommend that you follow these guidelines:

VALIDATE YOUR NEED FOR A TECHNOLOGY SOLUTION

Many organizations choose a software solution before identifying business and program needs. Sometimes this "cart before the horse" approach is due to executive pressures, lack of technical knowledge, or pure product hype. We suggest that companies focus on validating the existence of a business need prior to deciding upon a solution and that the need can be readily associated with one of the organization's primary goals. Then an estimated return on investment (ROI) should be developed along with how it will be measured.

> **KEY GUIDELINES**
>
> 1. VALIDATE YOUR NEED FOR A TECHNOLOGY SOLUTION
> 2. IDENTIFY YOUR CORE PROGRAM REQUIREMENTS
> 3. IDENTIFY TECHNOLOGICAL REQUIREMENTS
> 4. CHECK FOR IN-HOUSE SKILLS TO SUPPORT THE SOLUTION
> 5. DON'T FORGET THE FIRST VITAL STEP

IDENTIFY YOUR CORE PROGRAM REQUIREMENTS

In many organizations documenting core program requirements is overlooked, but is nonetheless critical before deciding on a solution. By definition a core program requirement is one that must be supported by the solution. It takes effort to identify these program requirements and it is extremely important to consider the business impact as well. Some of your core requirements may include integrating corporate strategies, measuring levels of customer satisfaction, gathering intelligence to assist in decision-making, and developing ROI analysis of program spending.

IDENTIFY TECHNOLOGICAL REQUIREMENTS

Most organizations are already using technology to enable their business processes. To reduce the cost of operation and maintenance of this technology, organizations have established standards to which all solutions must adhere. It is important to identify these requirements or standards before determining if a custom or existing solution is the best choice. Factors you should consider are security strategy, planned technology infrastructure, and operating systems in use by the organization and your partners.

CHECK FOR IN-HOUSE SKILLS TO SUPPORT THE SOLUTION

The major factor that significantly reduces the ROI of a custom developed solution is the lack of available personnel with proper skill sets to develop, manage and support it. It takes many skills to design and deploy a business solution that is both scaleable and flexible. Unless one of your business areas is product development, there is an extremely high probability that your operations and technology resources do not include all of the skill sets necessary for a successful solution. It is never profitable to let personnel gain these skills and experience by developing business-essential systems.

More often than not, managers see the significant short-term cost differences between a custom and an existing commercial solution and decide to build their own to save money. But the long term costs and gains should also be considered.

For example, who hasn't heard about the pain that is often associated with the implementation of highly customizable, installed software solutions? This is the type of software that must be installed behind a company's firewall and that is so customizable that after many months of coding by the software vendor's high-priced consultants, your company does not have the functionality that made that particular solution so attractive in the first place. In most cases, the company decision makers didn't know to ask some very important questions like: Is the installed solution

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ROI & ROO
What's the Difference?

When providing channel or trade promotion programs to partners, wise companies use those programs as an investment in their channel. The channel is usually a large source of revenue for the company so investing in channel partners is an excellent use of sales and marketing budgets, when done in keeping with the company's own business objective.

Clients often ask us about the most effective ways to measure return on investment (ROI) in a channel or trade promotion program. While we can help our clients discover the answer that is right for them and their specific program, the question left in its broadest form is almost impossible to answer. ROI is a very confusing form of measurement, because it can mean varying things. ROI can be measured in so many ways, and the confusion seems to come from the fact that "ROI" is used as a "catch all" phrase. How many times has someone from your upline management come to you and asked, "What is the ROI of that program?" leaving you wondering where to begin to get the information you know must exist somewhere? It happens all too frequently, and we will attempt to clear up some of the confusion in this article, as well as present some other options for measurement.

Return on Investment (ROI)

Literally, ROI is an acronym for return on investment. The generally accepted definition of ROI is " a calculation used to determine whether a proposed investment is wise, and how well it will repay the investor." The basic ROI formula is: Revenue (return) minus investment (costs) = ROI.

When looked at from a practical rather than a theoretical perspective, ROI is often used as a cost justification, as a way of understanding if costs are being offset by revenue, or as a method of understanding how budget money is being put to use. The question that is often asked is, "For every dollar spent, how many dollars are saved or earned?" Unfortunately, the approach to answering that question can be categorized as, "If it moves, measure it…and we'll figure out what it means later."

In our view, ROI means measuring the results of a program based on the program objective vs. the total investment

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The way I see it...

Bill Kelly is VP of Sales for CCI and helps companies define objectives, evaluate strategies and implement programs that achieve measurable results.

Companies Embrace CCI's Software-as-a-Service Model

A growing number of companies are adopting CCI's web-based solution modules to remove obstacles that prevented channel programs from realizing their potential. This approach offers lower costs, minimal upfront expense, rapid implementation, immediate ROI and reduced risk for the client.

CCI's solution modules are classified as "software-as-a-service" ("SaaS"), and are delivered over the Web. Similar to offerings referred to as "on-demand software" and "application service provider" (ASP) software, CCI's solution modules are Net-native applications written from the ground up and they offer dramatic economies of scale over traditional application deployment models.

What's wrong with the traditional software model?

In the traditional software purchase model the customer buys a license to the software then installs and manages it internally. Here are three recurring complaints with traditional software.

1. Unexpected Costs The actual software purchase price is usually only a small part of the Total Cost of Ownership (TCO) of an enterprise software application. In fact, studies have shown that up to 80% of IT budgets are spent on system implementation and maintenance.
2. Implementation Delays As many as 90% of all software development projects are delivered behind schedule, making the software obsolete before it's deployed.
3. Ongoing Administrative Burdens The administrative challenges that an organization faces today (especially a non-IT organization) in the ongoing management and administration of enterprise software can take many forms, including compatibility maintenance, growth management, managing Internet-based security and upgrade costs. This translates directly or indirectly as additional cost of the software.

Benefits of CCI's SaaS model

The principle benefit of CCI's Software-as-a-Service model is that the client receives exactly what he/she wants: High quality, industry-specific IT solutions with predictable costs. The benefits include the following:

1. Total Cost of Ownership (TCO) Total costs are known, in advance, and contractually defined. The TCO of CCI solutions is usually dramatically lower because of the efficiencies that CCI has in managing its own applications.
2. Speed of Deployment Because there is no software for the customer to install and configure, a CCI solution can be "turned on" quickly. Typically a full implementation takes between four to six weeks to complete.
3. Reliability CCI's reliability features include servers with automatic fail-over, multiple backup power sources and a 99.8% reported uptime.
4. Security, Data Safety and Disaster Recovery All of these important components of the IT infrastructure can be provided by CCI at a higher level, with lower costs, than a company could provide themselves.
5. Optimized Utilization Clients can purchase exactly the capacity (data storage, bandwidth, functionality) that they need today, and expand on-demand.
6. Regular Updates, With no New software to Install Updates are seamlessly and instantly performed on CCI's servers.

Take a serious look

It's important to look at trade promotion software not as a license to something that must be installed and managed, but as a service that delivers precisely what is needed: A powerful service tool that is designed by industry experts, delivered reliably with low capital investment and rapid realization of the return-on-investment.

Not every company will be able to realize all the benefits of SaaS, but many will find that the lower internal IT requirements, reduced capital investment and faster implementation - coupled with contractually-guaranteed reliability and security - make SaaS a very compelling choice of software delivery models.

The evolution of computing technologies and CCI's business models makes SaaS possible today, relieving the client of the burden associated with installation, implementation, configuration and maintenance of hardware and software. "Software-as-a-Service" is changing the way that channel program management software is being bought and sold today, and CCI has been ahead of the curve for years.

ROI & ROO

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it took to meet the objective. However there are so many factors that contribute to a result or objective, what should be included and measured? Do measurements include just the "pure" costs such as cost of the program management tool and the co-op accrual budget, or are operational costs like personnel and other resources also included? And how many levels of ROI should be considered? For instance, is it necessary to measure the ROI of each reseller and roll that up into one master report on the ROI derived from last year's co-operative advertising program?

Return on Opportunity (ROO)

The Hurwitz Group created the ROO model which "…measures the adaptability of an organization's technical architecture, application architecture, and business processes, and the company's ability to leverage existing resources, including people, applications, and technical resources." While this model was originally designed for CIO's who were looking at the best way to determine whether or not their technological solution choices were of benefit to their companies, ROO is a model that is highly translatable into many other areas of business – like channel programs.

ROO is based less on "hard" data like costs and resulting returns and more on "soft" data like productivity gains or cost reductions as a result of an investment. In channel and trade promotion programs, soft data is more easily collected and is often a more realistic gauge of success. For instance, it can be challenging to attribute sales spikes to co-operative marketing fund utilization but the correlation between implementing an automated program management system and freeing up your channel managers to work on their core area of business is very clear. And for many companies, being able to state conclusively that they saved 160 man-hours a month, improved the internal controls and reduced over-payment errors is a huge win.

In Conclusion

We recommend two things when talking with clients about measuring returns. The first is to keep it simple; be clear about what must be measured from the very beginning, and make the processes for measuring all of the data points as easy as possible. If there is no data to support the objectives, measurement will be impossible.

Secondly, consider looking at measurement in other ways. While it's important to measure tangible things like revenue vs. the cost of generating the revenue, or by partner utilization of co-op funds, it can be equally informative to track return on opportunity. For instance, if your company has been administering and managing all of its channel programs manually, there are hard costs associated with that process. However, there are potential opportunities for cost and process improvements by automating the program that can be measured using both hard data (ROI) and soft data (ROO). The graph below demonstrates both types of returns and how they might be calculated:

Hard Data (cost)	Result	Soft Data	ROI	ROO
$50k costs of implementing an automated system	$100k revenue/mo = $1.2m/yr	160 hours/mo not spent on program admin & mngmt	$960k revenue/yr	One f/t person can now focus on more significant tasks

For more information about ROI and ROO, please call Bill Kelly at CCI: 415.472.5100 x210

Build v. Buy

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truly scalable? Meaning, can you add other modules to the existing system without compromising the current modules, and how much customization must be done in order to get the solution needed and at the cost of what other functionality? Will it be possible to remain with one solution/vendor if programs change? Are costs predictable? And does this solution meet GAAP standards and assure FASB & SOX compliance for the company's channel programs? More often than not, when proper due diligence is conducted, companies realize that existing, hosted solutions that have been developed by industry experts are not only more cost-effective but also more effective overall.

DON'T FORGET THE FIRST VITAL STEP

Remember that the first step to determining the right solution — clearly understanding the strategic and operational objectives for the program — is the most critical step and should not be skipped. The long-term potential impact on your program warrants that you make the decision based on which solution will ultimately have the most positive effect on the entire business.

CONCLUSION

Now more than ever, companies will want to act with care when selecting solutions that have any impact on financial or material aspects of their business. Trade promotion and channel programs fall into this category and are subject to the FASB and SOX laws and guidelines, making it critical for channel managers to understand the scope of their program needs and the options available to them for managing the programs in an efficient and compliant manner.

What's New @CCI

CCI ANNOUNCES PARTNERSHIP WITH ICLP

CCI IS PROUD TO ANNOUNCE A STRATEGIC PARTNERSHIP WITH ICLP. THIS PARTNERSHIP EXTENDS THE OFFERINGS OF BOTH COMPANIES, ALLOWING CCI TO PROVIDE GLOBAL PROGRAM SUPPORT AND INCENTIVE PROGRAM FULFILLMENT.

FOR MORE INFORMATION, PLEASE VISIT WWW.CCIONLINE.BIZ/ICLP

CCI's Growth Brings Organizational Changes

In 2004, CCI grew by 65%, and the growth was made possible, in part, by organizational changes. These exciting changes are not only good for CCI but, more importantly, they make it possible to provide our valued clients with the high-level of expertise and service that makes the CCI Experience so unique.

New employees include Kathryn Dalgleish, Director of Client Engagement.

Recently promoted employees are Debra Delaney, who moves from President to President & CEO of CCI and Scott Lincoln, who was promoted to CCI's Director of Client Development.

For more information, please visit www.CCIonline.biz and look under our Company & CCI Professionals sections.