Yarnell

ROI vs. Acquisition Costs

Which is more important and when?

"We have a real winner here" said Theresa as she drove with Michael to their sales meeting. "They should call this the lean, mean, green machine" Michael replied, only half-joking. He continued "these servers use 30% less energy than our closest competitor and nothing is easier to manage. They may cost a little more up-front, but the ROI is through the roof with the long-term savings. Big sale, here we come!"

Theresa and Michael were clearly excited to be selling the "best" product on the market. However, their excitement was short-lived. Leaving the meeting, shaking their heads, they wondered how they could have been so wrong.

Businesses buy hardware, software, and services based on ROI, right? Not always. Sometimes selling a product based on a low acquisition cost can be a far superior pitch to a high ROI. When creating new products, developing for low acquisition cost vs. high ROI should be considered in the context of:

- The budget climate
- The source of savings, and
- The responsibility of the person controlling the budget

The budget climate

When business is great, companies are more likely to invest for the future. Acquisition cost frequently takes a backseat to Return On Investment and all of the different factors that go into the ROI equation. Conversely, during lean times, cash is king and a low acquisition cost may trump long-term considerations.

The source of savings

If it looks like savings, and if it feels like savings...it still might not be savings. Consider the above case where Theresa and Michael were selling the server that was the easiest to manage. Technology that is easier to manage doesn’t necessarily translate directly into savings. For example, at one company, we were told by a Server Administrator that software that saved server management time didn’t matter to his manager who "doesn’t care if I have to work on weekends."

Savings based on intangible benefits are less likely to have an impact than real dollar savings.

Green is selling anyway

But we are selling "Green" now! Yes, corporate mandates create exceptions to the norm. Many companies have instituted "Green" policies over the past few years. These policies range from having loose environmental saving goals to strict carbon footprint reduction metrics. In many companies being "Green" justifies higher acquisition costs and our research can tell you when.

The responsibility of the person controlling the budget

There are many levels of budgets in a corporation, and the savings from your product will only matter if they impact the purse holder's budget. For example, Theresa and Michael's servers saved money because they were so energy efficient. The problem however, is that the IT department's budget (where they were selling the servers) was not responsible for electricity charges. Electricity charges were part of corporate overhead, so even though the corporation as a whole would have saved money from energy efficient equipment, the IT department itself would not. Therefore, the IT manager, who would have paid for the equipment, did not consider energy efficiency a benefit.

Make sure the savings benefits from your product accrue to the person who makes the buying decision.

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