



It's All About the ROI (Return on Investment)

Distributors' and resellers' customers frequently ask about ROI when migrating to IP Telephony and IP applications. Very often this is part of their standard business process – they have to be able to present an investment justification to their CFO. In order to support this process, providers have built elaborate ROI tools and offer support to help with the analysis. While one can debate the accuracy of these predictions, the opportunity to go through the assumptions and look at the resulting yearly cash flows is undoubtedly a valuable exercise to at least get a rough sense of the financial values and orders of magnitude involved. It also provides a tool to hold the appropriate managers responsible for the results of the investment.

But how does this apply to internal decisions on investments in your equipment provider business? Is ROI used to compare opportunities or are decisions just based on intuitive need and anticipated results for each individual investment? How are the benefits of small dollar investments evaluated versus large dollar investments? Are large dollar investments always assumed to have the biggest returns? In other words, given the opportunity to invest in your business how do you know you are using your investment cash most wisely?

Consider three very different types of “investments” you might make and the ROI of each:

- Hiring an additional sales person
- Investing in a remote monitoring system to offer new service to existing customers
- Subscribing to a competitive database service to increase competitive win rates

An ROI analysis for each potential investment is provided below. While each provider's results will be different based on costs and volumes, the intent is to compare the relative orders of magnitude of profit and ROI of each investment.

| New Sales Person Investment | | |
|--|----------|------------|
| Fixed Costs | | |
| Base salary | \$50,000 | |
| Loading for taxes, benefits, etc. | 30% | |
| Total fixed costs | | \$65,000 |
| Variable Costs | | |
| Commission rate (applied to total revenue) | 10% | |
| Revenue from average sale (assumes 50 stations, \$500/station, 12% for installation) | \$28,000 | |
| Expected number of sales per year for new salesperson | 15 | |
| Total new revenue | \$420,00 | |
| Total commission costs | | \$42,000 |
| Total cost of investment | | \$107,000 |
| Profit | | |
| Gross profit margin on sales | 30% | |
| Profit on additional sales | | \$126,000 |
| Net profit (sales profit - investment cost) | | \$19,000 |
| | | |
| ROI of Additional Sales Person ((return-investment)/investment) | | 18% |



| Remote Monitoring System Investment | | |
|--|-----------|-------------|
| Costs | | |
| System up front costs (one time) | \$30,000 | |
| Technical staff (annual) to monitor and manage (assumes 1/2 person at loaded salary of \$80,000) | \$40,000 | |
| Cost per customer system for interface port on monitoring system | \$50 | |
| Installed base of systems to monitor | 200 | |
| Total cost of interface ports | \$10,000 | |
| Revenues/Profits | | |
| Annual charge per system for monitoring (assumes 50 ports, \$1/month per port) | \$600 | |
| Annual revenue from monitoring | \$120,000 | |
| Three year net present value of costs | | \$139,474 |
| Three year net present value of revenues | | \$298,422 |
| Net present value of improved cash flow (profit) | | \$158,948 |
| Average annual profit (3 year NPV divided by 3) | | \$52,983 |
| | | |
| ROI of Remote Monitoring System ((revenue-cost)/cost) | | 114% |

| Competitive Database Subscription Investment | | |
|--|----------|---------------|
| Number of system sales per year (status quo) | 50 | |
| Revenue per system sale (assumes 50 stations, \$500/station, 12% for installation) | \$28,000 | |
| Gross profit margin per sale | 30% | |
| Average profit per sale | \$8,400 | |
| Percent increase in sales with competitive database* | 10% | |
| Annual increase in profits due to competitive database | | \$42,000 |
| | | |
| Cost of competitive database subscription | | \$2,395 |
| Annual net profit improvement | | \$39,605 |
| | | |
| ROI of Competitive Database ((profit improvement-cost)/cost) | | 1,654% |

* TelecomTactics users reported win rate improvements averaging 14% in Jan/Feb 2006 survey.

In summary, the three investments are expected to produce the following annual results:

| Investment Opportunities | Profit (\$) | ROI (%) |
|--|--------------------|----------------|
| New Sales Person Investment | \$19,000 | 18% |
| Remote Monitoring System Investment (average annual results) | \$52,983 | 114% |
| Competitive Database Subscription Investment | \$39,605 | 1,654% |

It is reasonable to assume that these comparative results were not intuitive, meaning that managers would not have been able to guesstimate all of these values and rank the order of the ROI results unless they had previous experience with each type of investment. While there are always strategic issues associated with investment decisions that are not captured in the numbers (although some would argue that the only strategic issues are



the numbers), there is no substitute for this type of comparison. Given this set of investment options, the clear winner is the competitive database subscription.

Readers who are interested in improving their ROI can take the **TelecomTactics ROI Challenge**. If anyone can demonstrate a better ROI than **TelecomTactics** for a similar investment amount (using an ROI analysis such as those shown above) the **TelecomTactics** team will provide the service free for one year. If you are interested in more information, including a web-based demonstration, please contact:

- Maribeth Natchez – 973-602-0100, mnatchez@t3igroup.com
- William Watts – 973-602-0100 wwatts@t3igroup.com

For more information on **TelecomTactics** including vendor and application/system coverage please visit www.telecomtactics.com

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