

RETURN ON INVESTMENT REVIEW

FOR [COMPANY A]

SAMPLE DOCUMENT

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SAMPLE

BASIS OF PREPARATION

This appraisal has been prepared in order to provide Clothing Company with the potential financial implications and investment returns arising from the proposed ERP & CRM solution.

It is based upon a number of stages that together provide an assessment of the investment returns likely to be delivered as a result of project acceptance. It compares specific, identifiable financial returns that arise against the cost of this solution.

This review is based upon information and explanation from Clothing Company and is indicative only.

[COMPANY] BACKGROUND & CHALLENGES

This midsize apparel and footwear company designs manufactures and distributes a product range of more than 1200 work wear articles. It is a privately held company with a staff of 125 and has global sales operations as well as production sites in Eastern Europe and the Far East. Their existing business systems are separate and were manually intensive with large quantities of information being copied by hand between warehousing marketing and production databases. They are looking for an integrated ERP system with improved management visibility of their operations and CRM capability to handle customers throughout the world.

The following appraisal methods are used in this ROI review:

Net Present Value

A financial measure of whether a proposal delivers a “profit” or a “loss” using an annual cost of money applied to the timing of spend and savings. It includes the initial cost of the equipment / services, the monthly cost of maintenance, compared to the financial benefits accruing. The result is the change in shareholder value to be anticipated from project acceptance.

Internal Rate of Return

The return rate per annum to Clothing Company taking into account: initial cost of the equipment / services, monthly cost of maintenance, and comparing these to the timing of benefits identified as a result of implementing the project. The “percentage” answer is compared to the minimum requirement specified by Clothing Company for approval.

Payback

This is a comparison of the initial outlay of monies, to buy equipment or services, against the time taken for the savings to cover the initial outlay. This derives an answer which is a time measure, and is usually quoted in months / years.

Discounted Cash Flow – to NPV and IRR

A detailed statement of all the cash flows and timings that underpin the results provided for Internal Rate Of Return and Net Present Value analysis.

BENEFITS EVALUATION

The economic benefits from this ERP implementation consist of both cost saving and revenue generating possibilities:

Labour Savings	
Number of direct staff currently engaged	125
Direct efficiency improvement (%)	2
Annual loaded cost per direct staff member	30,000
Number of indirect staff currently engaged	0
Indirect efficiency improvement (%)	0
Annual loaded cost per indirect staff member	0
Direct staff freed up	2
Indirect staff freed up	0
Total monthly savings	5,000
Impact Life (months)	13 - 36

By reducing the dependence on manual systems and double re-keying of data 2% of staff can be re-allocated to more strategic roles. This would be achieved by the end of year 1 after implementation.

Software Portfolio Consolidation	
Current annual licensing costs across the business	13,000
Reduction post solution (%)	20
Annual licence costs post solution	10,400
Monthly savings	217
Impact Life (months)	4 - 36

Since the company has grown by acquisition there is an overlap in IT functions both software and hardware (see also servers saved).

Servers Saved	
Number of servers used for business processes	10
Proportion saved /avoided with solution (%)	20
Servers saved / avoided	2
Annual external charges per server (3rd party etc)	500
Annual internal charges per server (allocation)	500
Monthly savings	167
Impact Life (months)	4 - 36

Since the company has grown by acquisition there is an overlap in IT functions both software and hardware (see also software saved).

Improve Revenue per Customer	
Current number of customers	12,000
Average revenue per customer per month	110
Monthly revenue	1,320,000
Increase in revenue post solution (%)	1
Gross margin (%)	18
Additional monthly margin generated	2,376
Impact Life (months)	3 -36

A 1% improvement in revenue is likely by matching customer requirements with current stock. This will allow articles to be cross-sold when appropriate.

Increase Number of Customers	
Annual total revenues	15,840,000
Current number of customers	12,000
Current number of customers acquired per yr	250
Annual percentage improvement post solution	5
Gross Margin (%)	18
Margin generated Y1	1,123
Margin generated Y2	4,128
Margin generated Y3	7,304
Additional customers Y1	10
Additional customers Y2	13
Additional customers Y3	13
Equivalent monthly margin generated	349
Impact Life (months)	3 - 36

Customer profiling will allow identification of potential customers and their spending habits. This will mean that targeted promotions can be used which will deliver greater customer take up.

TOTAL BENEFITS SUMMARY

A summary of the individual evaluators:

Improve Revenue per Customer	
Current number of customers	12,000
Average revenue per customer per month	110
Monthly revenue	1,320,000
Increase in revenue post solution (%)	1
Gross margin (%)	18
Additional monthly margin generated	2,376
Impact Life (months)	3 -36

RETURN ON INVESTMENT APPRAISAL ELEMENTS

NPV Calculation	
Review period (months)	36
Solution cost	95,000
One time benefits	0
Peak Monthly benefits	8,109
Monthly costs (averaged)	0
Minimum return (pa%)	8
NPV (\$)	102,316

Discounted Cash Flow Analysis - IRR					
Month 0					
-83,000					
	Year 1	Year 2	Year 3	Year 4	Year 5
Month 1	0	1,827	1,912	0	0
Month 2	0	7,320	6,997	0	0
Month 3	2,350	7,209	6,972	0	0
Month 4	2,729	7,265	6,946	0	0
Month 5	2,732	7,237	6,920	0	0
Month 6	2,734	7,211	6,894	0	0
Month 7	2,736	7,183	6,868	0	0
Month 8	2,738	7,157	6,843	0	0
Month 9	2,740	7,130	6,818	0	0
Month 10	2,742	7,103	6,793	0	0
Month 11	2,743	7,076	6,768	0	0
Month 12	2,745	7,050	6,743	0	0
				Total	102,316

NPV Calculation	
Review period (months)	36
Solution cost	95,000
One time benefits	0
Peak Monthly benefits	8,109
Monthly costs (averaged)	0
NPV (\$)	102,316
VAE (%)	64.40

Discounted Cash Flow Analysis - IRR					
Month 0	-83,000				
	Year 1	Year 2	Year 3	Year 4	Year 5
Month 1	0	1,102	724	0	0
Month 2	0	4,248	2,546	0	0
Month 3	2,092	4,070	2,441	0	0
Month 4	2,336	3,900	2,339	0	0
Month 5	2,249	2,737	2,241	0	0
Month 6	2,165	3,581	2,148	0	0
Month 7	2,084	3,432	2,058	0	0
Month 8	2,006	3,289	1,972	0	0
Month 9	1,931	3,152	1,890	0	0
Month 10	1,859	3,020	1,811	0	0
Month 11	1,789	2,894	1,736	0	0
Month 12	1,722	2,773	1,663	0	0
				Total	Negl.

Payback Calculation	
Solution Cost	95,000
One time benefits	0
Peak Monthly benefits	8,109
Monthly costs (averaged)	0
Payback (months)	19.75

SUMMARY OF PROJECT RETURNS

Review period (months)..... 36
 Average monthly benefits (\$)6,278
 Net Present Value (\$) 102,316
 Internal Rate of Return % 72.2
 Payback (months) 19.75
 Value Add (Economic) %64.4
 Based upon an assumed cost of capital of8%

SUMMARY

This ROI review is based upon identified benefits that would accrue to Clothing Company as a result of project acceptance.

The output from this review is fully visible and can be audited by Clothing Company if so required.

This indicative analysis stands separately from the contractual elements of the Tectura solution and is necessarily dependent upon the benefits identified jointly with Clothing Company.

SAMPLE