Chapter Eight

Making the Business Case

Objectives

In this lesson, you will learn about:

- ✏ Evangelism
- ✏ ROI Strategies
- ✏ Web costs
- ✏ Setting relevant measures

The best eCommerce strategy will never be implemented without the commitment and dedicated resources of top management. Making a business case is more than selling the concept to top management, you must provide realistic costs and anticipated benefits in savings or revenues to make a sound business decision.

There are two components to making the business case that will sell top management on a plan to integrate eCommerce into your business - evangelism and sound return on investment(ROI).

Securing management commitment requires a broad-based knowledge and ability to communicate effectively. This combination of knowledge and communication is often called evangelism in technology circles

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An Effective Evangelist

An effective evangelist has the ability to keep up with the rapid changes in information technology, whether or not he or she manages this function directly. This requires constant monitoring of infrastructure and human resources to make or influence the build/buy/rent decisions.

An effective evangelist is able to manage customer and management expectations, balancing such factos as:

- The burden of success - early applications often involve a big win - low hanging fruit, easy project successes which create the impression it will be cheap and easy.

- Speed of development

- Performance perceptions

An effective evangelist has an understanding of what users want and can communicate what customers can do to be more successful with eCommerce. Evangelists communicate this information through their

- In-depth knowledge of applications

- In-depth knowledge of information - the product of eCommerce that can be mined and segmented in different ways to provide more value to customers/users

- In-depth understanding of top management goals and strategies - ability to translate key applications to solutions and green lights for management goals and objectives

Buy/Rent or Make It

In addition to hardware, software and staff costs, you will need to evaluate whether to make or buy your Intranet. There are benefits and tradeoffs for each approach.

Virtually every component you need can be rented or outsourced. Java applets can be purchased over the net, lines can be leased, and contracts made with ISP Providers for dial up lines and SLIP accounts. The benefits include:

- less internal overhead

- temporary involvement at point of need

- free compensation schemes

- fresh knowledge and expertise in a fast changing technology

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Companies that make this decision want to own the knowledge and leverage the organizational learning. However, it also means relatively high costs for acquiring hardware, software and netware components. Major benefits include:

- Knowledge ownership and better understanding of internal need

- Ability to develop and implement a long-term strategy

- Hardware and software ownership (can also be a drawback)

- Fewer security problems

ROI Framework

Identifying and measuring eCommerce solution successes is quite challenging. First there is the difficulty of quantifying impact. Most technological changes have direct or unintended consequences that defy measurement. There is often a leap of faith that needs to be taken for eCommerce solutions, and this faith is sometimes difficult to find today.

The ROI framework is a step-by-step approach to quantify and measure impact.

Step 1: Perform a gap analysis

- Analyze where you are currently positioned

- Understand where you can be positioned

- Recognize the business benefits offered in the various levels of adoption

- Identify where you want to be and when you want to be there - no longer than one year

- Determine what steps are necessary to get there

- Articulate your vision and revisit it every three months

Step 2: Select a Process

Choose a process or critical application that has the highest priority for your business by answering the following questions:

- What is the business process to be improved?

- What is the current activity breakdown (value chain) of the process?

- How much does the current process cost?

- How often does the process occur

- To what extent is this process critical to the organization

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- What other alternatives are there to perform this process

Step 3: Identify Costs

Identify and estimate the Internet application costs. Include all the direct and indirect costs, including:

- Technology

- Additional related fees

- Management

- Network security

- Training

- Learning curve

- Maintenance

- Database and legacy system integration

- Skills

Step 4: Estimate the impact and Benefits

- What is the likely quantifiable impact of the solution on the status quo?

- What are the potential intangible benefits of the solution?

Step 5: Create Success Criteria

Identify success criteria relevant to the process or application you have selected. Be careful not to underestimate or forget the intangible benefits of eCommerce - improved communication, shared knowledge and cultural unity. Success can be gauged by a wide variety of measures, including:

- Cycle time - by measuring product development, order processing and delivery

- Customers - by measuring number of customers serviced and improved satisfaction

- Business Management - by measuring process improvement and better decisions

- IT organization - by measuring number and skills

- Business partnerships - by measuring number and relationship improvement

- Marketing - be measuring expansion, response rates and lead conversions

- Sales - by measuring cycle time, number and dollars

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- Communication - by measuring increased and improved communication

Cost Estimates

Cost for building and maintaining a Website for a year can vary by at least a factor of ten, depending on the sites functionality. Web sites can be categorized into the following four types, based on increased complexity:

Promotional sites - advertises a company's products and services

Content site - provides updated news, weather, entertainment, information

Transactional site - provides interactive shopping, banking or customer service

The following charts provide cost estimates for building and maintaining these 3 different sites. The 4th chart shows the estimates for building an Intranet.

Promotional Web-Site Line Item Costs
Amounts in thousands of Dollars

Platform	Launch	12 months	Total
Hardware			
Software			
Connections			
Hosting	$ 4	$ 48	$ 52
Total Platform	**$ 4**	**$ 48**	**$ 52**
Content/Service	**Launch**	**12 months**	**Total**
Content/program	$ 70	$ 80	$ 150
Management	$ 9	$ 52	$ 61
Sales/Support	-	$ 26	$ 26
Total Content	**$ 79**	**$ 158**	**$ 237**
Marketing	**Launch**	**12 months**	**Total**
Advertising/PR	$ 15		$ 15
Paid Links			
Total Marketing	**$ 15**		**$ 15**
Total Cost	**$ 98**	**$ 206**	**$ 304**

*Source: Forrester Research

Content Web-Site Line Item Costs
Amounts in thousands of Dollars

Platform	Launch	12 months	Total
Hardware	$ 140	$ 54	$ 194
Software	$ 10	$ 6	$ 16
Connections	$ 6	$ 36	$ 42
Hosting			
Total Platform			

Content/Service	Launch	12 months	Total
Content/program	$ 106	$ 408	$ 514
Management	$ 65	$ 130	$ 195
Sales/Support	$ 13	$ 91	$ 104
Total Content	**$ 184**	**$ 629**	**$ 813**

Marketing	Launch	12 months	Total
Advertising/PR	$ 79	$ 168	$ 247
Paid Links			
Total Marketing	**$ 79**	**$ 168**	**$ 247**
Total Cost	**$ 419**	**$ 893**	**$ 1,312**

*Source: Forrester Research

Transactional Web-Site Line Item Costs
Amounts in thousands of Dollars

Platform	Launch	12 months	Total
Hardware	$ 125	$ 280	$ 405
Software	$ 90	$ 50	$ 140
Connections	$ 10	$ 120	$ 130
Hosting			
Total Platform	**$ 225**	**$ 450**	**$ 675**

Content/Service	Launch	12 months	Total
Content/program	$ 149	$ 900	$ 1,049
Management	$ 61	$ 130	$ 191
Sales/Support	$ 24	$ 91	$ 115
Total Content	**$ 234**	**$ 1,121**	**$ 1,355**

Marketing	Launch	12 months	Total
Advertising/PR	$ 138	$ 245	$ 383
Paid Links		$ 400	$ 400
Total Marketing	**$ 138**	**$ 645**	**$ 783**
Total Cost	**$ 597**	**$ 2,216**	**$ 2,813**

*Source: Forrester Research

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Intranet Cost Guidelines
Amounts in thousands of Dollars

Component	Low		Medium		General Estimate	
Web Server	$	5	$	30		
Firewall					$	15
Router					$	5
Connection	$	25	$	120		
Content/copyright	$	25	$	500		
Creative design	$	30	$	200		
Ongoing design	$	10	$	250		
Intranet manager	$	50	$	150		
Technical Manger	$	25	$	75		
Programming	$	30	$	1,350		
Training	$	10	$	20		
Total Year 1	**$**	**210**	**$**	**2,695**	**$**	**20**

It should be noted that many Web sites do go up for considerably less than $210,000.

A survey by NetMarketing, an Internet consulting company based in Hamden, CT, sent out bids for three prototypical sites to 21 Web developers and agencies. Each participant received a site description and was asked to submit a bid for a 20-page site, a 100-page site and a large site that included custom programming, a database front-end and secure transaction capability. Their findings suggest that site-building pricing is extremely varied. For example, bids for the large site ranged from $15,000 to $2.8 MILLION!

Lesson Summary

In this lesson, you were introduced to a step-by-step approach to build a winning business case for your eCommerce strategy, Knowledge, communications and ROI data are all required for constructing a sound business case.

Something to think about

What does it mean to make a business case in your organization? What are the accepted and proven arguments? What new arguments can you devise?