ALBERTA
efuturecentre

Return on Investment

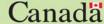An initiative of:

10 YEARS of Service Excellence

THE BUSINESS**LINK**
Business Service Centre

Funded by:

Western Economic Diversification Canada   Diversification de l'économie de l'Ouest Canada

Canadä

Why is ROI Important to My Small Business?

There are many ways you can spend your investment and operating dollars. Everywhere you turn people and organizations are willing to show you how their product or service can help your small business. Your phone is likely ringing off the hook with "have I got a deal for you" opportunities. Internet and e-business solutions present such opportunities, but you must carefully consider the costs and benefits of your investment. It is not unusual for a casual approach to website development and web-enabled applications to result in an unprofitable project, rather than one that generates a positive return on investment.

How is ROI Measured?

There are many ways to measure the return on an e-business project, and a ROI analysis should form part of your decision-making process. Often entrepreneurs measure ROI as the cash returned from a particular investment. In many cases, however, determining ROI is not so obvious.

Consider the following possibilities:

Return on Dollars Invested
This is the simplest and most obvious way to determine ROI. Calculate all of the expenses for your web project and then identify the revenues that can be directly attributed to your site. Calculating expenses is the easy part; identifying revenues that would not have been generated anyway can be a bit of a challenge.

Return on Time Invested
If you are like most small business owners, you are already investing long hours in your business. Early mornings, late nights, and weekends are just part of the life of an entrepreneur. The last thing you want is another personal project that will take up your time and potentially detract you from your primary business function – running the business. Whatever your time investment, it better pay off. Keep in mind that whether you hire someone to develop your site or not, you will need to invest your personal time. Keep track of this, budget for it, and consider the real value of your time.

Return on Other Assets and Investments

Goodwill

An effective website will improve your brand image and recognition (i.e., goodwill) and lead to better overall business performance. Conversely, an unprofessional or non-existent website can erode the goodwill that your offline business has already built. Although goodwill is somewhat difficult to quantify, it should be considered.

Opportunity Costs

Consider that by investing time and money creating your website, you may miss out on potential business opportunities. Keep these "opportunity costs" in mind as you decide on your level of investment in e-business.

Other Priorities

Your web project will impact your investments, resource usage, and other priorities. Give thought to all of the potential expenses and impacts on you and your business.

Non-Financial Benefits to Consider

Building a Contact Database

One of the most valuable assets a small business has is its database of customers, prospects, and suppliers. A well developed website can make gathering and maintaining these contacts much easier.

Pre-Qualification of Potential Clients Prior to Consultation

In the example that follows, one of the surprising benefits is the improvement of the sales-closing ratio. Prior to having a website, an entrepreneur determined that she closed an average of 30% of her deals. After developing a website, this closing rate jumped to over 50%. Customers who contacted her were much more qualified and were familiar with her products and services. They also had a chance to review an online portfolio of her work.

ALBERTA
efuturecentre

What Will Your Web-Based Project Cost?

One of the questions often asked by small business owners is how much they should expect to spend on their website. It's a bit like asking "How long is a piece of string?" There is quite a number of things to take into account when calculating the total cost of your web project. Here are just a few of them:

Do-It-Yourself

There is much debate about whether you should build your own website or hire someone. If building websites is your business or your hobby (and you are competent), then by all means build it yourself. If you sell car parts, provide accounting services, or sell clothing, then stick to your core business. Building your own site can result in you neglecting your day-to-day operations. In addition, you may end up with an amateur-looking, unprofessional site.

If you choose the do-it-yourself route, then your investment will be in web design software and possibly a more powerful computer and peripherals (e.g., printer, scanner, digital camera).

Hiring a Web Developer

Below are some ballpark estimates of what it might cost to have a competent developer work on your site. A word of caution: Make sure you know what you want, how you want it to work, what functionality you require, and how the site should look and feel. If you are not clear on these points, you run the risk of having someone else decide for you.

Brochure Site
A brochure website is exactly what the name implies - an electronic version of your company's brochure and/or marketing materials. Brochure sites can be very simple or extremely extensive. Brochure sites are usually developed through the use of a template, or by someone custom designing your site. A template-based site follows a few standard formats offered by the developer. A simple site can cost as little as $800, but generally cost between $1,200 and $2,500. If a more extensive brochure site is required, you can expect to pay $2,500–5,000.

Interactive Site

An interactive site may use technology such as Macromedia Flash or Shockwave to display information or gather input from site visitors. The site may also require databases to store information and provide a more personalized user experience. Expect to spend a minimum of $2,500; many sites can easily cost $10,000 or more.

E-Commerce and Catalogue Sites

Adding a product catalogue to your site increases complexity. Some web hosting services and developers have simple catalogue applications that can be added to your site for a fee. In addition to a catalogue, you may also require e-commerce software and connections to a payment gateway and your bank to process credit card payments online. Often these services require a start-up fee, monthly fees, and a transaction fee. The charges vary widely, so we encourage you to contact your banker and payment gateway for more information.

Capital and Operating Costs

Here is a list of other expenses you need to consider:

- **Hardware and software** – The cost of computer systems, peripherals and applications
- **Communications and network equipment** – You might need a network if you have more than one computer and want to share resources such as printers, disk storage, a scanner, and printers.
- **Domain names** – While a domain name may only cost $15-30/yr, you may find that you would like to register several domain names to protect your name or brand. For example, you may want to purchase .com and .ca addresses for your company and register any common misspellings of your company's name.
- **Merchant accounts** – You may need an Internet merchant account at your bank if you want to process credit cards online. Depending on your products and services, your bank may require you to post a bond to offset the risk of fraudulent purchases.
- **E-commerce set-up fees** – Some e-commerce services require a set-up fee. It is not uncommon to be asked for a $250-500 set-up fee.

- **Development costs** – These costs will form the bulk of your initial investment and will vary depending on your budget, site complexity and functionality.
- **Website design** – It is likely that you will need the services of a graphic designer to create your logo, letterhead, envelopes, brochure, and website. The development of these materials can cost several thousand dollars.
- **Website content** – Incomplete site content can delay the launch of your website. You may want to hire someone to write your site content.
- **Internet Access** – Internet access will also cost anywhere between $10 and $50 per month, depending on your needs.
- **Web hosting** – Hosting may be provided by your Internet Service Provider (ISP) or by a separate web hosting company.

Small Business Example

Professional Photographer

The example below outlines the ROI calculations of a small Alberta-based professional photographer. The case can easily be applied to anyone in a professional services business such as a consultant, trainer, accountant, and laywer.

Projected Costs

ITEM	DESCRIPTION	COST
Web development	A developer was hired to create a website based on the design criteria provided by the owner.	$2,500
Annual maintenance	It is estimated that the annual maintenance of the site will come to 20% of the initial investment, or $500. The developer will make significant changes and the owner will invest 2 hours of her time per week to keep the site current	$500 (developer) 104 hrs per year (owner)
Content creation	Costs were incurred to complete the site content for the developer. Items such as scanning pictures, hiring a writer for the major sections, and other miscellaneous expenses.	$1,000

Personal time of the owner	*Do not underestimate* the amount of time that you will have to spend getting your site ready. One of the major challenges is gathering and writing the site content and determining what you want in each section of your website.	100 hrs (owner)
Domain names	The owner purchased 2 domain names as the business is know by both the business name and a marketing tagline. Both were .com domains. You may want to register .com and .ca addresses.	$60 per year
Web hosting	There are many choices for web hosting and just as many prices. The owner selected a hosting company that was recommended based on reliability and service.	$240 per year
Internet access and ISP services	Access may or may not be part of the web hosting package. Many ISPs offer a combined package but, in this case, the access was provided by the local cable company.	$420 per year (high-speed Internet access)
Hardware and software	While the owner already had a computer and some office software, it was necessary to upgrade the computer and purchase some additional software so she could make simple website changes by herself.	$360 per year (hardware lease) $750 per year (software)

Total Costs	$5,830 (first year)
Total Time	204 hrs (first year)

efuture centre (ALBERTA)

Projected Return on Investment

Before the web project had begun, the owner calculated a return on investment that would make the project worthwhile. This is how she calculated the return.

ITEM	DESCRIPTION	COST
New customers	This owner knew that she had two kinds of customers: non-commercial and commercial. A new non-commercial customer spent an average of $500, while commercial customers spent an average of $1,500. This was for first orders and did not take into account the lifetime value of each customer. Her goal was to attract two new non-commercial customers and one commercial customer per month *strictly from the website*, or an additional $30,000 per year in business income.	$30,000
New opportunities	A new potential market for the owner is the sale of stock photography. She plans to sell 10 images per month from the website at an average of $100 per image. This would result in revenues of $12,000 per year. She also planned to start offering photography classes to experienced hobbyist photographers and expected the website to attract 10 participants per year at $750 each, or another $7,500 per year.	$19,500
	Total Projected Revenues	$49,500

DESCRIPTION	PROJECTED ROI
$49,500 (projected new revenues) / $5,830 (projected costs) is approximately 8.5.	8.5 times
When the *owner's personal time* was factored in at $75 per hour, the time investment amounts to $15,300. By adding this cost to the project, the return is still 2.3 times greater than the investment.	2.3 times

Summary

Determine your ROI goals *before* engaging a web developer. Calculate all costs in terms of dollars and time and track them. Monitor the progress of your site based on the initial criteria for success. Invest where the largest returns are generated, and divest where there are low returns or losses generated.

Resources

- Alberta E-Future Centre
  www.e-future.ca/alberta

- ebiz.enable – Return on Investment
  http://strategis.ic.gc.ca/epic/internet/inee-ef.nsf/en/h_ee00632e.html

- CIO.com – ROI
  www.cio.com/research/ec/roi.html

- EBS - ROI Case Study
  www.ebstrategy.com/insights/SaskTel.htm

- Return on Investment Analysis for E-Business Projects
  www.kellogg.northwestern.edu/faculty/jeffery/htm/publication/ROIforITProjects.pdf

- Websphere Advisor: XML's Return on Investment
  http://websphereadvisor.com/doc/07170

- Computerweekly.com – Return on Investment News
  www.computerweekly.com/Issue485.htm

- Useit.com – Return on Investment for Usability
  www.useit.com/alertbox/20030107.html

Contact Us

The Alberta E-Future Centre, a service initiative of The Business Link, is your first stop for e-business information in Alberta. We offer free, impartial, and easy-to-understand e-business advice and information for small and medium-sized businesses. Our goal is to help entrepreneurs make more informed decisions as they adapt to technological change. If you have any questions, we are only a visit, click or a call away!

Alberta E-Future Centre

The Business Link Business Service Centre

100 -10237 104 Street NW

Edmonton, Alberta T5J 1B1

Tel: 1-800-272-9675

Fax: 780-422-0055

E-mail: alberta@e-future.ca

Web: www.e-future.ca/alberta

This guide was prepared by the Alberta E-Future Centre
www.e-future.ca/alberta

A member of
the Pan-Western
E-Business Team