

Financial Selling 104-A

Improving ROI with Payment Terms

Technology Finance Partners

“Financial Sales Engineers”

Financial Selling 104-A looks at ROI and ways extended payment terms (financing) can improve short term ROI.

Understanding how ROI can affect your sales effort, gives you an edge over the competition. If your solution offers a higher ROI, your customer’s associated project will be better poised for approval.

Through extended payments, a savvy account executive will show enhanced short term ROI, whether or not extended payments are utilized, because THE VALUE IS REAL. If the purchase decision will be based on short term ROI, why not calculate the best ROI?

At Technology Finance Partners, our job is to make the financial side of the sales effort easier.

Global sales and strategy consultants re-inventing the way software is priced, valued and sold.

Financial buyers tend to look at specific metrics when evaluating a project or major product purchase. Here we will review return on investment (ROI).

Definition: ROI = (Benefits – Costs) / Costs x 100%

EXAMPLE 1	Year 1	Year 2	Year 3	Total
Benefits	\$750,000	\$1,000,000	\$1,000,000	\$2,750,000
License	\$500,000			\$500,000
Maint.	\$80,000	\$80,000	\$80,000	\$240,000
PS	\$500,000			\$500,000
Total Costs	\$1,080,000	\$80,000	\$80,000	\$1,240,000
Net Benefits	(\$330,000)	\$920,000	\$920,000	\$1,510,000

$$3 \text{ Year ROI} = \$1,510,000 / \$1,240,000 = 122\%$$

On the surface, the ROI in Example 1 looks pretty good and, depending upon how this value, cost and risk compares to other investments being considered, it may be good enough to push the project through. However, the **1 Year ROI = -\$330,000 / 1,080,000 = -31%**. If a very short term gain is critical, this may result in a “no-go.”

Let us consider that 1 Year ROI for a moment. In the Example 1 above, we calculate the 3 year ROI. Often times 3 or 5 years is used as the time horizon as it matches the likely amortization of the software license (the time it will take to write down the asset to zero value in the operating budget).

One can calculate the ROI at any given point of time (i.e., 1 Year ROI, 2 Year ROI and so on). For companies seeking a quick return, calculating the 1 Year ROI may come in to play (even though it does not, by definition capture the long term value).

Here is where extended payments can be leveraged. Extending payments beyond the ROI term will result in a greater cash-flow based ROI for that shorter term, because upfront costs are being deferred into the future. Consider the results in Example 2:

EXAMPLE 2	Year 1	Year 2	Year 3	Total
Benefits	\$750,000	\$1,000,000	\$1,000,000	\$2,750,000
Lic/Yr1 Maint	\$193,333	\$193,333	\$193,333	\$580,000
Maint.		\$80,000	\$80,000	\$160,000
PS	\$500,000			\$500,000
Total Costs	\$693,333	\$273,333	\$273,333	\$1,240,000
Net Benefits	\$56,667	\$726,667	\$726,667	\$1,510,000

$$8\% = \$56,667 / \$693,333 = 1 \text{ Year ROI}$$

By spreading license and year-1 maintenance costs over 3 years, we can now show a positive Year 1 ROI, which may be what it takes to get to “yes.”