How to Estimate Your ROI for Custom Software

Implementing new technology is an investment for any company. It'll take time, money, and effort. So before you commit, how do you know if you're making the right choice? How do you determine if a new digital tool will result in value for your business?

IT'S EASIER THAN YOU THINK. CALCULATE AN EXPECTED ROI.

$$ROI = \frac{\text{net return on investment}}{\text{total investment cost} \times 100\%}$$

While this formula is straightforward, the hard part is understanding how to calculate your potential savings.

THAT'S WHERE SPARK'S ESTIMATING TIPS COME IN.

We recommend looking at these distinct areas when calculating ROI:

Easy to calculate ———————————————— Hard to calculate or measure

Direct savings | Indirect savings | New revenue opportunities | Other

This holistic approach will make sure you consider any potential savings, even ones that may be difficult to translate into hard dollars, but are still real benefits.

So....be creative! Dream big!

Use your imagination to visualize the many ways custom software can help you grow your business into exactly what you want it to be.

USE OUR ESTIMATING TIPS ALONGSIDE OUR OTHER RESOURCES BELOW TO CALCULATE YOUR OWN ROI AND FEEL CONFIDENT ABOUT YOUR NEW TECH CHOICE.

1 **Making the Business Case for New Technology** – Article explaining approach

2 **ROI Worksheet** – Our interactive Excel worksheet to input and calculate your numbers

DIRECT COST SAVINGS ARE EASY AND PRECISE TO CALCULATE.

- **Employee time savings?** Estimate the amount of employee time your new software will save and how much this time would otherwise cost you. Example below.

- **Off-the-shelf software savings?** What off-the-shelf software will you no longer need? How much will this save you?

- **Other direct savings?** How else will your new tool directly save your company money? What will you no longer need to purchase when your new software is in place?

FOR EXAMPLE, HERE'S HOW YOU CALCULATE EMPLOYEE TIME SAVINGS.

- A back office employee typically takes **5 hours per week** to enter time tracking data

- Now, your new digital workflow reduces that **5 hours** to **1 hour**, saving **4 hours**

- **Your new weekly savings** = **4 hours** x **employee's hourly rate**

- If you have 3 staff members doing this data entry, then you can multiply **4 hours per week** x **3 staff members** x **their hourly rate**

- Apply this estimate to the total savings your new software tool will generate over a given time frame (typically a year) and over its lifetime.

You can repeat this same formula for each type of employee or workflow directly impacted by technology.

WHILE SOME COST-SAVINGS FIT NEATLY INTO A FORMULA, OTHERS AREN'T AS SIMPLE. CONSIDER THESE WAYS THAT TECHNOLOGY CAN IMPROVE YOUR BUSINESS.

- **REDUCED EMPLOYEE TURNOVER?**
  How might the new software reduce the high expense of employee turnover?

- **REDUCED RECRUITING COSTS?**
  How will the new software make it easier for you to recruit employees?

- **REDUCED MISTAKES?**
  What costly mistakes will the new software reduce?
  Can you estimate what these savings will be?

- **REDUCED SCHEDULING ERRORS?**
  Will the new software help you reduce scheduling errors?
  How much could reducing those errors save you?

- **LEGAL COMPLIANCE COSTS?**
  Will the new software help you reduce the time your team takes dealing with legal compliance?
  Will it reduce penalties and fines from non-compliance?

- **CAPTURING BUSINESS LOGIC?**
  Often critical business logic (processes and systems) exists only in the minds of certain employees (who can and will leave). By putting that logic into your software, you protect your business from disruption. What could that save you?

3 Increase Revenue and Pursue *New Opportunities*

THERE WILL ALWAYS BE IMMEDIATE RETURNS (LIKE SAVING TIME AND REDUCING ERRORS), BUT THE REAL VALUE OF TECHNOLOGY IS ITS ABILITY TO OPEN YOUR BUSINESS UP TO NEW POSSIBILITIES (AND REVENUE).

- **More projects or clients?** By freeing up your employees' time, will the new software allow you to take on more projects or clients in your current business lines?

- **New business lines and opportunities?** By freeing up your employees' time, will the new software allow your company to pursue new business lines and opportunities? Example below.

- **Prepare for scaling?** Will the new software allow your company to scale in a way that your current processes could never allow?

For example, some clients are able to create their own custom software and then whitelabel it for others in their industry. This turns your initial software investment into a new revenue stream.

What can you save?

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4 More Potential ROI *Factors*

KEEP IN MIND THAT SOME OF THESE CATEGORIES CAN'T BE PRECISELY CALCULATED BEFORE YOUR SOFTWARE IS UP AND RUNNING. BUT IT STILL HELPS TO REVIEW THEM! THESE INVESTMENT RETURNS ARE REAL EVEN IF YOU CAN'T ALWAYS DETERMINE THEM WITH FINANCIAL PRECISION IN ADVANCE.

- **Improve your customer experience?** Will the new software help you give your customers a better experience (that you haven't been able to provide before)? What could that do for your business?

- **Improve the culture at your company?** Having custom software can increase employee satisfaction and reduce turnover and recruiting costs. But besides those things, having up-to-date technology and leadership dedicated to process improvement can make your company a more pleasant place to work and improve your corporate culture. What will having a new software tool do for your company culture?

- **Increased peace of mind?** Sometimes poor processes cause business owners stress. For example, they might work in an industry where legal compliance is difficult and the penalties for non-compliance are severe. If they have a manual compliance process that is prone to errors, this can be a source of stress for them. Technology that takes care of the compliance for them can give them relief and peace of mind. Will your new custom tool increase your peace of mind?

- **Improve business reputation?** What would having custom software that fits your exact business needs do for your business's reputation?

So, how long until you see your ROI?

Honestly, it depends. It comes down to your individual business situation and the scope of the solution you implement. But you can get an idea using these ROI tools.

FORTUNATELY, 90% OF SPARK CLIENTS SEE A RETURN ON THEIR INVESTMENT WITHIN 6 TO 18 MONTHS.

If you're ready to build your own software and transform your business, please reach out to SPARK. We would love to hear from you and all about your idea!