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Insights:

Build versus Buy – ROI is the Key

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Introduction

There is an old adage, "Time is Money!" There isn't a truer statement when companies are trying to determine which is more cost effective: to build new reporting in house or purchase a solution from another vendor.

I have spent the better part of two decades in the BI reporting world, and in that time, have worked for several major companies that constantly struggled with this dilemma. Often, I saw that senior management felt the resources on hand could move mountains when asked to fix the internal issues with existing reporting. I found myself having to build new reporting solutions with the range tools at hand just to get the right information, to the right people, at the right time, so decisions could be made. Here is the problem: How much time was lost building something new instead of spent managing my daily responsibilities?

In this discussion, I want to address the costs involved in building new reporting solutions in house, versus selecting a 'Best in Breed' solution from a 3rd party vendor.

Understanding ROI and the costs involved

As companies begin to assess their budgets each year, often reporting is the last priority on the list. However, every company needs good reporting to evaluate everything from inventory, to payroll, to daily operations. What I often heard when putting forward a budget for a new BI solution was, "We have paid tremendous money for the existing reporting solutions and don't want to add to that cost". The problem overlooked was that the current solutions didn't meet the needs at hand. This required tremendous IT effort to develop reporting that filled in the gaps. I knew that was not the right answer because of the man-hours it took to build just one report. After all, time is money. In one of my previous companies, we had a dedicated analytic services division with numerous business analysts. This team spent about four hours a day building custom ad hoc reports to meet daily needs because there were no self-service reporting tools available for the end users. This left them with only about four hours to tend to the responsibilities for which they were hired, like creating standard reporting, writing business requirements and performing quality assurance. Imagine the daily cost of the ad hoc reporting work because end-users couldn't get to the data themselves.

A simple ROI is easy to calculate for this. Let's assume that the person tasked with building a custom ad hoc report must be very familiar with all the databases, data warehouses and flat files available to get to what they need. That is NOT a low salaried person. Using conservative

approach, let's say the average person doing this work makes about $25 an hour. The person spends four hours a day doing ad hoc work, which comes out to $100 a day. That may not be an issue if you are a small company and only one or two employees do this. However, in the situation I described, there were about 20 people that did this each day. Therefore, the daily cost increases exponentially to $2,000 in this example! That is in one day. On average, there are 264 business days a year bringing the total cost for NOT having a self-service solution for end users to a staggering $528,000 per year.

This example can be applied to any type of manual reporting work. For instance, if users utilize Excel to analyze the data either extracted from a system or delivered from IT, they often spend time building pivot tables, charts, graphs and custom calculations. How long does it take one person to do that each time they provide the report? Multiply that time by the total number of people doing similar work. Following the same formula, it is easy to show ROI when a newly purchased solution can prevent that manual work and automate the process.

That leads me to the comparison for this discussion. When you are evaluating a new reporting solution, there are many factors that go into the review. That is another topic for another day, but once you have gone through the evaluation process and selected a vendor that fixes your pain points, the next hurdle is cost.

Cost is a relative term in that there is an upfront expense and likely annual recurring expenses. However, there are also potential savings related to purchasing a new solution in the way of increased productivity, reduced IT workload and improved individual user efficiencies. Having worked with executive level employees most of my career, I can vouch that ROI is what gets their attention. If there are enough of those savings in the solution you want to buy, then there is a real argument for the purchase.

For the sake of this discussion, let's build out those numbers a bit more to really compare build vs. buy. Using our previous example, let's say you have five people dedicating four hours a day to building custom ad hoc reports for users. That is 20 hours a day, at $25 an hour, at an average of 264 days a year, or $132,000 per year. Your organization may be higher or lower depending on your user base, current tool etc. Purchasing a new solution to empower your users to do their reporting themselves will obviously vary based on the solution you select and factors such as number of users your business needs etc. If we use our reporting solution as an example, an average year over year cost might be $50,000 per year depending on your requirements. Add in some training and setup time, and this is still an immediate cost savings in the first year, and only increasing in the following years.

Table 1: Build vs. Buy Cost Comparison

Build	Buy	Potential Savings
5 people for 4 hours/day 264 days a year At $25/hour $132k/year	Software/Services Cost $30 - $50k/year	$82 – $102k Year Over Year

Summary

If you can go into your annual budget meeting with data showing that building reporting internally has real costs, and can break those costs down by area, group and individual, you can show the value of buying. Over time, the ROI can exceed the overall cost which is a win-win for the users and the company.

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