



eCommerce as an Investment

To discuss eCommerce as an investment rather than a cost we must first agree on a definition for each of those words. For this I have turned to the Cambridge Advanced Learner's Dictionary.

Invest ^{verb [I or T]}

to put money, effort, time etc. into something to make a profit or get an advantage:

Cost (MONEY) ^{noun [U]}

the amount of money needed to buy, do or make something:

Invest suggests taking an action in order to generate a return greater than the cost, whereas cost implies the outlay of money with no notion of a profit or advantage. While I do agree that every company investment will have a cost, not every company cost is an investment.

So if you were to ask me how much an eCommerce solution costs and I were to answer "\$50,000" you might immediately think "That costs too much". However if I were to show you how that \$50,000 could turn into \$1.1 million in net profit over five years; all of a sudden you don't have a corporate expense or "cost" you have just made an investment with an incredible 1600% return on investment. Forget eCommerce - you would be crazy not to make any investment that gets you that kind of return.

In truth, eCommerce alone won't get you this kind of return on investment. ONLY integrated ecommerce will achieve this. The reasons are simple. Non-integrated eCommerce is a cost; plain and simple. You may increase sales but for every sale you make you have to employ someone to enter that order into your accounting system. You also need to manage all of your customer and inventory data in two places, so in fact non-integrated eCommerce may increase your sales but cost you more per sale than phone, fax or walk-in orders.

Integrated eCommerce, on the other hand, means that your customers are doing your data entry for you and your accounting system is managing all of your client and inventory information both in the accounting system and at the web store. A change to the price of an item in inventory will automatically produce a change in price to the same item at the web store. A customer logging into the web store will see all of his/her accounts receivable and order history and may even be able to pay open invoices on line. Orders placed at the web will flow seamlessly and automatically into the accounting system with no human intervention even placing the order on hold if credit terms are exceeded. All of this leads to a huge reduction in order costs.

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	Annual Revenue and Order Processing Costs	Profit Generated by Integrated eCommerce
Total Annual Revenue	\$ 5,000,000.00	
Less COGS	\$ 3,000,000.00	
Gross Profit	\$ 2,000,000.00	
Expected Increase in Revenue from eCommerce - be conservative	3%	
Expected increase in profits		\$ 60,000.00
Number of Staff working in Order Entry Positions	6	
Average cost per month (all in) of an Order Entry Staff	\$ 3,000.00	
Total cost of Order Entry Staff per month	\$ 18,000.00	
Annual Incidental Costs (mailing Invoices etc)	\$ 2,000.00	
Total Annual Order Processing Costs	\$218,000.00	
Multiply by the percentage of customers who will convert to a web environment. Industry averages are 30% in years one and two.	30%	
Anticipated increase in profits from eCommerce cost savings		\$ 65,400.00
Total increase in profit from eCommerce Conversion		\$ 125,400.00

Increase in Sales (\$000)	Yr1	Yr2	Yr3	Yr4	Yr5	Yr5 Total
%increase in Sales	3%	7%	9%	11%	13%	
Increase in Profits from eCommerce Sales	\$60	\$140	\$180	\$220	\$260	\$860
Increase in Profits from eCommerce Cost Savings	\$65	\$65	\$65	\$65	\$65	\$327
Initial Cost of Iciniti Store	21%	\$-	\$-	\$-	\$-	\$21
Annual Software Assurance	\$4	\$4	\$4	\$4	\$4	\$19
Professional Services to install and train	\$29	\$-	\$-	\$-	\$-	\$29
Net Profit	\$72	\$202	\$242	\$282	\$322	\$1,118

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So you made a \$50,000 investment in year one and...it paid back 144% in year one. Then, over the course of the next 5 years it paid \$1,118,000 for a total return on investment of 1623%. Not bad.

But are these numbers real? I have a client in northern Canada that tells me that an investment of a bit over \$27,000 saved him \$109,500 in year one and, not taking into consideration an increase in sales, that investment will save the same amount every year, but with a minimal additional investment of only about \$2,160 for software assurance in each additional year.

Charles Simon of Budge Industries says his Iciniti Store saves him \$52 per order - Budge does a lot of orders.

If you were to lease your Iciniti solution you can match your monthly expenditure to your monthly increase in profit then the solution will not cost you a dime of out-of-pocket cost. So...Company investment or corporate cost? You tell me.