A BARGAIN OR A MONEY PIT?

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A bargain or a money pit?

When purchasing software applications, the true cost of ownership doesn't always end at the price tag

It wasn't long ago when food, equipment and labor costs dominated the top concerns of restaurant operators.

But that was then and this is now.

Technology—in the form of new hardware and software applications—has become an ingrained part of overhead expenses to the restaurateur.

But unlike the purchasing of meat or dairy products, determining the true cost of ownership of technology investments, such as a new POS or CRM application, often goes far beyond the actual price tag or cooking preparation time.

So, how much does software and hardware really cost?

That question remains at the heart of decisions made by restaurant operators attempting to decide what software and associated hardware will not only lead them into the future, but help them remain competitive in the ongoing market battle for dining dollars.

Like an iceberg, much of what determines the TCO of an IT investment lies just below the surface. And failure to analyze it correctly can metaphorically result in just as disastrous results to an operator's bottom line.

"Ultimately, you need to trust the person selling and implementing your solution," advises Geni Whitehouse, a top technology consultant who has advised clients in a number of industries. "You need to negotiate as many fixed fee elements of the project as possible, so you are best able to manage your budget. In many cases, software pricing can be as difficult to understand as airline ticket pricing with its long list of hidden charges."

"We look at TCO over the life of the particular technology and evaluate the benefits," adds Steve Brooks, director of information services and business analyst for the Louisville, Ky.-based Tumbleweed Tex Mex Grill & Margarita Bar. "Once it is in place, we measure the ROI or any metrics that benefit building guest counts and improving profitability."

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Experts say that when evaluating TCO—whether hardware, software or networking-related equipment—restaurant operators should, in addition to the initial outlay, consider the following:

- Costs for the initial deployment and employee training, which has a tendency to spike above the norm in the restaurant industry due to a higher turnover compared to other sectors;
- Expenses related to system and network maintenance, migrations, backup and other data protection services;
- Costs of converting from an old system, which is often billed by the hour and adds up quickly;
- Financing fees for software updates and upgrades as well as help-desk support;
- Costs associated with any downtime;
- Warranties and licensing.

Also, experts caution restaurant operators to read the fine print if they decide to lease software applications rather than purchase them outright. The reason: users ultimately may discover they're paying 10 percent to 20 percent more for the system, coupled with interest rates that may range from 10 percent to 16 percent.

Therefore, it's critical to have an easy-to-understand outline of all the costs associated with the purchase of a particular system. Also, restaurant operators have to project out the costs that may be two, three and even five years down the road, so there are no unpleasant surprises to the bottom line.

"Much of calculating TCO is experience and common sense," explains Patrick Irwin, vice president of IT at Seattle-based Restaurants Unlimited.

"After I put together my first proposal for a piece of equipment, consulting agreement, software or SaaS, I have a template for future purchases. Any costs missed the first time, I add the next time. I also include shipping, tax and costs for migrating or entering data. Additionally, there is usually a distinction between a capital expenditure and an operating expense, so I look at my cash expenditure for the current year and then look at costs I will be incurring monthly in my P&L, which will include depreciation and yearly maintenance."

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Back in 1999, Houston-based Cordua Restaurant Group, an eight-unit string of eclectic-themed dinner house concepts, decided to purchase a new POS system. "Touch screens were a new thing back then," recalls Tim Johnson, director of IT and facilities at Cordua. "There were people who were still running DOS-based applications."

"Once we make a decision on a product, we focus on usability, functionality and integration," says Johnson. "Is the product going to continuously give us problems or does it have the ability to adapt to upgrades and allow us to move forward? You also have to evaluate downtime in TCO and, with the exception of power outages, there's been very little of that."

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