A Forrester Total Economic Impact™ Study

Commissioned By RingCentral

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The Total Economic Impact™ Of RingCentral

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ABOUT FORRESTER CONSULTING

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Executive Summary

RingCentral commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) that enterprises may realize by deploying RingCentral. The purpose of this study is to provide readers with a framework to evaluate the potential financial impact of RingCentral on their organizations.

To better understand the benefits, costs, and risks, Forrester interviewed four customers using RingCentral. The companies chose RingCentral to replace PBX systems, trunk lines, toll-free lines, and related telephony infrastructure and replace services for fax, web meetings, and videoconferencing.

RingCentral eliminates the need for traditional PBX systems, simplifies telephony solutions, and boosts the revenue of customer-facing employees.

The benefits of using RingCentral for a composite organization of 600 employees are:

- **Savings over PBX system: $512,070.**
- **CRM system integration: $95,200.**
- **Increased revenue: $5.3 million.**

Prior to RingCentral, the customers managed different PBX systems at each office location, invested in expensive capital upgrades to replace aging PBXes, and paid for expensive technicians to keep the systems up to date. In addition, the companies purchased broadband, trunk lines, toll-free numbers, and fax services. To support emerging needs, the companies used standalone providers for web meetings and videoconferencing. In the words of one IT director, “RingCentral replaced our old PBX systems and desktop telephones with an integrated communication system that operates the same way that our employees work.”

RINGCENTRAL DISPLACES AGING PBX INFRASTRUCTURE AND ENABLES WORKERS

Forrester’s interviews with four existing customers and subsequent financial analysis found that a composite organization based on these interviews realized the risk-adjusted ROI, benefits, and costs shown in Figure 1. The composite organization realized benefits of more than $2 million versus costs of $861,363, adding up to a net present value (NPV) of more than $1.3 million. By comparing the cost of RingCentral versus the previously installed PBX systems, Forrester documented a 42% savings.

FIGURE 1
Financial Summary Showing Three-Year Risk-Adjusted Results

Return on investment: 182%	**Payback period: 1.9 months**	**Savings versus PBX: 42%**	**Total NPV benefit: $1,321,587**

Source: Forrester Research, Inc.

› **Benefits.** The composite organization experienced the following risk-adjusted benefits that represent those experienced by the interviewed companies:

- **Avoid cost for previous telephony solutions.** Eliminating PBX systems, software, and maintenance along with standardizing fax services, web meetings, and videoconferencing onto RingCentral eliminated more than $1.6 million in costs over three years.
- **Leverage RingCentral integration with salesforce.com.** Using the standard RingCentral integration with salesforce.com allowed the composite organization to avoid development and maintenance costs of $95,200.
- **Increase revenue of customer-facing employees.** Making employees more accessible to customers increased the average revenue per customer-facing employee by 4%, providing more than $5.3 million in increased revenue, and a total of $683,681 increased profit over three years.

› **Costs.** The composite organization experienced the following risk-adjusted costs:

- **Cost of RingCentral subscription.** The RingCentral subscription for an organization with 600 employees that is growing at 10% annually totaled $750,708 over three years.
- **Labor to architect, configure, and implement RingCentral.** The indirect cost for the IT organization to plan and execute the migration to RingCentral is $12,375.
- **Replace desk and conference room telephones.** The cost of replacing desk and conference room telephones with IP devices comes to a total of $98,280 over three years.

Disclosures

The reader should be aware of the following:

› The study is commissioned by RingCentral and delivered by Forrester Consulting. It is not meant to be used as a competitive analysis.

› Forrester makes no assumptions as to the potential ROI that other organizations will receive. Forrester strongly advises that readers use their own estimates within the framework provided in the report to determine the appropriateness of an investment in RingCentral.

› RingCentral reviewed and provided feedback to Forrester, but Forrester maintains editorial control over the study and its findings and does not accept changes to the study that contradict Forrester's findings or obscure the meaning of the study.

› RingCentral provided the customer names for the interviews but did not participate in the interviews.

TEI Framework And Methodology

INTRODUCTION

From the information provided in the interviews, Forrester constructed a Total Economic Impact™ (TEI) framework for those organizations considering RingCentral. The objective of the framework is to identify the cost, benefit, flexibility, and risk factors that affect the investment decision.

APPROACH AND METHODOLOGY

Forrester took a multistep approach to evaluate the impact that RingCentral can have on an organization (see Figure 2). Specifically, Forrester:

- Interviewed RingCentral marketing and sales leaders, along with Forrester analysts, to gather data relative to RingCentral and the marketplace for RingCentral.
- Interviewed four organizations currently using RingCentral to obtain data with respect to costs, benefits, and risks.
- Designed a composite organization based on characteristics of the interviewed organizations.
- Constructed a financial model representative of the interviews using the TEI methodology. The financial model is populated with the cost and benefit data obtained from the interviews as applied to the composite organization.

Risk adjustment is a key part of the TEI methodology. While interviewed organizations provided cost and benefit estimates, some categories included a broad range of responses or had a number of outside forces that might have affected the results. For that reason, some cost and benefit totals have been risk-adjusted, and is detailed in each relevant section.

Forrester employed four fundamental elements of TEI in modeling RingCentral services: benefits, costs, flexibility, and risks.

Given the increasing sophistication that enterprises have regarding return on investment (ROI) analyses related to IT investments, Forrester's TEI methodology serves to provide a complete picture of the total economic impact of purchase decisions. Please see Appendix A for additional information on the TEI methodology.

FIGURE 2
TEI Approach

Source: Forrester Research, Inc.

Analysis

COMPOSITE ORGANIZATION

For this study, Forrester conducted a total of four interviews with representatives from the following companies, which are RingCentral customers:

- **Regional real estate management firm.** The firm's 350 employees are distributed through regional offices, but many of its employees spend a significant amount of time working at property sites or working from different offices.
- **Integrated marketing consultancy.** The organization has more than 400 employees that provide marketing advice and run marketing campaigns to optimize lead generation activities for small- and medium-sized companies.
- **Marketing services provider.** The company provides marketing services ranging from customer acquisition campaigns to post-sale customer analytics for small businesses within the automotive industry.
- **Commercial shipping asset lessor.** With more than 30 offices scattered across the eastern United States, the employees of this company are widely distributed. Since employees are actively working around trucks, trailers, and other shipping, mobile phones dramatically increase employee accessibility to customers.

Based on the interviews, Forrester constructed a TEI framework, a composite company, and an associated ROI analysis that illustrates the areas affected financially. The composite organization that Forrester synthesized from these results represents an organization with the following characteristics:

- A total of 600 employees that are distributed in 12 offices in the United States, England, and France.
- Average company growth as measured by the number of employees is 10% per year. The expansion comes from a combination of organic growth and acquisitions.
- The composite organization maintains a PBX in five offices.
- 40 employees (20%) work remotely from home offices or in shared office space that are equipped with desk phones.
- Employees are becoming increasingly mobile by working from multiple offices, working from remote job sites, or engaging with customers while traveling.

> *"We had five offices with five different telecom solutions. One office had a PBX that was brand new; others were 15 years old. It was a hassle just to fulfill basic requests like call forwarding and adding or removing users."*
>
> ~Director of technology, real estate company

After an extensive RFP and business case process evaluating multiple vendors, the composite organization chose RingCentral and began deployment. The organization:

- Adopted RingCentral and deployed it across the organization at multiple locations globally.
- Purchased 600 IP phones to replace the previous desk phones. The organization purchased an additional 35 IP phones for conference rooms. At the end of three years, the company has a total of 726 desk phones.
- Encouraged employees to use the RingCentral app on their existing smartphones.

INTERVIEW HIGHLIGHTS

Before RingCentral, the composite organization faced challenges in managing PBX hardware, growing demand for enhanced telephony services, and a need to support a workforce that was increasingly mobile — around town and across the globe.

Situation

The composite organization faced the following challenges:

- Expanding sales from a small, central team to a nationwide group of professionals, many of whom work from home.
- Supporting new behaviors such as employees working from multiple offices and a growing number of remote employees.
- Providing resiliency to phone systems, including failover capabilities in case of disasters or technical problems.
- Maintaining obsolete phone systems that were expensive because they were no longer being manufactured.

Solution

The composite organization deployed RingCentral for its 600 employees across all company offices and for home-based employees. It standardized on IP phones for its employees and enabled them to use the RingCentral app on their existing mobile devices. In addition to telephony, the organization uses RingCentral for fax services, web meetings, and videoconferencing. The deployment was managed by a single employee.

Results

The interviews revealed that the composite organization:

- **Eliminated the need for PBX systems, software, and maintenance needs.** By using RingCentral, the composite organization eliminated the need for PBX hardware, related software, and staffing (internal or third-party consultants) to manage and configure phone systems.
- **Discontinued services with vendors for fax services, web meetings, and videoconferencing.** Because RingCentral provides a suite of services, the composite organization was able to eliminate additional contracts with service providers.
- **Improved the productivity of employees.** Employee productivity was measured in dramatically different ways across the four companies that Forrester interviewed. In some cases, the improvement came from increased collaboration among internal employees; in another case, the increase came from an improving accessibility of employees to customers.

> *"With RingCentral, employees are more available, more reachable, and more responsive to customers."*
>
> ~IT director, marketing services provider

BENEFITS

The composite organization experienced a number of quantified benefits in this case study. The organization was able to:

- Avoid the cost for previous telephony solutions.
- Leverage RingCentral integration with salesforce.com.
- Boost average employee productivity.

Avoid The Cost For Previous Telephony Solutions

The composite organization implemented RingCentral and was able to avoid capital expenditures for PBX systems that cost as much as $275,000. For the purposes of this study, Forrester assumes that the PBX systems across the five offices are leased at a fixed rate that totals $22,000 per month or $264,000 per year, including software and maintenance fees. Without PBX systems, the organization eliminates its need for technicians to configure, troubleshoot, and maintain the PBX. In addition, the organization eliminates fees for dedicated phone lines, toll-free lines, audioconference, and a fax system, which total $175,000 per year. In total, RingCentral replaces services that total $593,000 per year — costs that the organization avoids paying with its implementation of RingCentral.

During Forrester's interviews, customers realized similar levels of savings by eliminating their previous PBX systems and related services. The most significant variation came from fax services — some companies rely heavily on fax services while others hardly use faxes. To compensate, this benefit is risk-adjusted and reduced by 5%. The risk-adjusted total benefit resulting from avoiding the cost for previous telephony solutions over the three years is more than $1.6 million. See the section on Risks for more detail.

TABLE 1
Avoid The Cost For Previous Telephony Solutions

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
A1	PBX lease, software, and maintenance	$22K/month	$264,000	$264,000	$264,000
A2	Eliminate 1.5 FTEs — specialists	$85K/year	$127,500	$127,500	$127,500
A3	Dedicated phone lines, toll-free lines, and audioconferencing	$10K/month	$120,000	$120,000	$120,000
A4	Internal fax system	$55K/year	$55,000	$55,000	$55,000
A5	Retire videoconferencing and webconferencing	$750/month	$9,000	$9,000	$9,000
A6	External consultants	$17.5K/year	$17,500	$17,500	$17,500
At	Avoid the cost for previous telephony solutions	A1+A2+A3 +A4+A5+A6	$593,000	$593,000	$593,000
	Risk adjustment		↓ 5%		
Atr	Avoid the cost for previous telephony solutions (risk-adjusted)		$563,350	$563,350	$563,350

Source: Forrester Research, Inc.

✪ Leverage RingCentral Integration With Salesforce.com

RingCentral is integrated with saleforce.com, providing medium-sized enterprises functionality that would otherwise require internal investment. The integration enables logging of incoming and outgoing phone calls with customers to track interactions. One of the companies that Forrester interviewed uses the salesforce.com integration to verify the performance of sales teams. Another interviewed company is using the integration to measure customer interactions to proactively reach out to customers that go without phone calls for an extended length of time.

Because integration with salesforce.com provided high value to some companies, but was unused by other companies that Forrester interviewed, this benefit is risk-adjusted and reduced by 15%. The risk-adjusted total benefit resulting from leveraging RingCentral integration with salesforce.com over the three years is $95,200. See the section on Risks for more detail.

TABLE 2
Leverage RingCentral Integration With Salesforce.com

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
B1	Development of salesforce.com integration	0.5 FTE*$140K	$70,000		
B2	Maintenance and update of integration	0.1 FTE*$140K	$14,000	$14,000	$14,000
Bt	Leverage RingCentral integration with salesforce.com	B1+B2	$84,000	$14,000	$14,000
	Risk adjustment		↓ 15%		
Btr	Leverage RingCentral integration with salesforce.com (risk-adjusted)		$71,400	$11,900	$11,900

Source: Forrester Research, Inc.

Profit On Increased Revenue By Customer-Facing Employees

The four companies that Forrester interviewed each shared examples of how using RingCentral improved the productivity of employees. The examples varied from boosting collaboration of disparate team members to enabling employees to be more available to customers (via phone).

To model this financial benefit, Forrester documented the increase in revenue generated by customer-facing employees at one of the companies interviewed. In this case, employees are increasingly accessible to customers between different offices, at the office, but away from a desk, or even when moving between offices. By using a phone system that integrates desk phones with mobile phones, employees are accessible on the company phone system regardless of location. The result is that customers receive better service, fewer phone calls are missed, and the average revenue per customer-facing employee increases by 4% per year. The financial impact is increased revenue of more than $5.3 million and a boost in net profit of $804,330 over three years.

To compensate for variation in how companies realize a boost in productivity, Forrester risk adjusted this benefit downward by 15%. The risk-adjusted total benefit resulting from boosting average employee productivity over the three years is $683,681. See the section on Risks for more detail.

TABLE 3
Profit On Increased Revenue By Customer-Facing Employees

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
C1	Projected number of employees	10% growth	600	660	726
C2	Customer-facing employees	C1*30%	180	198	218
C3	Average revenue per customer-facing employee		$225,000	$225,000	$225,000
C4	Increase in revenue per customer-facing employee of 4%	C2*C3*4%	$1,620,000	$1,782,000	$1,960,200
Ct	Profit margin of 15% on increased revenue	C4*15%	$243,000	$267,300	$294,030
	Risk adjustment		↓ 15%		
Ctr	Profit on increased revenue (risk-adjusted)		$206,550	$227,205	$249,926

Source: Forrester Research, Inc.

Unquantifiable Benefits

In addition to the benefits quantified in the previous section, Forrester documented additional benefits that cannot be quantified. The benefits include:

- **Integrated phone systems enhance company image.** Using an integrated phone system helped convey a level of professionalism that is typical of larger companies. One IT director told Forrester, “RingCentral makes our small company feel like we have the polish and sophistication of a much larger company. That extra polish increases the trust and confidence of our customers.”

- **Mobile app engages employees.** RingCentral offers an app that employees use on existing smartphones. The app has a consumer feel that is familiar to employees. Because the app is attractive and elegant, the interviewed customers told Forrester that the app helped attract employees to RingCentral. “It’s this feature that allows employees to be mobile and yet integrated with the flow of business,” said an IT manager.

Total Benefits

Table 4 shows the total of all benefits across the areas listed above, as well as present values (PVs) discounted at 10%. Over three years, the composite organization expects risk-adjusted total benefits to be a PV of more than $2 million.

TABLE 4
Total Benefits (Risk-Adjusted)

Ref.	Benefit	Year 1	Year 2	Year 3	Total	Present value
Atr	Avoid the cost for previous telephony solutions	$563,350	$563,350	$563,350	$1,690,050	$1,400,968
Btr	Leverage RingCentral integration with salesforce.com	$71,400	$11,900	$11,900	$95,200	$83,684
Ctr	Boost average employee productivity	$206,550	$227,205	$249,926	$683,681	$563,318
	Total benefits	**$841,300**	**$802,455**	**$825,176**	**$2,468,931**	**$2,047,971**

Source: Forrester Research, Inc.

COSTS

The composite organization experienced a number of costs associated with the RingCentral solution:

- Cost of RingCentral subscription.
- Labor to architect, configure, and implement RingCentral.
- Replace desk and conference room telephones.

These represent the mix of internal and external costs experienced by the composite organization for initial planning, implementation, and ongoing maintenance associated with using RingCentral.

Cost Of RingCentral Subscription

The standard price from RingCentral for premium services is $30 per employee per month. Premium services include telephony, fax, web meetings, and videoconferencing. Because RingCentral has standard pricing that is based on the number of employees, each of the interviewed companies experienced similar subscription costs. As such, Forrester risk-adjusts the cost up by 5%, resulting in a risk-adjusted cost over the three years of $750,708. See the section on Risks for more detail.

TABLE 5
Cost Of RingCentral Subscription

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
D1	Number of employees			600	660	726
D2	License cost per employee per month			$30	$30	$30
Dt	Cost of RingCentral subscription	D1*D2*12		$216,000	$237,600	$261,360
	Risk adjustment	↑ 5%				
Drt	Cost of RingCentral subscription (risk-adjusted)			$226,800	$249,480	$274,428

Source: Forrester Research, Inc.

Labor To Architect, Configure, And Implement RingCentral

Among the four companies that Forrester interviewed, the effort required to migrate to RingCentral varied most significantly with how aggressively each company planned its switchover. The fastest migration was one month, but other companies phased the migration over 18 months. Regardless of the migration time, the effort to architect and implement RingCentral was nominal, requiring only one month of time for a senior IT manager.

Adding additional users to the RingCentral environment require about 30 minutes. One IT director told Forrester, “The most time-consuming task in setting up a new phone is unpacking the physical phone from the box. The setup time for a new user is inconsequential.”

To account for the variation in how aggressively companies choose to migrate to RingCentral, Forrester risk-adjusts this cost up by 10%. The risk-adjusted cost of labor to architect, configure, and implement RingCentral over three years is $12,375.

TABLE 6
Labor To Architect, Configure, And Implement RingCentral

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
E1	Burdened salary for senior IT manager		$135,000			
E2	Time allocated to RingCentral migration	1 month	1/12			
Et	Labor to architect, configure, and implement RingCentral	E1*E2	$11,250	$0	$0	$0
	Risk adjustment	↑ 10%				
Ert	Labor to architect, configure, and implement RingCentral (risk-adjusted)		$12,375	$0	$0	$0

Source: Forrester Research, Inc.

Replace Desk And Conference Room Telephones

Companies without existing IP phones on desks or in conference rooms must plan to replace existing devices. The composite organization invested $81,000 during the initial migration and added additional phones as it hired employees, paying an average price of $100 per desk phone and $600 per conference room device. Because RingCentral offers IP phones at these prices, Forrester risk-adjusts the cost up by 5%, resulting in a risk-adjusted cost over the three years of $98,280.

TABLE 7
Replace Desk And Conference Room Telephones

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
F1	Purchase 600 desk IP phones	$100/phone	$60,000	$0	$6,000	$6,600
F2	Purchase 35 conference room IP phones	$600/phone	$21,000	$0	$0	$0
Ft	Replace desk and conference room telephones	F1+F2	$81,000	$0	$6,000	$6,600
	Risk adjustment	↑ 5%				
Frt	Replace desk and conference room telephones (risk-adjusted)		$85,050	$0	$6,300	$6,930

Source: Forrester Research, Inc.

Total Costs

Table 8 shows the total of all costs as well as associated present values, discounted at 10%. Over three years, the composite organization expects costs to total $861,363.

TABLE 8
Total Costs (Risk-Adjusted)

Ref.	Cost	Initial	Year 1	Year 2	Year 3	Total	Present value
Drt	Cost of RingCentral subscription	$0	$226,800	$249,480	$274,428	$750,708	$618,545
Ert	Labor to architect, configure, and implement RingCentral	$12,375	$0	$0	$0	$12,375	$12,375
Frt	Replace desk and conference room telephones	$85,050	$0	$6,300	$6,930	$98,280	$95,463
	Total costs	**$97,425**	**$226,800**	**$255,780**	**$281,358**	**$861,363**	**$726,384**

Source: Forrester Research, Inc.

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FLEXIBILITY

Flexibility, as defined by TEI, represents an investment in additional capacity or capability that could be turned into business benefit for some future additional investment. This provides an organization with the "right" or the ability to engage in future initiatives but not the obligation to do so. There are multiple scenarios in which a customer might choose to implement RingCentral and later realize additional uses and business opportunities. Flexibility would also be quantified when evaluated as part of a specific project (described in more detail in Appendix A).

› **Validating employee tasks.** The inside sales group at one company is measured on the outbound phone calls that they initiate. While employees are generally trustworthy, validating the number of phone calls requires tapping into phone logs — or other forms of onerous paperwork — that make validating phone calls unfeasible. This company found that RingCentral reporting tools enabled the company to easily track and report on outgoing and incoming phone calls, allowing sales managers to validate sales rep performance.

› **Measuring business unit performance.** Similarly, another company is using the volume of customer contacts that are tracked using the salesforce.com interface. The company uses the data as an additional data point to triangulate the performance of business units.

RISKS

Forrester defines two types of risk associated with this analysis: "implementation risk" and "impact risk." "Implementation risk" is the risk that a proposed investment in RingCentral may deviate from the original or expected requirements, resulting in higher costs than anticipated. "Impact risk" refers to the risk that the business or technology needs of the organization may not be met by the investment in RingCentral, resulting in lower overall total benefits. The greater the uncertainty, the wider the potential range of outcomes for cost and benefit estimates.

Quantitatively capturing implementation risk and impact risk by directly adjusting the financial estimates results provides more meaningful and accurate estimates and a more accurate projection of the ROI. In general, risks affect costs by raising the original estimates, and they affect benefits by reducing the original estimates. The risk-adjusted numbers should be taken as "realistic" expectations since they represent the expected values considering risk.

TABLE 9
Benefit And Cost Risk Adjustments

Benefits	Adjustment
Avoid the cost for previous telephony solutions	↓ 5%
Leverage RingCentral's integration with salesforce.com	↓ 15%
Boost average employee productivity	↓ 15%

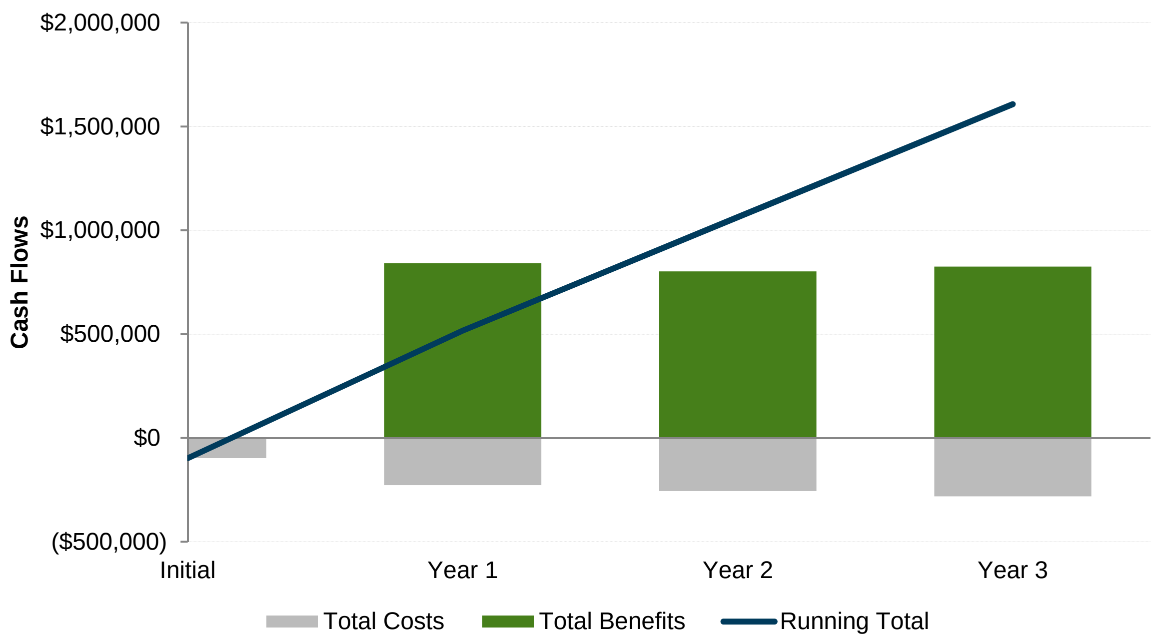
Costs	Adjustment
Cost of RingCentral subscription	↑ 5%
Labor to architect, configure, and implement RingCentral	↑ 10%
Replace desk and conference room telephones	↑ 5%

Source: Forrester Research, Inc.

Financial Summary

The financial results calculated in the Benefits and Costs sections can be used to determine the ROI, NPV, and payback period for the organization's investment in RingCentral. Table 10 below shows the risk-adjusted ROI, NPV, and payback period values. These values are determined by applying the risk-adjustment values from Table 9 in the Risks section to the unadjusted results in each relevant Costs and Benefits sections.

FIGURE 3
Cash Flow Chart (Risk-Adjusted)



Source: Forrester Research, Inc.

TABLE 10
Cash Flow: Risk-Adjusted

	Initial	Year 1	Year 2	Year 3	Total	Present value
Costs	($97,425)	($226,800)	($255,780)	($281,358)	($861,363)	($726,384)
Benefits	$0	$841,300	$802,455	$825,176	$2,468,931	$2,047,971
Net benefits	($97,425)	$614,500	$546,675	$543,818	$1,607,568	$1,321,587
ROI						182%
Payback period						1.9 months

Source: Forrester Research, Inc.

RingCentral: Overview

The following information is provided by RingCentral. Forrester has not validated any claims and does not endorse RingCentral or its offerings.

RingCentral provides cloud-based business phone systems, offering a unified solution consisting of voice, text, fax, audioconferencing, and HD videoconferencing to more than 300,000 customers in North America and the United Kingdom. With over 10 years of experience invested in research, development and the customer experience, RingCentral has developed a phone solution that scales to serve the needs of a wide array of businesses.

RingCentral Office improves business collaboration for today's modern workforce by unifying communications across one or more locations, distributed teams, and mobile workers. Additionally, RingCentral Office integrates with other cloud business applications such as Box, Google Drive, Microsoft Apps, and salesforce.com, for greater productivity across the workforce. The RingCentral solution is further enhanced with the use of iOS and Android apps that enable BYOD for employees leveraging smartphones and tablets for work.

Accessible from any Internet-connected device, the RingCentral solution is easily managed by administrators without requiring specialized IT training. Administrators use a simple web-based portal or mobile application to make adds/changes/moves. And, end users are empowered to control their own settings, creating a personalized experience, which further reduces the burden on IT.

RingCentral provides a complete business communications solution that delivers high ROI and low TCO by offering the quality, reliability and value expected by enterprise organizations that are competing to succeed in today's demanding market environment.

Appendix A: Total Economic Impact™ Overview

Total Economic Impact is a methodology developed by Forrester Research that enhances a company's technology decision-making processes and assists vendors in communicating the value proposition of their products and services to clients. The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.

The TEI methodology consists of four components to evaluate investment value: benefits, costs, flexibility, and risks.

BENEFITS

Benefits represent the value delivered to the user organization — IT and/or business units — by the proposed product or project. Often, product or project justification exercises focus just on IT cost and cost reduction, leaving little room to analyze the effect of the technology on the entire organization. The TEI methodology and the resulting financial model place equal weight on the measure of benefits and the measure of costs, allowing for a full examination of the effect of the technology on the entire organization. Calculation of benefit estimates involves a clear dialogue with the user organization to understand the specific value that is created. In addition, Forrester also requires that there be a clear line of accountability established between the measurement and justification of benefit estimates after the project has been completed. This ensures that benefit estimates tie back directly to the bottom line.

COSTS

Costs represent the investment necessary to capture the value, or benefits, of the proposed project. IT or the business units may incur costs in the form of fully burdened labor, subcontractors, or materials. Costs consider all the investments and expenses necessary to deliver the proposed value. In addition, the cost category within TEI captures any incremental costs over the existing environment for ongoing costs associated with the solution. All costs must be tied to the benefits that are created.

FLEXIBILITY

Within the TEI methodology, direct benefits represent one part of the investment value. While direct benefits can typically be the primary way to justify a project, Forrester believes that organizations should be able to measure the strategic value of an investment. Flexibility represents the value that can be obtained for some future additional investment building on top of the initial investment already made. For instance, an investment in an enterprisewide upgrade of an office productivity suite can potentially increase standardization (to increase efficiency) and reduce licensing costs. However, an embedded collaboration feature may translate to greater worker productivity if activated. The collaboration can only be used with additional investment in training at some future point. However, having the ability to capture that benefit has a PV that can be estimated. The flexibility component of TEI captures that value.

RISKS

Risks measure the uncertainty of benefit and cost estimates contained within the investment. Uncertainty is measured in two ways: 1) the likelihood that the cost and benefit estimates will meet the original projections, and 2) the likelihood that the estimates will be measured and tracked over time. TEI applies a probability density function known as "triangular distribution" to the values entered. At a minimum, three values are calculated to estimate the underlying range around each cost and benefit.

Appendix B: Glossary

Discount rate: The interest rate used in cash flow analysis to take into account the time value of money. Companies set their own a discount rate based on their business and investment environment. Forrester assumes a yearly discount rate of 10% for this analysis. Organizations typically use discount rates between 8% and 16% based on their current environment. Readers are urged to consult their respective organizations to determine the most appropriate discount rate to use in their own environment.

Net present value (NPV): The present or current value of (discounted) future net cash flows given an interest rate (the discount rate). A positive project NPV normally indicates that the investment should be made, unless other projects have higher NPVs.

Present value (PV): The present or current value of (discounted) cost and benefit estimates given at an interest rate (the discount rate). The PV of costs and benefits feed into the total NPV of cash flows.

Payback period: The breakeven point for an investment. This is the point in time at which net benefits (benefits minus costs) equal initial investment or cost.

Return on investment (ROI): A measure of a project's expected return in percentage terms. ROI is calculated by dividing net benefits (benefits minus costs) by costs.

A NOTE ON CASH FLOW TABLES

The following is a note on the cash flow tables used in this study (see the example table below). The initial investment column contains costs incurred at "time 0" or at the beginning of Year 1. Those costs are not discounted. All other cash flows in years 1 through 3 are discounted using the discount rate at the end of the year. PV calculations are calculated for each total cost and benefit estimate. NPV calculations are not calculated until the summary tables are the sum of the initial investment and the discounted cash flows in each year.

Sums and present value calculations the Total Benefits, Total Costs and Cash Flow tables may not exactly add up, as some rounding may occur.

TABLE [EXAMPLE]
Example Table

Ref.	Metric	Calculation	Year 1	Year 2	Year 3

Source: Forrester Research, Inc.