

The Total Economic Impact™ Of Microsoft Office 365 For Retail Organizations

Retailers have experienced radical changes over the past decade. The rise of eCommerce and the economic downturn have created significant challenges. To find their way again, retailers are looking to streamline operations, be more agile in bringing new products to market, create true omnichannel experiences, and become stickier with their customers. Achieving this requires greater flexibility from IT systems, business processes, and stakeholders.

Forrester Consulting looked at how Office 365 — which is the cloud-based version of Office Professional Plus, Exchange, Skype for Business (formerly Lync), SharePoint, Yammer, and OneDrive — helps retailers respond to these challenges and make the necessary changes. We found it lowered the solution's total cost of ownership (TCO), increased employee productivity and efficiency, powered greater and faster insights, enabled IT organizations to complete more projects without adding additional resources, and improved IT security and compliance. Specifically, retail companies shared that Office 365 helped them:

- › Modernize management at the store, district, and regional level.
- › Improve category and merchandise management.
- › Increase sales floor feedback to merchandisers and sharing of best practices.
- › Connect the highly mobile parts of the workforce, e.g., buyers.

More information on improved business processes can be found in the Appendix, which quantifies benefits defined in Microsoft's Value Discovery Workshop methodology.

To explore the potential benefits of using Office 365 in a retail organization, Forrester created a composite organization that had the characteristics of the interviewed and surveyed organizations. The composite organization was a US-based specialty retailer with approximately 1,000 stores across North America and Europe. It has 6,000 users with E3 licenses — corporate employees, store and department managers, and distribution/supply chain. Sales associates use kiosks for HR activities and to share best practices via Yammer. It moved users from an on-premises 2007 version of Microsoft solutions to Office 365 in the cloud. It also replaced an old IMAP email system for the individual stores. The Total Economic Impact™ study looks at the financial impacts to the composite organization.

METHODOLOGY

Microsoft commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study to provide business and IT leaders with an understanding of how retail companies can benefit by moving from an on-premises Microsoft Office solution to Microsoft Office 365.

To achieve these objectives, Forrester conducted four in-depth phone interviews with a department store, specialty retailer, consumer electronics manufacturer and retailer, and food product distributor. Forrester also conducted an online survey with 30 retail companies that have migrated to Office 365.

Forrester then designed a composite organization based on the characteristics of these companies. A representative financial model was constructed using the TEI methodology.

Lastly, Forrester risk-adjusted the financial model based on issues and concerns the surveyed organizations highlighted. Some cost and benefit 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 are detailed in each relevant section.

Key Findings

Forrester's study yielded the following key findings for the composite organization:

ROI:
190%

IRR:
334%






NPV:
**\$6.85
million**

**Payback
period:**
6 months

The Five Benefit Pillars And Results Summary

Forrester looked at retail company business and IT benefits across five broad areas. These pillars, as Microsoft defines them, encompass business transformation, cost savings, and employee productivity gains. In each pillar, we explored the various ways that the interviewed and surveyed retail organizations have benefited from moving their employees to Office 365. We also included at least one example from each pillar in the ROI analysis portion of the study. All of the responding companies experienced benefits across the areas highlighted in Figure 1.

Figure 1
Microsoft Office 365 Benefit Pillars And Risk-Adjusted Financial Benefits

Pillar	How Quantified In Study	Financial Impact	Goal
 Technology	Reduce hardware, software, and IT labor costs.	\$2,727,133	Improve agility, reduce costs , and provide the tools to work efficiently.
 Mobility	Increase worker efficiency with anytime, anywhere access.	\$4,277,617	Enable district managers and buyers to work from anywhere on any device.
 Control & Compliance	Lower compliance costs and improve capabilities.	\$556,263	Help protect customer and company data and ensure compliance.
 Business Intelligence	Save money through better decisions from more timely access to information.	\$2,652,930	Gain customer and merchandizing insights to increase revenue and reduce time-to-market .
 Real-time Communication	Improve process efficiency and user productivity.	\$2,598,703	Share information and best practices through improved collaboration.

Source: Forrester Research, Inc.

The financial results calculated in the Benefits and Costs sections can be used to determine the return on investment (ROI), internal rate of return (IRR), net present value (NPV), and payback period for the composite retail company's investment in Microsoft Office 365.

The table below shows the risk-adjusted ROI, IRR, NPV, and payback period values.

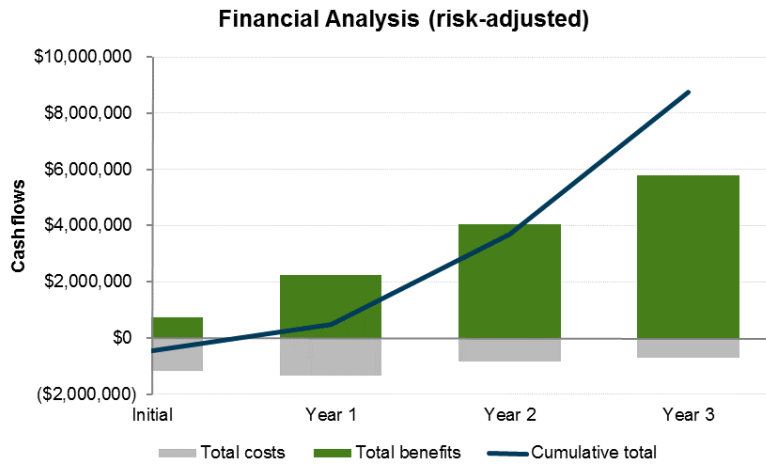
Results Summary

	Initial	Year 1	Year 2	Year 3	Total	PV
Costs	(\$1,172,821)	(\$1,335,327)	(\$834,831)	(\$710,999)	(\$4,053,978)	(\$3,610,882)
Benefits	\$728,256	\$2,257,860	\$4,047,867	\$5,778,662	\$12,812,646	\$10,467,796
Net benefits	(\$444,565)	\$922,533	\$3,213,037	\$5,067,663	\$8,758,668	\$6,856,914
ROI	190%					
IRR	334%					
Payback period	Six months (after go-live)					

Source: Forrester Research, Inc.

The graph below shows the risk-adjusted cash flow.

Figure 2
Risk-Adjusted Cash Flow



Source: Forrester Research, Inc.

“We have benefited from Office 365 in many ways. Because it is a complete cloud solution, we have seen infrastructure savings, easier support, and improved security. That said, the whole way people work has become more productive, and they can find answers 24x7. That is the biggest benefit we’ve seen.”

~Group manager, food retailer

Benefits

For each of the above pillars, the interviewed retail companies and online survey respondents spoke to multiple benefits. In each area, Forrester quantified at least one benefit that is specifically highlighted and comprises the ROI analysis component of this study.

Technology Benefits

In interviewing and surveying retail companies, Forrester uncovered that these companies realized the following benefits by moving to Office 365 compared with an on-premises solution:

- › A 10.7% reduction in Microsoft licensing costs.
- › A 12.6% reduction in third-party license and software costs, e.g., other email solutions and antispam software.
- › A 9.1% reduction in IT support costs for legacy systems.

“We are saving \$500,000 per year in data center operations costs and reduced capital outlays by \$9.5 million over eight years.”

~Director of shared services, specialty retailer

In addition, Forrester quantified five benefit areas within the technology pillar:

- › **The composite retail company avoided adding new infrastructure hardware.** The move from the 2007 version of the Microsoft solutions to the Office 365 cloud-based solution meant that the organization did not need to purchase, install, and maintain new infrastructure. In total, 54 highly virtualized physical servers were not added over the life of the study, and storage area network (SAN) requirements were reduced by half. This benefit also includes an annual \$750 saving per server, which includes data center hosting costs and labor to maintain, update, and patch the physical servers. The total three-year risk-adjusted savings to purchase, maintain, and host the hardware amounted to \$1,074,353.
- › **Server licenses for various Microsoft solutions were no longer needed.** An on-premises solution comparable to Office 365 would have required 301 Windows Server licenses, 21 Exchange Server licenses, three Skype for Business Server licenses, and 13 SharePoint licenses. The total three-year risk-adjusted avoided purchase cost plus annual maintenance totaled \$113,768.
- › **The implementation effort was 43% less than for a comparable on-premises solution.** Had the composite organization implemented a traditional on-premises deployment of Microsoft 2013 solutions, the internal effort and professional services fees would have been 50% and 40% greater, respectively. This total three-year risk-adjusted savings across all phases equaled \$527,263.
- › **The personnel required to support the solution were reduced significantly.** The total number of personnel required to maintain and grow the Microsoft solutions — Office Professional Plus, Exchange, Skype, SharePoint, Yammer, and OneDrive — in terms of system administration and management of user accounts was reduced significantly. This was in the form of avoiding two additional hires for Skype for Business and SharePoint as well as redeploying two existing email system administrators who could focus on other, higher-value activities. The total three-year risk-adjusted associated savings was \$940,500.
- › **The composite retailer eliminated its third-party antispam and email solutions.** The composite company was spending \$30,000 per year on an antispam filtering solution. This was eliminated with capabilities built into Office 365. There was also a very old IMAP email solution that was used for employees at stores, which was replaced with Office 365. The total three-year risk-adjusted associated savings was \$71,250.

“Previously, we had to maintain all this infrastructure internally. All of this effort now goes into creating value for the company. Also, the security features present in Office 365 are really impressive and eliminated that work for us as well.”

~ Group manager, food retailer

In the interviews, Forrester heard more specifics about some of the technology benefits achieved. One company told us: “We used to have a team of four who spent most of their time monitoring email systems and keeping it running. With Office 365, our downtime has decreased and our team can work on adding new features. That has been a very pleasant surprise.” Another said: “The business benefits a lot from us staying up to date on the latest technologies. We used to spend a lot of time working on issues that would not have existed had we been on the latest release. We now save money and downtime, and we don’t need to have engineers up in the middle of night patching.”

Table 1 highlights the total quantified technology benefits for our composite retail company.

Table 1
Total Technology Benefits

Ref.	Benefit Category	Initial	Year 1	Year 2	Year 3
Atr	Avoided backend hardware	\$390,038	\$291,240	\$189,405	\$203,670
Btr	Avoided Microsoft server licenses	\$41,337	\$41,214	\$15,312	\$15,905
Ctr	Reduced implementation effort	\$296,882	\$230,382	\$0	\$0
Dtr	Reduced IT support effort	\$0	\$104,500	\$418,000	\$418,000
Etr	Eliminated third-party technologies	\$0	\$14,250	\$28,500	\$28,500
Total technology benefits		\$728,256	\$681,585	\$651,217	\$666,075

Source: Forrester Research, Inc.

Mobility Benefits

The interviews uncovered that these retail companies benefited from improved productivity for mobile workers, as well as anywhere, anytime access to information for other knowledge workers. Some of the roles that especially benefit are district and regional managers, who are often visiting stores; buyers who are visiting overseas suppliers; and merchandizers who are visiting stores. One interviewee said: “Merchandizing individuals and account managers who go to the retail stores to check on what is happening, set up shelves, etc. have really benefited. They rely 100% on their mobile devices and now have access to all of the information they need.”

From the survey, Forrester learned that 52% of the retail companies said Office 365 had improved worker effectiveness and decreased business process times; 48% said they had improved faster time-to-market due to mobile access; and 45% reported that mobile access had created greater end user productivity due to improved communications and knowledge sharing.

For the financial analysis, Forrester looked at improved productivity for 300 mobile workers, growing to 650 by Year 3 of the study. This group comprises mainly district and regional managers, merchandizers, and buyers. The reduction in time to access systems and information improves their productivity; since a VPN is no longer needed because of direct access via IPv4 and IPv6, they can now access these systems from wherever they are, even at very remote sites. Office 365 also provides these users with a more seamless user experience across devices with less downtime, which also improves their mobile productivity.

In Year 1 of the study, the weekly time savings is 2.5 hours. This increases to 3.75 hours per week by Year 3, as Skype and SharePoint are fully integrated and employees become more comfortable working in this new paradigm. This productivity gain can be used to create more content and sell more ad space, or it can be a source of cost savings through avoided additional hiring. Forrester discounted this benefit by 50% since not all productivity gains translate into additional work.

“I have 150 district managers who are always on the go. Now they always have access to anything they need via OneDrive, SharePoint, and email. Previously, if they were not at one of our stores, they would have to VPN in. It’s definitely faster to find the Internet than one of our stores.”

~ Senior IT manager, department store operator

As there are a variety of forces that could affect productivity outcomes within a retailer, this benefit was risk-adjusted and reduced by 15%. The risk-adjusted total benefit resulting over the three years was \$4,007,617.

Table 2
Increased Mobile Worker Productivity

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
F1	Number of workers		300	500	650
F2	Hours per day saved with use of Office 365 on mobile devices		0.50	0.50	0.75
F3	Average hourly salary	\$85,000/2,000 hours	\$42.50	\$42.50	\$42.50
F4	Number of workdays per year		250	250	250
F5	Percent of benefit realized		50%	50%	50%
Ft	Increased mobile worker productivity	$F1 \cdot F2 \cdot F3 \cdot F4 \cdot F5$	\$796,875	\$1,328,125	\$2,589,844
	Risk adjustment	↓15%			
Ftr	Increased mobile worker productivity (risk-adjusted)		\$677,344	\$1,128,906	\$2,201,367

Source: Forrester Research, Inc.

One interviewed retailer also shared the specific example of buyers not having to make as many trips to Asia for sourcing discussions. In addition to the cost savings, there is an IT security benefit associated with Office 365. One interviewee explained: “Some of the countries we go to are known for trying to access visitors’ laptops. We give people going to these countries a plain vanilla laptop without any sensitive information on it. They access everything via OneDrive and SharePoint, which is safely residing at home. Our audit and compliance teams really like this capability.”

For the financial analysis, Forrester assumed that there are 20 buyers making one less trip a year to Asia. The average cost for airfare, hotel, and per diem is \$5,000 per trip. Since the number and cost of trips vary greatly across retailers, this benefit was risk-adjusted and reduced by 10%. The risk-adjusted total benefit resulting over the three years was \$270,000.

Table 3
Fewer Sourcing Trips

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
G1	Number of affected buyers			20	20	20
G2	Number of fewer trips			1	1	1
G3	Average cost per trip			\$5,000	\$5,000	\$5,000
Gt	Fewer sourcing trips	$G1 \cdot G2 \cdot G3$	\$0	\$100,000	\$100,000	\$100,000
	Risk adjustment	↓10%				
Gtr	Fewer sourcing trips (risk-adjusted)		\$0	\$90,000	\$90,000	\$90,000

Source: Forrester Research, Inc.

Control And Compliance Benefits

Control and compliance includes regulatory compliance, eDiscovery, audit, policy management, IT security policies, and other similar activities. For retail companies, IT security is very important because hacking of

customers' personal and credit card information can lead to a lot of bad publicity, resulting in decreased sales and increased liability. Forty-eight percent of survey respondents said it was easier to manage policies across all device types, 35% said they have seen improved enforcement of data retention policies with Office 365, and 24% reported less time and effort spent on eDiscovery activities. We also learned that compliance costs were reduced, on average, by 8.75%. The time spent on eDiscovery activities was reduced by 10.1%. Respondents also reported that the number and cost of data breaches decreased after they implemented Office 365.

In the survey and interviews, Forrester heard that Office 365 helped with meeting compliance requirements for:

- › PCI.
- › Data processing agreements (DPAs).
- › ISO 27001.
- › Sarbanes-Oxley (SOX).
- › Statements on Standards for Attestation Engagements No. 16 (SSAE 16).
- › Canadian Personal Information Protection and Electronic Documents Act (PIPEDA).
- › OSHA.

“PCI compliance is the biggest one for retailers. We use Exchange protection to make sure credit card information isn't being sent.”

~ Senior IT manager, department store operator

Forrester included two benefits in the control and compliance area. The first is less time spent on eDiscovery activities by the compliance teams. “Our ability to comply with legal holds has gotten a lot better. In the past, we journaled all our emails and stored them on secure disks. We had data corruptions all the time, and sometimes had to dedicate an exchange engineer to work with risk management. Now, our compliance team is saving a lot of time. For a simple hold they save around 15 minutes, and for a complex one they save a day or two. We may have 3,000 holds at any one time, 100 of which are large events.”

For the financial analysis, Forrester included the example given above. Each year there are 100 large eDiscovery events and 3,000 holds in which time is saved. Since the number and complexity of events vary, this benefit was risk-adjusted and reduced by 10%. The risk-adjusted total benefit resulting over the three years was \$223,763.

Table 4
Reduced eDiscovery Effort

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
H1	Number of large eDiscovery events		100	100	100
H2	Average time savings per event (hours)	(16 hours -> 4 hours)	12	12	12
H3	Number of annual email holds		3,000	3,000	3,000
H4	Time saved per hold (hours)		0.25	0.25	0.25
H5	Total time saved (hours)	$H1*H2+H3*H4$	1,950	1,950	1,950
H6	Hourly average fully burdened business user salary	$\$85,000/2,000$ hours	\$42.50	\$42.50	\$42.50
Ht	Reduced eDiscovery effort	$H5*H6$	\$82,875	\$82,875	\$82,875
	Risk adjustment	↓10%			
Htr	Reduced eDiscovery effort (risk-adjusted)		\$74,588	\$74,588	\$74,588

Source: Forrester Research, Inc.

The second area we looked at in the control and compliance pillar was reduced disaster recovery (DR) and business continuity costs. This was a very strong benefit for the interviewed organizations. Email systems are generally considered mission-critical and more often than not lack adequate business continuity and disaster recovery capabilities. One interviewee said: “We did not have redundancy in place before. If the Exchange server went down, people were down.”

The amount of savings reported by the interviewees for third-party DR solutions for email ranged from \$100,000 to \$250,000. This benefit began in Year 2 after the existing contract ended. We risk-adjusted this down 5% because the amount spent on DR solutions varies, resulting in a three-year risk-adjusted savings of \$332,500.

“With OneDrive in place, we don’t have to worry about losing anything anymore. Additionally, we don’t have to spend time trying to retrieve lost files. In the past, losing files could have been disastrous.”

~ Group manager, food retailer

Table 5
Eliminated External DR Costs

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
I1	Eliminated external DR costs			\$175,000	\$175,000
It	Eliminated external DR costs	=I1		\$175,000	\$175,000
	Risk adjustment	↓5%			
Itr	Eliminated external DR costs (risk-adjusted)			\$166,250	\$166,250

Source: Forrester Research, Inc.

Business Intelligence Benefits

The importance of business intelligence and the value of data within a retail organization company have become more important over the past several years. With multiple sales channels, increased competition, and shorter product design life cycles, understanding what is going on in the business and making timely decisions is critical to success. One interviewee said: “We have certain business units that are using the features of Office 365 to better understand their business, primarily in private brands and corporate supply chain. Some of them are also using the free version of Power BI.”

Fifty-two percent of survey respondents said that employee performance has improved because they have better access to information through company portals. Forty-one percent said that employee performance has improved because they have access to company portals and actionable information, anytime, anywhere. Additionally, 41% also reported a decrease in “time-to-decision” and said that the average reduction was 15.25%.

For the composite organization, Forrester looked at the increased productivity of 200 employees (increasing to 450 by Year 3) who spend a good portion of their day making decisions or completing analyses of sales and inventory data. These include marketing and pricing analysts, district and regional managers, distribution managers, and executives. In Year 1, these workers see an average savings of 1.25 hours per week. As they become more comfortable working with the features and utilize Office 365 more to aid their decision-making process, this increases to 3.75 hours per week by Year 3. This time savings can be used to complete additional value-add work as well as avoid the need for new hires. Because not all time savings result in added work, Forrester discounted this benefit by 50%. More importantly, but not included in the financial analysis, making better decisions can increase revenues and profitability.

Since the number of affected employees as a proportion of all employees varies greatly from one organization to another, this benefit was risk-adjusted and reduced by 15%. The risk-adjusted total benefit over the three years was \$2,652,930.

Table 6
Reduced Decision-Making Time

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
J1	Number of affected workers		200	400	450
J2	Hours saved per day		0.25	0.50	0.75
J3	Workdays per year		250	250	250
J4	Total man-days saved	$J1*(J2/8 \text{ hours})*J3$	1,562.5	6,250	10,546.9
J5	Average daily salary	$\$85,000/250 \text{ workdays}$	\$340	\$340	\$340
J6	Total potential savings	$J4*J5$	\$531,250	\$2,125,000	\$3,585,938
J7	Percent of benefit realized		50%	50%	50%
Jt	Reduced decision-making time	$J6*J7$	\$265,625	\$1,062,500	\$1,792,969
	Risk adjustment	↓15%			
Jtr	Reduced decision-making time (risk-adjusted)		\$225,781	\$903,125	\$1,524,023

Source: Forrester Research, Inc.

Real-Time Communications Benefits

The way individuals live their personal lives in terms of using online social interaction services and other real-time communication tools is affecting how people communicate and collaborate in the workplace. A major component of Office 365 is enabling these interactions to improve knowledge sharing, collaboration, and productivity. Interviewed retail companies reported that the real-time communication tools and features improve their workplace. These features allow the organizations to create better shopping environments, quickly adapt to changing tastes, and share best practices across many geographically disparate locations.

“The primary users of Yammer are sales managers. They use it to communicate best practices across locations and share photos for special displays.”

~ Senior IT manager, department store operator

The interviewed companies shared with us the variety of ways they are using these features to improve their business. For example, we heard: “We recently acquired a new brand and need to set up a meeting with their sales team to share our marketing plans. Without Skype, we would have needed to have multiple meetings, with people driving all over the place. With Skype, we could do it all in one fell swoop, which saved us a lot of time and travel.” Another interviewee provided examples of the distribution facilities coordinating in real time via Yammer when the picking lines were down.

There are many ways that the real-time communication features of Office 365 can have an impact on an organization. For the quantified portion of the real-time communication benefits pillar, Forrester looked at two areas. The first is the hard cost savings from eliminating other webconferencing solutions. The second area is the improved processes to disseminate information to stores and share best practices between them.

The investment in Office 365 eliminated the need for the composite organization to continue to invest in webconferencing solutions provided by other vendors. Instead, scheduled and ad hoc meetings are

completed using Skype and Yammer. “With Skype for Business the world is changing,” said one interviewee. “We have eliminated all of our other video and desktop conferencing solutions.”

These hard savings should be realizable by all organizations previously using other solutions for webconferencing or audioconferencing. The size of the benefit increases beginning in Year 2, as previous solutions are removed from different parts of the organization. Because costs vary based on usage and geographic reach, this benefit was risk-adjusted and reduced by 15%. The risk-adjusted total benefit over the three years was \$228,000.

Table 7
Eliminated Communication Technology

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
K1	Eliminated webconferencing solution		\$60,000	\$90,000	\$90,000
Kt	Eliminated communication costs	=K1	\$60,000	\$90,000	\$90,000
	Risk adjustment	↓5%			
Ktr	Eliminated communication costs (risk-adjusted)		\$57,000	\$85,500	\$85,500

Source: Forrester Research, Inc.

Secondly, the investment in Office 365 improved how the composite organization disseminates information to its retail stores and how it shares best practices across them. Previously, corporate staff and store managers spent many hours each month consolidating information and sharing it. This information was not shared fast enough, and often important best practices were missed due to the lack of process around sharing. Now, with Office 365, these managers are easily able to share important details in a timely manner.

For the composite organization, Forrester looked at the reduction in time spent sharing information with the 1,000 retail locations (increasing to 1,075 by Year 3). Within these stores, Forrester assumes five managers are affected at each location. In Year 1, these workers see an average of 5 hours saved each month. As they become more comfortable working with the features and utilize Office 365 more to share best practices across locations, this increases to 10 hours per month by Year 2. This time savings can be used to complete additional value-add work. Because not all time savings result in added work, Forrester discounted this benefit by 50%. More importantly, this can result in increased sales and/or profit margins.

Since the number of affected stores and managers vary greatly from one organization to another, this benefit was risk-adjusted and reduced by 15%. The risk-adjusted total benefit over the three years was \$2,370,703.

“We recently acquired a new brand and needed to share our marketing plan with their sales team. Without Skype, this would have required multiple meetings and people driving all over the place. Instead, we were able to share everything in one fell swoop, saving time and travel.”

~ Group manager, food retailer

Table 8
Reduced Time Disseminating Information And Sharing Best Practices

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
L1	Number of stores		1,000	1,050	1,075
L2	Average number of affected managers per store		5	5	5
L3	Hours saved per month		5	10	10
L4	Hourly fully burdened cost	$\frac{\$85,000}{2,000 \text{ hours}}$	\$42.50	\$42.50	\$42.50
L5	Total potential savings	$L1 * L2 * L3 * L4$	\$1,062,500	\$2,231,250	\$2,284,375
L6	Percent of benefit realized		50%	50%	50%
Lt	Reduced time disseminating information and sharing best practices	$L5 * L6$	\$531,250	\$1,115,625	\$1,142,188
	Risk adjustment	↓15%			
Ltr	Reduced time disseminating information and sharing best practices (risk-adjusted)		\$451,563	\$948,281	\$970,859

Total Quantified Benefits

The total quantified benefits, as well as present values (PVs) discounted at 10%, are shown in the table below. Over three years, the composite retail company expects risk-adjusted total benefits to be a PV of \$10.47 million.

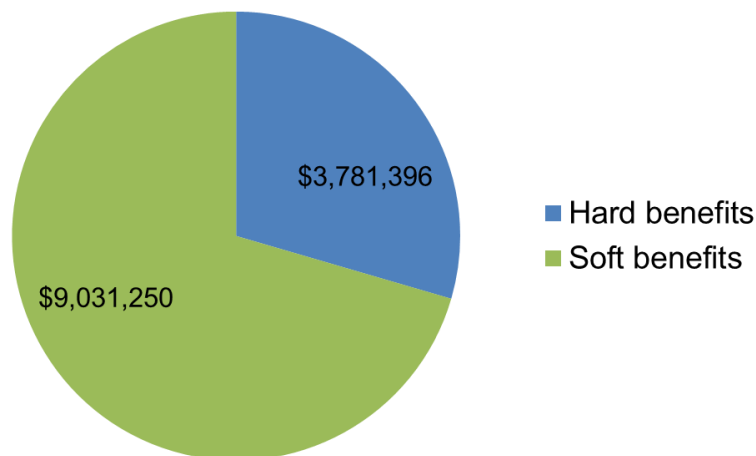
Table 9
Total Quantified Benefits (Risk-Adjusted)

Ref.	Benefit Category	Initial	Year 1	Year 2	Year 3	Total	Present Value
Atr	Avoided backend hardware	\$390,038	\$291,240	\$189,405	\$203,670	\$1,074,353	\$964,354
Btr	Avoided Microsoft server licenses	\$41,337	\$41,214	\$15,312	\$15,905	\$113,768	\$103,408
Ctr	Reduced implementation effort	\$296,882	\$230,382	\$0	\$0	\$527,263	\$506,320
Dtr	Reduced IT support effort	\$0	\$104,500	\$418,000	\$418,000	\$940,500	\$754,504
Etr	Eliminated third-party technologies	\$0	\$14,250	\$28,500	\$28,500	\$71,250	\$57,921
Ftr	Increased mobile worker productivity	\$0	\$677,344	\$1,128,906	\$2,201,367	\$4,007,617	\$3,202,667
Gtr	Fewer sourcing trips	\$0	\$90,000	\$90,000	\$90,000	\$270,000	\$223,817
Htr	Reduced eDiscovery effort	\$0	\$74,588	\$74,588	\$74,588	\$223,763	\$185,488
Itr	Eliminated external DR costs	\$0	\$0	\$166,250	\$166,250	\$332,500	\$262,303
Jtr	Reduced decision-making time	\$0	\$225,781	\$903,125	\$1,524,023	\$2,652,930	\$2,096,661
Ktr	Eliminated communication costs	\$0	\$57,000	\$85,500	\$85,500	\$228,000	\$186,717
Ltr	Reduced time disseminating information and sharing best practices	\$0	\$451,563	\$948,281	\$970,859	\$2,370,703	\$1,923,636
Total benefits (risk-adjusted)		\$728,256	\$2,257,860	\$4,047,867	\$5,778,662	\$12,812,646	\$10,467,796

Source: Forrester Research, Inc.

While all of the benefits included in the ROI analysis are very important, Forrester looked at the soft benefits versus hard benefits delivered by Office 365. Hard benefits include specific external cost savings such as reduced license payments to Microsoft and discreet labor savings such as reduced implementation time. Soft savings include general process efficiency gains that can improve the productivity of many workers; this included Ftr, Jtr, and Ltr in Table 9 above. Approximately one-third of the benefits included fall into the hard category.

Figure 3
Hard Versus Soft Benefits



Source: Forrester Research, Inc.

Costs

The quantified costs include:

- › **Internal implementation labor.** The full deployment of Office 365 was undertaken in two phases. Phase one, completed in the initial period, consisted of standing up the Office 365 solution, migrating all email accounts and users to Exchange Online from Exchange 2007 on-premises, moving all users to Office 365 Professional Plus from Office Professional Plus 2007 local clients, and deploying OneDrive for all users. Six internal FTEs worked on this for seven months. Phase two, completed in Year 1, consisted of a completely new deployment of Skype for Business and Yammer, as well as migrating from SharePoint 2007 on-premises to the latest version of SharePoint Online. Six FTEs worked on this for seven months. The total internal implementation labor, risk-adjusted up 10%, was \$847,031.
- › **Professional services.** The composite organization used Microsoft partner professional services during both phases of deployment. It used the professional services to properly set up the solutions and help with any challenges. There are also some ongoing professional services to assist with the rollout of new features. The total professional services cost, risk-adjusted up 15%, was \$603,750.
- › **Training.** Training was required for the IT team on the new and updated solutions being deployed, as well as some training on the differences in administering Office 365 compared with on-premises versions. Sixty days of IT training took place in the initial period to train the entire IT organization, with 40 additional training days in Year 1 and 30 in Year 2. Additionally, two internal employees provided user training to the rest of the composite organization. In total, the external training charges for IT and the internal costs for user training, risk-adjusted up 10%, amounted to \$768,900. The interviewees noted that one of the reasons they selected Office 365 as their cloud solution was because it is so similar to the on-premises solutions employees already used, and this meant less training and change management issues.
- › **Ongoing system administration.** The Benefits section describes the number of system administrator positions that did not need to be added or could be reassigned. The remaining system administration team consisted of two FTEs in Year 1, and the team grew to three FTEs by Year 3 to handle additional requirements with the overall greater usage and additional users. The three-year associated costs, risk-adjusted up 5%, were \$808,500.
- › **Incremental Microsoft licenses.** For individual user licenses, the composite organization compared Office 365 with the Software Assurance (SA) pricing model to provide the best apple-to-apple comparison of a solution that always has users on the latest version of Microsoft technologies. Office 365 cost \$47.88 more per year for each user compared with the Software Assurance licenses. The accumulated additional cost, risk-adjusted up 5%, was \$984,533 over three years.
- › **Federation hardware.** The composite organization desired to use identity federation for improved single sign-on (SSO) internally and with partner/customer companies. This required the installation and ongoing maintenance of two Active Directory Federation Services (ADFS) servers. The three-year cost to purchase, maintain, and host the servers was \$41,265. One of the interviewed companies reported using virtual servers with no incremental charge. Forrester included the costs of adding physical servers to be conservative.
- › **Additional bandwidth.** The interviewed retail organizations, for the most part, did not require any incremental bandwidth, and it is not included in this analysis.

Total Costs

The total costs, as well as present values (PVs) discounted at 10%, are shown in the table below. Over three years, the composite organization expects risk-adjusted total costs to be a PV of \$3.61 million.

Table 10
Total Costs (Risk-Adjusted)

Ref.	Cost Category	Initial	Year 1	Year 2	Year 3	Total	Present Value
Mtr	Internal implementation labor	\$423,515	\$423,515	\$0	\$0	\$847,031	\$808,529
Ntr	Professional services fees	\$345,000	\$143,750	\$57,500	\$57,500	\$603,750	\$566,403
Otr	Training costs	\$261,800	\$255,200	\$251,900	\$0	\$768,900	\$701,982
Ptr	Ongoing system administration	\$0	\$231,000	\$231,000	\$346,500	\$808,500	\$661,240
Qtr	Incremental Microsoft licenses	\$117,306	\$276,507	\$289,076	\$301,644	\$984,533	\$834,211
Rtr	Federation hardware	\$25,200	\$5,355	\$5,355	\$5,355	\$41,265	\$38,517
	Total costs (risk-adjusted)	\$1,172,821	\$1,335,327	\$834,831	\$710,999	\$4,053,978	\$3,610,882

Source: Forrester Research, Inc.

About Microsoft Office 365

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

Office 365 is the same Office you already know and use every day — and then some. Because Office 365 is powered by the cloud, you can get to your applications and files from virtually anywhere — such as a PC, Mac, and select mobile devices — and they're always up to date. The same goes for updates to features; you get them automatically. Business-class email and calendaring are kept in sync and help you avoid communication glitches. With business-class email and shared calendars that you can get to from virtually anywhere, people stay in sync and on schedule.

Specific feature-related benefits include:

- › **Online conferencing puts everyone on the same page.** With online conferencing, distance really isn't an issue. Need to get everyone together? Host an online meeting complete with real-time note-taking and screen sharing.
- › **Extend your reach with simple, more secure file sharing.** Office 365 makes it easy to more securely share files with coworkers, customers, and partners. Work together on documents that are always current and accessible from virtually anywhere.
- › **Build your online presence, minus the hosting fees.** More effectively market your business with a public website that's easy to set up and update. It's DIY with online tools and absolutely zero hosting fees.
- › **You get one familiar experience, even on the go.** Office 365 mobile apps let you view and edit your Word, Excel, and PowerPoint files and more on your mobile device. And when you get back to your desk, there they are, with content and formatting intact.
- › **Create docs from any browser.** With the touch-friendly applications of Office Online, you can create, edit, and share your Office files from any browser. You can even share and work on docs at the same time as others and avoid versioning hassles later.
- › **You get security, compliance, and privacy you can trust.** Security, compliance, and privacy in the cloud? Yes. And Microsoft is continually making improvements in Office 365 to earn and maintain your trust.

Disclosures

- › The study is commissioned by Microsoft 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 Microsoft Office 365.
- › Microsoft 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.

GLOSSARY

Discount rate: The interest rate used in cash flow analysis to take into account the time value of money. Companies set their own discount rate based on their business and investment environment. Forrester assumes a yearly discount rate of 10% for this analysis. 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.

Internal rate of return (IRR): The interest rate that will bring a series of cash flows (positive and negative) to an NPV of zero.

About Forrester Consulting

Forrester Consulting provides independent and objective research-based consulting to help leaders succeed in their organizations. Ranging in scope from a short strategy session to custom projects, Forrester's Consulting services connect you directly with research analysts who apply expert insight to your specific business challenges. For more information, visit forrester.com/consulting.

About TEI

Total Economic Impact™ (TEI) 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, risks, and flexibility.

<http://www.forrester.com/marketing/product/consulting/tei.html>

Appendix — Value Discovery Workshop

According to Microsoft, the Value Discovery Workshop is “a tool to help [companies] make the business case for Office 365. This tool will help create a step-by-step assessment of process improvement opportunities tied to business objectives/needs, identify the relevant Office 365 capabilities, and automatically generate the right set of customized workshop content.”¹ Forrester surveyed more than 500 organizations across multiple industries to assess how these processes have improved and define specific KPI and financial impacts. Specifically, Forrester looked at the impact that Office 365’s capabilities have on the time and labor involved with each process. Below is a summary of the findings.

For retail organizations, Microsoft specifically investigated the store associates, store management staff, purchasing staff and sales and marketing roles. Microsoft identified benefits across 10 process areas. Tables 11 to 14 show the mean results for each process improvement by role.

Table 11
Summary Value Of Discovery Workshop Improvements — Store Associates

Process	Hours Per Week Before Office 365	Percent Reduction In Hours	Number Of FTEs Before Office 365	Percent Reduction In FTEs	Financial Impact (Risk-Adjusted)
Discover insights to identify trends	8.5	8.5%	70	10.9%	\$46,341
Discover content and context to quickly make informed decisions	12.8	15.8%	128	17.8%	\$212,665
Conduct meetings from anywhere, anytime to get work done	7.9	5.1%	222	26.8%	\$225,763
Communicate securely to ensure privacy	14	10.6%	162	7.4%	\$164,614
Manage client privacy and security	18	17.9%	189	15.5%	\$439,256
Secure access to work from anywhere	13.6	10.9%	225	9.9%	\$254,419
Collaborate in real time on document development and review	6.8	7.0%	103	5.4%	\$35,500
Find and leverage collective intelligence to produce higher-impact deliverables	8.8	7.8%	40	5.0%	\$18,417
Protect sensitive client information to ensure compliance	13.4	18.3%	170	16.0%	\$301,298
Maximize sales to have an impact on your bottom line	11.6	9.5%	108	18.1%	\$136,696

Source: Forrester Research, Inc.

Survey respondents shared the following specific statements about how processes improve:

- › “It helps to better target customers.”
- › “Provides up-to-date product information that is easily accessible. Shows product bin location, manufacturer info (contact, location) and current price or promo status.”
- › “We are able to track which items are most likely to be sold quickly. We are also able to see average amounts spent by our customers.”
- › “Helps me find customers’ orders.”
- › “Along with being able to have a secure database with their clientele information we are also able to keep their prior purchase information and method of payment information on file.”

¹ More information on Microsoft’s Value Discovery Workshop methodology and deliverables can be found at www.valuediscoveryworkshop.com.

- › “We’re able to track which items are most popular to ensure that we have those available to purchase.”

Table 12
Summary Value Of Discovery Workshop Improvements — Store Management Staff

Process	Hours Per Week Before Office 365	Percent Reduction In Hours	Number Of FTEs Before Office 365	Percent Reduction In FTEs	Financial Impact (Risk-Adjusted)
Discover insights to identify trends	11.1	17.5%	260	10.4%	\$677,402
Discover content and context to quickly make informed decisions	8.1	17.0%	139	13.8%	\$288,327
Conduct meetings from anywhere, anytime to get work done	9	9.1%	78	16.0%	\$149,383
Communicate securely to ensure privacy	10.1	15.7%	197	14.9%	\$506,073
Manage client privacy and security	7.2	10.8%	117	15.3%	\$185,352
Secure access to work from anywhere	14.7	13.0%	121	13.9%	\$401,696
Collaborate in real time on document development and review	9.3	16.8%	99	14.3%	\$237,797
Find and leverage collective intelligence to produce higher-impact deliverables	7.6	8.9%	77	11.4%	\$101,572
Protect sensitive client information to ensure compliance	8.3	7.5%	91	9.3%	\$109,460
Maximize sales to have an impact on your bottom line	12.9	14.7%	226	14.6%	\$712,478

Source: Forrester Research, Inc.

Survey respondents shared the following specific statements about how processes improve:

- › “Makes it easier and quicker to recognize trends and act on them.”
- › “Allows for regional trainers to conduct meetings with my staff from anywhere.”
- › “Managers sharing information...collaborating on what works and sharing examples.”
- › “Able to track days and times of particular types of purchase to ensure those are available at those times.’
- › “Made it much easier to track growing sales trends and major events with a past effect on sales.”

Table 13
Summary Value Of Discovery Workshop Improvements — Purchasing Staff

Process	Hours Per Week Before Office 365	Percent Reduction In Hours	Number Of FTEs Before Office 365	Percent Reduction In FTEs	Financial Impact (Risk-Adjusted)
Discover insights to identify trends	15	13%	375	13%	\$1,230,694
Discover content and context to quickly make informed decisions	8	13%	75	13%	\$131,274
Conduct meetings from anywhere, anytime to get work done	2	14.3%	5	60%	\$5,915
Communicate securely to ensure privacy	n/a	n/a	n/a	n/a	n/a
Manage client privacy and security	n/a	n/a	n/a	n/a	n/a
Secure access to work from anywhere	1.5	2.7%	75	0%	\$2,734
Collaborate in real time on document development and review	14.3	19%	375	10.3%	\$1,319,642
Find and leverage collective intelligence to produce higher-impact deliverables	n/a	n/a	n/a	n/a	n/a
Protect sensitive client information to ensure compliance	2	0%	7.5	0%	n/a
Maximize sales to have an impact on your bottom line	25	2.5%	375	5%	\$622,266

Source: Forrester Research, Inc.

Survey respondents shared the following specific statements about how processes improve:

- › “Multiple people can use the same work books and filter information multiple ways.”
- › “Makes it very easy to filter out work to see our specific needs.”

Table 14
Summary Value Of Discovery Workshop Improvements — Sales and Marketing Staff

Process	Hours Per Week Before Office 365	Percent Reduction In Hours	Number Of FTEs Before Office 365	Percent Reduction In FTEs	Financial Impact (Risk-Adjusted)
Discover insights to identify trends	22.5	17.7%	126	16.0%	\$875,108
Discover content and context to quickly make informed decisions	16.7	11.5%	106	14.4%	\$429,167
Conduct meetings from anywhere, anytime to get work done	12	5.9%	89	13.0%	\$193,660
Communicate securely to ensure privacy	9.8	8.5%	169	8.7%	\$272,619
Manage client privacy and security	17.4	14.5%	108	13.3%	\$486,177
Secure access to work from anywhere	10.6	8.8%	108	11.9%	\$224,985
Collaborate in real time on document development and review	12.1	8.2%	38	10.3%	\$81,180
Find and leverage collective intelligence to produce higher-impact deliverables	16.2	12.5%	110	13.2%	\$428,571
Protect sensitive client information to ensure compliance	11.2	7.9%	82	10.4%	\$160,522
Maximize sales to have an impact on your bottom line	13.9	10.4%	103	14.3%	\$332,338

Source: Forrester Research, Inc.

Survey respondents shared the following specific statements about how processes improve:

- › “Eases reporting of sales trends.”
- › “Corporate office is offsite ; saves time and travel to conduct meetings and able to have meetings at a moment’s notice instead of waiting and reserving space.”
- › “Allows us to transmit private information instead of waiting for clients to come in with information.”
- › “It helps us view what is happening with our customers’ accounts.”
- › “I can access business reports from anywhere.”
- › “Produces in depth study of sales trends on continuous basis.”
- › “We can use 365 to create better reports, meetings, demos, and so forth to better our deliverables.”
- › “Compliance is an important piece of our business and having better security is important.”
- › “Keeps track of our sales inventory.”
- › “We do track daily sales, credit application, and charitable progress using Microsoft daily.”