

A Forrester Total Economic
Impact™ Study
Commissioned By
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The Total Economic Impact™ Of Microsoft Dynamics CRM Online

FORRESTER®

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Executive Summary

Microsoft commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) enterprises may realize by deploying Dynamics CRM Online. The purpose of this study is to provide readers with a framework to evaluate the potential financial impact of Dynamics CRM Online on their organizations, to leverage sales automation and customer service capabilities to win, serve, and retain customers.

To better understand the benefits, costs, and risks associated with a Dynamics CRM Online implementation versus an on-premises CRM solution, Forrester conducted a survey and interviewed several customers with significant experience using Dynamics CRM. Our findings revealed that organizations utilizing Dynamics CRM Online saw a number of business benefits, such as avoided infrastructure costs, reduced CRM maintenance, and a quicker time-to-market. In particular, Microsoft's Dynamics CRM Online offered flexibility elements that changed the business agility equation and subsequent ROI.

Prior to Dynamics CRM Online, customers had most commonly implemented internally developed customer databases or on-premises customer relationship management systems. These previous implementations yielded a limited amount of success, leaving customers with some sales process improvements but short on the flexibility needed by sales teams that are now more global than ever. With Dynamics CRM Online, customers were able to streamline and automate processes across sales and customer service departments, enabling them to meet their objectives and increase productivity. Being a software-as-a-service (SaaS) solution, Dynamics CRM Online afforded customers the flexibility to deploy quicker with more predictable cost forecasting for infrastructure and licenses. Said one manager: "Dynamics CRM Online gave us the ability to enter markets and enable our sales teams incredibly fast. We use CRM for everything — from sales to support — so sales pipelines are smoother and customers are happier."

Dynamics CRM Online can help save costs, improve sales team productivity, and increase business agility beyond that of on-premises CRM solutions.

The costs and benefits over a three-year period for a composite organization of 5,000 global employees, based on customer interviews and surveys, are:

- Total costs of adoption: \$2,685,621.
- Cumulative benefits and cost savings: \$4,709,328.

DYNAMICS CRM ONLINE ENABLES SALES PRODUCTIVITY FAST, MINUS HEFTY CAPITAL EXPENDITURES

Our interviews with four existing customers and subsequent financial analysis found that a composite organization based on these interviewed organizations experienced the risk-adjusted ROI, benefits, and costs shown in Figure 1.¹

The composite organization analysis points to benefits of \$4,709,328 versus implementation costs of \$2,685,621, adding up to a net present value (NPV) of \$2,023,707. With Dynamics CRM Online, the solution was deployed two months sooner, improving the time-to-value equation and enabling revenue uplift of over \$1.9 million in revenue in the first year alone.

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

ROI:
75%

**Time to
deploy:**
▼ **two months**

Payback:
< two months

NPV:
\$2,023,707

Source: Forrester Research, Inc.

› **Benefits.** The composite organization experienced the following risk-adjusted benefits of deploying Dynamics CRM Online in lieu of an on-premises CRM solution, which represent those experienced by the interviewed and surveyed companies:

- **Avoided infrastructure costs of \$991,405.** Over a three-year IT refresh cycle, the composite organization averted the initial and continued costs associated with data center leases, server hardware, security hardware, operations engineers, and electricity consumption. Overprovisioning of these resources is common practice in on-premises implementations but was avoided entirely with Dynamics CRM Online.
- **Reduced cost of ongoing CRM maintenance and support tasks.** The organization selected Dynamics CRM Online and relegated the maintenance and updating to Microsoft. Major security and functionality updates were released multiple times a year unaided. Smaller but also important updates rolled out smoothly with an even higher frequency, without the need to expend internal IT staff effort. By handing off the maintenance, support, and troubleshooting of the CRM platform, the composite organization saved \$523,809 over three years, in PV.
- **Incremental revenue uplift from faster deployment and availability of CRM.** Because the Dynamics CRM Online solution required very little infrastructure build-out, the deployment cycle was greatly reduced, in terms of both the initial rollout and subsequent major functionality updates. As a result, the composite organization experienced a much quicker time-to-value (TtV) on each of the iterations, totaling a PV gain of \$2,232,075.
- **Avoided cost of on-premises CRM software licenses.** In choosing the SaaS route with Dynamics CRM Online, the organization avoided the cost of carrying on-premises CRM user and server licenses. The organization saved a total PV of \$962,039, with initial licenses fees amortized over three years.

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

- **Software license and support fees of \$831,600 for the initial year, totaling \$2,233,636 (PV).** These are ongoing fees paid to Microsoft for access to Dynamics CRM Online. Support and troubleshooting are included in the financial projections.
- **Iterative training costs.** With regular updates and improvements pushed out from Microsoft, the composite organization also incurred ongoing training costs to maximize the utility of newer integrations and functionality. The cost of the iterative training totaled an NPV of \$451,984 over three years.

Disclosures

The reader should be aware of the following:

- › 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 Dynamics CRM Online.
- › 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.
- › Microsoft provided the customer names for the interviews but did not participate in the interviews.

Forrester defines CRM as:

The business processes and supporting technologies that support the key activities of targeting, acquiring, retaining, understanding, and collaborating with customers.

Companies leverage CRM to provide operational efficiencies for sales, marketing, and customer service organizations when interacting with customers — an "inside out" approach. Users leverage CRM to aggregate and analyze opportunity and customer data, as well as automate workflows to optimize the customer engagement processes. To quantify CRM's return on investment, companies examine operational metrics such as reduced marketing costs, increased revenues from salespeople, decreased sale cycle times, better pipeline visibility, decreased service resolution times, and more (see Figure 2).

FIGURE 2
Typical CRM Benefits

| CRM Capability | Benefits Proposition | Measure Of Success |
|--|---|---|
| Marketing Automation | | |
| Marketing planning and resource management | More accurate planning and forecasting | Increased adherence to budget |
| Customer selection and segmentation | Better targeting and personalization of campaigns | Increased revenue per campaign |
| Lead management | Higher quality leads for sales | Increased conversion |
| Offer management | Better targeting for cross-selling and upselling | Increased revenue |
| Sales Automation | | |
| Sales planning and forecasting | Reduction in administrative tasks; better pipeline visibility | Increased productivity and planning |
| Opportunity management | Decreased sales cycles with increased productivity | Increased time-to-revenue |
| Account and contact management | Increased customer loyalty | Decreased churn; increased advocacy |
| Territory management | Better customer relationships | Decreased churn |
| Incentives and commissions management | Better employee experiences | Increased revenue |
| Customer Service | | |
| Incident management | More efficient customer contacts | Shorter contact handle times; increased customer satisfaction |
| Knowledge management | Increased call deflection | Lower operational costs |
| Agent collaboration | Higher quality of responses | Increased first contact resolution |

Source: Forrester Research, Inc.

Because of the quantifiable return on investment of CRM, interest in deploying CRM technologies continues. Our data shows that almost half of enterprise organizations have implemented a subset of CRM capabilities. Specifically, 41% of enterprise organizations have already implemented a customer service and support (CSS) solution; 34% have implemented a sales force automation (SFA) application; and 26% have implemented marketing automation — and many are investing more to upgrade their tool sets. An additional 30%, 31%, and 28% have plans to adopt a CSS, SFA, and marketing automation solution within the next few years, respectively.²

Today, forward-thinking companies build on these internal operational efficiencies and extend the power of CRM to better support customers through their end-to-end engagement journey. This garners their satisfaction and long-term loyalty. Good customer experiences correlate to customer loyalty, and loyal customers are more willing to consider another purchase from a company, less likely to switch business to a competitor, and more likely to recommend. Our models estimate that the revenue impact from a 10-percentage-point improvement in a company's performance, as measured by Forrester's Customer Experience Index (CX Index™) score, could exceed \$1 billion.³

THE RISE OF SAAS CRM

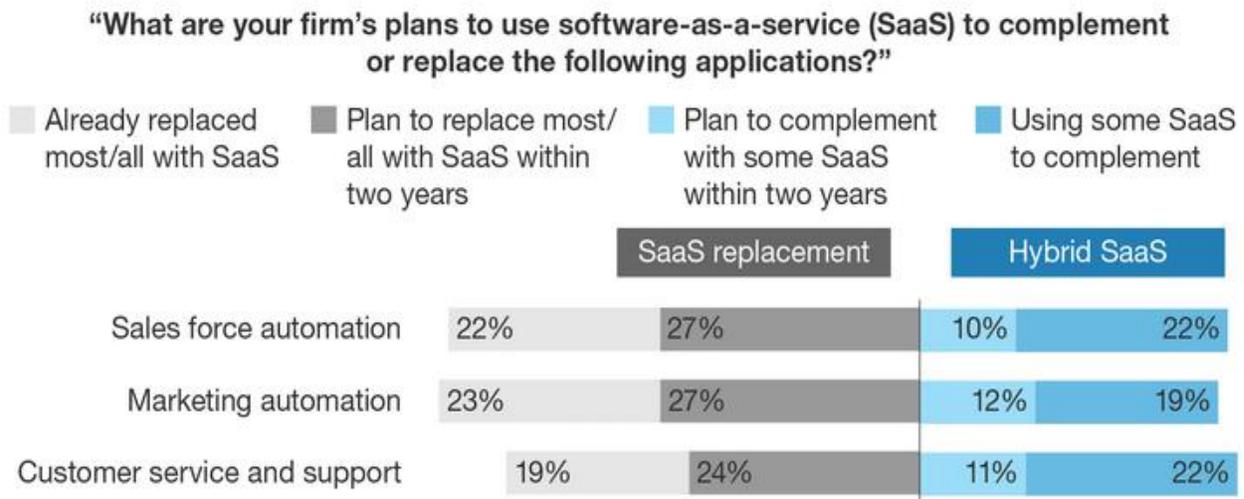
The widespread adoption of CRM has fueled ongoing innovation and vendor consolidation in the marketplace. Today, much of CRM technology is commoditized and leading vendors offer competitive solutions, rich with features and functions, including deeply verticalized solutions.

One notable change in the CRM landscape is the rise of SaaS CRM. SaaS CRM has gained traction, as it provides lower upfront costs, better flexibility, and faster time-to-value compared with traditional on-premises applications.

Forrester reports that organizations currently focus on lightweight, agile governance processes where technology management creates rules and guidelines for SaaS usage, but leaves the selection and management of the SaaS CRM application primarily to the business user — balancing rigor to mitigate risks and agility to maximize business value.

FIGURE 3

SaaS Migration Trends



Base: 401-522 North American and European technology decision-makers whose firms plan to or have implemented the specified applications (1,000+ employees)

Source: Forrester Research, Inc.

TEI Framework And Methodology

INTRODUCTION

From the information provided in the interviews, Forrester has constructed a Total Economic Impact (TEI) framework for those organizations considering choosing between Microsoft/Dynamics CRM Online versus similarly capable on-premises solutions when upgrading a legacy solution. The objective of the framework is to identify the cost, benefit, flexibility, and risk factors that affect the investment decision, to help organizations understand how to take advantage of specific benefits, reduce costs, and improve the overall business goals of winning, serving, and retaining customers.

APPROACH AND METHODOLOGY

Forrester took a multistep approach to evaluate the impact that Microsoft/Dynamics CRM Online can have on an organization (see Figure 2). Specifically, we:

- › Interviewed Microsoft marketing, sales, and/or consulting personnel, along with Forrester analysts, to gather data relative to Dynamics CRM Online and the marketplace for Dynamics CRM Online.
- › Interviewed four organizations and conducted a survey of 68 respondents currently using Microsoft Dynamics CRM/CRM Online 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-adjusted the financial model based on issues and concerns the interviewed organizations highlighted in interviews. 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 are detailed in each relevant section.

Forrester employed four fundamental elements of TEI in modeling Microsoft Dynamics CRM Online's service: benefits, costs, flexibility, and risks.

Given the increasing sophistication that enterprises have regarding 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 4
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 global Microsoft customers:

- › An international enterprise-level organization providing professional services in the fields of independent audit, tax, and advisory, with 1,300 seat licenses.
- › A vertically integrated manufacturer, distributor, and retailer of sporting equipment, using CRM to manage its worldwide distribution partner relationships. Its current count of 200 CRM users is expected to double over the next year.
- › An enterprise-size Canadian professional services organization delivering audit, consulting, mergers and acquisitions (M&A), and taxation services with over 2,100 contributor licenses.
- › A global industrial materials manufacturer and distributor using CRM to support a footprint of over 60 locations and 350 active international users.

In addition, Forrester fielded a survey to 60 Microsoft Dynamics CRM and Dynamics CRM Online customers, asking them of their experience and how multiple financially impactful levers were moved with their use of the CRM platform. Survey respondents included managers, directors, and senior-most leaders in business- and IT-representing organizations from a wide spectrum of verticals and often with global offices.

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

- › It is a US-based company with global offices in Europe and Asia.
- › Stable and continued growth of its international footprint is expected in coming years.
- › It has 5,000 employees, 1,200 of whom are active users of the CRM system.
- › Annual revenues total \$400 million.
- › It holds a strong focus on the continuous nurturing and development of current customer relationships to minimize the cost of new customer acquisition.

After an extensive RFP and business case process evaluating multiple vendors, the composite organization chose Microsoft and began deployment of Dynamics CRM Online:

- › Implementation started with the testing of Dynamics CRM Online in the areas of integration and functionality, over a short period of two months.

“We had disconnects, like one sales engineer who quoted product lines at half the price of what another sales engineer quoted in another country a day earlier. . . . [Dynamics] CRM Online gave us that visibility internally across our international locations.”

~ Corporate sales manager, industrial materials manufacturer

- › Production deployment occurred for US-based CRM users following the migration of some existing workflows and the development of new workflows.
- › Following the successful initial rollout, the Dynamics CRM Online platform was introduced to global offices.
- › The organization will continue to add licenses as it expands its international sales force.

Situation

The composite organization previously used an older on-premises deployment of a CRM solution installed in a limited number of data centers around the world. With international expansion occurring at differing speeds across geographic regions, it was not price effective to extend data centers into all of the regions on a per-basis approach. Because connectivity coverage was limited, CRM systems suffered from poor latency, with some regions not being able to reliably access customer records. The sales force was less productive as it struggled with siloed and geographically fragmented information about its leads, accounts, and customers. A primary capability desired in the current CRM refresh cycle was a scalable solution to improve business agility.

Newer technologies and modes of consumer communication also arose at the same time. With existing CRM solutions in the market, there was an inability to concentrate together the channels of communication so that the data could be integrated into a centrally accessible repository. Social listening capabilities and other touchpoints with customers became pivotal to the organization's ability to shorten the sales process and convert into revenue.

Primary focus points for the procurement of a new, more agile and capable CRM platform required the following needs to be met:

- › **Instant scalability.** As new sales locations were added, the organization needed to be able to extend CRM capabilities to these locations quickly without incurring significant infrastructure expenses. Likewise, locations could be closed without having to modify significant infrastructure.
- › **Consistent reliability and performance.** Business users of the organization required consistent and snappy user experiences in all areas of the world. Continued uptime ensured maximized sales people utility, as any break in CRM availability could either delay or jeopardize deal completion.
- › **Improved workflows.** More efficient workflows designed around efficiency and automation were necessary to keep superfluous work tasks to a minimum and revenue production at a maximum.
- › **Predictable cost of provisioning.** Reducing the variability of data center and co-location build-out was pivotal to the expansion strategy of the composite organization. Without multiple infrastructure business cases on proper provisioning of resources, the organization could focus on growth rather than infrastructure build-outs.
- › **Current-day features/functionality.** Newer features became essential, such as social listening and integration with Sharepoint or office productivity essentials such as Microsoft Office.

Solution

Ultimately, the composite organization selected Microsoft Dynamics CRM Online for its ability to provide a robust CRM platform that featured out-of-the-box integration with existing business productivity applications along with the flexibility afforded by its SaaS design. The organization evaluated several vendor offerings, including newer variants of its existing solution, but nothing could meet the level of integration, reliability, and speed of deployment of the Dynamics CRM Online solution. The solution enabled the organization as a whole to move with agility in its international expansion. It also allowed the rapid provisioning of CRM users so that they could become productive. At the same time, this CRM choice benefited the IT team as a SaaS deployment in that it minimized the use of its already thinly stretched resources and avoided lengthy test evaluations and business case justifications of increasing data center allocations.

Results

The interviews and survey results revealed that:

› **Organizations could plan the budgeting around their physical IT infrastructure and support mechanisms with more predictability and clarity.** Adoption of business-critical solutions like CRM often requires extensive road mapping of IT infrastructure requirements on a three- or five-year cycle. Organizations would initially have to allocate and purchase infrastructure that was often overprovisioned to meet needs near the end of the hardware life cycles, meaning they would inevitably overspend on infrastructure and support staff that tended to the data centers and hardware. A SaaS model eliminates the hardware equation from consideration, and thus makes budgeting simple with significantly more straightforward cost models.

› **Support costs and maintenance costs of CRM were minimized.** The composite organization was able to reduce its spend on support and maintenance costs by choosing the Dynamics CRM Online solution rather than a competitive on-premises product:

- The SaaS architecture of Dynamics CRM Online meant that traditional patches, upgrades, and updates of the CRM software would now be updated from Microsoft, eliminating the need for IT staff to ensure compatibility, compliance, and security.
- Support offered by Microsoft was subscribed as a part of the seat licenses and hence reduced the need for CRM support specialists in-house.

› **Business users derived value sooner from the CRM solution being available and ready for use almost immediately.** The composite organization described Dynamics CRM Online as an important component of its customer experience strategy, which improved customer satisfaction scores. As a result of the Dynamics CRM Online implementation, business affiliates (e.g., producers and external adjusters) gained better access to policy information and documents, allowing them to focus on higher value activities, and further strengthening their relationships with the composite organization. While not quantifiable, these benefits nevertheless remain important.

› **International availability of Dynamics CRM Online enabled productivity across a greater number of users.** To match the expansion rate of its global footprint, the composite organization required a CRM system that was internationally accessible and for remote limited-access areas, with functional offline capabilities that could later be synced. Fewer dollars were spent to develop infrastructure and meet global requirements for security and compliance, which often vary from country to country, while CRM accessibility was extended across the global organization. Better and more up-to-date information improved the organization's ability to win, serve, and retain customers.

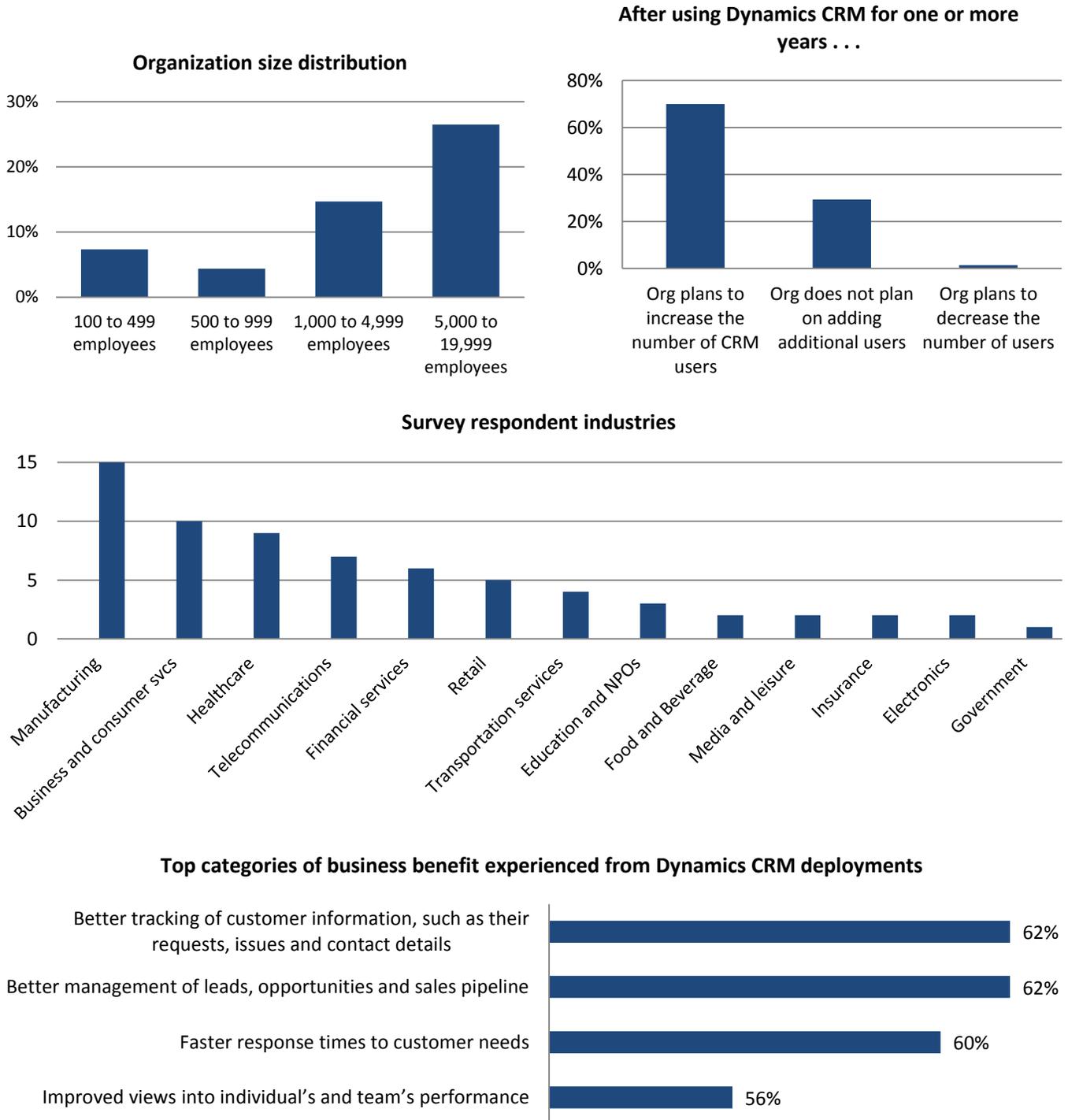
“Our internal IT team was already stretched thin. To go global with an on-premises [deployment] would have been much more complex than going with Dynamics CRM Online.”

~ Corporate sales manager, industrial materials manufacturer

“Time-to-market was just that much faster with [Dynamics] CRM Online. If we had gone with an on-premises solution, we were faced with an additional 12 months of implementation.”

~ Enterprise collaboration manager, sporting equipment manufacturer

FIGURE 5
Excerpts Of Survey Responses



Base: 68 surveyed organizations that use Microsoft Dynamics CRM / CRM Online

Source: Forrester Research, Inc.

BENEFITS

Having selected Dynamics CRM Online, a SaaS solution, the composite organization experienced a number of quantified benefits in this case study above and beyond that of a comparably feature-rich on-premises CRM solution. The advantages of improved sales automation, customer service handling, and marketing automation provided by Dynamics CRM Online are undeniable. However, as these benefits are more well-known and have often been explored, this study instead focuses on the financial impact of choosing the Dynamics CRM Online SaaS deployment versus alternate on-premises deployments. Identified and quantified benefits are as follows:

- › Cost avoidance from reduced upfront infrastructure purchase.
- › Reduced cost of ongoing CRM maintenance and support tasks.
- › Incremental revenue uplift from quicker deployment and availability of CRM.
- › Cost avoidance of on-premises CRM software licenses.

In addition to identifying the quantified categories listed above, the composite organization also indicated that Dynamics CRM Online presented a strong suite of offline capabilities to match that of the online product instances. Particularly noteworthy is that in some countries where Internet infrastructure is limited or still developing, sales and customer service associates are still able to reap the benefits of the global CRM database by syncing data on when possible (usually on a nightly basis). While this benefit has not been quantified for the study, the ability to enter and pull near-real-time customer data anywhere in the world should not be understated in the age of customer.



Avoided Upfront Infrastructure Costs

In previous implementations of core business software solutions, the composite organization planned comprehensive road maps along with associated budgets for hardware and personnel to deploy, maintain, and support the predetermined life cycle of the software solution. As with many other solutions, the usage of the CRM solution was expected to ramp upwards, and therefore required an overallocation of upfront purchases and hires to effectively act as a buffer to ensure maximum utility from the CRM solution.

In choosing Microsoft's Dynamics CRM Online solution, the composite organization was able to eliminate the overprovisioning of infrastructure typically required to run the CRM system. Physical hardware purchases and leases no longer needed to be tied in with CRM system requirements, as the new platform ran as a SaaS solution. Further still, the rapid global expansion of the sales offices of the organization could now utilize the CRM system without the need for additional data center build-outs. Effectively, Dynamics CRM Online made international growth for the organization's sales unit much easier to plan for from an IT perspective.

Dynamics CRM Online enabled the composite organization to avoid the following infrastructure-related costs:

- › Data center footprint fees.
- › Servers/network hardware.
- › Security equipment.
- › Operations engineers.
- › Electricity costs.

Following the Dynamics CRM Online implementation, the composite organization avoided a total infrastructure-related spend of \$343,000 to \$451,000 annually based upon modest international growth, as illustrated in Table 1. In organizations with longer software and hardware refresh cycles, this particular cost avoidance category could be significantly higher, as these organizations have to further overallocate resources to support growth

expected within the protracted cycle. In totality, over a three-year period, the organization saved \$991,405 in present value terms.

Several interviewed organizations spoke of the increase in speed of adoption of Dynamics CRM Online due to the lack of need to plan and budget for infrastructure. As this process has great variability between organizations, this study has omitted the time savings gained from this benefit.

TABLE 1
Avoided Upfront Infrastructure Costs

| Ref. | Metric | Calculation | Initial | Year 1 | Year 2 | Year 3 |
|------|--|-----------------|---------|-----------|-----------|-----------|
| A1 | Hardware — servers, network equipment, security layers | | | \$70,000 | \$7,000 | \$7,000 |
| A2 | Data center planning and usage costs | | | \$12,000 | \$12,000 | \$12,000 |
| A3 | Infrastructure operations support engineer, annual salary | | | \$108,000 | \$108,000 | \$108,000 |
| A4 | Infrastructure operations support engineer hire avoided/repurposed | | | 3 | 3 | 4 |
| Atr | Avoided upfront infrastructure costs | $A1+A2+(A3*A4)$ | \$0 | \$406,000 | \$343,000 | \$451,000 |

Source: Forrester Research, Inc.



Reduced CRM Maintenance And Support Costs

Prior to the implementation of Dynamics CRM Online, the composite organization relied on its own IT department to test and deploy security updates, bug patches, and functionality upgrades. Having chosen the SaaS variant of Dynamics CRM, the composite organization realized a significantly quicker rollout of updates, as much of the tasks were now done directly by Microsoft. The effort required to have the updates work seamlessly with the multiple integrations and bevy of workflows across its global IT infrastructure equated to a maintenance savings averaging \$195,840 annually for the composite organization. Also included in this savings figure is the cost of troubleshooting and support after deployment of updates.

Surveyed and interviewed organizations similarly recognized the importance of updates to be able to provide continued functionality in a secure state. However, recognizing the need to update and patch software was not always met with the same policy of actually following through with implementation of said updates. As a best practice, especially in tightly regulated industries, implementation of updates on a timely schedule is of paramount importance. Surveyed organizations cited an average of 19 hours of downtime related to manual updates prior to the implementation of Dynamics CRM Online.

Ultimately, the composite organization averted CRM downtime that is typically associated with on-premises deployments and consumed regular software updates/upgrades with minimal labor input. Quantified, the total saved by the organization in maintenance and support-related tasks amounted to \$523,809 (PV).

TABLE 2
Reduced CRM Maintenance And Support Costs

| Ref. | Metric | Calculation | Initial | Year 1 | Year 2 | Year 3 |
|------|--|-------------|---------|-----------|-----------|-----------|
| B1 | CRM specialist FTE, annual salary fully loaded | | | \$72,000 | \$72,000 | \$72,000 |
| B2 | Number of CRM specialists employed | | | 4 | 4 | 5 |
| B3 | Percentage effort reduction by CRM specialists | | | 68% | 68% | 68% |
| Btr | Reduced ongoing CRM maintenance/support costs | $B1*B2*B3$ | \$0 | \$195,840 | \$195,840 | \$244,800 |

Source: Forrester Research, Inc.



Incremental Revenue Uplift From Faster Deployment And Availability Of CRM — Time-To-Value

The composite organization indicated that a key benefit from the Dynamics CRM Online implementation was a reduction in total deployment time of Dynamics CRM Online. This enabled the organization to derive productivity from the CRM system and ultimately realize incremental revenue gains much sooner than with a traditional on-premises implementation. The Microsoft hosted version of Dynamics CRM was ready for almost immediate operation, with total deployment time being two months quicker than a traditional on-premises implementation.

Interviewed and surveyed organizations provided a broad range of topline revenue improvements as a result of implementing Dynamics CRM and Dynamics CRM Online. As these organizations varied in their products and services, for this particular benefit category we chose to provide estimation with these guidelines:

- › Revenue uplift was counted as a percentage average from interviewees and survey respondents. We eliminated the outliers and then rounded down the revenue for conservatism.
- › Revenue uplift as a result of implementing Dynamics CRM Online was not counted into the financial model. Instead, only the improvement in the TtV period was used to model the quicker delivery of revenue gains that otherwise would not have been realized with a slower on-premises deployment.
- › Incremental benefits of new major feature rollouts were further reduced, as not all organizations may benefit from newer feature sets.

To compensate for the variability between organizations, the TtV benefit was risk-adjusted and reduced by 15%. The risk-adjusted total benefit resulting from improved time-to-value proposition over the three years was \$2,232,075, or about \$2,232 per user. See the section on Risks for more detail.

TABLE 3

Incremental Revenue Uplift From Faster Deployment And Availability of CRM — Time-To-Value

| Ref. | Metric | Calculation | Initial | Year 1 | Year 2 | Year 3 |
|------------|---|-----------------------------|------------|--------------------|------------------|------------------|
| C1 | Time savings to implement initial rollout, in months | | | 2 | 0 | 0 |
| C2 | Time savings to implement major update/feature rollouts, in months | | | 1 | 1 | 1 |
| C3 | Frequency of major security/feature rollouts, CRM Online, pushed to organization beyond that of on-premises deployments | | | 2 | 2 | 2 |
| C4 | Annual topline revenue | | | \$400,000,000 | \$400,000,000 | \$400,000,000 |
| C5 | Annual growth — revenue | | | | 5% | 5% |
| C6 | Percentage revenue uplift with initial adoption | | | 3.0% | 3.0% | 3.0% |
| C7 | Percentage revenue uplift per major feature rollout, average | | | 0.4% | 0.5% | 0.5% |
| C8 | Incremental revenue lift from quicker initial adoption | $(C1/12)*C4*C6$ | | \$2,000,000 | \$0 | \$0 |
| C9 | Incremental revenue lift from major security/feature releases | $(C2*C3/12)*C4*C7*(1+C5)^n$ | | \$266,667 | \$350,000 | \$367,500 |
| Ct | Time-to-value, Dynamics CRM Online enabled | C8+C9 | \$0 | \$2,266,667 | \$350,000 | \$367,500 |
| | Risk adjustment | ↓ 15% | | | | |
| Ctr | Time-to-value, Dynamics CRM Online enabled (risk-adjusted) | | \$0 | \$1,926,667 | \$297,500 | \$312,375 |

Source: Forrester Research, Inc.



Avoided Cost Of On-Premises CRM Software Licenses

By proceeding to pursue Dynamics CRM Online, the composite organization avoided the cost of adopting an on-premises solution. The cost of a substitute CRM solution consisted of two parts: 1) server costs and 2) user license costs. To provide necessary global coverage, the organization must acquire multiple server licenses distributed globally where it operates, coming to a total of \$31,500, amortized across the three-year term of this study. User licenses for the on-premises solution would equate to \$1,258,000, also amortized over three years. In totality, the PV of this cost averted was \$962,039, risk-adjusted. The cost basis for an on-premises CRM solution has some variability and could depend on a variety of factors, such as vendor negotiations and the size of the overall purchase. The cost aversion of a comparable CRM solution has been reduced 10% to compensate. See the section on Risks for more details.

TABLE 4
Avoided Cost Of On-Premises CRM Software Licenses

| Ref. | Metric | Calculation | Initial | Year 1 | Year 2 | Year 3 |
|------------|--|-------------|------------|------------------|------------------|------------------|
| D1 | On-premises CRM server license cost | | | \$10,500 | \$10,500 | \$10,500 |
| D2 | On-premises CRM user license costs | | | \$419,333 | \$419,333 | \$419,333 |
| Dt | Avoided cost of on-premises CRM software licenses | D1+D2 | \$0 | \$429,833 | \$429,833 | \$429,833 |
| | Risk adjustment | ↓ 10% | | | | |
| Dtr | Avoided cost of on-premises CRM software licenses (risk-adjusted) | | \$0 | \$386,850 | \$386,850 | \$386,850 |

Source: Forrester Research, Inc.

Total Benefits

Table 4 shows the total of all benefits across the three 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 \$4.7 million, or \$4,709 per user.

TABLE 5
Total Benefits (Risk-Adjusted)

| Ref. | Benefit Category | Initial | Year 1 | Year 2 | Year 3 | Total | Present Value |
|---------------------------------------|---|------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Atr | Avoided upfront infrastructure costs | \$0 | \$406,000 | \$343,000 | \$451,000 | \$1,200,000 | \$991,405 |
| Btr | Reduced ongoing CRM maintenance/support costs | \$0 | \$195,840 | \$195,840 | \$244,800 | \$636,480 | \$523,809 |
| Ctr | Incremental revenue uplift from faster deployment and availability of CRM — time-to-value improvement | \$0 | \$1,926,667 | \$297,500 | \$312,375 | \$2,536,542 | \$2,232,075 |
| Dtr | Avoided cost of on-premises CRM software licenses | \$0 | \$386,850 | \$386,850 | \$386,850 | \$1,160,550 | \$962,039 |
| Total benefits (risk-adjusted) | | \$0 | \$2,915,357 | \$1,223,190 | \$1,395,025 | \$5,533,572 | \$4,709,328 |

Source: Forrester Research, Inc.

COSTS

The composite organization experienced a number of costs associated with the Dynamics CRM Online solution:

- › Software license and support fees.
- › Training costs of new features.

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



Software License And Support Fees

Software licensing fees for Dynamics CRM Online were incurred per seat on an annual basis. Support costs were incurred in a similar fashion, on a per-seat basis annually. Following the first year of usage, the composite organization incurred software licensing fees and support fees for a total of \$831,600. Subsequent years were billed similarly, with user growth accounted into the model.

Software costs vary from organization to organization, considering different licensing agreements, what other products may be licensed from the same vendor, and other discounts. The license and support costs could very well be different for the reader's organization, and Forrester recommends readers adjust as necessary for their individual pricing.

TABLE 5
Software License And Support Fees

| Ref. | Metric | Calculation | Initial | Year 1 | Year 2 | Year 3 |
|------------|--|-------------------------------|------------|------------------|------------------|------------------|
| E1 | License fees, per seat | | | \$756 | \$756 | \$756 |
| E2 | Support fees, per seat | | | \$60 | \$60 | \$60 |
| E3 | Number of units | | | 1,000 | 1,000 | 1,000 |
| E4 | CRM user growth | | | 10% | 10% | 5% |
| Et | Software license fees | $(E1+E2)*E3*(E4+1)^n$ year | \$0 | \$831,600 | \$914,760 | \$960,498 |
| | Risk adjustment | 0% | | | | |
| Etr | Software license fees (risk-adjusted) | | \$0 | \$831,600 | \$914,760 | \$960,498 |

Source: Forrester Research, Inc.



Training Costs Of New Features

With major updates and functionality improvements, the composite organization invested resources to train its CRM users for workflow optimization and development of best practices. On average, feature rollouts occurred twice annually and necessitated 1.5 hours of training per contributor, resulting in an annual cost running between \$144,375 and \$151,938.

Training costs are variable from organization to organization, considering some organizations outsource and some manage this in-house, perhaps augmented with third-party consulting help. To compensate, this cost was risk-adjusted up by 20%. The risk-adjusted cost of training in the initial year was \$173,250, or \$451,984 over three years (PV). See the section on Risks for more detail.

TABLE 6
Training Costs Of New Features

| Ref. | Metric | Calculation | Initial | Year 1 | Year 2 | Year 3 |
|------------|--|---|------------|------------------|------------------|------------------|
| E1 | Feature rollout frequency, per year | | | 2 | 2 | 2 |
| E2 | Training time, in hours per FTE, per rollout | | | 1.5 | 1.5 | 1.5 |
| E3 | FTE hourly wage, per CRM user on average, fully loaded | | | \$43.75 | \$43.75 | \$43.75 |
| E4 | CRM contributors | | | 1,000 | 1,000 | 1,000 |
| E5 | CRM user growth | | | 10% | 10% | 5% |
| Et | Training costs of new features | $E1 \cdot E2 \cdot E3 \cdot E4 \cdot (E5+1)^n$ year) | \$0 | \$144,375 | \$158,813 | \$151,938 |
| | Risk adjustment | ↑ 20% | | | | |
| Etr | Training costs of new features (risk-adjusted) | | \$0 | \$173,250 | \$190,575 | \$182,326 |

Source: Forrester Research, Inc.

Total Costs

Table 7 represents the total of all costs as well as associated present values, discounted at 10%. Over three years, the composite organization expects total costs to total a net present value of \$2,685,621.

TABLE 7
Total Costs (Risk-Adjusted)

| Ref. | Cost Category | Initial | Year 1 | Year 2 | Year 3 | Total | Present Value |
|------|------------------------------------|------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Etr | Software license fees | \$0 | (\$831,600) | (\$914,760) | (\$960,498) | (\$2,706,858) | (\$2,233,636) |
| Ftr | Training costs of new features | \$0 | (\$173,250) | (\$190,575) | (\$182,326) | (\$546,151) | (\$451,984) |
| | Total costs (risk-adjusted) | \$0 | (\$1,004,850) | (\$1,105,335) | (\$1,142,824) | (\$3,253,009) | (\$2,685,621) |

Source: Forrester Research, Inc.

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 Dynamics CRM Online 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).

Modest growth and typical utilization of CRM solutions were assumed in the development of the financial model in this case study. In the event of downsizing or geographical reorganization following an implementation of Dynamics CRM Online, adopters may find the ability to eliminate licenses and associated costs of operation extremely beneficial due to the minimal infrastructure investment that is required. There are no sunk costs to Dynamics CRM Online licenses, unlike traditional on-premises CRM solutions. In this age, agility is king and adopters will find it with Dynamics CRM Online.

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 Dynamics CRM Online 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 Dynamics CRM Online, resulting in lower overall total benefits. The greater the uncertainty, the wider the potential range of outcomes for cost and benefit estimates.

TABLE 8
Benefit And Cost Risk Adjustments

| Benefits | Adjustment |
|---|------------|
| Incremental revenue uplift from faster deployment and availability of CRM — time-to-value improvement | ↓ 15% |
| Avoided costs of on-premises CRM software licenses | ↓ 10% |
| Costs | Adjustment |
| Training costs of new CRM features | ↑ 20% |

Source: Forrester Research, Inc.

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.

The following impact risks that affect benefits are identified as part of the analysis:

- › Incremental revenue uplift from faster deployment and availability of CRM — time-to-value improvement.
- › Avoided costs of on-premises CRM software license.

The following implementation risk that affects costs is identified as part of this analysis:

- › Training costs of new CRM features.

Readers should be advised that upfront infrastructure costs could vary from organization to organization depending on the existing software stack in place. For instance, organizations that relying heavily on other SaaS solutions for enterprise resource planning (ERP) or business intelligence (BI) may find that they have a smaller amount of overprovisioned upfront infrastructure spend. This study has been made with the assumption that the existing environment operates on both on-premises and SaaS architecture solutions; thus, we have not made any quantified risk adjustments to this benefit category.

The costs of an alternate on-premises CRM solution can also vary greatly in license costs – depending on if purchased with other software and the size of the overall purchase from the vendor. Quantitatively, we've adjusted this benefit category down by 10% to meet the possibility of some less costly on-premises solutions that may be present in the marketplace.

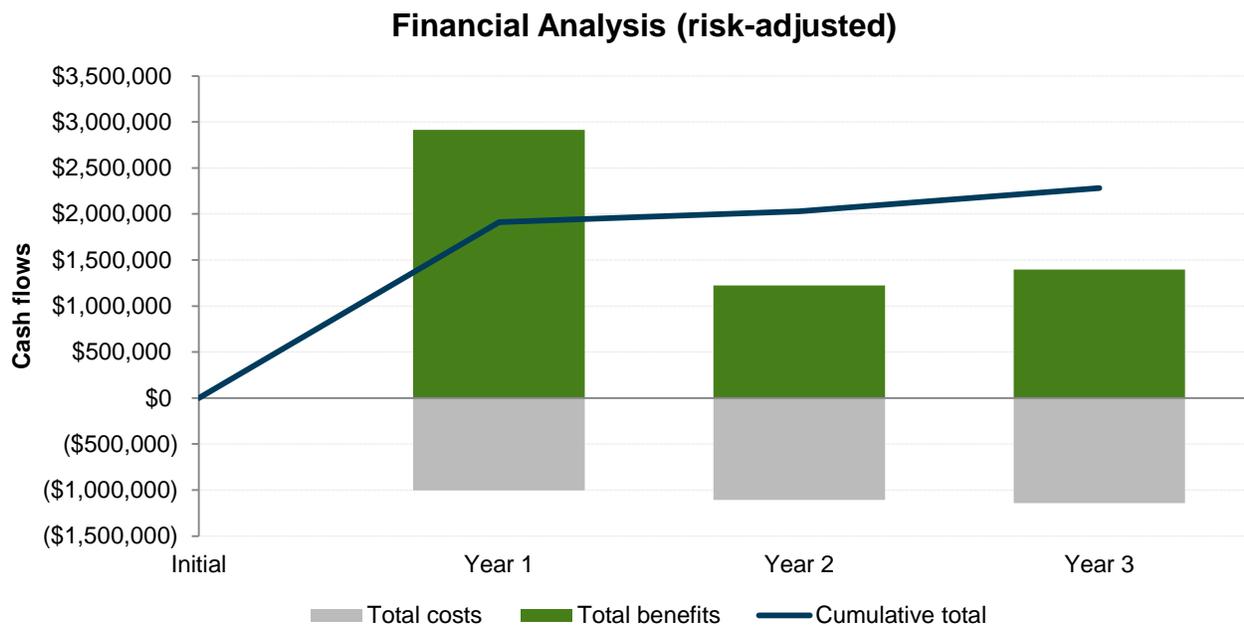
Table 8 shows the values used to adjust for risk and uncertainty in the cost and benefit estimates for the composite organization. Readers are urged to apply their own risk ranges based on their own degree of confidence in the cost and benefit estimates.

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 composite organization's investment in Dynamics CRM Online.

Table 9 below shows the risk-adjusted ROI, NPV, and payback period values. These values are determined by applying the risk-adjustment values from Table 8 in the Risks section to the unadjusted results in each relevant cost and benefit section.

FIGURE 6
Cash Flow Chart (Risk-Adjusted)



Source: Forrester Research, Inc.

TABLE 9
Cash Flow (Risk-Adjusted)

| Summary | Initial | Year 1 | Year 2 | Year 3 | Total | Present Value |
|--------------------------------|------------|--------------------|------------------|------------------|--------------------|------------------------|
| Total costs | \$0 | (\$1,004,850) | (\$1,105,335) | (\$1,142,824) | (\$3,253,009) | (\$2,685,621) |
| Total benefits | \$0 | \$2,915,357 | \$1,223,190 | \$1,395,025 | \$5,533,572 | \$4,709,328 |
| Total | \$0 | \$1,910,507 | \$117,855 | \$252,201 | \$2,280,563 | \$2,023,707 |
| ROI | | | | | | 75% |
| Payback period (months) | | | | | | < two months |

Source: Forrester Research, Inc.

Microsoft Dynamics CRM Online: Overview

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

Microsoft Dynamics CRM is Microsoft's intelligent customer engagement solution, which enables companies to deliver amazing customer experiences that are personalized, proactive, and predictive. Companies can market smarter, sell more effectively, and care for their customers with great service. Microsoft also provides companies with social insights, business intelligence, and capabilities that increase individual and organizational productivity. Microsoft Dynamics CRM supports a wide range of mobile devices, including tablets and phones across iOS, Windows, and Android.

The solution is unique in that the suite allows for deployments in a Microsoft-hosted public cloud and solutions managed by cloud service providers, as well on-premises private cloud deployments. Below you will find an overview for each of these functional areas.

SALES

Microsoft Dynamics CRM provides a complete and intuitive solution that helps salespeople be more productive so they are freed up to focus on what's most important — delivering amazing customer experiences. With essential insights, guidance, and tools, salespeople can zero in on the right customers and priorities, win faster with personalized and relevant customer engagements, and sell more by collaborating with colleagues to harness the power of the entire organization. Capabilities include accounts and opportunities, customer insights, planning and management, collaborative selling, mobile sales, and sales analytics.

SERVICE

Microsoft Dynamics CRM enables companies to earn customers loyalty and advocacy for life by providing personalized, proactive, and predictive service. Companies can connect their customers via self- and assisted-service with the right answers to their service inquiries at the right time, via their channel of choice across web, social, chat, email, mobile, and phone. Agents are empowered with a single, unified experience to deliver amazing customer experience with cross-channel context. And, businesses can easily adapt to changing demands; use service intelligence to deliver intent-driven outcomes; and ensure security, flexibility, and reliability. Capabilities include cross-channel service, agent enablement, self-service, knowledge, social care, and service intelligence.

MARKETING

Microsoft Dynamics Marketing enables marketing teams to plan, execute, and measure campaigns across channels from start to finish, so they can bring their marketing vision to life. Companies can engage customers one to one across channels, build their brand and sales pipeline, as well as demonstrate the impact of marketing investments in real time. Capabilities include marketing resource management, multichannel campaign management, lead management, sales and marketing collaboration, social marketing, and marketing analytics.

CLOUD

Microsoft Dynamics CRM Online provides a trusted CRM solution in the cloud at global scale and is currently available in 130 markets and 44 languages globally. When choosing CRM Online, customers receive a commitment from Microsoft on its operations, with a 99.9% financially backed SLA.

Microsoft offers a global data center footprint with facilities located throughout the world. These data centers are owned, managed, and operated directly by Microsoft with in-region data centers and redundancy in North America, South America, Australia, Japan, Europe, and Asia, with expansion into Canada and India in 2016. Microsoft also offers a CRM Online

Government Community Cloud for United States government customers. More information about Microsoft's data centers can be found at microsoft.com/en-us/server-cloud/cloud-os/global-datacenters.aspx.

Many aspects of the Microsoft Dynamics CRM Online system are configured in a redundant manner to eliminate single points of failure. Customer data is replicated in near real time within the primary data center. There is also an asynchronous sync to a secondary data center on the same continent, for a total of four copies in the event a failover is required. A fifth copy is taken each night, which serves as an encrypted backup. Within the data center, each customer is provided their own dedicated database, and Microsoft leverages SQL Server's "always on" feature to enable high availability and business continuity for each dedicated database. Microsoft also takes advantage of Transparent Data Encryption (TDE) to provide data encryption at rest.

Privacy and security of customer data is critically important to Microsoft. Microsoft continually works to achieve compliance with local market requirements to help its customers operate effectively. For example, Microsoft is the first and only cloud provider to be approved by the Article 29 Working Party as being in compliance with the high standards of EU privacy law as set forth in the EU Model clauses. Compliance to this rigid standard has been achieved in all parts of the Microsoft Cloud for Business, including its cloud platform (Azure), cloud productivity tools (Office 365), and cloud business applications (Dynamics CRM Online). This ensures that Microsoft customers can use its services to move data freely through the Microsoft cloud from Europe to the rest of the world.

Microsoft is committed to continually embracing industry and cloud standards in order to ensure that a robust set of practices and controls are in place to protect sensitive data. Dynamics CRM Online is certified to the following world-class industry standards: SSAE 16 SOC 1 (SAS 70 Type I), ISO 27001, EU Safe Harbor, EU Model Clauses, and HIPAA and HITECH, among others. For more information, please visit the Dynamics CRM Trust Center at microsoft.com/en-us/dynamics/crm-trust-center.aspx.

The on-premises offering of Dynamics CRM enables customers to install and configure in their own data center or a partner's data center of their choosing. For customers that want a cloud solution but also want to maintain more control over the configuration and operations of CRM, Microsoft recently announced its intent to support Dynamics CRM running on Azure Infrastructure Services and leveraging Azure Premium Storage in the future.

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. TEI assists technology vendors in winning, serving, and retaining customers.

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

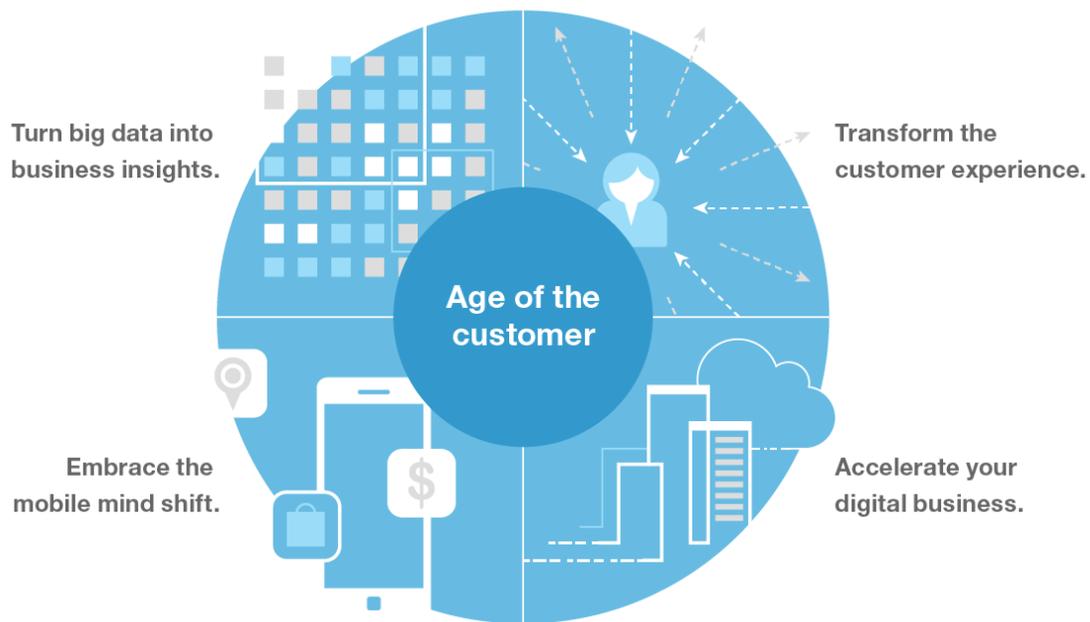
Risks measure the uncertainty of benefit and cost estimates contained within the investment. Uncertainty is measured in two ways: 1) the likelihood that the cost and benefit estimates will meet the original projections and 2) the likelihood that the estimates will be measured and tracked over time. TEI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

Appendix B: Forrester And The Age Of The Customer

Your technology-empowered customers now know more than you do about your products and services, pricing, and reputation. Your competitors can copy or undermine the moves you take to compete. The only way to win, serve, and retain customers is to become customer-obsessed.

A customer-obsessed enterprise focuses its strategy, energy, and budget on processes that enhance knowledge of and engagement with customers and prioritizes these over maintaining traditional competitive barriers.

CMOs and CIOs must work together to create this companywide transformation.



Forrester has a four-part blueprint for strategy in the age of the customer, including the following imperatives to help establish new competitive advantages:



Transform the customer experience to gain sustainable competitive advantage.



Accelerate your digital business with new technology strategies that fuel business growth.



Embrace the mobile mind shift by giving customers what they want, when they want it.



Turn (big) data into business insights through innovative analytics.

Appendix C: 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. 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 of 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.

Appendix D: Endnotes

¹ Forrester risk-adjusts the summary financial metrics to take into account the potential uncertainty of the cost and benefit estimates. For more information, see the section on Risks.

² Source: Business Technographics, Q1 2014, Forrester Research, Inc.

³ Years of Forrester data confirm the strong relationship between the quality of a firm's customer experience (as measured by Forrester's CX Index) and loyalty measures like willingness to consider the company for another purchase, likelihood to switch business, and likelihood to recommend. We used that data to build simple models that show how changes in loyalty associated with higher CX Index scores can affect a company's yearly revenue. Source: "The Business Impact Of Customer Experience, 2014," Forrester Research, Inc., March 27, 2014.