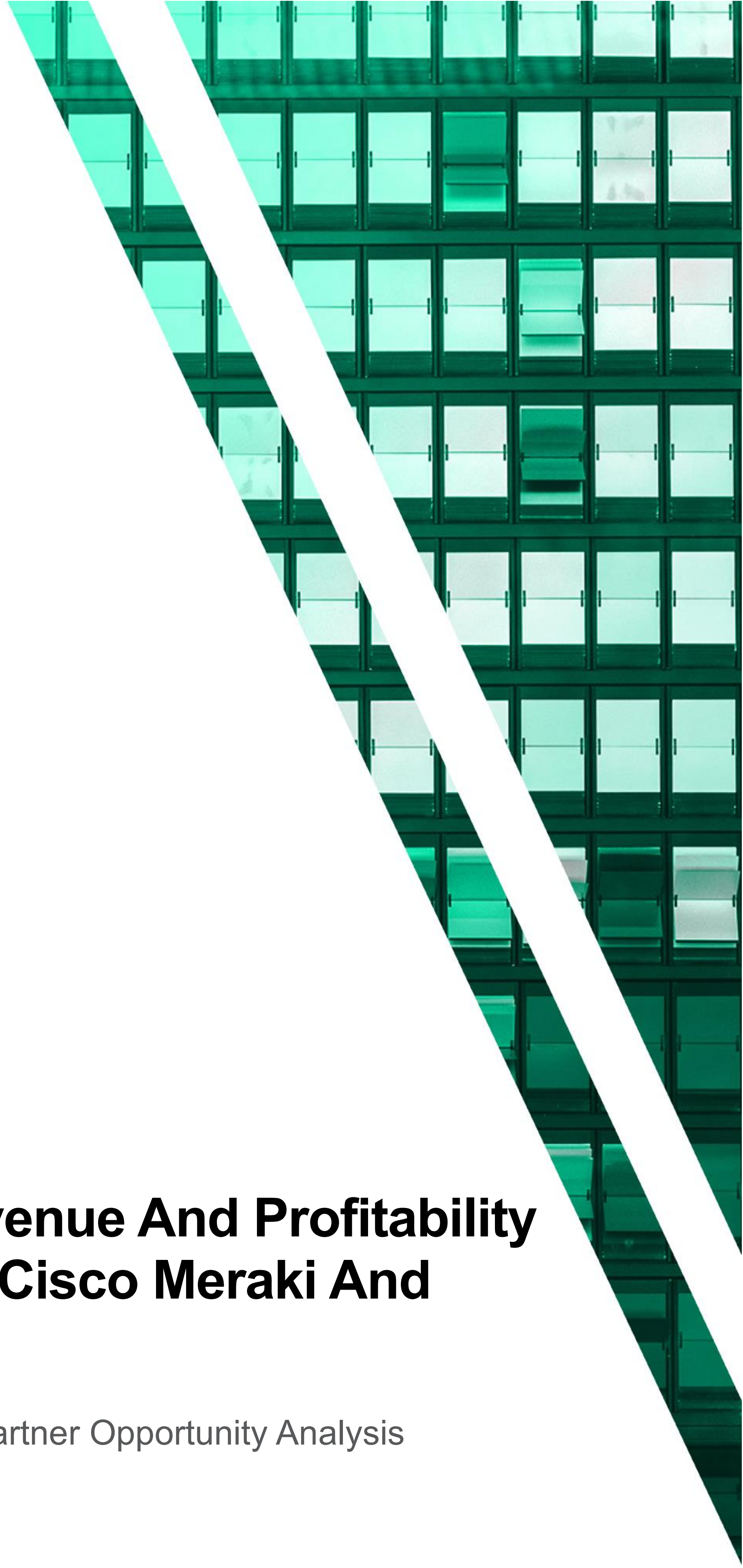

The Increased Revenue And Profitability Opportunities For Cisco Meraki And Umbrella MSPs

A Total Economic Impact™ Partner Opportunity Analysis

JANUARY 2021

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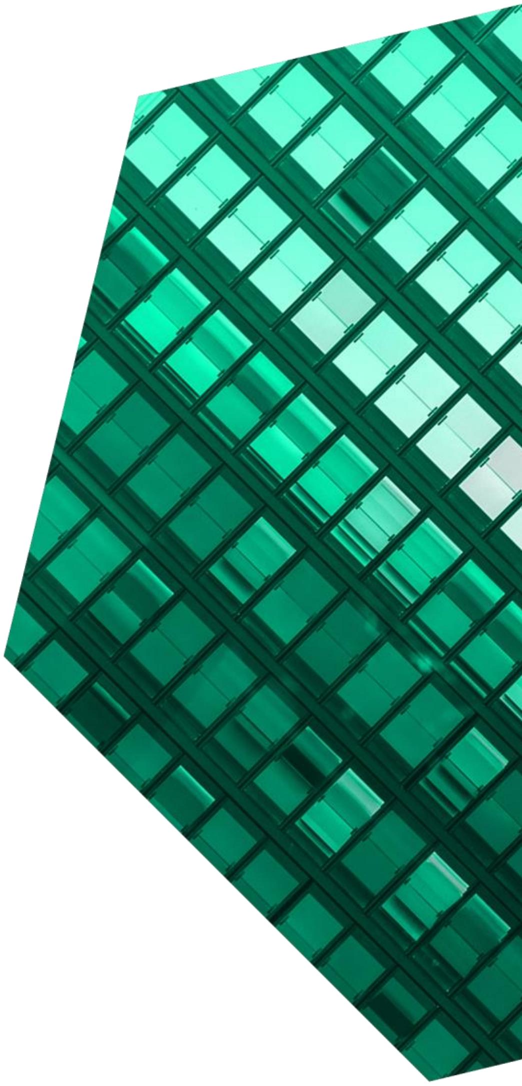


Executive Summary

Cisco Meraki and Umbrella are cloud-managed solutions that help customers improve their network, security, and employee performance. These solutions also create ample opportunities for managed service providers (MSPs) to accelerate revenue growth and increase profitability by increasing the total addressable market (TAM), improving win and retention rates, and increasing contract values while reducing delivery costs because of greater automation and more efficient remote management.

Cisco commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine how MSPs can benefit from building managed services practices around Meraki and Umbrella. The purpose of this study is to provide readers with a framework to evaluate the potential impact of establishing and growing service offerings around the Meraki and Umbrella offerings.

To better understand the benefits and associated investments, Forrester interviewed six partners across North America, Europe, and Asia-Pacific that are delivering managed services on top of Meraki and Umbrella. For the purposes of this study, Forrester aggregated the experiences of the interviewed partners and combined the results into a single composite partner organization.

MSPs, both existing and new to Cisco, faced several challenges that led them to add Meraki and Umbrella to their solutions portfolios. As a result, they modified existing and created new managed services offerings. Challenges included plateauing growth, excessive effort and cost to deliver prior managed services, and a strategic imperative to focus on cloud-managed technologies and recurring revenue business models. The COVID-19 pandemic exacerbated all of these challenges. Additionally, MSPs determined that their customers would benefit from deploying Meraki and Umbrella.

KEY STATISTICS

Revenue uplift
50%

Gross margin uplift
138%

KEY FINDINGS

Quantified benefits. Quantified benefits as applied to a composite partner organization with $2 million in initial managed services revenues include the following:

- **The won-deals growth rate increases from 15% for prior managed services to 30% for Meraki- and Umbrella-based managed services.** The composite MSP has existing managed services revenues of $2 million with small and medium-size business (SMB) customers at the start of the three-year model, growing by 15% per year. With Meraki and Umbrella, the growth rate is 2x. The composite achieves the increased growth because of high customer demand, higher win and attach rates, and greater market reach in conjunction with Cisco marketing. By expanding its managed services to the Meraki and Umbrella solutions, the composite partner sees a total three-year net increase in revenues of $8.5 million; applying the prior gross margins delivers $795K in incremental gross revenues.

- **Average deal size increases by 20% by Year 3.** The previous managed services average contract value was not increasing. Moving to managed services around Meraki and Umbrella results in increased average contract values. The increase is 10% in Year 1 and reaches 20% by Year 3. Like the interviewed partners, the composite partner organization expands its managed services into new areas, including those deemed more strategic and valuable by customers, such as creating a security operations center (SOC). The total three-year increase in revenues is $1.6 million; applying the prior gross margins delivers $299K in increased gross revenues.

- **Managed service gross margins more than double by Year 3.** Previously, gross margins were improving 10% per year, e.g. from 20% to 22%. The cloud-based deployment and management of Meraki and Umbrella significantly reduce the cost and effort to deliver managed services, which increases gross margins. The composite achieves this through better remote monitoring and remediation and increased automation. Additionally, the integrations between the Cisco solutions and an MSP's existing remote monitoring and management (RMM) and professional services automation (PSA) tools further streamline and automate managed services delivery. The composite partner also experiences fewer customer-generated help desk tickets, and those that are created require less effort to resolve because of better signaling and increased automation. This means fewer expensive truck rolls for partners. By Year 3 of the analysis, gross margins increase from a baseline 20.0% to 38.7%. Applying this new gross margin rate to baseline and increased revenues delivers $1.3 million in increased gross revenue.

Unquantified benefits. Benefits that are not quantified for this study and underpin the quantified benefits include the following:

- **Leveraging the Cisco brand improves MSP brand perception.** Interviewees said that Cisco's brand is one of the best in the industry, which adds credibility to their own brands. This helps

> **"Bringing Meraki to the table helps us close more deals, period. Some of those deals have been very large."**
>
> — VP, business development

them win opportunities that they may not have otherwise.

- **Meraki and Umbrella are leading products, which benefits MSPs and their customers.** Interviewed MSP decision-makers view Meraki and Umbrella as best-in-class solutions. This contributes to their benefits around lower cost of delivery because less remediation needs to take place. Customers also benefit from the best-in-class network, security, and digital workplace solutions.

- **Cisco provides strong support for MSPs.** Interviewees described many ways in which Cisco does an excellent job supporting them. This includes initiatives such as marketing funds and joint go-to-market activities, financing and licensing options that make recurring models easier, and good access to technical support and training. Some of these support activities extend to Cisco's distributors, which also provide support in the form of training, marketing materials, and lab equipment.

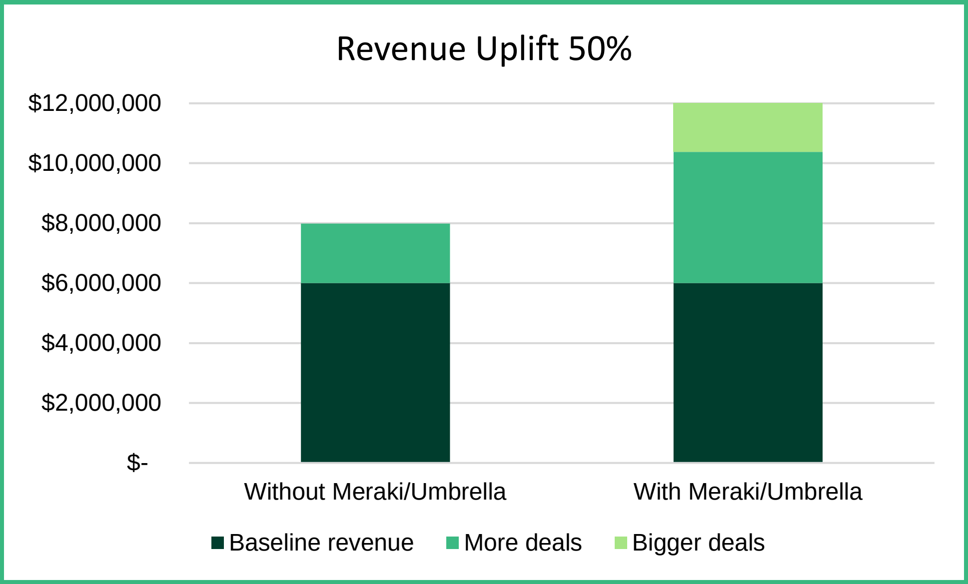
Investments and best practices. Partners described where they are making investments and best practices that make them successful. Forrester quantified and modeled these for the composite partner:

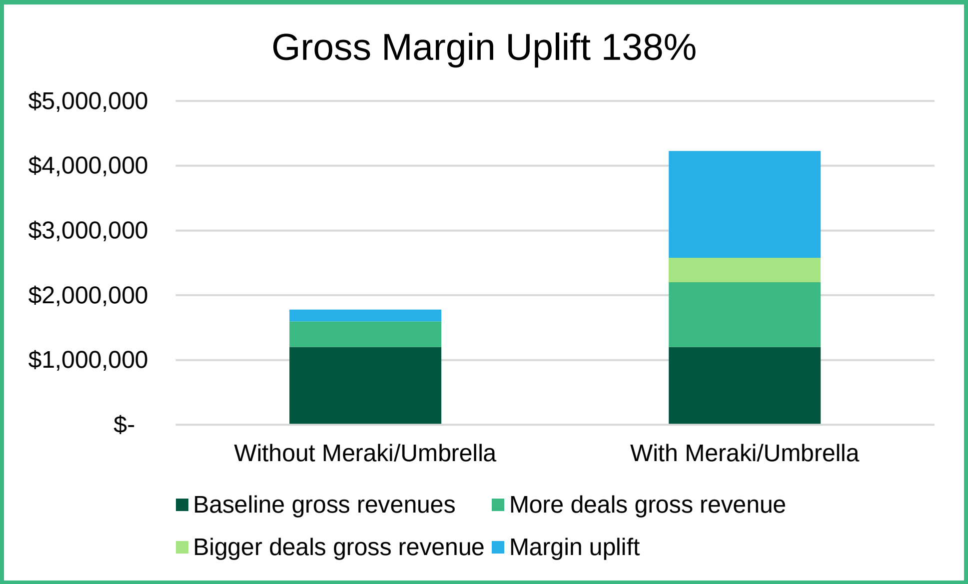
- **Practice investments total $442K.** The composite partner organization with $2 million in prior annual managed services revenue invests in a Cisco relationship manager, practice and methodology development, training, and demo equipment. Delivery costs, such as adding additional technicians, are embedded in the gross margin calculation in the previously described benefits.

- **Interviewed MSPs described best practices that make them successful, including:** Ensuring technical staff are fully up to speed on the new Cisco solutions; redesigning sales processes and compensation; getting outside of their comfort zone to adopt a cloud-first delivery and commercial model; going all-in on the Cisco partnership; and becoming a more strategic partner to their customers.

The partner interviews and financial analysis found that a composite partner organization with baseline annual managed services revenues of $2.0 million experiences a three-year increase in top-line managed services revenues of $3.6 million and a $2.1 million increase in gross revenues.

These two charts represent the three-year, total top-line and gross revenues for the two scenarios. The “Without Meraki/Umbrella” scenario is based on anticipated revenue and margin growth had Meraki and Umbrella managed services not been added. The “With Meraki/Umbrella” scenario includes the revenue and gross margin improvements from building a managed services practice with Meraki and Umbrella added onto to the anticipated, baseline scenario.





TEI FRAMEWORK AND METHODOLOGY

From the information provided in the interviews, Forrester constructed a Total Economic Impact™ framework for partner organizations considering building a managed services practice around Meraki and Umbrella. Forrester took a multistep approach to evaluate the impact of creating this new practice area.

DISCLOSURES

Readers should be aware of the following:

This study is commissioned by Cisco and delivered by Forrester Consulting. It is not meant to be used as a competitive analysis.

Forrester makes no assumptions as to the potential benefits that other partner 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 the developing a managed services practice.

Cisco 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.

Cisco provided the partner names for the interviews but did not participate in the interviews.

DUE DILIGENCE
Interviewed Cisco stakeholders and Forrester analysts to gather data relative to the Meraki and Umbrella MSP opportunities

CUSTOMER INTERVIEWS
Interviewed six decision-makers at MSPs that have built managed services practices around Meraki and Umbrella.

COMPOSITE PARTNER ORGANIZATION
Designed a composite partner organization based on characteristics of the interviewed MSPs.

FINANCIAL MODEL FRAMEWORK
Constructed a financial model representative of the interviews using the TEI methodology.

CASE STUDY
Created a case study that tells the story around expected benefits and investments in a managed services practice built around Cisco Meraki and Umbrella.

The Cisco Meraki And Umbrella Managed Services Partner Journey

Drivers leading to the MSP practice investment

Interviewed MSPs

Partner	Region	Interviewee
QLS	Europe	CEO Managed services lead
Oxygen Technologies	North America	President and chief strategy officer
Unnamed	North America	CEO
Catalyst	North America	VP, business development
Unnamed	Australia	Head of practices Head of technical services
ConXioN	Europe	Chief sales officer COO CEO Team leader, managed services

KEY DRIVERS

Interviewed MSP decision-makers described reasons for incorporating Umbrella and Meraki into their solutions stacks and creating managed services wrappers, including:

- **Existing managed services offerings' growth and profitability were not meeting goals.** Partners described growth ranging from flat to possibly as high as 20%, but this was far below their desired growth. This was due in part to a lack of customer demand or difficulty in value articulation, as well as an inability to support demand because of manually intensive managed services systems and processes.

> **"Our growth rates were stuck at 10% to 15%. With Meraki and Umbrella, we are now growing at 40% per year."**
>
> *CEO*

- **Customers were not receiving best-in-class solutions from a technology or managed services perspective.** SMB customers have ever-increasing security-related needs when it comes to networking and devices. Interviewed MPS leaders said that their previous solutions stacks and services were falling behind. This negatively affected customers in terms of performance and increased managed services delivery costs.

> **"More important is what Umbrella does to protect the client. It has brought so much added security to them. Businesses of all sizes can be properly secured. It is probably the best buy in IT."**
>
> *VP, business development*

- **COVID made supporting customers more challenging.** Most customers went to a nearly fully distributed workforce overnight in the wake of the COVID-19 pandemic. This upended traditional managed services models built around the office worker. Interviewees all said that they could transition, with relative ease, to these new working models. The remote deployment and management capabilities built into Meraki and Umbrella meant that technicians could complete most of their work without having to go into a customer's office. Additionally, there was an increased demand for managed services with customers' employees working from home.

> **"The Meraki and Umbrella solutions we sell are phenomenal for work-from-anywhere models. They give us a way to execute without a lot of headaches."**
>
> *CEO*

COMPOSITE PARTNER ORGANIZATION

Based on the interviews, Forrester constructed a TEI framework, a composite company, and a financial analysis that illustrates the benefits an MSP can realize by creating practices built around Meraki and Umbrella. The composite partner organization is representative of the six partners that Forrester interviewed and is used to present the aggregate financial example in the study.

The composite partner organization is a North American MSP that had existing technology and managed services offerings around networking and security. It makes Meraki and Umbrella core to its technology offering and builds out a managed services practice around these technologies.

Managed services revenues in areas relevant to Umbrella and Meraki are $2.0 million as the start of the analysis and grow at 15% per year. The managed services gross margin in Year 1 is 20% and increases 10% per year. The table below shows the financial performance the composite partner organization would have experienced had it not moved to Meraki and Umbrella.

The interviewed partners have different models in terms of how they structure and price their managed services. These models vary from fully outsourced IT to a-la-carte subscriptions, which separated monitoring from remediation. Regardless of model, the benefit themes around selling more managed services deals, selling larger deals, and delivering managed services more profitably were consistent. Therefore, Forrester built the financial example in this study in a top-down manner based on the existing managed services practice in terms of revenue rather than a bottom-up approach looking at individual services tied to the number of users, devices, or locations. This makes the model universally applicable to all existing and potential Cisco partners looking to build a managed services practice around Meraki and Umbrella.

Composite Organization Pre-Meraki And Umbrella Forecasted Managed Services Performance

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
A1	Baseline growth rate			15.0%	15.0%	15.0%
A2	Baseline managed services revenue	$A2_{PY}$*115%	$2,000,000	$2,300,000	$2,645,000	$3,041,750
A3	Baseline gross margin			20.00%	22.00%	24.20%
At	Baseline gross revenue	A2*A3		$460,000	$581,900	$736,104
	Three-year total: $1,778,004					

Analysis Of Benefits

Quantified benefit data as applied to the composite

Total Benefits

Ref.	Benefit	Year 1	Year 2	Year 3	Total
Bt	More deals — gross revenue	$120,000	$303,600	$579,348	$1,002,948
Ct	Bigger deals — gross revenue	$52,000	$111,540	$212,670	$376,210
Dt	Gross margin uplift	$200,200	$462,553	$986,014	$1,648,767
	Total benefits	$372,200	$877,693	$1,778,031	$3,027,924

MORE DEALS — GROSS REVENUE

Interviewees said that they are closing more managed services deals around Meraki and Umbrella than they would have with prior solutions in this space. Several factors, including customer demand, winning more deals when competitive, and attaching managed services at a higher rate on top of a hardware and license contract, contribute to this success. Additionally, the COVID-related work-from-home imperative has further increased the desirability of Meraki and Umbrella from both features and manageability perspectives.

Evidence and data. Interviewees provided the following examples around how Meraki and Umbrella are accelerating growth:

- "With everyone working from home during COVID, we have seen a large increase in managed services — especially in the security space."
- "Our growth rate without having moved to Cisco would be 10% to 15% per year. Now it is at around 40%, and we expect our managed services revenues to double in 2021."
- "Meraki and Umbrella have helped us enormously with geographical expansion."
- "Bringing Meraki to the table helps us close 50% more deals."

> **"Meraki and Umbrella are easier to sell. There are less technical discussions and obstacles. They provide SMBs with simplicity without sacrificing quality of functionality."**
>
> *CEO*

Modeling and assumptions. For the financial example, Forrester assumes:

- Baseline growth prior to adding Meraki and Umbrella was 15% per year.
- This doubles to 30% per year for the reasons previously discussed.

Forrester applied the prior baseline gross margin percentage to show gross revenues. Another benefit discussed below shows the gross margin uplift on these revenues.

The three-year, total benefit is $1.0 million.

More Deals — Gross Revenue					
Ref.	**Metric**	**Calculation**	**Year 1**	**Year 2**	**Year 3**
B1	Baseline managed services revenue	$A2_{Initial}$	$2,000,000	$2,000,000	$2,000,000
B2	Baseline growth rate		15.0%	15.0%	15.0%
B3	Meraki/Umbrella growth rate	B2*2	30.0%	30.0%	30.0%
B4	Baseline revenue growth	B1*(1+B3-B2)	$2,300,000	$2,645,000	$3,041,750
B5	Meraki/Umbrella growth-related revenues	Y1: $A2_{Initial}$*(1+B3) Y2 and Y3: $B4_{PY}$*(1+B3)	$2,600,000	$3,380,000	$4,394,000
B6	Incremental revenue	B5-B1	$600,000	$1,380,000	$2,394,000
B7	Baseline gross margin		20.0%	22.0%	24.2%
Bt	More deals — gross revenue	B6*B7	$120,000	$303,600	$579,348
	Three-year total: $1,002,948				

BIGGER DEALS — GROSS REVENUE

Similar to closing more deals, partner decision-makers also described many ways in which they are increasing deal size. These include adding more services, providing multitier support offerings, and increasing customer lifetime value and retention. Cisco's managed services licensing agreement (MSLA) — which is specific to the Umbrella offering in this study — and Cisco Capital programs help make customers' large upfront investments possible and generate recurring revenue streams.

Evidence and data. Partners shared the following examples of how they are increasing deal size:

- "We are having more strategic conversations. That gets us away from pure price comparisons against our competition and increases our deal sizes. We are seen as a trusted advisor."
- "Cisco Capital makes it possible to use our managed services platform to generate larger hardware sales and bundle it into a customer's master service agreement."
- "Our deals now have higher, continuous revenue streams. Including lifecycle management in our offering means products get replaced more frequently and more features are added."
- "For every $30,000 in hardware we sell, we are selling $60,000 in managed services."

> **"We are reaching out to all our existing managed services clients and adding additional services. Bolting on Meraki and Umbrella increases our revenues by 20%."**
>
> *CEO*

Modeling and assumptions. For the financial example, Forrester assumes:

- Average deal size increases 10% in Year 1 for the reasons discussed above. This grows to 20% by Year 3 of the study.
- Forrester applies the same baseline gross margin.

The three-year, total benefit is $376K.

Bigger Deals — Gross Revenue					
Ref.	**Metric**	**Calculation**	**Year 1**	**Year 2**	**Year 3**
C1	Original deal size revenue	B5	$2,600,000	$3,380,000	$4,394,000
C2	Increased deal size		10.0%	15.0%	20.0%
C3	Increased deal size revenue	C1*C2	$260,000	$507,000	$878,800
C4	Baseline gross margin		20.0%	22.0%	24.2%
Ct	Bigger deals — gross revenue	C3*C4	$52,000	$111,540	$212,670
Three-year total: $376,210					

GROSS MARGIN UPLIFT

The management features, remote capabilities, and automation built into Meraki and Umbrella make it much easier and less expensive for partners to deliver managed services. Additionally, Meraki and Umbrella integrations with MSPs' existing PSA and RMM solutions further streamline and automate delivery of managed services. All of this enables growth without having to expand headcount as quickly and increases overall profitability. This bottom-line improvement is, in many ways, more important than top-line growth for the interviewed partners.

Evidence and data. Interviewees shared the following examples regarding improved profitability:

- "These solutions help us automate our processes, which is what we have to do in order to grow with only five employees."
- "Our managed services margins are 65%. Before moving to Umbrella, they were around 40%."
- "Our best managed services operating margin was 20% because we had to throw so much labor at everything. Now our margins range between 30% and 40%."
- "Our margins on Umbrella average 65%."
- "It takes us 2 or 3 minutes to set up a new user, and we can fully deploy a new customer in one or two days. The built-in automation makes everything better."
- "We have around 30 technicians to manage 7,500 seats. If we weren't using these solutions, we would need a lot more people."
- "We would need twice as many people today if we weren't using the Cisco solutions. We would also have to invest a lot more in RMM [remote monitoring and management] tools."
- "If it wasn't for Meraki, we would have to increase our managed services team size by 30%."
- "We don't have to be onsite. All the information comes to us automatically, and in most cases, we fix a problem and notify the customer before they even realize there was a problem."

> **"Setting up new client offices is very easy. We can ship them the hardware and do everything remotely. So much can get done without having to roll a truck."**
>
> *VP, business development*

Modeling and assumptions. For the financial example, Forrester assumes:

- The baseline managed services practice profitability increases by 35% in Year 1, 45% in Year 2, and 60% in Year 3. The increase over time is due to implementing better processes, taking greater advantage of Meraki and Umbrella's automation capabilities, and achieving economies of scale.

The three-year, total benefit is $1.6 million.

Gross Margin Uplift

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
D1	Total revenues	B5+C3	$2,860,000	$3,887,000	$5,272,800
D2	New gross margin rate	Y1: D3*135% Y2: D3*145% Y3:D3*160%	27.00%	31.90%	38.70%
D3	Original gross margin rate	Year 1	20.00%	20.00%	20.00%
D4	Gross margin rate uplift	D2-D3	7.0%	11.9%	18.7%
Dt	Gross margin uplift	D1*D4	$200,200	$462,553	$986,014
	Three-year total: $1,648,767				

UNQUANTIFIED BENEFITS

Partner interviewees described several other benefits that Forrester did not quantify separately but that do contribute to the quantified benefits described above.

Cisco's Brand Strength

Decision-makers reported that being closely aligned with Cisco improves how prospects and existing customers perceive their companies and brands. This has helped partners win deals and go upmarket in terms of size and solution complexity.

> **"The Cisco brand creates legitimacy for us. We have consolidated our offerings around Cisco. When we say our managed services are based on the Cisco platforms, customers know that we can deliver."**
>
> *President*

Meraki And Umbrella Product Quality

Interviewees view Cisco's Meraki and Umbrella solutions as best-in-class in terms of performance and manageability. This contributes to selling more and bigger deals as well as reducing costs because there are fewer events such as security breaches that require manual remediation.

Partner decision-makers also said that these solutions deliver many benefits to their customers, which is a good thing on its own and also makes the partner look good. This is especially important for SMBs because they are often underserved in terms of end-to-end security.

One interviewee explained, "Umbrella helps with our customers' security because very few SMBs have in place a solution for their DNS security." Another cited the importance of visibility and insights: "The vast majority of SMB business owners don't care how things get done, only that they are getting done. The

BI [business intelligence] tools help them see where there are bottlenecks."

> **"The single pane of glass in Meraki is the biggest benefit to SMBs. It gives a small team the visibility and tools they need to manage their environment."**
>
> *Head of practices*

Strong Channel Support For MSPs

All interviewees lauded Cisco for the support provided in both the sales and delivery areas. Partners view Cisco as one of the best vendors in terms of channel programs and incentives as well as training. Most of the interviewed partners have received marketing development funds that can be used for business development and go-to-market activities.

Interviewees also said that the distributors with which they work provide excellent service and support when it comes to Meraki and Umbrella. This includes assisting in sales and solution design, solution deployment, and ongoing training.

One interviewee said: "Meraki gives a lot of resources to their distributors, which make their way to us. Our distributor helps with training our SEs [sales engineers] and provides other support. We also get Cisco-certified configurations without having to put in 20 hours of engineering effort."

> **"Cisco has a network of support personnel everywhere. They help us close deals and architect solutions. They provide great partner support."**
>
> *VP, business development*

FLEXIBILITY

The value of flexibility is unique to each partner. There are multiple scenarios in which a partner might build a managed services practice around Meraki and Umbrella and realize future benefits. Some of the examples partners shared included:

- Layering on Meraki or Umbrella if not already deploying both.
- Expanding into new geographies and/or verticals.
- Creating additional, premium support tiers.
- Building out SOC capabilities to move more into the managed security services provider (MSSP) space.
- Taking advantage of the partnership and enhanced integrations between Cisco and SolarWinds to further reduced delivery cost and effort.

> **"I learned about the SolarWinds partnership around one year ago. The benefits will be substantial because the SolarWinds and Meraki platforms work better together."**
>
> *President and chief strategy officer*

Forrester has not included these in the financial analysis.

Analysis Of Costs

Quantified cost data as applied to the composite

Total Costs						
Ref.	**Cost**	**Initial**	**Year 1**	**Year 2**	**Year 3**	**Total**
Et	Practice investments and best practices	$155,625	$76,800	$120,805	$88,864	$442,094
	Total costs	$155,625	$76,800	$120,805	$88,864	$442,094

PRACTICE INVESTMENT AND BEST PRACTICES

Partner decision-makers described the initial and ongoing overhead activities and investments that have made them successful. Forrester factored investments in delivery personnel into the gross margin calculations in the benefits section, so they are excluded here.

Partners typically invested in a relationship manager focused on the Cisco partnership, upfront costs around practice setup and initial training, ongoing training, and demo equipment. Some partners received funding from Cisco or their distributor toward some of the investments, and Cisco also operates a program to provide demo hardware at a deep discount.

Modeling and assumptions. For the financial example, Forrester assumes:

- Half an FTE manages the relationship with Cisco. This person ensures that the MSP is getting maximum value out of the partnership as well as feeding requests back into Cisco. The half FTE's time commitment includes a three-month initial period when the partnership is being established.
- The upfront investment in practice and methodology setup, as well as initial training, is 5% of the baseline $2 million in managed services revenues.
- Ongoing training, including attending conferences and gaining certifications, is 0.5% of that year's Meraki and Umbrella managed services revenues.
- The initial purchase of demo and lab equipment is 2% of the $2 million in existing managed services revenue. Hardware is added/replaced in Year 2.

The three-year, total investment is $442K.

Best practices. Interviewees shared various steps they have taken and continue to take to be successful. These fall into several categories including investing the necessary time and money to train up a competent managed service staff, focusing heavily on the relationship with Cisco, redesigning sales engagement and compensation models, and developing new approaches to managed services that are optimized for Meraki and Umbrella recurring revenue models. Specifically, interviewees said:

- "We are always working to become more integrated with Cisco. Consolidating onto one vendor gives me a lot of relevancy with Cisco. It also creates more value for my customers."
- "A prospect has to agree to a minimum security posture if we are going to take them on as a managed services customer. SMBs are really being targeted with things like ransomware, and we need to know that we can protect them in an efficient and effective way."
- "We are focused on continuous customer engagement and investing in our technical and

architectural knowledge around Meraki and Umbrella."

- "We invest a lot in training and certifications. Everyone is at least Meraki ECMS [Engineering Cisco Meraki Solutions] certified."
- "Courage over comfort is our philosophy. We have to work outside our comfort zone to fully build out these new platforms. Otherwise, we won't get the best out of Meraki and Umbrella, which would be a waste of money and resources."

Practice Investments And Best Practices

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
E1	Cisco relationship management	0.5 FTEs*$125,000 (3-month initial period)	$15,625	$62,500	$62,500	$62,500
E2	Practice and methodology setup	$A2_{Initial}$*5%	$100,000			
E3	Ongoing training	D1*0.5%		$14,300	$19,435	$26,364
E4	Demo equipment	Initial:A2*2% Y2: D1*1%	$40,000		$38,870	
Et	Practice investments and best practices	E1+E2+E3+E4	$155,625	$76,800	$120,805	$88,864
	Three-year total: $442,094					

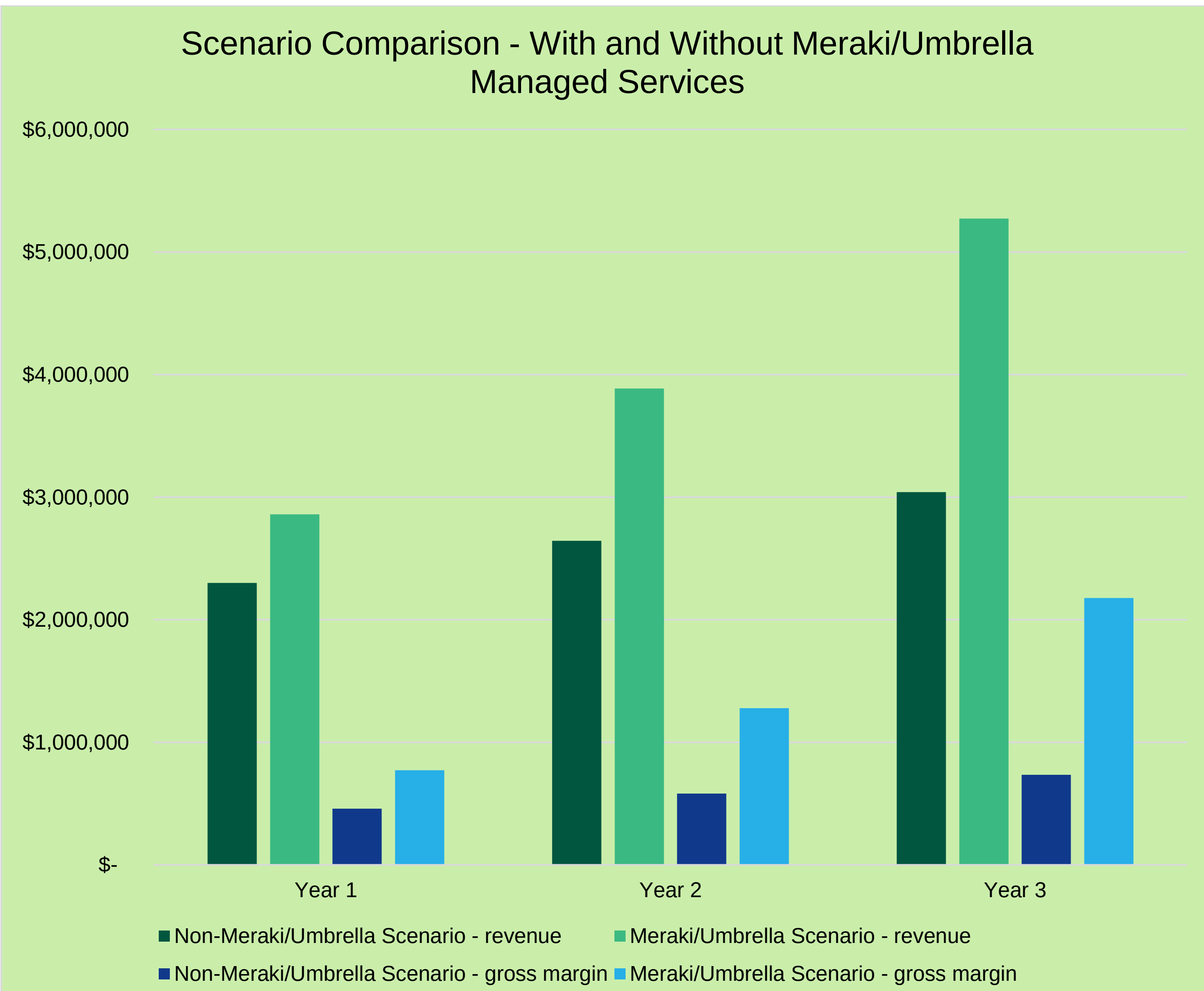
Financial Summary

CONSOLIDATED THREE-YEAR METRICS

Revenue uplift:
50%

Gross margin uplift:
138%

The financial results calculated in the Benefits and Costs sections can be used to determine the revenue and margin uplift for the composite partner organization's investment. Forrester assumes a yearly discount rate of 10% for this analysis.



Appendix A: Total Economic Impact

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.

TOTAL ECONOMIC IMPACT APPROACH

Benefits represent the value delivered to the business by the product. The TEI methodology places 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.

Costs consider all expenses necessary to deliver the proposed value, or benefits, of the product. The cost category within TEI captures incremental costs over the existing environment for ongoing costs associated with the solution.

Flexibility represents the strategic value that can be obtained for some future additional investment building on top of the initial investment already made. Having the ability to capture that benefit has a PV that can be estimated.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