

A Forrester Total Economic  
Impact™ Study

Commissioned By  
Microsoft

Project Director:  
Liz Witherspoon

Project Contributor:  
Adrienne Breslin

October 2015

# The Total Economic Impact™ Of Microsoft Office 365

Small and Midsize Businesses

FORRESTER®

## Table Of Contents

<b>Executive Summary .....</b>	<b>3</b>
<b>Disclosures .....</b>	<b>7</b>
<b>TEI Framework And Methodology .....</b>	<b>8</b>
<b>Analysis .....</b>	<b>9</b>
<b>Financial Summary .....</b>	<b>35</b>
<b>Microsoft Office 365: Overview .....</b>	<b>36</b>
<b>Appendix A: Composite Organization Description .....</b>	<b>37</b>
<b>Appendix B: Total Economic Impact™ Overview.....</b>	<b>38</b>
<b>Appendix C: Forrester And The Age Of The Customer .....</b>	<b>39</b>
<b>Appendix D: Glossary.....</b>	<b>40</b>
<b>Appendix E: Endnotes .....</b>	<b>41</b>

### ABOUT FORRESTER CONSULTING

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

---

© 2015, Forrester Research, Inc. All rights reserved. Unauthorized reproduction is strictly prohibited. Information is based on best available resources. Opinions reflect judgment at the time and are subject to change. Forrester®, Technographics®, Forrester Wave, RoleView, TechRadar, and Total Economic Impact are trademarks of Forrester Research, Inc. All other trademarks are the property of their respective companies. For additional information, go to [www.forrester.com](http://www.forrester.com).

---



## Executive Summary

Microsoft commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) organizations may realize by deploying Office 365. The purpose of this study is to provide readers at small and medium-sized businesses (one to 250 users) with a framework to evaluate the potential financial impact of Office 365 on their organizations.

To better understand the benefits, costs, and risks associated with an Office 365 implementation, Forrester interviewed four existing customers with multiple years of experience using Office 365 and conducted an online survey with 204 organizations also using the solution. Office 365 is the software-as-a-service (SaaS) version of Microsoft business products including Office Professional Plus, Exchange, Skype for Business, SharePoint, Yammer, and OneDrive.

Prior to Office 365, customers had a combination of on-premises email and productivity tools and web-based point solutions for collaboration and file sharing. However, with their businesses' rapid growth, they had hit the limit on supporting and maintaining these tools, leaving employees frustrated with slow connections and limited ability to work productively on the road. Company founders who often doubled as IT support traded strategic time for tech troubleshooting. These limitations led to growing pains, including employees using consumer logins for file sharing and IM, and no uniform, "legitimate" face to the customer with consistent tools. With Office 365, customers were able to scale the business easily, increasing productivity and collaboration for their mobile workforce while avoiding infrastructure costs and downtime. Said one VP at a landscaping business: "Morale was low because our previous technology was on life support; employees were extremely frustrated because they couldn't do their jobs. I was ready to lose staff because of it — clients were jumping down their throats. Technology was the problem; it impacted the business."

### OFFICE 365 LOWERS TOTAL COST OF OWNERSHIP WHILE IMPROVING MOBILE AND IT WORKER PRODUCTIVITY

Our interviews with four customers, survey responses from 204 small and medium-sized businesses (SMBs) that have Office 365 deployed, and subsequent financial analysis found that a composite organization with 90 employees and 35 user licenses experienced the risk-adjusted ROI and benefits shown in Figure 1.<sup>1</sup> See Appendix A for a description of the composite organization.

**Microsoft Office 365 provided immediate relief to the technology growing pains of small and midsize businesses while increasing productivity and satisfaction of its mobile workforce and reducing technology costs.**

**The key benefits of Office 365 include:**

- **Increased mobile worker productivity, totaling \$76,000 over three years.**
- **Over \$40,000 in avoided hardware upgrades and software costs.**
- **A 19% reduction in third-party software and services costs.**

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

## Summary Of Benefits

Through interviews, surveys, and data aggregation, Forrester concluded that Office 365 has the following financial impact on an organization with one to 250 users:



**ROI**  
**154%**



**Payback**  
**5.1 months**



**NPV**  
**\$103,651**

More importantly, the TEI study looked at benefits and related costs across five areas:

### Net Present Value THREE-YEAR ANALYSIS

**Benefits:**  
**\$170,816**

**Costs:**  
**\$67,164**



**Technology**



**\$89,789**

In hardware, software, and IT labor savings



**Mobility**



**\$76,098**

In worker efficiency with anytime access



**Control & Compliance**



**\$4,929**

In lower compliance costs



**Business Intelligence**

**17%**

Decrease in time-to-decision since implementing Office 365



**Enterprise Social**

**\$9K**

Average reduction in webconferencing and long-distance phone charges due to Office 365

Source: Forrester Research, Inc.

FIGURE 2

Microsoft Office 365 Benefit Pillars



Source: Forrester Research, Inc.

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

- **Technology:**
  - **Improved business continuity, avoiding lost billable hours of \$15,000 annually.** The composite organization works on projects that are scoped and billed at an hourly project rate. The organization is made up, in part, of consulting professionals who work on the client site and have billable hours that are lost when business stops. With Office 365, the organization is able to recognize what would have been lost revenue because business is not disrupted by the usual backend infrastructure and network issues. Said one founder of a consulting services company: “In the days when we had a server-based solution, if we went down, we went down. Whereas now, if we go down, it’s got nothing to do with Office 365 and it’s got nothing to do with our hardware. The only downtime is when the Internet is disrupted, and then we can tether to our phones.”
  - **An avoidance of \$18,000 of hardware upgrades, including a server and laptops.** Customers reported that Microsoft 365 helped them institute a bring-your-own-device (BYOD) policy that enabled them to upgrade fewer laptops annually. This was in part due to some employees using their own hardware and because Office 365 works with older laptops because the productivity tools are in the cloud and do not need to be compatible with the computer on which they run. Furthermore, customers could avoid having to upgrade their office server

because they moved to a cloud-only solution. Said one director of IT of an SMB power company: “People bring their own devices — user preference dictates what they want, and they have some pretty strong biases. We have a mixture of Macs and PCs, and not all of the PCs are the same brand. And there are Apple, iPhone, and Android users. I’m comfortable with it because Microsoft has a good reputation of making sure things are going to work.”

- **An elimination of \$8,100 of third-party software and services annually.** Most small and midsize businesses grow up with a patchwork of third-party software — both on-premises and web-based — and a combination of license agreements from point solution providers. With Office 365, they could combine all of their licenses into one and access even more functionality than before while saving costs. Said one founder of a consulting company: “We had a corporate file sharing account that we used to drop documents into and then people would pick them up at the other end. Some individuals also had consumer file sharing accounts. Now with SharePoint and OneDrive, we don’t need to use either of those tools.”
- **A reduction in IT support effort of 19%.** Typically, IT support responsibilities in SMBs defaulted to either a founder who has a technical bent or a lone IT staff person. In both cases, their job duties span many areas of the business and don’t just include supporting and maintaining the productivity suite. Because Office 365 is a cloud product and most SMBs choose to employ a partner to oversee its implementation and ongoing management, they can reduce their IT support effort.
- **Mobility:**
  - **Increased mobile worker productivity, saving 45 hours per mobile worker.** The average mobile worker saved about 15 minutes a day while on the road accessing, sharing, and synching files. This had an impact especially for the sales and consulting professionals who needed to construct proposals for their customers. Said one SMB consulting company owner: “The productivity gain is the main thing for me with Office 365. It’s allowed everybody to be more productive, and if there is any element of downtime on hardware, it’s just a case of moving into another location, whether it’d be the next desk, office, or Starbucks.”
  - **A new definition of “office desk,” meaning anywhere in the world that has a coffee shop or cell service.** Several customers commented on the ability to stay productive while on the road, whether at a remote location, at the client site, and anywhere in between. Because they can access Office 365 on up to six devices, they are able to stay productive regardless of their physical location. Furthermore, the “presence indicator” follows them wherever they go, keeping them connected and reachable by co-workers and customers as they travel. Said one director of IT: “We like the fact that Skype for Business ties its unified messaging right into Outlook and gives you the presence indicator. So right now, while I’m talking to you, my presence indicator says that I’m busy for everyone else. Or, if they want to IM or send me an email, or come and stop by, they know I’m in a meeting right now. That happens whenever I’m on the phone — it updates my present status automatically.”
- **Control and compliance:**
  - **A reduction in security, risk, and compliance costs of \$4,929 over three years.** SMB customers typically begin without a significant need or concern to protect their data or comply with certain policies. However, as they grow, these holes in security can quickly begin to undermine their successful growth. They value the security and reliability of the Microsoft brand and avoid a few thousand dollars per year of data breach and compliance costs. Said one Microsoft partner: “SMBs are looking for data and document storage to speed up the business [and] be more productive and efficient. They don’t want it on a local server; they want it backed up and copied offsite, looked after by Microsoft. They want a new network design and want to commit and embrace the cloud for business continuity and work collaboration.”

- **Business intelligence:**

- **A reduction in time spent on decision-making by 17%.** This was primarily due to the customers' use of SharePoint to store, manage, and update critical organizational documents in a reliable, central location with appropriate permissions. This included HR documentation, profit/loss analysis reports, inventory management spreadsheets, and official sales and contract materials. One founder of an SMB retail company commented on the use of SharePoint for inventory management: "We use SharePoint to store, track, and manage our inventory Excel sheets on a weekly basis. When managers come in on Sundays, the first thing they do is go into SharePoint." Said one survey respondent and customer of Office 365: "We are able to turn around quotes and pricing for our clients much faster than previously. In addition, should variables change, we can furnish the customer with a more accurate estimate."

- **Real-time communication:**

- **Improved collaboration while partitioning sensitive information.** Customers cited Office 365's integrated communication platform — with voice, IM, and video integrated — as a key enhancement of their collaboration and culture. One customer reported, "The virtual meetings and seamless sharing help people stay up to date, if they were in a meeting or not." Another commented, "Data, meeting, email, and chat are all in one place, which brings the groups literally closer." Furthermore, SharePoint enables file sharing, version control, and automatic updates, but with access control that enables small business owners to partition information effectively. This is especially helpful when working closely with clients and outside consultants, which many SMBs do. Said one director of IT: "We have consulting partners who sell for us. We don't necessarily want them to see everything, so we silo their information and that can be done with the SharePoint infrastructure."

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

- **Software licensing fees of \$12.50 for Business Premium licenses.** These are monthly recurring fees paid to Microsoft or a partner for access to Office 365.
- **Ongoing cloud management costs of about \$10,000 per year.** These are annual recurring fees paid to a Microsoft partner for ongoing support for the Microsoft 365 cloud environment.
- **Internal implementation labor of about \$17,000 upfront.** These include internal costs to set up licenses, train employees, and plan for the deployment of the SharePoint environment with the Microsoft partner.
- **Initial setup costs of around \$9,000.** These costs include the one-time consulting fee paid to the Microsoft partner to set up SharePoint, data migration of email and files, and an on-premises server for synching logins to the cloud.

## 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 Office 365.
- › Microsoft reviewed and provided feedback to Forrester, but Forrester maintains editorial control over the study and its findings and does not accept changes to the study that contradict Forrester's findings or obscure the meaning of the study.
- › Microsoft provided the customer names for the interviews but did not participate in the interviews.

## TEI Framework And Methodology

### INTRODUCTION

From the information provided in the interviews, Forrester has constructed a Total Economic Impact (TEI) framework for those organizations considering implementing Microsoft Office 365. 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 Office 365 can have on an organization (see Figure 2). Specifically, we:

- › Interviewed Microsoft marketing, sales, partner, and consulting personnel, along with Forrester analysts, to gather data relative to Office 365 and the marketplace for Office 365.
- › Interviewed four organizations currently using Microsoft Office 365 to obtain data with respect to costs, benefits, and risks.
- › Surveyed 204 organizations online that currently use Microsoft Office 365 and have one to 250 licenses to obtain data with respect to costs, benefits, and risks.
- › Designed a composite organization based on characteristics of the interviewed organizations (see Appendix A). 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 Office 365'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 B for additional information on the TEI methodology.

**FIGURE 3**  
TEI Approach



Source: Forrester Research, Inc.



## Analysis

### COMPOSITE ORGANIZATION

For this study, Forrester surveyed 204 Microsoft customers and conducted a total of four interviews with representatives from the following companies, which are Microsoft customers based in the US:

- › A retail food and beverage company based in Southern California with three store locations. The company has 90 employees total and 12 Office 365 licenses. Those licenses are used primarily by corporate office employees and store managers. Prior to O365, the organization struggled with proper version control of important documents, providing the right level of access to sensitive company information, and finding a productivity tool interface that was familiar and enjoyable for employees and partners to use.
- › A power company based in Illinois with 20 employees and 15 Office 365 licenses for its knowledge workers and consultants. It also has five outside consultants who have a limited license that provides them with a corporate email address. This organization was seeking a zero-footprint, cloud-only solution that could reduce time and money spent on infrastructure for telephony and productivity tools.
- › A landscaping services company with two offices and 100 employees based in Oregon. The company has 31 Office 365 licenses; 80% are used by managers and 20% have limited access for production-focused employees who only need corporate email addresses. This organization was looking to increase productivity and employee morale by replacing an outdated on-premises solution with a cloud-based option.
- › Asia's largest independent ship broking and marine consultancy, with 35 Office 365 licenses for all employees in the organization. This organization was seeking the reliability, security, and disaster recovery protections that a suite hosted by Microsoft could provide. It also valued the ability to work on documents simultaneously because its employees are all sales and consulting professionals, many working on-site across the globe.

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 small, privately held services business with two office locations.
- › This business has about 80 employees, 35 of whom represent the corporate office workers and management team who have Office 365 licenses. Five of those licenses are less expensive, limited-access licenses that provide a corporate email address for partners and consultants.
- › The employees of this organization travel frequently for their work, both between office locations (roughly 2 hours of travel total) and to client sites, which are located across the globe.

---

*“We had a patchwork of programs and software prior to Office 365. Morale was low because our previous technology was on life support; employees were extremely frustrated because they couldn’t do their jobs. I was ready to lose staff because of it – clients were jumping down their throats. Technology was the problem; it impacted the business.”*

~ VP, landscaping services company

---

- › The business has limited resources dedicated to IT; often the business owner had to step in to provide support for employees to troubleshoot issues.

After struggling to support the needs of a growing office with its combination of on-premises servers, email, file servers, and third-party cloud file sharing and collaboration tools, the composite organization decided to consolidate into one trusted vendor, Microsoft. It chose a Microsoft partner to help it deploy Office 365:

- › The first phase of the implementation was working with a Microsoft partner to scope and analyze the organization's project needs. For example, they discussed how much data and files needed to be transferred, the use of SharePoint for document management, and permissions of the users of Office 365.
- › The next phase focused on purchasing and setting up licenses for its 36 users.
- › The third phase entailed data migration from existing email and file storage systems to OneDrive, SharePoint, and Exchange Online.
- › The fourth phase was "go live" with associated training and help desk support. The composite organization decided to run the two systems in parallel for one week before relying on Office 365.
- › Finally, the business owner spent about three additional months working with the partner to define the requirements and design of SharePoint for maximum use. Because this effort was dependent on process redesign, it was important for the business owner to spend the time and resources to design it for maximum impact.

---

*"We're building the company on a cloud-based strategy with zero footprint. Everything is out in the cloud. We have no email servers, no domain servers, and no IT infrastructure other than networking equipment to run local area networks and Wi-Fi and a high-speed connection out to the Internet. Given that as our core strategy, we selected Office 365."*

~ Director of IT, power company

---

## INTERVIEW HIGHLIGHTS

The decision to implement Office 365 was a culmination of what most SMBs experience at some point: growing pains.

### *Situation*

The composite organization started as a small, privately owned business with two co-founders. For the first few years of the company's existence, it didn't need to worry about investing in a robust productivity solution — an old version of Microsoft Office and a cell phone were all it needed to get work done. Fortunately, the organization grew and so did its client load, project volume, and employee base. Because one of the co-founders used to do some networking and tech support in college, he decided to set up a server for employees to access files and email. For the first year or so, it was sufficient, but then the server started slowing down, and employees could not access documents quickly while out of the office. They also could not share documents easily or make edits and updates without first VPN-ing (something they hated); waiting minutes to access files; downloading them; and uploading them back later with changes (if they could remember to). Collaboration with other teammates was suffering as they tried to organize conference calls or meet in person a few times a week. With two locations situated about an hour apart, this travel time for meetings was wearing down the managers' limited times and wallets.

- › The founders of the business decided to adopt a cloud-first approach to lower their operational costs, reduce their need to support an outdated infrastructure, combine several point solutions into one vendor, and worry only about the speed of their Internet connection as the most critical IT issue. Even so, they knew that employees could rely on Wi-Fi networks, mobile phone tethering, and other mobility options in the event of an Internet outage.
- › They wanted to “legitimize” the business by using robust productivity tools with an interface and brand they know and trust. Furthermore, they knew that their partners and customers would be familiar with these tools and could easily understand their interface; this wasn’t true when they were using consumer-based tools. Instead of having to invest time and money keeping all employees current on the latest software, they wanted updates pushed to them through the cloud.
- › The founders realized that their employees — many sales, consulting, and implementation experts — needed a mobile productivity solution that could travel with them, helping them stay focused and productive while traveling the globe. Especially desirable about Office 365’s solution was its integration of communication tools — email, IM, voice, and video — with a user’s “presence” or status of being busy, out of the office, or available. The seamless connection between these areas was a big driver in selecting Microsoft 365.
- › The flexibility of a cloud-based license arrangement was also an attractive option for the small business owner who prefers to avoid large capital costs, such as bulk license purchases, in favor of paying monthly subscription costs for users. In this way, the organization can add and remove users monthly. Extending the value of those licenses beyond one computer was also seen as a huge benefit. Office 365 enables users to add the software on up to six devices and commission/decommission those devices when the user wishes.
- › Because the organization was growing at a steady pace in its two office locations, hiring and onboarding new employees became a more resource-intensive and critical business process that could be alleviated immensely by Office 365. With Skype for Business, the founder could interview candidates by video instead of paying for them to travel. Once hired, new employees could get immediate access to all file, email, and document history that would be relevant for them.
- › When the company was just a startup, the founders and its employees could collaborate by sitting across from each other and discussing key business decisions. With a growing workforce spread over two offices, they needed a way to continue that collaborative spirit without spending too much time on the road. Improved collaboration tools — such as Skype for Business, SharePoint, and OneDrive — were seen as ways to bring employees closer together despite their increasing distance.

#### Solution

The composite organization chose Office 365 because it could immediately relieve its growing pains, enabling it to scale the business and provide its staff with high-quality productivity tools without having to add infrastructure, IT resources, or licenses from different vendors, all for a lower total cost of ownership.

#### Results

The interview revealed that:

- › **The productivity of employees — especially the mobile workforce — improved dramatically.** The most significant benefit experienced by the organization’s employees was the ability to speed the completion of their daily tasks, such as accessing and uploading documents. In particular, this sped up

---

*“Mobility was one of our main goals when we started with Office 365. Being able to access different programs from our computer at work, on our phone, on our iPad, on our computer at home really makes it seamless when we’re trying to get work done.”*

~ Co-founder, landscaping services provider

---

the sales cycle and the completion of consulting projects. Furthermore, the previous downtime that the organization experienced in the past — about 2 hours per quarter — no longer robbed it of billable hours. In the past, employees could do no work when the system went down; now they could move desks, tether to their smartphones, or relocate to a nearby coffee shop with Wi-Fi, all the while remaining productive.

- › **The composite organization saw an immediate cost reduction and relief from technology hardware and support costs.** The co-founder of the organization was spending too many hours — sometimes 10 hours a week — managing technical, training, and onboarding issues. This was strategic, valuable time that was better focused on growing the business and spending time with clients and the management team. The co-founder could avoid upgrading an on-premises server, consolidate all productivity tool licenses into one, and spend less time overall on technology issues by implementing Office 365. One founder of a food and beverage company said: “There’s so much value added to Office 365 that it attracted me right away. It has so much more than its competitors that it wasn’t an apples-to-apples comparison. I hit my limit and needed to go this route.”
- › **Office 365 is a comprehensive, familiar solution that allows access to everything with a single sign-on.** The familiarity and ubiquity of Microsoft Office made the transition to Office 365 an easy (and obvious) choice for the organization. Although they had experience with consumer-based file sharing and collaboration tools, they required multiple logins and had user interfaces that were different. Furthermore, the co-founder discovered that sensitive documents were being accessed or changed accidentally because of the lack of workflow and permissions in those consumer tools. Said the founder of one food and beverage SMB: “We played around with other vendors’ tools and their workflow was very limited, and it was a different file system that required exporting. It didn’t really provide the functionality or familiarity that people were looking for. People are familiar with Word and Excel.”
- › **The organization had ongoing access to the latest enhancements and upgrades.** The immediate relief of moving to the cloud was the result of switching to Office 365 for existing tools, such as the Office suite. However, the co-founder was pleased about the opportunity to get continual updates to the software since the solution is delivered in a SaaS manner. Furthermore, the additional productivity and collaboration tools provided with the license — Yammer, Delve, and Sway — offer functionality that the founder can anticipate using in the future as his organization grows. Said one co-founder of an SMB: “We’ve got a few people using Delve, and I see that being beneficial companywide. I like that Microsoft is constantly evolving Office 365.”
- › **Employee collaboration and morale improved dramatically.** The employees of the composite organization had reached frustration levels that were threatening their productivity and loyalty to the company. The younger employees had adopted many different consumer-based tools and apps that were also hurting productivity. In addition to communicating with colleagues, they used social tools for IM and networking friends, and the business had no way to control it. Once Office 365 was implemented, the younger employees were pleased with the social elements of the tools, the mobile employees were thrilled with the file sharing and collaboration capabilities, and the founders were boosted by a workforce invigorated by productivity tools they were familiar with but beyond even what they expected. Said one co-founder of a landscaping services company: “Office 365 helps with the morale of our team. Being able to see each other and hear each other with Skype for Business — you can’t put a dollar figure on it, but it helps morale.” Another pointed to the legitimacy that it brings them: “It legitimizes your business. Now we’re more big-time players. The employers have more sense of pride being involved with something a little bit bigger than before.”

## BENEFITS

The composite organization experienced a number of quantified benefits in this case study that align to each of the Microsoft benefit pillars:

- › Technology.
- › Mobility.
- › Control and compliance.
- › Business intelligence.
- › Enterprise social.

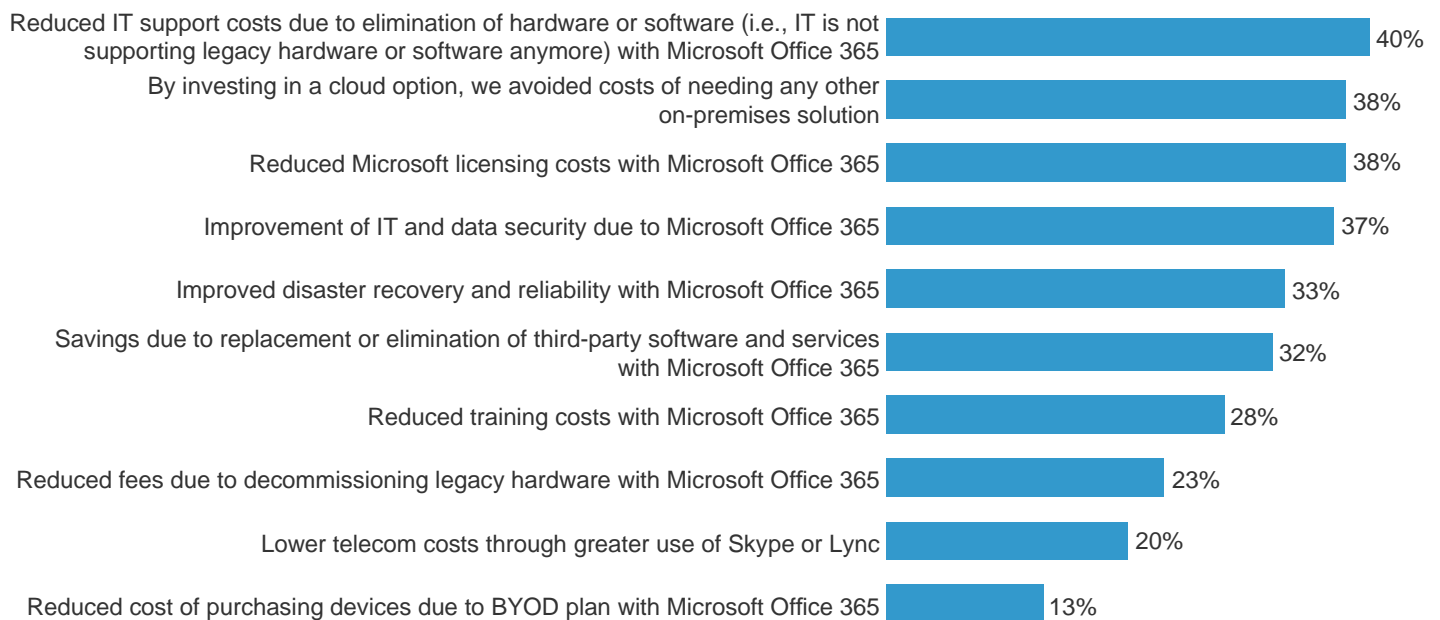
For each of these pillars, the interviewed companies and online survey respondents spoke to multiple benefits. In each area, Forrester quantified the benefits that had the most impact for small and midsize businesses and included them in the ROI analysis component of this study. Benefits that could not be quantified or were very small in scale for SMBs were excluded from the ROI analysis but are discussed in each area, and relevant online survey results are presented.

## Technology

The technology pillar includes many infrastructure- and IT operations-related benefits. In addition, it highlights how the improvement in technology reliability inherent in the Microsoft Office 365 cloud-based solution prevents business disruption that robs a small company of vital revenue-generating activities. Figure 4 shows areas in which the online survey respondents expected to realize technology pillar benefits.

**FIGURE 4**  
**Technology Benefits**

**“Which of the following benefit areas has your organization received/do you expect your organization to receive from your investment in Microsoft Office 365?” (Select all that apply)**



Base: 204 North American and UK organizations that currently use Office 365 products

Source: Forrester Research



### Improved Business Continuity

The composite organization indicated that a key benefit from the Office 365 implementation was business reliability and continuity for critical workers, especially those revenue-generating sales and consulting professionals. Prior to Office 365, the composite organization had a slow on-premises server that was jokingly called “the heater in the corner.” One organization’s restroom doubled as a server room. If the company experienced network, Internet, or software issues, business stopped completely. One business owner cited the new, mobile generation of workers as being completely paralyzed by losing access to their email and files. While in the past, workers would have picked up the phone or a paper and pen to continue working, today’s young professionals are more likely to turn to their smartphone for entertainment while waiting out a network issue. He said: “We charge like lawyers charge — by the hour. So if I have 20 employees and they go down for 2 hours, then you can map out that impact.” In comparison, the Microsoft solution has significant benefits for keeping the business running. Said one IT director: “Office 365 is hugely redundant; I don’t have to have a way to move everything to a disaster recovery location. Our disaster recovery location could be the nearest coffee shop.”

The roughly 2 hours per month when the organization experienced a network outage cost it about \$16,000 per year in lost revenue opportunity from sales and consulting professionals. Furthermore, the organization relied heavily on past deliverables and emails as a means of creating new ones, and the lack of reliability in terms of speed of accessing those files and old emails hindered its productivity. As a result, the composite organization could not weather a network outage without losing direct revenue, and with a small organization, every hour and dollar count since it has less of a financial cushion than larger organizations. At an average of 2 hours of network downtime per quarter and 20 revenue-generating and billable employees who earn \$200 per hour for the company, the total benefit resulting from improved business continuity over the three years was \$39,790, or about \$1,989 per user.

Interviewed organizations varied in terms of the sensitivity of their location to network and Internet outages, their level of backup and recovery preparedness, and the hourly billable or revenue generation rate for their employees. To compensate, this benefit was risk-adjusted and reduced by 5%. The risk-adjusted total benefit resulting from improved business continuity over the three years was \$37,800 present value, or about \$1,890 per user. See the section on Risks for more detail.

**TABLE 1**  
**Improved Business Continuity**

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
A1	Hours of downtime per quarter — before Office 265	B1*4		2	2	2
A2	Billable cost per hour			\$200	\$200	\$200
A3	Number of billable employees			20	20	20
A4	Percent of benefit realized			50%	50%	50%
At	Improved business continuity	A1*A2*A3*A4	\$0	\$16,000	\$16,000	\$16,000
	Risk adjustment	↓ 5%				
<b>Atr</b>	<b>Improved business continuity (risk-adjusted)</b>		<b>\$0</b>	<b>\$15,200</b>	<b>\$15,200</b>	<b>\$15,200</b>

Source: Forrester Research, Inc.



### Avoided Hardware Upgrades

The composite organization indicated that a key benefit from the Office 365 implementation was that it could avoid upgrading the file and email server because Microsoft's cloud offering would replace its infrastructure. It could instead use less-expensive server synch logins for the cloud and allow Microsoft's solution to do the rest. This was a timely and critical decision because several customers described their servers as being on "life support" and needing a complete overhaul. In fact, the need to upgrade the server often led to the decision to seek an alternative cloud solution. Furthermore, several of the company's employees were awaiting new laptops because they were on a refresh cycle. Still, more couldn't use their personal devices to access corporate files and email because their hardware was not compatible with the company's. As a result, the company was facing about \$18,000 of hardware costs in comparison with the Office 365 license fees that would provide infrastructure, software, and support for it across multiple personal and corporate devices. After switching to Office 365, the

company felt immediate relief from both the stress of the floundering server, which was slower and more susceptible to crashes every day. Furthermore, the organization could avoid purchasing about five laptops for existing and new employees and, instead, enable them to access Office 365 on their personal computers or existing corporate devices. For many employees, this was seen as a benefit because they preferred their brand and interface of device. The company could allow those devices to be used and not have to worry about upgrading them for every OS change. The total benefit resulting from avoided hardware upgrades over three years was about \$22,000 (net present value).

Because the type of hardware required to fulfill the needs of the business vary by company interviewed, this benefit was risk-adjusted down by 10%. Not every organization will implement a BYOD policy for employees, and they may continue to invest in upgrading hardware on a regular refresh cycle. The risk-adjusted total benefit resulting from avoided hardware upgrades was \$20,624 present value.

**TABLE 2**  
**Avoided Hardware Upgrades**

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
B1	Average cost of server upgrade — hardware			\$10,000		
B2	Cost of server setup — outsourced to partner			\$5,000		
B3	Average cost of laptop upgrade			\$1,000	\$1,000	\$1,000
B4	Number of laptop refreshes annually	Based on assumption of a three-year refresh cycle		5	3	3
Bt	Avoided hardware upgrades	B1+B2+B3	\$0	\$20,000	\$3,000	\$3,000
	Risk adjustment	↓ 10%				
<b>Btr</b>	<b>Avoided hardware upgrades (risk-adjusted)</b>		<b>\$0</b>	<b>\$18,000</b>	<b>\$2,700</b>	<b>\$2,700</b>

Source: Forrester Research, Inc.



### Eliminated Third-Party Software And Services

Like other small businesses, the composite organization had survived its first years by patching together point solutions, such as webconferencing and file synch and share, to get by in fulfilling its collaboration requirements. However, these solutions came at a cost to the organization, and most did not have the appropriate file security and permissions required to protect sensitive corporate information. Furthermore, the webconferencing did not integrate with its file sharing and collaboration tools in the way that Skype for Business and SharePoint intersect. Often, employees were using these tools for both personal and professional reasons. This was hurting their productivity, as they would end up instant messaging with friends outside of the organization. The organization spent many dollars on roaming fees to support its global mobile workers. With Office 365, the composite organization was able to reduce long-distance, roaming, and teleconference solution costs, as users have more scheduled and ad hoc meetings. In addition, the composite organization reduced its overall spend by consolidating the licenses with third-party providers into one fully hosted solution with Microsoft. These third-party software and services expenses totaled about \$9,000 per year and could be reduced quickly with an Office 365



implementation. The total benefit resulting from eliminated third-party software and services over three years was about \$22,382 (net present value).

Not every organization is able to exit its contract with third-party software and services providers easily or quickly, so to compensate for this, the benefit was risk adjusted down by 10%. The risk-adjusted total benefit resulting from eliminated third-party software and services was \$20,144 present value.

**TABLE 3**  
**Eliminated Third-Party Software And Services**

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
C1	Annual cost of eliminated webconferencing and file sync and share solutions			\$3,000	\$3,000	\$3,000
C2	Eliminated long-distance phone charges			\$6,000	\$6,000	\$6,000
Ct	Eliminated third-party software and services	C1+C2+C3	\$0	\$9,000	\$9,000	\$9,000
	Risk adjustment	↓ 10%				
<b>Ctr</b>	<b>Eliminated third-party software and services (risk-adjusted)</b>		<b>\$0</b>	<b>\$8,100</b>	<b>\$8,100</b>	<b>\$8,100</b>

Source: Forrester Research, Inc.



### Reduced IT Support Effort

In the infancy of the composite organization's life, the co-founder was playing the dual role as the company's head of operations and the head of IT support. Other interviewed organizations relied on partners to do this work, but at a significant cost to the organization. The co-founder, or the partner provider, spent upwards of 500 hours per year supporting their technology environment. This time included maintaining and upgrading the technology, troubleshooting employee issues around technology, and training new employees on the use of the technologies. The composite organization indicated that a key benefit from the Office 365 implementation was a 19% reduction in the average number of hours to support the corporate technology stack. This was true whether it was the co-founder or the partner provider, but in both cases the time spent on these issues cost the company money in terms of productivity. It also sidetracked the company owner from more important work, such as setting company strategy, selling new deals, and improving the product. The co-founder of the composite organization estimates that the organization saves \$4,500 per year on IT support and by reducing that workload, it frees up both him and the partner provider to provide more value-add service to the organization. In both cases, it makes for a more profitable arrangement. The total benefit resulting from reduced IT support effort over three years was about \$11,813 (net present value).

Every small and midsize business has a different arrangement for supporting its technology infrastructure — in some cases there is a dedicated IT professional and in others it is just an employee wearing more than one hat. In other organizations, the partner contract may cover all support, no matter the number of incidents. To compensate for these variations, this benefit was risk-adjusted down by 5%. The risk-adjusted total benefit resulting from reduced IT support effort was \$11,222.

**TABLE 4**  
**Reduced IT Support Effort**

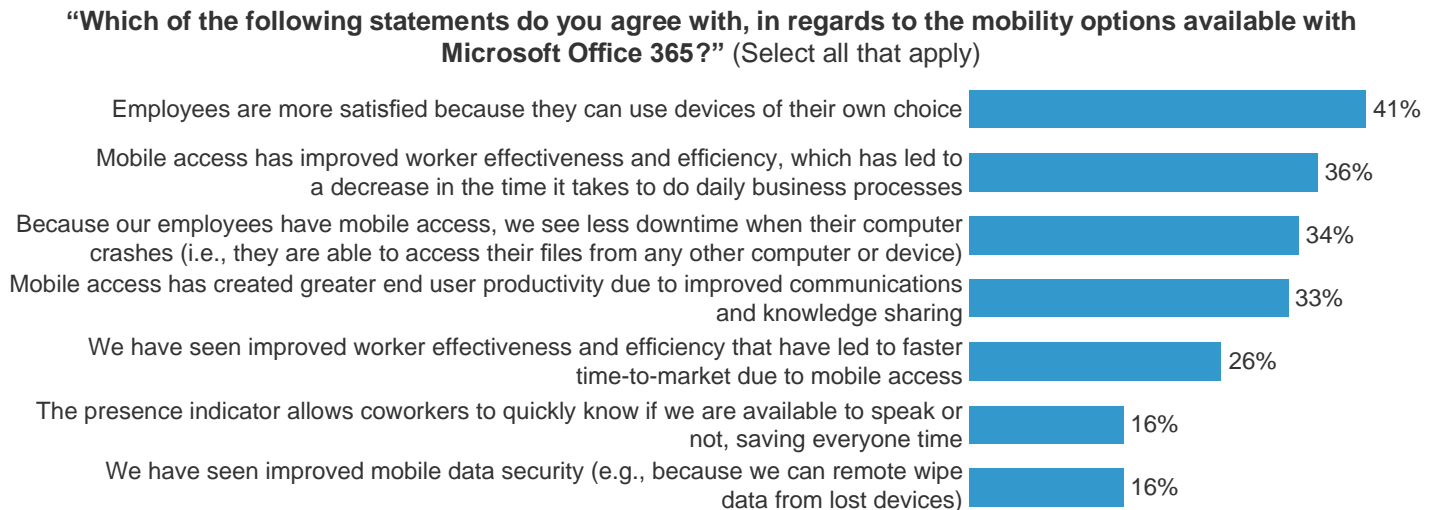
Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
D1	Average number of hours devoted to support — before O365			500	500	500
D2	Average number of hours devoted to support — after O365	Survey respondents reported 19% reduction		405	405	405
D3	Average hourly cost of support staff (either internal or outsourced)	$\$100,000 / (250 \text{ workdays} * 8 \text{ hours a day})$		\$50.00	\$50.00	\$50.00
Dt	Reduced IT support effort	$(D1 - D2) * D3$	\$0	\$4,750	\$4,750	\$4,750
	Risk adjustment	↓ 5%				
<b>Dtr</b>	<b>Reduced IT support effort (risk-adjusted)</b>		<b>\$0</b>	<b>\$4,513</b>	<b>\$4,513</b>	<b>\$4,513</b>

Source: Forrester Research, Inc.

## Mobility

Office 365 provides significant benefits to mobile workers by giving them access to information and colleagues from practically anywhere. Figure 5 shows the Office 365 mobility options that customers indicated brought them the most benefit.

**FIGURE 5**  
**Mobility Options Bring Many Benefits To The Organization**



Base: 204 North American and UK organizations that currently use Office 365 products

Source: Forrester Research, Inc.



### Increased Mobile Worker Productivity

The composite organization indicated that a key benefit from the Office 365 implementation was increased mobile workforce productivity. Prior to Office 365, employees traveling to the client site, between office locations, or on the road selling would have to VPN into their corporate network and wait for a painfully slow file server to access critical documents for sales and consulting. Complicating this further was that many of these documents were collaborative, such as a sales proposals, inventory spreadsheets, or consulting deliverables. The delay in time accessing, downloading, editing, and uploading files was causing them to lose hours of productivity. Managers were spending a great deal of time traveling between office locations because they felt that they could hold better meetings face to face in the absence of an effective collaboration and communications tool. Mobile workers were hindered by the devices they had because their outdated hardware did not always have the latest updates required to use productivity tools. Their personal devices, such as smartphones and tablets, were not useful, except with consumer-facing downloaded apps that were not authorized, organizationwide tools. As a result, the composite organization lost productivity and the quality of deliverables suffered because employees were not using the most up-to-date versions. Furthermore, customers were complaining about delays in receiving proposals and projects, possibly hurting the organization’s brand and opportunity to sell future business to them.

Following the Office 365 implementation, the composite organization saved its mobile workforce over 45 hours in one year of lost productivity, giving them about 15 minutes of time back in their day when they were traveling. This was driven by two things: 1) the cloud-based design of Office 365, enabling them to access their documents from a Web browser and 2) the ability to enable six devices per user with mobile access to productivity tools and apps. An indirect benefit that also resulted, according to customers interviewed, was the improvement in the final

deliverable because the mobile workers were able to access and work collaboratively on the latest branded, approved documents and collateral through SharePoint. In addition, the managers of the company gained 2 hours of productivity weekly because they could supplant driving between two office locations with Skype for Business webconferences. They cited features such as real-time document sharing, instant messaging, and webconferencing as the reason they could now accomplish the same goals through Office 365 that previously would have required face-to-face meetings. In one example, a founder of the company described how his employees could stay productive while on the road: “People on the road will schedule a meeting and use Skype for Business to work on PowerPoint presentations with those in the office. They can look at the documents that they’re talking about and they’re also talking by video. That’s also been very helpful.” As a result, with around 20 mobile workers and five managers able to remain productive while on the road, the composite organization saved 45 trips a year and 45 minutes per day for its mobile workers. At a wage of around \$50 per hour for sales and management professionals, the total benefit resulting from increased mobile worker productivity over the three years was \$89,527 or about \$2,500 per user.

Interviewed organizations were from a broad range of industries with different types of mobile workers — both professional and manual labor. Because their hourly salaries can vary based on the location of the company and type of services it provides, this benefit was risk-adjusted and reduced by 15%. The risk-adjusted total benefit resulting from increased mobile worker productivity over the three years was \$76,098 present value, or about \$2,170 per user. See the section on Risks for more detail.

**TABLE 5**  
**Increased Mobile Worker Productivity**

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
E1	Number of managers traveling weekly for team meetings	5		5	5	5
E2	Lost productivity hours due to travel	2		2	2	2
E3	Number of trips avoided annually due to Skype for Business	1 weekly trip * 45 work weeks		45	45	45
E4	Average hourly manager salary	$\$100,000 / (250 \text{ workdays} * 8 \text{ hours a day})$		\$50	\$50	\$50
E5	Avoided annual travel costs			\$22,500	\$22,500	\$22,500
E6	Number of mobile workers			20	20	20
E7	Number of days on the road	4 days * 45 weeks		180	180	180
E8	Hours saved per user day on the road accessing and sharing documents			0.25	0.25	0.25
E9	Hours saved per user year accessing and sharing documents	$E7 * E8$		45	45	45
E10	Average hourly sales or consulting salary	$\$110,000 / (250 \text{ workdays} * 8 \text{ hours a day})$		\$55	\$55	\$55
E11	Productivity potential lost	$E6 * E9 * E10$		\$49,500	\$49,500	\$49,500
E12	Percent of benefit realized	50%		50%	50%	50%
Et	Increased mobile worker productivity	$(E5 + E11) * E12$	\$0	\$36,000	\$36,000	\$36,000
	Risk adjustment	↓ 15%				
<b>Etr</b>	<b>Increased mobile worker productivity (risk-adjusted)</b>		<b>\$0</b>	<b>\$30,600</b>	<b>\$30,600</b>	<b>\$30,600</b>

Source: Forrester Research, Inc.

### Control And Compliance

Control and compliance includes regulatory compliance, eDiscovery, audit, policy management, and other similar activities. Figure 6 shows the top compliance and security benefits that organizations reported experiencing from using Office 365.

**FIGURE 6**  
**Compliance And Security Benefits Experienced With Office 365**

**“Looking at the following statements about control and compliance, which do you agree your organization has seen from your investment in Microsoft Office 365?”**  
(Select all that apply)



Base: 204 North American and UK organizations that currently use Office 365 products

Source: Forrester Research, Inc.



### Lowered Security, Risk, And Compliance Costs

Although not the largest financial impact to an SMB, the lowered security, risk, and compliance costs (and headache) provided by Office 365 provided a major benefit to the composite organization. This benefit will become even more valuable as the business grows. Customers surveyed reported that the ease of managing policies across devices with Office 365 is the most impactful control and compliance benefit. They also reported that their time spent in eDiscovery was reduced by an average of 15%. The primary drivers of the financial benefit were an 18% reduction in compliance costs after the implementation of Office 365 and the reduction of data breaches. Prior to Office 365, the organization experienced about 15 data breaches per year. After Office 365, it dropped to only one per year, resulting in \$1,400 in savings per year. Added with the roughly \$500 of compliance cost savings, the composite organization saved around \$5,000 over three years with the Office 365 implementation. The total benefit resulting from lowered security, risk, and compliance costs over three years was about \$4,929 (present value).

**TABLE 6**  
**Lowered Security, Risk, And Compliance Costs**

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
F1	Compliance costs — before Office 365			\$3,094	\$3,094	\$3,094

F2	Compliance costs — after Office 365	Reduced by 18% Source: Office 365 survey respondents		\$2,537.08	\$2,537.08	\$2,537.08
F3	Average cost of data breaches — before Office 365	15 data breaches		\$1,825	\$1,825	\$1,825
F4	Average cost of data breaches — after Office 365	1 data breach		\$400	\$400	\$400
Ft	Lowered security, risk, and compliance costs	(F1-F2)+(F3-F4)	\$0	\$1,981.92	\$1,981.92	\$1,981.92
	Risk adjustment	0%				
<b>Ftr</b>	<b>Lowered security, risk, and compliance costs (risk-adjusted)</b>		<b>\$0</b>	<b>\$1,982</b>	<b>\$1,982</b>	<b>\$1,982</b>

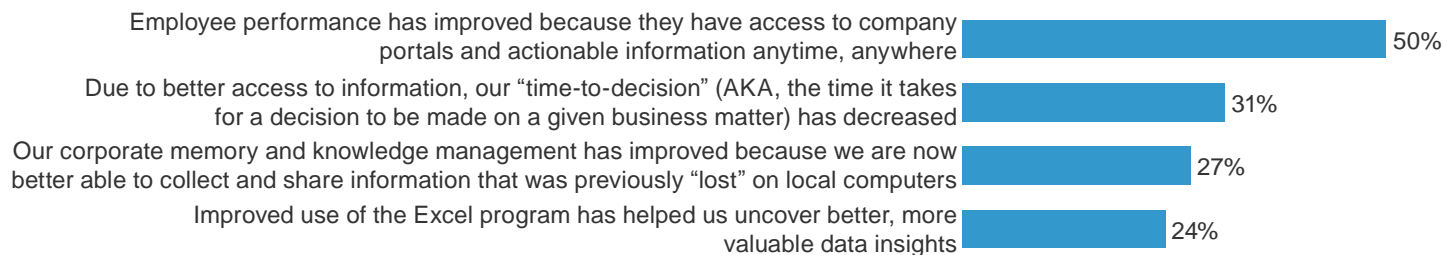
Source: Forrester Research, Inc.

## Business Intelligence

The importance of business intelligence and the value of data within an organization have become more important in the past several years. Companies large and small realize that the access to historical and current information — properly versioned and synched — can translate to better decision-making. Small and midsize businesses may benefit especially because their inventory and sales transactions are low enough in volume that small changes can make a big difference in overall business performance. The surveyed companies were asked which business intelligence-related benefits they have realized, and the results are summarized in Figure 7. Respondents also said that, on average, Office 365 has led to a 17% decrease in time-to-decision.

**FIGURE 7**  
**Business Intelligence Benefits**

**“Looking at the following statements about business intelligence, which do you agree your organization has seen from your investment in Microsoft Office 365?”**  
(Select all that apply)



Base: 204 North American and UK organizations that currently use Office 365 products

Source: Forrester Research, Inc.

Interviewed companies described how the elimination of multiple repositories and the ability to find current and historical information more quickly has resulted in demonstrable benefits. Interviewees told us:

- › “We store our inventory Excel sheets in SharePoint. It’s how we track and manage inventory we’re ordering and how much we’re using on a weekly basis. Managers compare to historical information and figure out what they need to order for the

current week. Our warehouse people will then get a notification that a file has been added and they'll go in there and pull that information and create the invoices based off of the information.”

- › “The delay in retrieving information and then using it to make decisions has decreased and has allowed for improved and faster communication between our employees.”
- › “For upper management, we have an executive section in SharePoint where we keep our legal documents, our contracts, our cost of goods sold information, confidential recipes for products that we're currently selling, and for ongoing research and development of new products.”
- › “When an issue comes up, users can quickly react to them because they have access to the data 24x7 and can respond quickly and efficiently on any device.”

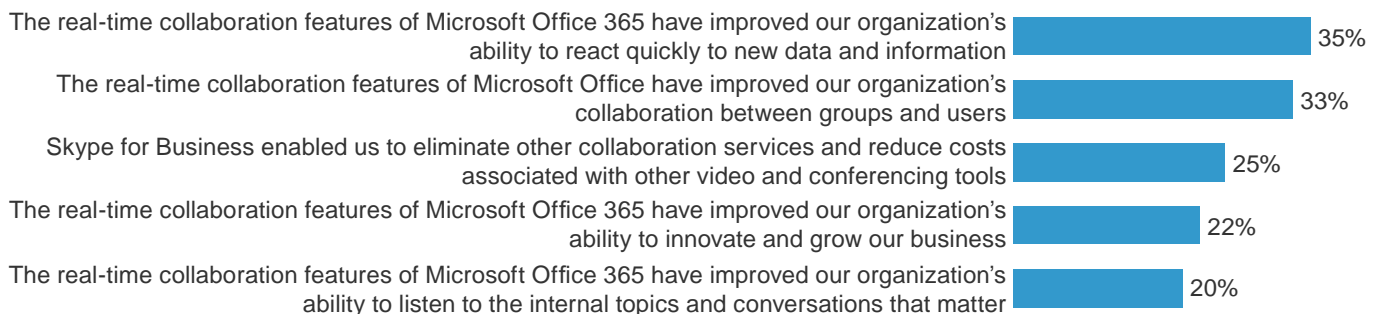
#### Enterprise Social

As small and midsize businesses grow, they begin to lose the call-across-the-room collaboration that they relish from the early days of their businesses. But as they grow to multiple locations and their sales staff expands beyond the region, serving clients located dozens or thousands of miles away, collaboration tools become essential. A major component of Office 365 is enabling social interactions to improve knowledge sharing, collaboration, and productivity from any device. Figure 8 shows that online survey respondents realized a number of benefits from various Office 365 social components included in the solutions.

#### FIGURE 8

##### Enterprise Social Results Capabilities Deliver Greater Collaboration

**“Which of the following statements do you agree with, in regards to the enterprise social networking and collaboration options available with Microsoft Office 365?”**  
(Select all that apply)



Base: 204 North American and UK organizations that currently use Office 365 products

Source: Forrester Research, Inc.

The interviewed companies shared the many ways that the social and collaboration features of Office 365 improve their workplace and company performance. For example, one organization we spoke with was made up of sales and consulting professionals who were either creating sales quotes or consulting deliverables while in the field with clients. These clients were dispersed globally as were the consultants, but they could all access SharePoint and Lync while in the field to access documents and work collaboratively. This collaboration leads to greater creativity, speed, and accuracy behind documents, whether they are sales proposals, consulting deliverables, or new product designs.



One important benefit of the real-time collaboration features of Office is the way employees can use it to innovate and grow the business. Below are some highlights reported by survey respondents of ways that innovation happens quickly and collaboratively:

- › “We’ve got a site in SharePoint that is broken down alphabetically by clients. Everybody understands where stuff needs to be stored, and they upload documents and information. It’s really easy for me to share a folder document with an outside source, and when we make updates on it they can see it. It’s pretty, pretty powerful.”
- › “Users can jot down their ideas on any device and share it with their colleagues 24x7.”
- › “We have product design people in Africa and managers in the US who can work together in real time to innovate faster.”
- › “We’re quicker to respond to new projects, and new data can be shared quicker among the team. It gives us greater efficiency all-round.”

Companies interviewed also mentioned the improvements in employee morale and company culture as a result of the Office 365 investment:

- › “We have employees in multiple countries so collaborating over Skype is often the only verbal integration the employees have with each other.”
- › “Collaboration with each other helps unify associates and clients.”
- › “Data, meeting, email, and chat are all in one place, [which] brings the groups literally closer.”
- › “Before Office 365, morale was quite low because our technology was on life support. Now being able to see each other and hear each other — you can’t really put a dollar figure on it, but it does help morale.”

### Total Benefits

Table 7 shows the total of all benefits across the six 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 \$170,000, or \$4,857 per user.

**TABLE 7**  
**Total Benefits (Risk-Adjusted)**

Ref.	Benefit	Initial	Year 1	Year 2	Year 3	Total	Present Value
Atr	Increased mobile worker productivity	\$0	\$30,600	\$30,600	\$30,600	\$91,800	\$76,098
Btr	Improved business continuity	\$0	\$15,200	\$15,200	\$15,200	\$45,600	\$37,800
Ctr	Avoided hardware upgrades	\$0	\$18,000	\$2,700	\$2,700	\$23,400	\$20,624
Dtr	Eliminated third-party software and services	\$0	\$8,100	\$8,100	\$8,100	\$24,300	\$20,144
Etr	Reduced IT support effort	\$0	\$4,513	\$4,513	\$4,513	\$13,538	\$11,222
Ftr	Lowered security, risk, and compliance costs	\$0	\$1,982	\$1,982	\$1,982	\$5,946	\$4,929
	<b>Total benefits (risk-adjusted)</b>	<b>\$0</b>	<b>\$78,394</b>	<b>\$63,094</b>	<b>\$63,094</b>	<b>\$204,583</b>	<b>\$170,816</b>

Source: Forrester Research, Inc.

## COSTS

The composite organization experienced a number of costs associated with the Office 365 solution:

- › Software licensing fees.
- › Ongoing cloud maintenance and management costs.
- › Internal implementation effort.
- › Initial setup costs.

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 Licensing Fees

Software licensing fees for Office 365 are monthly recurring per-user license fees paid to a partner or directly to Microsoft. For small and midsize businesses, there are different license types that range in price and access to features. The composite organization chose to implement the Business Premium edition for its management team and sales/consulting professionals at a cost of \$12.50 per user per month. For these mobile, revenue-generating employees, the organization wanted to give them maximum access to Microsoft's productivity tools, including the latest full Office, integrated collaboration services, and compliance features. The organization also has a small number of outside contractors and partners who need access to a limited amount of features, primarily email. For these employees, the co-founder chose to purchase five Business Essential licenses at a recurring monthly cost of \$5 per month. The co-founder expects that the company will grow over three years, adding five more licenses in years 2 and 3. The composite organization incurred software licensing fees for the Office suite, the ability to install it on five devices per user, email and calendars, online conferencing and instant messaging, file storage and sharing, team sites, collaboration tools, and digital storytelling. All of these capabilities are available through the reliable, secure Microsoft network with access to support and administration tools that reduce time spent by internal employees. License fees totaled \$14,382 present value over three years.

**TABLE 8**  
**Software Licensing Fees**

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
G1	Number of Office 365 Business Premium users			30	35	40
G2	Monthly cost of Office 365 Business Premium licenses			\$12.50	\$12.50	\$12.50
G3	Number of Office 365 Business Essentials users			5	10	15
G4	Monthly cost of Office 365 Business Essentials licenses			\$5	\$5	\$5
Gt	Software license fees	$(G1*G2)+(G3*G4)*12$	\$0	\$4,800	\$5,850	\$6,900
	Risk adjustment	0%				
<b>Gtr</b>	<b>Software license fees (risk-adjusted)</b>		<b>\$0</b>	<b>\$4,800</b>	<b>\$5,850</b>	<b>\$6,900</b>

Source: Forrester Research, Inc.



### Annual Cloud Management Costs — Internal Or Partner

Most SMB organizations choose to work with a Microsoft partner to implement and support their Microsoft O365 license. This is especially true when they do not have IT resources to devote to the ongoing maintenance, management, and training around their technology. However, some may have an IT resource who can devote half of their workload to supporting the implementation. While this workload decreases with the switch from an on-premises solution to Office 365, it still requires ongoing support. This can include ongoing training, professional services, and ensuring that any technology that remains on-premises (or provided by a third party) integrates with the Office 365 solution. Each year, the composite organization incurred an annual cloud management fee of around \$10,000 that was either paid to a Microsoft partner or to an internal staff member as part of his responsibilities.

Customers reported a range of contract costs with their partner provider. Some organizations choose to incur all of the management of Microsoft Office themselves with an existing IT resource. As such, this cost can range from organization to organization. To compensate, this cost was risk-adjusted up by 5%. The risk-adjusted cost of annual maintenance over the three years was \$26,112 present value. See the section on Risks for more detail.

**TABLE 9**  
Annual Cloud Management Costs

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
H1	Ongoing management costs			\$10,000	\$10,000	\$10,000
Ht	Annual cloud management costs — internal or partner			\$10,000	\$10,000	\$10,000
	Risk adjustment	↑ 5%				
<b>Htr</b>	<b>Annual cloud management costs — internal or partner (risk-adjusted)</b>		<b>\$0</b>	<b>\$10,500</b>	<b>\$10,500</b>	<b>\$10,500</b>

Source: Forrester Research, Inc.



### Internal Implementation Effort

To get up and running on Office 365, the co-founder of the composite organization had to spend internal time and effort to plan the project, determine a data migration plan, implement the technology, and train end users. While this responsibility was shared, in part, with a Microsoft partner, the co-founder still needed to put in the hours of planning required to make the technology successful. Much of the planning for the implementation centered on the design and use of SharePoint, but the time invested was well spent to map out key business processes and provide the partner a road map for team sites and file sharing. The composite organization incurred an initial fee of \$17,220 when implementing Office 365.

Some organizations may undergo more complex data migration efforts when implementing Office 365. They may also have more complex business processes that require more planning when moving to this solution. To compensate, this cost was risk-adjusted up by 5%. The risk-adjusted cost of internal implementation effort over the three years was \$17,220. See the section on Risks for more detail.

**TABLE 10**  
Internal Implementation Effort

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
I1	Internal time and effort for planning (primarily SharePoint)		\$5,000			
I2	Internal time and effort to implement solution		\$3,300			
I3	Training end users		\$2,200			
I4	Internal time and effort for data migration		\$5,900			
<b>It</b>	<b>Internal implementation effort</b>	<b>I1+I2+I3+I4</b>	<b>\$16,400</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>

Risk adjustment ↑ 5%

<b>Itr</b>	<b>Internal implementation effort (risk-adjusted)</b>	<b>\$17,220</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
------------	---	-----------------	------------	------------	------------

Source: Forrester Research, Inc.



### Initial Setup Costs

The composite organization incurred setup costs that included hardware costs and consulting projects paid directly to a Microsoft partner. Because the setup of SharePoint required consultation around the team site structure and file management policy, the co-founder of the composite organization decided to commission a specific project — outside of the regular annual contract — for around \$5,000 for the partner to assist in the design and setup of SharePoint. Furthermore, the composite organization required data migration assistance that went beyond the in-house skillsets it has. So, it paid another \$3,000 to the partner to assist with data migration. Finally, the partner advised the composite organization to buy a lightweight server that could be used on-premises to synch cloud logins. The composite organization paid \$9,000 initially to plan the SharePoint structure, migrate data, and purchase a server for synching cloud logins.

Customers reported a range of projects that they commissioned with the partner organization; some had more than one side project going on throughout the contract year. To compensate for this range of projects that might be commissioned through an outside provider over the first year or so of the Office 365 implementation, this cost was risk-adjusted up by 5%. The risk-adjusted cost of initial setup in the first year was \$9,450. See the section on Risks for more detail.

**TABLE 11**  
**Initial Setup Costs**

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
J1	Consulting fee paid to partner for SharePoint setup		\$5,000			
J2	Data migration		\$3,000			
J3	Server for logins to synch to the cloud		\$1,000			
Jt	Initial setup costs	J1+J2+J3	\$9,000	\$0	\$0	\$0
	Risk adjustment	↑ 5%				
<b>Jtr</b>	<b>Initial setup costs (risk-adjusted)</b>		<b>\$9,450</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Source: Forrester Research, Inc.

### Total Costs

Table 12 shows 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 a little more than \$67,164, or \$1,679 per user.

**TABLE 12**  
**Total Costs (Risk-Adjusted)**

Ref.	Benefit	Initial	Year 1	Year 2	Year 3	Total	Present Value
Gtr	Software license fees	\$0	\$4,800	\$5,850	\$6,900	\$17,550	\$14,382
Htr	Annual cloud management costs — internal or partner	\$0	\$10,500	\$10,500	\$10,500	\$31,500	\$26,112
Itr	Internal implementation effort	\$17,220	\$0	\$0	\$0	\$17,220	\$17,220
Jtr	Initial setup costs	\$9,450	\$0	\$0	\$0	\$9,450	\$9,450
	<b>Total costs (risk-adjusted)</b>	<b>\$26,670</b>	<b>\$15,300</b>	<b>\$16,350</b>	<b>\$17,400</b>	<b>\$75,720</b>	<b>\$67,164</b>

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 Office 365 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 B).

Most of the small and midsize businesses implementing Office 365 use a small portion of the available functionality when they implement to start. They are first seeking to move to a cloud infrastructure and alleviate their immediate growing pains. However, as time continues, they plan to maximize the full suite offering. They expect to grow, and with that growth know they need more collaboration tools and features.

**TABLE 13**  
**Office 365 Solution Components and Flexibility**

Office 365 Component	When Added	Flexibility Options
SharePoint Online	Phase two (Year 1)	SMB organizations that take time and invest in the proper planning for SharePoint reap business process improvement rewards later. Several customers cited SharePoint as the key driver of benefit for the productivity gains they experienced. Furthermore, the access, security, and versioning control protect their valuable IP while still enabling employees to collaborate around it.
Skype for Business/Enterprise Voice	Phase two (Year 1)	SMB organizations that choose to go to a VoIP solution using Enterprise Voice (for an upgraded license fee) may replace traditional private branch exchange (PBX) equipment and further reduce

their infrastructure spend. Some customers reported an additional savings of \$27,000 from this reduction in hardware expense. They also get features such as answer, forward, transfer, hold, divert, release, and park.

Although Skype for Business fulfills most collaboration needs in the first few years, by Year 3 most SMB organizations plan to grow beyond their initial 30-plus licenses as their business and headcount grow. This expanded headcount and office locations mean an increased need for the robust collaboration and social tool needs that Yammer can support.

SMB customers value the 1 TB of storage provided by OneDrive. They expect to use it more consistently and constructively as their business needs evolve. Not only does this save them third-party license costs from file sync and share providers, but it also provides an expandable infrastructure to meet their needs with no additional cost.

SMB customers expect to use the built-in business intelligence tools to gain business insights with their data. They reported a 17% decrease in time-to-decision because of Office 365 and believe that employee productivity and decision quality and insights will improve also.

Source: Forrester Research, Inc.

## 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 Office 365 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 Office 365, resulting in lower overall total benefits. The greater the uncertainty, the wider the potential range of outcomes for cost and benefit estimates.



**TABLE 14**  
**Benefit And Cost Risk Adjustments**

<b>Benefits</b>	<b>Adjustment</b>
Increased mobile worker productivity	↓ 15%
Improved business continuity	↓ 5%
Avoided hardware updates	↓ 10%
Eliminated third-party software and services	↓ 10%
Reduced IT support effort	↓ 5%
<b>Costs</b>	<b>Adjustment</b>
Annual cloud management costs — internal or partner	↑ 5%
Internal implementation effort	↑ 5%
Initial setup costs	↑ 5%

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:

- › Interviewed organizations were from a broad range of industries with different types of mobile workers — both professional and manual labor. Because their hourly salaries can vary based on the location of the company and type of services it provides, this benefit was risk-adjusted and reduced by 15%.
- › Interviewed organizations varied in terms of the sensitivity of their location to network and Internet outages, their level of backup and recovery preparedness, and the hourly billable or revenue generation rate for their employees. To compensate, the improved business continuity benefit was risk-adjusted and reduced by 5%.
- › Because the type of hardware required to fulfill the needs of the business vary by company interviewed, the avoided hardware updates benefit was risk-adjusted down by 10%. Not every organization will choose to allow employees to BYOD, and these organizations may continue to invest in keeping hardware up to date on a regular refresh cycle.
- › Not every organization is able to exit its contract with third-party software and services providers easily or quickly, so to compensate for the eliminated third-party software and services, this benefit was risk-adjusted down by 10%.
- › Every small and midsize business has a different arrangement for supporting its technology infrastructure — in some cases, there is a dedicated IT professional, and in others, an employee just wears more than one hat. In other organizations, the partner contract may cover all support, no matter the number of incidents. To compensate for these variations, the reduced IT support effort benefit was risk-adjusted down by 5%.

The following implementation risks that affect costs are identified as part of this analysis:

- › Customers reported a range of contract costs with their partner provider. Some organizations choose to incur all of the management of Microsoft Office themselves with an existing IT resource. As such, this cost can range from organization to organization. To compensate, the annual cloud management costs for the internal organizations or from a partner were risk-adjusted up by 5%.
- › Some organizations may undergo more complex data migration efforts when implementing Office 365. They may also have more complex business processes that require more planning when moving to this solution. To compensate, the internal implementation effort cost was risk-adjusted up by 5%.
- › Customers reported a range of projects that they commissioned with the partner organization; some had more than one side project going on throughout the contract year. To compensate in this range of projects that might be commissioned through an outside provider over the first year or so of the Office 365 implementation, the initial setup cost was risk-adjusted up by 5%.

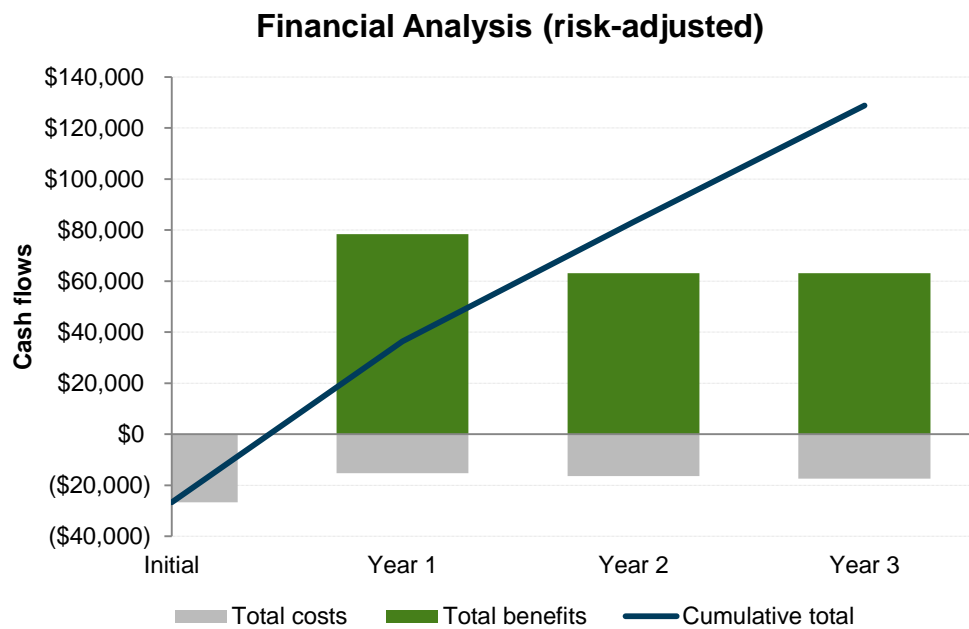
Table 14 shows the values used to adjust for risk and uncertainty in the cost and benefit estimates for the composite organization. Readers are urged to apply their own risk ranges based on their own degree of confidence in the cost and benefit estimates.

## 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 Office 365.

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 14 in the Risks section to the unadjusted results in each relevant cost and benefit section.

**FIGURE 9**  
Cash Flow Chart (Risk-Adjusted)



Source: Forrester Research, Inc.

**TABLE 16**  
Cash Flow (Risk-Adjusted)

	Initial	Year 1	Year 2	Year 3	Total	Present Value
Costs	(\$26,670)	(\$15,300)	(\$16,350)	(\$17,400)	(\$75,720)	(\$67,164)
Benefits	\$0	\$78,394	\$63,094	\$63,094	\$204,583	\$170,816
Net benefits	<b>(\$26,670)</b>	<b>\$63,094</b>	<b>\$46,744</b>	<b>\$45,694</b>	<b>\$128,863</b>	<b>\$103,651</b>
ROI						<b>154%</b>
Payback period						<b>5.1 months</b>

Source: Forrester Research, Inc.

## Microsoft Office 365: Overview

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

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

Specific feature-related benefits include:

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

## Appendix A: Composite Organization Description

For this TEI study, Forrester has created a composite organization to illustrate the quantifiable benefits and costs of implementing Office 365. The composite company is intended to represent a small services business that has 80 employees and two office locations and is based on characteristics of the interviewed customers.

The composite company has about 30 management, sales, consulting, and corporate office professionals with Office 365 licenses. In addition, the composite has outside consultants for whom it has purchased abbreviated licenses that provide a corporate email address and access to basic features such as Office Online, calendaring, OneDrive, SharePoint, and Skype for Business.

In purchasing Office 365, the composite company has the following objectives:

- › Replace Web-based point solutions and on-premises email and productivity tools with a comprehensive cloud-based option.
- › Immediately scale the business; ease the pain for mobile employees to access slow servers for email and files.
- › Get access to the same productivity advantages and functionality as larger businesses on multiple devices with a single sign-on.
- › Get the security, disaster recovery, and reputation of the Microsoft brand protecting the company's IP.
- › Onboard new employees and grow the business more easily.
- › Gain immediate access to new features of the toolset as web updates are made to the tools.
- › Improve collaboration and productivity within the organization and with outside clients without increasing travel.
- › Receive pricing flexibility with users coming and going monthly. Make less of a capital investment with these users.
- › Improve the system for document management and sharing that controls versions properly and allows appropriate access.
- › Use a format for email, calendaring, and documents that is familiar to employees, partners, and customers.
- › Support mobility within the workforce and enable employees to work from home (or the coffee shop) when needed; get access to mobile apps on six devices
- › Legitimizes the business as the company eliminates consumer-based point solutions and provides a unified face to the customer.
- › Increases sales' and consulting's ability to be responsive and competitive when deal-making.
- › Frees up time of leadership of small businesses to focus on strategic initiatives.

For the purpose of the analysis, Forrester assumes that the composite organization is headquartered in the US, with two offices located within 2 hours of each other. The clients of the organization are located throughout the US and at sites around the globe. The composite organization needs licenses for only a portion of its 80 employees — those who are revenue-generating (sales, consulting) or work as part of the managerial or corporate office staff. It also assumes that the organization does not have a full-time IT staff member to devote to running the technology. Instead, the person in charge of the implementation is a co-founder in charge of operations.

## Appendix B: 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

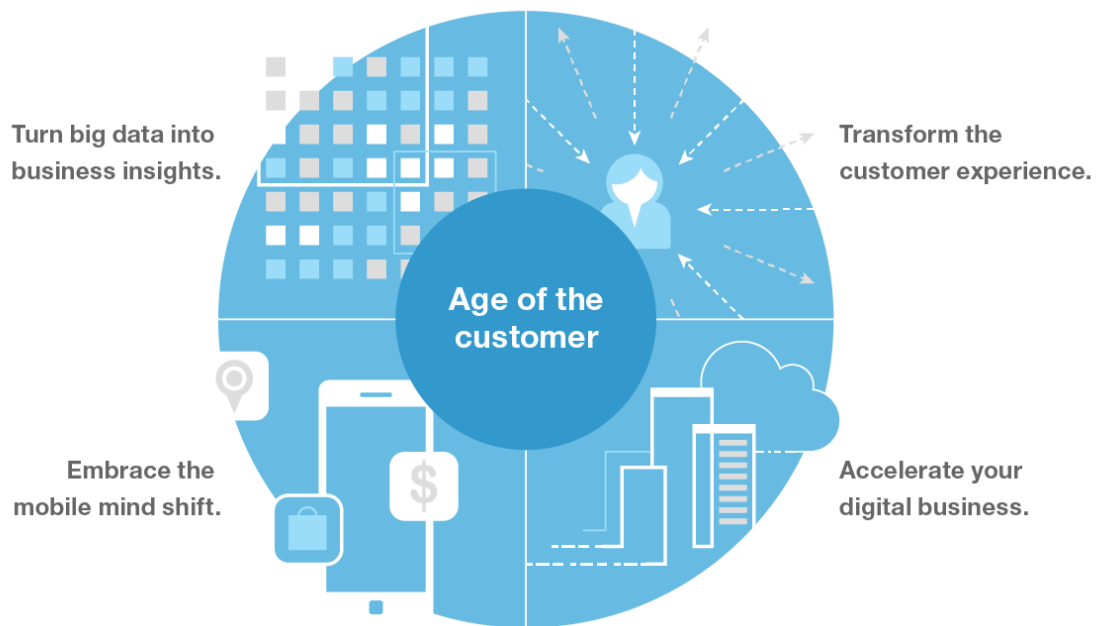
Risks measure the uncertainty of benefit and cost estimates contained within the investment. Uncertainty is measured in two ways: 1) the likelihood that the cost and benefit estimates will meet the original projections and 2) the likelihood that the estimates will be measured and tracked over time. TEI 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 C: 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 D: 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 E: Endnotes

<sup>1</sup> 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.