

## WHITE PAPER

# Business Value of Managed Services

Sponsored by: IBM

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## EXECUTIVE SUMMARY

As the primary focus of IT moves from increasing IT productivity through virtualization and cloud computing to enhancing business productivity, the biggest challenge that businesses face in executing corporate strategy is focusing the right people and resources on strategic initiatives. A key element in enhancing business productivity is driving down costs, which can help free up the funds needed to make strategic investments. Businesses also need a means to more effectively orchestrate how IT interacts with business processes and critical application environments. The solution lies in using managed services.

From research conducted specifically for this white paper, IDC found that companies gained significant and quantifiable benefits from using managed services. We interviewed eight companies — based in five countries across three continents — that are utilizing IBM Integrated Managed Infrastructure services. These medium-sized and large organizations had different reasons for selecting IBM.

Most companies were moving from managing their IT assets in-house, but two companies were using local service providers to manage their IT. In all cases, the companies were able to significantly reduce their costs for delivering IT services while also improving the quality and performance of those services in support of corporate initiatives through the use of IBM Integrated Managed Infrastructure services. These companies gained the following key benefits:

- ☒ Improved business productivity by establishing a stable and agile platform, which in turn, increased revenue for some of the participants by hundreds of thousands of dollars
- ☒ Enhanced end-user productivity by reducing application downtime by 88% and delivering a more stable and faster platform for business operations
- ☒ Optimized IT staff productivity by 42%, enabling the organizations to grow their application environments (in some cases doubling their size) without adding resources

### Business Value Highlights

- ☒ Reduced the costs of IT infrastructure by 24%
- ☒ Optimized IT staff productivity by 42%
- ☒ Enhanced end-user productivity by reducing application downtime by 88%
- ☒ Improved business productivity, resulting in increased revenue
- ☒ Three-year ROI of 224%
- ☒ Payback period of 5.5 months

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## SITUATION OVERVIEW

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### **How Managed Services Target Top Corporate Initiatives and Challenges**

According to IDC research, the top 4 corporate imperatives of organizations today are as follows:

- ☒ Drive down operational costs
- ☒ Strengthen customer relationships
- ☒ Improve financial management
- ☒ Lead in product innovation and/or market position

However, according to IDC research, the biggest challenge that businesses face in executing their corporate strategy is focusing the right people and resources on strategic initiatives. Essentially, firms are looking to ensure that their talent is focused on core areas of their business while optimizing productivity.

In addition, firms tell IDC that they lack available investment funds and resources and are challenged with inadequate linkages between their IT environment and how business processes are managed. Companies want a way to move cost savings gained in one part of the business to another part of the business. They also seek a means to more effectively orchestrate how IT interacts with business processes and with critical application environments.

Enter managed services. There are many reasons why companies use managed services to support their businesses, but this white paper considers the most significant reasons and how they align with key corporate objectives. Specifically:

- ☒ **Lower costs.** Organizations interviewed by IDC indicated that, when it came to financial management, managed services enabled them to drive down costs while also freeing up funds for investment. According to these firms, the use of managed services was driven by internal cost-savings mandates and the potential high costs of upgrading to new infrastructure technologies.
- ☒ **Improve responsiveness to customers and market changes.** Enterprises are utilizing managed services to help keep pace with market dynamics. According to the organizations we interviewed, managed services provide greater agility and faster time to market by streamlining application implementation, increasing operational efficiencies, and ensuring consistent delivery of global services across business units.

- ☒ **Optimize resource utilization, enhance organizational adaptability.** Beyond helping organizations standardize and/or consolidate existing IT environments in order to optimize utilization, managed services increasingly serve two additional and significant purposes: They enhance current capabilities by mining existing processes and technologies and/or adding functionality, and they support fundamental redesign or transformation of existing architecture to help organizations leverage new technologies (e.g., virtualization, cloud computing) and reach new markets.
- ☒ **Better allocate talent and skills.** Buyers believe that managed services provide them with access to resources, staff, capacity, and industry knowledge and expertise. Managed services thus allow enterprises to focus their people on strategic initiatives that are critical to success, such as product innovation and market leadership.

Moreover, managed services can help companies and their IT staffs mitigate the risks of new and disruptive technologies. Consider the role managed services can play by enabling enterprises to execute their corporate strategy and achieve their top imperatives as they adopt these leading technologies and services:

- ☒ **Expanding investments in mobility, social media, and analytics.** While the rapid adoption of mobile devices is elevating the need to ensure worker productivity that increasingly involves supporting individual requirements, the deployment of social media as part of doing business is placing increasing stress on how to enhance customer service, optimize sales opportunities, meet key regulations, and ensure that brand value and image are maintained. Additionally, analytics, also referred to as Big Data, is becoming a strategic means of helping enterprises not only optimize the value of these emerging business models and associated business processes but also mitigate the many risks across organizations.
- ☒ **Transformation to cloud-based delivery.** When it comes to cloud, businesses are increasingly investing in building private clouds and using public clouds, such as infrastructure as a service (IaaS), to support critical business needs such as lowering costs, accelerating time to market, and increasing agility. However, these capabilities are placing greater pressure on organizations to ensure security requirements while meeting key regulatory needs, including data portability. Given that most businesses indicated a lack of resources to manage a fully mature cloud environment, enterprises need to determine how they will mitigate the risks of moving select applications or services to an outside provider as they transform their IT to a cloud-based model of consumption.

Further, buyers indicated to IDC that they look for managed service providers with certain critical capabilities, including a full range of IT and business process services, proven record of delivering on service-level agreements (SLAs) and costs, financial stability, industry expertise, and a strong reputation.

# MEASURING THE BUSINESS VALUE OF MANAGED SERVICES

## Study Demographics

IDC conducted in-depth interviews with eight organizations across three continents. These medium-sized and large organizations have an average of nearly 5,000 employees. The study base is regionally diverse, with organizations from Canada, France, India, Italy, and the United Kingdom (see Table 1).

All of the organizations are heavily invested in IBM Integrated Managed Infrastructure services, with IBM managing nearly half (43%) of their IT infrastructure. All are using IBM to manage their servers, and for five of the eight, IBM is managing server, storage, and networking infrastructure.

**TABLE 1**

### Demographics

Category	Average
Employees	4,888
IT users	
Internal	3,181
External (customers)	400,205
Physical servers managed	150
Virtual servers managed	176
Servers virtualized (%)	55
Storage environment	
Storage arrays	14
Storage (TB)	38
Annual storage growth (%)	30
Nodes SAN or NAS attached (%)	100
Nodes (above) with virtualized storage	88
Network environment	
Locations/sites	85
Number of ports	20,000
Bandwidth used (%)	40
Countries	Canada, France, India, Italy, and the United Kingdom

Source: IDC, 2013

Prior to deploying IBM Integrated Managed Infrastructure services, five of the organizations in the study were managing their infrastructure in-house, two of the organizations were using local providers for managed services, and one had chosen IBM as a greenfield provider to upgrade its server infrastructure as part of a managed services engagement.

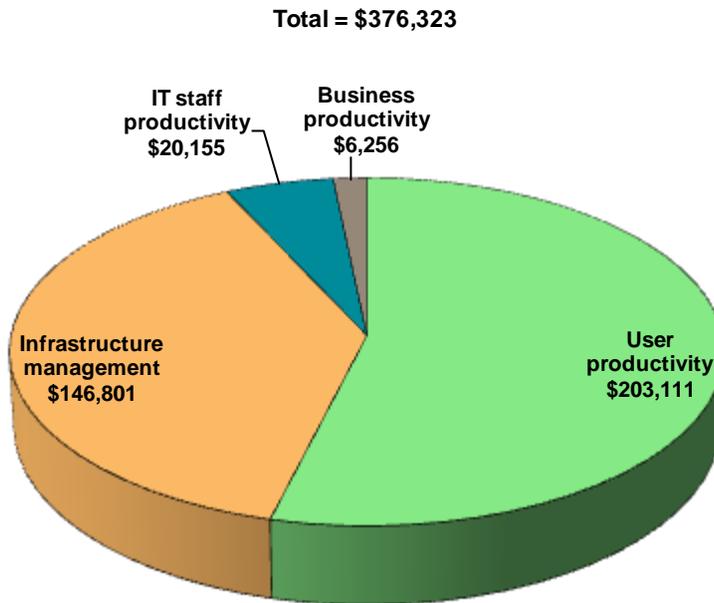
## FINANCIAL BENEFITS ANALYSIS

Overall, the organizations recognized financial benefits in the following areas (see Figure 1):

- ☒ **Optimized user productivity.** The most significant benefit was from increasing user productivity by speeding up business processes. In addition, the organizations are reducing unplanned downtime, which also enhances user productivity. In total, optimizing productivity added \$203,111 per 100 users annually to each organization in the study by reducing downtime and/or increasing productivity.
- ☒ **Reduced IT infrastructure cost.** The main driver for migrating from traditional in-house management of IT infrastructure to managed services is the need to reduce capex and deliver better services. Organizations that were either migrating from managing their own infrastructure or replacing other providers of managed services with IBM Integrated Managed Infrastructure services found they could reduce their total IT infrastructure costs by 24%. These combined savings totaled \$146,801 per 100 users annually.
- ☒ **Optimized IT staff productivity.** By using managed services for day-to-day infrastructure management operations, organizations were able to reduce current and projected costs and optimize IT staff resources by 42%. Total productivity gains averaged \$20,155 per 100 users annually.
- ☒ **Improved business productivity.** Some of the organizations in the study were able to translate the improved IT infrastructure operations into business productivity gains, adding another \$6,256 per 100 users per year.

**FIGURE 1**

Average Annual Benefits per 100 Users



Source: IDC, 2013

## User Productivity

Organizations look to managed services primarily to help them manage their rapidly growing infrastructure and reduce the associated costs, but most find that the real benefit is in delivering better and higher-quality IT services.

The organizations in this study had well-managed infrastructures before migrating to IBM Integrated Managed Infrastructure services. Organizations that were managing their own servers were experiencing only three unplanned incidents per year (compared with 10–12 incidents per year for an average organization). The two firms that were using another managed services provider were experiencing only 1.5 incidents per year. Yet even these well-run IT environments were able to reduce the unplanned downtime from server and network failures by 89% and 86%, respectively. In addition, IBM responded to downtime issues much more quickly, further reducing the time and productivity loss per outage. Unplanned downtime was costing these organizations \$58,118 per 100 users annually in user productivity before they implemented IBM Integrated Managed Infrastructure services. Overall, these organizations saved each user roughly 16 hours per year (see Table 2).

**TABLE 2**

## Average User Productivity KPIs

	Before	After	Savings	% Improvement
Server downtime				
Annual outages	2.7	1.1	1.6	61
Time per incident (hours)	10.0	2.7	7.3	73
Total hours per user	12.4	1.3	11.1	89
Network downtime				
Annual outages	2.3	1.0	1.3	57
Time per incident (hours)	5.0	1.7	3.3	67
Total hours per user	6.2	0.9	5.3	86

Source: IDC, 2013

By reducing unplanned downtime, these organizations optimized the business processes that were driven by the affected applications. In a static environment, their benefits would equal the change in downtime. But these organizations were far from static. Like many organizations today, they are increasing their reliance on IT operations to enhance business productivity. They are rolling out new business applications to support increased business activities and growth. Two examples in the study stand out. One organization, a banking institution, stated, "Around 50 people would be more productive — I'd say 20–25% more productive. Now that they have more time, what happens is that they can do more. Now we've also grown rapidly [35% per year] over the last four or five years. You could say that this has helped to avoid additional hiring costs."

Another organization, a manufacturer that had shown significant growth in many areas and could no longer keep up with its own infrastructure requirements, explained, "We have more applications.... Our employees are more productive because of their ability to use the systems more. If I were to estimate, I'd say 30%."

## IT Infrastructure Cost Reduction

Results from the study are based on the following two use cases:

- ☒ Six organizations moving from managing their IT in-house to using IBM for managed services (includes using IBM as service provider for a greenfield application)
- ☒ Two organizations moving from other providers of managed services to IBM

The six organizations moving from in-house IT management were able to reduce their total costs of IT infrastructure, including the costs of both the infrastructure itself and IT support, by 25%. Many of these organizations were seeking to consolidate their datacenter operations and had contracted with IBM for that purpose. They were able to achieve the following significant benefits in the following areas as a result:

- ☒ **Space savings.** Organizations reported reducing their datacenter footprint and saved from 600 to 2,000 square feet of datacenter facilities. One organization was able to avoid a significant addition to its datacenter by having IBM host it, saving over \$200,000 in construction costs and another \$60,000 to \$70,000 in annual costs.

The two organizations that were moving from other providers of managed services to IBM experienced space savings as a result of IBM helping them virtualize their infrastructure as part of the managed services.

- ☒ **Software licenses.** Consolidation of systems and providers reduced software license costs by an average of \$250,000 per year.
- ☒ **Consulting.** By moving to IBM Integrated Managed Infrastructure services solutions, several of the organizations were able to eliminate the use of third-party consultants who were helping them run their datacenters. One organization felt that the expertise IBM provided was the primary benefit:

The big benefits probably come from having a storage expert, a network expert, and a server expert. If we did that here, it probably would be one more person added, but you wouldn't have that breadth of skill. You'd have one guy that knows a little bit of network, but is he an expert? Probably not. We'd have to compensate for that by having a consultant on retainer. — Senior IT Manager, Transportation Company

- ☒ **Training.** Relying on IBM's expertise also relieved the organizations from having to cross train their own IT staffs, not just saving training costs but also freeing up time and costs to prioritize training for building critical new skills.

The two organizations that were moving from regional providers of managed infrastructure services to IBM experienced a 20% reduction in their infrastructure total cost of ownership (TCO). Both of the organizations switching to IBM had already been using other providers for managing the major elements of their infrastructure (servers, network, and storage). One of the organizations added resiliency and security as well.

## IT Staff Productivity

The eight organizations IDC surveyed for this study already had fairly efficient IT staffs. On average, each IT staff member was supporting 540 users (compared with 380 users per IT staff member in an average environment). However, moving to IBM Integrated Managed Infrastructure services enabled these organizations not only to grow their application environments — in some cases doubling their size — without having to add additional staff but also to reallocate their staff resources to focus on more critical areas. The combination of reallocated staff resources and avoided additional staffing costs meant an average increase in staff productivity of 42%.

A more productive staff adds value to the organization in many ways, such as delivering IT services more quickly, increasing the agility of the organization. Table 3 displays three key performance indicators (KPIs) for IT agility.

**TABLE 3**

### IT Staff Agility KPIs

	Before	After	Savings	% Improvement
Time to launch a new application (weeks)	3.8	2.5	1.3	34
Time to provision additional storage capacity (days)	25.3	7.3	18.0	71
Time to provision a virtual server (hours)	40.0	13.7	26.3	66

Source: IDC, 2013

In addition to reducing the staff requirements for managing servers, networks, and storage, half of the organizations also mentioned that IBM had provided value in regard to responding to the growing cost of compliance. These companies were able to reduce the time and costs associated with audits. Whether by creating better internal regulations, reducing the number of sites to be audited, or responding to audits more quickly, these organizations are saving 200–500 person-hours per year in the auditing process thanks to IBM.

We have more and more audits. What I would say is that we have more audits because we are making much more money than we used to. But thanks to IBM services, we are able to respond to the audits much faster, and also in a more consistent fashion, with more regularity. — Technology Manager, Manufacturing Company

## **Business Productivity**

The most profound change to IT strategy in the past two years has been the shift from a focus on IT productivity to a focus on business productivity. The shift explains the current emphasis on cloud, Big Data/analytics, mobile applications, and, to a lesser extent, social media.

For IT to adequately support increasing business productivity, it must deliver applications that automate business processes. It must scale with business demand (be elastic), and it must move quickly to deliver new applications as business needs change (be agile). And finally, it must provide a stable platform (be reliable). As discussed in the User Productivity section, the use of IBM managed services significantly reduced unplanned downtime. While all the organizations experienced user productivity benefits, some also saw an impact on their revenue. One manufacturer estimated that it was losing over \$400,000 per year from unplanned downtime until IBM reduced its losses to zero.

Many of the organizations not directly tying revenue to downtime were still able to place a business productivity value on downtime, which included potential chargebacks for service failures or interest accrual and legal fees from untimely payment of payroll. With a stable platform to support a more agile business, organizations can be more responsive to changes in the market and accelerate their strategic timetable.

So what is the business value of agility? One Europe-based company explained it this way:

The information system is more stable. We've said that first. We constantly have new applications in the business. So we are more reactive. For example, if I need new logistics, or I need an application in logistics, saving days of time is valuable. But the value for all of these changes depends on the magnitude of the change and is cumulative. So if you look at all of the changes we are implementing on all of the platforms over the next 10 years, then the value of being able to react more quickly to all of these changes would be worth millions of euros.

For the purposes of quantifying economic benefits, IDC treats revenue and cost savings differently. Every \$1 of revenue has costs associated with it and thus cannot be combined with cost savings without first removing the costs of goods sold and operating costs, which leaves the operating margin. IDC assumes a margin of 20% (see Table 4).

**TABLE 4****Average Business Productivity**

Category	Average
Revenue increase from increased agility	\$173,333
Reduction in lost revenue	\$974,220
Total annual revenue increase	\$1,147,553
Operating margin (assumed)	20%
Annual business productivity benefit	\$229,511

Source: IDC, 2013

## ROI ANALYSIS

IDC uses a three-step methodology for conducting ROI analysis:

- ☒ **Gather quantitative benefit information during the interviews using a before-and-after assessment.** In this study, the benefits were IT staff productivity increase, user productivity increase, IT infrastructure cost reduction, and business productivity increase.
- ☒ **Create a complete investment (three-year total cost analysis) profile based on the interviews.** Investments go beyond just the solution's hardware and software. IT departments spend staff time installing and configuring the new solution, removing old equipment and/or software, and then maintaining the new solution over three years. Ancillary costs directly related to the solution, such as user input to planning, third-party installation, configuration or maintenance, and IT staff or user training, are also included in the analysis.
- ☒ **Calculate the ROI and payback period by conducting a depreciated cash flow analysis of the benefits and investments over a three-year period.** Because the full benefits of the solution are not available during the deployment period, IDC prorates the benefits on a monthly basis and subtracts the appropriate amount for the deployment time from the first-year savings. IDC uses a discounted cash flow methodology to calculate the ROI and payback period. ROI is the ratio of the net present value (NPV) and discounted investment. Payback period is the point at which cumulative benefits equal the initial investment. IDC uses a standard 12% discount factor (allows for risk and the missed opportunity cost that could have been realized using that capital).

The three-year ROI analysis shows that, on average, the organizations in this study spent \$274,326 (discounted) per 100 users and received \$888,085 per 100 users in benefits (discounted) for an NPV of \$613,759. The companies saw payback in 5.5 months and an ROI of 224% (see Table 5).

**TABLE 5**

Three-Year ROI Analysis per 100 Users

Benefits (discounted)	\$888,085
Investment (discounted)	\$274,326
NPV	\$613,759
ROI = NPV/investment	224%
Payback	5.5 months
Discount factor	12%

Source: IDC, 2013

## PROFILE OF IBM AS SERVICE PROVIDER

### Overview of IBM Integrated Managed Infrastructure Services

The value of IBM managed services is centered on mitigating business risks for organizations as they evolve their IT environments based on corporate objectives and strategic priorities, with the goal of optimizing ROI. To this end, IBM helps organizations drive growth by eliminating downtime, scaling operations, and improving application availability; reducing complexity by enhancing management of a multivendor and increasingly virtualized environment; and optimizing expenses and investments by leveraging key capabilities (e.g., virtualization/VDI, automation, hosting) coupled with IBM's advanced, resilient datacenter infrastructure that includes IBM SmartCloud services.

These services leverage a vast set of resources that include more than 190,000 services professionals located across all geographic regions; utilize repeatable processes, best practices, and automation; and incorporate analytics as a means to optimizing quality of service to ensure business performance. Finally, these services can be managed onsite, remotely managed, or hosted at an IBM datacenter.

## ***Strategic Differentiators***

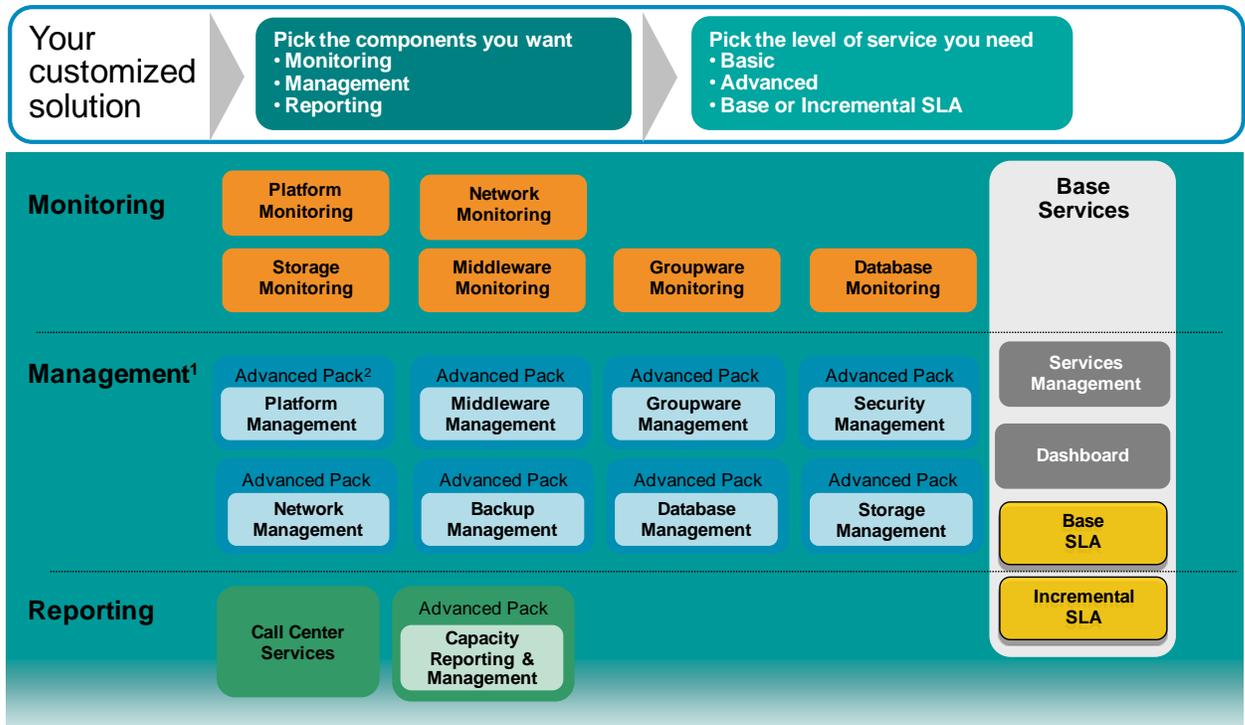
IBM differentiates its managed infrastructure services by integrating a set of key building blocks to deliver on the value buyers seek. Each of these building blocks provides critical capabilities, as described in this section, but collectively they help organizations ensure that they can support their corporate imperatives and strategic plans.

- ☒ **Thought leadership and transformation.** Providing organizations with thought leadership is a critical anchor to IBM's managed services. IBM leverages its deep heritage and extensive business and IT skills in managed services to help organizations develop road maps and blueprints that align corporate business objectives with the right set of IT capabilities. A key element of this approach is IBM's ability to assess, design, and implement these capabilities utilizing deep knowledge in technology, process, and industry with the goal of ensuring effective transformation, uninterrupted business operations, and operational excellence. As the study highlights, companies indicated that the use of newer technologies, such as virtualization, enables them to more quickly adapt to market conditions through enhanced provisioning times.
  
- ☒ **Modularity via "services catalog."** IBM provides its managed infrastructure services as a set of modular options via its services catalog, as shown in Figure 2. By offering organizations the ability to select only those elements across IBM managed services, such as basic monitoring, security management, or call center support, enterprises can align their requirements at a more granular level with the goal of consuming just what they need and optimizing their investments while minimizing their costs. Additionally, organizations can utilize services that help localize their needs to specific geographies, where critical regulations might need to be met, as well as personalize services that can support role-based needs as determined by individual users, such as with the increased adoption of mobility and bring your own device (BYOD). Buyers indicated that a key reason for working with IBM is the flexibility of the contract.
  
- ☒ **Depth and breadth of capability.** These services support the full range of multivendor IT environments, including datacenter infrastructure (e.g., servers, storage, databases); workspace environments that include traditional PCs and laptops as well as smart devices (e.g., mobile phones and tablets); business continuity/disaster recovery (BC/DR); and a comprehensive set of network environments. Additionally, these capabilities align with emerging technologies and address disruptive service delivery models involving cloud, mobility, social media, and analytics. IBM will also act as the single point of contact (SPOC) for all customer requirements, thereby eliminating the potential challenges that arise for customers that are managing disparate resources. Customers are also able to more readily focus internal skills and talents on strategic corporate initiatives. This issue of breadth of capabilities was reflected in respondents' feedback regarding the deep level of expertise and experience that IBM can deliver as part of managed services.

- ☒ **Global delivery and localization.** IBM provides organizations with a global footprint by which it can ensure that services are provisioned with consistency of quality. Services are localized to specific geographies where local regulations often need to be met. IBM also provides 24 x 7 customer support across a multitude of languages. The results of the study highlight how IBM considerably improved greater uptime and availability, which provides greater consistency in quality of service and can accelerate audit cycles and the ability to ensure that services meet local regulatory requirements.

**FIGURE 2**

IBM Integrated Managed Infrastructure Services



<sup>1</sup>Management includes monitoring. <sup>2</sup>Advanced Pack includes services like Cluster Management, Security & Compliance, etc.

Source: IBM, 2013

## CHALLENGES AND OPPORTUNITIES

While there is significant value to using managed services, buyers indicated that they have some critical requirements and concerns that providers of managed services, including IBM, need to address. Specifically:

- ☒ **Ensure robust security.** The top concern of buyers that are utilizing managed services is assurance of a provider's robust security capabilities and experience. Beyond offering a full range of security capabilities (e.g., managed firewall, intrusion detection, virus protection), providers need to understand specific regulatory and compliance requirements that also involve differing geographic needs. Additionally, concern for security becomes an even more significant factor as buyers incorporate more cloud-based and mobile capabilities. To support these needs, IBM offers a comprehensive set of security capabilities, including assessment and planning services, security design and implementation services, and security management services such as data, application, infrastructure, and endpoint security management.
- ☒ **Calculate ROI and ensure effective return.** A roadblock for organizations in adopting managed services is the inability to calculate an ROI and associated cost savings that can ensure them of an effective return on investment. Providing buyers with business cases and actual ROI assessments will help mitigate these concerns and ensure that they can achieve their financial goals. As this study has shown, IBM customers indicate an average ROI of more than 200%.
- ☒ **Lower the risks of downtime and reduced IT systems performance.** Enterprises are concerned with the potential risk of reduced quality of service, particularly as it relates to downtime (availability) and performance of IT systems. Any underperformance of the IT environment can impede an organization's ability to ensure competitiveness. IBM clearly has demonstrated its ability to significantly improve the performance of customer IT environments through greater availability and speed of service provisioning.
- ☒ **Support enterprise's ability to maintain control.** When it comes to using managed services, buyers continue to have significant concerns about losing control. Mitigating these concerns will require that service providers incorporate key capabilities such as governance, program management, dashboards, and management tools. Further, with the expanding adoption of cloud services, providers need to support buyers holistically in managing across multiple types of service delivery models. IBM offers customers a full array of management tools and processes as part of a governance model on program and project management that ensures buyers of effective operational management based on SLAs and financial goals.
- ☒ **Leverage the right skills at the right time.** Enterprises continue to struggle with maximizing available IT resources, skills, and capabilities while driving strategic initiatives or adapting their existing workforce to focus on business transformation goals. IBM managed services provide the breadth of skills and capabilities to enable companies to free up their resources to focus on other business priorities.

## CONCLUSION

We live in dynamic times, and organizations worldwide are facing a dramatic shift in the relationship between technology and business. This shift is driving expanding investments in mobility, social media, and Big Data/analytics — and, most significantly, a transformation to cloud-based delivery. Yet readers will recall that the biggest challenge that businesses face in executing corporate strategy is the inability to focus the right people and resources on strategic initiatives while optimizing productivity.

More than ever, medium-sized and large organizations need a partner in the quest to improve their IT infrastructure and operations to directly support business objectives. IBM Integrated Managed Infrastructure services help organizations drive growth by reducing downtime, scaling operations, and improving application availability. The net result is reduced complexity through enhanced management of a multivendor and increasingly virtualized environment.

## APPENDIX

IDC utilized its standard ROI methodology for this project. This methodology is based on gathering data from current users of the technology as the foundation for the model. Based on these interviews, IDC performs a three-step process to calculate the ROI and payback period:

1. Measure the savings from reduced IT costs (staff, hardware, software, maintenance, and IT support), increased user productivity, and improved revenues over the term of the deployment.
2. Ascertain the investment made in deploying the solution and the associated training and support costs.
3. Project the costs and savings over a three-year period and calculate the ROI and payback for the deployed solution.

IDC uses the net present value of the savings and increased revenue over three years in calculating the ROI and payback period for the deployment.

IDC bases the payback period and ROI calculations on a number of assumptions, which are summarized as follows:

1. Time values are multiplied by burdened salary (salary + 28% for benefits and overhead) to quantify efficiency and manager productivity savings.
2. Downtime values are a product of the number of hours of downtime multiplied by the number of users affected.
3. The impact of unplanned downtime is quantified in terms of impaired end-user productivity and lost revenue.
4. Lost productivity is a product of downtime multiplied by burdened salary.
5. Lost revenue is a product of downtime multiplied by the average revenue generated per hour.

6. The NPV of the three-year savings is calculated by subtracting the amount that would have been realized by investing the original sum in an instrument yielding a 12% return to allow for the missed opportunity cost. This accounts for both the assumed cost of money and the assumed rate of return.

Because every hour of downtime does not equate to a lost hour of productivity or revenue generation, IDC attributes only a fraction of the result to savings. As part of our assessment, we asked each company what fraction of downtime hours to use in calculating productivity savings and the reduction in lost revenue. IDC then taxes the revenue at that rate.

Further, because IT solutions require a deployment period, the full benefits of the solution are not available during deployment. To capture this reality, IDC prorates the benefits on a monthly basis and then subtracts the deployment time from the first-year savings.

*Note: All numbers in this document may not be exact due to rounding.*

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