

A Forrester Total Economic  
Impact™ Study  
Commissioned By  
IBM

Project Director:  
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# The Total Economic Impact™ Of SoftLayer, An IBM Company

The Partner Business Case for SoftLayer

FORRESTER®

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### ABOUT FORRESTER CONSULTING

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## Executive Summary

In July 2014, IBM commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the revenue opportunities that managed service providers (MSPs) may capture by selling and delivering services through SoftLayer. The purpose of this study is to provide readers with a framework to evaluate the potential financial impact SoftLayer may have on their organizations.

SoftLayer is a hosting service with data centers in the US, Asia, and Europe and a global footprint of 17 network points of presence. To better understand the revenue opportunities, practice investments, and risks associated with SoftLayer, Forrester interviewed six existing MSPs with at least six months of experience selling and delivering services with SoftLayer.

Interviewed MSPs represented Americas and EMEA, and while ranging in size, all six have relatively similar sized SoftLayer-related revenue streams. To represent the findings of the interviews, a composite deal and composite organization was created and named "Laud IT." Laud IT is a traditional IT MSP that offers hosting services through SoftLayer along with other related managed services such as performance and capacity management; application, database, and website administration; and custom application work as requested. The organization experienced the following summary statement and financial opportunities below.

### SOFTLAYER OFFERS FLEXIBLE AND PROFITABLE OPPORTUNITIES IN HOSTING AND FURTHER REVENUE OPPORTUNITIES THROUGH RELATED MANAGED SERVICES

Our interview with six existing MSPs and subsequent financial analysis found that the composite organization, Laud IT, experienced the risk-adjusted revenue opportunity, practice investments, and net present value (NPV) shown in Figure 1.<sup>1</sup> See Appendix A for a full description of Laud IT's composite characteristics.

The analysis points to a risk-adjusted revenue opportunity per customer of \$361,900 for the first year. Assuming a gradual growth of customers from six in Year 1 and two new customers each following year, the three-year cumulative revenue is approximately \$8.4 million. After accounting for three-year practice investments of \$424,288, a discount rate of 10%, a 20% gross margin for SoftLayer hosting, and a 40% gross margin for managed services and initial fees, Laud IT experiences a NPV of approximately \$2.1 million over three years.

For details on the financial model and what is included in each group of revenue and costs, readers should refer to the Analysis section.

*“(With annuities) the growth can be very rapid, especially factoring in managed services on top of the hosting – we are targeting 100% growth in our second year with SoftLayer.”*

~Program manager, midsize Netherlands MSP

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

Category	Value
<b>Total revenue/customer</b>	<b>\$361,900</b>
SoftLayer hosting/year	\$67,680
Managed services/year	\$270,720
One-time initial customer fee	\$23,500
Sample total customers in three years <sup>2</sup>	10
<b>Total three-year cumulative revenue</b>	<b>\$8,356,600</b>
<b>Total practice cost</b>	<b>(\$424,288)</b>
Initial setup cost	(\$135,670)
Recurring development cost	(\$288,618)
Discount rate	10%
<b>Three-year NPV with 20%-40% margin</b>	<b>\$2,095,443</b>

Source: Forrester Research, Inc.

› **Revenue opportunities.** Laud IT experienced the following risk-adjusted revenue opportunities:

- **Hosting profit.** This opportunity focuses on the fees that Laud IT bills customers for hosting on the SoftLayer platform.
- **Setup profit.** This opportunity centers on the fees that Laud IT bills for initial customer setup, which includes migration, services scoping, and time and effort to understand the customer's environment and details of applications as needed.
- **Managed services profit.** This opportunity details the recurring managed services that are delivered on top of the SoftLayer platform.

› **Practice investments.** Laud IT experienced the following risk-adjusted costs:

- **Practice startup costs.** This cost focuses on investments related to strategy and planning, training, technical development and integration, and recruiting.
- **Marketing costs.** This cost centers on recurring marketing expenses and activities.

## Disclosures

The reader should be aware of the following:

- › The study is commissioned by IBM and delivered by Forrester Consulting. It is not meant to be used as a competitive analysis.
- › Forrester makes no assumptions as to the potential return on investment 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 SoftLayer.
- › SoftLayer 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.
- › The customer names for the interviews were provided by SoftLayer. SoftLayer did not participate in customer 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 adopting SoftLayer. The objective of the framework is to identify the practice investments, revenue opportunities, flexibility, and risk factors that affect the investment decision.

### APPROACH AND METHODOLOGY

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

- › Interviewed SoftLayer marketing, sales, and/or consulting personnel, along with Forrester analysts, to gather data relative to SoftLayer and the MSP marketplace for SoftLayer.
- › Interviewed six MSPs currently using SoftLayer to obtain data with respect to practice investments, revenue opportunities, 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 revenue data obtained from the MSP interviews and SoftLayer.
- › 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 the interviewed MSPs provided cost and revenue estimates, some categories included a broad range of possibilities or had a number of outside forces that might have changed the revenue and cost values to be higher or lower. For that reason, some cost and revenue totals have been risk-adjusted and are detailed in each relevant section.

Forrester employed four fundamental elements of TEI in modeling the value of selling and delivering SoftLayer services: revenue opportunities, practice investments, 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 investment decisions. Please see Appendix B for additional information on the TEI methodology.

**FIGURE 2**  
TEI Approach



Source: Forrester Research, Inc.

## Analysis

### COMPOSITE DESCRIPTION — LAUD IT

For this study, we conducted six interviews with existing MSPs that have sold and delivered SoftLayer services:

- › **M7, an established UK-based MSP, whose SoftLayer hosting business is 5% of total revenue with a goal of growth to 25% in the coming one to two years.** M7 currently hosts a range of applications on an IBM platform from two UK data centers and positions SoftLayer as a cloud hosting option to customers as part of a hybrid solution. The common topics of sales conversation are between provisioning speed, flexibility, and data security. The MSP has experienced international growth with new opportunity in Asia Pacific due to SoftLayer's data center in Singapore and, more recently, Hong Kong. It believes the opening of the new UK SoftLayer facility will significantly increase demand from UK businesses.
- › **A midsize US-based technology consultancy that offers a full spectrum of services ranging from communications and collaboration to infrastructure-as-a-service (IaaS).** Over its 18-month relationship with SoftLayer, the organization has hosted a mix of customer IT components on SoftLayer, including applications, databases, and websites. This organization also leverages a separate software for IaaS syndication. The provider's sales model is also heavily geared toward its own reseller partners.
- › **A small US-based MSP that primarily focuses on small and medium-size businesses (SMBs) or SMB-like portions of larger enterprises.** The organization's chief offering is the management and administration of a customer's developed application or website, which could include eCommerce functions. In addition to administration services, this MSP also provides hardware services such as build validation, configuration management, and capacity monitoring.
- › **A midsize Netherlands-based MSP that provides full-service managed solutions including backup, environment monitoring, server storage, and virtual environments.** This provider can also build applications and products to be delivered or "rented out" to customers. The provider highlighted the advantage of dedicated servers and storage in SoftLayer's cloud, as this allows a higher level of trust from the customer versus transitioning from on-premises to a collaboration platform on public cloud. This may reduce the challenges of selling to customers who are concerned about data privacy and security, especially in EMEA. This provider also leverages social channels and shared event opportunities with IBM to market its offerings.
- › **Bossers & Cnossen, a midsize Germany-based technology consultancy that focuses primarily on hosting and servicing for software-as-a-service (SaaS) organizations and independent software vendors (ISVs).** Prior to partnering with SoftLayer, this organization had invested in three data centers across EMEA and Asia Pacific. Two key areas that this organization will explore in the near future as a result of partnering with SoftLayer are expanding its regional footprint and mobile solutions.
- › **A UK-based security research organization focused on providing malware advisory to security software vendors, efficacy assessments, and IT security consulting to end user organizations.** This organization leverages SoftLayer for all components of its customer-facing business and experiences the benefit of cloud provisioning and scalability, which are particularly vital in their offering that requires proof-of-concept security testing of customer environments.

The composite organization, Laud IT, is a UK-based MSP with the following high-level characteristics:

- › Focused on managed services and hosting solutions for both traditional IT and SaaS customers across industries.
- › Annual revenue of \$10 million.
- › Total headcount of 32 people, consisting of 10 systems engineers, six account managers, two product managers, two channel managers, and other internal and business development staff.
- › About 5% of the business is related to SoftLayer hosting solutions, and a further portion is based on services built on top of the hosting.

Prior to fully adopting SoftLayer, Laud IT's executives spent six weeks to plan the organization's business strategy for selling and delivering SoftLayer services. During that time, Laud IT answered the following questions:

- › Can we provide similar service at similar margins and quality to our customers with our two existing data centers?
- › Should we partner with other cloud IaaS or hosting providers?
- › How will we build managed services on top of the SoftLayer platform?

The six-week planning process revealed that Laud IT's existing data centers may not be able to provide the scaling flexibility, speed in provisioning, and global footprint that SoftLayer offers. Moreover, Laud IT chose to work with SoftLayer as a primary cloud IaaS and hosting partner due to SoftLayer's transparency, data center locations, and deep understanding of Laud IT's business model and vision through relationship building.

Since deploying SoftLayer 18 months ago, Laud IT has settled on a stable trend of deal sizes that created the following composite deal structure:

- › Twenty percent of SoftLayer-related revenue is the actual hosting fee at a 20% margin.
- › Eighty percent of SoftLayer-related revenue is managed services built on top of the platform at a 40% margin.
- › New customers will also be billed a flat initial setup fee of \$25,000 at a 40% margin for migration, services scoping, and learning the customers' environments.

## INTERVIEW HIGHLIGHTS

The interviews revealed the following themes:

- › **Partnering with SoftLayer enabled MSPs to bid and win new opportunities.** In addition to the financial gain and margins, MSPs noted the ability to bid and win proposals that they would not have qualified for before partnering with SoftLayer. Besides the data privacy and security certifications, SoftLayer's data center locations have enabled two MSPs to win business stretching from local business in the Netherlands to Asia Pacific. These examples highlight the advantages SoftLayer can offer in areas spanning from data privacy in stricter regions like EMEA to performance and latency in regions outside of an MSP's existing business footprint. Furthermore, another MSP noted the acquisition by IBM as an advantage due to the brand value and perception in certain areas of EMEA as an established, almost "local" brand.
- › **Besides enhanced business capabilities, transparency and business relationship were major factors in choosing to partner with SoftLayer.** Interviewed MSPs noted the difference between working with SoftLayer versus other cloud IaaS providers. They noted SoftLayer to more readily have transparent information about data centers, latency, and hardware hosted at SoftLayer facilities. End users can even perform a live latency test with different data centers on SoftLayer's website. Moreover, MSPs mentioned the less transactional relationship with SoftLayer as a benefit when building a business partnership. The relationship extends beyond vendor-reseller and becomes a bridge for SoftLayer to

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*"We would not have won the business without a data center in Asia Pacific to secure latency."*

~Managing director, small UK MSP

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*"We would not have as much success (in EMEA) without SoftLayer's data center in Amsterdam."*

~Program manager, midsize Netherlands MSP

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*"IBM is an established brand and almost local brand (in our country) that can somewhat reduce data security concerns around the NSA."*

~General manager, midsize Germany MSP

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understand what each partner does and its vision for the industry, so SoftLayer can bring that feedback into product development and account management.

- › **SoftLayer and related service offerings, while profitable, are typically either one piece of a larger MSP business or the underlying platform for organizations delivering SaaS.** Unlike some channel partners that deliver only one product or one vendor's product portfolio, most interviewed MSPs offer multiple products and are not brand exclusive. SoftLayer is typically one piece of a larger business that also includes on-premises solutions, application development, and other services not related to SoftLayer or hosting services. At least one interviewed MSP and many SoftLayer customers actually use the SoftLayer platform to host their respective SaaS offerings for end users to access. These SaaS customers can range from security software to gaming platforms — all of which use SoftLayer as a backbone to enable business in the cloud but may not advertise or “sell” the SoftLayer platform.



## REVENUE OPPORTUNITIES

Laud IT experienced three revenue and profit opportunities:

- › Hosting profit.
- › Setup profit.
- › Managed services profit.

MSPs also mentioned two additional benefits of partnering with SoftLayer that were not experienced by all interviewed MSPs and cannot be classified as revenue opportunities. Quicker provisioning time and a reduced need to buy hardware and build out data centers are efficiencies and cost avoidances that are typically quantified benefits that end users experience and would include in a business case for an IT investment. Readers may elect to include these benefits when evaluating the value of a potential partnership with SoftLayer if these benefits are relevant to their respective organizations.

### + Hosting Profit

There are a number of bare metal configurations that SoftLayer offers — for this case, Laud IT's average monthly revenue per customer is \$6,000 at a 20% margin. Readers are encouraged to reach out to SoftLayer with specific configurations to attain specific pricing for a more tailored financial model.

As shown in Table 1, based on a monthly hosting revenue of \$6,000, 20% margin, and six customers in the first year, Laud IT has a profit opportunity of \$432,000 in Year 1. In a "6-8-10" scenario where Laud IT attains two new customers each year thereafter, the total profit opportunity over three years after adjusting for risk is \$324,864. Risk adjustments account for variability in configurations, margins, and potential for losing existing customers or not attaining two new customers in each of the out years.

**TABLE 1**  
**Hosting Profit**

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
A1	Hosting revenue per customer per month	Composite	\$6,000	\$6,000	\$6,000
A2	Total customers	Composite	6	8	10
A3	Total annual hosting revenue	A1*A2*12	\$432,000	\$576,000	\$720,000
A4	Margin	Composite	20%	20%	20%
At	Hosting profit	A3*A4	\$86,400	\$115,200	\$144,000
	Risk adjustment	↓6%			
Atr	Hosting profit (risk-adjusted)		\$81,216	\$108,288	\$135,360

Source: Forrester Research, Inc.

### + Setup Profit

To provide high-quality service, Laud IT insists on a formal initial setup process with new customers. This flat fee of \$25,000 accounts for the time and effort for Laud IT to understand the customer environment, scope managed services need, perform migration activities, and learn about any specific applications, websites, or other components that Laud IT will manage, monitor, operate, and administer.

As shown in Table 2, based on the “6-8-10” scenario, the three-year revenue opportunity is \$250,000. After accounting for a 40% margin and adjusting for risk, the three-year profit opportunity is \$94,000. Risk adjustments account for variability in setup fee, margins, and ability to attain customers.

**TABLE 2**  
**Setup Profit**

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
B1	One-time setup fee	Composite	\$25,000	\$25,000	\$25,000
B2	New customers per year	Year 1: A2 Year 2 and 3: A2 <sub>cy</sub> -A2 <sub>py</sub>	6	2	2
B3	Total setup revenue	B1*B2	\$150,000	\$50,000	\$50,000
B4	Margin	Composite	40%	40%	40%
Bt	Setup profit	B3*B4	\$60,000	\$20,000	\$20,000
	Risk adjustment	↓6%			
Btr	Setup profit (risk-adjusted)		\$56,400	\$18,800	\$18,800

Source: Forrester Research, Inc.

### + Managed Services Profit

Laud IT estimates that each SoftLayer deal consists of 20% hosting revenue and 80% managed services revenue. Specific services can vary based on the scoping process but typically have some component of performance and capacity management, along with administration of applications, databases, and websites. Laud IT describes the depth in management and administration in three levels:

- › Customer builds something; Laud IT operates and monitors.
- › Customer builds something; Laud IT operates, monitors, and continually updates.
- › Customer works with Laud IT to build or rebuild an environment in SoftLayer.

All managed services revenue in this segment is SoftLayer-related and does not include nonSoftLayer managed services like data security solutions, industry solutions, email and collaboration, enterprise backup, and managed devices. As shown in Table 3, the risk adjustment should account for any variance in whether an MSP associates or attributes managed services revenue directly to adopting SoftLayer; however, readers who want to be more conservative may adjust the risk level higher and multiply the total by a reasonable “attributable revenue” ratio.

Over three years in a “6-8-10” scenario, the risk-adjusted profit opportunity at a 40% margin is \$2.6 million.

**TABLE 3**  
**Managed Services Profit**

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
C1	Managed services revenue per customer per month	Composite	\$24,000	\$24,000	\$24,000
C2	Total customers	A2	6	8	10
C3	Total annual managed services revenue	C1*C2*12	\$1,728,000	\$2,304,000	\$2,880,000
C4	Margin	Composite	40%	40%	40%
Ct	Managed services profit	C3*C4	\$691,200	\$921,600	\$1,152,000
	Risk adjustment	↓6%			
Ctr	Managed services profit (risk-adjusted)		\$649,728	\$866,304	\$1,082,880

Source: Forrester Research, Inc.

### + Total Opportunity

Table 4 shows the total of all opportunities across the three areas listed above, as well as present values (PVs) discounted at 10%. Over three years, Laud IT expects risk-adjusted total opportunity to be a present value of \$2.5 million.

**TABLE 4**  
**Total Opportunity (Risk-Adjusted)**

Opportunity	Initial	Year 1	Year 2	Year 3	Total	Present Value
Hosting profit	\$0	\$81,216	\$108,288	\$135,360	\$324,864	\$265,025
Setup profit	\$0	\$56,400	\$18,800	\$18,800	\$94,000	\$80,935
Managed services profit	\$0	\$649,728	\$866,304	\$1,082,880	\$2,598,912	\$2,120,199
<b>Total opportunity</b>	<b>\$0</b>	<b>\$787,344</b>	<b>\$993,392</b>	<b>\$1,237,040</b>	<b>\$3,017,776</b>	<b>\$2,466,159</b>

Source: Forrester Research, Inc.

## PRACTICE INVESTMENTS

Laud IT experienced two main practice investments associated with SoftLayer:

- › Practice startup costs.
- › Marketing costs.

### ⊖ Total Investments

Practice startup costs include time and effort dedicated to strategic planning, training, technical development and integration, and hiring. Planning time consists of six weeks with three executive-level resources. Technical development and integration is estimated at a \$25,000 cost equivalent to hours for systems engineers. The hiring and training components are also recurring at a lower rate after the initial spend. Training is \$20,000 initially and half of that amount in out years. This includes both actual cost of attending any content or seminars and time for staff attending training. The hiring expense consists of an HR staff's time, which is estimated at three months per new hire. The hiring expense also includes the time a hiring executive or systems engineer dedicates to interviews in a given year, which is based on 21 hours of interviews per new hire. Again, these costs decrease in out years once the practice has been set up.

Marketing costs may decrease beyond Year 3, but Laud IT wants to firmly establish its brand and explore market opportunities in the first three years. Activities range from events and webinars with a focus on lead generation for specific customer segments to content marketing with blogs, videos on social channels, and other free content related to cloud education. Laud IT also takes advantage of its partnership with SoftLayer and seeks to cohost events or apply for marketing subsidies when available.

As shown in Table 5, over three years, the risk-adjusted cost is \$424,288.

**TABLE 5**  
**Total Costs (Risk-Adjusted)**

Investment	Initial	Year 1	Year 2	Year 3	Total	Present Value
Practice startup costs	\$135,670	\$0	\$30,612	\$31,206	\$197,488	\$184,414
Marketing costs	\$0	\$64,800	\$75,600	\$86,400	\$226,800	\$186,302
<b>Total costs</b>	<b>\$135,670</b>	<b>\$64,800</b>	<b>\$106,212</b>	<b>\$117,606</b>	<b>\$424,288</b>	<b>\$370,716</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 SoftLayer 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).

Laud IT’s relationship with SoftLayer is still relatively young. The organization understands that its pricing model and packaging may change in the near future as SoftLayer evolves its channel program. As SoftLayer evolves its channel program and invests further into its own marketing, Laud IT expects even greater interest from prospects and a projectable stream of qualified leads.

Aside from expected future value directly related to SoftLayer’s product and program evolution, Laud IT also has an opportunity to reassess its business model and offerings. Laud IT will likely continue to need its current data centers for both existing customers and to have a wider range of options for prospects. As the business grows, Laud IT can decide whether to continue scaling up its data centers or to invest further in SoftLayer.

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

**TABLE 6**  
**Revenue Opportunity And Cost Risk Adjustments**

<b>Revenue Opportunities</b>	<b>Adjustment</b>
Hosting profit	↓6%
Setup profit	↓6%
Managed services profit	↓6%
<b>Costs</b>	<b>Adjustment</b>
Practice startup costs	↑8%
Marketing costs	↑8%

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 revenue opportunities are identified as part of the analysis:

- › Variability in average margins.

- › Variability in hardware configurations.
- › Decreased need for managed services.
- › Lower attribution rate of managed services revenue gained due to SoftLayer partnership.
- › Inability to attain new customers.

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

- › Challenges in recruiting qualified talent.
- › Hiring inexperienced resources that require more training.
- › Improper planning and spending of marketing budget.

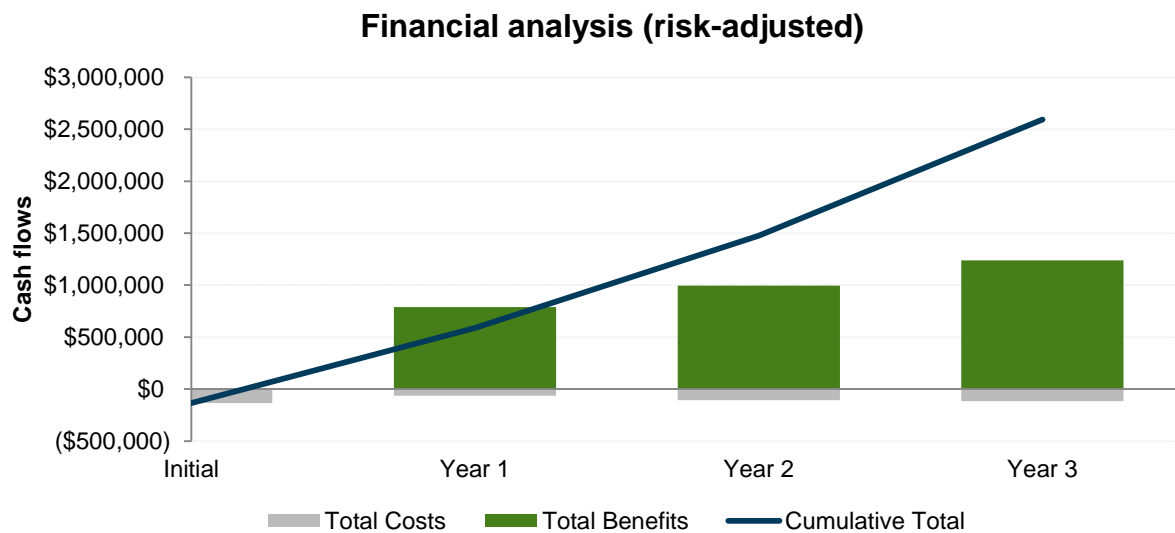
Table 6 shows the values used to adjust for risk and uncertainty in the cost and benefit estimates. Readers are urged to apply their own risk ranges based on their own degree of confidence in the cost and benefit estimates.

## Financial Summary

The financial results calculated in the Revenue Opportunities and Practice Investments sections can be used to determine the cash flow, NPV, and payback period for Laud IT's investment in SoftLayer.

Table 7 below shows the risk-adjusted ROI, NPV, and payback period values. These values are determined by applying the risk-adjustment values from Table 6 in the Risks section to the unadjusted results in each relevant opportunity and investment section. Readers should note the difference between cumulative revenue and profit opportunity in Table 7.

**FIGURE 3**  
Cash Flow Chart (Risk-Adjusted)



Source: Forrester Research, Inc.

**TABLE 7**  
Cash Flow (Risk-Adjusted)

	Initial	Year 1	Year 2	Year 3	Total	Present value
Practice investments	(\$135,670)	(\$64,800)	(\$106,212)	(\$117,606)	(\$424,288)	(\$370,716)
Profit opportunity	\$0	\$787,344	\$993,392	\$1,237,040	\$3,017,776	\$2,466,159
Net benefits	(\$135,670)	\$722,544	\$887,180	\$1,119,434	\$2,593,488	\$2,095,443
Sample total customers in three years			10			
Total three-year cumulative revenue			\$8,356,600			
Sample gross margin			20% to 40%			
<b>Three-year risk-adjusted NPV</b>						<b>\$2,095,443</b>

Source: Forrester Research, Inc.

## SoftLayer: Overview

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

SoftLayer, an IBM company, provides cloud infrastructure as a service from data centers in the United States, Asia, and Europe and has a global footprint of 17 network points of presence. Customers range from web startups to global enterprises.

Earlier this year, IBM announced a \$1.2 billion investment to expand SoftLayer's global data center footprint to 40 locations covering every major geography and financial center by 2015. To date, IBM has 28 data centers, including three new SoftLayer centers in Hong Kong, Dallas, and London. In the third quarter of 2014, IBM will announce four more SoftLayer facilities in Melbourne, Paris, Toronto, and Washington, D.C. These new and upcoming data centers offer the full range of SoftLayer cloud infrastructure services, including bare metal servers, virtual servers, and storage and networking.

Products and services include:

- › Bare metal servers.
- › Virtual servers.
- › Networking.
- › Turnkey big data.
- › Private cloud solutions.

SoftLayer developed the industry's first network-within-a-network topology for true out-of-band access, and a user-friendly customer portal and robust API for full remote access of all product and service management options.

SoftLayer was founded in 2005 and is headquartered in Dallas. The company was acquired by IBM in July 2013.

### ABOUT IBM CLOUD COMPUTING

IBM has helped more than 30,000 clients around the world with 40,000 industry experts. Today, IBM has 100+ cloud SaaS solutions; thousands of experts with deep industry knowledge, helping clients transform; and a network of 40 data centers worldwide. Since 2007, IBM has invested more than \$7 billion in 17 acquisitions to accelerate its cloud initiatives and build a high-value cloud portfolio. IBM holds 1,560 cloud patents focused on driving innovation. IBM, for the 21st consecutive year, topped the annual list of US patent leaders. IBM processes more than 5.5 million client transactions daily through IBM's public cloud. For more information about cloud offerings from IBM, visit [ibm.com/cloud](http://ibm.com/cloud).



## Appendix A: Composite Organization Description

The composite organization, Laud IT, is a UK-based MSP with the following high-level characteristics:

- › Focused on managed services and hosting solutions for both traditional IT and SaaS customers across industries.
- › Annual revenue of \$10 million.
- › Total headcount of 32 people, consisting of 10 systems engineers, six account managers, two product managers, two channel managers, and other internal and business development staff.
- › About 5% of the business is related to SoftLayer hosting solutions, and a further portion is based on services built on top of the hosting.

Prior to fully adopting SoftLayer, Laud IT's executives spent six weeks to plan its business strategy for selling and delivering SoftLayer services. During that time, Laud IT answered the following questions:

- › Can we provide similar service at similar margins and quality to our customers with our two existing data centers?
- › Should we partner with other cloud IaaS or hosting providers?
- › How will we build managed services on top of the SoftLayer platform?

The six-week planning process revealed that Laud IT's existing data centers may not be able to provide the scaling flexibility, speed in provisioning, and global footprint that SoftLayer offers. Moreover, Laud IT chose to work with SoftLayer as a primary cloud IaaS and hosting partner due to SoftLayer's transparency, data center locations, and deep understanding of Laud IT's business model and vision through relationship building.

Since deploying SoftLayer 18 months ago, Laud IT has settled on a stable trend of deal sizes that created the following composite deal structure:

- › Twenty percent of SoftLayer-related revenue is the actual hosting fee at a 20% margin.
- › Eighty percent of SoftLayer-related revenue is managed services built on top of the platform at a 40% margin.
- › New customers will also be billed a flat initial setup fee of \$25,000 at a 40% margin for migration, services scoping, and learning the customers' environments.

### FRAMEWORK ASSUMPTIONS

Table 8 provides the model assumptions that Forrester used in this analysis.

The discount rate used in the PV and NPV calculations is 10%, and the time horizon used for the financial modeling is three years. Organizations typically use discount rates between 8% and 16% based on their current environment. Readers are urged to consult with their respective company's finance department to determine the most appropriate discount rate to use within their own organizations.

**TABLE 8**  
**Model Assumptions**

Ref.	Metric	Value
X1	Hours per week	40
X2	Weeks per year	52
X3	Hours per year (M-F, 9-5)	2,080
X4	Hours per year (24x7)	8,760
X5	Planning executive salary	\$120,000
X6	HR resource salary	\$65,000
X7	Hiring executive wage/hour	\$75
X8	Annual organization growth	3%
PY	Prior year	
CY	Current year	

Source: Forrester Research, Inc.

## 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.

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 applies a probability density function known as "triangular distribution" to the values entered. At a minimum, three values are calculated to estimate the underlying range around each cost and benefit.

## Appendix C: Glossary

**Discount rate:** The interest rate used in cash flow analysis to take into account the time value of money. Companies set their own discount rate based on their business and investment environment. Forrester assumes a yearly discount rate of 10% for this analysis. Organizations typically use discount rates between 8% and 16% based on their current environment. Readers are urged to consult their respective organizations to determine the most appropriate discount rate to use in their own environment.

**Net present value (NPV):** The present or current value of (discounted) future net cash flows given an interest rate (the discount rate). A positive project NPV normally indicates that the investment should be made, unless other projects have higher NPVs.

**Present value (PV):** The present or current value of (discounted) cost and benefit estimates given at an interest rate (the discount rate). The PV of costs and benefits feed into the total NPV of cash flows.

**Payback period:** The breakeven point for an investment. This is the point in time at which net benefits (benefits minus costs) equal initial investment or cost.

**Return on investment (ROI):** A measure of a project's expected return in percentage terms. ROI is calculated by dividing net benefits (benefits minus costs) by costs.

### A NOTE ON CASH FLOW TABLES

The following is a note on the cash flow tables used in this study (see the example table below). The initial investment column contains costs incurred at "time 0" or at the beginning of Year 1. Those costs are not discounted. All other cash flows in years 1 through 3 are discounted using the discount rate (shown in the Framework Assumptions section) 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.

#### TABLE [EXAMPLE]

##### Example Table

Ref.	Metric	Calculation	Year 1	Year 2	Year 3

Source: Forrester Research, Inc.

## Appendix D: 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.

<sup>2</sup> Sample total customers in three years of 10 customers is based on gradual growth over three years. The model accounts for six customers in Year 1 and two new customers each following year.