A Forrester Total Economic Impact™
Study Commissioned By Asana
April 2018

The Total Economic Impact™ Of Asana

Cost Savings And Business Benefits Enabled By Asana

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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.

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Key Benefits

Increased productivity of business units:
$197,147

Reduced cost for dedicated project management:
$46,582

Executive Summary

Asana provides a cloud-based platform for enterprise collaborative work management that helps customers effectively organize, manage, coordinate, and complete work — from projects to processes. Asana commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) enterprises may realize by deploying Asana. The purpose of this study is to provide readers with a framework to evaluate the potential financial impact of the Asana platform on their organizations.

To better understand the benefits, costs, and risks associated with this investment, Forrester interviewed several customers with years of experience using Asana. Each of the organizations adopted Asana and experienced rapid expansion of the platform. One organization reported that its teams created and effectively managed more than 130,000 tasks across more than 1,600 projects in its first year leveraging Asana's software.

Prior to using Asana, the customers used spreadsheets or other legacy project management tools to manage and collaborate on their work. Because of the complexity of ongoing business requirements and the shift from top-down to self-organized project management and collaboration across departments, the organizations were struggling to manage the requirements, expectations, and results of the increasingly complex and interdependent projects with the legacy tools and methods. In the words of one director: "There is simply no way to do our work now without Asana. If Asana went out of business and turned off, there would be a massive hit to our productivity."

After adopting Asana, the organizations succeeded in managing projects and processes more effectively and efficiently — with the resources previously spent on the busy work of updating project spreadsheets or rewriting process checklists now put toward advancing their businesses and serving customers on budget and deadline. Each organization also found Asana to be a key enabler for change in employee behavior, helping usher in a cultural change centered on transparent collaboration, communication, and accountability.

Key Findings

Quantified benefits. The following risk-adjusted present value (PV) quantified benefits of Asana are representative of those experienced by the companies interviewed:

› **Increased productivity of business employees valued at $197,147.** Business employees (i.e., those delivering products or services to customers) became more disciplined in managing activities and increased their average productivity, which increased the quality and consistency for customers.

› **Reduced cost of dedicated project management, totaling savings of $46,582.** Because employees all became proficient at managing projects and tasks, the organizations required fewer dedicated headcount for organizing and managing projects. Organizations reassigned these employees to revenue-producing work.

ROI
387%

Benefits PV
$281,911

NPV
$224,027

Payback
<3 months

› **Avoided cost of overcoming project delays of $38,182.** Some organizations fell behind in promises to customers and thus hired contractors to fill in the gaps caused by employees' inefficient work. Asana eliminated this cost.

Unquantified benefits. The interviewed organizations experienced the following benefits, which are not quantified for this study:

› **Improved successful work management across teams.** Groups that previously operated independently of each other could improve their interdependent planning and collective work, resulting in improved delivery of products and services to customers.

› **Enabled professionals to effectively manage projects and processes.** Professionals achieved a higher level of discipline and structure in tracking and managing their work activities.

› **Clarified assignments and follow-ups for complex teamwork.** Using Asana provided accountability and increased the trust between employees as assignments had clear owners and measurable tracking.

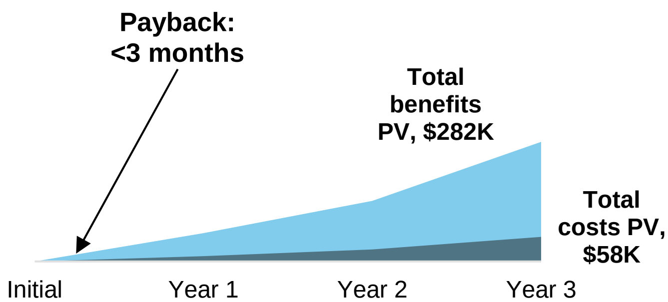
Costs. The interviewed organizations experienced the following PV risk-adjusted costs:

› **Subscription fees to Asana.** Asana has two paid subscription tiers: Premium and Enterprise. One organization started with small Premium deployments of Asana in various departments, but adoption and paid-seat growth was fast, as other groups in the department saw the functionality and benefit. After three years of growing its Premium subscription, the customer had paid Asana more than $33,000 for a total of 200 users.

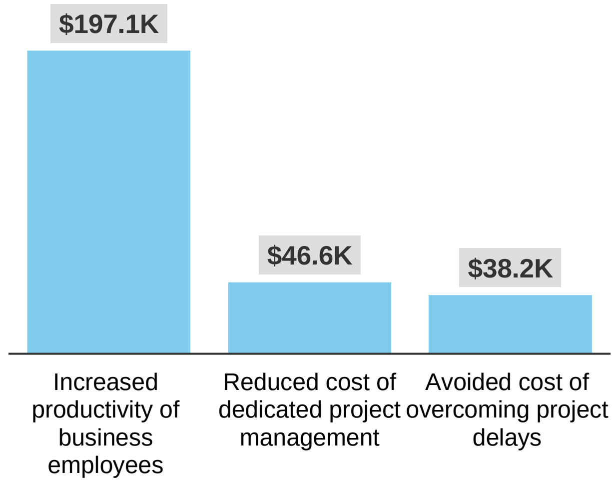
› **Employee training and development cost of $24,481.** During the first year of using Asana, employees went through 6 hours of training and professional development with the Asana Customer Success team to hone work management skills at an estimated equivalent cost of $24,481.

Forrester's interviews with four existing customers and subsequent financial analysis found that an organization based on these interviewed organizations experienced benefits of $281,911 over three years versus costs of $57,884, adding up to a net present value (NPV) of $224,027 and an ROI of 387%.

Financial Summary



Benefits (Three-Year)



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TEI Framework And Methodology

From the information provided in the interviews, Forrester has constructed a Total Economic Impact™ (TEI) framework for those organizations considering implementing Asana.

The objective of the framework is to identify the cost, benefit, flexibility, and risk factors that affect the investment decision. Forrester took a multistep approach to evaluate the impact that Asana's work management software can have on an organization:

The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.

DUE DILIGENCE
Interviewed Asana stakeholders and Forrester analysts to gather data relative to Asana.

CUSTOMER INTERVIEWS
Interviewed four organizations using Asana to obtain data with respect to costs, benefits, and risks.

COMPOSITE ORGANIZATION
Designed a composite organization based on characteristics of the interviewed organizations.

FINANCIAL MODEL FRAMEWORK
Constructed a financial model representative of the interviews using the TEI methodology and risk-adjusted the financial model based on issues and concerns of the interviewed organizations.

CASE STUDY
Employed four fundamental elements of TEI in modeling Asana's impact: benefits, costs, flexibility, and risks. Given the increasing sophistication that enterprises have regarding ROI analysis related to IT investments, Forrester's TEI methodology serves to provide a complete picture of the total economic impact of purchase decisions. Please see Appendix A for additional information on the TEI methodology.

DISCLOSURES

Readers should be aware of the following:

This study is commissioned by Asana 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 Asana.

Asana 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.

Asana provided the customer names for the interviews, but did not participate in the interviews.

The Asana Customer Journey

BEFORE AND AFTER THE ASANA INVESTMENT

Interviewed Organizations

For this study, Forrester conducted four interviews with Asana customers. Interviewed customers include the following:

INDUSTRY	REGION	INTERVIEWEE	NUMBER OF USERS
Human resources	Global	Director of operational success	200 users in operations
Entertainment company	Global	Director of digital programming	125 users in production
Cultural center	North America	Head of web and digital channels	180 users companywide
Entertainment technology	Global	Creative services manager	50 users in marketing

Key Challenges

Prior to adopting Asana for work management, the organization told Forrester that they were challenged because employees:

- **Spent time tracking projects and processes in spreadsheets and over email.** One director told Forrester: "I used to track a process with a spreadsheet file that was updated monthly. I used to send out 20 emails to gather information for the update, provide a sum, and then send out another email with an update. That busy work, with all its noise, used to take me about 2 hours every month."
- **Lacked any companywide structure for work management.** The director of digital programming told Forrester: "We had teams making content for different channels, and they were using more and more project spreadsheets to keep track of everything. We got to the point that we had all these spreadsheets with data that crossed between them. We didn't have specific people to manage all of this work, and we didn't have the capacity to really keep track of all the work that was being created."
- **Committed to customer timelines without knowing if it was possible.** One director said: "Prior to Asana, we didn't have even a production schedule. When you're working in the entertainment industry with multiple huge brands across the world, they need to know for their own content production and their own marketing calendars what we are producing when, and it was very difficult to give that information."
- **Failed to coordinate planning between departments.** The cultural director said: "We started looking at our processes and thinking about how we could be more efficient in our work. We had a lot of building projects, a lot of digital projects, a lot of editorial projects, a lot of design projects, a lot of interpretive projects. We printed them out at a massive scale and stuck them up in a meeting room. It was clear that we had 20 to 25 large scale projects in front of us, yet we didn't feel like we were going to get any of them done without something both more meta and more granular in terms of sort of running traffic."

> "Before Asana, we got to the point of having multiple spreadsheets with work data that crossed between them. We didn't have specific people to manage all of this data, and we didn't have the capacity to really keep track of all the weight that was being created."
>
> *Director of digital programming, entertainment company*

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Solution Requirements

The interviewed organizations searched for a solution that could help track and manage work spanning most types of projects, processes, and pipelines across various functions in the business. Each organization:

- **Evaluated several traditional project management tools before choosing Asana's work management platform.** The entertainment technology provider said: "When I started, we were using another tool to manage requests, which wasn't the best tool. We did a lot of testing and checking out demos of other tools. Personally, my first choice was always Asana, but we wanted to be fair, so we ran through about five other tools. Asana was just the one that really was able to do what we wanted to do. It probably took about six months to do some review to test out other demos and come to the conclusion that Asana was the tool we were going to move forward with."

> "When I started, we were using another tool to manage requests, which wasn't the best tool. We did a lot of testing and checking out demos of other tools. . . . Asana was just the one that really was able to do what we wanted to do."
>
> *Creative services manager, entertainment technology*

- **Looked for a variety of product attributes that provided ease of use, flexibility, and agility.** One director said: "The first thing that we noticed was the user interface. We also asked:
    - "Is the tool simple enough to get going?
    - "Is it efficient enough that our team and people outside of our team will find it more valuable than reverting to the chaos of messaging, status meetings, and spreadsheets?
    - "Can it help us keep track of timelines, milestones, and resources?"
- **Required that employees actually engage with the tool to track results.** One director said: "One of the big deciding factors was that Asana is so user-friendly and it works in real time. Everyone on our team has adopted Asana, and that's really been the key differentiator from other project or work management tools. If someone makes a comment, it shows up immediately. If someone completes a milestone, others are notified so they can get going on their next step. Most downstream tasks require completion of the upstream task. Other tools did not automate this clarity; they required manual refresh. And if a user didn't refresh, you could have missed key information."

Key Results

The interviews revealed that key results from the Asana investment include:

- **Efficient and productive collaboration.** The entertainment company director said: “Asana allows anyone from any team to see where a given task or project is in its trajectory of completion, and if they have to ask a question, they can ask the correct person because every item of work has a ‘face’ to it in Asana. This avoids emails and chat being sent, having to be routed to the right person, and then routed back in a messy status-seeking thread. In terms of moving quickly and saving time, it’s been a game changer.”
- **The ability to get more done with less effort.** The same director continued: “In the first year with Asana, we created and managed 134,000 tasks across 1,675 projects. Imagine if we were trying to track all that activity in spreadsheets and status meetings.” Similarly, another director added: “There is simply no way to do our work now. If Asana went out of business and turned off, there would be a massive hit to our productivity.”
- **Reduced email traffic previously used to manage and track project activities.** A director said: “We migrated from a very high-touch, incredibly ad hoc, and mostly email-based approach to managing work, which we have now eliminated thanks to Asana. Using Asana has reduced my email traffic by probably 15% to 20%.”
- **Consolidated project management activities.** One director added, “Just for efficiency’s sake, being able to do everything in one tool and not having to use multiple tools, along with trying to find a way that we could eliminate communicate via email and keep communication all within one request, made a huge impact.”
- **Greater accountability for commitments and deadlines.** A director said: “Our biggest need was to streamline project management. What we were using when I started just wasn’t efficient. It was actually hindering people from getting things done on time. It wasn’t allowing designers to truly understand what the context of a task was. We just needed to overhaul the process, and Asana was the key component to that.”

“There is simply no way to do our work now. If Asana went out of business and turned off, there would be a massive hit to our productivity.”

Head of web and digital channels, cultural center

“We migrated from a very high-touch, incredibly ad hoc, and mostly email-based approach to managing work, which we have now eliminated thanks to Asana. Using Asana has reduced my email traffic by probably 15% to 20%.”

Head of web and digital channels, cultural center

Financial Analysis

QUANTIFIED BENEFIT AND COST DATA AS APPLIED TO THE COMPOSITE

Total Benefits

REF.	BENEFIT	YEAR 1	YEAR 2	YEAR 3	TOTAL	PRESENT VALUE
Atr	Increased productivity of business employees	$31,078	$72,516	$145,031	$248,625	$197,147
Btr	Reduced cost of dedicated project management	$0	$20,000	$40,000	$60,000	$46,582
Ctr	Avoided cost of overcoming project delays	$42,000	$0	$0	$42,000	$38,182
	Total benefits (risk-adjusted)	$73,078	$92,516	$185,031	$350,625	$281,911

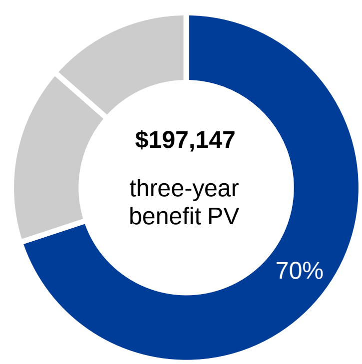
Increased Productivity Of Business Employees

During interviews, executives told Forrester how Asana helped them better structure, coordinate, and manage their work — from projects to processes and pipelines — and how Asana positively impacted the performance and culture of their organization. Overall, using Asana:

- Increased the productivity of business unit employees by 10% due to increased consistency, predictability, avoided SLA penalties, and other improvements.
- Reduced the need to hire an additional 35 employees over three years to produce the same amount of work output.
- Improved work management beyond just the tools. While Asana was a crucial tool for each of the organizations, they also indicated that the platform enabled them to pursue broader programs of training, process improvement, and performance tracking that would have otherwise been impossible.
- Required a learning curve for employees to begin effectively managing projects. Using Asana as a tool was simple and immediate, but employees had to change their behavior and learn to work and think in terms of more structured approaches to work management than was previously possible with email, spreadsheets, and traditional project management tools. This required an average of three months for employees during their first year.

Readers are likely to experience a wide range of results based on their current tools and discipline in managing work. To account for this risk, Forrester adjusted this benefit downward by 15%, yielding a three-year risk-adjusted total PV $197,147.

The table above shows the total of all benefits across the areas listed below, 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 $281,911.



Increased productivity of business employees: **70%** of total benefits

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Increased Productivity Of Business Employees: Calculation Table

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
A1	Number of employees using Asana		50	100	200
A2	Employees new to structured work management each year	$A1_{CY}-A1_{PY}$		50	100
A3	Improvement on productivity		10%	10%	10%
A4	Avoided need for additional employees (FTEs each year)	A1*A3	5	10	20
A5	Average burdened salary		$65,000	$65,000	$65,000
A6	Percentage of productivity benefit attributed to using Asana		15%	15%	15%
A7	Reduction in impact each year as employees learn effective work management		75%	87.5%	87.5%
At	Increased productivity of business employees	A4*A5*A6*A7	$36,563	$85,313	$170,625
	Risk adjustment	↓15%			
Atr	Increased productivity of business employees (risk-adjusted)		$31,078	$72,516	$145,031

Reduced Cost Of Dedicated Project Management

Each organization discussed that its team spent less time on the busy work related to project management. Examples include:

- A team of marketing professionals that previously spent an estimated 5% of its time focused on project tracking and status.
- An executive who previously spent 30% of his time tracking projects and tasks. The activities included sending dozens of emails about project status and sending additional emails to inform relevant stakeholders.
- An organization that employed someone dedicated to project management to track activities and progress. After adopting Asana, the organization was able to phase out the dedicated work on project management and refocus that employee on other value-added tasks.

Forrester constructed the financial model on the last scenario, although readers may experience other forms of overhead that is dedicated to project management activities. To account for this risk, Forrester adjusted this benefit downward by 20%, yielding a three-year risk-adjusted total PV of $46,582.

Impact risk is the risk that the business or technology needs of the organization may not be met by the investment, resulting in lower overall total benefits. The greater the uncertainty, the wider the potential range of outcomes for benefit estimates.

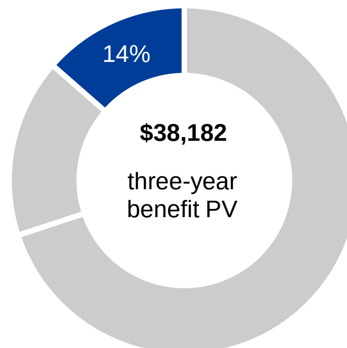
Reduced Cost Of Dedicated Project Manager: Calculation Table					
REF.	**METRIC**	**CALC.**	**YEAR 1**	**YEAR 2**	**YEAR 3**
B1	Dedicated employee for project management	50% in Year 2; 100% in Year 3		$25,000	$50,000
Bt	Reduced cost of dedicated project manager		$0	$25,000	$50,000
	Risk adjustment	↓20%			
Btr	Reduced cost of dedicated project manager (risk-adjusted)		$0	$20,000	$40,000

Avoided Cost Of Overcoming Project Delays

Several of the organizations shared that they frequently encountered problems with teams that were not working with the same timelines; this created minor inefficiencies.

One organization encountered scheduling and production problems that impacted their deliverables to customers. In this case, the company hired consultants to perform the work that was either overlooked or had fallen behind. In the year before using Asana, the organization hired three contractors for two months at a total cost of $56,000.

This benefit of using Asana will be poignant for readers who are struggling to deliver client work or deliverables on time. Others may find the benefit less relevant to their business case. To account for this risk, Forrester adjusted this benefit downward by 25%, yielding a three-year risk-adjusted total PV of $38,182.



Avoided cost of overcoming project delays: **14%** of total benefits

Avoided Cost Of Overcoming Project Delays: Calculation Table					
REF.	**METRIC**	**CALC.**	**YEAR 1**	**YEAR 2**	**YEAR 3**
C1	Three contractors hired for two months		$56,000		
Ct	Avoided cost of overcoming project delays	=C1	$56,000		
	Risk adjustment	↓25%			
Ctr	Avoided cost of overcoming project delays (risk-adjusted)		$42,000		

Unquantified Benefits

The organizations reported additional benefits of Asana's work management software that they were unable to specifically measure or quantify:

- **Improving cross-functional project and process management.** One director said: "Our work is highly cross-functional across teams, and many projects and processes are interdependent. Because we've managed our work in Asana, the projects we're working on are actually completed instead of getting lost in the ether."

- **Empowering everyone to be a "project manager."** Another director added: "I have an editorial background prior to this. My job is to conceive and market great content, but that also requires great project management. Asana made this something I could accomplish alongside my functional role."

  Similarly, another director continued the thought: "I think what we're able to do is just work better together, which had previously been kind of a struggle, as people were often focusing just on their immediate deliverables rather than holistic, collaborative projects. Asana makes everyone here a great project manager, and the result has been that we've been able to come together and do better work."

- **Providing real-time clarity and accountability in meetings.** One director said: "Asana enables us to create immediate clarity of ownership, deadlines, and expectations even as we sit in a room and make a decision. We'll agree on the wording of the outcomes of that decision, then set ownership and expectations and timelines to where the parts will be delivered — all within Asana coming right out of the meeting instead of buried in meeting notes. This also lets people who aren't present know who's doing what by when, right away. This ability has fundamentally changed how we work as an organization and has led to massive efficiencies. It means that you can come out of a meeting feeling really confident that the thing that you're relying on for you to be successful will happen because you know who's responsible for delivering on it."

Flexibility

The value of flexibility is clearly unique to each customer, and the measure of its value varies from organization to organization. There are multiple scenarios in which a customer might choose to implement Asana for one need, and then later realize additional uses and business opportunities for Asana, including:

Flexibility, as defined by TEI, represents an investment in additional capacity or capability that could be turned into business benefit for a 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.

- **High-level reporting for executives.** The director at the cultural center shared, “Asana allows us to not only manage the important and multitude of detail of each body of work, but to also create what we call ‘spine projects’ from the same data set. A spine project is an executive-brief view of the most important markers for a given exhibit. In our case, this means:
    - “What is the opening date?
    - “When is the press preview?
    - “What is the status of all asset loans?
    - “Where is the checklist of artworks?
    - “Are the walls changing?
    - “Will there be enough physical space?

  “As a result, while we’ll have 40 or so tasks related to exhibition work, only two of them are shown in the spine project that other executives can see, and the other 38 are only seen by my team.”
- **A shift from just editorial calendar management to managing all marketing initiatives.** A director described: “As we’re thinking about how to be an overall stronger team, it’s about how to continue better connecting our teams and all the work happening within marketing. What started as a great tool for managing a specific marketing project has now become a marketing work management platform for knowing exactly what’s coming down the overall marketing pipeline, across projects and campaigns, and ensuring that we work together to get the initiatives out.”

Flexibility would also be quantified when evaluated as part of a specific project (described in more detail in Appendix A).

Total Costs

REF.	COST	INITIAL	YEAR 1	YEAR 2	YEAR 3	TOTAL	PRESENT VALUE
Dtr	Subscription fees to Asana	$0	$6,000	$12,000	$24,000	$42,000	$33,403
Etr	Employee training and development	$0	$7,560	$7,560	$15,120	$30,240	$24,481
	Total costs (risk-adjusted)	$0	$13,560	$19,560	$39,120	$72,240	$57,884

Subscription Fees To Asana

Customers told Forrester that they paid a subscription fee to Asana based on the number of active users. Each of the firms started using Asana within a single group or division, and additional organizations began using it as the success of that initial group was apparent.

Forrester models this viral growth by:

- Showing 50 users in Year 1, 100 users in Year 2, and 200 users in Years 3.
- Using Asana's 2018 Premium list price of $9.99 per user per month.

The organizations indicated that they did not incur any additional costs for configuration or customization of Asana. Users did experience a learning curve in becoming proficient in more disciplined work management, but the financial impact of this was addressed in a delayed benefit of the productivity of business users.

Forrester did not risk-adjust this cost, resulting in a three-year risk-adjusted total PV of $33,403.

The table above shows the total of all costs across the areas listed below, as well as present values (PVs) discounted at 10%. Over three years, the composite organization expects risk-adjusted total costs to be a PV of $57,884.

Subscription Fees To Asana: Calculation Table

REF.	METRIC	CALC.	INITIAL	YEAR 1	YEAR 2	YEAR 3
D1	Number of employees using Asana			50	100	200
D2	Cost of $10 per Premium user per year	D1*$10*12 months		$6,000	$12,000	$24,000
Dt	Subscription fees to Asana	=D2		$6,000	$12,000	$24,000
	Risk adjustment	↑0%				
Dtr	Subscription fees to Asana (risk-adjusted)			$6,000	$12,000	$24,000

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Employee Training And Development

A recurring theme during the interviews was that using Asana resulted in a fundamental change in each organization's culture. They shifted from companies that used ad hoc methods to manage work, processes, and projects to becoming more structured and disciplined, better managed, more predictable, and more productive.

Part of the change came from ongoing training about the platform and effective work management provided by Asana's Customer Success team. Each year, the employees who were new to Asana also engaged in an average of 30 minutes of training or professional development each month.

The time investment for these employees totaled 1,200 hours of training over three years. Because the level of training required by readers is likely to differ (some greater and some fewer), Forrester adjusted this cost upward by 5%, yielding a three-year risk-adjusted total PV of $24,481.

Implementation risk is the risk that a proposed investment may deviate from the original or expected requirements, resulting in higher costs than anticipated. The greater the uncertainty, the wider the potential range of outcomes for cost estimates.

Employee Training And Development: Calculation Table

REF.	METRIC	CALC.	INITIAL	YEAR 1	YEAR 2	YEAR 3
E1	New employees using Asana each year			50	50	100
E2	Total training hours per year			300	300	600
E3	Hourly cost for employee time during training (rounded)			$24	$24	$24
Et	Employee training and development	E2*E3		$7,200	$7,200	$14,400
	Risk adjustment	↑5%				
Etr	Employee training and development (risk-adjusted)			$7,560	$7,560	$15,120

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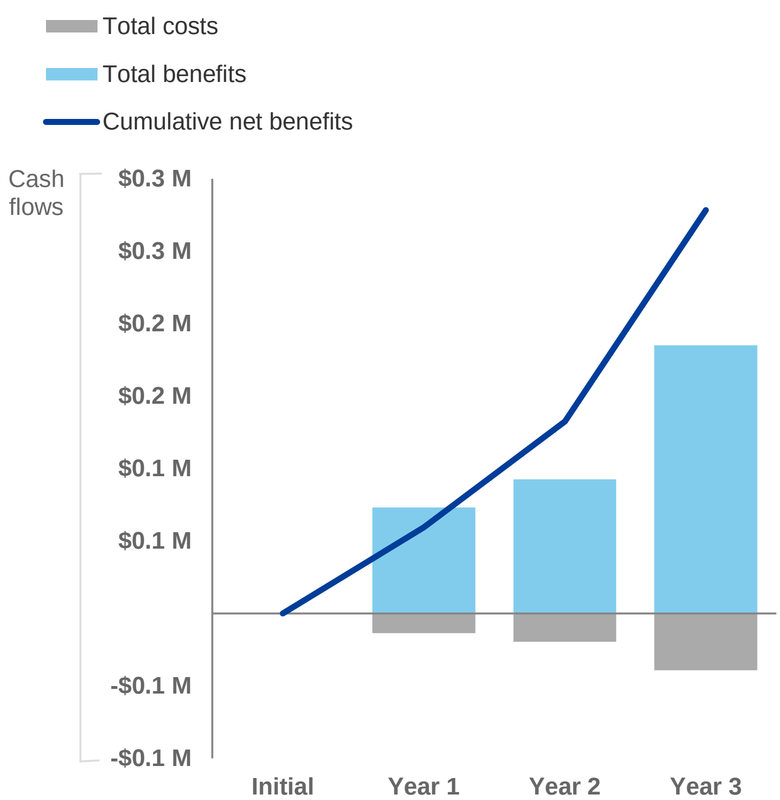
Financial Summary

CONSOLIDATED THREE-YEAR RISK-ADJUSTED METRICS

Cash Flow Chart (Risk-Adjusted)



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. Forrester assumes a yearly discount rate of 10% for this analysis.

These risk-adjusted ROI, NPV, and payback period values are determined by applying risk-adjustment factors to the unadjusted results in each Benefit and Cost section.

Cash Flow Table (Risk-Adjusted)

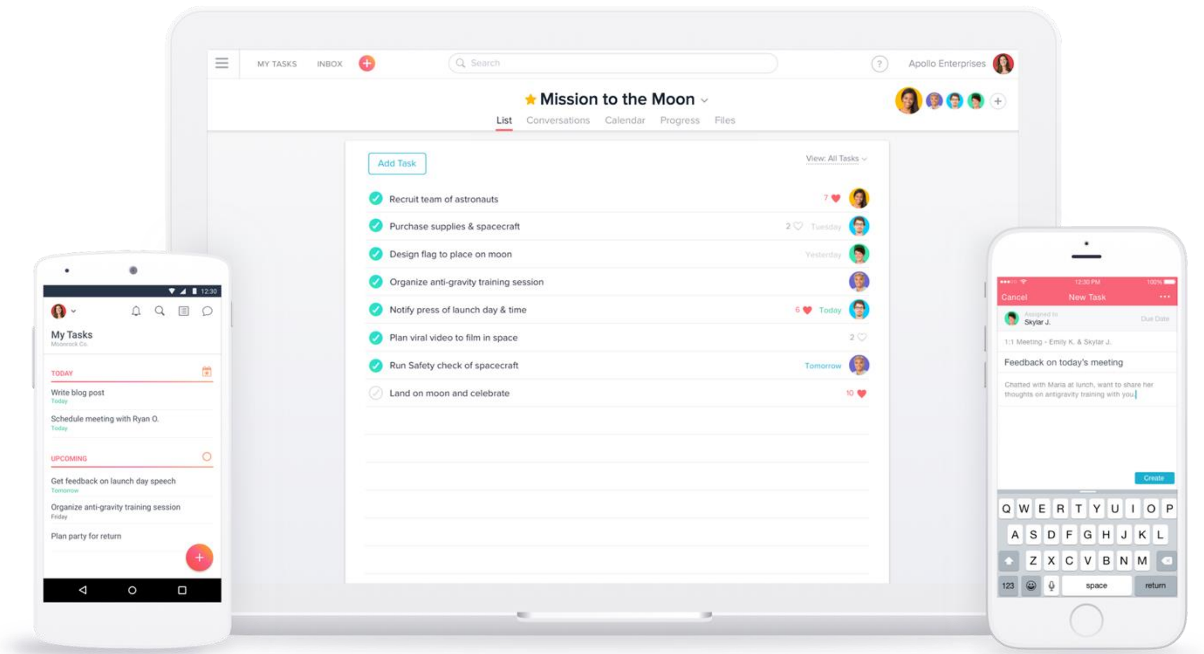
	INITIAL	YEAR 1	YEAR 2	YEAR 3	TOTAL	PRESENT VALUE
Total costs	$0	($13,560)	($19,560)	($39,120)	($72,240)	($57,884)
Total benefits	$0	$73,078	$92,516	$185,031	$350,625	$281,911
Net benefits	$0	$59,518	$72,956	$145,911	$278,385	$224,027
ROI						387%
Payback period						<3 months

Asana: Overview

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

Asana is software that helps teams coordinate and manage their work. It helps organizations move faster by making sure everyone knows the team’s plan, process, and who is doing what by when. Companies such as Uber, Major League Baseball, and the Bill & Melinda Gates Foundation use Asana to manage everything from marketing campaigns to product launches to team goals.

With more than 30,000 paying customers and millions of team members across 192 countries, Asana is widely recognized as a leader in work management software.



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Appendix A: Total Economic Impact

Total Economic Impact is a methodology developed by Forrester Research that enhances a company's technology decision-making processes and assists vendors in communicating the value proposition of their products and services to clients. The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.

Total Economic Impact Approach

Benefits represent the value delivered to the business by the product. The TEI methodology places equal weight on the measure of benefits and the measure of costs, allowing for a full examination of the effect of the technology on the entire organization.

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

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

Risks measure the uncertainty of benefit and cost estimates given: 1) the likelihood that estimates will meet original projections and 2) the likelihood that estimates will be tracked over time. TEI risk factors are based on "triangular distribution."

The initial investment column contains costs incurred at "time 0" or at the beginning of Year 1 that are not discounted. All other cash flows 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 in 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.

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.

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.

RETURN ON INVESTMENT (ROI)

A project's expected return in percentage terms. ROI is calculated by dividing net benefits (benefits less costs) by costs.

DISCOUNT RATE

The interest rate used in cash flow analysis to take into account the time value of money. Organizations typically use discount rates between 8% and 16%.

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.