The Total Economic Impact Of Oracle Premier Support For Systems

Multicompany Analysis

Project Director: Shaheen Parks
February 2012
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Executive Summary

In 2011, Oracle commissioned Forrester Consulting to examine the total economic impact and potential return on investment (ROI) enterprises may realize by leveraging Oracle Premier Support for Systems. This offering provides support for Oracle’s server and storage systems. The purpose of this study is to provide readers with a framework to evaluate the potential financial impact of Oracle Premier Support for Systems on their organizations compared with either supporting their environment internally or using an alternate provider.

It is important to note that this study and the ROI calculations within only fully address the support of server and storage hardware, not associated operating system (OS) support and virtualization software support. Although support of these software components is provided as a part of the standard cost of Oracle Premier Support for Systems, we have not estimated organizations’ potential replacement costs for these elements of coverage, in part, because most organizations would not seriously consider a support provider other than the software vendor. However, these elements remain a critical consideration given that the cost of OS and virtualization support can be higher than the associated hardware support cost, and proper maintenance is of equal importance. As a result, Forrester recommends that organizations evaluate not just the ROI of hardware support decisions (as provided in this study), but also the ROI of support decisions affecting related software.

Forrester found that higher ROIs were associated with companies with higher costs of downtime and more critical and dynamic systems under Oracle support. The cost of downtime was directly related to the return on investment that organizations realized from using Oracle Premier Support for Systems. We found the correlation to be that the higher the cost of downtime, the higher the return to the organization on its investment. Costs of downtime for the companies we interviewed varied based on how much downtime reduced individual or workgroup productivity and how it affected business transactions.

Based on our interviews with four existing customers and subsequent financial analysis, we found that a composite organization based on these companies experienced the risk-adjusted ROI, costs, and benefits shown in Table 1. [See Appendix A for a description of the composite organization.]

<table>
<thead>
<tr>
<th>ROI</th>
<th>Total benefits (PV)</th>
<th>Total costs (PV)</th>
<th>Net present value</th>
</tr>
</thead>
<tbody>
<tr>
<td>43%</td>
<td>$3,105,030</td>
<td>($2,168,292)</td>
<td>$936,737</td>
</tr>
</tbody>
</table>

Source: Forrester Research, Inc.
**Benefits.** The composite organization experienced the following benefits that represent those experienced by the interviewed companies (all totals are the three-year risk adjusted totals):

- **Reduced downtime:** $730,513. Due to the use of Oracle Premier Support for Systems, the interviewed companies reduced the amount of downtime experienced in their environments and the associated cost of that downtime.

- **Inventory cost avoidance:** $551,157. The interviewed organizations relied on Oracle Premier Support for Systems to provide spare parts for their Oracle environments, thus avoiding the cost of the inventory of spare parts.

- **Internal support cost avoidance:** $1,823,360. All of the interviewed organizations confirmed that if they were not using Oracle Premier Support for Systems, they would have needed an alternate source of support. Some stated that they would have used a different provider, while others would have augmented their internal staff. For either option, there is an associated cost that the companies were able to avoid.

**Costs.** The composite organization experienced the following costs:

- **Oracle support contract cost:** $2,113,824. The companies contracted Oracle’s services for a fixed annual fee.

- **Relationship management:** $54,468. In addition to the contract cost, the companies also interacted with the Oracle representatives and therefore accrued a cost for the time required to manage the Oracle support relationship.
Factors Affecting Benefits And Costs

Table 1 illustrates the risk-adjusted financial results that were achieved by the composite organization. The risk-adjusted values take into account any potential uncertainty or variance that exists in estimating the costs and benefits, which produces more conservative estimates. The following factors may affect the financial results that an organization may experience:

- **Complexity of the Oracle environment**: The more complex the environment was, the more value the interviewed companies derived from Oracle Premier Support for Systems. Both the age and range of Oracle hardware reflected this complexity.

- **Cost of downtime**: The cost of downtime can vary widely across industries as well as for individual businesses. The ROI captured in this study depends strongly on the cost of downtime used.
• **Alternate methods of support:** As mentioned, if not using Oracle support, some of the interviewees would support their environment internally, while others would use an alternate provider. This cost avoidance estimate for a particular company would depend on which alternate option is more realistic, as well as the particulars of that alternative (contract cost, number of internal administrators, or a combination).

**Disclosures**

The reader should be aware of the following:

• The study is commissioned by Oracle and delivered by the Forrester Consulting group.

• Forrester makes no assumptions as to the potential return on investment that other organizations will receive. Forrester strongly advises that readers should use their own estimates within the framework provided in the report to determine the appropriateness of an investment in Oracle Premier Support for Systems.

• Oracle 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 Oracle.
**TEI Framework And Methodology**

*Introduction*
From the information provided in the interviews, Forrester has constructed a Total Economic Impact™ framework for those organizations considering implementing Oracle Premier Support for Systems. The objective of the framework is to identify the cost, benefit, flexibility, and risk factors that affect the investment decision.

*Approach And Methodology*
Forrester took a multistep approach to evaluate the impact that Oracle Premier Support for Systems can have on an organization (see Figure 2). Specifically, we:

- Interviewed Oracle marketing/sales/consultants personnel and Forrester analysts to gather data relative to Oracle Premier Support for Systems and the marketplace for support services.
- Interviewed four organizations currently using Oracle Premier Support for Systems to obtain data with respect to costs, benefits, and risks.
- Designed a composite organization based on characteristics of the interviewed organizations (see Appendix A).
- Constructed a financial model representative of the interviews using the TEI methodology. The financial model is populated with the cost and benefit data obtained from the interviews as applied to the composite organization.

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**Figure 2**
TEI Approach

![Flowchart showing the TEI Approach: Perform due diligence, Conduct customer interviews, Design composite organization, Construct financial model using TEI framework, Write case study.](chart.png)

*Source: Forrester Research, Inc.*

Forrester employed four fundamental elements of TEI in modeling for Oracle Premier Support for Systems:

1. Costs.
2. Benefits to the entire organization.
3. Flexibility.

4. Risk.

Given the increasing sophistication that enterprises have regarding ROI analyses related to IT investments, Forrester's TEI methodology serves the purpose of providing a complete picture of the total economic impact of purchase decisions. Please see Appendix B for additional information on the TEI methodology.

### Analysis

**Interview Highlights**

A total of four interviews were conducted for this study, involving representatives from the following companies (Oracle customers based around the world):

1. A global corporation providing telecommunications solutions to service providers, enterprises, and governments around the world, enabling these customers to deliver voice, data, and video services.

2. A research facility dedicated to the study of neurology and the cellular and molecular mechanisms that drive the abilities of the human brain.

3. A global data networking and telecommunications equipment company headquartered in Europe.

4. An Australian telecommunications and media company, building telecommunications networks and marketing voice, mobile, Internet access, and pay television.

The four interviews uncovered the following:

- Interviewees felt that Oracle engineers were both proactive in maintaining the environment to avoid issues and quick to address and resolve problems that occurred. Interviewees cited both the presence of on-site engineers and the use of "walk-throughs" to keep an eye on the environment as factors in this benefit. One interviewee commented, “Oracle support is very interested in making our business successful, and they are proactive.” Another stated, “The on-site team is a huge advantage... they will do whatever they can to get it resolved.”

- The companies we interviewed recognized that the value of the inventory went beyond the financial worth of the spare parts. One interviewee mentioned that Oracle would fly parts out if they were not immediately available, while another observed that due to the particulars of their company's hardware and location, "Sourcing the parts would be difficult if not impossible."

- For the companies that said they would attempt to support their own environment if not using Oracle support, they reported that it would be difficult to reproduce the expertise offered by Oracle services. One commented, “Some of the hardware requires such specialization, such understanding... I rely on the Oracle tech guys, I couldn't reproduce that internally.”
Some interviewees compared their Oracle support to other divisions in their company that used an alternate support provider for their Oracle hardware. They confirmed that the non-Oracle support options typically had longer resolution times than the Oracle-supported environment, due in part to the Oracle expertise as well as Oracle’s availability.

**Composite Organization**

Based on the interviews with the four existing customers Oracle provided, Forrester constructed a TEI framework, a composite company, and an associated ROI analysis that illustrates the areas financially affected. The composite organization that Forrester synthesized from these results is intended to represent a division within a large global corporation; the division has approximately 8,500 employees and six major locations. The company has a wide range of Oracle hardware, including Sun servers from 20 years ago through to the latest, large-scale models and virtualized solutions; essentially Oracle’s whole range of products, in some way or form, acquired over many years.

**Framework Assumptions**

Table 2 provides the model assumptions that Forrester used in this analysis.

<table>
<thead>
<tr>
<th>Ref.</th>
<th>Metric</th>
<th>Calculation</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>Hours per week</td>
<td></td>
<td>40</td>
</tr>
<tr>
<td>A2</td>
<td>Weeks per year</td>
<td></td>
<td>52</td>
</tr>
<tr>
<td>A3</td>
<td>Hours per year (M-F, 9-5)</td>
<td></td>
<td>2,080</td>
</tr>
<tr>
<td>A4</td>
<td>Hours per year (24x7)</td>
<td></td>
<td>8,736</td>
</tr>
<tr>
<td>A5</td>
<td>Hardware engineer (fully loaded)</td>
<td></td>
<td>$130,000</td>
</tr>
<tr>
<td>A6</td>
<td>Hourly</td>
<td>(A5/A3)</td>
<td>$65</td>
</tr>
</tbody>
</table>

Source: Forrester Research, Inc.

The discount rate in the PV and NPV calculations is 10% and the time horizon 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.
Costs
The bulk of the costs included in this analysis are attributable to the contract cost with Oracle for support. This cost is negotiated with Oracle based on the size and complexity of the environment, the number of locations, and the nature of the company’s relationship with Oracle. Therefore, the interviewed organizations varied widely in the cost paid to Oracle for support. For the purposes of this study, we estimated this cost based on the particulars of the composite organization listed above.

*Oracle Support Contract Cost*
For a company of the size and nature of the composite organization, we estimate an annual cost of $850,000 for Oracle Premier Support for Systems.

<table>
<thead>
<tr>
<th>Ref.</th>
<th>Metric</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>Contract Cost</td>
<td>$850,000</td>
</tr>
</tbody>
</table>

Source: Forrester Research, Inc.

*Relationship Management*
In addition to the costs incurred by the Oracle contract, the organizations interviewed for this study indicated that some time was spent by their internal team interacting and working with the Oracle engineers. This varied widely based on the specifics of the environment and the timing (for example, some weeks required a lot of interaction, while others required very little.) For the purposes of this analysis, we estimate this requirement as an average of 6 hours per week, or a total of 312 hours per year. The details of this calculation are below.

<table>
<thead>
<tr>
<th>Ref.</th>
<th>Metric</th>
<th>Calculation</th>
<th>Year 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>B1</td>
<td>Time spent managing relationship (weekly)</td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>B2</td>
<td>Total annual time</td>
<td></td>
<td>312</td>
</tr>
<tr>
<td>B3</td>
<td>Administrator hourly rate</td>
<td></td>
<td>$65</td>
</tr>
<tr>
<td>Bt</td>
<td>Relationship management</td>
<td>B2*B3</td>
<td>$20,280</td>
</tr>
</tbody>
</table>

Source: Forrester Research, Inc.
Total Costs
The total costs are captured in the table below.

<table>
<thead>
<tr>
<th>Ref.</th>
<th>Cost category</th>
<th>Initial</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Total</th>
<th>Present value</th>
</tr>
</thead>
<tbody>
<tr>
<td>At</td>
<td>Contract cost</td>
<td>$0</td>
<td>($850,000)</td>
<td>($850,000)</td>
<td>($850,000)</td>
<td>($2,550,000)</td>
<td>($2,113,824)</td>
</tr>
<tr>
<td>Bt</td>
<td>Relationship management</td>
<td>$0</td>
<td>($20,280)</td>
<td>($20,280)</td>
<td>($20,280)</td>
<td>($60,840)</td>
<td>($50,433)</td>
</tr>
<tr>
<td></td>
<td>Total costs (Original)</td>
<td>$0</td>
<td>($870,280)</td>
<td>($870,280)</td>
<td>($870,280)</td>
<td>($2,610,840)</td>
<td>($2,164,258)</td>
</tr>
</tbody>
</table>

Source: Forrester Research, Inc.

Benefits
As described earlier, the benefits in this study fall into three categories: reduced downtime, inventory cost avoidance, and internal support cost avoidance.

Reduced Downtime
We identified two separate benefits with respect to a reduction in downtime: the proactive actions of Oracle engineers, which reduced the incidence of events, and the quick response, which shortened the duration of the events that did happen. We have described both in the following table. We estimate the total number of events (without Oracle support), the percentage avoided, and the percentage reduction in the duration of the remaining events. To stay conservative, we estimate the cost of downtime at $100,000 per hour; in some situations, this cost can be much greater.
### Table 6
Reduced Downtime

<table>
<thead>
<tr>
<th>Ref.</th>
<th>Metric</th>
<th>Calculation</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>Cost of downtime (hourly)</td>
<td></td>
<td>$100,000</td>
</tr>
<tr>
<td>A2</td>
<td>Average number of events (annual)</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>A3</td>
<td>Average duration of events</td>
<td></td>
<td>1.0</td>
</tr>
<tr>
<td>A4</td>
<td>Percentage reduction in number</td>
<td></td>
<td>25%</td>
</tr>
<tr>
<td>A5</td>
<td>Value of avoided events</td>
<td>$100,000<em>A2</em>A3*A4/A4</td>
<td>$125,000</td>
</tr>
<tr>
<td>A6</td>
<td>Total remaining events</td>
<td></td>
<td>3.75</td>
</tr>
<tr>
<td>A7</td>
<td>Percentage reduction in duration</td>
<td></td>
<td>50%</td>
</tr>
<tr>
<td>A8</td>
<td>Value of reduction in duration</td>
<td>$100,000<em>A3</em>A6*A7/A7</td>
<td>187,500</td>
</tr>
<tr>
<td>At</td>
<td>Downtime avoidance</td>
<td>$125,000<em>3.75</em>50%</td>
<td>$312,500</td>
</tr>
</tbody>
</table>

Source: Forrester Research, Inc.

### Inventory Cost Avoidance

We estimated the inventory benefit based on the number of locations as well as the value of the spare parts that would be needed at each location. As noted, the composite organization has approximately six major locations; based on the variety of spares needed at each location, we estimate a value of $50,000 in inventory at each in the first year, falling to $30,000 in subsequent years (assuming that not all inventory stock is used each year).

### Table 7
Inventory Cost Avoidance

<table>
<thead>
<tr>
<th>Ref.</th>
<th>Metric</th>
<th>Calculation</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>B1</td>
<td>Value of inventory per location</td>
<td></td>
<td>50,000</td>
<td>30,000</td>
<td>30,000</td>
</tr>
<tr>
<td>B2</td>
<td>Number of locations</td>
<td></td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Bt</td>
<td>Inventory cost avoidance</td>
<td>B1*B2</td>
<td>$300,000</td>
<td>$180,000</td>
<td>$180,000</td>
</tr>
</tbody>
</table>

Source: Forrester Research, Inc.
Internal Support Cost Avoidance
As mentioned, interviewees told Forrester that if they were not using Oracle Customer Support Services, they would either need a larger internal staff or they would require an alternate service for support. For the purposes of this analysis, we have included the cost avoidance of an augmented staff; although both are viable options, there is a large variance in the cost of alternate services. Readers are encouraged to consider which alternative makes sense in their organization.

Given that the composite company has six locations, we estimate six additional IT staff would be required if the organization did not use Oracle Customer Support Services.

Table 8
Internal Support Cost Avoidance

<table>
<thead>
<tr>
<th>Ref.</th>
<th>Metric</th>
<th>Calculation</th>
<th>Year 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>C1</td>
<td>Hardware administrator fully loaded salary.</td>
<td></td>
<td>130,000</td>
</tr>
<tr>
<td>C2</td>
<td>Number of administrators not needed</td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>Ct</td>
<td>Internal support cost avoidance</td>
<td>C1*C2</td>
<td>$780,000</td>
</tr>
</tbody>
</table>

Source: Forrester Research, Inc.

Total Benefits
The total benefits included in this analysis are listed below.

Table 9
Total Benefits

<table>
<thead>
<tr>
<th>Ref.</th>
<th>Benefit category</th>
<th>Initial</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Total</th>
<th>Present value</th>
</tr>
</thead>
<tbody>
<tr>
<td>At</td>
<td>Downtime avoidance</td>
<td>$0</td>
<td>$312,500</td>
<td>$312,500</td>
<td>$312,500</td>
<td>$937,500</td>
<td>$777,141</td>
</tr>
<tr>
<td>Bt</td>
<td>Inventory cost avoidance</td>
<td>$0</td>
<td>$300,000</td>
<td>$180,000</td>
<td>$180,000</td>
<td>$660,000</td>
<td>$556,724</td>
</tr>
<tr>
<td>Ct</td>
<td>Internal support cost avoidance</td>
<td>$0</td>
<td>$780,000</td>
<td>$780,000</td>
<td>$780,000</td>
<td>$2,340,000</td>
<td>$1,939,745</td>
</tr>
<tr>
<td></td>
<td>Total benefits (original)</td>
<td>$0</td>
<td>$1,392,500</td>
<td>$1,272,500</td>
<td>$1,272,500</td>
<td>$3,937,500</td>
<td>$3,273,610</td>
</tr>
</tbody>
</table>

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 Oracle Premier Support for Systems and later realize additional uses and business opportunities. Flexibility would also be quantified when evaluated as part of a specific project (which we describe in more detail in Appendix B).

Although we have not quantified the effects of flexibility in this study, interviewees did report feeling that using Oracle Premier Support for Systems gave them more flexibility in their environments. In particular, the interviewees indicated that Oracle support allowed them to use older hardware for a longer period of time; it also eased the transition to the most appropriate replacements when needed.

Risk
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 Oracle Premier Support for Systems may deviate from the original or expected requirements, resulting in higher costs than anticipated. “Impact risk” refers to the risk that the business or technology needs of the organization may not be met by the investment in Oracle Premier Support for Systems, resulting in lower overall total benefits. The greater the uncertainty is, the wider the potential range of outcomes for cost and benefit estimates.

By quantitatively capturing investment and impact risk by directly adjusting the financial estimate, more meaningful and accurate estimates and a more accurate projection of the ROI are produced. In general, risks affect costs by raising the original estimates, and they affect benefits by reducing the original estimates. The risk-adjusted numbers should be taken as “realistic” expectations since they represent the expected values considering risk.

The following impact risks that affect benefits are identified as part of the analysis:

- This analysis depends highly on the cost of downtime, which can vary widely from company to company.
- In this analysis, we have included the cost avoidance of additional internal staff. If an alternate external service provider was considered, the internal staffing cost would change, but additional cost would be added in the form of provider fees.

Table 10 shows the values used to adjust for risk and uncertainty in the cost and benefit estimates. The TEI model uses a triangular distribution method to calculate risk-adjusted values. To construct the distribution, it is necessary to first estimate the low, most likely, and high values that could occur within the current environment. The risk-adjusted value is the mean of the distribution of those points. Readers are urged to apply their own risk ranges based on their own degree of confidence in the cost and benefit estimates.
### Table 10
Cost And Benefit Risk Adjustments

<table>
<thead>
<tr>
<th>Costs</th>
<th>Low</th>
<th>Most likely</th>
<th>High</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract cost</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Relationship management</td>
<td>100%</td>
<td>100%</td>
<td>125%</td>
<td>108%</td>
</tr>
<tr>
<td>Benefits</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Downtime avoidance</td>
<td>80%</td>
<td>100%</td>
<td>103%</td>
<td>94%</td>
</tr>
<tr>
<td>Inventory cost avoidance</td>
<td>80%</td>
<td>100%</td>
<td>103%</td>
<td>94%</td>
</tr>
<tr>
<td>Internal support cost avoidance</td>
<td>80%</td>
<td>100%</td>
<td>103%</td>
<td>94%</td>
</tr>
</tbody>
</table>

Source: Forrester Research, Inc.
Financial Summary

The financial results calculated in the Costs and Benefits sections can be used to determine the return on investment, net present value, and payback period for the organization’s investment in Oracle Premier Support for Systems. These are shown in Table 11.

Table 11
Cash Flow — Non-Risk-Adjusted

<table>
<thead>
<tr>
<th></th>
<th>Initial</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Total</th>
<th>Present value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs</td>
<td>$0</td>
<td>($870,280)</td>
<td>($870,280)</td>
<td>($870,280)</td>
<td>($2,610,840)</td>
<td>($2,164,258)</td>
</tr>
<tr>
<td>Benefits</td>
<td>$1,392,500</td>
<td>$1,272,500</td>
<td>$1,272,500</td>
<td>$3,937,500</td>
<td>$3,273,610</td>
<td></td>
</tr>
<tr>
<td>Net benefits</td>
<td>$0</td>
<td>$522,220</td>
<td>$402,220</td>
<td>$402,220</td>
<td>$1,326,660</td>
<td>$1,109,353</td>
</tr>
<tr>
<td>ROI</td>
<td>51%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Forrester Research, Inc.

Table 12 shows the risk-adjusted ROI, NPV, and payback period values. These values are determined by applying the risk-adjustment values from Table 10 in the Risk section to the cost and benefits numbers in Tables 5 and 9.

Table 12
Cash Flow — Risk-Adjusted

<table>
<thead>
<tr>
<th></th>
<th>Initial</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Total</th>
<th>Present value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs</td>
<td>$0</td>
<td>($871,902)</td>
<td>($871,902)</td>
<td>($871,902)</td>
<td>($2,615,707)</td>
<td>($2,168,292)</td>
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<tr>
<td>Benefits</td>
<td>$1,323,950</td>
<td>$1,205,150</td>
<td>$1,205,150</td>
<td>$3,734,250</td>
<td>$3,105,030</td>
<td></td>
</tr>
<tr>
<td>Net benefits</td>
<td>$0</td>
<td>$452,048</td>
<td>$333,248</td>
<td>$333,248</td>
<td>$1,118,543</td>
<td>$936,737</td>
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<tr>
<td>ROI</td>
<td>43%</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Source: Forrester Research, Inc.
Oracle Premier Support For Systems: Overview

Oracle provides a unified, high level of support across all of its products. Service and support for server and storage products is delivered through its Oracle Premier Support for Systems offering. This offering includes 24/7 unlimited access to technical support specialists, online technical resources available through the My Oracle Support portal, and 24/7 hardware service with 2-hour on-site response. Also included are support and updates for integrated software (such as firmware) and embedded storage system software, as well as Oracle's operating systems (Oracle Solaris and Oracle Linux) and virtualization software (Oracle VM), with no added license or support fees.

Complete support coverage with a single point of service accountability is available for all Oracle software, hardware, and engineered systems. For complex IT requirements, Oracle also offers tailored, mission critical support services delivered by Oracle Advanced Customer Support Services.

Appendix A: Composite Organization Description

For this TEI study, Forrester has created a composite organization to illustrate the quantifiable costs and benefits of using Oracle Premier Support for Systems. The composite company is intended to represent a division within a large global corporation; the division has approximately 8,500 employees and six major locations. This composite is based on characteristics of the interviewed customers.

The composite company has six main locations and uses a wide range of Oracle hardware, including Sun servers from 20 years ago through to the latest large-scale models and virtualized solutions; essentially its whole range of products, in some way or form, acquired over many years.

In using Oracle Premier Support for Systems, the composite company has the following objectives:

- Acquire the expertise needed to maintain its complex hardware environment.
- Ensure the highest level of uptime and avoid hardware problems in a proactive manner.
- Maintain a close relationship with Oracle to ensure visibility into the future road map and plan hardware changes accordingly.

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, risks, and flexibility.

**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.

**Risk**
Risk measures 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 minimum, three values are calculated to estimate the underlying range around each cost and benefit.

**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 in time. However, having the ability to capture that benefit has a present value that can be estimated. The flexibility component of TEI captures that value.
Appendix C: Glossary

**Discount rate:** The interest rate used in cash flow analysis to take into account the time value of money. Although the Federal Reserve Bank sets a discount rate, companies often set a 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 organization 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 net present value of cash flows.

**Payback period:** The breakeven point for an investment. 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.

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**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 Framework Assumptions section) at the end of the year. Present value (PV) calculations are calculated for each total cost and benefit estimate. Net present value (NPV) calculations are not calculated until the summary tables and are the sum of the initial investment and the discounted cash flows in each year.

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<tr>
<th>Ref.</th>
<th>Category</th>
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<th>Initial cost</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
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</tr>
</tbody>
</table>

Source: Forrester Research, Inc.
Appendix D: Endnotes

1 Forrester risk-adjusts the summary financial metrics to take into account the potential uncertainty of the cost and benefit estimates. For more information on Risk, please see page 12.