

A Forrester Total Economic Impact™
Study Commissioned By USU
November 2019

The Total Economic Impact™ Of The USU Software Asset Management Solution

Cost Savings And Business Benefits For
SaaS Optimization Enabled By USU

Table Of Contents

Executive Summary	1
Key Findings	1
TEI Framework And Methodology	4
The USU Customer Journey	5
Interviewed Organization	5
Key Challenges	5
Solution Requirements	5
Key Results	6
Analysis Of Benefits	7
Direct Cost Avoidance Due To Offboarding, Reharvesting, And Downgrading Licenses	7
Incremental Output Per Worker Redeployed To Higher-Level Tasks	8
Unquantified Benefits	8
Flexibility	9
Analysis Of Costs	10
USU License Fees	10
Implementation Costs	11
Ongoing Management Costs	12
Financial Summary	13
USU Software Asset Management: Overview	14
Appendix A: Total Economic Impact	15

Project Director:
Rachel Ballard

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Executive Summary

USU provides software asset management solutions, including for software-as-a-service (SaaS) license management. This solution enables enterprises to optimize their SaaS subscriptions and licenses. USU commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) enterprises may realize by deploying the USU Software Asset Management Solution for SaaS Optimization. The purpose of this study is to provide readers with a framework for evaluating the potential financial impact of USU's solution on their organizations.

To better understand the benefits, costs, and risks associated with this investment, Forrester interviewed one USU customer with experience using its solution. The interviewee was the director of software asset management for a multibillion-dollar global life sciences company and manages licenses for the entire global operation.

Prior to using USU Software Asset Management, the customer was manually inventorying and reporting SaaS usage and spending—totaling approximately \$55.9M--which was incredibly time-consuming. The interviewee stated that by the time management received the units' reports from across the global organization, the information was often already outdated. These challenges led the customer to seek a more streamlined and efficient solution.

The customer used the cloud-based solution to manage licenses with two enterprise cloud applications and intends to add additional vendors as they become USU-compatible. The customer realized immediate direct cost avoidance savings and employee efficiency and expects the same as USU adds more vendor-specific connectors. The customer stated: "We're up and running with two enterprise platforms, and we are adding several others in parallel. We're following the money. Everything is SaaS today, and that is where USU Software Asset Management can have the biggest and best impact on our organization."

Key Findings

Quantified benefits. The interviewed organization experienced the following risk-adjusted present value (PV) quantified benefits:

- › **Direct cost avoidance due to offboarding, reharvesting, and downgrading licenses.** Optimizing SaaS license usage with the USU solution immediately saved the customer approximately \$4M per year. Accurate information allows better management of users with efficient and timely adjustments, minimizing cloud costs. The savings over three years totaled \$9,847,934.
- › **Incremental output per worker redeployed to higher-level tasks.** USU Software Asset Management enabled the interviewed organization to substantially reduce the amount of time and effort required to monitor licenses. Of the 21 full-time technical support staff across 21 organizational units reporting SaaS activity, two FTEs were completely reassigned, and the remaining 19 FTEs showed a 10% efficiency gain, which was subsequently deployed to higher-level tasks. This incremental output benefit offers a net value of \$343,335 over three years.

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

Benefits And Costs



Direct cost avoidance from improved license management:
\$9.8M



Increased employee efficiency:
\$343,335



Total costs to implement and use USU Software Asset Management over three years:
\$2.1M



ROI
383%



Benefits PV
\$10.2 million



NPV
\$8.1 million



Payback
<3 months

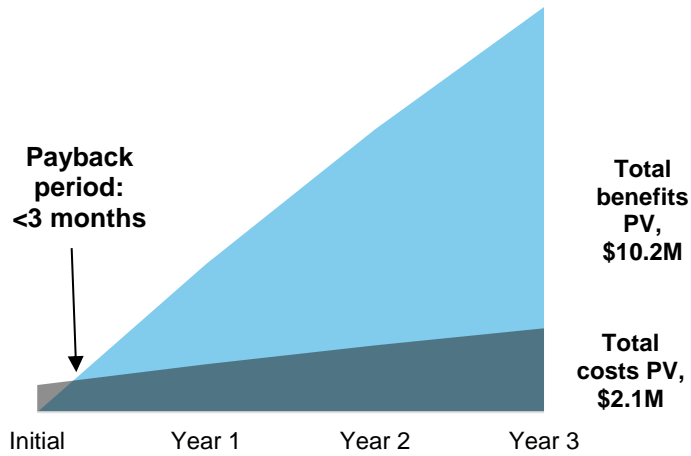
- › **Access to meaningful, real-time data.** This gives the organization the ability to initiate license reassignments and transfers, thus enabling changes to the number and nature of paid licenses. This benefit also facilitates contract negotiation with SaaS vendors.
- › **Transparency.** With full transparency regarding the existing SaaS licenses and the corresponding usage, the customer is able to continuously comply with usage agreements and efficiently respond to audit requests.
- › **Improvement in SaaS security.** There are fewer opportunities for license misuse due to the elimination of unnecessarily active and accessible accounts.
- › **Accuracy of data.** With automation taking the place of manual information compilation/reporting, there are fewer chances for erroneous data entry.

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

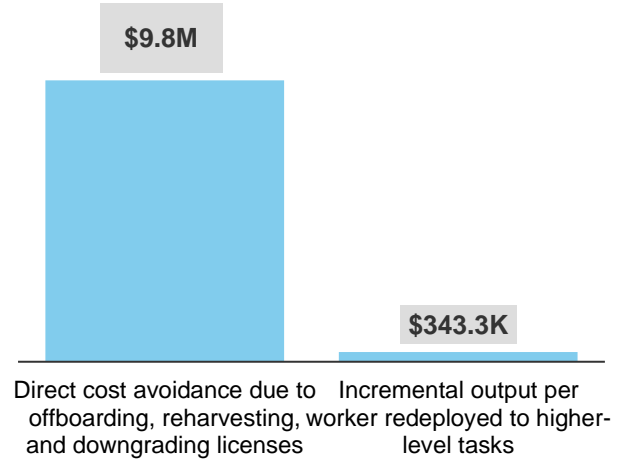
- › **USU license fees.** The interviewed company pays USU an annual license fee for the use of its solution. This is typically based on a percentage of an organization's overall SaaS spend, around \$55.9M for the interviewed customer. Based on average USU pricing, Forrester assumed 0.75% of SaaS spend for modeling purposes. The cost over three years totals \$1,253,373.
- › **Implementation costs.** The interviewed company incurred implementation costs with internal staff needs (three FTEs) as well as external professionals (1.5 FTEs) over the course of six months, costing the organization \$686,400.
- › **Ongoing management costs.** The ongoing management effort includes the cost of one full-time outsourced nearshore IT professional. The PV cost of this full-time individual, according to the interviewee, equals \$170,698 over three years.

Forrester's interview with an existing customer and subsequent financial analysis found that the interviewed organization experienced benefits of \$10.2 million over three years versus costs of \$2.1 million, adding up to a net present value (NPV) of \$8.1 million and an ROI of 383%.

Financial Summary



Benefits (Three-Year)



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

TEI Framework And Methodology

From the information provided in the interview, Forrester has constructed a Total Economic Impact™ (TEI) framework for those organizations considering implementing USU Software Asset Management.

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 USU can have on an organization:



DUE DILIGENCE

Interviewed USU stakeholders and Forrester analysts to gather data relative to its solution.



CUSTOMER INTERVIEW

Interviewed one organization using the USU Software Asset Management solution to obtain data with respect to costs, benefits, and risks.



FINANCIAL MODEL FRAMEWORK

Constructed a financial model representative of the interview using the TEI methodology and risk-adjusted the financial model based on issues and concerns of the interviewed organization.



CASE STUDY

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

DISCLOSURES

Readers should be aware of the following:

This study is commissioned by USU 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 USU Software Asset Management.

USU 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.

USU provided the customer name for the interview but did not participate in the interview.

The USU Customer Journey

BEFORE AND AFTER THE USU INVESTMENT

Interviewed Organization

For this study, Forrester interviewed an USU customer. The interviewed company is a multibillion-dollar global life sciences organization with over 100,000 employees in more than 150 countries. Forrester interviewed the director of software management who oversees operating systems for the entire global operation. The customer sought a SaaS subscription management platform that would provide cost savings with automation and therefore improved efficiency in the company's license management.

Key Challenges

The interviewed company shared the following challenges and drivers it faced prior to its investment in USU's cloud-based Software Asset Management solution:

- › **Cumbersome management process.** Previously, SaaS subscription management was labor-intensive. The company collected data monthly on 50,000 accounts from 211 support teams. The data was consolidated from multiple spreadsheets and sent to management for analysis. This required a substantial amount of time and effort.
- › **Lack of timely data analysis.** The large quantity of data coming from various business units, or organizations, made it difficult to assess and make software estate decisions in a timely, cost-effective manner. The customer wanted real-time data to be more agile regarding cloud management.
- › **Security concerns.** Licenses remained active for terminated employees longer than necessary and allowed access beyond what was needed. Without automation, it was difficult to manage this efficiently and created potential security breaches.
- › **Accuracy of data.** Since all data was collected on reports by various individuals and then input into spreadsheets, license information was susceptible to human error. The customer wanted a solution that would minimize human intervention and therefore ensure that all SaaS data was accurate, which, in turn, would allow for better decision making.
- › **Compliance issues.** With the lack of up-to-date license data, the customer also faced the possibility of some employees being locked out of a platform due to software user limit controls, resulting in potential business disruption. Additionally, without up-to-date data, the customer was not prepared for government mandated data compliance.

"Comparing manual management of SaaS licenses with USU is like comparing a bicycle to an airplane."

*Director of software management,
life sciences company*



"It is about savings, cost avoidance, data transparency, the negotiation possibilities."

*Director of software management,
life sciences company*



Solution Requirements

The interviewed organization searched for a solution that could:

- › Reduce the cost, improve the quality, and automate the process of managing vendor licenses and related cost.
- › Have access to real-time data to more efficiently negotiate future SaaS vendor contracts, as well as ensure compliance with existing ones.

- › Increase the accuracy and security of the data used for analysis.

Key Results

The interview revealed that key results from the USU investment include:

- › **Reduced time and costs for license management.** With USU, the customer is able to access real-time license data for two large enterprise cloud application solutions with the intention of adding several additional platforms in 2019 and 2020. Due to limited application programming interface (API) availability, not every SaaS vendor is currently being addressed, but the goal for this organization is to have as many SaaS platforms as possible managed through USU. The company has been able to reduce costs in both license fees and labor by efficiently managing internal external users' license usage.
- › **Accurate and timely data.** The customer receives SaaS license data on demand with USU. There is no longer a reporting lag nor are there concerns regarding human error, which has enabled the company to better negotiate contracts for expanded or new SaaS services.
- › **Limited risk of security issues.** The number of active licenses for inactive or terminated employees has been eliminated. USU has allowed the customer to closely monitor and adjust usage as needed, including customized parameters for individual users. Thus, the organization only needs to procure the software its employees actually require.
- › **Fewer compliance challenges.** With USU, the risk of exceeding the total user limit is significantly reduced. Since all dormant licenses are reharvested or terminated, the number of active users is more closely aligned with the number of paid licenses, and the exact data can be seen on demand. Additionally, with the solution, the organization is able to comply with government regulatory requirement.

“USU’s solution gives us the possibility to move SaaS licenses from one environment to another . . . which is really powerful. It’s incredible when you see what people are really using and what people are licensed for. Sometimes you can just downgrade user accounts. There are real commercial benefits in having this data.”

*Director of software management,
life sciences company*



Analysis Of Benefits

QUANTIFIED BENEFIT DATA

Total Benefits						
Ref.	Benefit	Year 1	Year 2	Year 3	Total	Present Value
Atr	Direct cost avoidance due to offboarding, reharvesting, and downgrading licenses	\$3,960,000	\$3,960,000	\$3,960,000	\$11,880,000	\$9,847,934
Btr	Incremental output per worker redeployed to higher-level tasks	\$138,060	\$138,060	\$138,060	\$414,180	\$343,335
	Total benefits (risk-adjusted)	\$4,098,060	\$4,098,060	\$4,098,060	\$12,294,180	\$10,191,269

Direct Cost Avoidance Due To Offboarding, Reharvesting, And Downgrading Licenses

The interviewee stated that upon implementation of USU, the company found that a significant number of licenses were assigned to inactive users and users who had left the company. With accurate, real-time information, he was able to reassign, or reharvest, downgrade, or eliminate licenses quickly, leading to a significant savings. The interviewee also mentioned that this information allows his team to “determine which new SaaS software is truly necessary and which SaaS purchases can be delayed or avoided.”

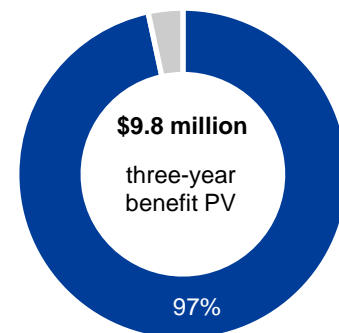
The direct cost avoidance benefit is based on the direct savings amount (\$4M) the customer realized in Year 1. Forrester assumes that the customer will realize the same savings in Years 2 and 3.

Forrester assumes that direct cost avoidance will vary across various SaaS platforms. Specific risk considerations include:

- › SaaS application incompatibility with USU.
- › SaaS vendors unwilling to work with or negotiate with the management platform.
- › Lead time for complete integration may differ across customers.

To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year risk-adjusted total PV of \$9,847,934.

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 interviewed organization expects risk-adjusted total benefits to be a PV of nearly \$10.2 million.



Direct cost avoidance from improved license management: 97% of total benefits

Direct Cost Avoidance Due To Offboarding, Reharvesting, And Downgrading Licenses: Calculation Table

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
At	Direct cost avoidance due to offboarding, reharvesting, and downgrading licenses	Direct savings	\$4,400,000	\$4,400,000	\$4,400,000
	Risk adjustment	↓10%			
Atr	Direct cost avoidance due to offboarding, reharvesting, and downgrading licenses (risk-adjusted)		\$3,960,000	\$3,960,000	\$3,960,000

Incremental Output Per Worker Redeployed To Higher-Level Tasks

The customer's previous method of monitoring and reporting SaaS usage was completely manual and accomplished by employees across 21 support teams. This was a time-consuming process with the compiled results being out of date before even arriving to central management. Implementing USU's solution, the customer was able to greatly reduce or even eliminate the time spent on creating and distributing usage reports, enabling these employees to focus their efforts elsewhere. In addition, by receiving more accurate, on-time reports, the software management team saved time analyzing data and generating insights to benefit the business.

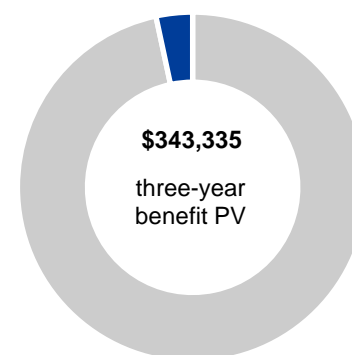
For the interviewed organization, Forrester assumes that:

- › Two FTEs were reassigned to more beneficial tasks.
- › Nineteen employees gained 10% efficiency to be redeployed to higher-level tasks, with 50% of that time being recaptured.
- › The hourly rate for these employees is \$25/hour.

The incremental efficiency benefit will vary with:

- › The number of organizations and staff generating license and usage reports.
- › The number of solutions and licenses being managed.
- › The fully loaded compensation of those individuals managing license and usage reports.

To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year risk-adjusted total PV of \$343,335.



Incremental output per worker redeployed to higher-level tasks: 3% of total benefits

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.

Incremental Output Per Worker Redeployed To Higher-Level Tasks: Calculation Table

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
B1	Number of workers reassigned		2	2	2
B2	Hourly rate per person	IT admin level	\$25	\$25	\$25
B3	Number of hours redeployed/year	Full-time	2,080	2,080	2,080
B4	Percent captured		100%	100%	100%
B5	Number of workers with gained efficiency		19	19	19
B6	Hourly rate per person	IT admin level	\$25	\$25	\$25
B7	Number of hours redeployed/year	10% of total full-time hours	208	208	208
B8	Percent captured		50%	50%	50%
Bt	Incremental output per worker redeployed to higher-level tasks	$(B1*B2*B3*B4) + (B5*B6*B7*B8)$	\$153,400	\$153,400	\$153,400
	Risk adjustment	↓10%			
Btr	Incremental output per worker redeployed to higher-level tasks (risk-adjusted)		\$138,060	\$138,060	\$138,060

Unquantified Benefits

The interviewed company experienced the following benefits, which were not quantified for this study:

- › **Access to meaningful, real-time data.** With USU Software Asset Management, it is easier to manage ongoing changes with employee needs with minimal waste of time and resources. The organization used the automated “use-or-lose” functionality to continuously align paid services with needs.
- › **Increased functionality.** With full transparency regarding the existing SaaS licenses and the corresponding usage, the customer is able to continuously comply with usage agreements and regulatory requirements, as well as efficiently respond to new license requests.
- › **Improvement in SaaS security.** The efficient management of SaaS licenses provided the customer with added security. The interviewee explained, “Terminated employees are unable to leave and still use their enterprise platform license, for example, after joining another company.”
- › **Increased data accuracy.** USU provides an accurate overview of an organization’s complete SaaS estate and nearly eliminates human error. “What used to be a very messy reporting cycle, I can now press a button and get quality data.”

“We are able to bring the cost elevator way down, and we are able to negotiate better.”

*Director of software management,
life sciences company*



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 USU’s solution and later realize additional uses and business opportunities, including:

- › **Data transparency.** This allows the organization to have complete visibility of current data needs, enabling better contract negotiations for renewals and future SaaS licensing.
- › **The ability for USU to add SaaS compatibility with new application vendors.** With broader SaaS platform compatibility, USU customers will realize greater efficiency and savings, comparable to the savings gained by investing in USU with its current suite of functionalities for two SaaS application vendors. Flexibility would also be quantified when evaluated as part of a specific project (described in more detail in Appendix A).

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.

Analysis Of Costs

QUANTIFIED COST DATA

Total Costs							
Ref.	Cost	Initial	Year 1	Year 2	Year 3	Total	Present Value
Ctr	USU license fees	\$0	\$504,000	\$504,000	\$504,000	\$1,512,000	\$1,253,373
Dtr	Implementation costs	\$686,400	\$0	\$0	\$0	\$686,400	\$686,400
Etr	Ongoing management costs	\$0	\$68,640	\$68,640	\$68,640	\$205,920	\$170,698
	Total costs (risk-adjusted)	\$686,400	\$572,640	\$572,640	\$572,640	\$2,404,320	\$2,110,471

USU License Fees

The customer pays annual license fees of \$420,000 per year to USU for the use of its Software Asset Management solution. While some customers may realize better pricing through negotiations and company size is a major driver of that, Forrester has adjusted pricing based on the following assumptions:

- › USU's list price for its solution is <1% of a customer's total SaaS spend.
- › USU's target customer will have an average SaaS spend of \$56M. SaaS spend is generally driven by number of employees. Forrester has based this number on the average size of USU's enterprise customer.

License fee cost will vary based on the following:

- › Negotiation ability.
- › Number of employees in the customer organization.
- › Customer's total SaaS spend.

To account for these risks, Forrester adjusted this cost upward by 20%, yielding a three-year risk-adjusted total PV of \$1,253,373.

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 interviewed organization expects risk-adjusted total costs to be a PV of more than \$2.1 million.

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.

USU License Fees: Calculation Table

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
Ct	USU license fees		\$0	\$420,000	\$420,000	\$420,000
	Risk adjustment	↑20%				
Ctr	USU license fees (risk-adjusted)		\$0	\$504,000	\$504,000	\$504,000

Implementation Costs

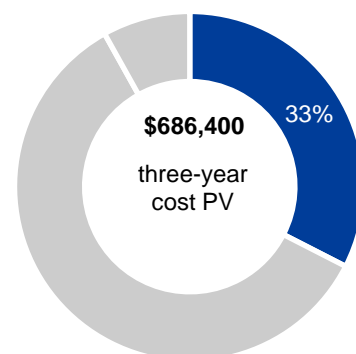
The interviewed company enlisted three internal FTEs and 1.5 outside IT professional service contractors over a six-month period to assess, test, and implement USU's solution with two enterprise cloud application platforms while preparing to integrate more. While the task of integrating USU's solution is simple and efficient, in an organization of 100,000 global employees, the following steps had to be completed:

- › General assessment.
- › Business stakeholder “buy-in.”
- › Connectivity test.
- › Proof of concept.
- › Functional test
- › Clearance for platform.
- › Security tests.
- › Rollout.

For the financial analysis, Forrester assumes the following:

- › Implementation and integration with two enterprise cloud application platforms.
- › A large enterprise customer.
- › An internal IT technical employee rate of \$75/hour.
- › An external IT professional services rate of \$250/hour.

A customer's implementation cost will vary based on resource availability, in-house technical skills, the customer's internal hourly rate, the customer's IT professional services rate, the number of platforms a customer is integrating with USU, and the speed of internal managerial decision making. To account for these risks, Forrester adjusted this cost upward by 10%, yielding a three-year risk-adjusted total PV of \$686,400.



Implementation costs:
33% of total costs



Six months
Total implementation
and deployment time

Implementation Costs: Calculation Table

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
D1	Number of FTEs		3			
D2	Hourly rate per FTE (rounded)	IT technical employee rate (\$155,000 salary/2,080 hours)	\$75			
D3	Hours	6 months	1,040			
D4	Number of external professional service workers		1.5			
D5	Hourly rate	Professional service rate	\$250			
D6	Hours	6 months	1,040			
Dt	Implementation costs	$(D1 * D2 * D3) + (D4 * D5 * D6)$	\$624,000	\$0	\$0	\$0
	Risk adjustment	↑10%				
Dtr	Implementation costs (risk-adjusted)		\$686,400	\$0	\$0	\$0

Ongoing Management Costs

USU's solution requires ongoing technical service management. In the case of the interviewed customer, one contracted FTE is fully occupied with the following tasks:

- › Monitoring all APIs.
- › Running the deactivation cycles.
- › Keeping whitelists up to date.
- › Onboarding/offboarding SaaS applications on an ongoing basis.

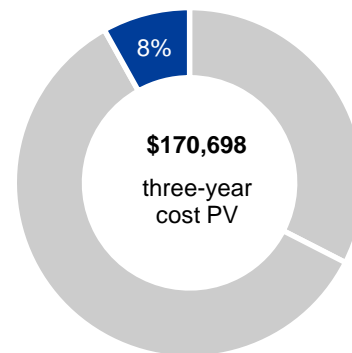
Forrester assumes the following for modeling purposes:

- › Outsourced IT employee rate of \$30/hour.
- › Large enterprise customer.

Ongoing management costs can vary depending on the following factors:

- › Internal or external IT employee rate.
- › Number of vendors integrated with USU.
- › Number of employees and SaaS licenses.

To account for these risks, Forrester adjusted this cost upward by 10%, yielding a three-year risk-adjusted total PV of \$170,698.



Ongoing management costs: 8% of total costs

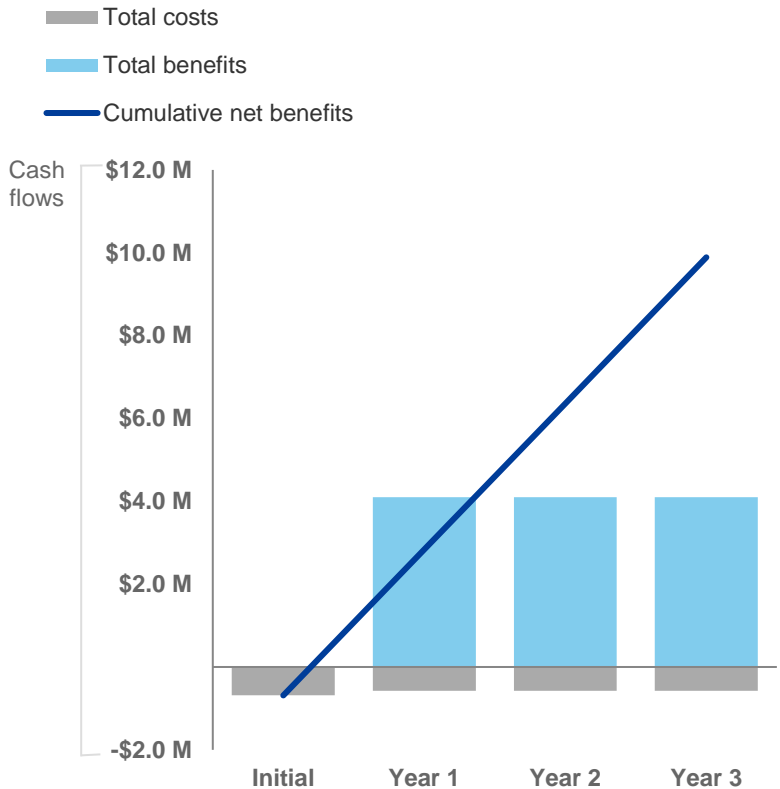
Ongoing Management Costs: Calculation Table

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
E1	Number of people	Outsourced		1	1	1
E2	Hourly rate per person	Outsourced IT rate		\$30	\$30	\$30
E3	Hours per year	Full-time		2,080	2,080	2,080
Et	Ongoing management costs	$E1 \cdot E2 \cdot E3$	\$0	\$62,400	\$62,400	\$62,400
	Risk adjustment	↑10%				
Etr	Ongoing management costs (risk-adjusted)		\$0	\$68,640	\$68,640	\$68,640

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 interviewed 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 Analysis (risk-adjusted estimates)

	Initial	Year 1	Year 2	Year 3	Total	Present Value
Total costs	(\$686,400)	(\$572,640)	(\$572,640)	(\$572,640)	(\$2,404,320)	(\$2,110,471)
Total benefits	\$0	\$4,098,060	\$4,098,060	\$4,098,060	\$12,294,180	\$10,191,269
Net benefits	(\$686,400)	\$3,525,420	\$3,525,420	\$3,525,420	\$9,889,860	\$8,080,798
ROI						383%
Payback period (months)						< 3

USU Software Asset Management: Overview

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

USU Software Asset Management Solution for SaaS Optimization

Cover your cloud from overview to optimization

USU Software Asset Management is a full solution to manage and optimize license costs for both on-premise and cloud software. It gives a complete overview of your cloud environment with features for automatic-license optimization. Track and manage your cloud subscriptions by pulling the most robust and relevant data directly from your SaaS services. The solution is hosted in the cloud for quick setup, and with its easy-to-use dashboard, you can track usage, monitor storage limits, reharvest unused licenses, and customize workflows to control costs and maximize your cloud investment. Find the right subscriptions for essential vendors such as Office 365, Salesforce, and Adobe Creative Cloud to create the best SaaS environment for your business needs.

The Solution's Main Features

- **Get a single SaaS overview.** See all your SaaS usage in one solution to get instant usage reports about your most important vendors, make licensing changes across all vendors, and store all purchase and contract information.
- **Manage your cloud costs.** Get insight into your SaaS environment so you can effectively plan and forecast license demand, reharvest unused and underused licenses, and set up your infrastructure to keep costs down.
- **Get deep data insights.** Access the information you need to control your SaaS costs with USU's built-in connectors. Connect directly to vendor APIs to get everything from last login to live usage data.
- **Monitor your usage.** Keep an eye on consumption and avoid overlimit charges by deactivating unused accounts, identifying duplicate ones, and analyzing inactivity hotspots.
- **Get started in minutes.** The license management solution can be set up quickly and easily because it's hosted in the USU cloud, requiring almost no technical expertise, so you can skip long rollout and implementation phases.
- **Reduce your purchases.** Avoid unnecessary purchasing and keep costs down by automatically recycling licenses from deactivated accounts and seeing where to reallocate subscriptions.
- **Manage business needs.** Identify overprovisioned software to control costs and purchase more strategically to make sure that your cloud apps drive revenue and help create company growth.

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.