

FORRESTER®

# The Total Economic Impact™ of BILL Spend & Expense

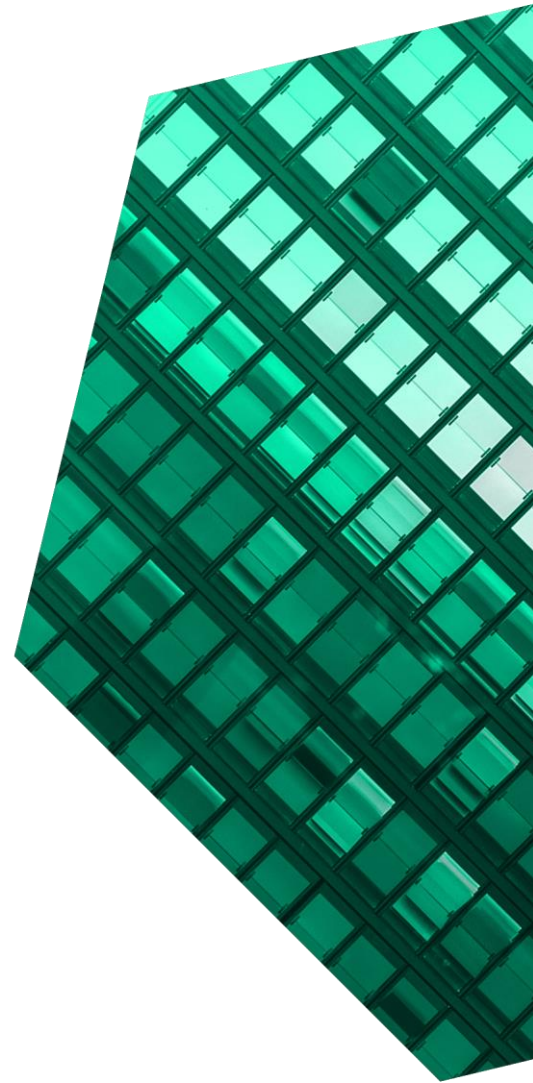
Cost Savings and Business Benefits  
Enabled by BILL Spend & Expense

**MARCH 2022**

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## ABOUT FORRESTER CONSULTING

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## Executive Summary

Payment card business credit provides a significant convenience factor for businesses to quickly handle expenses. With that convenience, there is also a need to organize and manage spend at the same time — something most credit solutions lack. BILL Spend & Expense integrates business credit and spend management with accounting systems so that organizations can successfully attain visibility and control spend, while still offering maximum spend flexibility to employees.

BILL Spend & Expense is a business credit and expense management solution that helps organizations manage, control, and understand spend. Differing from traditional business credit solutions, BILL Spend & Expense combines business credit with expense and spend management in a single solution that integrates with popular accounting and enterprise resource planning software.

BILL commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) enterprises may realize by utilizing [BILL's payment solution](#).<sup>1</sup> The purpose of this study is to provide readers with a framework to evaluate the potential financial impact of BILL Spend & Expense on their organizations.

To better understand the benefits, costs, and risks associated with this investment, Forrester interviewed four decision-makers with experience using BILL Spend & Expense. For the purposes of this study, Forrester aggregated the interviewees' experiences and combined the results into a single composite organization.

Prior to using BILL Spend & Expense, the interviewees noted that, while their organizations enjoyed the benefits of business credit on payment cards and the flexibility afforded to employees, there was a shortfall in how they managed and reconciled the volume of expenditures. Exacerbating the issue was that existing credit providers were unwilling to provide enough payment cards for the number of users needing the cards.

### KEY STATISTICS — ONE YEAR ANALYSIS



Return on investment (ROI)

**487%**



Net present value (NPV)

**\$160K**

Managing expenditure meant the ability to control and monitor spend and expense, along with reconciling spend at the back-office level, none of which was easily done with prior payment card solutions. Spend was difficult to control and only visible after it had occurred. Expense management was a hassle for employees too, with many employees who used their personal credit cards having to wait a long time for reimbursement.

After the switch to BILL Spend & Expense, the interviewees' organizations obtained increased credit lines without limitations on the number of payment cards. Direct integrations between the credit accounts and accounting software reduced accounting personnel work efforts and expense reporting efforts for business users of credit. Most importantly though, there was now visibility and control to where and how money was being spent, minimizing errant spend and providing convenience to employees.

Maverick and errant spend reduction:

**3%** reduction of all spend



**KEY FINDINGS**

**Quantified benefits.** Risk-adjusted present value (PV) quantified benefits include:

- **Spend control and management reduced noncompliant spend by \$150,000 in a single year.** In using BILL Spend & Expense, interviewees' organizations improved their spend management by reducing maverick and errant spend by 3% as well as reducing the number of hours to manage spend by hundreds of hours in a year. In the first year alone, the composite organization saves nearly \$150,000.
- **Business users of payment cards gained time with faster expense reporting.** Prior to having BILL Spend & Expense, expense reporting was tedious. Business users with payment cards from BILL spent less time doing expense reporting and follow-up work, to the tune of half an hour per month or 25% less time than before. Time savings for the composite organization is equivalent to nearly \$39,000 PV in the first year.
- **Finance and accounts payable teams recouped time with automated reconciliation processes.** Finance and accounting professionals saved an incredible amount of time with BILL Spend & Expense, as reimbursements and validation of spend were precoded and integrated with accounting software. The composite organization saves 24 hours per month with it amounting to nearly \$5,000 PV in the first year.

**Unquantified benefits.** Benefits that are not quantified for this study include:

- **Employee satisfaction in shifting spend to corporate cards from personal cards.** In providing payment card access to a greater employee population, company spend by employees on personal cards was mostly eliminated. Employees no longer needed to float a balance and wait for reimbursement, making for a much happier workforce.
- **Availability of credit.** Interviewees from many organizations stated that the available credit BILL provided was higher than other card issuers. In one instance, the disparity was as large as ten times greater. Having that type of credit flexibility enabled more transactions to be performed while decreasing work for accounts payable.

**Costs.** Risk-adjusted PV costs include:

- **Implementation and change management costs.** BILL Spend & Expense does not charge for its services as they are a part of its overall credit offering. Indirect costs, however, are incurred for ledger coding and training of accounts payable personnel, managers, and users of payment cards. The total cost for the composite organization amounts to less than \$33,000 PV for a one-year analysis.

The decision-maker interviews and financial analysis found that a composite organization experiences benefits of \$193,000 over the first year versus costs of \$33,000, adding up to a net present value (NPV) of \$160,000 and an ROI of 487%.

Time saved for expense reporting by business users:

**75%**



ROI  
**487%**

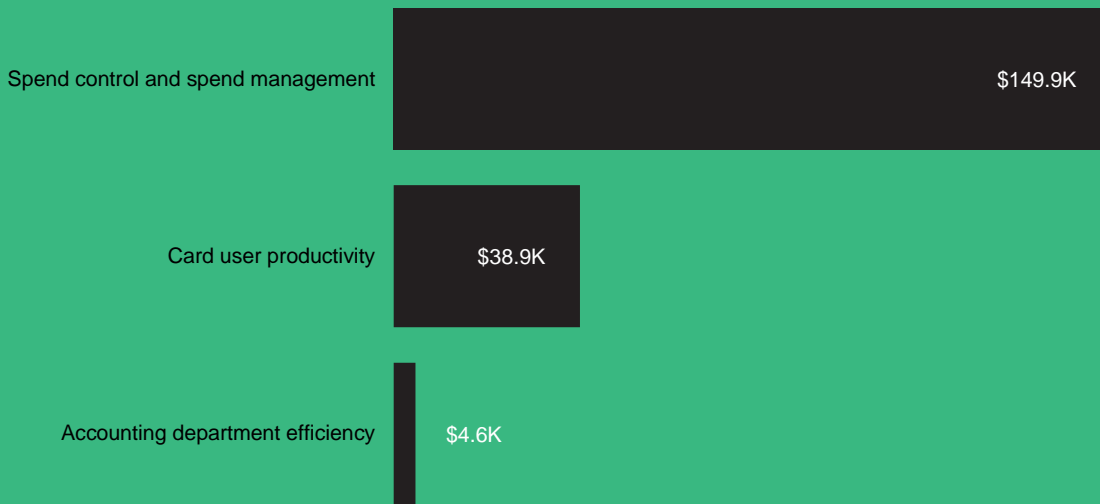


BENEFITS PV  
**\$193K**



NPV  
**\$160K**

### Benefits (One-Year)



**BILL Spend & Expense frees us up from spending so much time working on our finances and instead lets us focus on how to better manage spend and how to make people more efficient. It has definitely made it much less stressful in how we handle finances.**



— Director of accounting, nonprofit

## TEI FRAMEWORK AND METHODOLOGY

From the information provided in the interviews, Forrester constructed a Total Economic Impact™ framework for those organizations considering an investment in BILL Spend & Expense.

The objective of the framework is to identify the cost, benefit, flexibility, and risk factors that affect the investment decision. Forrester took a multi-step approach to evaluate the impact that BILL Spend & Expense can have on an organization.

### DISCLOSURES

Readers should be aware of the following:

This study is commissioned by BILL 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 study to determine the appropriateness of an investment in BILL Spend & Expense.

BILL 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.

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



### DUE DILIGENCE

Interviewed BILL stakeholders and Forrester analysts to gather data relative to BILL Spend & Expense.



### DECISION-MAKER INTERVIEWS

Interviewed four decision-makers at organizations using BILL Spend & Expense to obtain data with respect to costs, benefits, and risks.



### COMPOSITE ORGANIZATION

Designed a composite organization based on characteristics of the interviewees' 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 decision-makers.



### CASE STUDY

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

# The BILL Customer Journey

■ Drivers leading to the BILL Spend & Expense investment

Interviewed Decision-Makers			
Interviewee	Industry	Annual Spend	AP Staff And Card Users
Accounts payable manager	Education	\$1M+	7 AP/230 users
Director of accounting and finance	Commercial goods	\$5M+	18 AP/92 users
Director of accounting	Nonprofit group	\$5M+	12 AP/300 users
Finance manager	Technology	\$50M+	6 AP/106 users

## KEY CHALLENGES

With the number of bank accounts and expenditure users the businesses had, it was tremendously difficult to track expenses and have control levers on what was being spent. That was one side of the equation. The other side was more on the amount of credit users could spend as the number of payment cards and credit levels from existing providers were simply insufficient to stay level with the needs of the businesses.

The interviewees noted how their organizations struggled with common challenges, including:

- **A lack of payment cards issued to users.** Many interviewees indicated that their existing payment card providers were simply unwilling to provide the number of cards necessary to ensure efficiency with paying for expenses.

**“With our previous payment card provider, the number of cards was a fraction of what BILL has provided. I would say [our old provider] gave us 5% of cards that BILL Spend & Expense has given us.”**

*Accounts payable manager, education*

**“Our challenge [with solutions meant for SMBs is] that they are built for organizations who are managing hundreds and thousands of employees with cards, not 50.”**

*Finance manager, technology organization*

- **Expense management programs were expensive and drove effort from users.** In utilizing solutions for expense management, the software subscription costs accrued were greater than \$2,000 per month for these solutions. Interviewees noted that the expense management software was an added cost to fully utilize credit systems. One interviewee reported that their organization was using an expense reporting solution that was overbuilt and cumbersome for what they needed.
- **A lack of control over expenditures until after the fact with existing payment cards.** One interviewee put it best: “We were primarily reactive before BILL Spend & Expense, having to manage expenses and debate over them after the expenditure whereas we are proactive now being able to dictate and manage upfront.”

## SOLUTION REQUIREMENTS/INVESTMENT OBJECTIVES

The interviewees' organizations searched for a solution that could:

- Provide enough payment cards for a large number of employees, particularly beyond five cards as had been given for many interviewees' organizations with prior solutions.
- Provide transparent credit levels so that the organizations could effectively allocate spend.
- Provide some form of integration between payment cards with accounting software to decrease extraneous work for finance professionals.

In review of different credit providers, the interviewees' organizations chose BILL Spend & Expense and deployed the cards:

- Many organizations interviewed were small and medium-sized businesses (SMBs) and were looking to provide expense options to a greater populace in their organizations.
- In switching to BILL Spend & Expense, it required new general ledger coding, which would be tied in between BILL and the accounting systems. This was a month-long process, but the time initially expended was recouped later.
- Transitioning to the BILL Spend & Expense solution took approximately a month and half, however credit was available immediately.

## COMPOSITE ORGANIZATION

Based on the interviews, Forrester constructed a TEI framework, a composite company, and a ROI analysis that illustrates the areas financially affected. The composite organization is representative of the four decision-makers that Forrester interviewed and is used to present the aggregate financial analysis in the next section.

**Description of composite.** The composite organization is an SMB with 500 FTEs and approximately 200 users who have payment cards. It spends some of its direct costs, such as advertising as a part of cost of goods sold (COGS), with BILL Spend & Expense, as well as tail spend, such as office supplies and incidental travel expenses. This organization previously had payment cards issued to less than 10 key employees, but desired for the issuance of cards to a greater population to reduce the reliance on employees' personal credit. This is especially important as the company spends millions annually on the payment cards.

**“What we needed was visibility. BILL Spend & Expense gave us that real-time visibility to transactions so that we can code budgetary items and do it up front versus waiting to resolve at the end of the month.”**

*Director of accounting and finance,  
commercial goods*

# Analysis Of Benefits

■ Quantified benefit data as applied to the composite

Total Benefits				
Ref.	Benefit	Year 1	Total	Present Value
Atr	Spend control and spend management	\$164,870	\$164,870	\$149,882
Btr	Card user productivity	\$42,837	\$42,837	\$38,942
Ctr	Accounting department efficiency	\$5,013	\$5,013	\$4,557
	Total benefits (risk-adjusted)	\$212,719	\$212,719	\$193,381

## SPEND CONTROL AND SPEND MANAGEMENT

**Evidence and data.** In granting the ability for organizations to see, manage, and control spend, BILL Spend & Expense allowed the interviewees' organizations to reduce errant spend and better direct where spend was going. Interviewees expressed that their businesses gained the visibility and controls to manage spend, both in a preemptive and after-the-fact manner. The finance manager at a technology company stated, "BILL Spend & Expense has been helpful in catching discrepant expenses; things that fall outside the policy like nontravel type expenses such as a spare printer for home."

- Managers and spend control employees at organizations spent more time upfront to allocate spend but avoided follow-up work for the long run. Things were now done once and were applicable for many times over, reducing time to manage spend.
- Additively, organizations saved up to 10% on errant spend due to the guardrails placed upfront. Discussions on what constituted proper spend between managers and employees were mostly eliminated.

- Maverick spend, the type of spend that falls outside company policies, was also reduced at the interviewees' organizations, which wasn't possible previously without preset controls.
- The accounts payable manager at an education services company said: "The ability for our employees to swipe their card for a first-class ticket is next to nil, because they only have an X amount allocated for that budget. So, in effect, BILL Spend & Expense ties in the budget to our overall profit and loss for each department."

**"With BILL Spend & Expense, our managers have a budget so they can decide how much funds or budget to disperse to each spender. Whereas with [our old credit provider], we would only actually come to know how much was being spent when we got the invoice or the bill at the end of the month."**

*Accounts payable manager, education*

**Modeling and assumptions.** Forrester bases its modeling upon the following:

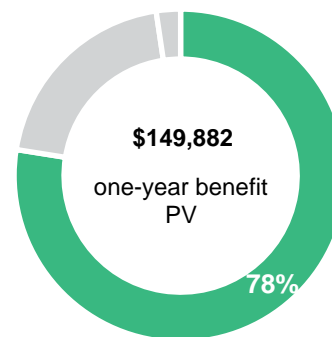
- Maverick and errant spend is reduced as a dollar amount by 3% conservatively, realized as savings to the business.
- Spend overall all on corporate payment cards through BILL is estimated at just over \$600,000 per month, which accounts for direct costs to the business, such as advertising as well as tail spend for indirect spend on things like office expenditures.
- The vast majority of savings in this category goes to accounts payable with the remaining savings going to managers, in line with what Forrester heard of “code once and keep using for the long term” theme from interviewees.
- Forrester assumes based on interviews that businesses are coding spend in specific general ledger (GL) categories so as to tie spend and accounting together.

**Risks.** Forrester found risks in the benefit category where it can be different for organizations with different operating structures.

- Differing degrees of business control over spend. Some businesses are stricter than others, so users of payment cards may be more mindful of spend and curtail maverick spend.
- Spend can be oriented differently. Some organizations can use spend on cost of goods while others might spend more on discretionary spend. Due to the implied use of payment cards, the abuse and resulting errant spend could be less than identified for the composite.

**Results.** To account for these risks, Forrester adjusted this benefit downward by 30%, yielding a one-year, risk-adjusted total PV (discounted at 10%) of nearly \$150,000.

**Savings driven by new spend control and spend management**



Spend Control And Spend Management			
Ref.	Metric	Source	Year 1
A1	Amount of spend done with BILL Spend & Expense	Composite	\$7,600,000
A2	Maverick and errant spend reduced	Interviews	3%
A3	Time savings over traditional expense control software in hours, annually	Interviews	288
A4	Hourly compensation for accounts payable	Forrester standard	\$26.14
At	Spend control and spend management	(A1*A2)+(A3*A4)	\$235,528
	Risk adjustment	↓30%	
Atr	Spend control and spend management (risk-adjusted)		\$164,870
<b>One-year total: \$164,870</b>		<b>One-year present value: \$149,882</b>	

**CARD USER PRODUCTIVITY**

**Evidence and data.** Expense reporting is often mired with multiple tedious steps, with multiple follow up communications until reimbursement. The use of BILL Spend & Expense eliminates many of the steps.

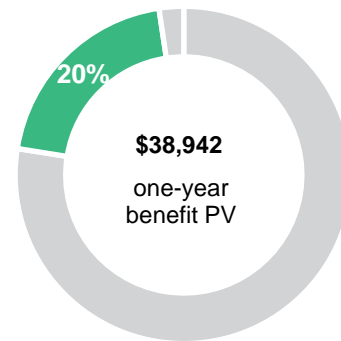
- Interviewees noted that it took users between 2 to 3 hours monthly for expense reporting prior to BILL Spend & Expense due to a lack of integration between payment cards and expense reporting solutions.
- The director of accounting at a nonprofit organization noted that because of multiple platforms and “back-and-forth between managers, accounting, and our employees, expense reporting was a painful process.”
- Organizations reported between 20%- and 50%-time savings for their individual users on expense reporting.

- Spend and expenditures both in frequency and amount shift slightly more to BILL Spend & Expense due to increased credit availability.
- Expense reporting done on prior credit solutions has been entirely moved to BILL Spend & Expense and linked to accounting platforms.

**Risks.** Forrester did not find any risks to this calculation and thus made no adjustments.

**Results.** The total benefit of this category in the first year of use is a PV of nearly \$39,000.

**Card user productivity boost**



**“Because of the way that we have it set up with the budget and those things, they don’t have to do expense reports, they just need to code their transactions throughout the month and then every else would be done and reported done after.”**

*Director of accounting and finance, commercial goods*

**Modeling and assumptions.** Forrester bases its modeling on the following:

- The composite organization utilizes BILL Spend & Expense for a majority of its tail spend and, more importantly, on a significant portion of larger direct costs, such as advertising spend, which increases the number of expenditure events.

Card User Productivity			
Ref.	Metric	Source	Year 1
B1	Time spent per month on expense reporting per card holder (hours)	Interviews	0.5
B2	Card users	Composite	200
B3	Compensation for average business user per hour	Forrester standard	\$35.70
Bt	Card user productivity	B1*B2*B3*12 months	\$42,837
	Risk adjustment	0%	
Btr	Card user productivity (risk-adjusted)		\$42,837
<b>One-year total: \$42,837</b>		<b>One-year present value: \$38,942</b>	

### ACCOUNTING DEPARTMENT EFFICIENCY

**Evidence and data.** BILL Spend & Expense compacted the workflow for accounting and finance professionals through the integration of precoded general ledger codes. Integration between spend on BILL Spend & Expense with accounting software automatically filled expenses. Additionally, as expenses were preapproved, it decreased the back and forth necessary for approvals and additional evidence.

- Reconciliation and approval processes were accelerated dramatically due to GL codes already aligned to the type of spending at the interviewees’ organizations.
- Due to integration between BILL and QuickBooks Online, NetSuite, and Sage Intacct, the information flow was automatic and removed the process of matching GL codes manually.
- The interviewees’ organizations saved between two to four days of effort on accounts payable, depending on the volume of payment card expenditures they had been using.
- Closing the books became a much faster exercise for the interviewees’ organizations. Reimbursements and the tasks involved were reduced to negligible amounts.

**“Because of the systems that BILL Spend & Expense has in place that keeps everything simple, there is not a whole lot of chasing mistakes ... Whereas before I was always chasing mistakes trying to figure out where everything was and where someone’s receipt was at.”**

*Director of accounting, nonprofit organization*

**Modeling and assumptions.** Forrester bases its modeling on the following factors:

- The composite is utilizing coded groups and line items for new purchases with BILL Spend & Expense. The codes are linked and integrated with QuickBooks Online, and potentially NetSuite.
- Because of precoded line items that have been associated with the accounting software, reconciliation is done in a much simpler manner.

- The composite assumes that the hours saved in the model are of 10% savings of existing accounts payable (AP) employees.

**Risks.** Forrester did not find any risks to this calculation and thus made no adjustments.

**Results.** The total benefit of this category in the first year yields a PV of \$4,557.

**“From a time perspective, it’s really helped us. If you think at the end of the month where we are closing out the books and everyone is submitting expenses, we’ve been able to proactive approve these things so that it does not have that large of an impact on our accounting department.”**

*Finance manager, technology company*

Reconciliation and AP time saved:



**Three days per month**

Accounting Department Efficiency			
Ref.	Metric	Source	Year 1
C1	Time savings per month with precoded purchases (hours)	Composite	24
C2	Hour equivalent savings annually	Composite	192
C3	Cost of accounting personnel	Forrester standard	\$26.11
Ct	Accounting department efficiency	C2*C3	\$5,013
	Risk adjustment	0%	
Ctr	Accounting department efficiency (risk-adjusted)		\$5,013
<b>One-year total: \$5,013</b>		<b>One-year present value: \$4,557</b>	

**UNQUANTIFIED BENEFITS**

Additional benefits that customers experienced but were not able to quantify include:

- Employee satisfaction.** Using company credit rather than personal credit for at-the-moment expenditures alleviated the strain put upon employees that used their personal credit cards. Employees no longer needed to wait for reimbursements or pay in advance for the company. With purchase groupings preapproved on BILL Spend & Expense, there was also zero guess work as to whether a purchase could be

expensed. Given that the prior business payment card solution was extremely limited for many of the interviewees’ businesses, the number of cards BILL issued was extremely welcomed by employees.

- Availability of credit.** Interviewees reported that BILL's underwriting provided more than adequate credit lines, and significantly greater than their prior solutions from other major credit providers. The ability to conduct more business with BILL Spend & Expense sped up the flow of business.

## FLEXIBILITY

The value of flexibility is unique to each customer. There are multiple scenarios in which a customer might implement BILL Spend & Expense and later realize additional uses.

Reward points consolidated to BILL Spend & Expense could be repurposed in multiple manners. By consolidating spend to a single account that earns at a high rate rather than using multiple credit solutions (including that of personal credit), organizations gained control of reward spending. Rewards could be used in a multitude of ways, including travel credit, cash back, and gift cards that provided a way for companies to use even on employees.

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

**“Outside of all the employees that were on [existing payment solution], the other card holders were responsible for paying their bills and making sure that their payment was done on time. The only difference was that if in the event that the employee doesn’t pay, it was our business credit line that was at risk.”**

*Accounts payable manager, education*

# Analysis Of Costs

■ Quantified cost data as applied to the composite

Total Costs					
Ref.	Cost	Initial	Year 1	Total	Present Value
Dtr	Implementation and change management costs	\$31,011	\$2,154	\$33,165	\$32,969
	Total costs (risk-adjusted)	\$31,011	\$2,154	\$33,165	\$32,969

## IMPLEMENTATION AND CHANGE MANAGEMENT COSTS

**Evidence and data.** The costs organizations accrued using BILL Spend & Expense were minimal. As BILL does not charge for its credit and expense management solution, the cost to interviewees' organizations was the time needed to set ledger codes and outline expenditure settings. Training to perform those tasks was also an initial cost.

- Interviewees stated that they spent an estimated 30 minutes to an hour for each BILL Divvy Corporate Card holder.
- Managers who would outline the expenditure approvals spent a greater amount of time, both in training and in performing their approval processes.

**Modeling and assumptions.** Forrester based its modeling on the following:

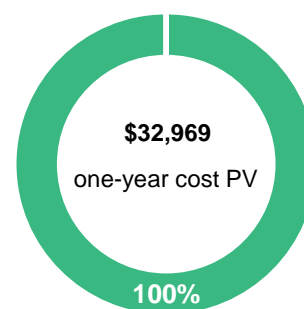
- Forrester assumes that there are a total of 200 BILL Divvy Corporate Card users in the composite model.
- Training material builds and the associated training are reflected in the table below, with an estimated 1 hour of training for each user on the policies and processes surrounding expense management for each of the users.
- Accounting ledger codes and their mapping have been considered and incorporated in the model as an initial as well as ongoing cost.

**Risks.** Forrester identified risks that could potentially that change the cost calculated, including:

- The degree of incorporation of BILL Spend & Expense into accounting systems and the time to map ledger codes.
- Additive time that is required of managers on assignment of spend controls.

**Results.** To account for these risks, Forrester adjusted this cost upward by 25%, yielding one-year, risk-adjusted total PV (discounted at 10%) of \$32,969.

### Implementation and change management costs

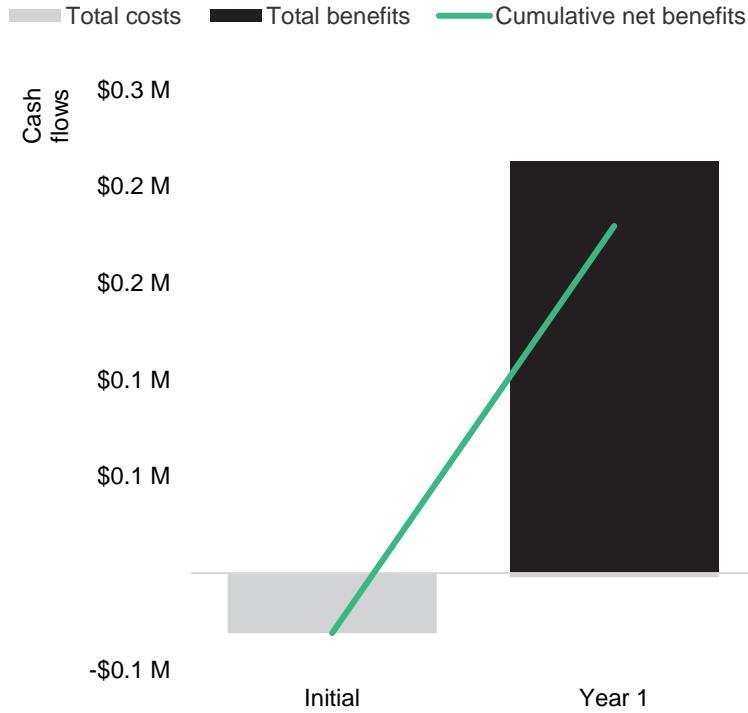


Implementation And Change Management Costs				
Ref.	Metric	Source	Initial	Year 1
D1	Hours spent initially on ledger coding for BILL	Composite	80	5
D2	Creation of training material by managers	Composite	240	
D3	Training and ramp hours for individuals using BILL Divvy Corporate Cards	Composite	200	20
D4	Hours spent for approval process with BILL	Composite	14	14
D5	Hourly compensation of manager with payment card authorization	Forrester standard	\$51	\$51
D6	Hourly compensation of business employee with a payment card	Forrester standard	\$39	\$39
Dt	Implementation and change management costs	$(D1+D2+D4)*D5+(D3*D6)$	\$24,809	\$1,724
	Risk adjustment	↑25%		
Dtr	Implementation and change management costs (risk-adjusted)		\$31,011	\$2,154
<b>One-year total: \$33,165</b>			<b>One-year present value: \$32,969</b>	

# Financial Summary

## CONSOLIDATED ONE 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 Analysis (Risk-Adjusted Estimates)

	Initial	Year 1	Total	Present Value
Total costs	(\$31,011)	(\$2,154)	(\$33,165)	(\$32,969)
Total benefits	\$0	\$212,719	\$212,719	\$193,381
Net benefits	(\$31,011)	\$210,565	\$179,554	\$160,412
ROI				487%
Payback period (months)				<6

## 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.

## Appendix B: Endnotes

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<sup>1</sup> 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.

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