



HIGHLIGHTS

Company Name:

Entuity

Product:

Eye of the Storm

Target Market:

Enterprise and Service
Provider

Return on Investment:

ROI: 128% to 397%

Payback: 14 to 41 weeks

EMA is the first industry analyst firm to specialize exclusively in management software and services.

EMA CORPORATE HEADQUARTERS

2108 55th Street, Suite 110
Boulder, CO 80301
Phone: 303.543.9500
Fax: 303.543.7687
Email: info@enterprisemanagement.com
Web: www.enterprisemanagement.com
621.011403

Entuity's Eye of the Storm Product: Return on Investment Study

Executive Summary

Enterprise Management Associates (EMA) recently undertook a return on investment (ROI) study to examine the impact of Entuity's Eye of the Storm[®] on the cost/benefit structure of enterprise and service provider users of Entuity management product. The in depth analysis, which involved complex modeling techniques, revealed significant ROI impacts when Entuity management product is used in a way consistent with the Eye of the Storm architecture and industry best practices.

Savings were found in a number of major areas investigated. Indications are that Eye of the Storm users can expect ROIs in the range of 128% to 397% the first year. Some Entuity customers interviewed in the course of this study reported savings close to a million US dollars a year associated with improved IT management automation and multi-millions a year in reduction in service disruptions. A pay back period can be as short as 14 weeks for a large installation.

The ROI Calculation

During this analysis, EMA utilized granular ROI techniques to validate the return that Eye of the Storm provides. The ROI number is derived from the savings generated divided by the investment made. In the case of Eye of the Storm, it demonstrated an ROI of anywhere from 128% to 397%. The payback period for such an investment was calculated to be in the range of 14 to 41 weeks. This represents the amount of time it would take for an Eye of the Storm installation to pay for itself via the savings benefits it generates. The ROI calculation is for the first year of service by Entuity's product and does not calculate the benefits attained

thereafter. The range of ROI values and payback periods is highly correlated to the extent of Eye of the Storm implementation.

Eye of the Storm: Components That Add User Benefits

Significant areas of improvement that were the result of deploying Entuity Eye of the Storm solutions across this enterprise included:

- Reduced capital investment into IT equipment and services; by 40% in one instance
- Reduced IT management personnel time to diagnose faults; by 50% reported in one instance
- Increased IT management span of control; by 25% as reported in one instance
- Reduced revenue loss by millions of dollars, reported by one user

The Price of Status Quo

All the interviewees made the commitment to a proactive approach for managing their IT infrastructure with the Entuity Eye of the Storm product and unanimously agreed that the benefits could not have been realized by reactive means. In essence, the savings and ROI represent what could have been lost—the cost of doing nothing.

With the hourly cost of enterprise downtime estimated to be between \$50,000 and in multiple millions, as reported by interviewees, the cost of not embracing proactive IT management is significant. Some companies estimate that the cost of downtime runs as high as 2% of annual revenue. The actual percentage loss per company is dependent on the type of business—costs of downtime are more pronounced in such vertical

industries as financial services and others that are dependent on network technology for revenue.

Eye of the Storm ROI as Value Proposition for Service Management

Methodology

ROI has been a popular way of proving the value of capital acquisitions for many years. It has the virtue of providing a metric that can be used to compare different acquisitions within a common framework of business impact. EMA has developed an approach to ROI analysis for software solutions that is granular, with a unique perspective focused on the areas of most significance to IT management. Using information from actual

customer cases as well as default values established through experience, insight is provided into the true value of potential IT management purchases, allowing business buyers to properly gauge the impact of those purchases on the organization and its revenue-generating capability. While ROI is not the only way to evaluate investments (see side bar), it has the virtue of being one of the most common, and therefore is likely to be the one used for many potential investments.

variables that interact). The virtue of MRA is that it recognizes that any system implementation must “touch” many existing processes and systems. It seeks to identify these touch points and define how they interact to produce an output. The EMA process involves understanding precisely the touch points that exist between the solution, customer systems, and organizational processes. Once this is established, a decision model (as shown in Figure 1) is generated.

Chief Financial Officer Watch Terms

Gross Revenue: Revenue before expenses are deducted.

Return on Investment (ROI): Three year benefit divided by initial expense.

Return on Assets (ROA): First year benefits divided by initial investment.

Net Present Value (NPV): Discounted cash flow.

Hurdle Rate: Also known as discount rate; the cost of money or return generated by preferred investment.

EMA's ROI Process

To derive ROI, EMA uses a three-step process that consists of decision modeling from vendor data, Eye of the Storm user data collection, and computations against the background of established industry norms. The decision modeling approach—called Multivariate ROI Analysis (MRA)—melds the concepts of ROI (with its idea of a discrete payback period) and decision modeling (which approaches process evaluation as a complex decision with

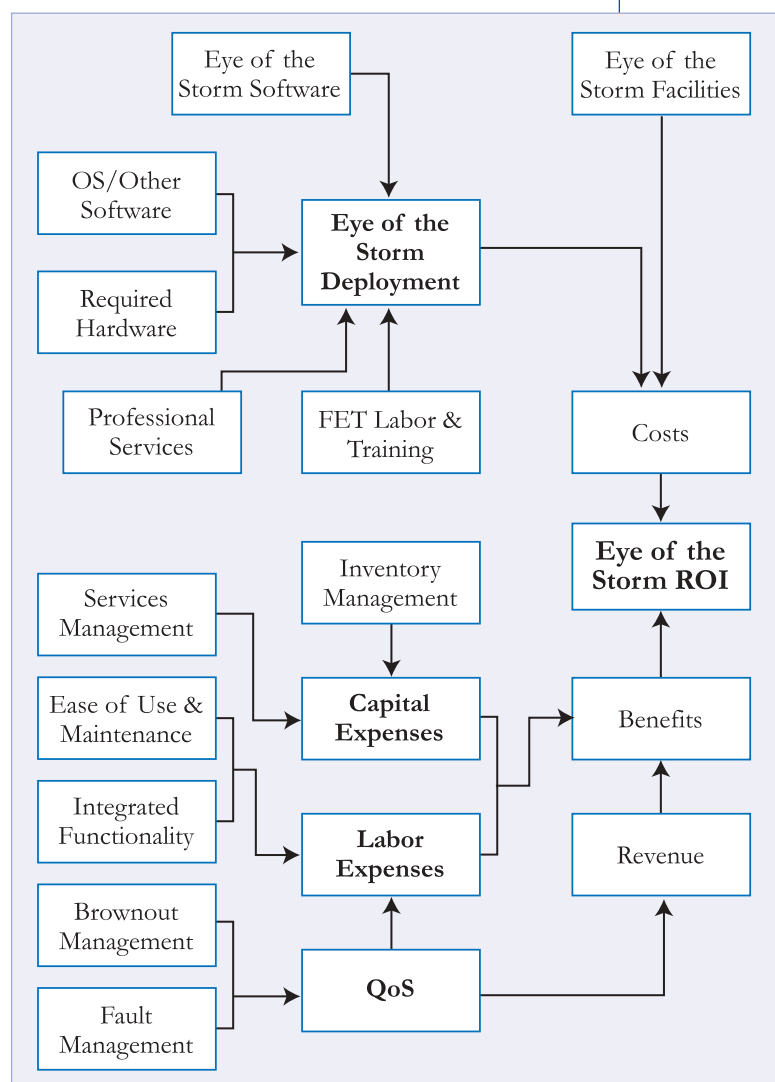


Figure 1. Eye of the Storm Decision Model

The next step in this process is interviewing end users and reviewing their operational practices so that the model can be verified

and populated with Eye of the Storm user data. The Eye of the Storm users interviewed by EMA were selected by Entuity to be a representative sample from both the enterprise and service provider environments. The user collected data was then subjected to comparison against industry norms and the ROI was calculated. In summary:

Step 1 – Collect data points for input into decision modeling. EMA's analysts first collect data through a series of conversations with vendor staff.

Step 2 – Interview users and collect data. EMA's analysts collect data through a series of conversations with product users. These conversations provide quantitative information in the areas of implementation, operations, efficiencies, and business impact.

Step 3 – Calculate the ROI. Using the model from Step 1 and user data from Step 2, EMA applies many proven formulas to aggregate the data and extract meaning from it. EMA's analysts use their contextual insight into specific situations to derive the ROI by first normalizing the inputs and then grouping the inputs into the following categories for use in the ROI formula:

- Cost of investment – product purchase price and maintenance costs
- Savings – operational costs, processes costs, improved performance, and greater efficiency of business services
- Incremental income – newly enabled business services and more efficient business services

In addition to the ROI calculation, EMA also considers several other accounting formulas, including payback, to provide a comprehensive perspective for use in purchasing decisions. ROI shows the return of an investment, which can then be compared to other potential investments or used to justify an investment in financial terms. Payback simply calculates the amount of time before an investment will pay for itself through its related savings.

The Recent ROI Study

EMA recently undertook a study on the impact of Eye of the Storm on ROI for a sample of IT operations in both the service provider and enterprise space. Three interviews were conducted of IT organizations that had completed the deployment of Eye of the Storm revision 2.6 and were in the process of migration to the latest version. These included a medium-sized on-line banking institution, a medium-sized global IT services provider, and a large investments trading enterprise.

Where to Find ROI

EMA analysis centered on evaluating the installation costs of Eye of the Storm components as well as the carrying costs associated with maintaining Eye of the Storm components. Benefits were sought in areas such as improved revenues and reduced costs. The initial goal, however, was to find out why interview subjects chose Eye of the Storm products in the first place.

Why Users Prefer Eye of the Storm

All Eye of the Storm users interviewed said they chose Entuity's Eye of the Storm product for its ability to address IT management problems in a **proactive** fashion. Next, the perception across users was practically unanimous that Entuity was well positioned to address the fault and inventory management areas. Additionally, most interview subjects indicated that they had used the Entuity product to enhance both intra- and interdepartmental reporting processes. A few interviewees used Entuity's Eye of the Storm in conjunction with other vendor products present on their sites to achieve IT management tasks. For example, one interviewee used Eye of the Storm to auto-discover the devices present in the IT infrastructure to generate the initial inventory, but a system from another vendor maintained the inventory thereafter. The feeling among interviewees was that integration with existing components was much easier when adding Entuity as opposed to alternative products from other vendors.

Analysis of ROI

In summary, ROI in the individual case studies ranged from 128% to 397%, with an ROI for the normalized case of 287%. The payback period for such an investment was calculated to be in the range of 14 to 41 weeks. The cost and benefits for the users interviewed are in Table 1.

Companies Interviewed	Eye of the Storm Deployment Investment	Savings Within the First Year	ROI
On-Line Financial Services	\$70,890*	\$90,594*	127.80%
IT Services Provider	\$98,400*	\$331,644*	337.04%
Investment Trading	\$239,075	\$948,003	396.53%

*Users provided figures in British Pounds and 1.54 rate of exchange was used

Table 1. Eye of the Storm ROI Scoreboard

The ways in which these benefits occur can be understood in the context of the following discussion.

Cost of Deployment

Costs associated with software products generally fall in the categories of licensing costs and professional services. Additionally, there is the overhead cost associated with IT personnel assisting in the installation, and the cost of the training necessary to run the product, once installed. With Eye of the Storm, purchase of hardware for stand-alone use with Entuity's product was reported by a number of interviewees. While these costs can be considerable Eye of the Storm was chosen by many users because Entuity's product was

perceived to significantly reduce these costs in comparison to other products investigated by the customers interviewed.

Eye of the Storm's key hallmark is the ease with which it can be installed and begin providing useful management capabilities quickly. Additionally, in all but the most green of green field installations, the odds are that enterprise or service provider IT personnel will need, at most, rudimentary training. This jump-starts the utility of the product significantly.

Savings and Benefits of Eye of the Storm Deployment

Annual ROI savings were generated by Entuity products in several different areas:

- Significant savings were derived from an improvement in fault management efficiency due to a proactive rather than reactive approach
- Savings were derived from improvements in IT device inventory management
- Savings were derived from more effective management report generation
- Revenue losses due to service failures were significantly reduced and/or revenue generation was potentially positively impacted through increases in non-IT employee productivity due to the increased MTBF of the IT infrastructure

Savings due to Eye of the Storm functionality averaged nearly half a million dollars across all of the interviews conducted by EMA. These savings and benefits were generated as shown in the Table 2.

Users Interviewed	Ease of Eye of the Storm Use	Inventory Management	Proactive Fault Management	Reporting	Savings	Revenue Impact (gain or reduced loss)
On-Line Financial Services	\$6,000*	\$38,750*	\$844**	\$45,000**	\$90,594	\$614,250**
IT Services Provider	\$6,000*	\$149,800**	\$844**	\$175,000**	\$331,644	\$4,600,696**
Investment Trading	\$19,360	\$425,920	\$2,723	\$500,000	\$948,003	\$18,900,000

*Users provided figures in British Pounds and 1.54 rate of exchange was used

**Derived value based on Eye of the Storm user input and industry norms for cost of downtime

Table 2. Annual Distribution of Savings

Improvement in Availability

EMA's research has revealed that availability by minimizing failures is one of the most significant areas where Eye of the Storm can provide financial savings and benefits due to improved IT management.

Influence on Outages

An outage is easy to understand: the network goes down and users can't get to critical applications. Entuity's Eye of the Storm can reduce the number of outages by isolating accurately the points of failure. Moreover, a proactive approach to availability and root cause analysis engines for failure diagnosis increases Eye of the Storm's effectiveness in providing the user with the benefit of reduced outages.

Influence on Brownouts

More important than outright outages is the impact of brown outs. This can also be the most pernicious problem to isolate. From a system's or application's point of view, everything is running perfectly. From the standpoint of the user, everything has ground to a halt. In many businesses such as retail or call center operations, this can be as bad as a complete network failure. In every instance, for a network-dependent company the consequence can be reduced productivity for all personnel.

Entuity's Eye of the Storm provides the tools necessary to monitor performance to detect brownouts and reduce their impact. Surprisingly, none of the customers interviewed addressed this Eye of the Storm functionality voluntarily and when asked about this issue their answers fell into two basic categories: the network has been designed to behave well or another vendor product was delegated the task of performance management. None perceived outright qualitative benefit that would be directly attributed to brownout management by the Eye of the Storm product, although, practically all unanimously exalted Eye of the Storm proactive approach to IT management.

Influence on Technical Personnel Labor Cost

It is important to note that Eye of the Storm enables higher IT efficiency by reducing the number of technicians devoted to managing the overall IT infrastructure. It does this, both by reducing the number of technicians required to isolate faults and time to accomplish such tasks. All customers interviewed for this study did not reduce the existing IT personnel but instead the technical resources were devoted to more strategic functions. Hence, there were no "actual" savings in the overall cost of technical labor. However, even when calculating the labor reduction for specific IT functions—for example fault isolation—the savings on technical labor are a minute contribution in comparison to the avoided revenue or productivity loss.

Improvements in Inventory Management

Through an efficient auto-discovery process, Eye of the Storm collects information on IT infrastructure devices and their subcomponents. This enables users to closely track the inventory of IT resources in the environment. As a result, Eye of the Storm users save by better management of connections as end users move to different physical locations or avoid incurring additional capital expenses on equipment purchases. Moreover, savings due to Eye of the Storm inventory management can be carried over to services such as for example T1 lines bandwidth management. The inventory management increases the efficiency of IT resources in an organization due to economies of scale that enables the business to grow at a faster rate. In other words, enabling of doing more with less.

Improvement in Span of Control through Improved Reporting

IT department productivity is twofold. The first component represents the time administrators require to perform activities to maintain and improve IT performance.

The second component of productivity is in efficiency of the users consuming the IT resources. Organizations of today heavily depend on their IT infrastructure being up 24x7, and if any portion or the entire IT infrastructure goes down for any reason revenue generation is directly impacted. To coordinate the interactions between the two IT productivity components, it becomes necessary to communicate effectively across functional domains.

Without exception, all customers interviewed for this study pointed to Eye of the Storm reports as an important benefit of Entuity's product. One interviewee placed the figure of \$175,000 in savings per year attributable to the Eye of the Storm reporting function alone. This interviewee and others were especially enthusiastic about the benefits of cross functional reports and the ease of the reporting function which enables upper management to access the reports directly from Eye of the Storm.

Conclusion

EMA expects that organizations that invest in Entuity's solutions will also experience significant returns on their investment. Eye of the Storm, combining as it does advantageous inventory and fault management functions with user valued reporting capabilities in an easy to use solution that simplifies IT management leading to reduced costs, as well as improving revenue through reduced downtime. Applied in a best-practices way to existing management infrastructure, Eye of the Storm has been shown to be effective in improving the efficiency of IT operations devoted to the delivery and management of services over a networked environment. Although Entuity's pricing structure favors larger environments and does not scale well toward the smaller users, all users will realize savings through proactive fault and inventory management from an Eye of the Storm deployment. The size of the ROI and breakeven point will be dependent on the customer environment.