

**NUCLEUS
RESEARCH**

RESEARCH NOTE B8

ROI ANALYSIS YOU CAN TRUST™

ROI Profile: Microsoft SharePoint – Rare Medium

THE BOTTOM LINE

Rare Medium achieved a high ROI from Microsoft SharePoint Portal Server by moving from a mixed environment to a standard companywide platform for organizing and sharing information. Companies already using an enterprisewide system for sharing information, or those whose employees don't readily collaborate and share information, may not experience the same return.

ROI: 187%

Payback: 6 months

THE COMPANY

Rare Medium is a consulting and investment company focused on Internet services technologies. The company has developed Web business plans, on-line brand strategies, broadband and wireless content, and other initiatives for clients including Betty Crocker, Microsoft, Epson, and Stride-Rite. Rare Medium also incubates, invests in, and manages private companies with Internet-focused business models. Rare Medium's team of about 1,100 engineers, designers, user interface experts, and sales and administrative personnel work in offices across the United States and in London and Singapore.

THE CHALLENGE

Effective project management and innovation are key to Rare Medium's success. To facilitate collaboration and knowledge management, Rare Medium built an intranet running on Microsoft IIS and a number of different applications including Knowledge Track's Knowledge Center, Orbital software, and IBM/Lotus QuickPlace. One-third of the company's employees are engineers and programmers, so different teams had found systems that worked for them — including shared drives and Web sites — and could write links and viewers to different systems as needed.

As Rare Medium grew, it outgrew its intranet. Those responsible for managing documents were overwhelmed as the volume of information increased, causing bottlenecks. Difficulties in integrating QuickPlace with Exchange and Active Directory made expanding QuickPlace for information sharing an unlikely enterprise solution. Employees were spending more time searching for information they needed as groups found creative yet isolated solutions to their collaboration needs. Rare Medium's recognition that it needed a new system for collaboration and information sharing was driven home by plans to purchase and integrate a new human resources application. Rare Medium needed an application to share and version information in a flexible way that could also be easily linked to other systems and tools.

THE STRATEGY

Rare Medium started looking at the offerings of portal vendors including Brio and Plumtree in the fall of 2000. Because Microsoft had a close relationship with the company, it learned of Rare Medium's search for a better system and suggested it consider the SharePoint Portal (then Tahoe). Late in 2000, Rare Medium tested SharePoint Portal release candidate 1 beta and decided to become an early adopter. On January 1, 2001, Rare

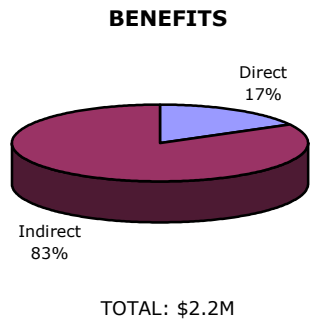
Medium replaced its intranet and Knowledge Center with SharePoint Portal RC1 beta. The company has continued to add content and features to SharePoint Portal since January and is planning to move to SharePoint Portal RC2 beta in April. Web parts link Rare Medium's human resources system, a professional services automation tool, and the QuickPlace sites into SharePoint Portal.

Because users work with an early release, Rare Medium's strategy has been to manage expectations of users by providing content and new Web parts as needed — but not to announce a time line or plan for the future of SharePoint within the organization.

KEY BENEFIT AREAS

The company recognized the following key benefits from moving to SharePoint Portal:

- Increased productivity. Rapid searchable access to information, proper version control, and integration of data and information from various sources into one portal have reduced the time Rare Medium employees spend searching for information and verifying its integrity. The company's emphasis on billable hours and internal utilization factors means much of that saved time has had an impact on productivity.
- Reduced IT support costs. Rare Medium's old mix of systems required a lot of maintenance to keep them working together and detective work to figure out what to do when they didn't. Now IT personnel can focus on building other projects instead of supporting the intranet.



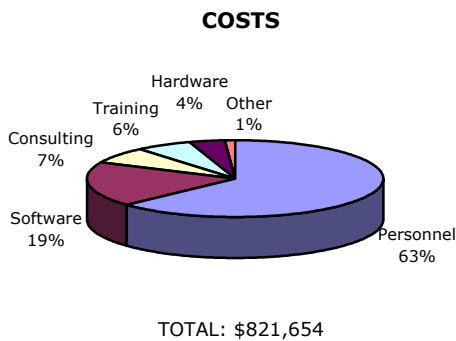
KEY COST AREAS

Ongoing personnel costs associated with indexing information into SharePoint Portal made up the largest cost item in Rare Medium's budget. Other organizations with a less technically savvy user group — or with user barriers to sharing information — may spend more on training and promotion of the application.

LESSONS LEARNED

Rare Medium believes that SharePoint Portal's basic environment, even in its beta form, is a good intranet portal starter kit. The packaged themes and templates provide a basic framework, and Front Page-like tools have enabled Rare Medium to devolve some application updating responsibilities to administrative — not IT — staff. Rare Medium will continue to watch the development of product releases for improvements in the following:

- Indexing. Improvements in the indexing reliability of SharePoint Portal should drive reductions in the amount of time needed to index and re-index documents.
- Advanced folder features. Because RC1 requires admins to set folder features before entering documents, folder rebuilding may be necessary if advanced feature needs are discovered later.
- Web crawling. The greater the level of granularity in the Web crawling functionality, the more rapidly an organization can add information to SharePoint Portal — without exposing confidential or "hidden" drive files to potential security risks or unauthorized access.
- Subscriptions and applications. Because subscriptions and application views are key to the effectiveness of SharePoint Portal,



Rare Medium and other customers should investigate the availability of Web parts and subscriptions for their specific needs.

CALCULATING THE ROI

Rare Medium's return has come from two main areas: reduction of maintenance costs by replacing a number of different custom-linked systems with one coherent one and increased user productivity from centralized collaboration and information organization. Rare Medium is a Microsoft Gold Certified Partner, and as an early adopter, it had internal Microsoft expertise and free software that most regular customers wouldn't. The cost and benefit estimates of Rare Medium's SharePoint Portal project have been adjusted through use of Nucleus Research metrics to account for amounts that may have been reasonably associated with the project had Rare Medium not been a close Microsoft Partner. These adjustments include an increase in the consulting and software costs required to deploy SharePoint Portal.

Rare Medium

Summary

Project:	Microsoft SharePoint
Annual Return On Investment (ROI)	187%
Payback Period (Years)	0.54
Net Present Value (NPV)	474,081
Average Yearly Cost of Ownership	273,885

Annual Benefits	Initial	Year 1	Year 2	Year 3
Direct	0	120,000	120,000	120,000
Indirect	0	600,000	600,000	600,000
Total Benefits Per Period	0	720,000	720,000	720,000

Depreciation Schedule	Initial	Year 1	Year 2	Year 3
Software	0	0	0	0
Hardware	0	0	0	0
Total Per Period	0	0	0	0

Expensed Costs	Initial	Year 1	Year 2	Year 3
Software	110,000	16,500	16,500	16,500
Hardware	15,000	1,500	16,500	3,000
Consulting	60,000	0	0	0
Personnel	60,000	150,000	150,000	150,000
Training	46,154	0	0	0
Other	0	10,000	0	0
Total Per Period	291,154	178,000	183,000	169,500

Financial Analysis	Results	Year 1	Year 2	Year 3
Net cash flow before taxes		542,000	537,000	550,500
Net cash flow after taxes		271,000	268,500	275,250
Annual ROI - direct and indirect benefits				187%
Annual ROI - direct benefits only				-17%
Net Present Value (NPV)				474,081
Payback (Years)	0.54			
Average Cost of Ownership (TCO/Years)		469,154	326,077	273,885
3-Year Cumulative ROI	426%			
3-Year IRR	177%			

Basic Financial Assumptions

All Government Taxes	50%
Discount Rate	15%

All calculations are based on Nucleus Research's independent analysis of the expected costs and benefits associated with the application profiled in the accompanying case.