

**NUCLEUS
RESEARCH**

RESEARCH NOTE D138

ROI ANALYSIS YOU CAN TRUST™

ROI Case Study: Microsoft Office SharePoint Portal Server 2003 Microsoft OTG

THE BOTTOM LINE

Upgrading and consolidating its Microsoft Office SharePoint Portal Server 2003 deployment enabled Microsoft to centralize management of sites for collaboration and information access, increasing user productivity while reducing IT costs.

ROI: 20%

Payback: 3+ years

THE COMPANY

Founded in 1975, Microsoft is the worldwide leader in software, services, and Internet technologies for personal and business computing. Microsoft's core business units include Windows Client, Information Worker, Business Solutions, Server Platforms, Windows CE and Mobility, MSN, and Home and Entertainment.

THE CHALLENGE

In early 2003, the Microsoft Operations and Technology Group (OTG) found that it was managing more than 20,000 SharePoint Team Services sites on servers around the world. Inconsistencies in backup, integration, and content made support a challenge and also contributed to growing storage costs. On the end-user side, the OTG found other challenges impacting productivity:

- It was difficult to find information. Multiple file shares and group sites required users to search different areas — and still not always find the information they needed to do their jobs.
- It was difficult to decide where to store information. Depending on the author, content, and nature of content it could often logically be stored in multiple places, putting the onus on the person saving it to remember where it was.
- It was difficult to quickly build collaborative teams. Much of work at Microsoft is accomplished in task or project-driven collaborative teams. Employees needed a way to rapidly launch team sites for sharing information and to add or remove members of the team without demanding IT support.

Microsoft wanted to improve its collaboration environment to provide users with consistent support for personal storage, team collaboration, group portals, and enterprise services across the organization — and reduce the costs associated with managing the growing collaborative environment at Microsoft.

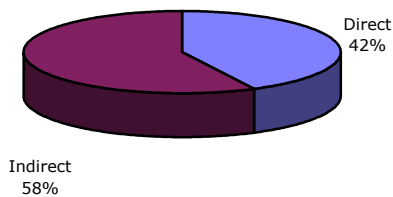
THE STRATEGY

In late 2002, Microsoft OTG began working with beta SharePoint Portal Server code to develop a new centrally supported architecture. The solution was built to support seamless integration with beta versions of Office 2003 applications around the document workspace and meeting workspace collaborative scenarios as well

as to enable users to save Office content directly to the SharePoint environment via the My Site functionality.

The OTG team used Windows SharePoint Services migration command line utility to move SharePoint Team Services sites to the new Windows SharePoint Services sites, exporting site content to a FrontPage Web Package file format and then to the new SharePoint environment. Today, there are more than 10,000 active individual sites in the new SharePoint environment, and the team expects the collaborative space to support more than 60,000 internal My Site sites as well as thousands of external partner sites as it grows over the next six months.

BENEFITS



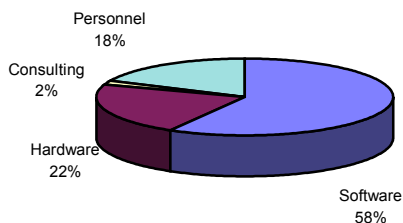
3-YEAR TOTAL: \$7.0M

KEY BENEFIT AREAS

Migrating from its previous SharePoint deployment to SharePoint Portal Services 2003 enabled Microsoft to improve collaboration and worker productivity while reducing IT costs. Key benefits of the solution include the following:

- Reduced storage costs. Moving to a SAN-supported centralized collaborative environment enabled Microsoft to reduce or redeploy storage resources formerly used to support individual sites.
- Reduced server costs. The centralized model enabled Microsoft to reduce the total number of servers needed to support user collaboration.
- Increased general employee productivity. A centralized document repository, search functionality, and My Site technology enable users to rapidly find the information they need.
- Increased IT staff productivity. A centralized infrastructure reduces the need for IT staff in the field to support and back up team sites, and automated team site creation means IT personnel can focus saved time on more strategic activities instead of tactical SharePoint support.

COSTS



3-YEAR TOTAL: \$7.8M

KEY COST AREAS

Key costs included personnel, hardware, and consulting. Software made up the largest cost category, accounting for 58 percent of total project costs over a 3-year period.

LESSONS LEARNED

Microsoft found the key to a successful migration — and in fact, the key to any successful deployment — is planning. Because Microsoft was already using the previous version of SharePoint, it was able to project storage demands based on existing sites. Organizations without an existing project may want to develop a pilot to help accurately judge and plan for capacity.

CALCULATING THE ROI

Nucleus quantified the costs of personnel, hardware, and consulting to quantify Microsoft's total investment in its SharePoint Portal

upgrade. The ROI number in this case represents the marginal additional ROI Microsoft OTG achieved by upgrading.

Software costs were estimated based on list license prices and standard Microsoft discounting practice for a deployment of this size, including Microsoft software assurance for SharePoint Portal Server and the supporting Windows and SQL licenses — actual internal costs for Microsoft are likely significantly lower than the estimates here. Companies that purchased software assurance for SharePoint Portal Server 2001 licenses will have no new software costs associated with upgrading to SharePoint Portal Server 2003.

Microsoft started working with the software before a final version was released, which meant that significant consulting hours were spent developing and testing the solution that would not be needed by companies deploying the final release version. Based on the level of additional development required and the level of maturity of the software when Microsoft started its deployment, Nucleus attributed 50 percent of Microsoft's total consulting cost as a proxy for the share of consulting that would be required by a normal deployment.

Direct benefits included storage and server resources that were redeployed as a result of the migration. Indirect benefits including increased productivity of employees were calculated based on the average fully loaded cost of employees. Time savings associated with reduced search time for employees and reduced administration time for IT staff were multiplied by a productivity correction factor to account for the inefficient transfer of time from time saved to additional time worked.

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SUMMARY

Project:	Microsoft SharePoint Portal Server
Annual return on investment (ROI)	20%
Payback period (years)	3+
Net present value (NPV)	(1,764,750)
Average yearly cost of ownership	2,606,697

ANNUAL BENEFITS	Pre-start	Year 1	Year 2	Year 3
Direct	0	2,943,000	20,250	20,250
Indirect	0	529,927	1,754,073	1,766,682
Total Benefits Per Period	0	3,472,927	1,774,323	1,786,932

DEPRECIATED ASSETS	Pre-start	Year 1	Year 2	Year 3
Software	2,585,328	0	0	0
Hardware	556,839	450,500	441,000	0
Total Per Period	3,142,167	450,500	441,000	0

DEPRECIATION SCHEDULE	Pre-start	Year 1	Year 2	Year 3
Software	0	517,066	517,066	517,066
Hardware	0	111,368	201,468	289,668
Total Per Period	0	628,433	718,533	806,733

EXPENSED COSTS	Pre-start	Year 1	Year 2	Year 3
Software	0	661,303	661,303	661,303
Hardware	0	83,526	83,526	83,526
Consulting	140,563	0	0	0
Personnel	151,375	420,000	420,000	420,000
Training	0	0	0	0
Other	0	0	0	0
Total Per Period	291,938	1,164,829	1,164,829	1,164,829

FINANCIAL ANALYSIS	Results	Year 1	Year 2	Year 3
Net cash flow before taxes		1,857,598	168,495	622,103
Net cash flow after taxes		1,017,766	223,014	714,418
Annual ROI - direct and indirect benefits				20%
Annual ROI - direct benefits only				-1%
Net present value (NPV)				-1,764,750
Payback (years)	3+			
Average annual cost of ownership		5,049,433	3,327,631	2,606,697
3-year cumulative ROI	-54%			
3-year IRR	-23%			

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. Financial modeling tool, format, and methodology copyright Nucleus Research Inc., all rights reserved.