UNIT4

In Business for You

INVESTMENT APPRAISAL
FOR UNIT4 CUSTOMER

Why ERP Cloud and Why Now?

When evaluating a migration to ERP in Unit4 SaaS, several costs are considered in a typical on-premise situation versus a cloud environment. Among the usual ongoing on-premise costs, you should also consider the following ones:

- Licenses for new users
- Ongoing maintenance and support
- Infrastructure (servers, 3rd party software, storage, backup hardware, real estate, power, etc.)
- Application maintenance (periodic technical updates and upgrades)
- IT resources to manage system (technical and functional)
- Ongoing training requirements (product updates, webinars, workshops, etc.)
- Downtime costs (planned and unplanned)
- Disaster recovery
- Risks associated with migration-related tasks
- Risks linked to data breaches and cybersecurity
- Risks linked to compliance (with local legislation, for example) and potential penalties

In a SaaS scenario, most heavy lifting is now handled by Unit4, while your data is securely stored and handled in a Microsoft Azure environment. In this case, the expected costs will mostly consist of:

- Subscription fees (usually between 40% and 70% of the overall cost)
- IT resources (functional, 10-20%)
- Consulting (10-30%)
- Training requirements (usually less than 7%)

Benefits of Migrating to Cloud

As your organization moves along your cloud journey, Unit4 helps you migrate to our latest technologies continually throughout the lifetime of the 5-year contract.

During this time, you will benefit from significant savings and benefits and other intangible benefits all covered in this Unit4 customer Business Case. Overall, we help you:

- Focus on the things that matter for your core business: freeing-up IT resources from tasks that can be taken care of by Unit4 (automations, upgrades, software updates, etc.)
- Scale according to your business needs and benefit from operational agility
- Reduce your IT CapEx spend - no more tracking and maintaining underlying server infrastructure and software (database backup, upgrades, and periodic maintenance). Reduce your overall spend on hardware, software and security
- Realize how a SaaS model can benefit your cash flow with no heavy upfront investments required for software or hardware
- Reduce the need for your staff to undergo technical training, reduce your dependency on expensive consultancy and the need to hire additional resources
- Become resilient and save on back-ups and disaster recovery
- Experience reliability and a reduced downtime*
- Empower your widely distributed workforce as they access the ERP system from anywhere, anytime
- Benefit from best-in-class security guaranteed by Microsoft Azure
- Take advantage of Unit4 People Platform's latest innovations: digital assistant, integration kits, extension kits
- Ensure that your organization is compliant at all times by always being on the latest software versions
- Save money on energy and reduce your organization's carbon footprint

With the apparent benefits, every day you delay the decision costs you more. So when moving to the cloud, aim high. Work with people that deliver what you need. For a fixed upfront fee. This is what we call Cloud Journey 4U.

*in accordance with Unit4's SLAs.

About This Report

We have divided this report into four main categories: (1) Running costs, (2) Upgrades, (3) Risks reduction, and (4) Other benefits not accounted for in this business case. Often, the latter are disregarded due to the difficulty of quantifying them in the context of a Return On Investment (ROI) analysis, but their value shouldn't be diminished when planning for a long-term investment.

For 'Running Costs,' we consider everything that an organization spends on their IT infrastructure running and maintaining their ERP, such as hardware, software, IT resources employed to manage it, as well as the related costs of disaster recovery, facilities (cost of real estate) and power-related (electricity/cooling systems).

In the 'Cost of Upgrades' category, we consider hardware, software, IT resources and project costs.
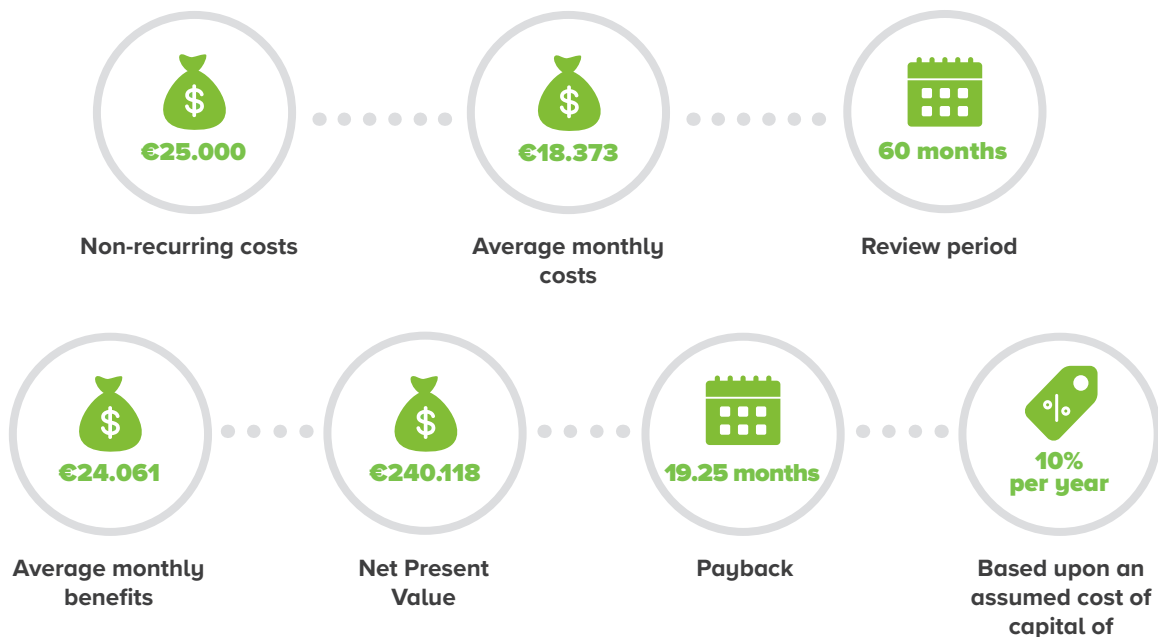
We will refer to the parameters that will decrease risks and associated costs in the "Risks Reduction" category. Usually, it includes risks linked to migration, data breach and cybersecurity. Although we acknowledge that these risks are not a given and that, as an example, the probability of a data breach is low, we have built a business case based on a "what if" scenario. Should it be of interest to your organization, we can assess the impact of such risks for a best- and worst-case situation, based on your current risk levels for each of these parameters.

The investment evaluation of these costs and savings has been completed using the Shark appraisal tool. The output from this tool is fully visible and can be audited by Unit4 Customers if required.

Organization Profile

In this business case report, we are assessing the profitability of an investment over 5 years for a private organization with 2.500 Employees based in Europe.

Summary

€25.000	€18.373	60 months
Non-recurring costs	**Average monthly costs**	**Review period**

€24.061	€240.118	19.25 months	10% per year
Average monthly benefits	**Net Present Value**	**Payback**	**Based upon an assumed cost of capital of**

Investment Summary

Non-Recurring Costs

	Value	Month
Cost estimate of business process changes for customer (e.g. user testing, 3rd party software changes)	€25.000	1
Total non-recurring costs	€25.000	

Recurring Costs

	Value	Month	Recurrence	Growth (per year)
SaaS fees	€53.000	1-60	Quarterly	2%
Average monthly costs	€18.373			

Running Costs

Eliminating the Cost of Unit4 IT Maintenance	
Current annual maintenance/support spend	€125.000
Reduction in maintenance/support spend post-solution	100%
Annual savings	€125.000
Growth (per year)	2%
Impact life (months)	1-60
Average monthly savings	€10.959

Purpose:

Quantify the savings that could be made by reducing the current cost of Unit4 maintenance.

Data used:

- Unit4 customer will avoid an annual spend of €125.000 on maintenance by migrating to Unit4 cloud.
- Benefits will start from month 1.

Reducing Help Desk Trouble Tickets with Unit4	
Annual number of trouble tickets	145
Cost per trouble ticket	€600
Current annual cost of trouble tickets	€87.000
Reduction in trouble tickets post-solution	30%
Revised annual cost of trouble tickets	€60,900
Growth (per year)	2%
Impact life (months)	1-60
Average monthly savings	€2.288

Objective:

Quantify the savings that could be made by reducing the number of trouble tickets raised with Unit4. By migrating to the cloud, the Unit4 team will take over a part of your team's current work to troubleshoot issues.

Data used:

- Each member of your IT team has a cost of, on average, €300 per day. Two days is the minimum average time spent on a trouble ticket.

- Around 145 helpdesk trouble tickets are being dealt with annually.
- By migrating to the cloud, Unit4 customer will reduce the number of tickets opened by at least 30%.
- We account for a 2% salary increase year-on-year of the Unit4 customer's team members (Source: https://tradingeconomics.com/european-union/wage-growth).
- Benefits will start from month 1 but will have a bigger impact over time.

Avoiding the Cost of Running Existing Servers	
Number of servers currently in use	2
Revised number of servers required post-solution	0
Servers avoided	2
Annual internal charges per server (allocation)	€400
Annual external charges per server (3rd party, etc.)	€6.500
Impact life (months)	4-60
Average monthly savings	€1.093

Objective:

Quantify the savings tied to the cost of running Unit4 customer's current server estate.

Data used:

- This Unit4 customer currently runs at least 2 servers fully dedicated to their ERP system (one in production).
- The average cost of a server for mid to large-sized companies is approximately €1.200. (Source: https://startups.co.uk/technology/how-much-will-a-server-cost/).
- The minimum cost of running each server is €400 per year (cost of hardware + interest rates).
- There are also costs with dedicated storage space in 3rd party cloud vendors to be considered at about €6.500 per year and for both servers.

Avoiding the Cost of Purchasing New Servers Within 5 Years	
Budgeted number of new servers	3
Revised number of servers required post-solution	0
Cost per server	€1.200
Server spend avoided	€3.600
Life or write-down period of the servers (months)	36
Interest / Minimum return rate (% per annum)	3%
Monthly interest	€5
Monthly asset value reduction avoided	€60
Impact life (months)	1-60
Average monthly savings	€65

Objective:

Quantify the savings that can be made by no longer spending on servers.

Data used:

- Currently, this Unit4 customer is using at least 2 servers to run their ERP system. We estimate that in addition to replacing these 2 servers, the customer will require 1 new server within the next 5 years (scope of this business case).

- The average cost of a server for mid to large-sized companies is approximately €1.200. (Source: https://startups.co.uk/technology/how-much-will-a-server-cost/).

- By migrating to the cloud, none of these servers will be required in the future.

- The interest rate paid for the cost of servers is about 3%.

Avoiding Software License Costs with 3rd Party Vendors	
Annual license costs	€9.500
Reduction in license costs post-solution	75%
Revised license costs	€2.375
Growth (per year)	2%
Impact life (months)	9-60
Average monthly savings	€538

Objective:

Quantify the savings tied to the elimination of redundant software. In this case, by migrating to the cloud, costs linked to running redundant servers' software are also avoided.

Data used:

- Currently, this Unit4 customer spends €9.500 per year on third-party software running on the servers supporting the ERP system.

- We estimate that we can eliminate the need for such software by at least 75%.

Power Savings	
Current energy consumption (kWh per month)	1.241
Reduction in consumption post-solution	100%
Cost per kWh	€0.19
Growth (per year)	1%
Impact life (months)	4-60
Average monthly savings (€)	€229

Objective:

Quantify the savings made by reducing the electricity consumed by hardware, especially servers and cooling systems, keeping these servers running. It is also worth mentioning the potential reduction of the organization's carbon footprint.

Data used:

- 2 servers are currently supporting the system (out of which one is used in production).

- One server can use between 500 to 1.200 watts per hour, according to Ehow.com. If the average use is 850 watts per hour, multiplied by 24 that equals 20.400 watts daily, or 20.4 kilowatts (kWh). Multiply that by 365 days a year for 7.446 kWh per year. 7.446/12 months = 620.5 kWh every month for each server (Source: https://www.zdnet.com/article/toolkit-calculate-datacenter-server-power-usage/).

- Electricity prices in Europe would range from €0.10 to €0.29 per kWh in 2019 (source: https://ec.europa.eu/eurostat/statistics-explained/index.php/Electricity_price_statistics). Therefore, we have assumed an average of €0.19 per kWh, with a price increase of 1% per year.

Freeing-up Time from Your IT Resources	
Time spent on activity (total FTE hours per month)	80
Annual loaded cost per person	€50.000
Efficiency improvement post-solution	90%
Time saved per month (hours)	72
Growth (per year)	2%
Impact life (months)	4-60
Average monthly savings (€)	€2.127

Objective:

Quantify the savings that could be made by improving an activity's efficiency, in this case, installing packages and other technical tasks such as the configuration of files, migrating data, etc. Although a large proportion of cost savings could be thought of as headcount savings, there may also be an element of direct non-labor costs that could be reduced by implementing the solution.

Data used:

- Each member of staff costs €300 per day or €38 per hour. We have assumed a conservative annual loaded cost of €50.000.

- On average, this Unit4 customer's IT team spends 40h each month on technical activities (2 Employees).

- We account for a 2% salary increase year-on-year (Source: https://tradingeconomics.com/european-union/wage-growth).

- By migrating to the cloud, we estimate at least 90% of the burden will be taken away from the IT staff.

Reducing Downtime Costs (Planned Maintenance)	
Current downtime per month (hours)	0.67
Downtime cost per hour	€2.000
Reduction in downtime post-solution	75%
Impact life (months)	4-60
Average monthly savings	€955

Objective:

Quantify the savings to be made by reducing the amount of planned system downtime for maintenance.

Data used:

- One maintenance window is planned each quarter on average (approx. 2h), usually out of working hours, i.e. about 40min per month.

- The assumed cost of each team member is an average of €300 per day or roughly €38 per hour. About 2.500 users could be impacted by downtime, but in this case, since this is a planned downtime out of working hours, the impact is minimal.

- We estimate we can help this Unit4 customer reduce planned downtime for maintenance and change requests by at least 75% by moving to the cloud.

Disaster Recovery Savings	
Time spent on DR capability maintenance (total FTE hours per month)	2
Annual loaded cost per person	€50.000
Time saving	100%
Annual value of time-saving	€711
Annual non-labor DR costs	€6.500
Reduction in non-labor costs	100%
Annual non-labor cost saving	€6.500
Impact life (months)	4-60
Average monthly savings	€571

Objective:

Quantify the savings that could be made by reducing the time or the cost of maintaining disaster recovery capability.

Data used:

- We currently don't have data about the number of hours spent on Disaster Recovery activities. Therefore, we have assumed that this Unit4 customer spends at least 2h per month on related activities.

- We have taken into account an average annual loaded cost of €50.000.

- Non-labor costs include data storage (3rd party providing cloud service), room space, servers, software running, electricity, etc. Therefore, we have assumed a cost of €6.500.

Technical Training Requirement Reduction - Product updates, integration, etc.	
Current annual training spend	€2.500
Reduction in training spend post-solution	100%
Revised annual training spend	€0
Growth (per year)	2%
Impact life (months)	1-60
Average monthly savings	€219

Objective:

Quantify the savings that can be made by avoiding spending on training and having team members busy with training.

Data used:

- By migrating to the cloud, we eliminate the need for this Unit4 customer's people to go through technical training, such as product updates, integration issues, etc.

- We account for a 2% salary growth as a general cost increase over the period of this business case.

Cost of Upgrades

Avoiding the Costs of a Future Upgrade	
Cost of planned technology refresh that will be avoided	€125.000
Cost of the technology evaluation & research needed in preparation for technology refresh	€10.000
Cost of training staff to operate the new technology	€0
Cost of implementation of the new technology	€0
How long until refresh due (months)	20
Impact life (months)	1-60
Average monthly savings	€2.250

Objective:

Quantify the savings that can be made by avoiding spend on a future upgrade. Typically, every 3 to 5 years (36 to 60 months), a refresh of the current system is required. By migrating to the cloud, it is possible to avoid such CapEx spend.

Data used:

- This Unit4 customer will avoid a minimum technology refresh spend of €135.000 over the next 5 years related to their ERP, mostly down to reducing the cost of technical consultancy. Note: this amount excludes functional consultancy work and testing.

- There are 20 months until the next upgrade is required.

Risks Reduction

Reducing Downtime Costs (Unplanned Downtime)	
Current downtime per month (hours)	0.25
Downtime cost per hour	€63.333
Reduction in downtime post-solution	5%
Growth (per year)	2%
Impact life (months)	4-60
Average monthly savings	€789

Objective:

Quantify the savings that can be made by reducing unplanned system downtime.

Data used:

- We calculated the costs of unplanned downtime for this Unit4 customer, should it happen a couple of times per year, for just 15min per month or 3h per year.

- The average cost of each FTE would be, on average, €300 per day, or €38 per hour.

- From the total number of employees (roughly 2.500), there are 2/3 at risk of not working during unplanned downtime.

- We estimate that we can help this Unit4 customer reduce unplanned downtime by at least 5% by moving to the cloud.

Regulatory Compliance Savings – e.g. Local Legislation, etc.	
Current annual cost of complying with regulations	€15.000
Reduction in costs post-solution	50%
Annual compliance savings	€7.500
Growth (per year)	5%
Impact life (months)	4-60
Average monthly savings	€670

Objective:

Quantify the savings that can be made by avoiding regulatory non-compliance that can incur penalties.

Data used:

- Currently, this Unit4 customer spends on average €15.000 per year in making sure that each local entity/country's local legislation is applied and complied with. These costs can be reduced by migrating to the cloud by at least 50%.

- Such issues and associated costs will increase by at least 5% yearly as the organization's acquisition strategy takes place in multiple locations worldwide.

Reducing Migration Risks	
Number of outages required to migrate	2
Time window required per outage (hours)	4
Cost impact per hour of outage	€100
Revised number of outages post-solution	0
New time window per outage (hours)	0
Impact life (months)	4-60
Average monthly savings	€13

Objective:

Quantify the lost revenue/margin that can be avoided by reducing the quantity and/or time of outages when migrating services or systems to new platforms.

Data used:

- Number of outages required to perform a migration to a new milestone: minimum 2.

- Minimum outage time: 4h

- Cost per hour: €100, assuming 2 Employees involved (€50/h x 2)

- As the technical migration would be done by the Unit4 cloud team, time and costs tied to this activity would be saved.

Data Breach Risk Reduction	
Number of records	2.500
Estimated % records compromised	50%
Cost of investigation per breach	€2.500
Cost to improve security capabilities per breach	€8.000
Legal support costs per breach	€20.000
PR campaign costs related to breach	€10.000
Other costs e.g. credit monitoring services	€0
Cost per record of data breach	€32
Probability of data breach	10%
Reduction in breach probability	50%
Annual value of reduced security risk	€2.025
Growth (per year)	5%
Impact life (months)	9-60
Average monthly value	€163

Objective:

Quantify the savings that can be made by reducing the chances of investigating and rectifying cybersecurity breaches. This is a risk and not a given situation - in this business case, we are trying to assess the potential impact of such a risk for this Unit4 customer.

Data used:

- 2.500 members of staff = potentially 2.500 records breached.

- We simulate that 50% of all records have been breached by hackers.

- We estimate the costs of investigating such breach to be of at least €2.500.

- We also made some estimations additional spend on security solutions to prevent identical breaches (€8.000), on costs related to legal (€20.000) and to PR efforts (€10.000).

- If the probability of this Unit4 customer's organization being breached is 10% and we can reduce this risk by 50% by migrating all data to the cloud, we can significantly reduce the risks associated with data security.

- As cyber-attacks become more prominent and sophisticated, we account for a potential growth in risks and associated costs of 5% per year.

Cybersecurity Savings (Preventive Measures)	
Current annual cost of implementing security	€15.000
Reduction in security cost post-solution	100%
Revised annual security costs	€0
Growth (per year)	2%
Impact life (months)	9-60
Average monthly savings	€1.132

Objective:

Quantify the savings that could be made by reducing the costs spent on network/cybersecurity.

Data used:

We assume that removing the ERP system from a security check will reduce the overall security costs by at least €15.000 for this Unit4 customer. Such costs can be fully avoided by migrating to the cloud.

Other benefits not accounted for in this business case

- Operational agility and scalability as your business grows
- Faster application deployment
- Faster access to innovation
- Access to Unit4's People Platform Services
  - Integration kit
  - Extension kit
  - Digital Assistant – Wanda
  - Unit4 Identity Services (IDS)
- Lower reliance on external consultants or subcontractors
- Reducing your organization's carbon footprint

Benefits Summary

|	Monthly Saving
Eliminating the Cost of Unit4 IT Maintenance	€10.959
Reducing Help Desk Trouble Tickets with Unit4	€2.288
Avoiding the Cost of Running Existing Servers	€1.093
Avoiding the Cost of Purchasing New Servers Within 5 Years	€65
Avoiding Software License Costs with 3rd Party Vendors	€538
Power Savings	€229
Freeing-up Time from Your IT Resources	€2.127
Reducing Downtime Costs (Planned Maintenance)	€955
Disaster Recovery Savings	€571
Technical Training Requirement Reduction	€219
Avoiding the Costs of a Future Upgrade	€2.250
Reducing Downtime Costs (Unplanned Downtime)	€789
Regulatory Compliance Savings	€670
Reducing Migration Risks	€13
Data Breach Risk Reduction	€163
Cybersecurity Savings (Preventive Measures)	€1.132
Total average monthly benefits	€24.061
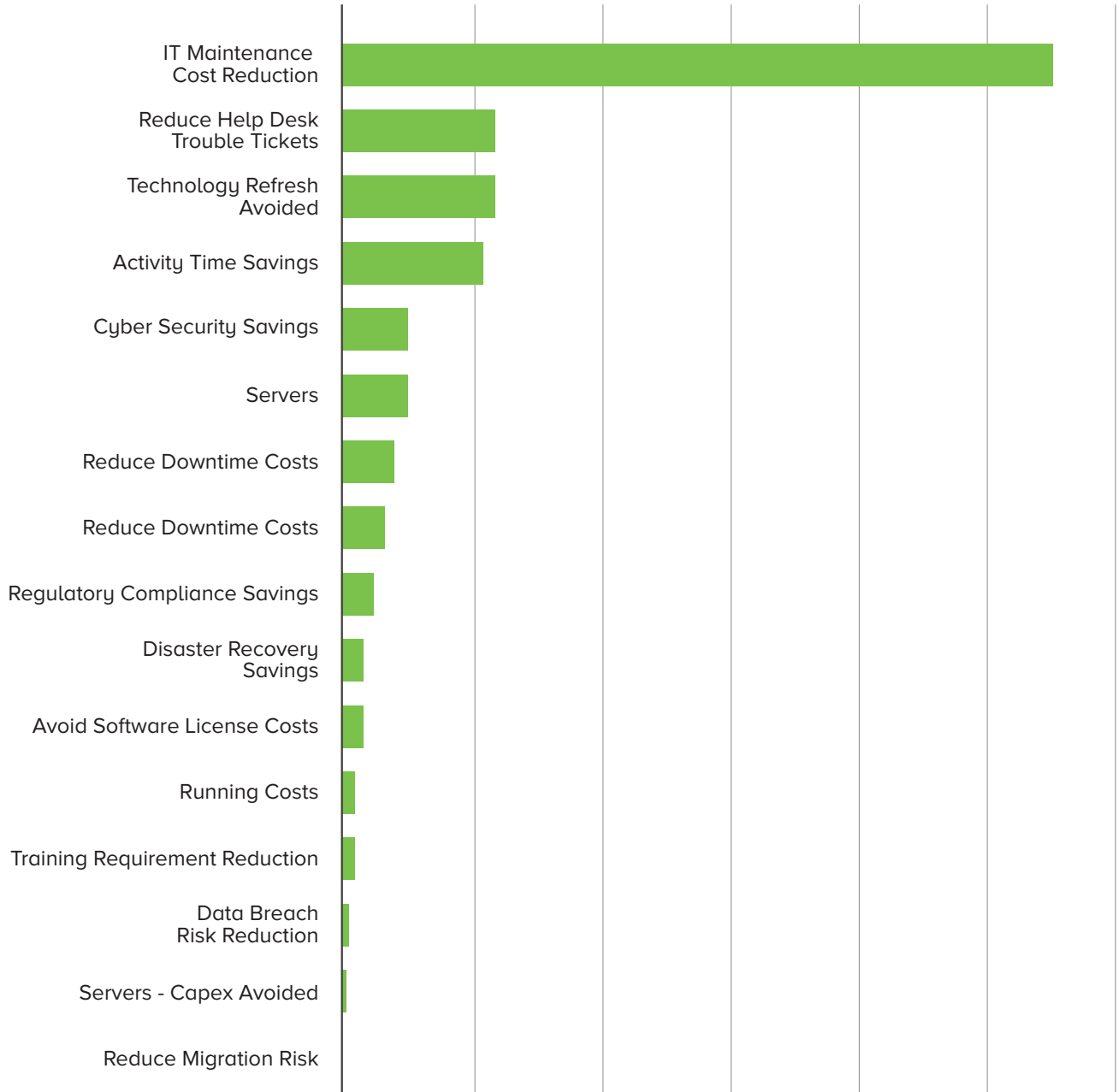
Figure 1: Average monthly benefits €24 061

Cash Only Summary

This appraisal's cash-only impact, which excludes expressly any revaluation for the time value of money, is summarized in the table below. This table should be reviewed in isolation from the rest of the appraisal. which may include revaluations for delays, growths, timings, interest costs, etc.

Benefits	Value
Eliminating the Cost of Unit4 IT Maintenance	€657.531
Reducing Help Desk Trouble Tickets with Unit4	€137.292
Avoiding the Cost of Running Existing Servers	€65.550
Avoiding the Cost of Purchasing New Servers Within 5 Years	€3.924
Avoiding Software License Costs with 3rd Party Vendors	€32.265
Power Savings	€13.768
Freeing-up Time from Your IT Resources	€127.608
Reducing Downtime Costs (Planned Maintenance)	€57.285
Disaster Recovery Savings	€34.253
Technical Training Requirement Reduction	€13.151
Avoiding the Costs of a Future Upgrade	€135.000
Reducing Downtime Costs (Unplanned Downtime)	€47.354
Regulatory Compliance Savings	€40.173
Reducing Migration Risks	€800
Data Breach Risk Reduction	€9.791
Cybersecurity Savings	€67.926
Total Benefits	€1.443.672

Costs	
Cost estimate of business process changes for the customer (e.g. user testing, 3rd party software changes)	€25.000
SaaS fees (2.500 Employees)	€1.102.400
Total costs	€1.127.400
Net Benefits	€316.272
Simple ROI	28%

Return on Investment Appraisal Elements

Net Present Value (NPV)

Review period (months)	60
Non-recurring costs	€25.000
Peak monthly benefits	€157.069
Average monthly costs	€18.373
Minimum return (per year)	10%
NPV	€240.118

Discounted Cashflow Analysis - NPV

Month	Year 1	Year 2	Year 3	Year 4	Year 5
0	0				
1	-64.555	-29.063	-26.960	-25.074	-23.228
2	12.747	19.568	18.116	16.693	15.459
3	12.667	19.442	18.000	16.587	15.360
4	-31.636	-28.291	-26.244	-24.408	-22.611
5	18.810	19.194	17.771	16.376	15.165
6	18.689	19.071	17.657	16.271	15.068
7	-31.565	-27.538	-25.546	-23.759	-22.009
8	18.449	134.000	17.432	16.064	14.877
9	20.207	18.707	17.321	15.962	14.782
10	-28.876	-26.805	-24.866	-23.126	-21.423
11	19.949	18.469	17.100	15.759	14.594
12	19.821	18.350	16.990	15.658	14.501
Total					240.118

Total NPV position:
€240.118
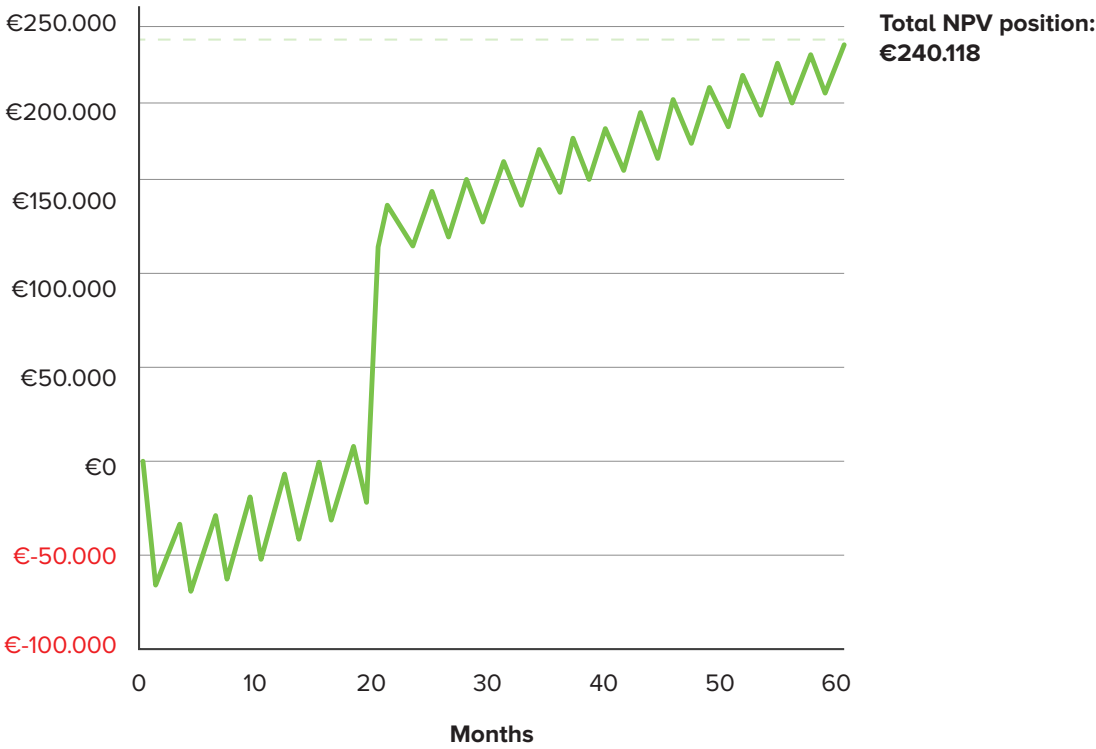
Figure 2: NPV Cumulative Discounted Cashflow 240.118
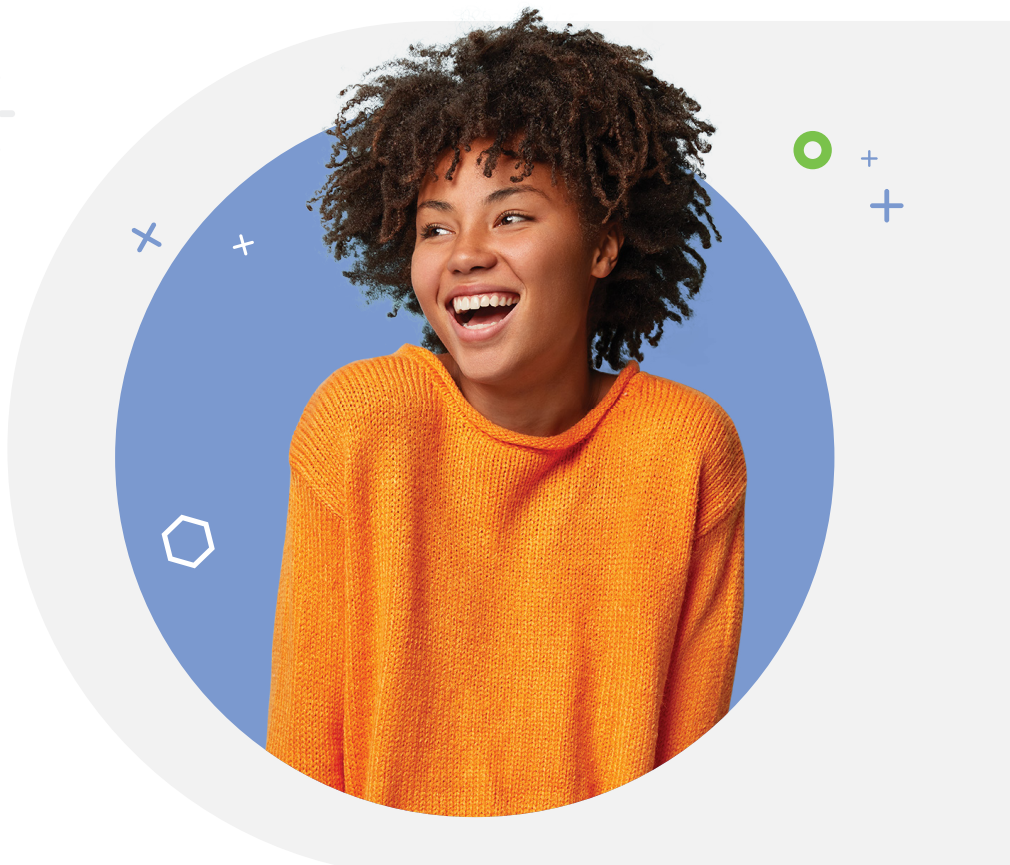
Payback

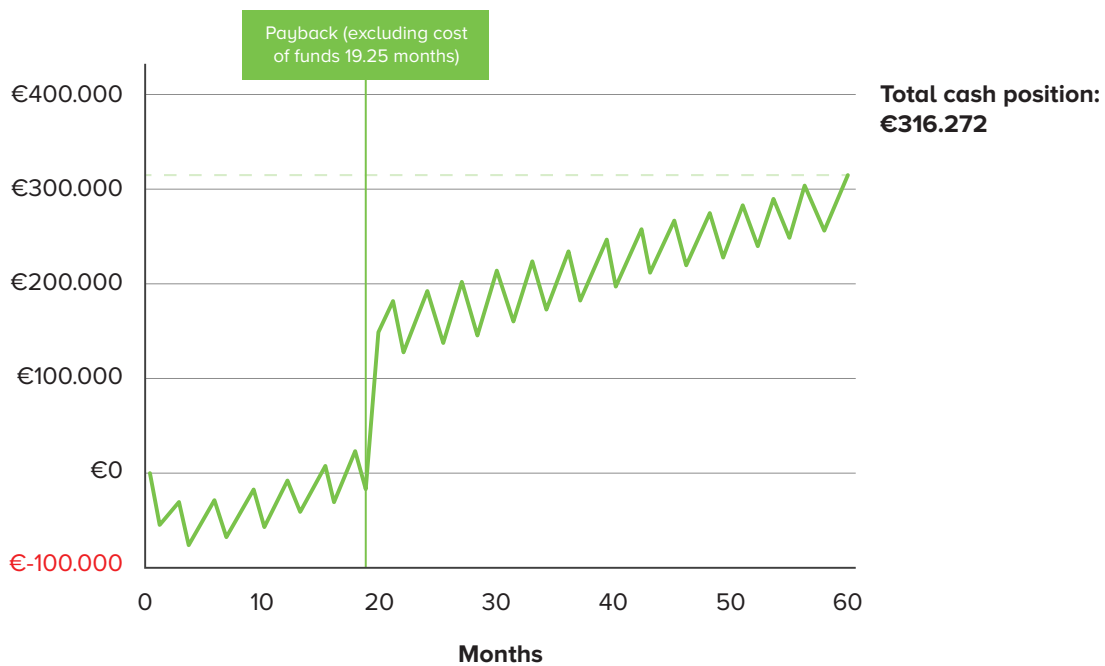|	
Non-recurring costs	€25.000
Peak monthly benefits	€157.069
Average monthly costs	€18.373
Payback (months)	19.25

Figure 3: Payback Cumulative Cashflow 19.25 months

Cost of Delay, Cost of Doing Nothing

Every month that the decision is delayed costs this Unit4 customer €5.688. If they delay the decision for 12 months, they will lose €68.254 in net benefits.

If this Unit4 Customer chooses not to go ahead with the proposal, they will lose €240.118 in today's terms of net benefits.

Basis of Preparation

To complete the investment appraisal, we used the following methods:

Net Present Value

A financial measure of whether a proposal delivers a "profit" or a "loss" using an annual cost of money applied to the timing of spend and savings. It includes the initial cost of the equipment/services and the monthly cost of maintenance, compared to the accruing financial benefits. The result is the change in shareholder value to be anticipated from project acceptance.

Payback

This compares the initial outlay of monies to buy equipment or services against the time taken for the savings to cover the initial outlay. This derives an answer that is a time measure and is usually quoted in months/years.

For more information go to:

unit4.com

UNIT4
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