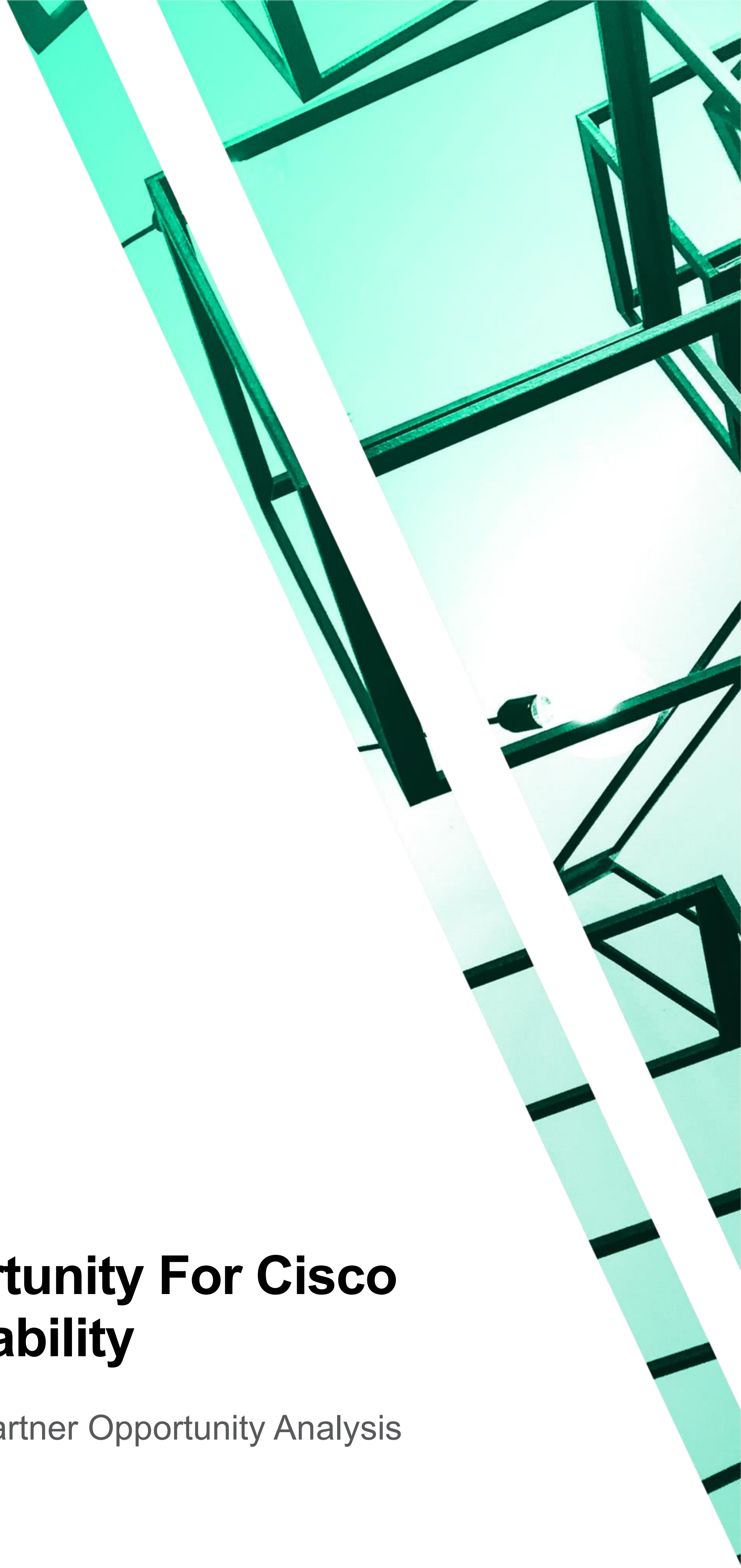

The Partner Opportunity For Cisco Full-Stack Observability

A Total Economic Impact™ Partner Opportunity Analysis

FEBRUARY 2023

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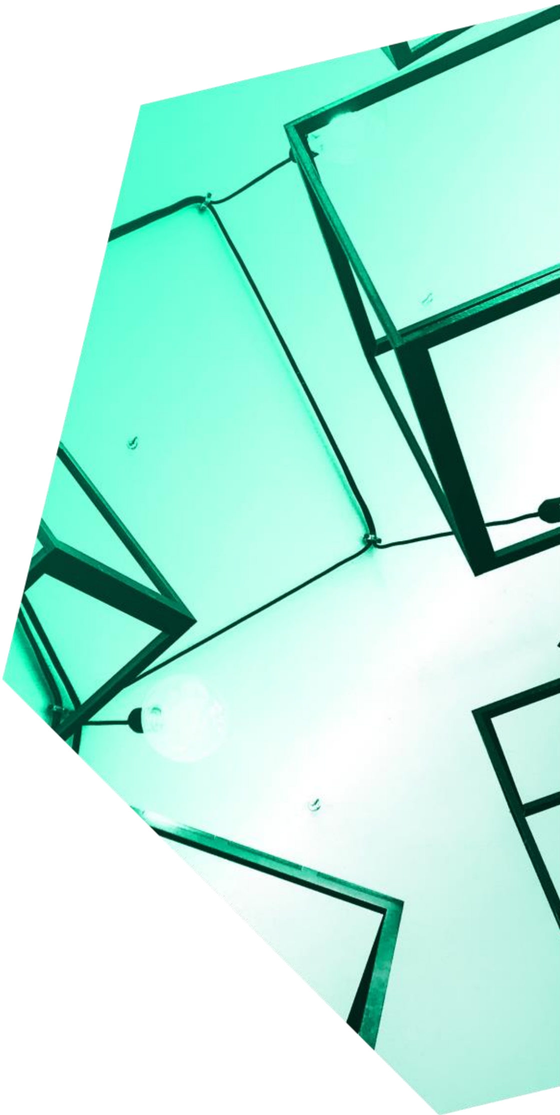


ABOUT FORRESTER CONSULTING

Forrester provides independent and objective research-based consulting to help leaders deliver key transformation outcomes. Fueled by our customer-obsessed research, Forrester's seasoned consultants partner with leaders to execute on their priorities using a unique engagement model that tailors to diverse needs and ensures lasting impact. For more information, visit forrester.com/consulting.

Executive Summary

According to Forrester research, business and technology professionals from growing organizations are more likely to implement insights-related efforts compared to those that shrank.[1] These tech leaders increasingly seek to move beyond monitoring to reach observability across the full stack, delivering business-aware insights and taking more active and proactive actions.[2] With this movement, there is a growing opportunity for partners to build observability practices, serve clients, and earn revenue.

Cisco's Full-Stack Observability platform, including AppDynamics and ThousandEyes, enables partners to help clients reach total visibility across platforms, gain insights, and take action to deliver optimized customer experiences. With Full-Stack Observability (FSO), partners help clients remain customer-focused and connect application performance metrics with valued business context and metrics, leading to better customer outcomes and business results. Furthermore, Cisco's Partner Program offers partners training, resources, and other benefits to help start and grow their practices.

Cisco commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study to examine the potential business opportunity and return on investment (ROI) partners may realize by building and scaling a Cisco Full-Stack Observability practice.[3] The purpose of this study is to provide potential and existing partners with a framework to evaluate the potential business opportunity associated with selling, servicing, managing, and building with Full-Stack Observability as part of the Cisco partner ecosystem.

Year 3 gross margin

56%

KEY STATISTICS

Return on investment (ROI)
102%

Net present value (NPV)
$3.85M

To better understand the revenue streams, investments, and risks associated with a Full-Stack Observability practice, Forrester interviewed nine representatives of seven existing partners with experience collaborating with Cisco to build or innovate and ultimately sell and scale their practices. These partners resold Cisco's solution, offered professional and managed services, and built intellectual property (IP). On a practice maturity scale, some partners leaned towards resale, some offered professional services, and some offered full-fledged managed services for clients. To illustrate the financial impact and subsequent partner business opportunity for Full-Stack Observability partners, Forrester aggregated the characteristics of these interviewees and combined the results into a single composite organization that is based in North America with global operations that services enterprise-level clients. The composite resells Cisco's solution to 10 clients in Year 1, offers professional and managed services, and builds IP.

KEY FINDINGS

Revenue opportunities. The composite partner organization captures the following revenue streams, which are representative of those experienced by interviewees' organizations:

- **Cisco Full-Stack Observability resell revenue worth $3.2 million.** First, the composite partner resells Cisco's Full-Stack Observability solution, including AppDynamics and ThousandEyes. Over the three-year analysis, this revenue stream contributes 42% of the composite's total gross profits.
- **Strategy, assessment, and proof of value services revenue worth $251,000.** At the start of engagements, the composite partner helps clients find their path to Full-Stack Observability with workshops and more. Over the three-year analysis, this revenue stream contributes 3% of the composite's total gross profits.
- **Implementation and integration services revenue worth $624,000.** After determining the roadmap and making the sale, the composite partner helps clients implement and integrate the solution. Over the three-year analysis, this revenue stream contributes 8% of the composite's total gross profits.
- **Building and selling IP revenue worth $585,000.** When integrating, the composite partner organization builds extensions for select clients to integrate the solution with their technology stacks. Over the three-year analysis, this revenue stream contributes 8% of the composite's total gross profits.
- **Support and maintenance services revenue worth $754,000.** With the implementation and integration complete, the composite offers standard support and maintenance to ensure successful continued client use. Over the three-year analysis, this revenue stream contributes 10% of the composite's total gross profits.
- **Managed services revenue worth $2.2 million.** Finally, to maximize the value of its clients' investments and build a long-term, deeper relationship securing renewals and further work, the composite partner offers its clients long-term managed services overseeing their observability needs, managing their applications, undertaking related projects, and more. Over the three-year analysis, this revenue stream contributes 29% of the composite's total gross profits.

Key outcomes. Benefits that provide value for the composite partner organization but are not quantified for this study include:

- **Powerful client impacts.** Above all else, the composite partner organization delivers powerful business outcomes for its clients by helping them achieve Full-Stack Observability with Cisco.
- **Trusted advisor relationships.** Delivering this aid and these business outcomes for clients enables the composite partner to maintain and deepen its client relationships, opening the scope for more long-term opportunities.
- **Cisco-driven growth.** The composite partner organization benefits from Cisco's brand, Full-Stack Observability specialization, and certifications, which help it gain credibility and recognition leading to new business and growth.
- **Collaboration and support.** Cisco assists the composite partner with coselling, comarketing, codeveloping, and more as it builds and grows a Full-Stack Observability practice.
- **Trial licenses and funding.** Further support from Cisco includes funding and trial licenses the composite partner organization can use to secure deals and grow its practice.

Investments. Beyond the delivery costs, which are embedded in the gross margin calculations of each revenue stream, partners also invested in:

- **Talent acquisition and hiring investments of $1.79 million.** To build a successful and functional practice, the composite hires a practice manager and two sales FTEs in Year 1. Over the three-year analysis, this investment contributes 48% of the composite's total operating expenses.
- **Training investments of $546,000.** To competently communicate with and serve clients, the composite partner prioritizes training for its sales and delivery staff. Over the three-year analysis, this investment contributes 14% of the composite's total operating expenses.
- **Research and development investments of $432,000.** The composite partner commits funding to research and development to build its offerings and stay ahead. Over the three-year analysis, this investment contributes 11% of the composite's total operating expenses.

"FSO poses one of the more dynamic shifts in the IT industry that I have seen. ... We have a very real possibility to create an IT operations' environment that has a direct and measurable impact on the operation and success of the business. That puts IT at the table not as a cost center, but as a unit to impact the future strategy and economic success of the business."

Director of automation, North American partner

"FSO is going to be the much-needed solution for the challenges happening in the marketplace."

Director of AI and RPA, North American partner

- **Marketing investments of $716,000.** To grow its practice, the composite partner organization allocates 5% of practice revenue to marketing-related ventures. Over the three-year analysis, this investment contributes 19% of the composite's total operating expenses.
- **General and administrative investments of $286,000.** Last, the composite partner organization allots 2% of practice revenue for general and administrative expenses to operate the business. Over the three-year analysis, this investment contributes 8% of the composite's total operating expenses.

Net results. The representative interviews and financial analysis found that a composite partner organization experiences total present value (PV) gross profits of $7.62 million over three years versus investments and overhead expenses of $3.77 million, adding up to a net present value (NPV) of $3.85 million and an ROI of 102%.

Partner Pro Forma Revenue And Margin Opportunity: Three-Year Analysis (USD)					
Ref.	**Metric**	**Source**	**Year 1**	**Year 2**	**Year 3**
PL1	Cisco Full-Stack Observability resell	At	$400,000	$1,125,000	$2,500,000
PL2	Strategy, assessment, and proof of value services	B5	$200,000	$300,000	$500,000
PL3	Implementation and integration services	C5	$480,000	$720,000	$1,280,000
PL4	Building and selling IP	D5	$175,000	$350,000	$700,000
PL5	Support and maintenance services	E5	$600,000	$900,000	$1,500,000
PL6	Managed services	F5	$600,000	$1,800,000	$3,900,000
PL7	Total revenue	PL1+PL2+PL3+PL4+PL5+PL6	$2,455,000	$5,195,000	$10,380,000
PL8	Total gross profit	At+Bt+Ct+Dt+Et+Ft	$1,095,000	$2,721,000	$5,823,000
PL9	Total gross margin	PL8/PL7	45%	52%	56%
PL10	Talent acquisition and hiring	Gt	$625,595	$692,298	$857,439
PL11	Training	Ht	$442,992	$60,792	$76,156
PL12	Research and development	It	$196,400	$103,900	$207,600
PL13	Marketing	Jt	$122,750	$259,750	$519,000
PL14	General and administrative	Kt	$49,100	$103,900	$207,600
PL15	Total operating expenses	PL10+PL11+PL12+PL13+PL14	$1,436,837	$1,220,640	$1,867,795
PL16	Operating income	PL8-PL15	($341,837)	$1,500,360	$3,955,205
PL17	Operating margin	PL8-PL15/PL7	-14%	29%	38%

> **When you combine [AppDynamics and ThousandEyes], that’s where the secret recipe is.**
>
> — Director of AI and RPA, North American partner

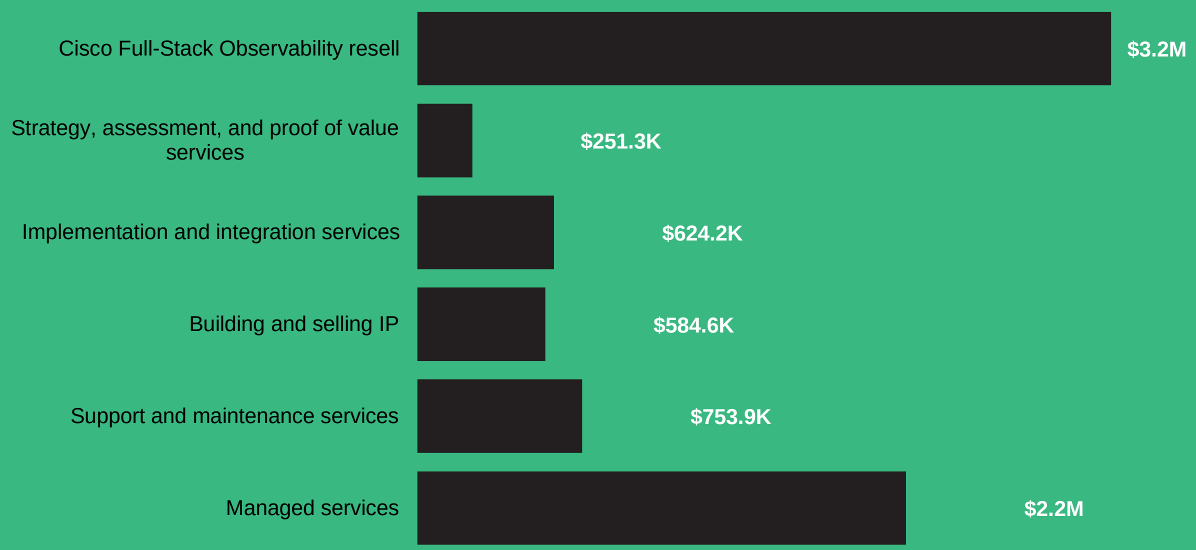
ROI
102%

GROSS MARGIN
56% (Year 3)

OPERATING MARGIN
38% (Year 3)

PAYBACK
15 months

Revenue Streams (Three-Year)



It's the only logical choice. … They put the right thinking behind it, and we are confident that this is going in the right direction. We have made the right bet with Cisco.

— Founder and CEO, European partner

TEI FRAMEWORK AND METHODOLOGY

From the information provided in the interviews, Forrester constructed a Total Economic Impact™ framework for those partners considering building and growing a Cisco Full-Stack Observability practice.

The objective of the framework is to identify the revenue streams, investments, flexibility, and risk factors that affect the investment decision. Forrester took a multistep approach to evaluate the holistic opportunity for partners building and growing a Cisco Full-Stack Observability practice.

DUE DILIGENCE

Interviewed Cisco stakeholders and Forrester analysts to gather data relative to Full-Stack Observability.

INTERVIEWS

Interviewed nine representatives at seven partner organizations with existing Full-Stack Observability practices to obtain data with respect to costs, benefits, and risks.

COMPOSITE ORGANIZATION

Designed a composite partner 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 interviewees.

CASE STUDY

Employed four fundamental elements of TEI in modeling the impact of a Full-Stack Observability practice: revenue, investments, 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 investment and partnership decisions. Please see Appendix A for additional information on the TEI methodology.

DISCLOSURES

Readers should be aware of the following:

This study is commissioned by Cisco 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 a Full-Stack Observability practice.

Cisco 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.

Cisco provided the partner names for the interviews but did not participate in the interviews.

The Cisco Full-Stack Observability Partner Journey

Drivers leading to the Full-Stack Observability practice investment

Interviews

Role	Region	FSO Revenue Streams	FSO Annual Revenue
COO	North America headquarters, North America operations	Sell	>$400,000
Senior director	Europe headquarters, global operations	Service	$10.0 million (North America)
Director of AI and RPA	North America headquarters, global operations	Sell/service	<$36.2 million
Founder and CEO	Europe headquarters, EMEA operations	Sell/service/build	€5.5 million
Sales director	Europe headquarters, EMEA operations	Sell/service/build	€5.5 million
Director of APM	Europe headquarters, global operations	Sell/service	>€2.5 million (regional)
Cofounder and CEO	North America headquarters, North America and Europe operations	Sell/service/build	$30 million
Cofounder and CTO	North America headquarters, North America and Europe operations	Sell/service/build	$30 million
Director of automation	North America headquarters, global operations	Sell/service	undisclosed

PARTNER GOALS, CHALLENGES, AND DRIVERS

Partners were diverse in size, background, route to market, specializations, type, and degree of engagement with Cisco. They partnered with Cisco to build and scale their Full-Stack Observability businesses for myriad reasons, including:

- **Client observability challenges.** Before building Full-Stack Observability practices, interviewees' clients often used legacy monitoring tools. This led to silos, tactical monitoring, alert fatigue, and a lack of end-to-end visibility. The director of AI and RPA for a North American partner explained: "As far as our FSO practice [goes], it started out as we talked to more and more customers. We found out that, as they are embarking on these cloud migration journeys or modernization approaches, a lot [are] using legacy monitoring tools, which are not able to scale [to their] needs."

"The typical problem statement or the challenge that most of my customers have is they have monitoring in some shape or form, and this monitoring is done in a tactical fashion. There is no strategic outlook of how they want to have monitoring done enterprisewide."

Senior director, European partner

- **Servicing challenges.** Additionally, before using Cisco's Full-Stack Observability to serve clients, interviewees faced challenges conducting observability-related work. They discussed having to perform unnecessary manual integration work and having to deal with logs in different data formats. “Before FSO, it was logs,” the cofounder and CTO of a North American partner said. They continued, “People were trying to use logs, and the real issue with logging is that all data sets have a different format and different content.”

SELECTING THE RIGHT PARTNER PROGRAM

In choosing a partner and platform around which to build their Full-Stack Observability solutions, interviewees emphasized the importance of the following factors:

- **Leading technology.** Interviewees told Forrester they needed a partner whose technology would benefit their clients and enhance their ability to serve clients. Cisco’s Full-Stack Observability solution met that mark. The director of APM for a European partner explained: “What was very convincing at that time was the solution itself. It was leading. It had good partner reviews.”
- **Strategic alignment.** Interviewees sought to find a partner like Cisco who they aligned with. In particular, they explained how they chose to work with Cisco because they agreed with the direction of the technology and the partnership program. The director of APM for a European partner told Forrester: “Our company strategy is aligned with the direction Cisco is going. We want sustainability, recurring offers, and subscription models.”
- **Partner relationships.** Building upon the technology and strategic alignment, interviewees discussed how the opportunity to build and continue a long-term symbiotic relationship with a partner like Cisco was a critical part of their decision-making processes. Three interviewees’ organizations had relationships with Cisco that stretch over more than 10 years, while others were AppDynamics or ThousandEyes partners pre-acquisition.
- **Cisco’s collaboration.** As a part of the relationship, interviewees sought to work and grow with a partner collaboratively. They told Forrester that they desired to partner with a company like Cisco with which they could comarket, cosell, and codevelop as they built their new practices together.
- **Brand and capabilities.** Finally, interviewees sought to build their practices with a partner like Cisco whose brand and scale would accelerate growth. They desired long-term support, resources, and a brand that would help secure deals. The founder and CEO for a European partner stated: “We were quite excited because

“We chose Cisco as our focus partner for our go-to-market strategy on FSO because it aligns closely as we have in-depth knowledge of traditional IT and the cloud.”

Director of AI and RPA, North American partner

“At the end of the day, as long as the technical standards were at a high enough level, the value of the partnership and what we could do in joint go-to-market efforts was what pushed us towards leveraging the Cisco FSO stack.”

COO, North American partner

Cisco has the financial capability… this needs a huge investment and huge drive from a global company."

COMPOSITE ORGANIZATION

Based on the interviews, Forrester constructed a TEI framework, a composite partner company, and an ROI analysis that illustrates the areas financially affected. The composite organization is representative of the nine interviewees from seven organizations, and it is used to present the aggregate financial analysis in the next section. The composite organization has the following characteristics:

- It is a global, North American-based company that builds a Full-Stack Observability practice with Cisco.
- It services enterprise-level, customer-focused clients that are open to digital transformation.
- The partner resells Cisco's FSO solution to its clients, offers a range of professional and managed services, and builds extensions for its clients when needed. Building these different revenue streams increases the revenue opportunity for the partner.
- The partner resells the FSO solution to 10 clients in Year 1. This grows by 150% to 25 clients in Year 2 and by 100% to 50 clients in Year 3.

Key Assumptions

- **NA headquarters, global operations**
- **Enterprise-level, customer-focused clients**
- **Sell, service, and build revenue streams**
- **10 Year 1 clients, 25 Year 2 clients, and 50 Year 3 clients**

Choosing Cisco As A Partner

The decision-makers Forrester interviewed made it clear why they chose to build observability practices with Cisco:

"What tipped the scales for us was that the Cisco FSO stack combined well with what we were already doing in our other services, the great ability to partner with Cisco in a way that we already knew we could, and the scale that Cisco brings to the marketplace [with] co-selling and co-marketing."
— COO, North American partner

"It was a no-brainer because we are a global Cisco Gold partner, so we wouldn't have gone for another solution."
— Director of APM, European partner

"The key factor in partnering with Cisco is that they understand the value of what the partner brings."
— Director of automation, North American partner

"We've been a partner for about 25 years with Cisco. We have a huge relationship."
— Director of AI and RPA, North American partner

Analysis Of Partner Revenue Streams

Quantified revenue data as applied to the composite

Revenue Streams And Gross Profits

Ref.	Revenue Streams	Year 1	Year 2	Year 3	Total	Present Value
Atr	Cisco Full-Stack Observability resell	$400,000	$1,125,000	$2,500,000	$4,025,000	$3,171,675
Btr	Strategy, assessment, and proof of value services	$50,000	$90,000	$175,000	$315,000	$251,315
Ctr	Implementation and integration services	$120,000	$216,000	$448,000	$784,000	$624,192
Dtr	Building and selling IP	$105,000	$210,000	$420,000	$735,000	$584,560
Etr	Support and maintenance services	$150,000	$270,000	$525,000	$945,000	$753,944
Ftr	Managed services	$270,000	$810,000	$1,755,000	$2,835,000	$2,233,434
	Total gross profit	$1,095,000	$2,721,000	$5,823,000	$9,639,000	$7,619,120

CISCO FULL-STACK OBSERVABILITY RESELL

Evidence and data. Interviewees explained how their organizations resold Cisco's Full-Stack Observability stack to clients, generating recurring, predictable revenue. Additionally, this reselling motion set the stage for further service revenue opportunities and deeper client relationships.

- Decision-makers reported reselling to between 14 to 50 new clients in the past year. "We have about 50 new clients every year at the moment," the founder and CEO of a European partner said.
- They also reported notable growth with many interviewees' organizations growing their client base by 100% or more per year. The sales director of a European partner said, "Per quarter, we usually have not less than five new logos." The cofounder and CEO of a North American partner commented: "We're adding 100% year-over-year growth at minimum for clients and revenue. We're adding 15 to 25 new ones every year or have the past few years. These are large, enterprise-level clients."

"Our practice is profitable. I see a humongous opportunity as we move forward in the coming years."

Director of AI and RPA, North American partner

- Stated deal sizes ranged from under $100,000 to more than $1 million for 1 to more than 3 years, depending on the client. The founder and CEO of a European partner discussed the opportunity: "We don't have [deal sizes] much less than $250,000. Our deals can go into the millions."
- The cofounder and CTO estimated their average deal size, saying, "On average… around $1 million a year in FSO spend." They expanded, stating: "Usually, they're three years. Sometimes they're two years. They're almost never one year.

Our smallest deal is around $400,000 per year and our largest deal is around $5.5 million."

- With these deals, interviewees discussed margins of up to 20%. On average, the cofounder and CTO estimated, "Our blended margin is around 12%." These decision-makers noted how margins could vary based on many factors, including whether they were reselling the entire Full-Stack Observability SKU or individual SKUs. The director of AI and RPA of a North American partner explained: "Cisco's bundle will be ... 10% to 20%. If you do the individual SKUs ... 1% to 10%. There is a significant difference."

Modeling and assumptions. Forrester assumes:

- The composite organization resells Cisco's Full-Stack Observability to 10 clients in Year 1 via a software-as-a-service (SaaS) model. This grows by 150% to 25 clients in Year 2 and by 100% to 50 clients in Year 3.
- The composite organization has a high resell retention rate driven by its services offerings.
- The average annual resale deal size grows year-over-year driven by client expansion and use.

Risks. This revenue stream may vary based on:

- The number of clients an organization resells to and its retention capabilities.

"[Reselling Cisco's Full-Stack Observability] allows for recurring revenues. It gives you the opportunity to plan your business better over the years."

Director of APM, European partner

- The organization's customers, the degree of their Full-Stack Observability use, and the corresponding average deal size.
- The average gross margin the organization realizes on resale deals and whether it can meet conditions to increase its gross margin.

Results. Forrester calculated a three-year total PV gross profit (discounted at 10%) of $3.17 million.

Cisco Full-Stack Observability Resell

Ref.	Metric	Source	Year 1	Year 2	Year 3
A1	Cisco Full-Stack Observability resale clients	Composite	10	25	50
A2	Average annual resale deal size	Interviews	$400,000	$450,000	$500,000
A3	Total resale revenue	A1*A2	$4,000,000	$11,250,000	$25,000,000
A4	Average gross margin for resale deal	Interviews	10%	10%	10%
At	Cisco Full-Stack Observability resell	A3*A4	$400,000	$1,125,000	$2,500,000
	Three-year total: $4,025,000			**Three-year present value: $3,171,675**	

STRATEGY, ASSESSMENT, AND PROOF OF VALUE SERVICES

Evidence and data. When engaging with new clients, partners often had strategy sessions where they discussed the Full-Stack Observability opportunity and conducted an assessment or built a proof of value. All in all, interviewees told Forrester these sorts of initial services were helpful for not only securing resale deals, but also for leading to follow-on services such as implementation and integration.

- Overall, the interviewed decision-makers indicated that they offered a strategy, assessment, and proof of value service to most clients.
- While it was common to offer this service, not every interviewee's organization charged for it. On one end, the director of AI and RPA for a North American partner commented: "We don't charge for the introductory or education call or the assessment. … It's part of our engagement model … sometimes for the proof of concept there is [a charge]." On the other hand, the cofounder and CTO of a North American partner shared: "We have a showcase service. So, if you want us to come in and do an example so that you can follow it along, it's $25,000."

Modeling and assumptions. Forrester assumes:

- The composite offers strategy, assessment, and proof of value services and charges for these value-adds to new clients.
- The gross margin improves year-over-year from efficiency gains due to training and experience.

Risks. This revenue stream may vary based on:

- The number of new and prospective clients for Cisco's Full-Stack Observability.
- The percentage of new and prospective clients that request strategy, assessment, and proof of value services and whether existing clients need these services, too.
- The average deal size and whether the organization chooses to charge for this service or offer it complementary.
- The average gross margin for this professional service and the organization's capability to improve and gain efficiency year-over-year.

Results. Forrester calculated a three-year total PV gross profit of $251,000.

Strategy, Assessment, And Proof Of Value Services

Ref.	Metric	Source	Year 1	Year 2	Year 3
B1	Number of new Cisco Full-Stack Observability resale clients	Y1: Composite Y2 and Y3: $A1_{CY}$-$A1_{PY}$	10	15	25
B2	Percentage of projects with strategy, assessment, and proof of value services component	Interviews	80%	80%	80%
B3	Number of strategy, assessment, and proof of value services projects completed	B1*B2	8	12	20
B4	Average strategy, assessment, and proof of value services deal size	Interviews	$25,000	$25,000	$25,000
B5	Total strategy, assessment, and proof of value services revenue	B3*B4	$200,000	$300,000	$500,000
B6	Average gross margin for strategy, assessment, and proof of value services	Interviews	25%	30%	35%
Bt	Strategy, assessment, and proof of value services	B5*B6	$50,000	$90,000	$175,000
	Three-year total: $315,000			**Three-year present value: $251,315**	

IMPLEMENTATION AND INTEGRATION SERVICES

Evidence and data. After helping gain clients' buy-in with initial strategy, assessment, and proof of value services and reselling Cisco's Full-Stack Observability solution, interviewees told Forrester they then often helped clients install and integrate the observability platform into their environments. These projects were quite common and often short term.

- When asked how many implementation and integration projects they completed per year, interviewees responded with a range from two to 50. The attach rate to resale deals ranged from 47% to over 100% because some interviewees' organizations implemented and integrated for clients they did not resell to.
- The deal sizes ranged from $15,000 to $1 million and lasted anywhere from a few days to many years. The founder and CEO of a European partner explained the variability of these projects: "Let's say there's a $15,000 figure for a small implementation, and it can go to more to the $100,000 depending on how far we go. We have projects that are $1 million for implementation work. … It depends on how big the customer is."

Modeling and assumptions. Forrester assumes:

- The composite offers implementation and integration services to new resale and nonresale clients each year.
- The attach rate grows as the partner grows and enhances its services offerings.
- The gross margin improves year-over-year from efficiency gains due to training and experience.

Risks. This revenue stream may vary based on:

- The number of new clients the organization resells to each year.
- The percentage of clients that sign deals and the organization's capability to improve its offering.
- Whether the organization implements and integrates for nonresale clients.
- The average deal size and length.
- The average gross margin for implementation and integration services and the organization's ability to improve its efficiency over time.

Results. Forrester calculated a three-year total PV gross profit of $624,000.

Implementation And Integration Services

Ref.	Metric	Source	Year 1	Year 2	Year 3
C1	Number of new Cisco Full-Stack Observability resale clients	Y1: Composite Y2 and Y3: $A1_{CY}$-$A1_{PY}$	10	15	25
C2	Percentage of resale deals with an implementation and integration component	Interviews	55%	60%	65%
C3	Number of implementation and integration deals completed	C1*C2	6	9	16
C4	Average implementation and integration deal size	Interviews	$80,000	$80,000	$80,000
C5	Total implementation and integration revenue	C3*C4	$480,000	$720,000	$1,280,000
C6	Average gross margin for implementation and integration project	Interviews	25%	30%	35%
Ct	Implementation and integration services	C5*C6	$120,000	$216,000	$448,000
	Three-year total: $784,000			**Three-year present value: $624,192**	

BUILDING AND SELLING IP

Evidence and data. As a part of the integration process, some interviewees told Forrester their organizations built extensions to enhance connectivity between Cisco's Full-Stack Observability and clients' technical stacks. These extensions included one-time projects as well as extensions, which could be sold to multiple customers and licensed over multiple years.

- The cofounder and CEO for a North American partner explained the build opportunity their company discovered, "There are opportunities for us frequently with clients that have legacy tech to build [an extension] that integrates something in Cisco's FSO stack into older technology." The cofounder and CTO for the same partner added, "It's bringing in around $600,000 across three clients right now, but we're starting to push it, so it'll be a lot bigger."

- Similarly, the founder and CEO of a European partner explained: "One of the main, brand-new adds that we're adding to the FSO story is that sometimes we go to a customer where they have a technology that ... FSO is not monitoring. So, our team creates a proper extension."

Modeling and assumptions. Forrester assumes:

- The composite builds IP to help its clients with legacy technologies maximize value.

- The composite organization sells IP to 15% of the clients it implements and integrates for in Year 1.

- The attach rate grows year-over-year as some clients license the IP annually.

Risks. This revenue stream may vary based on:

- The number of new implementation and integration projects completed and the percentage that have a build component based on clients' technology stacks.

- The organization's pricing structure. The organization may sell IP as a one-time purchase, or it may license it annually.

- The type of IP and the associated price.

- The average gross margin for building IP. The organization may build unique IP for each client or it may resell IP created for one client to others.

Results. Forrester calculated a three-year total PV gross profit of $585,000.

Building And Selling IP

Ref.	Metric	Source	Year 1	Year 2	Year 3
D1	Number of implementation and integration deals completed	C3	6	9	16
D2	Percentage of implementation and integration deals with a building-and-selling-IP component	Composite	15%	20%	25%
D3	Number of building-and-selling-IP deals completed	D1*D2	1	2	4
D4	Average deal size for buying and selling IP	Interviews	$175,000	$175,000	$175,000
D5	Total revenue from buying and selling IP	D3*D4	$175,000	$350,000	$700,000
D6	Average gross margin for building-and-selling-IP projects	Interviews	60%	60%	60%
Dt	Building and selling IP	D5*D6	$105,000	$210,000	$420,000
	Three-year total: $735,000		**Three-year present value: $584,560**		

SUPPORT AND MAINTENANCE SERVICES

Evidence and data. Following a successful implementation and integration, which could include a custom-built extension, interviewees discussed how they offered standard support and maintenance services to help their clients realize value postsale. These deals were typically up to a year in length and allowed clients to request support when needed.

- The director of AI and RPA for a North American partner explained their organization's offering: "We let customers pick either quarterly maintenance or six months or one year. We go find the areas of improvement or optimization … 40% [of clients] would go for the maintenance [offering], to get the value of the investments they make."
- Other decision-makers spoke of similar offerings. The director of APM for a European partner mentioned, "We have operational support services for our clients." They added, "It's rather a service contingency where we sell like 20 days of services and they take these services whenever they need them." The cofounder and CTO of a North American partner explained their support offering, saying, "We have one [service] that's around $180,000, which is an entire year of support that we spread out for the whole year."

Modeling and assumptions. Forrester assumes:

- The composite organization offers support and maintenance services for some of the new clients it implements and integrates for each year.
- The gross margins improve over time as the team gains efficiency from training and experience.

Risks. This revenue stream may vary based on:

- The number of new implementation and integration deals completed and the percentage that result in these services agreements.
- Whether new clients purchase support and maintenance services for one or multiple years.
- The organization's customers and the associated average deal size.
- The average services gross margin and the capability of the organization to improve this over time.

Results. Forrester calculated a three-year total PV gross profit of $754,000.

Support And Maintenance Services

Ref.	Metric	Source	Year 1	Year 2	Year 3
E1	Number of implementation and integration deals completed	C3	6	9	16
E2	Percentage of implementation and integration deals with a support and maintenance component	Interviews	65%	65%	65%
E3	Number of support and maintenance deals completed	E1*E2	4	6	10
E4	Average support and maintenance deal size	Interviews	$150,000	$150,000	$150,000
E5	Total support and maintenance revenue	E3*E4	$600,000	$900,000	$1,500,000
E6	Average gross margin for support and maintenance services	Interviews	25%	30%	35%
Et	Support and maintenance services	E5*E6	$150,000	$270,000	$525,000
	Three-year total: $945,000		**Three-year present value: $753,944**		

MANAGED SERVICES

Evidence and data. Interviewees spoke to their different managed services offerings, where they offered long-term, end-to-end management of clients' observability needs and even outsourcing postsale. By offering their clients these services, interviewees noted that their organizations gained a deeper foothold within clients, grew, and helped clients maximize the value of their observability investment for the duration of their contracts leading to renewals.

- According to the interviewees, these managed services involved their organizations serving and supporting clients comprehensively, engaging in longer-term projects with clients, managing and maintaining clients' applications, and integrating themselves in the customer's environment to deliver on the Full-Stack Observability promise.
- The senior director of a European partner explained their offering in detail: "We have a longer contract for support. So, there are two things we support. One is supporting the implementation. The second is taking the outsourcing of even the management services from the customer to us. Because we have implemented [Full-Stack Observability], now we have visibility into the whole application portfolio, and we take over management services as part of our contract. We include application support, Cisco FSO support, as well as even doing the first level of management for all their applications."
- The percentage of clients electing to enroll in a partner's managed services offering varied. At the high end, the senior director of a European partner stated: "We have at least 12 customers that are using Cisco's FSO. I would say 90% of them are a part of [our] managed services." On the low end, the founder and CEO of a European partner estimated that out of 20 resale clients: "We have five managed service clients. This is a new drive."
- Interviewees said deals were at least one year long and multiyear contracts were common. They noted renewal rates of 90% or more, too.
- As a rule of thumb for deal sizes, the senior director of a European partner suggested, "The license is split 50-50 between resale and managed services." They shared an example deal: "If we have a five-year contract for licensing, we might end up having $2.5 million to $3 million on licenses and then another $2.5 million on services. That's the kind of deal size that we are looking at, which is a medium-size deal. There are deals which are on services and licenses up to $16 million as well for big companies where they go enterprisewide."
- The founder and CEO of a European partner talked about the deal sizes for their managed services engagements: "Entry is about $150,000 into this managed service and it could go to north of $500,000 depending on what we're offering. It depends on how big the engagement is and what the customer requests."
- With managed services, interviewees told Forrester that they pulled higher margins than they did for resale or professional services. The COO for a North American partner said, "Margins are in the 35% to 45% range." The senior director for a European partner commented, "Depending

"We have the opportunity to resell the software and then there's the service component that would be a monthly recurring fee for the management of that."

COO, North American partner

"You can give the customer the best product, but if it is not implemented and maintained, then it will fall apart. ... The services we offer ... go in hand with the quality of the product. If one lacks, the other can't succeed."

Founder and CEO, European partner

on the type of customer and engagements, our margins can vary from 25% to 50%."

Modeling and assumptions. Forrester assumes:

- The composite organization offers managed services for some of the clients it completes implementation and integration projects for.
- The attach rate grows year-over-year as the composite improves its managed service offering.
- A high percentage of clients renew their managed service contracts year-over-year.

Risks. This revenue stream may vary based on:

- The number of new implementation and integration projects completed and the percentage that convert to managed services deals.
- The renewal rate for managed services deals.
- The organization's customers and the associated average managed services deal size.
- The organization's average managed services gross margin.

Results. Forrester calculated a three-year total PV gross profit of $2.23 million.

Managed Services

Ref.	Metric	Source	Year 1	Year 2	Year 3
F1	Number of implementation and integration deals completed	C3	6	9	16
F2	Managed services attach rate	Interviews	35%	40%	45%
F3	Number of managed services contracts	F3PY+(F1*F2)	2	6	13
F4	Average managed services deal size (in annual recurring revenue)	Interviews	$300,000	$300,000	$300,000
F5	Total managed services revenues	F3*F4	$600,000	$1,800,000	$3,900,000
F6	Average gross margin for managed services	Interviews	45%	45%	45%
Ft	Managed services	F5*F6	$270,000	$810,000	$1,755,000
	Three-year total: $2,835,000		Three-year present value: $2,233,434		

UNQUANTIFIED BENEFITS

Interviewees mentioned the following additional benefits that their partner organizations experienced but were not able to quantify:

- **Powerful client impacts.** Most importantly, clients benefited from using Cisco's Full-Stack Observability, according to interviewees. They observed benefits including mean-time-to-repair (MTTR) reductions of 70%, critical incident reductions of more than 20%, productivity savings, cost savings, new insights, and the linking of IT with business context. Furthermore, interviewees said they operated more efficiently and effectively when serving their clients.

  While clients benefited in many ways, the director of automation at a North American partner explained how linking a client's IT with their unique business context was most valuable: "I'm more focused on how I help them create impacting business metrics. I want to know [if] we have been able to see an increase in spend per customer, speed of time per transaction, or decreased cost of infrastructure spend. Those types of metrics are major."

  The sales director for a European partner added: "The beauty as well is that we help them link IT with business. That means we are telling them, 'Last month you lost $1 million because of certain IT issues.' We are linking with the business IQ, which is a very important feature for our customers. They value it a lot."

"[Our client] has used Full-Stack Observability, and we were able to give them $2 million additional revenue in one year. They want to do this enterprisewide now."

Senior director, European partner

- **Trusted advisor relationships.** By helping clients with Cisco's Full-Stack Observability, interviewees built longer-lasting, deeper relationships with clients as trusted advisors. The director of APM for a European partner said, "Once you work closely with a client, they will continue to do business with you, and it's not so price sensitive."

  The COO for a North American partner explained how this trust was necessary for more in-depth opportunities. They said, "You've got to have the credibility and capability around the applications and services for you to have the credibility to then have them trust you with one of their most critical applications in their environment."

- **Cisco-driven growth.** Besides retaining clients, interviewees' organizations also grew and won new deals by associating with the Cisco brand and promoting their designations, certifications, and specializations. The COO of a North American partner said, "[The specialization] helps us with customers and recognition on the website and in conversations." The cofounder and CEO of a North American partner added, "[Cisco is] a household name, so there's brand recognition that helps with the conversation early on. Credibility is big."

"For us, the Cisco brand is the biggest benefit because Cisco is everywhere, and they can open any door. That gives us access to a huge customer base which we would not reach on our own."

Founder and CEO, European partner

- **Collaboration and support.** Interviewees benefited from working together and building their practices alongside Cisco via comarketing, coselling, codeveloping, and more. The COO for a North American partner explained the value of working with Cisco to build a new practice: “[The partnership] opens access to people within Cisco, investments from the Cisco FSO team that they’ve made in us to cosell and cobuild. That’s important to us as we’re trying to get a new service line off the ground.”

  “Unlike some partner relationships that we have, they’ve really sort of opened the door to us to learn exactly what they’re doing,” the COO for a North American partner said. They continued: “[Cisco has been] sharing their own playbooks and approaches and all the actions that they would have taken with customers as a standalone organization. That really helped us ramp way faster than we ever could have on our own. [They even] volunteered to review our marketing materials and training guides.”

“One of the first things service providers do is spend significant amounts of money building something without any revenue coming in and not knowing if it’s going to work or not. The support we get from the FSO team within Cisco around building and bringing this to market is huge.”

COO, North America partner

The same COO for a North American partner explained how Cisco was helping with joint go-to-market efforts: “We’ve got the scale of Cisco across North America now, and we’re starting to do coselling with the Cisco sales team, comarketing events, investing in developing white papers, and more that we can bring to customers. That’s the machine behind the entire Cisco sales organization, [which] is now behind this service offering, which is valuable for getting this off the ground.”

“The Cisco partner model is quite attractive. Cisco does look after partners. They have your back. We have the whole Cisco marketing machine behind [us]. That is a huge benefit to have a big name like Cisco behind you. That’s worth a lot.”

Founder and CEO, European partner

- **Trial licenses and funding.** Some interviewees’ organizations received financial support from Cisco, which they used to subsidize headcount to build their practices. Additionally, some interviewees shared that Cisco provided trial licenses to use with their clients as a part of their assessment, strategy, and proof of value services. The senior director for a European partner explained: “As part of our engagement on all our [proof of concepts] (POCs), Cisco brings in trial licenses. It builds the confidence of the customer and their understanding of the product.”

FLEXIBILITY

The value of flexibility is unique to each partner. There are multiple scenarios in which a Cisco partner might implement a Full-Stack Observability practice and later realize additional opportunities, including:

- **New service and resale opportunities.** After implementing and integrating Cisco's Full-Stack Observability, interviewees realized potential to uncover new higher margin consulting engagements with existing clients remediating problems and engaging in further transformation. For example, the COO at a North American partner explained: "Often, once you start monitoring environments and applications, you uncover security gaps and issues. That could be a potential revenue stream."
- **Synergizing with Cisco.** Besides new consulting opportunities, interviewees saw that they could grow and better serve clients by further synergizing with Cisco and expanding beyond the platform. The COO at a North American partner explained: "We have services around the rest of the Cisco environment already. There's a future state where there's a better story around how you integrate FSO with the elements of Cisco that you already have in your environment, given that so many customers have Cisco networks."
- **Growth and simplification via marketplaces.** Interviewees discussed how they could offer their Full-Stack Observability services and IP on marketplaces to simplify transactions and reach new customers. The director of automation for a North American partner detailed: "If you're on a marketplace, you want to buy the FSO stack of products, and you've been working with us, [then] we're going to transact through the marketplace. We [then] want to make it simple enough that you can also tack on deployment services. We see that as a pathway for customer simplicity."

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

Partners' Best Practices

During their conversations with Forrester, interviewees highlighted many best practices including:

Investing In Services
"It's a no-brainer when you start the practice. You should focus on the presales and the implementation — the professional services part. ... If you leave clients alone, you won't get retention. They might use the software for two years, but they won't renew. So, anything you invest in capabilities that help clients make the best usage of the functionality will help."
— *Director of APM, European partner*

Client-First Solving Challenges
"We put ourselves in the shoes of the client. So, if we were the client, what decisions would we make? How would we do this? The revenue obviously follows behind, but it's not product first. It's roadmap first. What do you want to get done? How do we build something that will do that?"
— *Cofounder and CTO, North American partner*

Other best practices the decision-makers discussed included hiring dedicated staff, helping train customers to improve retention, working towards new service offerings, and building a practice with commitment and patience.

Analysis Of Partner Investments

Quantified investment data as applied to the composite

Ref.	Investments	Initial	Year 1	Year 2	Year 3	Total	Present Value
Total Investments							
Gtr	Talent acquisition and hiring	$98,438	$527,157	$692,298	$857,439	$2,175,332	$1,794,025
Htr	Training	$392,664	$50,328	$60,792	$76,156	$579,940	$545,875
Itr	Research and development	$122,750	$73,650	$103,900	$207,600	$507,900	$431,545
Jtr	Marketing	$0	$122,750	$259,750	$519,000	$901,500	$716,193
Ktr	General and administrative	$0	$49,100	$103,900	$207,600	$360,600	$286,477
	Total investments	$613,852	$822,985	$1,220,640	$1,867,795	$4,525,272	$3,774,115

TALENT ACQUISITION AND HIRING

Evidence and data. Interviewees told Forrester that hiring the right people was critical to building a successful practice. Every interviewee's organization had a practice manager of some sort, whether that was a manager or a CEO. This role was responsible for building, growing, and overseeing the practice while liaising with Cisco and managing the partnership. Additionally, the decision-makers Forrester interviewed explained how they needed sales and business development staff to drive sales of Full-Stack Observability and accompanying revenue streams.

- The COO of a North American partner told Forrester about their practice management: "We put this [practice] under the umbrella of our cloud service manager. They were responsible for building out the module. They brought in somebody who would have the expertise to think through the development, work with Cisco, and bring leadership into the design."
- As a practice manager, the director of automation for a North American partner detailed part of their role, "I spend a lot of my time on the phone with our account teams building strategy, helping them understand the customer situation, and then pulling in the core members of my team that can help them focus on designing a solution."

"It's essentially building a business. … We run a fully functional business [with] everything from business development capabilities to solution engineering, to research and development, to deployment services and training."

Director of automation, North American partner

“We need a strong sales team to have the pipeline we need to support the services. It’s a very balanced thing. We cannot expand if we don’t sell. We can’t hire 15 consultants and have nothing for them to do.”

Founder and CEO, European partner

- The number of sales staff varied between the interviewees’ organizations with some employing dedicated individuals and others assigning sales staff to spend part of their time on practice-related work. The director of AI and RPA for a North American partner explained their headcount: “We had to hire business development executives, a sales executive, and then we had to hire a sales engineer. Those are the three headcounts.”
- The cofounder and CEO for a North American partner explained their broader sales team’s commitment to the practice: “Anybody on our sales team is spending at least half of their time in observability, if not three-quarters. That’s sellers, sales leadership, operational and marketing people, as well inside sales.”

Modeling and assumptions. Forrester assumes:

- The composite organization employs a practice management FTE with a fully burdened annual salary of $196,875. The practice management FTE performs some initial labor before Year 1.
- The composite organization employs incremental sales FTEs with fully burdened annual salaries of $165,141.

Risks. This investment may vary based on:

- The decision to employ a practice management team member and the time spent on practice-related work.
- The number of incremental sales staff employed and the time spent on practice-related activities.
- The fully burdened annual salaries of the practice management and sales FTEs.

Results. Forrester calculated a three-year total PV investment (discounted at 10%) of $1.79 million.

Talent Acquisition And Hiring

Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
G1	Incremental practice management FTEs employed	Interviews	0.5	1.0	1.0	1.0
G2	Incremental sales FTEs employed	Interviews	0.0	2.0	3.0	4.0
G3	Fully burdened annual salary per practice management FTE	TEI standard	$196,875	$196,875	$196,875	$196,875
G4	Fully burdened annual salary per sales FTE	TEI standard	$165,141	$165,141	$165,141	$165,141
Gt	Talent acquisition and hiring	(G1*G3)+(G2*G4)	$98,438	$527,157	$692,298	$857,439
	Three-year total: $2,175,332			**Three-year present value: $1,794,025**		

TRAINING

Evidence and data. To maximize the value of hires, interviewees emphasized the importance of certifications and training. They said sales staff needed some training to proficiently communicate with customers about Cisco's Full-Stack Observability and their organizations' associated services. Additionally, delivery staff needed significant initial training lasting more than 3 months to learn before they could competently serve clients on their own.

- The senior director of a European partner explained their organization's training process for delivery staff: "We have bought Cisco University subscriptions for training and certification vouchers. Our target is that for any recruit, we get them certified in a quarter, whether it's a fresh hire or a lateral hire."
- "The training is key," the founder and CEO of a European partner explained. They continued, "We have to develop our own internal training program to bring people to a level where it's safe to let them at a customer." To reach that level, they estimated, "Our training can last around six months." They explained their training process: "We pair them with experienced engineers. ... They're being mentored while they're getting trained ... we bring them into a project in a support role ... until we have a thumbs up from a senior consultant."
- The cofounder and CTO of a North American partner told Forrester about their organization's training process: "It's shadowing full time [and] training. After a month, we start having them do simpler activities like dashboard work." The cofounder and CEO from the same partner added, "Our ramp period for a consultant is usually about 90 days."

Modeling and assumptions. Forrester assumes:

- The composite organization commits enough time to train its staff.
- The fully burdened hourly rates are $98 for delivery staff and $83 for sales staff.

Risks. This investment may vary based on:

- The organization's decision on which and how many staff members need training.
- The training and certification programs and the associated time commitment required.
- The fully burdened hourly rate per FTE.

Results. Forrester calculated a three-year total PV investment of $546,000.

Training

Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
H1	Number of delivery staff trained	Interviews	10	10	12	15
H2	Hours of training required per year for delivery staff	Interviews	400	50	50	50
H3	Fully burdened hourly rate per delivery FTE	TEI standard	$98	$98	$98	$98
H4	Number of sales staff trained	Interviews	2	2	3	4
H5	Hours of training required/year for sales staff	Interviews	4	8	8	8
H6	Fully burdened hourly rate per sales FTE	TEI standard	$83	$83	$83	$83
Ht	Training	H1*H2*H3*H4	$392,664	$50,328	$60,792	$76,156
	Three-year total: $579,940			**Three-year present value: $545,875**		

RESEARCH AND DEVELOPMENT

Evidence and data. As a best practice, interviewees discussed investing in research and development to build offerings and serve clients optimally. They saw research and development as an opportunity to build their expertise and build the best possible Full-Stack Observability practice staying ahead of customers.

- Some interviewees' organizations invested six months or more building offerings and preparing to serve clients. The senior director of a European partner told Forrester, "We have invested almost a year and a half of our research in getting our solution framework created using Cisco products that we are putting in front of our customers today."
- Other interviewees discussed ongoing investment in research and development to best serve customers. The director of automation of a North American partner mentioned, "I have a head of R&D, whose job is to chair the roadmap." They added: "We are trying to stay ahead of customers. We're not a responsive engine. We are a well-informed, proactive, investigative, and innovation-based organization that can allow our customers to develop solutions, not just based on what they think, but based on what the industry is doing and where we see the future heading."

"The [investment] that I've found has resulted in the biggest customer impact is research and development."

Director of automation, North American partner

Modeling and assumptions. Forrester assumes the composite organization commits 5% of partner revenue to research and development initially to build their practice. It then commits 3% of revenue in Year 1, and 2% in Years 2 and 3.

Risks. This investment may vary based on the organization's decision to allocate staff and funding to research and development and the cost of those resources.

Results. Forrester calculated a three-year total PV investment of $432,000.

Research And Development

Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
I1	Total Cisco FSO partner revenue	At+B5+C5+D5+E5+F5		$2,455,000	$5,195,000	$10,380,000
I2	Research and development investments (% of revenue)	Composite	5%	3%	2%	2%
It	Research and development	I1*I2	$122,750	$73,650	$103,900	$207,600
	Three-year total: $507,900			Three-year present value: $431,545		

MARKETING

Evidence and data. Interviewees noted marketing-related investments to gain clients, grow their practices, and keep business. Some of these investments included travel, user groups, events, sponsorships, webinars, white papers, campaigns, and more.

- When estimating their marketing budget, the cofounder and CTO for a North American partner stated, “It’s got to be 10% of practice revenue.”
- The director of AI and RPA for a North American partner echoed the importance of marketing, saying, “We’re investing heavily on the marketing side.” They added, “We’re doing a lot of go-to-market events like webinars and local events.”
- “We have a solutions marketer on our marketing team who’s associated with the cloud business, and they have spent time over the last couple of months [on the practice],” the COO for a North American partner mentioned. They continued: “We’re starting a series of customer events. … I’m starting to develop a joint white paper with Cisco on the benefits of [FSO, too].”

Modeling and assumptions. Forrester assumes the composite organization devotes 5% of partner revenue to marketing activities each year.

Risks. This investment may vary based on the marketing budget the organization sets.

Results. Forrester calculated a three-year total PV investment of $716,000.

“One of the big clients we have came through a webinar. ... That was a big success.”

Director of APM, European partner

Marketing

Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
J1	Total Cisco FSO partner revenue	At+B5+C5+D5+E5+F5		$2,455,000	$5,195,000	$10,380,000
J2	Marketing (% of revenue)	Composite		5%	5%	5%
Jt	Marketing	J1*J2	$0	$122,750	$259,750	$519,000
	Three-year total: $901,500		Three-year present value: $716,193			

GENERAL AND ADMINISTRATIVE

Evidence and data. To operate their practices, interviewees required general and administrative investments. The cofounder and CTO of a North American partner elaborated: "We have contracted administrative costs. We have an operations lead and then they have someone that works for them. We use a minority shareholder to do a lot of our books and invoicing."

Modeling and assumptions. Forrester assumes the composite organization allocates 2% of practice revenue to general and administrative expenses each year.

Risks. This investment may vary based on the organization's general and administrative investment needs.

Results. Forrester calculated a three-year total PV investment of $286,000.

"I wouldn't say that you've got to come out of the gate with all these investments. We didn't. In terms of evolution and maturity, we found that having specific business development capability, in-depth and capable expertise around presales architecture … and ensuring the long-term success of our customers through research and development [were valuable investments]."

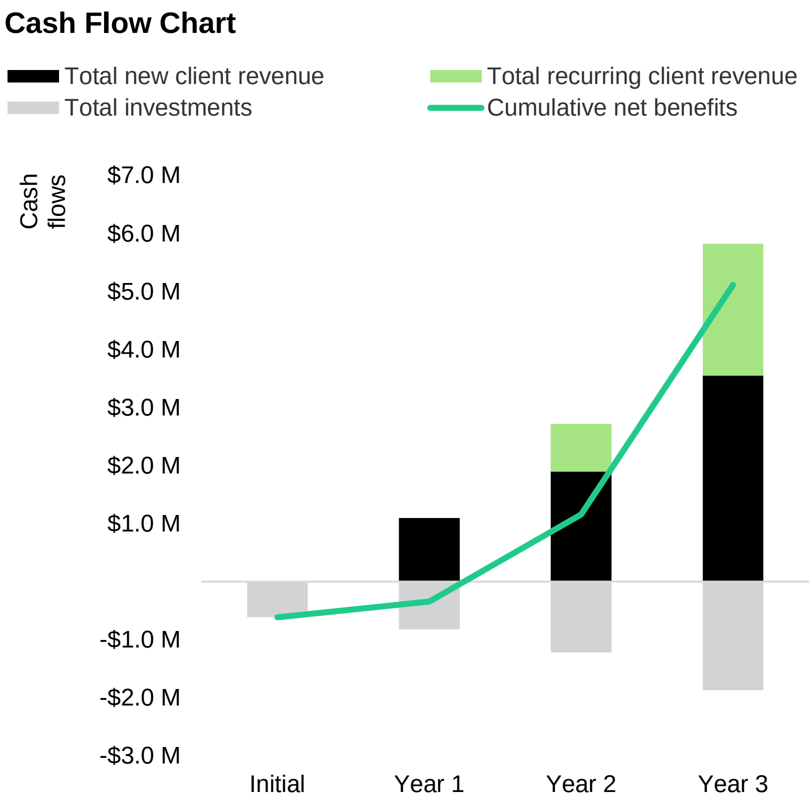
Director of automation, North American partner

General And Administrative

Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
K1	Total Cisco FSO partner revenue	At+B5+C5+D5+E5+F5		$2,455,000	$5,195,000	$10,380,000
K2	General and administrative (% of revenue)	Composite		2%	2%	2%
Kt	General and administrative	K1*K2	$0	$49,100	$103,900	$207,600
	Three-year total: $360,600		Three-year present value: $286,477			

Financial Summary

CONSOLIDATED THREE-YEAR METRICS



The financial results calculated in the Revenue Streams and Investments 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 ROI, NPV, and payback period values are determined from the results in each Revenue Stream and Investment section.

Cash Flow Analysis

	Initial	Year 1	Year 2	Year 3	Total	Present Value
Total investments	($613,852)	($822,985)	($1,220,640)	($1,867,795)	($4,525,272)	($3,774,115)
Total gross profits	$0	$1,095,000	$2,721,000	$5,823,000	$9,639,000	$7,619,120
Net benefits	($613,852)	$272,015	$1,500,360	$3,955,205	$5,113,728	$3,845,005
ROI						102%
Payback						15 months

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

[1] Source: “Introducing The Forrester Observability Reference Architecture,” Forrester Research, Inc., October 7, 2022.

[2] Source: “The Forrester Observability Reference Architecture: Putting It Into Practice,” Forrester Research, Inc., October 21, 2022.

[3] 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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