

A Forrester Total Economic
Impact™ Study
Commissioned By
Zerto

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The Total Economic Impact™ Of Zerto

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Executive Summary

Zerto provides disaster recovery solutions that simplify and automate the protection and rapid recovery of virtual machines (VMs). Zerto commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) that enterprises may realize by using its products. This study describes how using Zerto shaped two organizations and provides a framework of costs and benefits for readers to evaluate the potential financial impact of Zerto on their organizations.

To better understand the benefits, costs, and risks associated with Zerto, Forrester interviewed two existing customers with years of experience using Zerto for disaster recovery. The organizations are both migrating their data centers away from standalone servers to VMs and had roughly 90% of applications migrated.

Prior to using Zerto, the organizations used storage-based disaster recovery solutions, which usually required duplicating the exact storage hardware configuration in a second location.

After migrating applications to VMs, the organizations were looking for alternate technologies for disaster recovery that would work across VMs and be agnostic to hardware and storage configurations. As one engineering director said: “As we migrated our data center, we wanted to also eliminate as much overhead as we could. We had a lot of siloing going on, and we wanted to centralize as much as possible.”

The organizations set up Zerto to duplicate specific VMs without duplicating storage systems or managing individual environments. The engineering director said: “Zerto is completely autonomous. The VM can be a database; it can be a web server; it can be an enterprise application; it doesn’t matter. Zerto just picks up the bits and moves them.” Using Zerto allowed the organization to recover in 1 hour what previously took 5 to 10 hours, depending on the problems encountered by the engineers. On average, Zerto reduced recovery times by 75%.

Zerto provides a technology platform for the imaging and recovery of virtual machines as part of an organization’s disaster recovery strategy.

The benefits for the organizations that Forrester interviewed are:

- **Avoided cost of previous tools: \$712,500.**
- **Reduced cost of recovery: \$718,250.**
- **Improved productivity during biannual testing: \$89,100.**
- **Reduced cost of data center migration: \$684,000.**

ZERTO REDUCED RECOVERY TIMES BY 75%

Forrester built a financial model around one Zerto customer and found the organization experienced the results shown in Figure 1. The analysis demonstrates the organization realized benefits of more than \$2.2 million compared with incurred costs of \$349,980. The final results are a net present value (NPV) of more than \$1.4 million.

FIGURE 1
Financial Summary Showing Three-Year Risk-Adjusted Results



Source: Forrester Research, Inc.

› **Benefits.** The organization experienced the following risk-adjusted benefits:

- **Avoided the license costs of storage-based disaster recovery tools.** The organization avoided the cost of purchasing storage-based replications solutions that it previously used for disaster recovery. The savings over three years totaled \$712,500.
- **Reduced cost of recovery from incidents.** The organization did not experience any major incidents that brought down the entire infrastructure, but it encountered more mundane operational failures, often due to technical errors or hardware failures. On average, 10% of the VMs experience an unplanned outage of 1 hour. Using a conservative cost of downtime of \$10,000 per hour, the total cost over three years for incidents was \$718,250.
- **Improved productivity of biannual disaster recovery testing.** The interviewed organization conducts a biannual testing of its business continuity tools and procedures with an all-hands-on-deck weekend to replicate failures and test recoveries. Prior to using Zerto, restoring the VMs required a team of 12 employees working for three days. After using Zerto, the organization required only one person to restore all VMs, creating an effective productivity savings of 11 staff over three days during the testing, or \$89,100 over three years.
- **Reduced cost of data center migration.** The organization realized an unanticipated savings by using Zerto as a tool for moving data during its migration from standalone servers to VMs. Before the organization used Zerto, it required four staff members to manage the migration, but it was able to cut that staff in half using Zerto. The productivity of two employees over three years saved a total of \$684,000.

› **Costs.** The organization experienced the following risk-adjusted costs:

- **License cost for Zerto.** Zerto pricing is based on the number of VMs, which are protected. Zerto charges for a perpetual license per VM. The organization had 125 VMs, with a 20% increase in the number each year. Over three years, the license fees totaled \$404,721.
- **Labor required to configure Zerto.** Installation and configuration were trivial, according to the executives whom Forrester interviewed. Setup required two weeks of time for a single employee, resulting in a cost of \$5,292.

Disclosures

The reader should be aware of the following:

- › The study is commissioned by Zerto 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 report to determine the appropriateness of an investment in Zerto.
- › Zerto 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.
- › Zerto provided the customer name for the interviews but did not participate in the interviews.

TEI Framework And Methodology

INTRODUCTION

From the information provided in the interviews, Forrester constructed a Total Economic Impact (TEI) framework for those organizations considering implementing Zerto. The objective of the framework is to identify the cost, benefit, flexibility, and risk factors that affect the investment decision, to help organizations understand how to take advantage of specific benefits, reduce costs, and improve the overall business goals of winning, serving, and retaining customers.

APPROACH AND METHODOLOGY

Forrester took a multistep approach to evaluate the impact that Zerto can have on an organization (see Figure 2). Specifically, we:

- › Interviewed Zerto marketing, sales, and/or consulting personnel, along with Forrester analysts, to gather data relative to the marketplace for crowdsourcing.
- › Interviewed two organizations currently using Zerto to obtain data with respect to costs, benefits, and risks.
- › Constructed a financial model representative of the interview using the TEI methodology. The financial model is populated with the cost and benefit data obtained from the interviews.
- › Risk-adjusted the financial model based on issues and concerns the interviewed organizations highlighted in the interview. Risk adjustment is a key part of the TEI methodology. While the interviewed organizations provided cost and benefit estimates, some categories included a broad range of responses or had a number of outside forces that might have affected the results. For that reason, some cost and benefit totals have been risk-adjusted and are detailed in each relevant section.

Forrester employed four fundamental elements of TEI in modeling Zerto's service: benefits, costs, flexibility, and risks.

Given the increasing sophistication that enterprises have regarding ROI analyses related to IT investments, Forrester's TEI methodology serves to provide a complete picture of the total economic impact of purchase decisions. Please see Appendix A for additional information on the TEI methodology.

FIGURE 2
TEI Approach



Source: Forrester Research, Inc.

Analysis

INTERVIEW HIGHLIGHTS

Forrester interviewed two organizations that use Zerto. The first was a large multinational pharmaceutical company with 80% to 85% of its data center running on VMs. The second was a small financial management firm that was more aggressive, with 95% of its data center migrated to VMs. Both organizations had about two years of experience working with Zerto. The financial analysis in this study focuses on the first company and uses the second for validation about the customer experience of using Zerto.

Situation

Prior to using Zerto, the organization:

- › Used storage-based solutions for disaster recovery, which usually required duplicating the exact hardware and software configuration in a secondary recovery site. The growing costs for storage within the organization were compounded when the secondary site required an exact duplicate configuration.
- › Managed the recovery site during the organization's biannual business continuity tests. The tests included IT and business personnel who would be required in an actual data center disruption. To manage the content that was later migrated to Zerto, the organization required a team of 12 individuals working through the weekend test cycle.

Solution

The organization implemented Zerto as its disaster recovery platform for VMs. In the first year, it used Zerto to manage 100 high-priority and 25 medium-priority VMs. On average, the number of VMs increased by 20% per year, reaching 144 high-priority and 56 medium-priority VMs using Zerto after three years. The organization had additional VMs that were not protected using Zerto because they contained non-mission-critical data (e.g., file servers).

Results

The interview revealed that the organization:

- › **Reduced cost and improved performance of DR tools.**
The organization saved money due to the lower cost of Zerto compared with storage-based DR tools. It also reduced the downtime during minor unplanned outages and improved the productivity of staff during biannual business continuity testing. During recovery, the organization used Zerto to restore operations five to 10 times faster than with its previous solution.
- › **Increased efficiency of managing data center migration.**
An unplanned result that the organization realized, which had significant financial benefits, was using Zerto to assist in managing the migration of the data center to VMs. The engineering director said, "We were using a multitude of tools and people for migrating, so we were able to consolidate."

"As we migrated our data center, we wanted to also eliminate as much overhead as we could. We had a lot of siloing going on, and we wanted to centralize as much as possible."

~ Engineering director, pharmaceutical company

"Zerto is completely autonomous. The VM content can be a database; it can be a web server; it can be an enterprise application; it doesn't matter. Zerto just picks up the bits and moves them."

~ Engineering director, pharmaceutical company

BENEFITS

The organization was able to avoid costs through the following benefits:

- › Avoided license cost of storage-based disaster recovery tools.
- › Reduced cost of recovery from incidents.
- › Improved productivity of biannual disaster recovery testing.
- › Reduced cost of data center migration.



Avoided License Cost Of Storage-Based Disaster Recovery Tools

After implementing Zerto, the organization was able to avoid paying for storage-based disaster recovery solutions that it has previously licensed annually. Each year, as the organization migrated additional enterprise applications from servers to VMs, it was able to reduce the cost for the previous tools. Over the three years, the organization avoided spending \$750,000.

Forrester risk-adjusted this benefit downward by 5% to account for variability that readers may experience in the cost of the previous solutions being used and the rate at which the organization is migrating to VMs. The risk-adjusted benefit totaled \$712,500 over three years.

TABLE 1
Avoided License Cost Of Storage-Based Disaster Recovery Tools

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
A1	Spend for previous tools		\$200,000	\$250,000	\$300,000
At	Avoided license cost of storage-based disaster recovery tools	= A1	\$200,000	\$250,000	\$300,000
	Risk adjustment		↓ 5%		
Atr	Avoided license cost of storage-based disaster recovery tools (risk-adjusted)		\$190,000	\$237,500	\$285,000

Source: Forrester Research, Inc.



Reduced Cost Of Recovery From Incidents

Neither of the organizations that Forrester interviewed has experienced a catastrophic failure in several years; however, they have experienced multiple failures of individual or small groups of VMs due to hardware problems, configuration errors, or other human errors. These smaller incidents occur on a regular basis.

For the purposes of a financial model, Forrester assumes that 10% of the VMs will have a 1-hour outage each year. We also avoided the temptation to use highly inflated costs per hour of outage, which often reach values as high as millions of dollars per hour. In this analysis, Forrester used \$10,000 per hour for an outage, which primarily covers the costs of the IT resources who are scrambling to recover the VM and any business personnel who are directly affected by the outage. The model also excludes additional costs that some organizations might incur such as lost revenue, lost productivity, a poor customer experience, or damage to the brand. Readers are encouraged to consider all of the effects on their organization when evaluating this benefit for themselves, including lost revenue, recovery labor, brand damage, and regulatory fines.

Using this approach results in a cost of incidents during the first year of \$225,000 and a total of \$845,000 over three years. Forrester risk-adjusted this benefit down by 15% to account for the varying types of outages and the impact of outages that readers are likely to experience, resulting in a risk-adjusted, three-year savings of \$718,250. See the section on Risks for more detail.

TABLE 2
Reduced Cost Of Recovery From Incidents

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
B1	Number of high-priority VMs		200	250	275
B2	Number of medium-priority VMs		25	38	57
B3	Average percent of VMs with 1 hour of downtime per year		10%	10%	10%
B4	Average cost of downtime per hour		\$10,000	\$10,000	\$10,000
Bt	Reduced cost of recovery from incidents	$(B1+B2)*B3*B4$	\$225,000	\$288,000	\$332,000
	Risk adjustment		↓ 15%		
Btr	Reduced cost of recovery from incidents (risk-adjusted)		\$191,250	\$244,800	\$282,200

Source: Forrester Research, Inc.



Improved Productivity Of Biannual Disaster Recovery Testing

The organization conducts an all-hands-on-deck business continuity test that involves all of the IT and business personnel who would be required in an actual disaster scenario. It conducts a full test of failover systems and recovery processes from its secondary facility. The overall project involves about 120 people over a weekend that begins on Friday night and wraps up before Monday morning.

Before using Zerto, the team handling the recovery of VMs included 12 staff who were active throughout the weekend. With Zerto in place, only one person is required to handle the recovery of VMs, including handling any exceptions or restarts. The savings of 11 people during the two weekends results in a productivity savings of \$33,000 per year and \$99,000 over three years. The financial savings are relatively minor, however, compared with the resulting confidence in and simplicity of managing the recovery process related to the organization's key systems.

Forrester risk-adjusted this benefit down by 10%, resulting in a risk-adjusted, three-year savings of \$89,100 to account for the variation in testing frequency at different companies. See the section on Risks for more detail.

TABLE 3
Improved Productivity Of Biannual Disaster Recovery Testing

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
C1	Time required for biannual testing (years)	3 days, twice yearly	0.025	0.025	0.025
C2	Reduced staff required using Zerto		11	11	11
C3	Average burdened salary		\$120,000	\$120,000	\$120,000
Ct	Improved productivity of biannual disaster recovery testing	$C1 * C2 * C3$	\$33,000	\$33,000	\$33,000
	Risk adjustment		↓ 10%		
Ctr	Improved productivity of biannual disaster recovery testing (risk-adjusted)		\$29,700	\$29,700	\$29,700

Source: Forrester Research



Reduced Cost Of Data Center Migration

The organization experienced an unexpected benefit of using Zerto. It found that using Zerto for its data center migration — moving applications from standalone servers to VMs — was more efficient and reliable than the myriad of tools it used previously. The increased simplicity allowed the organization to reduce the number of staff managing migrations by two full-time equivalents (FTEs) for a savings per year of \$240,000, or a total of \$720,000 over three years.

Forrester risk-adjusted this benefit down by 5%, resulting in a risk-adjusted, three-year savings of \$684,000 to account for organizations that are migrating at different rates and variations in the number of FTEs assigned to the task.

TABLE 4
Reduced Cost Of Data Center Migration

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
D1	Number of full-time equivalent staff saved from working on data center migration		2	2	2
D2	Average burdened salary		\$120,000	\$120,000	\$120,000
Dt	Reduced cost of data center migration	D1*D2	\$240,000	\$240,000	\$240,000
	Risk adjustment		↓ 5%		
Dtr	Reduced cost of data center migration (risk-adjusted)		\$228,000	\$228,000	\$228,000

Source: Forrester Research



Total Benefits

Table 5 shows the total of all benefits as well as associated present values, discounted at 10%. Over three years, the organization expects all benefits to total a net present value of more than \$1.8 million.

TABLE 5
Total Benefits (Risk-Adjusted)

Ref.	Benefit	Initial	Year 1	Year 2	Year 3	Total	Present Value
Atr	Avoided cost storage-based disaster recovery tools	\$0	\$190,000	\$237,500	\$285,000	\$712,500	\$583,133
Btr	Reduced cost of recovery from incidents	\$0	\$191,250	\$244,800	\$282,200	\$718,250	\$588,199
Ctr	Improved productivity of biannual disaster recovery testing	\$0	\$29,700	\$29,700	\$29,700	\$89,100	\$73,860
Dtr	Reduced cost of data center migration	\$0	\$228,000	\$228,000	\$228,000	\$684,000	\$567,002
	Total benefits	\$0	\$638,950	\$740,000	\$824,900	\$2,203,850	\$1,812,193

Source: Forrester Research, Inc.

COSTS

The organization incurred costs for the:

- › License cost for Zerto.
- › Labor required to configure Zerto.



License Cost For Zerto

The organization paid license fees to Zerto based on the number of VMs using the tools. As the number of VMs using Zerto increased, the license fees also scaled. The organization told Forrester that the implementation was simple and that it did not pay any additional fees to Zerto for consulting or professional services. The total cost over three years was \$404,721. Because the model is based on list prices for Zerto, Forrester did not risk-adjust this cost.

TABLE 6
License Cost For Zerto

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
D1	Cost of perpetual license			\$167,625	\$46,935	\$32,780
D2	Annual maintenance	Cumulative D1*25%		\$41,906	\$53,640	\$61,835
Dt	License cost for Zerto	D1+D2		\$209,531	\$100,575	\$94,615
	Risk adjustment		↑ 0%			
Dtr	License cost for Zerto (risk-adjusted)			\$209,531	\$100,575	\$94,615

Source: Forrester Research, Inc.



Labor Required To Configure Zerto

The organization assigned one employee to configure Zerto. The entire project took about two weeks. Although this cost is trivial in the overall financial model, Forrester includes it to point out that the overhead costs were minimal for the two companies that we interviewed. The total cost to configure Zerto was \$5,040. Forrester risk-adjusted this cost upward by 5%, resulting in a risk-adjusted cost of \$5,292.

TABLE 7
Labor Required To Configure Zerto

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
F1	One engineer for two weeks (years)	2/48 weeks	0.042			
F2	Average burdened salary		\$120,000			
Ft	Labor required to configure Zerto	F1*F2	\$5,040			
	Risk adjustment		↑ 5%			
Ftr	Labor required to configure Zerto (risk-adjusted)		\$5,292			

Source: Forrester Research, Inc.

Total Costs

Table 8 shows the total of all costs as well as associated present values, discounted at 10%. Over three years, the organization expects costs to total a net present value of \$524,291.

TABLE 8
Total Costs (Risk-Adjusted)

Ref.	Benefit	Initial	Year 1	Year 2	Year 3	Total	Present Value
Etr	License cost for Zerto	\$0	\$209,531	\$100,575	\$94,615	\$404,721	\$344,688
Ftr	Labor required to configure Zerto	\$5,292	\$0	\$0	\$0	\$5,292	\$5,292
	Total costs	\$5,292	\$209,531	\$100,575	\$94,615	\$410,013	\$349,980

Source: Forrester Research, Inc.

RISKS

Forrester defines two types of risk associated with this analysis: “implementation risk” and “impact risk.” Implementation risk is the risk that a proposed investment in Zerto may deviate from the original or expected requirements, resulting in higher costs than anticipated. Impact risk refers to the risk that the business or technology needs of the organization may not be met by the investment in Zerto, resulting in lower overall total benefits. The greater the uncertainty, the wider the potential range of outcomes for cost and benefit estimates.

Quantitatively capturing implementation risk and impact risk by directly adjusting the financial estimates results provides more meaningful and accurate estimates and a more accurate projection of the ROI. In general, risks affect costs by raising the original estimates, and they affect benefits by reducing the original estimates. The risk-adjusted numbers should be taken as “realistic” expectations since they represent the expected values considering risk.

Table 9 shows the values used to adjust for risk and uncertainty in the cost and benefit estimates for the organization. Readers are urged to apply their own risk ranges based on their own degree of confidence in the cost and benefit estimates.

TABLE 9
Benefit And Cost Risk Adjustments

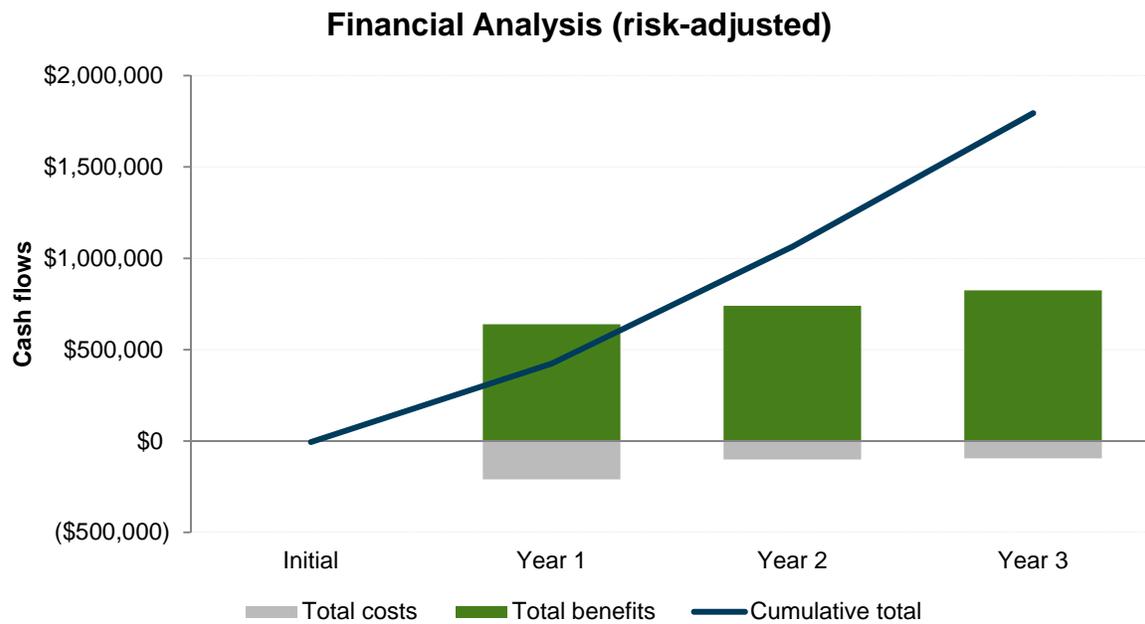
Benefits	Adjustment
Avoided license cost of storage-based disaster recovery tools	↓ 5%
Reduced cost of recovery from incidents	↓ 15%
Improved productivity of biannual disaster recovery testing	↓ 10%
Reduced cost of data center migration	↓ 5%
Costs	Adjustment
License cost for Zerto	↑ 0%
Labor required to configure Zerto	↑ 5%

Source: Forrester Research, Inc.

Financial Summary

The financial results calculated in the Benefits and Costs sections can be used to determine the ROI, NPV, and payback period for the organization's investment in Zerto. Table 10 below shows the risk-adjusted ROI, NPV, and payback period values. These values are determined by applying the risk-adjustment values from Table 9 in the Risks section to the unadjusted results in each relevant cost and benefit section.

FIGURE 3
Cash Flow Chart (Risk-Adjusted)



Source: Forrester Research, Inc.

TABLE 10
Cash Flow (Risk-Adjusted)

	Initial	Year 1	Year 2	Year 3	Total	Present Value
Costs	(\$5,292)	(\$209,531)	(\$100,575)	(\$94,615)	(\$410,013)	(\$349,980)
Benefits	\$0	\$638,950	\$740,000	\$824,900	\$2,203,850	\$1,812,193
Net benefits	(\$5,292)	\$429,419	\$639,425	\$730,285	\$1,793,837	\$1,462,213
ROI						418%
Payback						0.1 months

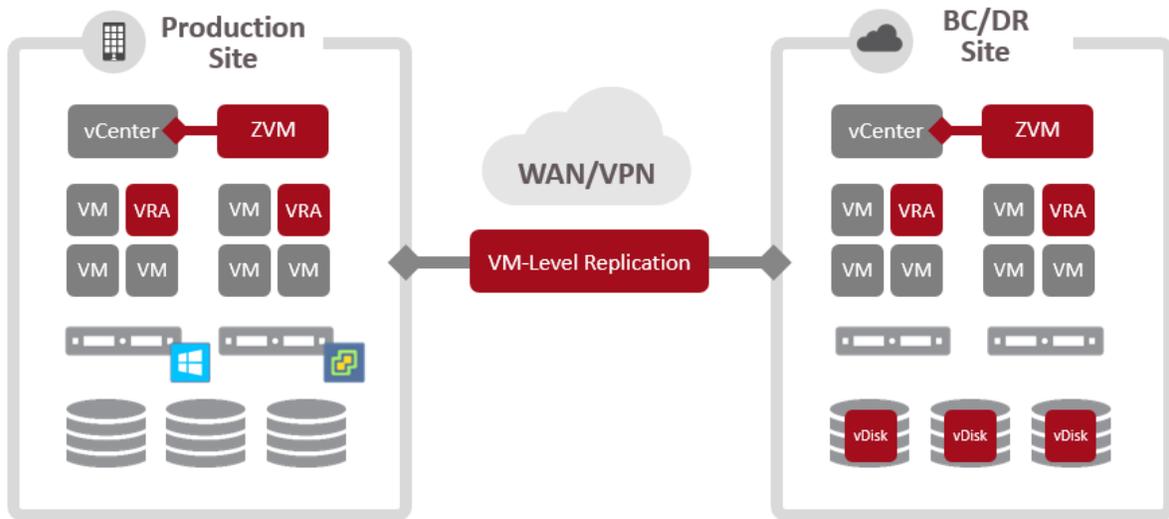
Source: Forrester Research, Inc.

Zerto: Overview

The following information is provided by Zerto. Forrester has not validated claims and does not endorse Zerto or its offerings.

Zerto Virtual Replication is the industry's first hypervisor-based replication solution with complete automation and orchestration of disaster recovery and business continuity operations. It delivers business continuity and disaster recovery (BC/DR) for Microsoft Hyper-V and can leverage Amazon Web Services as a target environment. It is different from any other BC/DR technology because it has fast and most efficient replication combined with fully automated failover, failback and non-disruptive DR testing for production workloads. It is the foundation for any cloud, public, private or hybrid, as it is the only solution which can effectively federate these IT strategies. With Zerto Virtual Replication, customers can easily migrate production workloads across different infrastructures to increase efficiencies. Simple to install, natively multi-tenant, and intuitive to use, Zerto Virtual Replication is ideally suited for private, public and hybrid BC/DR and long term retention for complete data protection.

Zerto Benefit		Description
	Simplicity	Single solution for disaster recovery & data protection in one dashboard that installs seamlessly into the existing infrastructure in minutes
	Always-on	No-impact continuous replication of VM block-level changes with no snapshots
	Hypervisor-based	No agent required in protected VMs with data loss (RPOs) in seconds
	Recover Anything	Recover any file system object from seconds before corruption or deletion
	Granularity	Re-wind and recover from any point in time in seconds up to 2 weeks in the past
	Improve IT SLAs	Restore user files & folders from seconds before deletion to exceed expectations
	Save Space	Space efficient journal compression of 60%+ for point in time recovery
	Restore Anywhere	Download & restore data to any location or access mounted disks in the recovery site; the recovery site could be another site owned by the customer, or in Amazon Web Services
	Minimize impact	Recover sites, applications and files in minutes from any disaster or logical failure
	Future Proof	Hypervisor and storage agnostic future proof solution, VMware vSphere, Microsoft Hyper-V, AWS, enabling the Cloud Continuity Platform Vision
	Innovate IT	With the latest technology in data protection & disaster recovery
	Non-disruptive DR Testing	Fully test DR plans in a sandbox environment satisfying audit requirements while delivering a validated, documented DR plan to the business
	Undo Ransomware Attacks	Leveraging the journal, the environment can be rolled back to before the virus infected the environment, essentially « undoing » the infection with minimal downtime
	Full Orchestration and Automation	Realize RTOs in minutes with boot ordering, re-ip and scripting automation to deliver a consistently fast recovery process

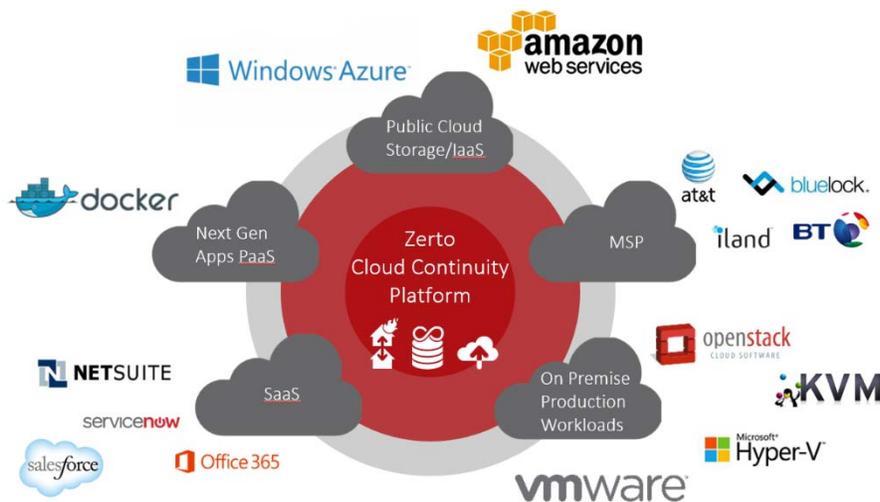


There are two components used in a typical enterprise environment:

- › Zerto Virtual Manager: Manages disaster recovery, business continuity and offsite backup functionality at the site level; plugs into VMware vCenter and/or System Center Virtual Machine Manager or available in a browser-based option.
- › Zerto Virtual Replication Appliance: Replicates the VMs and VMDKs/VHDs; one per ESXi/Hyper-V host required.

ZERTO VISION: ZERTO CLOUD CONTINUITY PLATFORM

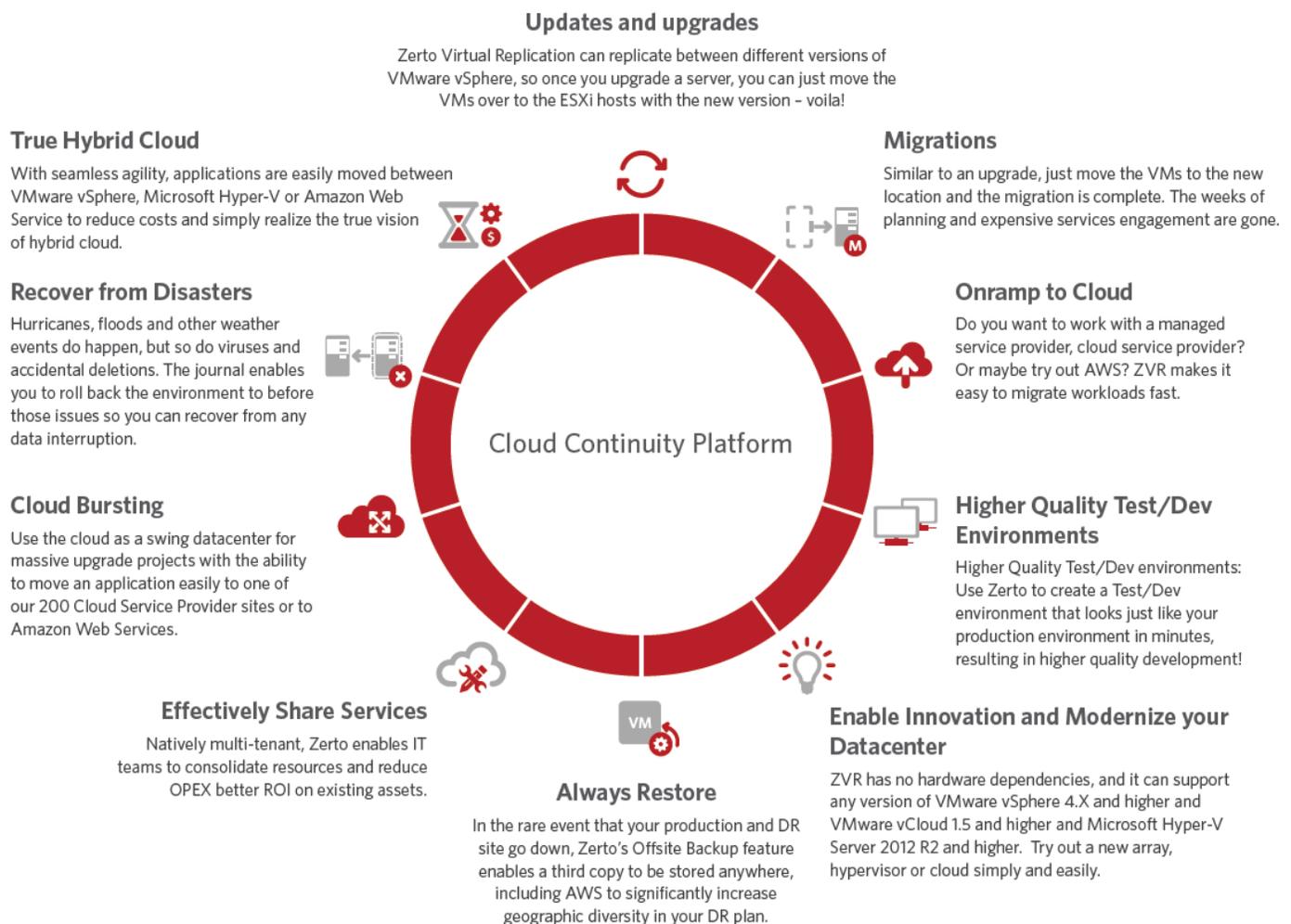
Hybrid Cloud is rapidly becoming the preferred model for IT. A missing piece for enabling true, production grade Hybrid Cloud is the ability to mobilize and protect production workloads between different infrastructure types. Cloud Continuity Platform is a new infrastructure concept which enables application mobility and protection across public, managed and private clouds, and across different hypervisors. With Cloud Continuity Platform the right infrastructure can be used to optimize for cost, SLA and performance with simple scalability and flexibility, without disruption to the business and while enabling full business continuity. The choice of a Hybrid Cloud is here.



Cloud continuity platform is a magic carpet to move, translate and migrate virtual workloads between competing virtualized infrastructures. The commitment of the cloud that has been promoted, marketed and promised for so long is finally here. Organizations can now optimize their environment with the right mix of on-premise and off-premise production workloads to maximize investments while supporting service levels. The IT team is truly in control of the environment with the choices the hybrid cloud delivers today through Cloud continuity platform. With Cloud continuity platform infrastructure choices are based on SLA and cost while delivering performance with simple scalability and flexibility, without disruption and with full business continuity.

WHAT CAN ZERTO DO FOR YOU?

Zerto Virtual Replication was originally designed as a solution for business continuity and disaster recovery. However, many of our customers find new and creative ways to use Zerto Virtual Replication.



Appendix A: Total Economic Impact™ Overview

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. TEI assists technology vendors in winning, serving, and retaining customers.

The TEI methodology consists of four components to evaluate investment value: benefits, costs, flexibility, and risks.

BENEFITS

Benefits represent the value delivered to the user organization — IT and/or business units — by the proposed product or project. Often, product or project justification exercises focus just on IT cost and cost reduction, leaving little room to analyze the effect of the technology on the entire organization. The TEI methodology and the resulting financial model place 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. Calculation of benefit estimates involves a clear dialogue with the user organization to understand the specific value that is created. In addition, Forrester also requires that there be a clear line of accountability established between the measurement and justification of benefit estimates after the project has been completed. This ensures that benefit estimates tie back directly to the bottom line.

COSTS

Costs represent the investment necessary to capture the value, or benefits, of the proposed project. IT or the business units may incur costs in the form of fully burdened labor, subcontractors, or materials. Costs consider all the investments and expenses necessary to deliver the proposed value. In addition, the cost category within TEI captures any incremental costs over the existing environment for ongoing costs associated with the solution. All costs must be tied to the benefits that are created.

FLEXIBILITY

Within the TEI methodology, direct benefits represent one part of the investment value. While direct benefits can typically be the primary way to justify a project, Forrester believes that organizations should be able to measure the strategic value of an investment. Flexibility represents the value that can be obtained for some future additional investment building on top of the initial investment already made. For instance, an investment in an enterprisewide upgrade of an office productivity suite can potentially increase standardization (to increase efficiency) and reduce licensing costs. However, an embedded collaboration feature may translate to greater worker productivity if activated. The collaboration can only be used with additional investment in training at some future point. However, having the ability to capture that benefit has a PV that can be estimated. The flexibility component of TEI captures that value.

RISKS

Risks measure the uncertainty of benefit and cost estimates contained within the investment. Uncertainty is measured in two ways: 1) the likelihood that the cost and benefit estimates will meet the original projections and 2) the likelihood that the estimates will be measured and tracked over time. TEI risk factors are based on a probability density function known as "triangular distribution" to the values entered. At a minimum, three values are calculated to estimate the risk factor around each cost and benefit.

Appendix B: Glossary

Discount rate: The interest rate used in cash flow analysis to take into account the time value of money. Companies set their own discount rate based on their business and investment environment. Forrester assumes a yearly discount rate of 10% for this analysis. Organizations typically use discount rates between 8% and 16% based on their current environment. Readers are urged to consult their respective organizations to determine the most appropriate discount rate to use in their own environment.

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.

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.

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.

Return on investment (ROI): A measure of a project's expected return in percentage terms. ROI is calculated by dividing net benefits (benefits minus costs) by costs.

A NOTE ON CASH FLOW TABLES

The following is a note on the cash flow tables used in this study (see the example table below). The initial investment column contains costs incurred at "time 0" or at the beginning of Year 1. Those costs are not discounted. All other cash flows in years 1 through 3 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 are not calculated until 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.

TABLE [EXAMPLE]

Example Table

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
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Source: Forrester Research, Inc.