FORRESTER®

The Total Economic Impact Of Pax8 Technology And Operations For MSPs

A Total Economic Impact™ Partner Opportunity Analysis

DECEMBER 2021
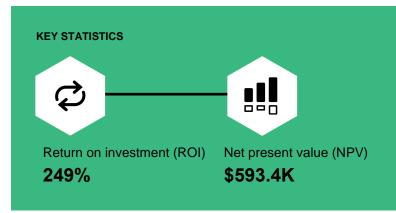
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Executive Summary

With businesses of all sizes looking to move away from on-premises technologies and transition to cloud services, the Pax8 platform helps managed service providers build strong practices provisioning and managing cloud services on behalf of their client base. It offers a single space for partners to manage clients and billing, saving costs and providing the visibility needed to offer higher levels of service to clients. It also enables partners to sell more services to more customers across all geographies.

Pax8 is a marketplace and platform for organizations to buy, sell, and manage cloud solutions. For managed service providers (MSPs), the Pax8 platform enables the provisioning and managing of cloud services on behalf of their clients while gaining significant economies. Pax8 brings MSPs revenue expansion opportunities, easier client billing, simplified client management, and self-service and support services that help to serve clients more efficiently both up- and down-stream.

Pax8 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 Pax8 practice.[1] The purpose of this study is to provide potential and existing partners with a framework to evaluate the potential business opportunity associated with building, managing, and selling Pax8 cloud services as part of the Pax8 partner ecosystem.

To better understand the revenue streams, investments, and risks associated with a Pax8 partnership, Forrester interviewed nine decision-makers of existing Pax8 partners with experience building or innovating and ultimately selling and scaling through the Pax8 marketplace and platform. These partners were of various sizes and practice areas. To illustrate the financial impact and subsequent partner business opportunity for Pax8 partners, Forrester aggregated the characteristics of

KEY STATISTICS

Return on investment (ROI)
249%

Net present value (NPV)
$593.4K

these interviewees and combined the results into a single composite organization.

KEY FINDINGS

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

- **Account billing efficiency.** Pax8 enabled partners to move away from outdated, manual billing processes and simplify billing by leveraging Pax8's single platform and automation features. Account managers saved as much as 55.4% of their time, which was previously spent managing billing. It also enabled the recapturing of revenues that were previously left unbilled due to human error.

- **Improved selling opportunities.** Pax8 also helped partners expand selling opportunities. It enabled them to sell core cloud services in the marketplace and manage their business through

the platform while making it easy to upsell and cross-sell security and backup-cloud-related services. With the addition of Pax8 Pro, a full-service cloud management tool, partners were also able to serve customers that were previously too large or complex. Additionally, Pax8's self-service features enabled the acquisition of smaller customers that were too expensive to serve via sales professionals.

- **Reduced support costs.** Pax8 also allowed partners automate the technician's work in ticket creation, enabling them to be 15% more efficient. At the same time, it provided support for all products across its platform, reducing the time required previously to generate requests for individual vendors. Pax8 also displaced costs required for vendor-provided support.

> MSP change compared to baseline:
>
> **29% increase in sales
> 15% increase in gross margin**

Key outcomes. Benefits that are not quantified for this study include:

- **Improved client relationships.** Pax8 simplified both billing and client management, which positively impacted partners' relationships with their clients. It enabled them to reduce billing errors, which negatively impacted clients while also ensuring each client was getting all the services for which they were billed.

- **Improved visibility into expanding sales opportunities with existing customers.** Pax8 enabled partners to understand potential solutions better to meet client needs. This understanding, coupled with the singular visibility
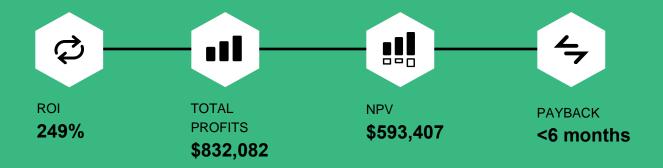
into client accounts across all products on the Pax8 platform, allowed partner teams to identify gaps in services more efficiently, which could then lead to additional sales opportunities.

- **Benefit of a Pax8 ecosystem and product advisory groups.** Partners also shared how they benefited from Pax8's ecosystem of vetted vendors by saving time on vendor analysis, evaluation, and selection. Pax8's product advisory groups also enabled partners to play a role in shaping Pax8's future direction and what vendors or services were offered on the platform.

Investments. Partners reported investing in:

- **Client migration costs.** Partner organizations incurred costs associated with migrating their clients onto the Pax8 platform. For a partner with 50 accounts, migration took one FTE two weeks to complete.

- **Costs from slight margin differences.** Interviewees noted a slight margin difference on the Pax8 platform from 1% and 2% in some select products, compared with their prior direct vendor relationships. They noted numerous benefits from Pax8 that made this margin difference worth the investment, including assistance with marketing, sales, and technical capabilities.

- **Setup and Pax8 Pro costs.** Partner interviewees also noted that Pax8 required approximately two weeks of training for partner sales personnel to master the Pax8 marketplace platform, while the Pax8 Pro module came at a monthly rate of $250.

The decision-maker interviews and financial analysis found that a composite partner organization experiences a total present value (PV) of profits and cost savings of $832,082 over three years versus investments and overhead expenses of $238,675, adding up to a net present value (NPV) of $593,407 and an ROI of 249%.

ROI
249%

TOTAL
PROFITS
$832,082

NPV
$593,407

PAYBACK
<6 months

Benefits (Three-Year)

Improved account billing efficiency	$177.1K
Improved selling opportunities	$357.4K
Reduced support costs	$297.6K

Financial Summary

**Payback period:
<6 months**

Total benefits PV,
$832K

Total costs PV,
$239K

Initial   Year 1   Year 2   Year 3

TEI FRAMEWORK AND METHODOLOGY

Forrester constructed a Total Economic Impact™ framework for those partners considering building and growing a Pax8 practice from the information provided in the interviews.

The framework's objective 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 Pax8 practice.

DISCLOSURES

Readers should be aware of the following:

This study is commissioned by Pax8 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 Pax8 practice.

Pax8 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.

Pax8 provided the partner names for the interviews but did not participate in the interviews.

DUE DILIGENCE
Interviewed Pax8 stakeholders and Forrester analysts to gather data relative to Pax8.

DECISION-MAKER INTERVIEWS
Interviewed nine decision-makers at partner organizations with existing Pax8 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 decision-makers.

CASE STUDY
Employed four fundamental elements of TEI in modeling the impact of a Pax8 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.

The Pax8 Partner Journey

■ Drivers leading to the Pax8 practice investment

Interviewed Decision-Makers

Partner Interviewee	Market Region	Customer Focus	Revenue
Director of IT field services	National	Small to midsize business	$100M
Senior VP of product management	Mountain	Small to midsize enterprise	$45M
Revenue operations manager	California	Agricultural business	$20M
Senior account manager	National/international	Small to midsize business	$20M
CEO	Mountain/national	Midmarket enterprise	$5M
VP of strategy	New York City	Midmarket enterprise	$5M
President	Southern California	Small to midsize business	$4M
President	Texas	Midmarket enterprise	$3.5M
Chief technology officer (CTO)	Southern California	Small to midsize business	$1M

PARTNER GOALS, CHALLENGES, AND DRIVERS

The partners Forrester interviewed were diverse in size, background, functional and vertical specializations, business type, and degree of engagement with Pax8. However, they were truly representative of the channel partner community. They partnered with Pax8 to offer and manage cloud services to their clients for a myriad of reasons, including:

• **Responding to client needs related to cloud adoption.** The increasing shift of computing activity to the cloud has reduced the need for MSP services that are related to onsite infrastructure and servicing. This has opened the door to new sales opportunities, such as migrating customers to cloud platforms and offering related cloud services. Additionally, this catalyzed: a new set of needs for technology SKUs; product management expertise to help curate a best-of-breed cloud stack; and MSP

skills to better serve clients and obtain support from cloud vendors. The shift to cloud licensing models accelerated product, service, and rate changes, which require additional MSP staff time. This shift can also be a frequent cause of confusion and lead to inadvertent unbilled services.

> **"Because we sold infrastructure and endpoints, we needed to be 'in' a locality. That's begun to break down, and our ability with Pax8 to service cloud projects opens the capability to migrate organizations' soup to nuts remotely from anywhere in the US."**
>
> *President for a $3.5M partner in Texas.*

- **Complexity of distributor and vendor relationships.** Before Pax8, MSPs utilized a variety of distributor and direct vendor relationships to meet customers' infrastructure and application needs. In managing a single account, MSP staff were required to stay on top of multiple bills coming from multiple vendors or distributors while also fielding and transferring support requests to them. This held true whether the MSP was selling on-premises solutions or cloud-based services.

SELECTING THE RIGHT PARTNER PROGRAM

In choosing a partner and platform around which to build their cloud services business, partner decision-makers emphasized the importance of the following factors:

- **Simplified billing.** Interviewees looked to move away from the complexity inherent in managing the billing when working directly with distributors and vendors:

  - The CEO for a $5M partner said: "Reconciling billing from our previous distributor was eating us alive. Every month the costs were different: the core solution piece, antivirus, antispam, cloud backup, multifactor authentication. Suddenly you are tracking thousands of seats even if you're only a small MSP."

- **Consolidated client management.** The interviewees also noted gauging their choice of partner on how they might ease client management:

  - The senior VP of product management for a $45M partner noted: "We had a direct agreement with [a vendor], and we still had to depend on distributors too. For customer orders, sales quotes, approvals, operations, it was all very manual, tedious, and unscalable. With the Pax8 platform and marketplace, things can be

deployed quickly, and this accelerates deal flow." They continued: "Things were converting fast into the cloud and very quickly our customers are transitioning mail implementations, needing to secure vulnerabilities there and also a backup vendor right away. You can't count on a distributor to provide holistic solutions. With the forethought they put in, I could see Pax8 was ready for us. It's like that across the board, we now already have the answers for our customers' emerging needs."

> **"We found that Pax8 has a better understanding of who and what we are, and they work to help make us better. As a partner, they've always been one of mutual benefit. They succeed when we succeed."**
>
> *CTO for a $1M partner.*

- **Updating revenue models.** Interviewees also looked for a partner that could help them update their revenue models to include subscription revenues from cloud services sales:

  - The president for a $3.5M partner said: "A couple of years ago, I had no recurring revenue. As an MSP, it was set it and forget it unit the next infrastructure upgrade. Now these recurring services are more than 75% of our revenue and we've tripled in size."

MSP change compared to baseline:

50% time savings/billing 15% increase in technician productivity

- **Support.** Importantly, interviewees also wanted a partner that could provide them with support regardless of their size and needs:

    - The senior account manager for a $20M partner said: "Our previous distributor was largely focused on SKU sales with very limited support. It was also a large operation without dedicated service. Pax8 is all US-based, everything is a phone call away, and we always have the same people we can reach."

    - The president for a $4M partner said, "I don't have to turn down a customer that may be more complicated, I can lean on Pax8 Pro[fessional services] to help us serve larger and more complex customers than before."

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 companies that Forrester interviewed and is used to present the aggregate financial analysis in the next section. The composite organization has the following characteristics:

- The composite organization is a MSP with attributes that include an array of direct vendor and distributor relationships. It has an average client base of 50 organizations and has traditionally offered on-premises services. It is looking to expand into offering cloud services as its clients' needs change. It also historically had a regional focus, as most of its work was on-site, but it is now looking to expand its client base geographically by leveraging Pax8.

- The composite MSP adopts Pax8 to help it sell and manage cloud services. Additionally, it invests in Pax8's professional services to enable it to sell to larger clients than it has been able to serve in the past.

Key assumptions

- **50 accounts are on Pax8**
- **Pax8 Pro services customer**
- **Looking to expand geographically and to manage/serve broader client needs**

Analysis Of Partner Revenue Streams

Quantified revenue data as applied to the composite

Profit Streams And Cost Savings						
Ref.	Profit Streams And Cost Savings	Year 1	Year 2	Year 3	Total	Present Value
Atr	Improved account billing efficiency	$71,199	$71,199	$71,199	$213,597	$177,061
Btr	Improved selling opportunities	$105,233	$140,020	$194,400	$439,653	$357,441
Ctr	Reduced support costs	$109,125	$120,375	$131,625	$361,125	$297,580
	Total benefits (risk-adjusted)	$285,557	$331,594	$397,224	$1,014,375	$832,082

IMPROVED ACCOUNT BILLING EFFICIENCY

Evidence and data. Interviewees shared that Pax8 enabled their organizations to save substantial time related to account management. Before using Pax8, the interviewees utilized spreadsheets from distributors and direct vendors for client billing. Using spreadsheets meant that it took account managers two full days each month to bill for most cloud services, and these processes could consume as much as two weeks when billing for cloud platform usage. In addition to these time costs, manual methods introduced opportunities for human error and made it difficult to audit and unify billing practices. A billing error in any one month could wipe out the margin available for an MSP.

With Pax8's billing integrations, manual processes became digitized, automated, and consolidated. Account managers could now capture changes in licensing costs or tiers in an automated way, creating efficiencies. It also helped organizations to consolidate account billing for customers across all services managed via Pax8. It even enabled some organizations to capture revenues that previously went unbilled due to missed account updates caused by disorganized, spreadsheet-based processes.

- The VP of strategy for a $5M partner shared: "Before Pax8, I would have to find client and license inconsistencies on my own. The output from the distributor was an export that I'd have to go through line by line, reviewing agreement additions. It was manual and time-consuming. If someone made a mistake it meant losing out on recurring revenue in perpetuity."

- The senior VP of product management for $45M partner shared: "As MSPs scale up, things can go sideways. We would build as our customers ordered, but when changes occurred, billing updates were often missed."

- The CTO for a $1M partner shared: "Our dilemma was [whether] we invest the many days needed to audit all accounts? Or do we just hope everyone is doing everything correctly and nothing is too far off?"

- The president for a $3.5 partner shared: "The last thing an MSP needs to do is leave money on the table. Missed billings, missed addendums, manual time entry, reconciliation of billing, clients not setting the right payment, having awkward billing conversations. All of this is automated now

with Pax8. We're no longer missing out on revenue from unrecognized changes."

- The revenue operations manager for a $20M partner shared: "Self-service by the customer makes our technicians and staff more efficient and gives my customers better service. They can get their license right away instead of opening a ticket."

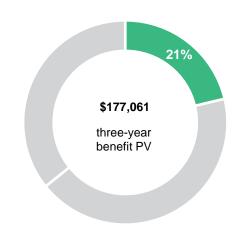**Modeling and assumptions.** For the composite organization, Forrester models:

- One account manager manages billing for an average of 50 accounts monthly.

- Account managers have a fully burdened annual salary of $90,000.

- Pax8 saves account managers two days monthly when billing for cloud services and two weeks monthly when billing for cloud platforms.

- Revenues of $1,500 per month are recaptured from previously missed billing updates.

- One IT technician updates licensing changes.

- IT technicians have a fully burdened annual salary of $75,000.

- Pax8 saves technicians 15% of their time by automating licensing changes via self-service.

Risks. The improved efficiency of account billing will vary with:

- The level of automation in current billing practices.

- The number of accounts managed via Pax8.

- The fully burdened rates of account managers and IT technicians.

Results. To account for these risks, Forrester adjusted this revenue stream downward by 10%, yielding a three-year, risk-adjusted total PV gross profit (discounted at 10%) of over $175,000.

Improved account billing efficiency:

21%

$177,061

three-year
benefit PV

Improved Account Billing Efficiency

Ref.	Metric	Source	Year 1	Year 2	Year 3
A1	Account managers generating billing for 50 accounts	Interviews	1	1	1
A2	Fully burdened annual salary for an account manager	TEI standard	$90,000	$90,000	$90,000
A3	Labor savings of two days monthly billing for cloud services accounts	A2*9.2%	$8,280	$8,280	$8,280
A4	Labor savings of two weeks monthly billing for cloud platform accounts	A2*46.2%	$41,580	$41,580	$41,580
A5	Recaptured revenue from previously missed billing updates ($1,500 monthly)	Interviews	$18,000	$18,000	$18,000
A6	IT technicians updating license changes	Interviews	1	1	1
A7	Fully burdened annual salary for an IT technician	TEI standard	$75,000	$75,000	$75,000
A8	Labor savings updating licenses (15% of time)	A7*15%	$11,250	$11,250	$11,250
At	Improved account billing efficiency	A3+A4+A5+A8	$79,110	$79,110	$79,110
	Risk adjustments	↓10%			
Atr	Improved account billing efficiency (risk-adjusted)		$71,199	$71,199	$71,199
	Three-year total: $213,597	**Three-year present value: $177,061**			

IMPROVED SELLING OPPORTUNITIES

Evidence and data. The interviewees also reported that Pax8 increased their sales opportunities, and by extension, their revenues. On the one hand, Pax8 made it easier for end customers to purchase core cloud services. It brought MSPs more revenues by enabling the easier sale of add-on services related to integration, security, and backup.

More than that, it enabled firms to increase sales at both the low and high ends. At the low end, interviewees shared that their firms were not targeting the long tail of smaller deals as their relatively high cost of sales made them uneconomical. Self-service for end clients via Pax8's platform lowered sales costs and enabled MSPs to book more small-deal revenue. At the high end, Pax8's managed services supported MSPs on larger migrations that would otherwise be beyond their internal capabilities, enabling them to close larger deals as well.

Lastly, Pax8 brought in even more revenue to MSPs by connecting them to vendor market development fund programs that they were either unaware of or too busy to manage.

- The senior account manager of a $20M partner shared: "Pax8 connected these needs and opportunities. It is how we grow our business, and [it] lets our customers secure their business as well. They added, "Pax8 has helped center our cloud services stack as an end-to-end offering from [core cloud services] to security."

- The senior VP of product management for a $45M partner shared: "Our go-to-market now leads with cybersecurity helping us acquire new customers and expanding existing ones. The advantage of Pax8 includes a bundle of products we can procure in this growth path with the billing efficiencies that created the highest net margin." They added, "Self-service for our customers

brings in additional revenue and doesn't cost our sales team time on small orders."

- The president of a $3.5M partner shared, "We're taking some cloud deals at our slightly lower margin because we are going to make 50 points on customers' security and integration."

- The senior VP of product management for a $45M partner shared, "Pax8's professional services helps us bring in additional work at a lower total cost."

- The VP of strategy for a $5M partner shared: "Pax8's professional services has been extremely helpful to have them come in and handle a more difficult migration or implementation. We ride shotgun on it, learn on it, document it, and are configured to expand what we handle and grow our business." They added: "We also lean on Pax8 when we are full up and a customer is suddenly ready to move to the cloud. Instead of losing them we leverage Pax8's professional services to help us with that capacity."

- The president of a $3.5M partner shared: "It's not just the Pax8 cloud stack, Pax8 looked at [one of my vendor accounts] and triggered thousands in direct deposits from a campaign we had all the bona fides for. The development fund activity has been an important boost we receive."

- The CTO for an $1M partner shared: "We are able to earn back a significant percentage of our monthly spend with the [vendor] development funds Pax8 showed us."

Modeling and assumptions. For the composite organization, Forrester models:

- Client revenues of over an average of $1.9 million in Year 1 move from distributor or vendor relationships to Pax8. These revenues grow to $3.8 million by Year 3.

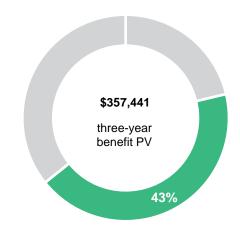- Additional revenues from add-on cloud services like security of $100,000 in Year 1 grow to

$210,000 by Year 3. These sales have a 50% gross margin.

- Additional large-scale sales that leverage Pax8 professional services of $60,000 in Year 1 grow to $90,000 by Year 3. There are four projects in Year 1, five in Year 2, and six by Year 3. These sales have a gross margin of 50%.

- Additional vendor-provided marketing development funds, which were capture, are equivalent to 1.5% of core cloud services sales via Pax8.

- Additional small-scale gross profits via Pax8 of $7,000 in Year 1 grow to $9,000 by Year 3.

Risks. The impact of improving selling opportunities with Pax8 will vary with:

- The current ability and market share of selling core cloud services and related add-on services.

- Current opportunities lost due to scale.

- Current lost income from inaccessible market development funds.

Results. To account for these risks, Forrester adjusted this revenue stream downward by 10%, yielding a three-year, risk-adjusted total PV gross profit of nearly $360,000.

Improved MSP selling opportunities:

$357,441
three-year benefit PV

43%

Improved Selling Opportunities

Ref.	Metric	Source	Year 1	Year 2	Year 3
B1	Sales from clients transitioned to Pax8	E1+E2	$1,995,000	$2,671,875	$3,800,000
B2	Additional sales of security and other add-on services via Pax8	Composite	$100,000	$140,000	$210,000
B3	Additional large-scale sales leveraging Pax8 professional services	Composite	$60,000	$75,000	$90,000
B4	Development funds captured via Pax8	B1*1.5%	$29,925	$40,078	$57,000
B5	Gross revenue of security and other add-on services	B2*50%	$50,000	$70,000	$105,000
B6	Gross revenue from Pax8 professional services-assisted implementations	B3*50%	$30,000	$37,500	$45,000
B7	Additional small-scale gross profits via Pax8	Interviews	$7,000	$8,000	$9,000
Bt	Improved selling opportunities	B4+B5+B6+B7	$116,925	$155,578	$216,000
	Risk adjustment	↓10%			
Btr	Improved selling opportunities (risk-adjusted)		$105,233	$140,020	$194,400
	Three-year total: $439,653		**Three-year present value: $357,441**		

REDUCED SUPPORT COSTS

Evidence and data. The interviewees also shared savings related to support costs, both for direct client support and for getting support from Pax8, as compared with previous distributors. The MSPs noted that user onboardings and cloud product provisioning were significantly more efficient for their technicians when using Pax8, and ticketing was also easier. Not only did Pax8 improve technician productivity related to ticket creation, Pax8 also served as a unified platform to manage client requests across the breadth of cloud services offered on the marketplace. Previously, MSPs' prior processes relied on getting support from several different distributors or vendors to solve specific support issues.

Improved ticketing efficiency led to improved resolution times, benefitting MSPs' relationships with end clients. Furthermore, Pax8 saved vendor support costs for the interviewees' organizations, as Pax8 would handle issue support free of charge.

- The CTO for a $1M partner shared, "User onboardings were a painful and time-consuming process for technicians, and there have been significant efficiencies for staff in onboarding and provisioning."

- The senior VP of product management for a $45M partner shared: "My technicians are 15% more efficient because of the ticketing and automation of Pax8. Essentially, it gives me the work of an extra technician compared to our old way of ticketing." They added: "Going for support through Pax8 is painless compared to our previous distributor. They are also good about escalating up to [a vendor] as needed."

- The senior account manager for a $ 20M partner said: "Support going through Pax8 is simpler because you are going to one company, compared to many individual vendors across direct relationships. At Pax8 I can escalate to one person, and I've moved products over to Pax8 for this very reason." They added: "Having so many

products unified under one provider makes it easy to initiate and get through support. For our techs, it means less proof-points, less finding the right contact, less research. We can do it 50% to 70% faster with Pax8 compared to working with the individual vendors or distributors."

- The president for an $4M partner said: "We couldn't go through our previous distributor for support on [some clouds]. Pax8 does, and it provides a backend channel that saves us hours per week in support."

- The VP of strategy for a $5M partner shared: "Compared to going direct, we don't have to pay for support. Pax8 absorbs what support we need at no charge, and they have the clout for addressing the 1% of issues that need to be escalated to high-priority vendor tickets."

Modeling and assumptions. For the composite organization, Forrester models:

- Nine IT technicians engage in support.

- The fully burdened annual rate of IT technicians is $75,000 each.

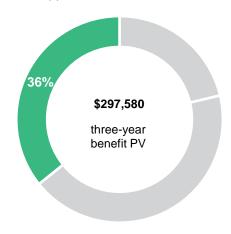- These technicians save 15% of their annual time due to Pax8's automated ticketing.

- The composite organization is able to avoid additional support costs of $20,000 in Year 1, growing to $45,000 in Year 3, by leveraging Pax8 support instead of vendor or distributor support. This savings equates to 45 customers being supported by Pax8 in Year 1, growing to 70 customers by Year 3.

Risks. The reduction in support costs will vary with:

- The number of IT technicians previously needed.

- Their fully burdened annual rate.

- The number and growth rate of customers where support costs can be saved by leveraging Pax8 support.

Results. To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV gross profit of nearly $300,000.

Reduced support costs:

36%

$297,580
three-year
benefit PV

Reduced Support Costs					
Ref.	**Metric**	**Source**	**Year 1**	**Year 2**	**Year 3**
C1	Number of IT technicians handling work orders	Interviews	9	9	9
C2	Fully burdened annual salary of IT technicians	TEI standard	$75,000	$75,000	$75,000
C3	Saved costs from ticketing automation	C1*C2*.15%	$101,250	$101,250	$101,250
C4	Avoided support costs from Pax8	Interviews	$20,000	$32,500	$45,000
Ct	Reduced support costs	C3+C4	$121,250	$133,750	$146,250
	Risk adjustment	↓10%			
Ctr	Reduced support costs (risk-adjusted)		$109,125	$120,375	$131,625
	Three-year total: $361,125	**Three-year present value: $297,580**			

UNQUANTIFIED BENEFITS

Additional benefits that partners experienced but were not able to quantify include:

- **Improved client relationships.** The interviewees shared that client relationships improved after using Pax8

  - The senior VP of product management for a $45M partner shared: "Our margin of error on MRR [monthly recurring revenue] license sales has closed significantly; I'd say 95% more accurate. That alone helps maintain customer satisfaction by reduced billing errors, which is an important point I don't want to get lost."

  - The president of a $3.5M partner shared, "Here, we are all about relationships. Since Pax8, we've saved the day for so many companies who are taking stock and [moving] forward on their need for security and cloud services while mitigating vulnerabilities and infrastructure costs." They added: "Prior billing structures based on the endpoint led to both customer and internal confusion on what exactly was being charged and how. We were sometimes missing addendums. Pax8's per-user models solved that as well."

- **Improved visibility into expanding sales opportunities with existing customers.** Pax8 also enabled MSPs to have an improved understanding of client solutions and their capability gaps, which led to improved upsell opportunities:

  - The senior account manager of a $20M partner shared: "Before, everything was à la carte. Now, there is a ton of upsell opportunity because we can see immediately that these customers don't have [X or Y solution]. Our sales staff then reaches out, explains the importance of having the missing solution, and sells that service."

- **Value of the Pax8 vendor-partner ecosystem and product advisory group.** Interviewees also shared receiving unquantified value from Pax8's vendor-partner ecosystem and product advisory group:

- The president of a $3.5M partner shared: "I really rely on Pax8's ecosystem when analyzing a vendor. If they're in the Pax8 ecosystem, that means they've been vetted. It's very rare that we buy outside of Pax8."

- The CEO for a $5M partner said: "Because of Pax8's unique partner advisory groups, we're able to chime in and provide our feedback on platform direction, new initiatives, and vendors. They've been very good about enabling those conversations."

FLEXIBILITY

The value of flexibility is unique to each partner. There are multiple scenarios in which a Pax8 partner might implement a Pax8 practice and later realize additional opportunities, including:

- **Improved ability to adjust to market shifts.** The interviewees also made note of Pax8's help when transitioning their business during sudden market shifts, such as that caused by the COVID-19 pandemic:

  - The director for IT field services from a $100M partner shared: "With their stack, Pax8 helped us be the right provider at the right time for work from home. Simply configuring our existing customers with the capabilities was responsible for more than one-third of our growth the past year, and new customers are approaching us for these solutions."

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

Analysis Of Partner Investments

Quantified investment data as applied to the composite

Total Investments							
Ref.	Investments	Initial	Year 1	Year 2	Year 3	Total	Present Value
Dtr	Client migration costs	$3,808	$0	$0	$0	$3,808	$3,808
Etr	Cost of slight margin effect	$0	$39,690	$53,156	$75,600	$168,446	$136,812
Ftr	Setup and Pax8 Pro costs	$11,550	$30,377	$35,084	$39,790	$116,801	$98,055
	Total costs (risk-adjusted)	$15,358	$70,067	$88,240	$115,390	$289,055	$238,675

CLIENT MIGRATION COSTS

Evidence and data. Interviewees noted experience costs associated with migrating existing customers to Pax8. Such migrations required time from technical staff to map and assign user cloud service accounts from the previous distributor to Pax8. For a moderately sized MSP, migration took two weeks at the start of the partnership. Migrations required an IT engineer and were supported by Pax8 technical staff.

- The revenue operations manager for a $20M partner shared: "Transitioning our customer tenants was seamless between our former distributor and Pax8, in part because Pax8 was involved in the entire transition. We had weekly calls where they provided whatever support was needed. It is why it was so fast."

- The senior VP of product management for a $45M partner: "We were able to migrate accounts, customer tenants' licenses quickly. We assigned people to the transition, and Pax8 came to the table with resources as well to help make it fast."

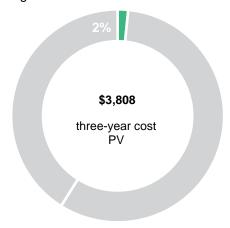**Modeling and assumptions.** For the composite organization, Forrester models:

- One IT support engineer is needed for two weeks to migrate on average 50 accounts and related services.

- Their fully burdened annual salary is $90,000.

Risks. The total cost of migration will vary with:

- The number of accounts needing to be migrated.

- The number of IT support engineers utilized.

Results. To account for these risks, Forrester adjusted this investment upward by 10%, yielding a three-year, risk-adjusted total PV investment (discounted at 10%) of under $4,000.

Client migration costs:

2%

$3,808
three-year cost PV

Client Migration Costs

Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
D1	Number of IT support engineers for migration	Composite	1	0	0	0
D2	Percent time needed for migration (2 weeks)	2 weeks/52 weeks	3.8%			
D3	Fully burdened annual salary for IT support engineer	TEI standard	$90,000			
Dt	Client migration costs	D1*D2*D3	$3,462	$0	$0	$0
	Risk adjustment	↑10%				
Dtr	Client migration costs (risk-adjusted)		$3,808	$0	$0	$0
	Three-year total: $3,808		**Three-year present value: $3,808**			

COST OF SLIGHT MARGIN EFFECT

Evidence and data. Interviews shared that MSPs could see slight margin difference in some select products, compared with their prior direct vendor relationships. For cloud services sales, margins could be different by 2%, from 20% to 18%. For cloud infrastructure sales, margins reduced by 1%, from 10% to 9%.

However, the interviewees also noted how the benefits of Pax8 overcame any differences:

- The senior VP of product management for a $45M partner shared: "Any difference we see from vendor direct is more than worth it. Pax8 helps with marketing efforts, go-to-market assistance, pre-sales assistance, technical support, and most importantly, leads." They continued: "You can look at vendor direct as the highest margin, but the truth is that, at scale, that goes sideways for an MSP. The value is in the integration from sale to onboarding to billing. We can get this and the products in one place. That's an opportunity that creates not just growth but value."

Modeling and assumptions. For the composite organization, Forrester models:

- Cloud services sales are over $1.7 million in Year 1, growing to $3.4 million by Year 3.

- Cloud platform sales are $210,000 in Year 1, growing to $400,000 by Year 3.

- Cloud services sales margins reduce by 2%, and cloud platform sales margins reduce by 1%.

Risks. The total cost of reduced margins will vary with:

- The amount of revenues coming via Pax8.

- The actual margin differences experienced for cloud services and cloud platform sales.

Results. To account for these risks, Forrester adjusted this investment upward by 5%, yielding a three-year, risk-adjusted total PV investment of under $137,000.

$136,812

three-year cost PV

57%

Cost Of Slight Margin Effect

Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
E1	Cloud services sales revenue	Composite		1,785,000	2,390,625	3,400,000
E2	Cloud platform sales revenue	Composite		210,000	281,250	400,000
E3	Potential margin difference for cloud services sales	Interviews		2%	2%	2%
E4	Potential margin difference for cloud platform sales	Interviews		1%	1%	1%
E5	Net cost of cloud services margin	E1*E3		$35,700	$47,813	$68,000
E6	Net cost of cloud platform margin	E2*E4		$2,100	$2,813	$4,000
Et	Cost of slight margin effect	E5+E6	$0	$37,800	$50,625	$72,000
	Risk adjustment	↑5%				
Etr	Cost of slight margin effect (risk-adjusted)		$0	$39,690	$53,156	$75,600
	Three-year total: $168,446			**Three-year present value: $136,812**		

SETUP AND PAX8 PRO COSTS

Evidence and data. The interviewees also noted investing in setup and the Pax8 Pro product. Setup investments included training sales professionals on how to use the Pax8 platform. It also included the cost of product managers whose role it was to understand the Pax8 stack and make sure their organization was well equipped to service clients. Pax8 Pro came at an additional monthly cost, but it provided benefits associated with added scale and efficiency in the client work discussed above.

Modeling and assumptions. For the composite organization, Forrester models:
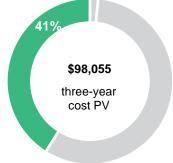
- In Year 1, two sales staff require training on the Pax8 platform, growing to three sales staff by Year 3.

- Training takes two weeks.

- Sales staff have an average fully burdened annual salary of $92,500.

- Implementation costs for product managers are $17,500 in Year 1, growing to $22,500 by Year 3.

- Pax8 Pro costs $250 monthly.

Risks. Setup and Pax8 Pro costs will vary with:

- The number of sales staff needing training.

- The total cost of implementations by product managers.

- The use of Pax8 Pro and professional services.

Results. To account for these risks, Forrester adjusted this investment upward by 10%, yielding a three-year, risk-adjusted total PV investment of under $100,000.
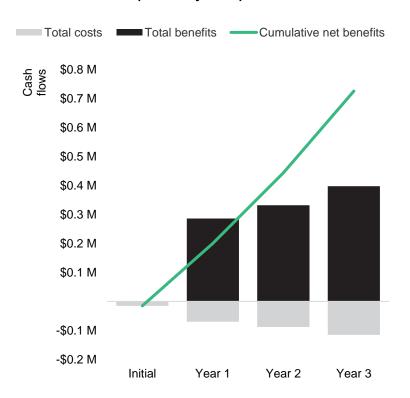
41%

$98,055
three-year
cost PV

Setup And Pax8 Pro Costs

Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
F1	Sales FTEs needing training	Composite		2.0	2.5	3.0
F2	Percent of time needed for training	2 weeks		3.8%	3.8%	3.8%
F3	Fully burdened average salary of sales staff	TEI standard		$92,500	$92,500	$92,500
F4	Subtotal: cost of training	F1*F2*F3		$7,115	$8,894	$10,673
F5	Implementation cost for product managers	Interviews		$17,500	$20,000	$22,500
F6	Pax8 Pro cost	$250/month		$3,000	$3,000	$3,000
Ft	Setup and Pax8 Pro costs	F4+F5+F6	$10,500	$27,615	$31,894	$36,173
	Risk adjustment	↑10%				
Ftr	Setup and Pax8 Pro costs (risk-adjusted)		$11,550	$30,377	$35,084	$39,790
	Three-year total: $116,801		**Three-year present value: $98,055**			

Financial Summary

CONSOLIDATED THREE-YEAR RISK-ADJUSTED METRICS

Cash Flow Chart (Risk-Adjusted)

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 risk-adjusted ROI, NPV, and payback period values are determined by applying risk-adjustment factors to the unadjusted results in each Revenue Stream and Investment section.

Cash Flow Analysis (Risk-Adjusted Estimates)						
	Initial	**Year 1**	**Year 2**	**Year 3**	**Total**	**Present Value**
Total costs	($15,358)	($70,067)	($88,240)	($115,390)	($289,055)	($238,675)
Total benefits	$0	$285,557	$331,594	$397,224	$1,014,375	$832,082
Net benefits	($15,358)	$215,490	$243,354	$281,834	$725,320	$593,407
ROI						249%
Payback period						<6 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 IT initiatives' tangible value to 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 product's proposed value or benefits. 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 or Present Value 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] 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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