

A Forrester Total Economic Impact™
Study Commissioned By Microsoft
June 2020

The Total Economic Impact™ Of Microsoft Dynamics 365 Commerce

Cost Savings And Business Benefits
Enabled By Dynamics 365 Commerce

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ABOUT FORRESTER CONSULTING

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Executive Summary

Retailers today must offer consumers an omnichannel experience that allows them to shop where they want and when they want, across multiple devices. Forrester defines omnichannel as the coordination of traditional channels (marketing, selling, and fulfillment) and the supporting systems to create a seamless and consistent customer experience.¹ Microsoft Dynamics 365 Commerce helps its customers offer omnichannel commerce, providing a seamless shopping experience across both physical and digital channels. Microsoft Dynamics 365 Commerce delivers an end-to-end solution that covers back office, call centers, retail stores, and eCommerce in a single platform.

Microsoft commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) enterprises may realize by deploying Dynamics 365 Commerce. The purpose of this study is to provide readers with a framework to evaluate the potential financial impact of Dynamics 365 Commerce on their organizations.

To better understand the benefits, costs, and risks associated with this investment, Forrester interviewed several customers with experience using Dynamics 365 Commerce.

Prior to using Dynamics 365 Commerce, the customers used a complex network of disparate solutions to support their commerce. The legacy solutions being used were inflexible and did not support the shift to omnichannel and eCommerce. This complexity led to delays and inefficiencies, and customers were not able to quickly launch new product offerings nor expand into new markets.

Microsoft Dynamics 365 Commerce provides a flexible, scalable commerce solution that is built on the Microsoft stack. Microsoft Dynamics 365 Commerce brought the interviewed companies' brands and channels together, so there was a single source of information and truth to drive corporate growth and strategy. Interviewed retail customers described creating a seamless omnichannel commerce experience for consumers while reducing IT costs and friction. They could manage inventory more efficiently and train retail sales associates quickly. This resulted in increased retail store and eCommerce sales and an enhanced customer experience. It was easier for the interviewed customers to launch new product promotions and new merchandise sets, and to expand into new markets.

Key Findings

Quantified benefits. The following risk-adjusted present value (PV) quantified benefits are representative of those experienced by the companies interviewed:

- › **Improved inventory management, \$3.7 million.** With Microsoft Dynamics 365 Commerce, the interviewed companies had better inventory visibility. It was easy for the retail store stockroom clerks to know where in the stockroom and in what bins the inventory was located. Dynamics 365 Commerce automatically triggered item replenishment when stock was low, so that stores never ran out of items. The stockroom clerks saved time receiving and managing inventory.

Benefits And Costs



Improved inventory management:
\$3.7 million



Decreased retail store associate training:
\$1.5 million



eCommerce sales uplift:
25%



ROI
58%



Benefits PV
\$9.2 million



NPV
\$3.4 million



Payback
17 months

- › **Decreased retail sales associate training time, \$1.9 million.** The interviewed companies onboarded large numbers of new and seasonal retail sales associates each year. The Microsoft Dynamics 365 POS system was intuitive and easy to use. New retail sales associates needed only minimal training and were up to speed and serving customers almost immediately.
- › **Grew retail store sales, \$1.5 million.** The interviewed companies saw an uplift in retail store sales with Microsoft Dynamics 365 Commerce. More effective inventory replenishment ensured that the retail stores were well stocked with goods for sale. It was easier for the retail sales associates to ring up transactions and promotions without errors, so that customers had a better in-store experience. Additionally, retail store sales improved through expanded product availability, more effective in-store promotions, and better in-store customer experience (CX).
- › **Accelerated eCommerce sales, 25% sales uplift, \$1.9 million.** With Microsoft Dynamics 365 Commerce, the interviewed companies easily customized their websites' look and feel to create an attractive customer experience. It was easier to add new products and promotions to the websites. The websites contained more embedded content which drove better SEO and brought more visitors to the sites. eCommerce sales rose due to higher traffic and a better customer experience.
- › **Simplified commerce operations via integration, 15% productivity savings, \$0.3 million.** The interviewed companies used Dynamics 365 Commerce in conjunction with other Dynamics 365 modules and the rest of the Microsoft tech stack. This simplified work for the tech team and business users, saving time and improving productivity.

Unquantified benefits. The interviewed organizations experienced the following benefits, which are not quantified for this study:

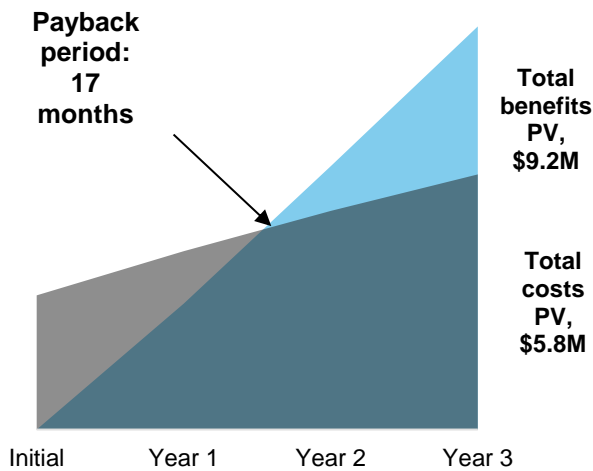
- › **Offered scalability, faster time-to-market.** The scalability and ease of use of Microsoft Dynamics 365 Commerce allowed the companies to add new regions and products to their offering in one to three months, versus six to twelve months with the prior legacy platform.
- › **Accelerated omnichannel commerce.** Customers expect to both buy inventory in any channel and pick the most convenient delivery method and location to complete their order.² Microsoft Dynamics 365 Commerce helped the interviewed companies power and accelerate omnichannel commerce by bringing back office, supply chain, retail stores, and eCommerce together in a single platform.
- › **Enabled one source of truth.** Microsoft Dynamics 365 Commerce brought the interviewed companies' brands and channels together, so there was a single source of information and truth to drive corporate growth and strategy.
- › **Enhanced customer experience.** Microsoft Dynamics 365 Commerce enhanced customer experience across channels. In the retail stores, items were scanned with fewer errors and promotions were applied more accurately.

Costs. The interviewed organizations experienced the following risk-adjusted PV costs:

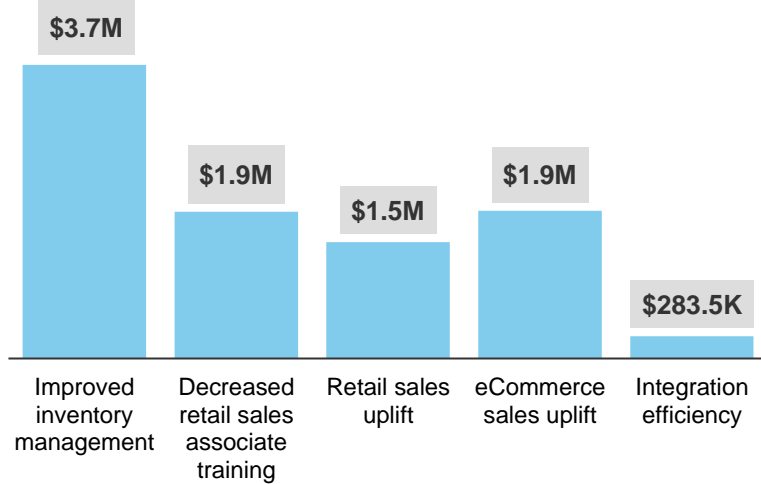
- › **Microsoft Dynamics 365 Commerce licenses and professional service fees, \$2.6 million.** The interviewed companies worked in collaboration with their Microsoft partners to install the system. Professional service fees related to the installation were \$1 million and Dynamics 365 Commerce licenses are \$600,000 per year.
- › **Internal team to install and maintain Microsoft Dynamics 365 Commerce, \$3.7 million.** A cross-functional internal team of eight FTEs supported the pilot and installation. A team of four FTEs provide ongoing support to maintain and update the solution.

Forrester’s interviews with six existing customers and subsequent financial analysis found that an organization based on these interviewed organizations experienced benefits of \$9,271,666 over three years versus costs of \$5,833,867, adding up to a net present value (NPV) of \$3,383,799 and an ROI of 58%.

Financial Summary



Benefits (Three-Year)



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 Framework And Methodology

From the information provided in the interviews, Forrester has constructed a Total Economic Impact™ (TEI) framework for those organizations considering implementing Microsoft Dynamics 365 Commerce.

The objective of the framework is to identify the cost, benefit, flexibility, and risk factors that affect the investment decision. Forrester took a multistep approach to evaluate the impact that Microsoft Dynamics 365 Commerce can have on an organization:



DUE DILIGENCE

Interviewed Microsoft stakeholders and Forrester analysts to gather data relative to Dynamics 365 Commerce.



CUSTOMER INTERVIEWS

Interviewed six organizations using Dynamics 365 Commerce to obtain data with respect to costs, benefits, and risks.



COMPOSITE ORGANIZATION

Designed a composite organization based on characteristics of the interviewed 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 interviewed organizations.



CASE STUDY

Employed four fundamental elements of TEI in modeling Microsoft Dynamics 365 Commerce's impact: 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.

DISCLOSURES

Readers should be aware of the following:

This study is commissioned by Microsoft 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 Microsoft Dynamics 365 Commerce.

Microsoft 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.

Microsoft provided the customer names for the interviews but did not participate in the interviews.

The Microsoft Dynamics 365 Commerce Customer Journey

BEFORE AND AFTER THE DYNAMICS 365 COMMERCE INVESTMENT

Interviewed Organizations

For this study, Forrester conducted six interviews with Microsoft Dynamics 365 Commerce customers. Interviewed customers include the following:

- › A New Zealand furniture manufacturer and retailer with \$30 million of annual revenue, 150 employees, and 15 retail stores. They have been using Microsoft Dynamics 365 Commerce for a few months and recently implemented the eCommerce module.
- › A US food and gift retailer with \$150 million of annual revenue, 5,000 employees, and 600 retail stores. They have been using Microsoft Dynamics 365 Commerce for approximately two years.
- › A Canadian clothing and fashion retailer with \$250 million of annual revenue and 45 retail stores. They have been using Microsoft Dynamics 365 Commerce for approximately one year and recently implemented the eCommerce module.
- › A UK footwear retailer with \$750 million of annual revenue, 1,600 employees, and 90 retail stores. They have been using Microsoft Dynamics 365 Commerce for approximately two years.
- › A US women's clothing retailer with \$1.3 billion annual revenue, 9,000 employees, and 500 retail stores. They have been using Microsoft Dynamics 365 Commerce for approximately two years.
- › A China fashion retailer with \$7 billion of annual revenue, 8,000 employees, and 2,400 retail stores. They have been using Microsoft Dynamics 365 Commerce for a few months.

Key Challenges

Prior to the investment in the Microsoft Dynamics 365 Commerce solution, the interviewed companies had the following challenges.

- › **A complicated array of disjointed systems supported the commerce value chain.** The interviewed companies used multiple systems to manage inventory, warehousing, retail, and POS. The systems had to be separately updated when the companies wanted to add new products or run promotions. The interviewed companies wanted to move to an integrated cloud-based commerce solution.
- › **The legacy commerce systems were inflexible.** The interviewed companies found it time-consuming and expensive to update or modify the legacy commerce systems. It was difficult for the internal developer team to make even small changes, which limited the interviewed companies' ability to run promotions, add new products and expand into new regions or product categories. The interviewed companies wanted a commerce platform that could be quickly, easily, and cost effectively updated.

"We needed something that was more reactive, that was more agile, that was able to follow the various trends of our growth much easier."

VP transformation and IT solutions, fashion retailer



- › **The inventory management system was inadequate.** The prior inventory management system was basic with a lot of manual controls, and the inventory data was inaccurate. The lack of accurate information made it difficult to know when stores were out of items and needed to be replenished. Storeroom clerks at the retail stores did not have accurate information on where items were located.
- › **The legacy system did not support omnichannel.** The legacy platforms did not support new omnichannel delivery models such as curbside pickup or buy online, pick up in-store (BOPIS). The interviewed companies want to respond to their retail customers' needs with these new offerings.
- › **eCommerce was limited.** The interviewed companies were in the early stages of their eCommerce offerings. They needed a flexible platform to ramp eCommerce offerings quickly. With the effects of the COVID-19 pandemic expanding globally in early 2020, the resulting consumer reluctance to shop in stores has exacerbated the need to grow eCommerce quickly.

Key Results

The interviews revealed that key results from the Dynamics 365 Commerce investment include:

- › **Improved inventory management.** With Microsoft Dynamics 365, the interviewed companies have a more reliable inventory management system and more accurate inventory data. The companies can trigger in-store inventory replenishment, so the retail stores are never out of stock. Stockroom clerks use handheld scanners to receive items at the retail stores and record where each item is placed in the stockroom, saving time and improving productivity. The interviewed companies can now manage and optimize inventory across channels, for example, in-store inventory can be used to fulfill eCommerce orders.
- › **Decreased retail sales associate training time.** With Microsoft Dynamics 365 Commerce, the interviewed companies save time training new retail sales associates on the POS system. The Microsoft POS is easy to learn and intuitive. New retail sales associates can get up to speed almost immediately to begin serving customers.
- › **Grew retail store sales.** With timelier inventory replenishment, the interviewed companies had more products on hand to sell at the retail stores. The Microsoft Dynamics 365 Commerce POS terminals easily applied all relevant discounts, allowing for fewer scanning errors and thereby improving CX. The retail store associates had more time to focus on serving customers and upselling. Improved product availability and better in-store CX drove increased retail store sales.
- › **Accelerated eCommerce sales.** Several of the interviewed companies recently implemented the eCommerce module of Microsoft Dynamics 365 Commerce. One interviewed company saw a 50% increase in eCommerce sales just a few months after launch. The new eCommerce websites have better aesthetics and offer functionality to update sites with new products and promotions more easily than in the past. The websites have more embedded content, such as blogs and livestream video. These assets enable search engine optimization and ultimately drive more traffic to the website.

“The scalability of the solution is a top benefit. We’ve been able to implement a full end-to-end solution across six different countries in EMEA and then build that template solution within Dynamics 365 and lift and take it to the Americas region and successfully go live in the matter of a month.”

Head of analytics, footwear



- › **Simplified technology operations.** The interviewed companies utilized native integrated of Dynamics 365 Commerce with other Dynamics 365 modules and the rest of the Microsoft tech stack. This simplified work for the tech team and business users, saving time and improving productivity. The Microsoft tech stack was designed from the ground up as an integrated offering versus some alternative offerings which customers described as building the tech stack via acquisitions.
- › **Faster time-to-market for new regions and products.** With Microsoft Dynamics 365 Commerce, the interviewed companies quickly expanded into new geographic regions and launched new products. Prior to the Dynamics 365 Commerce implementation, expansion into a new market could take up to one year; now companies can enter new markets in three to six months.
- › **Enabled new omnichannel customer delivery models.** With Microsoft Dynamics 365 Commerce, the interviewed companies had the flexibility to offer new ways to meet customer needs. With inventory, stores, and eCommerce integrated, the interviewed companies implemented new options, such as curbside pickup at their retail stores and BOPIS. With COVID-19 concerns, these options have allowed customers to spend less time in retail stores, but still have the benefits of in-store shopping, i.e., lower shipping costs and immediate item availability.
- › **Improved CX.** The overall experience of customers, and thereby their satisfaction levels, were both improved at retail stores and online. In retail stores, Microsoft Dynamics 365 Commerce reduced errors when items were scanned; the correct item information would be shown on the register. Thus, the cashier would not have to spend time correcting errors or rescanning items.

Composite Organization

Based on the interviews, Forrester constructed a TEI framework, a composite company, and an associated ROI analysis that illustrates the areas financially affected. The composite organization is representative of the six companies that Forrester interviewed and is used to present the aggregate financial analysis in the next section. The composite organization that Forrester synthesized from the customer interviews has the following characteristics:

Description of composite. The composite organization is a regional specialty retail organization with 2,000 employees and \$500 million in annual revenue. The organization sells its products via retail stores, wholesale, and eCommerce channels. The revenue breakout per channel is 70% for retail stores, 20% for wholesale, and 10% for eCommerce. The company operates 100 retail stores and five digital storefronts. The average sales price is \$50 for the items sold in store and online. Each retail store has five POS terminals and is staffed by 10 FTE retail sales associates and four FTE stockroom clerks.

Deployment characteristics. The composite organization uses Microsoft Dynamics 365 Commerce to manage its inventory, warehouses, and retail stores. Previously, the composite organization used a legacy commerce solution that was developed and managed in house for inventory, supply chain, and retail store management. The composite organization used a third-party eCommerce solution, but it recently began using Microsoft Dynamics 365 Commerce to manage its eCommerce websites and operations. The composite organization plans to decommission its legacy eCommerce platform. Fifty employees have full Microsoft Dynamics 365 licenses. Microsoft Dynamics 365 Commerce is integrated with other Microsoft Dynamics 365 modules and tools such as Azure and Power BI.



Key assumptions:

- \$500 million revenue
- 100 retail stores
- 5 digital storefronts

Analysis Of Benefits

QUANTIFIED BENEFIT DATA AS APPLIED TO THE COMPOSITE

Total Benefits						
Ref.	Benefit	Year 1	Year 2	Year 3	Total	Present Value
Atr	Improved inventory management	\$1,497,600	\$1,497,600	\$1,497,600	\$4,492,800	\$3,724,310
Btr	Decreased retail sales associate training	\$748,800	\$748,800	\$748,800	\$2,246,400	\$1,862,155
Ctr	Retail sales uplift	\$346,500	\$630,160	\$848,737	\$1,825,397	\$1,473,462
Dtr	eCommerce sales uplift	\$455,000	\$820,820	\$1,041,159	\$2,316,979	\$1,874,238
Etr	Integration efficiency	\$114,000	\$114,000	\$114,000	\$342,000	\$283,501
Total benefits (risk-adjusted)		\$3,161,900	\$3,811,380	\$4,250,296	\$11,223,576	\$9,217,666

Improve Inventory Management

With Microsoft Dynamics 365 Commerce, the composite organization streamlines its inventory management process and gains visibility into its inventory. With Microsoft Dynamics 365 Commerce, it is easier for the composite organization to accurately count inventory, replenish inventory as needed, and introduce more flexible order fulfillment models.

- › Before Microsoft Dynamics 365, the composite organization did not have good visibility into its inventory. It was unclear what items were in the stores, whether they were in the stockroom or on the show floor, and if they needed to be replenished. This limited the company's ability to implement more flexible fulfillment options.
- › Before Microsoft Dynamics 365, it was time-consuming for the stockroom clerks to receive inventory and manage it once it was on site. Manual effort was often required to get an accurate inventory count.
- › Now with Microsoft Dynamics 365 Commerce, the composite organization knows where in the stockroom and in what bins inventory is located. Item replenishment is automatically triggered when stock is low, so the store never is out of items. The stockroom clerks save time receiving and managing inventory.
- › The increased visibility allows the organization to offer more flexible order fulfillment options, such as using in-store inventory to fulfill eCommerce orders. Customers can now learn what items are available at individual stores, so they do not waste time traveling to a store only to find out an item is out of stock.

The table above shows the total of all benefits across the areas listed below, as well as present values (PVs) discounted at 10%. Over three years, the composite organization expects risk-adjusted total benefits to be a PV of more than \$9.2 million.

"In terms of inventory management, it definitely increased our reliability to inventory, recount. It's making us better equipped to optimize store allocation and replenishment, so the stores are never out of stock items."

VP of transformation and IT solutions, fashion retailer



- › The head of analytics for a footwear retailer said: “[Microsoft Dynamics 365 Commerce] has given us increased visibility. When an order is placed, we’ve got visibility all the way from dispatch from a distribution center through to retail stores. The retail store operatives will then scan and receive that stock. We know where the stock is in the store; whether it’s in the back office or front of house. We can process the sales and see the transaction in Dynamics 365. It’s helped to drive efficiencies.”
- › The COO for a food retailer noted: “Historically, if we wanted to know what was in the store, we had to have somebody count it. But there are so many inaccuracies, we would never have a correct view. If you don’t have good inventory visibility, then omnichannel is not really possible.”

To estimate the benefit of improved inventory management at the composite organization, Forrester assumes:

- › Each retail store has four FTE clerks who receive and stock merchandise.
- › The clerks save 20% of their time with Microsoft Dynamics 365 Commerce. With Microsoft Dynamics 365 Commerce, it is easier for the clerks to scan merchandise and track its location in the stockroom or on the retail sales floor.
- › The average fully loaded stockroom and receiving clerk salary is \$20 per hour.
- › In addition to the productivity savings outlined here, improved inventory management and product availability will also contribute to an uplift in retail store sales (as described in the Retail Sales Uplift benefit).

The benefit will vary based on:

- › The prior inventory management system.
- › Volume of goods and number of stockroom and receiving clerks at each location.

To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV of \$3,724,310.

Impact risk is the risk that the business or technology needs of the organization may not be met by the investment, resulting in lower overall total benefits. The greater the uncertainty, the wider the potential range of outcomes for benefit estimates.

Improved Inventory Management: Calculation Table

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
A1	Stockroom / receiving clerks per store (FTEs)		4	4	4
A2	Retail stores		100	100	100
A3	Total clerks (FTEs)	$A1 \times A2$	400	400	400
A4	Time savings with Microsoft Dynamics 365 Commerce		20%	20%	20%
A5	Time savings with Microsoft Dynamics 365 Commerce (hours)	$A3 \times A4 \times 2,080$ hours per year	166,400	166,400	166,400
A6	Annual stockroom and receiving clerk salary per hour, fully loaded		\$20	\$20	\$20
A7	Productivity recapture		50%	50%	50%
At	Improved inventory management	$A5 \times A6 \times A7$	\$1,664,000	\$1,664,000	\$1,664,000
	Risk adjustment	↓10%			
Atr	Improved inventory management (risk-adjusted)		\$1,497,600	\$1,497,600	\$1,497,600

Decrease Retail Sales Associate Training

Retail stores traditionally face very high employee turnover. A constant stream of new and seasonal retail store employees must be brought up to speed quickly on the retail systems, including the POS system. Microsoft Dynamics 365 Commerce enables the productivity of new retail store associates with an easy-to-use POS system.

- › With Microsoft Dynamics 365 Commerce, the composite organization no longer must spend extensive time training its retail sales associates on the POS system. New retail sales associates are up to speed almost immediately and can begin serving customers.
- › With Microsoft Dynamics 365 Commerce, the composite organization has had fewer POS-related calls from retail sales associates into its help desk.

For the composite organization, Forrester assumes that:

- › Each retail store employs 10 FTE retail sales associates who assist customers and staff the POS terminals.
- › Retail sales associate annual turnover is 60% in line with historic turnover.
- › Before it took two weeks (80 hours) to train each new retail sales associate on the POS system. Now with Microsoft Dynamics 365 Commerce, the POS system is easy to use and intuitive, so each new retail sales associate is up to speed in just a few hours.
- › The average fully loaded receiving clerk salary is \$20 per hour.

The benefit will vary with:

- › Prior POS system complexity.
- › Number of retail associates and turnover.

“A benefit has been in training. The point of sale in Commerce is super intuitive and simple. We have not had any issues with our team, and we’ve got 4,000 seasonal employees coming in. Seventy-five percent of them have never worked for us before, so it’s a very short window [to train].”

COO, food retailer



To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV of \$1,862,155.

Decreased Retail Sales Associate Training: Calculation Table

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
B1	Retail sales associates per store (FTEs)		10	10	10
B2	Retail stores		100	100	100
B3	Total retail sales associates (FTEs)	B1*B2	1,000	1,000	1,000
B4	Retail sales associate turnover		60%	60%	60%
B5	New sales associates requiring training each year	B3*B4	600	600	600
B6	Training time before Microsoft Dynamics 365 Commerce (hours)		80	80	80
B7	Training time with Microsoft Dynamics 365 Commerce (hours)		2	2	2
B8	Annual retail sales associate salary per hour, fully loaded		\$20	\$20	\$20
Bt	Decreased retail sales associate training	B5*(B6-B7)*B8	\$936,000	\$936,000	\$936,000
	Risk adjustment	↓20%			
Btr	Decreased retail sales associate training (risk-adjusted)		\$748,800	\$748,800	\$748,800

Retail Sales Uplift

Microsoft Dynamics 365 Commerce increased retail store sales by effectively replenishing inventory, supporting in-store product promotions, and improving in-store customer experience.

- › With more effective inventory management, the retail stores receive new product when stock is low, so they avoid stock out situations.
- › The composite organization has more effective in-store product promotions with Microsoft Dynamics 365 Commerce. One interviewed company had multiple POS systems, which before implementing Dynamics 365 Commerce didn't allow for the same promotion options to exist across stores. Another interviewed company's prior POS systems could not handle discount stacking, which in turn caused retail sales associates to manually enter the discounts or customers to miss out on some discounts. With Microsoft Dynamics 365 Commerce, the POS terminals easily apply all relevant discounts.
- › With Microsoft Dynamics 365 Commerce, there are fewer scanning errors at the POS terminals. The retail store associates spend less time fixing POS errors. One interviewed company saw a significant decrease in POS-related calls to its help desk from the retail stores.
- › The retail sales associates have more time to focus on serving the customer needs and upselling additional products.

To calculate this benefit, Forrester assumes:

"[With Microsoft Dynamics 365 Commerce] there's improved productivity of store clerks. And there's an uplift in sales."

VP transformation and IT solutions, fashion retailer



- › Before implementing Microsoft Dynamics 365 Commerce, the composite organization's total sales were growing 2.5% annually.
- › Before implementing Microsoft Dynamics 365 Commerce, retail stores accounted for 70% of total sales. The percent of revenue from retail stores sales decreases over time as eCommerce sales grow.
- › With the Microsoft Dynamics 365 Commerce module, the composite organization saw 5% uplift in retail store sales in Year 1. The uplift is expected to continue, but moderates to 4% in Year 2 and 3% in Year 3. By Year 3, retail store sales are expected to increase by 12%, cumulatively.
- › Fifty percent of the revenue uplift is attributed to the Microsoft Dynamics 365 Commerce platform. Other factors that contribute to the revenue uplift include product offering, promotions, consumer trends, and retail sales associate experience.
- › A 4.4% margin is applied in line with the historical average for retail stores.

The benefit will vary with:

- › Prior commerce platform capabilities
- › Percent of sales from retail stores.

To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV of \$1,473,462.

Retail Sales Uplift: Calculation Table

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
C1	Total revenue before Microsoft Dynamics 365 Commerce	Growing 2.5% annually	\$500,000,000	\$512,500,000	\$525,312,500
C2	% retail		70%	69%	68%
C3	Retail store revenue before Microsoft Dynamics 365 Commerce	$C1 \times C2$	\$350,000,000	\$353,625,000	\$357,212,500
C4	Retail store revenue uplift with Microsoft Dynamics 365 Commerce (year-over-year %)		5%	4%	3%
C5	Retail store revenue uplift with Microsoft Dynamics 365 Commerce (cumulative %)		5%	9%	12%
C6	Retail store revenue uplift with Microsoft Dynamics 365 Commerce	$C3 \times C5$	\$17,500,000	\$31,826,250	\$42,865,500
C7	Uplift attributed to Microsoft Dynamics 365 Commerce		50%	50%	50%
C8	Retail store operating margin		4.4%	4.4%	4.4%
Ct	Retail sales uplift	$C6 \times C7 \times C8$	\$385,000	\$700,178	\$943,041
	Risk adjustment	↓10%			
Ctr	Retail sales uplift (risk-adjusted)		\$346,500	\$630,160	\$848,737

eCommerce Sales Uplift

The composite organization recently began to use the Microsoft Dynamics 365 Commerce eCommerce module.

- › Microsoft Dynamics 365 Commerce gives the composite organization greater control over the look, design, and feel of its website. It is easier and faster to update the website with new product offerings and promotions.
- › The website now has more embedded content, including blogs and live-stream video. With more content within the website, SEO improves and drives traffic to the website and customers stay on the website longer.
- › These improvements drive more visitors to the website and eCommerce sales increase.
- › One interviewed company saw a 50% increase in eCommerce sales just a few months after launching the eCommerce module.

To calculate this benefit, Forrester assumes:

- › Before implementing Microsoft Dynamics 365 Commerce, the composite organization's total sales were growing 2.5% annually.
- › Before implementing Microsoft Dynamics 365 Commerce, eCommerce accounted for 10% of total sales in Year 1 and increases modestly each year.
- › With Microsoft Dynamics 365 Commerce eCommerce module, the composite organization saw 25% uplift in eCommerce sales in Year 1. The uplift is expected to continue, but moderates to 15% in Year 2 and 5% in Year 3. By Year 3, eCommerce sales are expected to increase by 45%, cumulatively.
- › Fifty percent of the revenue uplift is attributed to the Microsoft Dynamics 365 Commerce platform. Other factors that contribute to the revenue uplift include website design, product offering, promotions, and consumer trends.
- › A 9.1% margin is applied in line with historical averages for eCommerce.

The benefit will vary based on:

- › Existing eCommerce platform.
- › Percent of sales driven by eCommerce

To account for these risks, Forrester adjusted this benefit downward by 20%, yielding a three-year, risk-adjusted total PV of \$1,874,238.

"Before things were limited in what we could change on the website and how we could grow and display our product. Now [with Microsoft Dynamics 365 Commerce] we can manipulate colors, aesthetics. Everything on the platform makes it really our own look. We have seen an increase in sales and we attribute that to our website."

COO, furniture retailer



eCommerce Sales Uplift: Calculation Table

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
D1	Total revenue before Microsoft Dynamics 365 Commerce	Growing 2.5% annually	\$500,000,000	\$512,500,000	\$525,312,500
D2	% eCommerce	Growing 10%	10%	11%	12%
D3	eCommerce revenue before Microsoft Dynamics 365 Commerce	D1*D2	\$50,000,000	\$56,375,000	\$63,562,813
D4	eCommerce revenue uplift with Microsoft Dynamics 365 Commerce (year over year %)		25%	15%	5%
D5	eCommerce revenue uplift with Microsoft Dynamics 365 Commerce (cumulative %)		25%	40%	45%
D6	Uplift attributed to Microsoft Dynamics 365 Commerce	D3*D5	\$12,500,000	\$22,550,000	\$28,603,266
D7	Uplift attributed to Microsoft Dynamics 365 Commerce		50%	50%	50%
D8	eCommerce margin		9.1%	9.1%	9.1%
Dt	eCommerce sales uplift	D6*D7*D8	\$568,750	\$1,026,025	\$1,301,449
	Risk adjustment	↓20%			
Dtr	eCommerce sales uplift (risk-adjusted)		\$455,000	\$820,820	\$1,041,159

Integration Efficiency

The composite organization integrates Microsoft Dynamics 365 Commerce with other Microsoft and Microsoft Dynamics 365 tools, including Dynamics 365 Finance and Supply Chain Management, Azure, and Power BI. The move to an integrated platform creates efficiencies and reduces friction between systems.

- › Before Microsoft Dynamics 365 Commerce, it was difficult for the composite organization to add new merchandise or promotions to the commerce platform. The internal team had to access and update multiple systems, including the data warehouse, the supply chain system, and the promotions system.
- › Business users had to jump between multiple systems and screens to get the information they needed to manage and run the business. Now with Microsoft Dynamics 365 Commerce business users can pull information from one place. Tiles show key information, and it is easy to drill down for more details.
- › With Microsoft Dynamics 365 Commerce the composite organization reduced the number of APIs it required to connect the disparate legacy systems. This reduced the time the IT team spends on API management and maintenance.
- › The COO of a food retailer noted: “All our supply chain planning is done on the same system and its all connected. We can move to our forecasting and planning all in one system and have that translate into orders that get sent to the stores. And financially, all the reconciliation happens through Dynamics 365, so we’re not manually bringing things back from a separate system into our general ledger.”

For the composite organization, Forrester assumes that:

- › Fifty employees use Dynamics 365 Commerce. On average, they spend 20% of their time using the platform.
- › With Microsoft Commerce Dynamics 365, users have an integrated set of tools. They no longer must switch back and forth between systems and screens. The integration of Dynamics 365 Commerce with other Microsoft tools saves users 15% of their time.
- › The average fully loaded team member annual salary is \$160,000.

The benefit will vary based on:

- › Experience and skill of internal team.
- › Extent of Microsoft tech stack deployment.

To account for these risks, Forrester adjusted this benefit downward by 5%, yielding a three-year, risk-adjusted total PV of \$283,501.

“We’ve really committed to the Microsoft stack and we’re going all in [on] Microsoft. We’re a small team and we can’t afford to have 20 different solutions that we need to manage and integrate. Simplicity of operations is one of the main benefits.”

VP transformation and IT solutions, fashion retailer



Integration Efficiency: Calculation Table

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
E1	HQ staff supporting commerce operations		50	50	50
E2	Annual salary, fully loaded		\$160,000	\$160,000	\$160,000
E3	Time spent using Dynamics 365 Commerce		20%	20%	20%
E4	Productivity savings with Microsoft tech stack		15%	15%	15%
E5	Productivity recapture		50%	50%	50%
Et	Integration efficiency	$E1 * E2 * E3 * E4 * E5$	\$120,000	\$120,000	\$120,000
	Risk adjustment	↓5%			
Etr	Integration efficiency (risk-adjusted)		\$114,000	\$114,000	\$114,000

Unquantified Benefits

Microsoft Dynamics 365 Commerce provides additional unquantified benefits.

- › **Improved scalability, faster time-to-market.** Microsoft Dynamics 365 Commerce made it easier and faster for the interviewed companies to expand into new markets or launch new products. Before Microsoft Dynamics 365 Commerce, it was difficult for the interviewed companies to harness the internal resources required to modify their legacy commerce platforms. It could take six to 12 months to expand into a new region or launch a new product category. Microsoft Dynamics 365 Commerce's scalability and ease of use allowed the companies to add new regions and products to their offering in a few months.
- › The head of analytics for a footwear retailer said: "We selected Microsoft Dynamics 365 Commerce to support the rapid expansion of our business. Our prior systems would not have supported the ambitious growth plans of the brand. It's a very flexible system, and it's a much more comprehensive system than we had before."
- › **Enabled one source of truth.** Microsoft Dynamics 365 Commerce brought the interviewed companies' brands and channels together so there was a single source of information and truth to drive corporate growth and strategy.
- › As noted by the COO of a furniture retailer: "We do wholesale, retail, commercial, and we want to globalize. [Microsoft Dynamics 365 Commerce] was a tool that could take our business on that journey rather than having different software everywhere. We wanted a clean slate with one source of truth."
- › **Improved CX.** Microsoft Dynamics 365 Commerce enhanced customer experience across channels. In the retail stores, items were scanned with fewer errors. Promotions were applied more accurately. And the customers spent less time catching mistakes at the POS, which improved their overall experience.

Flexibility

The value of flexibility is clearly unique to each customer, and the measure of its value varies from organization to organization. There are multiple scenarios in which a customer might choose to implement Dynamics 365 Commerce and later realize additional uses and business opportunities, including:

- › **Legacy cost avoidance.** The interviewed companies are still in the process of fully transitioning from their legacy solutions to Microsoft Dynamics 365 Commerce. Microsoft formally launched the eCommerce module in early 2020. One interviewed company is in the process of decommissioning its legacy eCommerce platform. Another interviewed company plans to stop using a personalization technology vendor as they gain more familiarity and traction with the Dynamics 365 Commerce personalization tools. As the interviewed companies fully transition to Microsoft Dynamics 365 Commerce, the simplified cost structure will provide more flexibility and cost savings.

Flexibility, as defined by TEI, represents an investment in additional capacity or capability that could be turned into business benefit for a future additional investment. This provides an organization with the "right" or the ability to engage in future initiatives but not the obligation to do so.

- › **Accelerated omnichannel commerce.** Microsoft Dynamics 365 Commerce powers a seamless omnichannel experience for the customer. Customers expect to buy inventory in any channel and pick the most convenient delivery method and location to complete their orders. With the global expansion of the COVID-19 pandemic in early 2020, retailers needed additional flexibility to modify the traditional retail store model and shift to omnichannel. Retailers wanted to use store inventory to fulfill online orders and move the in-store experience into the home. Retailers leveraged warehouse inventory for curbside pickup. Customers wanted new delivery options to limit time spent in stores. Curbside delivery and BOPIS helped consumers minimize time in stores and ensure an item was available in advance of their visit.
- › The VP of transformation and IT solutions at a fashion retailer said: “The commerce module opens up something really good for us. We’re going with a complete Microsoft stack with commerce, that’s going to make us [move toward] omnichannel or multichannel experiences. A lot of our inventory is tied into our stores. I can leverage that with omnichannel, where its buy online, pickup in-store or even shipped from store scenarios. That really opens up a much quicker go-to-market, or much quicker start to finish project.”
- › The VP of omnichannel digital at a clothing retailer noted: “COVID-19 has changed a lot. We temporarily closed the stores and went to a buy online and pick up at curbside [model]. Dynamics 365 tags the order and sends a message to the store to prep a package for the customer to pick up curbside tomorrow.”

Flexibility would also be quantified when evaluated as part of a specific project.

Analysis Of Costs

QUANTIFIED COST DATA AS APPLIED TO THE COMPOSITE

Total Costs							
Ref.	Cost	Initial	Year 1	Year 2	Year 3	Total	Present Value
Ftr	Microsoft Dynamics 365 Commerce license and professional services cost	\$1,050,000	\$441,000	\$441,000	\$441,000	\$2,373,000	\$2,146,702
Gtr	Internal team to install and maintain Microsoft Dynamics 365 Commerce	\$2,016,000	\$672,000	\$672,000	\$672,000	\$4,032,000	\$3,687,165
	Total costs (risk-adjusted)	\$3,066,000	\$1,113,000	\$1,113,000	\$1,113,000	\$6,405,000	\$5,833,867

Dynamics 365 Commerce License And Professional Services Cost

The composite organization deploys Microsoft Dynamics 365 Commerce as a cloud solution.

- › Fifty employees have full Dynamics 365 Commerce licenses. The cost is \$180 per month per user.
- › Five hundred POS terminals use Microsoft Dynamics 365 Commerce. The POS terminal license costs \$70 per month per POS.
- › The eCommerce module is \$6,000 per month.
- › The composite organization works in collaboration with its Microsoft service partner on the Dynamics 365 Commerce installation. Implementation and deployment take 18 months. The composite organization pays \$1,000,000 to the service partner for professional services to support the implementation.
- › Microsoft offers a typical discount to list prices.

The cost will vary based on:

- › Number of users and POS terminals.
- › Installation complexity.

To account for these risks, Forrester adjusted this cost upward by 5%, yielding a three-year, risk-adjusted total PV of \$2,146,702.

The table above shows the total of all costs across the areas listed below, as well as present values (PVs) discounted at 10%. Over three years, the composite organization expects risk-adjusted total costs to be a PV of more than \$5.8 million.

Implementation risk is the risk that a proposed investment may deviate from the original or expected requirements, resulting in higher costs than anticipated. The greater the uncertainty, the wider the potential range of outcomes for cost estimates.

Microsoft Dynamics 365 Commerce License And Professional Services Cost: Calculation Table

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
F1	Microsoft Dynamics 365 Commerce users, full license			50	50	50
F2	Cost per full license per month			\$180	\$180	\$180
F3	Microsoft Dynamics 365 Commerce POS terminals			500	500	500
F4	Cost per POS terminal license per month			\$70	\$70	\$70
F5	eCommerce module, cost per month			\$6,000	\$6,000	\$6,000
F6	Microsoft Dynamics 365 Commerce license fee (list price)	$((F1 * F2) + (F3 * F4) + F5) * 12$ months		\$600,000	\$600,000	\$600,000
F7	Typical discount			30%	30%	30%
F8	Microsoft Dynamics 365 Commerce license fee (discounted)	$F6 * F7$		\$420,000	\$420,000	\$420,000
F9	Professional services for platform implementation		\$1,000,000			
Ft	Microsoft Dynamics 365 Commerce license and professional services cost	$F8 + F9$	\$1,000,000	\$420,000	\$420,000	\$420,000
	Risk adjustment	↑5%				
Ftr	Microsoft Dynamics 365 Commerce license and professional services cost (risk-adjusted)		\$1,050,000	\$441,000	\$441,000	\$441,000

Internal Team To Install And Maintain Dynamics 365 Commerce

The composite organization dedicates a cross-functional team to Microsoft Dynamics 365 Commerce.

- › The installation team is comprised of 20 employees. It includes marketing, merchandising, eCommerce, supply chain, IT, developers, and data and analytics experts. Team members spend only part of their time on the project, while also attending to other responsibilities. On average, the team members spend 40% of their time on the installation, so eight FTEs are dedicated to the project.
- › The internal team works in collaboration with its Microsoft service partner on the Microsoft Dynamics 365 Commerce installation.
- › The composite organization spends 18 months installing Dynamics 365 Commerce. The composite organization runs a pilot for three months, before rolling out full installation.



Total implementation and deployment time: 18 months

- › Once installation is completed, a smaller internal team is dedicated to maintaining and updating the platform. The team includes marketers, merchandisers, and developers. In total, four FTEs are dedicated to maintaining and updating the platform.
- › The average fully loaded team member annual salary is \$160,000.

The cost will vary based on:

- › Which, if any, Dynamics 365 modules are already in use.
- › The skill set of the internal team.

To account for these risks, Forrester adjusted this cost upward by 5%, yielding a three-year, risk-adjusted total PV of \$3,687,165.

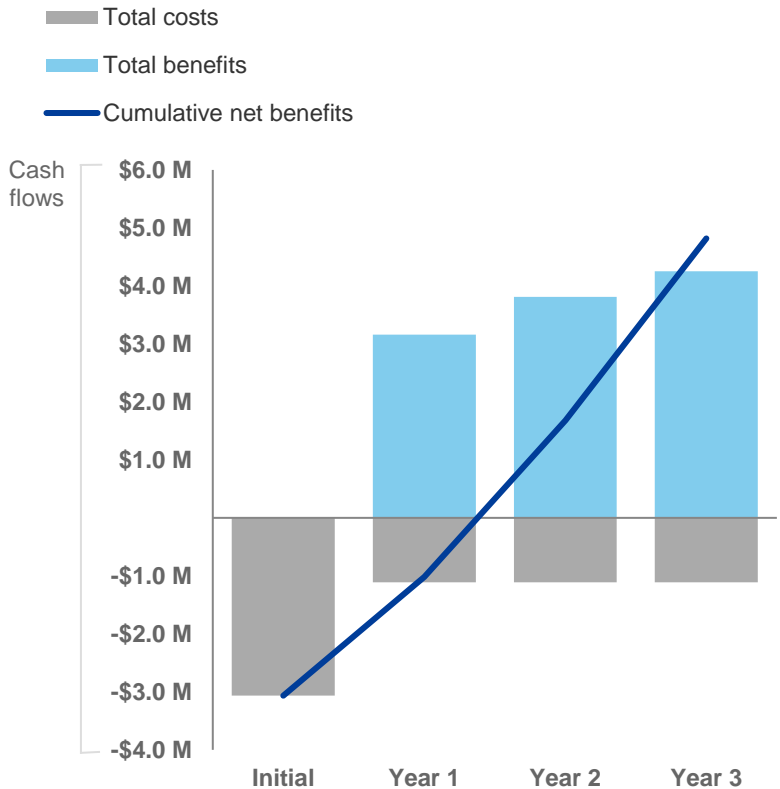
Internal Team To Install And Maintain Microsoft Dynamics 365 Commerce: Calculation Table

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
G1	Time to install and maintain (months)		18	12	12	12
G2	Internal team (FTEs)		8	4	4	4
G3	Annual fully loaded salary		\$160,000	\$160,000	\$160,000	\$160,000
Gt	Internal team to install and maintain Microsoft Dynamics 365 Commerce	$G1/12 \text{ months}^* \times G2 \times G3$	\$1,920,000	\$640,000	\$640,000	\$640,000
	Risk adjustment	↑5%				
Gtr	Internal team to install and maintain Microsoft Dynamics 365 Commerce (risk-adjusted)		\$2,016,000	\$672,000	\$672,000	\$672,000

Financial Summary

CONSOLIDATED THREE-YEAR RISK-ADJUSTED METRICS

Cash Flow Chart (Risk-Adjusted)



The financial results calculated in the Benefits and Costs 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 Benefit and Cost section.

Cash Flow Analysis (risk-adjusted estimates)

	Initial	Year 1	Year 2	Year 3	Total	Present Value
Total costs	(\$3,066,000)	(\$1,113,000)	(\$1,113,000)	(\$1,113,000)	(\$6,405,000)	(\$5,833,867)
Total benefits	\$0	\$3,161,900	\$3,811,380	\$4,250,296	\$11,223,576	\$9,217,666
Net benefits	(\$3,066,000)	\$2,048,900	\$2,698,380	\$3,137,296	\$4,818,576	\$3,383,799
ROI						58%
Payback period (months)						17.0

Microsoft Dynamics 365 Commerce: Overview

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

Discover how to create exceptional omnichannel shopping experiences with Dynamics 365 Commerce

Whether you want to evaluate it yourself or get a live demo by a solution expert, Microsoft can help you explore Dynamics 365 Commerce.

Dynamics 365 sales representatives can:

- Provide a live demo or assist you with setting up a free trial.
- Connect you with a Microsoft partner who can provide business applications expertise and industry solutions.
- Show you how to increase customer engagement with an omnichannel solution that brings eCommerce, in-store, and back-office experiences together.

If you're a Microsoft partner, get access to environments through [PartnerSource](#).

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: “Envisioning The Future Of Omnichannel Commerce,” Forrester Research, Inc., June 11, 2010.

² In a May 2020 survey, 33% of online US adults have interest in curbside pickup of online purchases, and 25% have an interest in picking up their goods inside the store once the COVID-19 pandemic has passed. Source: Forrester Analytics Consumer Technographics® COVID-19 Survey (Wave 2), 2020. In a 2019 survey, 69% of US online adults say its important for a retailer to offer visibility into items that are available in the store, and 31% are less likely to visit a store if its in-store inventory isn’t available online. Source: Forrester Analytics Consumer Technographics North American Retail And Travel Benchmark Recontact 1 Survey, 2019 (US).