A Forrester Total Economic Impact™ Study

Commissioned By

Buzz Points

Project Director:
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The Total Economic Impact™ Of Buzz Points®

FORRESTER®

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ABOUT FORRESTER CONSULTING

Forrester Consulting provides independent and objective research-based consulting to help leaders succeed in their organizations. Ranging in scope from a short strategy session to custom projects, Forrester's Consulting services connect you directly with research analysts who apply expert insight to your specific business challenges. For more information, visit forrester.com/consulting.

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Executive Summary

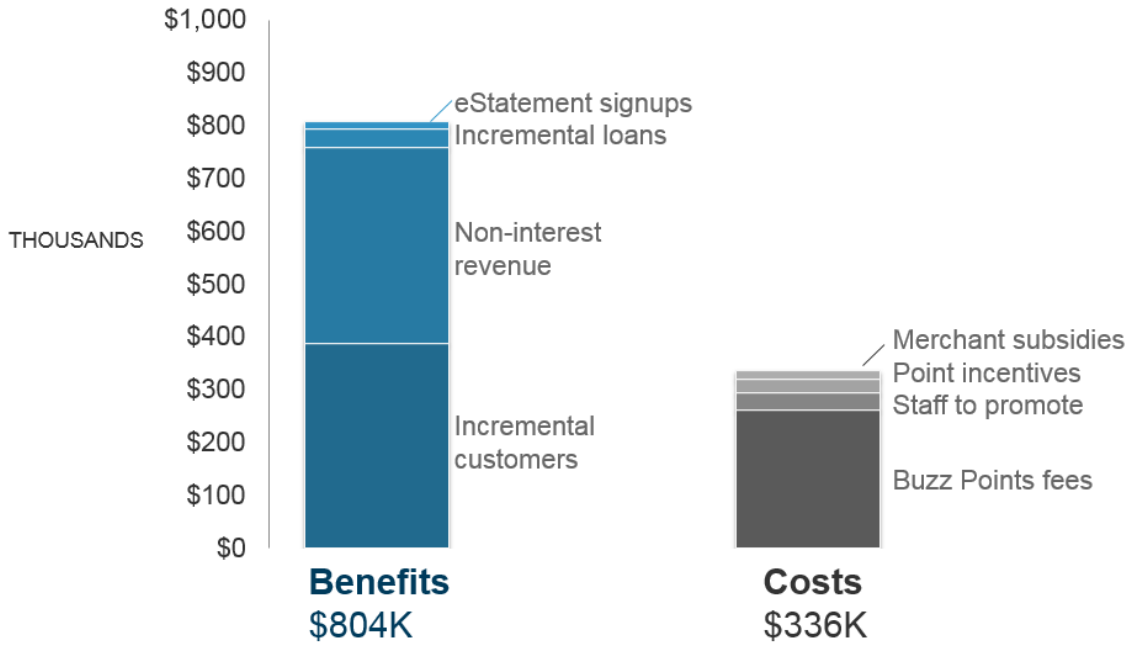
Buzz Points commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) that community banks and credit unions may realize by utilizing its program to encourage local purchases and increase use of debit and credit cards. The program also builds affinity with consumers, local businesses, and local financial institutions. The purpose of this study is to provide readers with a framework to evaluate the potential financial impact of Buzz Points on their organizations.

To better understand the benefits, costs, and risks associated with Buzz Points, Forrester interviewed four organizations with experience using Buzz Points as the centerpiece for loyalty and rewards programs that encourage profitable cardholder behavior. Loyalty and rewards programs must address several facets of activity by getting merchants to participate and encouraging consumers to purchase from local merchants. Both merchants and consumers must also recognize the financial institution as a catalyst that is encouraging and enabling local growth. To account for the differences in size, operations, and results of the four interviewed companies, Forrester created a composite model that is representative of all four. This also allowed the creation of a single financial model.

Prior to Buzz Points, the regional banks and credit unions struggled to differentiate against other local financial institutions. The CEO of a credit union said: “We work in a very, very competitive environment with more than 19 distinct financial institutions vying for local business. We must win a solid market share of local loan and deposit business. Our challenge is deepening relationships in the community by creating local table stakes and differentiating through doing local social good.”

After implementing Buzz Points, the same executive told Forrester: “Members have gotten onto the program and become engaged. As members understand the program, they begin using their points. Merchants are realizing the benefit, and we are becoming more intimate and connected with local businesses. Buzz Points customers swipe their cards with more frequency and have higher average transactions.”

FIGURE 1
Summary Of Benefits And Risks, Net Present Value (Risk-Adjusted)



Source: Forrester Research, Inc.

USING BUZZ POINTS INCREASED NON-INTEREST INCOME

Forrester's interviews with four customers and subsequent financial analysis found that a composite organization based on these interviewed organizations experienced the risk-adjusted ROI, benefits, and costs shown in Figure 2. The analysis points to benefits of $803,577 versus costs of $336,224, adding up to a net present value (NPV) of $467,354 and an ROI of 139% over three years.

FIGURE 2
Financial Summary Showing Three-Year Risk-Adjusted Results

ROI: 139%	Benefits PV: $803,577	Costs PV: $336,224	Payback: 4.1 months

Source: Forrester Research, Inc.

› **Benefits.** The composite organization experienced the following risk-adjusted benefits that represent those experienced by the interviewed companies:

- **Attracted incremental customers.** By having a program that encourages community behavior, the organization attracts incremental consumers and merchants. By selling additional services, it earns $115 per year per consumer account and $1,500 per year for each commercial account. The total over three years was $466,200.
- **Increased non-interest revenue.** Existing customers that joined the Buzz Points program increased the average number of swipes by seven per month. With an average interchange fee of $0.43, the bank collected $464,268 in incremental interchange fees over three years.
- **Incentivized incremental loans.** The organization used Buzz Points as an incentive when offering loans to consumers. Over three years, the organization repeatedly ran loan programs. This resulted in $2.4 million in new loans, which generated $41,787 in interest income after paying for the points and adjusting for risk.
- **Reduced cost of incentives for customers.** Each of the institutions interviewed used points as incentives to drive specific consumer behavior. In this example, the organization used points to incent consumers to sign up for electronic statements. Over three years, the impact resulted in a total savings of $10,868.

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

- **Cost of Buzz Points.** The fees paid to Buzz Points include a startup fee of $6,000 and a monthly fee of $1.95 per consumer registered for the program. Based on an organization that signs approximately 4,000 customers during the first year and continues to grow moderately, the total cost over three years was $322,602.
- **Cost of staff to promote program to merchants.** Of the four financial institutions interviewed, two used business development staff to educate merchants and solicit participation. Forrester assumes that 20% of time for a single employee is dedicated to Buzz Points. At a salary of $60,000, the cost over three years totaled $39,600.
- **Cost of merchant incentives.** Merchants typically pay a small participation fee directly to Buzz Points, but some of the financial institutions pay the fees for select vendors that they deem critical (e.g., a favorite, local pizza place). Forrester's model assumes that the fees are paid for 10 merchants and subsidized for 20 more merchants, resulting in a total cost of $20,790 over three years.

- **Cost of points as consumer incentives.** During the first year of using Buzz Points, the organization used points as an incentive to encourage consumers to sign up for eStatements. It also used points to motivate specific behavior of employees. The total use of 950,000 points for these programs, at a cost of $0.01 per point, resulted in a risk-adjusted cost of $31,350 over three years.

Disclosures

The reader should be aware of the following:

- The study is commissioned by Buzz Points 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 Buzz Points.
- Buzz Points 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.
- Buzz Points provided the customer names for the interviews but did not participate in the interviews.

TEI Framework And Methodology

INTRODUCTION

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

APPROACH AND METHODOLOGY

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

- Interviewed Buzz Points marketing, sales, and consulting personnel, along with Forrester analysts, to gather data relative to Buzz Points and the marketplace for sales automation.
- Interviewed a third-party banking consultant, Dawn Sprayman from Windrose Consulting, to discuss banking loyalty and rewards programs.
- Interviewed four organizations currently using Buzz Points to obtain data with respect to costs, benefits, and risks.
- Designed a composite organization based on characteristics of the interviewed organizations.
- Constructed a financial model representative of the interviews using the TEI methodology. The financial model is populated with the cost and benefit data obtained from the interviews as applied to the composite organization.
- Risk-adjusted the financial model based on issues and concerns the interviewed organizations highlighted in interviews. Risk adjustment is a key part of the TEI methodology. While interviewed organizations provided cost and benefit estimates, some categories included a broad range of responses or had a number of outside forces that might have affected the results. For that reason, some cost and benefit totals have been risk-adjusted and are detailed in each relevant section.

Forrester employed four fundamental elements of TEI in modeling Buzz Points: benefits, costs, flexibility, and risks.

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

FIGURE 3
TEI Approach

Source: Forrester Research, Inc.

Analysis

COMPOSITE ORGANIZATION

For this study, Forrester conducted a total of four interviews with representatives from the following companies, which are Buzz Points customers:

- **Fort Community Credit Union, Wisconsin.** With 55 employees, four branches, and $225 million in assets, FCCU is highly vested in benefiting local merchants and serving its community. The organization engaged with Buzz Points because "it was the only program we found that allowed us to use different platforms that involve points — and to drive loan growth as well." Each year, FCCU reviews its goals with Buzz Points and integrates the marketing plans of both organizations. The most notable benefit for FCCU was running special loan campaigns that offered significant points and resulted in millions of incremental loans for the credit union.
- **Franklin Savings Bank, New Hampshire.** FSB has 110 employees, seven branches, and $426 million in assets. The bank previously ran an incentive program for consumers, but it found that customers lost interest. It was attracted to Buzz Points because the program involves local businesses. The organization assigned a business development manager to manage the program and recruit local merchants. "We are creating reports that show all the things that the program has done for merchants, including point redemption [and] marketing activities, and we are going to provide reports 'in black and white.'"
- **Mills County State Bank, Texas.** Mills County has five locations across three counties. The bank is stable with a strong management team. It is privately held and has approximately $300 million in assets. The Buzz Points executive told Forrester, "Historically, our board has approached change cautiously, but they are pleased with the early success of Buzz Points and are optimistic about the long term impact of the program."
- **Missoula Federal Credit Union, Montana.** MFCU has 45,000 members across three counties, with about $440 million in assets. "Our market is highly competitive with other regional financial institutions. We are working with Buzz Points to go the extra mile with local merchants and members to differentiate our organization through doing 'social good.'"

> *"Historically, our board has approached change cautiously, but are pleased with the early success of the Buzz Points program."*
>
> ~ Robb Hemsath, Mills County State Bank

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 that Forrester synthesized from these results represents an organization with the following characteristics:

- Has assets of $400 million and operates with six branches across three counties within the United States.
- Serves a community of 40,000 customers/members with 20,000 debit card holders.
- Is well-established in the local community but faces strong competition that threatens to erode market share.
- Seeks a visible, tangible program to verifiably increase business for local merchants.
- Wants to maintain or increase its share of interchange fees incurred by debit purchases from local consumers.
- Uses points from Buzz Points as incentives for various programs, including new loans and eStatement registration, and to motivate employee behaviors.

PROGRAM HIGHLIGHTS

The interviews revealed that using Buzz Points resulted in similar experiences across the four organizations, with Buzz Points becoming the foundation for marketing programs, advertising campaigns, and in-branch promotional programs. Buzz Points also supported new business development. During the interviews, executives shared the following thoughts about their experience using Buzz Points:

- "Cardholders who are registered with Buzz Points swipe their cards with more frequency, and they have higher average transactions than non-Buzz customers."
- "When we engaged with Buzz Points, one thing that we were looking at is a way to drive the behaviors that we're looking for with the rewards program. Every year, we discuss our marketing plans and goals with Buzz Points. Buzz Points actually gave us the emails to send, and they hand over any data that they collect. During our Buzz Points campaigns, we have even driven non-Buzz users to take out loans."
- "Early adopters have gotten onto the program and started to work with it — they are engaged. As members understand how the program works, they begin using their points. It's really powerful that when a customer comes in to open a new account, our member service desk can sign them up for Buzz Points right from their desks."
- "Our communication with small business is significantly better. When a local merchant enrolls in the program, they get a lot of contact from us. Their relationship with the credit union is more intimate and connected. It's not always happy-go-lucky; there is problem solving to do; but Buzz Points provides a platform for much more intensive relationships with small businesses. One thing that Buzz Points provides is the analytics of the value being realize by local merchants. I can pinpoint vendors that are not having card swipes or program redemptions so that we can proactively engage with them and figure out what needs to change."
- "We look at Buzz Points as a differentiator. It is something that we can heavily promote; we can build marketing campaigns around it. On the consumer side, we are focusing on consumers and debit card use. On the business side, we develop campaigns that will help local businesses succeed. Our Buzz Points coordinator puts together 'anniversary reports' for each vendor. She logs everything that we've ever done for them. Small businesses want to see things in black and white, and our report gives them that satisfaction."

> *"Buzz Points provides a platform that impacts every dimension of business for a regional bank — it attracts customers, retains customers, and provides a marketing platform to create excitement."*
>
> ~ Dawn Sprayman, Windrose Consulting

BENEFITS

The composite organization experienced the following quantified benefits in this case study:

- Attracted incremental customers.
- Increased non-interest revenue.
- Incentivized incremental loans.
- Reduced cost of incentives for customers.

Attracted Incremental Customers

Running a loyalty and rewards program with Buzz Points helped the organizations increase their consumer (and member) and merchant accounts. One organization reported that the loyalty and rewards program stemmed the flow of regular customer attrition, while others reported increases in revenue from new accounts. Forrester used a 3% increase in consumer accounts per year and a 10% increase in new small business relationships (i.e., merchant accounts). At $115 per year of income per consumer account and $1,500 per year from merchant accounts, the total revenue over three years was $777,000.

The level of revenue experienced by the four organizations varied widely and depended heavily on the specific demographics of existing customers. As such, Forrester risk-adjusted this benefit downward by 40% to account for the variability that readers might experience. The risk-adjusted benefit over three years totaled $466,200.

Please note that Buzz Points offers multiple versions of its program, but this study uses the most popular version. In this version, Buzz Points holds the point liability. This model avoids the potential complexities of accounting for long-term redemption costs. Instead, Buzz Points fully accounts for redemption costs and factors them into the monthly subscription fee, which represents the fully loaded cost to the financial institution.

TABLE 1
Attracted Incremental Customers

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
A1	Increase in consumer accounts		4%	4%	4%
A2	Revenue from incremental consumer accounts	A1*40,000*$115	$184,000	$184,000	$184,000
A3	Increase in merchant accounts		10%	10%	10%
A4	Revenue from incremental merchant accounts	A3*500*$1,500	$75,000	$75,000	$75,000
At	Attracted incremental customers	A2+A4	$259,000	$259,000	$259,000
	Risk adjustment		↓ 40%		
Atr	Attracted incremental customers (risk-adjusted)		$155,400	$155,400	$155,400

Source: Forrester Research, Inc.

Increased Non-Interest Revenue

Consumers that registered in the Buzz Points program also increased the number of card swipes. On average, program participants used their debit cards seven times more per month than non-program customers. The increased number of swipes resulted in interchange revenue for the financial institutions. Over three years, with an increase of more than one million swipes and an interchange fee of $0.43, the organization realized total revenue of $488,704.

The results of the four organizations were relatively consistent, so Forrester risk-adjusted and reduced the benefit by just 5%. The risk-adjusted benefit was $464,268 over three years.

TABLE 2
Increased Non-Interest Revenue

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
B1	Weighted average of annualized registered customers	See Table 6, E4	2,060	4,950	6,520
B2	Increased debit card swipes	B1* 7 swipes* 12 months	173,040	415,800	547,680
B3	Average interchange fee		$0.43	$0.43	$0.43
Bt	Increased non-interest revenue	B2*B3	$74,407	$178,794	$235,502
	Risk adjustment		↓ 5%		
Btr	Increased non-interest revenue (risk-adjusted)		$70,687	$169,854	$223,727

Source: Forrester Research, Inc.

Incentivized Incremental Loans

After launching the Buzz Points program, the organization ran programs that offer points as an incentive for new loans. During the first year, the organization signed $1.2 million in new loans. When executives repeated the loan offer in future years, the number of loans signed remained significant. One executive told Forrester: “Launching a loan program varies based on the economy and the level of demand for loans. Results are inconsistent because demand for loans is inconsistent.” Forrester notes that this is a case study that describes the specific experience of participating companies and does not evaluate the potential gains that readers might experience from running programs that drive mortgages, home equity loans, or other products. Over three years, the organization signed $2.4 million in incremental loans that produced interest revenue. Including the cost of the points used as incentives, the gain was $46,430.

The variations between the organizations that Forrester interviewed depended entirely on how aggressively they ran promotional campaigns. Forrester risk-adjusted and reduced the benefit by 10%. The risk-adjusted benefit was $41,787 over three years.

TABLE 3
Incentivized Incremental Loans

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
C1	Value of incremental loans		$1,200,000	$700,000	$500,000
C2	Interest income	A1*1.99%	$23,880	$13,930	$9,950
C3	Buzz Points as incentives		63,000	41,000	29,000
C4	Cost of points	C3*$0.01	$630	$410	$290
Ct	Incentivized incremental loans	C2-C4	$23,250	$13,520	$9,660
	Risk adjustment		↓ 10%		
Ctr	Incentivized incremental loans (risk-adjusted)		$20,925	$12,168	$8,694

Source: Forrester Research, Inc.

Reduced Cost Of Incentives For Customers

One of the organizations used Buzz Points as an incentive to encourage customers to sign up for electronic statements, as eStatements lower costs for banks. Financial institutions are increasingly looking at incentives to drive customers to adopt solutions that lower the cost of banking. Readers may be able to run similar programs for a wide range of customer behaviors that reduce the cost of banking and are not factored into this model.

In this case, each customer that signed up for eStatements received 500 points. The organization had 400 customers sign up, which cost 200,000 points at $0.01 each, for a total of $2,000. At the same time, the organization saved $1.20 per month for each customer. Because the program was run in the second quarter of the first year, Forrester counted only eight months in Year 1 and 12 months in subsequent years. The benefit over three years totaled $11,440.

Because the amount is small relative to the other benefits, Forrester risk-adjusted and reduced the benefit by 5%. The risk-adjusted benefit was $10,868 over three years.

TABLE 4
Reduced Cost Of Incentives For Customers

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
D1	Number of customers signing up for eStatements during program		400		
D2	Cost savings	D1*$1.20 *12 months	$3,840	$4,800	$4,800
D3	Buzz Points used as incentives	D1*500	200,000		
D4	Cost of points	D3*$0.01	$2,000		
Dt	Reduced cost of incentives for customers	D2-D4	$1,840	$4,800	$4,800
	Risk adjustment		↓ 5%		
Dtr	Reduced cost of incentives for customers (risk-adjusted)		$1,748	$4,560	$4,560

Source: Forrester Research, Inc.

Total Benefits

Table 5 shows the total of all benefits across the four areas listed above, 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 $803,577.

TABLE 5
Total Benefits (Risk-Adjusted)

Ref.	Benefit	Year 1	Year 2	Year 3	Total	Present Value
Atr	Attracted incremental customers	$155,400	$155,400	$155,400	$466,200	$386,457
Btr	Increased non-interest revenue	$70,687	$169,854	$223,727	$464,268	$372,726
Ctr	Incentivized incremental loans	$20,925	$12,168	$8,694	$41,787	$35,611
Dtr	Reduced cost of incentives for customers	$1,748	$4,560	$4,560	$10,868	$8,784
	Total benefits	**$248,760**	**$341,982**	**$392,381**	**$983,123**	**$803,577**

Source: Forrester Research, Inc.

COSTS

The composite organization experienced a number of costs associated with Buzz Points:

- Cost of Buzz Points.
- Cost of staff to promote program to merchants.
- Cost of merchant incentives.
- Cost of points as consumer incentives.

These represent the mix of internal and external costs experienced by the composite organization for initial planning, implementation, and ongoing maintenance associated with the solution.

Cost Of Buzz Points

The organization purchased Buzz Points and paid a $6,000 startup fee and $1.95 per month for each customer that registered for the program. The number of users increased every month and is annualized using a weighted average. The total cost over three years was $322,602. Because the pricing is the list price for Buzz Points, Forrester did not risk-adjust this cost.

TABLE 6
Cost Of Buzz Points

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
E1	Startup fee		$6,000			
E2	Customers at beginning of year			0	4,000	6,000
E3	Customers at end of year			4,000	6,000	7,000
E4	Weighted average customer months paid for during the year (rounded)			2,060	4,950	6,520
E5	Cost for registered customers	E4*$1.95* 12 months		$48,204	$115,830	$152,568
Et	Cost of Buzz Points	E1+E5	$6,000	$48,204	$115,830	$152,568
	Risk adjustment		↑ 0%			
Etr	Cost of Buzz Points (risk-adjusted)		$6,000	$48,204	$115,830	$152,568

Source: Forrester Research, Inc.

Cost Of Staff To Promote Program To Merchants

Two of the organizations employed a business development professional to promote the Buzz Points program to merchants. The two financial institutions recognized the value of connecting directly with merchants to create goodwill and trust and potentially gain new small business customers. They also increased the credibility of the program with merchants that preferred local contacts reaching out to them. Forrester assume an average salary of $60,000, and the organization dedicated 20% of the business development professional's time to Buzz Points. As such, the cost was $12,000 per year, or $36,000 over three years. Because only half of the organizations incurred this cost, readers should evaluate whether such a resource will be required for their program. Forrester risk-adjusted the cost upward by 10%, resulting in a total cost of $39,600.

TABLE 7
Cost Of Staff To Promote Program To Merchants

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
F1	Business development staff			$60,000	$60,000	$60,000
F2	Percent of time managing Buzz Points			20%	20%	20%
Ft	Cost of staff to promote program to merchants	F1*F2		$12,000	$12,000	$12,000
	Risk adjustment		↑ 10%			
Ftr	Cost of staff to promote program to merchants (risk-adjusted)			$13,200	$13,200	$13,200

Source: Forrester Research, Inc.

Cost Of Merchant Incentives

Some organizations paid all or part of the vendor subscription fee to get key local merchants onboard. One described a local pizza parlor that was highly popular locally. By paying the entire fee for 10 merchants and part of the fee for another 20 merchants, the organization spent $19,800 over three years. Forrester risk-adjusted the cost upward by 5%, resulting in a total cost of $20,790.

TABLE 8
Cost Of Merchant Incentives

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
G1	Merchants with 100% subsidization	10*$25* 12 months		$3,000	$3,000	$3,000
G2	Merchants with $10 subsidizations	20*$15* 12 months		$3,600	$3,600	$3,600
Gt	Cost of merchant incentives	G1+G2		$6,600	$6,600	$6,600
	Risk adjustment		↑ 5%			
Gtr	Cost of merchant incentives (risk-adjusted)			$6,930	$6,930	$6,930

Source: Forrester Research, Inc.

Cost Of Points As Consumer Incentives

Some of the organizations used points as incentives for customers and employees alike. Points were used to incent deposits, community services, and good customer service. The points became a valuable "currency" for awarding positive or desired behaviors. Each year, the organization used 950,000 points, which cost $9,500 as incentives, totaling $28,500. Forrester risk-adjusted the cost upward by 10%, resulting in a total cost of $31,350.

TABLE 9
Cost Of Points As Consumer Incentives

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
H1	Points for customer behavior programs			850,000	850,000	850,000
H2	Points for employee behavior programs			100,000	100,000	100,000
H3	Cost per point			$0.01	$0.01	$0.01
Ht	Cost of points as consumer incentives	(H1+H2) *$0.01		$9,500	$9,500	$9,500
	Risk adjustment		↑ 10%			
Htr	Cost of points as consumer incentives (risk-adjusted)			$10,450	$10,450	$10,450

Source: Forrester Research, Inc.

Total Costs

Table 10 shows the total of all costs as well as associated present values, discounted at 10%. Over three years, the composite organization expects total costs to be a net present value of $336,224.

TABLE 10
Total Costs (Risk-Adjusted)

Ref.	Cost	Initial	Year 1	Year 2	Year 3	Total	Present Value
Etr	Cost of Buzz Points	$6,000	$48,204	$115,830	$152,568	$322,602	$260,176
Ftr	Cost of staff to promote program to merchants	$0	$13,200	$13,200	$13,200	$39,600	$32,826
Gtr	Cost of merchant incentives	$0	$6,930	$6,930	$6,930	$20,790	$17,234
Htr	Cost of points as consumer incentives	$0	$10,450	$10,450	$10,450	$31,350	$25,988
	Total costs	**$6,000**	**$78,784**	**$146,410**	**$183,148**	**$414,342**	**$336,224**

Source: Forrester Research, Inc.

RISKS

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

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

Table 11 shows the values used to adjust for risk and uncertainty in the cost and benefit estimates for the composite organization. Readers are urged to apply their own risk ranges based on their own degree of confidence in the cost and benefit estimates.

TABLE 11
Benefit And Cost Risk Adjustments

Benefits	Adjustment
Attracted incremental customers	↓ 40%
Increased non-interest revenue	↓ 5%
Incentivized incremental loans	↓ 10%
Reduced cost of incentives for customers	↓ 5%

Costs	Adjustment
Cost of Buzz Points	↑ 0%
Cost of staff to promote program to merchants	↑ 10%
Cost of merchant incentives	↑ 5%
Cost of points as consumer incentives	↑ 10%

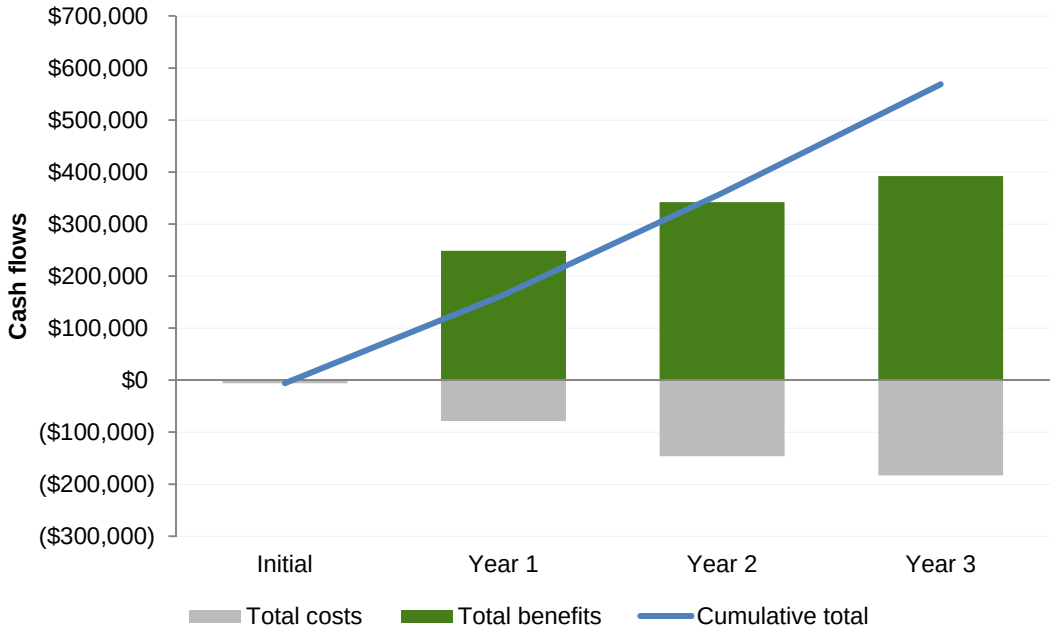
Source: Forrester Research, Inc.

Financial Summary

The financial results calculated in the Benefits and Costs sections can be used to determine the ROI, NPV, and payback period for the composite organization's investment in Buzz Points.

Table 12 below shows the risk-adjusted ROI, NPV, and payback period values. These values are determined by applying the risk-adjustment values from Table 11 in the Risks section to the unadjusted results in each relevant cost and benefit section.

FIGURE 4
Cash Flow Chart (Risk-Adjusted)



Source: Forrester Research, Inc.

TABLE 12
Cash Flow (Risk-Adjusted)

	Initial	Year 1	Year 2	Year 3	Total	Present Value
Costs	($6,000)	($78,784)	($146,410)	($183,148)	($414,342)	($336,224)
Benefits	$0	$248,760	$341,982	$392,381	$983,123	$803,577
Net benefits	($6,000)	$169,976	$195,572	$209,233	$568,781	$467,354
ROI						139%
Payback period						4.1 months

Source: Forrester Research, Inc.

Buzz Points: Overview

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

Buzz Points® is a community-focused rewards and marketing platform that connects community financial institutions (CFIs) with consumers and local businesses. The Buzz Points program enables community banks and credit unions to increase revenue, generate greater non-interest income, drive desired transaction behavior, reduce account attrition, cross-sell banking products, and attract new retail and commercial account business.

Cardholders earn points for every purchase they make with their enrolled debit (and/or credit) card — but they earn two times the points for purchases made at locally owned businesses. By incentivizing consumers to shop locally and providing marketing services to locally owned businesses, Buzz Points helps strengthen your reputation within the community.

Buzz Points offers a range of redemption options. Rewards for local businesses are the best value for cardholders and available instantly through the Buzz Points mobile app. Local charities can also be featured as a reward, giving cardholders the opportunity to redeem their points in the form of a charitable donation. National options include gift cards to major retailers, travel-related rewards, digital music downloads, and more. Buzz Points enrollees can also redeem their points for cash back in the form of a prepaid cash card.

The Buzz Points program is executed through an innovative web and/or mobile application, where cardholders can view activity, track points, and redeem points for rewards. Location-based push notifications on the mobile app highlight relevant local offers to cardholders when they are near a local business offering rewards.

Dedicated to a successful program and partnership, Buzz Points delivers turnkey marketing materials and ongoing campaigns to drive results. Both financial institutions and participating local business owners gain access to sophisticated data analysis and technologies to expand their marketing reach and effectiveness.

Buzz Points gives CFIs a premium program with an industry-leading cost structure and multiple pricing options. In the most popular, simplified option, Buzz Points holds the point liability and charges a flat per-user monthly fee. For CFIs that want to pay the redemption costs over time and keep the point liability, there is a cheaper, per-user cost version of the program.

More information and a listing of strategic alliance partners are available at https://www.buzzpoints.com/financial-institutions/.

Appendix A: Total Economic Impact™ Overview

Total Economic Impact is a methodology developed by Forrester Research that enhances a company's technology decision-making processes and assists vendors in communicating the value proposition of their products and services to clients. The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders. TEI assists technology vendors in winning, serving, and retaining customers.

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

BENEFITS

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

COSTS

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

FLEXIBILITY

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

RISKS

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

Appendix B: Glossary

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

Net present value (NPV): The present or current value of (discounted) future net cash flows given an interest rate (the discount rate). A positive project NPV normally indicates that the investment should be made, unless other projects have higher NPVs.

Present value (PV): The present or current value of (discounted) cost and benefit estimates given at an interest rate (the discount rate). The PV of costs and benefits feed into the total NPV of cash flows.

Payback period: The breakeven point for an investment. This is the point in time at which net benefits (benefits minus costs) equal initial investment or cost.

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

A NOTE ON CASH FLOW TABLES

The following is a note on the cash flow tables used in this study (see the example table below). The initial investment column contains costs incurred at "time 0" or at the beginning of Year 1. Those costs are not discounted. All other cash flows in years 1 through 3 are discounted using the discount rate at the end of the year. PV calculations are calculated for each total cost and benefit estimate. NPV calculations are not calculated until the summary tables are the sum of the initial investment and the discounted cash flows in each year.

Sums and present value calculations of the Total Benefits, Total Costs, and Cash Flow tables may not exactly add up, as some rounding may occur.

TABLE [EXAMPLE]
Example Table

Ref.	Metric	Calculation	Year 1	Year 2	Year 3

Source: Forrester Research, Inc.