

A Forrester Total Economic Impact™
Study Commissioned By Microsoft
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The Partner Opportunity For Creating The Modern Workplace

A Total Economic Impact™ Partner Opportunity Analysis
Of Microsoft 365 Enterprise

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Executive Summary

Benefits And Costs



Three-year best-in-class partner revenue per user from a complete Microsoft 365 E5 customer journey:

\$1,622



Gross margin across all offerings and solution areas.

40%



Partner survey respondents who said Microsoft 365 made them a “trusted advisor” to customers:

74%

Microsoft 365 Enterprise has evolved in terms of solutions and partner opportunities since its launch last year. As part of that launch, Forrester Consulting interviewed partners who had service offerings in the underlying solution areas: Office 365, Windows 10 (now modern desktop), and Enterprise Mobility + Security (EMS). Forrester learned that Microsoft 365 represents a large opportunity for partners to grow their revenues and build strategic relationships with their customers. One year later, this study looks at how the revenue opportunities and other benefits, which partners are realizing by developing their Microsoft 365 practices, have improved.

For this study, Forrester interviewed 30 partners and surveyed another 67 (building on more than 40 previous partner interviews and 100 Microsoft 365 solutions customer interviews) with practices around modern desktop, security and compliance, and teamwork — the three main solution areas that comprise Microsoft 365 Enterprise. Additionally, Forrester looked at the partner opportunity for first-line worker deployments, including manufacturing and healthcare verticals.

Overall, Forrester found that there is increased maturity in the solutions and services being offered by partners and that they are making strategic investments to further increase their capabilities around modern desktop, security and compliance, and/or teamwork solutions. Each of these solution areas is an entry point into new customers and an expansion opportunity for existing customers. The benefits partners realize include increased revenues and margins, more predictable recurring revenues, stronger relationships with customers, and lower delivery costs. The sidebar at left shows the average revenue opportunities associated with one of the three main practice area entry points.

Building out multiple best-in-class practices increases the total opportunity with a customer compared to the numbers shown in the sidebar, although the effect is not completely additive since there is much overlap, e.g., deployment services and help desk. One of the keys to success that has developed in the last year is creating graduated “Good,” “Better,” and “Best” levels of service for customers. This helps maximize revenues while providing customers with what they need to realize the most value from their investment in Microsoft 365. Increasing user adoption is an important goal for both Microsoft and its partners. This impetus has led to the creation of more sophisticated change management offerings and value-add intellectual property (IP) which makes Microsoft 365 more valuable to customers.

This study is a bridging document to six others that look in greater detail at the partner opportunities around modern desktop, security and compliance, teamwork, first-line workers, manufacturing, and healthcare. (Forrester also looked at the partner opportunity for Microsoft 365 Business, see Appendix A for a list of these studies.) This study also looks at the macro trends driving adoption of Microsoft 365 — digital business transformation initiatives including modern workplace, the software-as-a-service (SaaS) revolution, and the evolving role of service providers such as Microsoft partners. Taken all together, Forrester has concluded that partners who invest in creating best-in-class service practices and solutions realize benefits that greatly exceed their investments and help them to differentiate themselves for long-term success.

TEI Framework And Methodology

From the information provided in the interviews, Forrester has constructed a Total Economic Impact™ (TEI) framework for those partners considering building out their Microsoft 365 Enterprise practices.

Forrester took a multistep approach to evaluate the market opportunity for Microsoft Partners:



DUE DILIGENCE

Interviewed Microsoft stakeholders and Forrester analysts to gather data relative to Microsoft 365 Enterprise and its underlying solutions.



PARTNER INTERVIEWS

Interviewed 30 partners and surveyed 67 more selling Microsoft 365 Enterprise services and solutions.



COMPOSITE DEPLOYMENT

Designed a composite three-year deployment road map based on examples provided by partners.



REVENUE MODEL FRAMEWORK

Constructed a revenue model representative of the typical three-year road map that looks at the “Good,” “Better,” and “Best” service offering scenarios.

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 partners will receive. Forrester strongly advises that readers use their own estimates within the framework provided in the report to determine their market opportunity and associated costs.

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 partner names for the interviews and survey.

Driving Forces — Digital Transformation And SaaS

In the year since Microsoft 365 Enterprise was announced, the forces driving customers' adoption of Microsoft 365 and partners' service delivery have advanced dramatically. The breadth and depth of the Microsoft 365 solutions portfolio has also expanded over the last year. Taken all together, these forces are expanding partners' opportunities to improve revenues and strategic relationships as they help their customers adopt modern workplace solutions.

The Modern Workplace And Digital Business Transformation

Microsoft 365 adoption is accelerating for many reasons, including macro trends that will benefit Microsoft partners. For example, companies are accelerating their pace of digital business transformation in order to improve business outcomes and increase internal and external collaboration. In a 2018 research report, Forrester predicted that: "Collaboration will emerge as an anchor technology for digital transformation. Collaboration helps workers share information, coordinate projects, discuss best practices, and build communities within and across the enterprise."¹ Furthermore, a Forrester survey published in the same year found that 82% of global technology decision makers have already begun or will begin enterprise collaboration initiatives in the next 12 months.² Taken together, increased digital transformation and collaboration initiatives translate into more Microsoft 365 opportunities for partners.

Microsoft 365 is expected to see increased adoption based on two other predictions Forrester made for 2018 about factors driving companies towards the modern workplace³:

1. "Unified device management will finally arrive. With each release of Windows 10, Microsoft makes significant progress on the OS's mobile device management, enrollment, and management APIs."
2. "Windows migrations create the right time for change. Now is the time to break with the past. Use the Windows 10 migration process to modernize the way you deploy and manage PCs in your organization."

Business and technology decision makers' 2018 investment priorities are centered around transformation (see Figure 1) with a focus on increasing innovation, developing new skills, increasing speed of project delivery, and reducing overall IT costs. Interviewed partners provided numerous examples of these investment priorities and transformation initiatives with Microsoft 365 deployments which we discuss later in the study.

The two other business priorities concern partner relationships. This is another area where partners saw Microsoft 365 offering value by creating opportunities to build more strategic relationships with their customers and thereby deepening engagements.

The growing imperative to transform businesses with digital technologies should result in more Microsoft 365 deployments, both in terms of the number of users and breadth/sophistication of solution adoption. Furthermore, the desire to create modern workplaces that empower employees and unlock the hidden value within organizations meshes nicely with the capabilities within Microsoft 365. In order to help customers achieve these objectives, Microsoft partners will need to further expand their technical and business solution capabilities.

The Changing Role Of SaaS And Solution Providers

One of the main trends driving enterprise IT is the SaaS delivery model. This has broad implications for companies adopting enterprise collaboration solutions like Microsoft 365 and also for service providers in terms of

Figure 1

"Which of the following technology initiatives is your IT organization prioritizing over the next 12 months?"

(Respondents who selected moderate, high, or critical priority)

Priority	Overall	Tech decision makers	Business decision makers
Increase innovation	86%	88%	83%
Develop or acquire new skills	85%	89%	81%
Deliver IT projects more quickly	82%	88%	74%
Better manage external partners and suppliers	80%	84%	75%
Improve relationship with business partners outside of IT	79%	85%	73%
Cut overall IT costs	77%	82%	69%

Base: 10,430 global technology and 7,847 global business decision makers

Note: The top responses are shown.

Source: Forrester Data Global Business Technographics® Priorities And Journey Survey, 2017

their delivery capabilities and financial models. This is, perhaps, even more salient for Microsoft partners because of Microsoft's strong push into cloud-based solutions. In the 2018 and 2019 technical market outlook, Forrester expects that, "SaaS subscription revenues will exceed 60% of product revenues in desktop apps (thanks mostly to Microsoft's aggressive conversion of Office clients from CD-versions to cloud-based Office 365)."⁴ This report also predicts that SaaS-related integration services will grow at more than 20% per year, and business-consulting-related services will continue to grow at 7% to 8% per year — services that help companies restructure their business processes, design mobile strategies, improve security, and refine predictive and analytical models.

SaaS was survey respondents' most frequently reported investment as part of their recent digital transformation initiative (see Figure 2). "Security and privacy technologies," "mobile applications," "business intelligence," and "business-processes-as-a-service" were additional responses that fit well with Microsoft 365 tools and capabilities.

Changing priorities and spending habits are affecting how companies buy consulting services and how service providers are delivering them. According to a 2017 Forrester report, leading companies "aggressively use services partners for R&D, business strategy, branding, and product and service innovation."⁵ The report also finds, based on a survey of 242 global services decision makers, that the leading reason why they use "third-party firms to help with all or part of [their] digital transformation" initiatives is because they "need an outside perspective to think about [their] business model, organization, processes, and/or technology and applications in new, innovative ways."

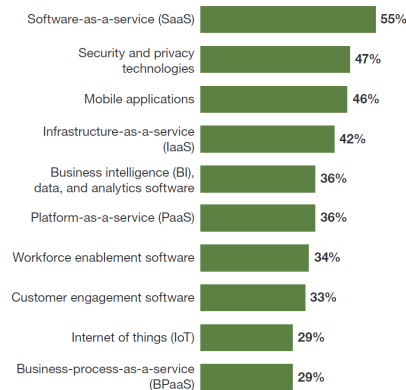
Companies' selection criteria for solution providers is evolving and becoming more complex. Price, industry expertise, and domain expertise in specific business and technology capabilities are the leading selection criteria (see Figure 3). Additionally, Forrester has found that "smart services buyers increasingly seek partners that bring creative and design, CX, business acumen, and technology know-how together in an integrated approach. [Forrester] also sees more and more firms engaging with technology services partners as they would agencies on retainer, seeking continuous relationships with these strategic partners rather than one-off projects."⁶

In looking at service firms like Microsoft partners, Forrester identified several trends:⁷

- › "SaaS is the top technology for transformation and requires people, process, and technology change."
- › "Services firms are eager to drive new engagement models with customers and become the strategic partner at the center of their ecosystems."
- › "Services deliver value through deep specialization, powered by SaaS. Instead of providing generic process or outsourcing support, services firms will drive value through deep specialization. The future of tech services will be defined by vendors that enable (i.e., business outcomes), rather than by those that do (i.e., software implementations). This enablement will be defined by industry-specific SaaS solutions."

Figure 2

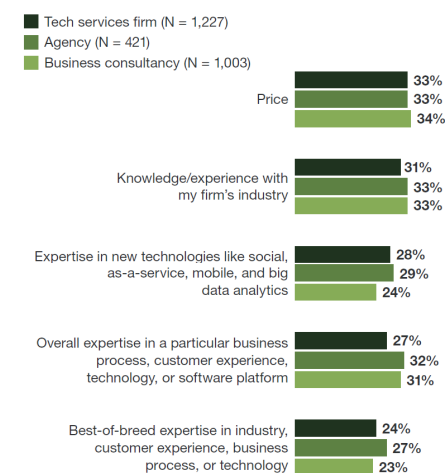
"In which of the following will/is/did your firm invest as part of their most recent digital transformation?"



Base: 1,381 North American and European decision makers at enterprises (1,000+ employees)
Source: Forrester Data Global Business Technographics® Business And Technology Services Survey, 2017

Figure 3

"Which of the following criteria are most important to your department when selecting a third party?"



Base: North American and European decision makers at enterprises (1,000+ employees)
*Base: 1,559 North American and European decision makers at enterprises (1,000+ employees)
Source: Forrester Data Global Business Technographics® Business And Technology Services Survey 2017

- › “While business leaders are increasingly involved with determining technology priorities and buying decisions, the CIO still holds most of the total IT budget and needs to be engaged in important buying decisions.”
- › “The distinctions between business consultancies, tech services, and agencies have blurred. Forrester sees business consultancies as best poised to deliver in the new era of tech services. They not only have mature, scalable capabilities for business process change and change management, but also the credibility with business leadership to appeal to the business technology buyer. Agencies will struggle to keep pace with the breadth of solutions that business consultancies can offer, and pure tech services firm will do well in an era driven by consolidation and automation but struggle to maintain competitive differentiation and margin growth.” Therefore, a convergence across the value chain means partners need to greatly increase their value to customers through new offerings as well as domain and vertical expertise.

This brief review of recent Forrester research highlights several trends: the rise of digital business transformation and collaboration initiatives as part of creating the modern workplace; a strong move towards SaaS-based solutions; changing buyer decision criteria and the increasing role of business leaders in buying decision; and the evolving role of professional services organizations. These will have profound implications for Microsoft partners. In interviews with 30 partners and a survey of 67 others for this study, as well as findings from interviews with dozens of partners from other Forrester studies, partners shared many examples of how they are changing their business models and expanding their offerings and capabilities around Microsoft 365 Enterprise. These examples and the financial opportunities are explored throughout the remainder of this study.

Offerings And Solutions: One Year Later

In 2017, Forrester identified nine specific ways that partners are helping their customers, spanning business consulting, technology consulting, and intellectual property (see Figure 4). While some of the Microsoft 365 Enterprise solution names have changed in the last year, Forrester learned from partners that there are now many more opportunities across these nine solution areas. For the most part, partners' approach to helping customers has matured over the last year in terms of service offerings, delivery models, and business models.

Partners are now supporting more workloads than before across the three broad categories that make up the Microsoft 365 Enterprise modern workplace offering — teamwork, security, and modern desktop (see Figure 5). Areas of large growth are driven by external changes/ opportunities, e.g., GDPR compliance, and by new Microsoft solutions, e.g., Teams. Some notable areas that partners see as the next growth opportunities include device management, hardware-as-a-service, and organizational analytics. Several partners are starting to explore, build, and market offerings in these spaces. Windows 10 deployments continue to be an area where partners are making large investments because of the 2020 end of extended support for Window 7.

Figure 4

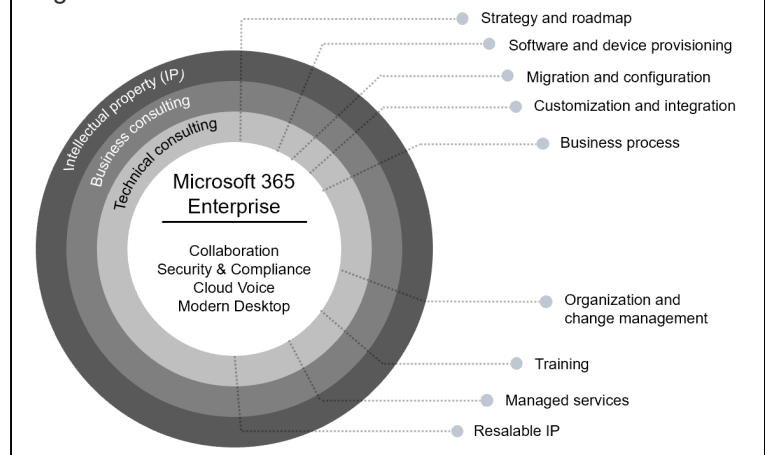
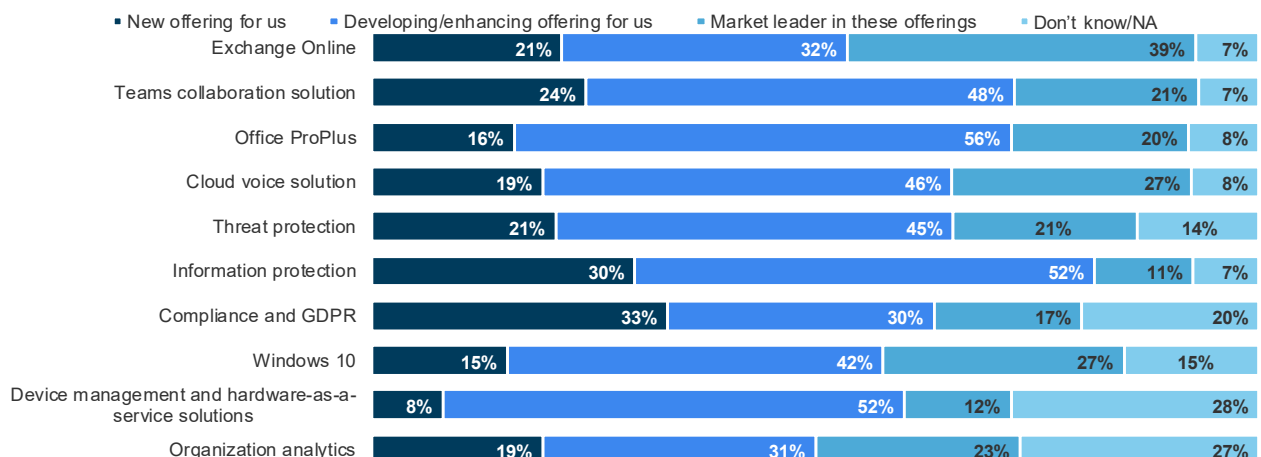


Figure 5

"Thinking of the robustness/maturity of your offerings, how would you rate yourself?"



Base: 70 global Microsoft 365 Enterprise partners

Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, March 2018

In comparing findings from the 2017 and 2018 studies, several trends emerged. Firstly, deployment service revenues decreased 18% year-on-year because these are increasingly viewed as commoditized and often being completed using FastTrack. Advisory and adoption services grew 10% as customer look to partners for more help with strategy and planning, along with change management, to make their digital business transformation initiatives successful. Lastly, the managed services opportunity is estimated by partners to be 23% higher than their 2017 calculations, and this represents the largest long-term opportunity for growth.

Graduated Offerings: The Good, Better, Best Paradigm

One of the most important themes that emerged in discussions with partners this year is the drive to deliver

graduated offerings that help better sell and maximize revenues and meet the changing business needs of customers. These offerings vary by solution area entry point — teamwork, security, and modern desktop — as well as for first-line workers and industries. (These differences and the associated financial opportunities are discussed in detail in the Financial Opportunity section of this study.) Offerings span five categories: direct project services which are upfront work at the start of a Microsoft 365 Enterprise transformation program; pull-through project services which are follow-on consulting projects; licensing which includes channel margin for eligible partners; managed services that cover a very wide range of solutions; and resalable IP.

Managed services is the area where partners see the greatest opportunity and are making their largest investments. Managed services provide partners with recurring, predictable revenue which makes longer-term planning and investing possible. Partners also feel that the managed services margins are, or will be, higher than

Figure 6

What is the managed services attach rate you expect for your main three service levels?	"Good" offering	"Better" offering	"Best" offering
Exchange Online	20%	11%	13%
Teams collaboration solution	23%	10%	10%
Office ProPlus	17%	11%	11%
Cloud voice solution	8%	7%	8%
Threat protection	16%	10%	12%
Information protection	16%	11%	15%
Compliance and GDPR	12%	7%	10%
Windows 10	17%	11%	11%
Device management and hardware-as-a-service solutions	9%	8%	9%
Organization analytics	14%	6%	6%

Base: 70 global Microsoft 365 Enterprise partners
Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, March 2018

those for project consulting engagements. Attach rates vary based on the solution area and if it is a "Good," "Better," or "Best" level service (see Figure 6). Generally, attach rates and margins are seen as having improved over the last year. Examples of managed services are provided in the Financial Opportunity section of this study.

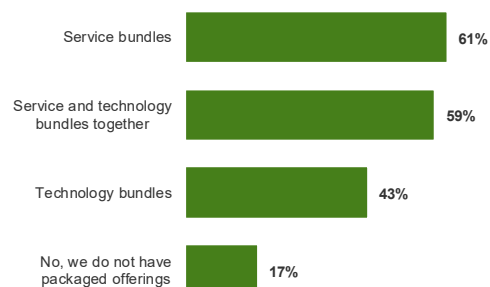
Another area where partners are making large investments is in solution bundles made up of different services and/or technologies (see Figure 7). Technology solutions can include repeatable IP and independent software vendor (ISV) solutions developed by the Microsoft partner. This IP helps drive down delivery costs

by automating partners' processes, or it can be value-add solutions that run alongside or complement Microsoft 365 Enterprise. Thirty-nine percent of survey respondents said that they are already building repeatable IP solutions, and another 39% are exploring opportunities here. The average costs were \$377,924 to build a value-add solution with an additional \$102,689 in annual ongoing development and support costs. Examples of partner-developed IP from the partner survey include:

- › Cross-platform security monitoring and reporting tools.
- › Exchange online with rights management tied in with compliance training for HIPAA.
- › Portal usage reporting.
- › Power BI reporting tools.
- › Integrated SharePoint Online and Teams solutions.
- › GDPR identity and data discovery solutions.
- › Skype for Business integration with Power BI.
- › Virtual appliances.
- › "Office Without Stress" a complete solution built on SharePoint Online for law offices.
- › Consumption analytics.
- › Device life cycle management tools.
- › User productivity assessment tools and reports.

Figure 7

"Have you created any of the below packaged offerings that prebundle specific services or other technology solutions with Microsoft 365?"

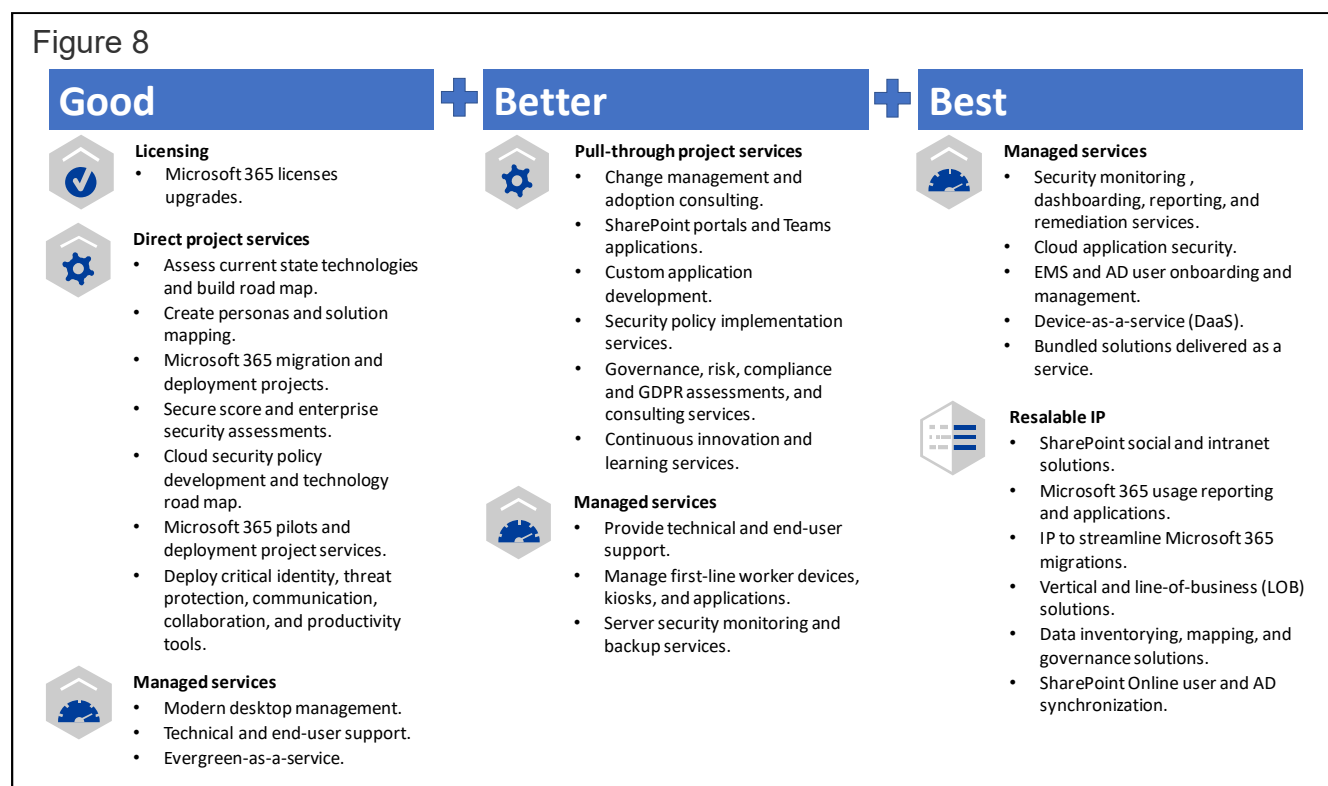


Base: 70 global Microsoft 365 Enterprise partners
Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, March 2018

Figure 8 shows all of the revenue opportunities that partners shared with Forrester through interviews and surveys. Some are more specific to an individual entry point, especially in the security area. That said, a partner may lead with one area, such as security, and then branch out into other areas growing the overall size of the customer relationship. Partners that are mature in terms of their offerings and delivery models are able to deliver "Good," "Better," and "Best" level services. In many cases these services are additive; that is to say that a

customer may buy services from the “Good,” “Better,” and “Best” categories.

Figure 8



More Strategic And Longer Lasting Customer Relationships

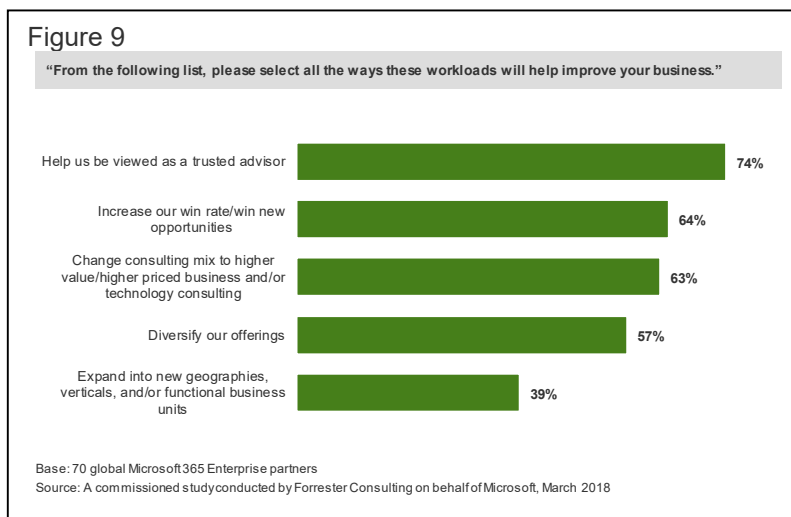
Partners say that further investment in, and expansion of, their Microsoft 365 practices does more than increase revenue, it helps them be seen as a trusted advisor by their customers (see Figure 9). Trusted partners with more robust, end-to-end services and IP to support their customers' digital business transformation initiatives open additional opportunities across the customer organization, often without an RFP or another type of competitive bid. This results in new business that is originating outside of the CIO's organization; LOB leaders are increasingly contracting with service providers directly and/or are heavily involved in the decision-making process.

Partners also say that longer lasting relationships are beneficial for a variety of reasons. These include increased revenues and margins, lower customer acquisition costs, opportunities to innovate with customers and co-fund IP development, better long-term planning, and improved staff utilization.

From a more predictable and longer-lived revenue stream perspective, partners shared some rules of thumb when it comes to ongoing revenues as part of Microsoft 365 Enterprise transformation programs:

- › “For every \$1 in upfront consulting revenue, we expect \$5 in follow-on work.”
- › “We estimate \$6 in other revenues per \$1 in direct revenue.”

Figure 9



- › “The drag ratio for future work would be closer to 1 to 4.”
- › “Our rule of thumb is \$3 for every \$1 upfront.”

Creation Of New Delivery Models

In the last year, partners have been creative in how they deliver end-to-end services to customers and expand into new solutions across the three Microsoft 365 pillars — teamwork, modern desktop, and security. While still small, there is increased collaboration taking place between Microsoft partners. The level of partnering ranges from simple joint-marketing campaigns all the way to unified proposal creation, delivery, and billing. Small and medium-sized partners say that this helps them compete against larger Microsoft partners, and that it strengthens their strategic relationship with customers.

The survey found that delivery partnering varies considerably by workload. The highest area was organizational analytics in which 15% of partners reported working with another organization to deliver services to customers. This was followed by cloud and voice solutions at 12%, compliance and GDPR at 10%, and threat and information protection at 7%. Forrester expects to see more Microsoft partners working together in the future to provide broader and better services to their customers.

Partners are also making investments in their delivery and sales capabilities to better serve their customers. Almost every partner is building out their business consulting practice, as it is viewed crucial to helping customers with their digital transformation journeys. There is significant R&D spending going into resalable IP as discussed earlier, and there is also investment in demonstration labs and equipment. Partners are spending money on internal tools, templates, and processes to lower delivery costs and provide better customer service.

Forrester also saw more examples of merger and acquisition between Microsoft partners. Partners looking to be acquired generally view the move to Microsoft 365-based recurring revenue models as very accretive. One partner that is actively buying other partners said that they pay roughly 1x forward-looking 12 months revenue to acquire consulting companies engaged in traditional project-based consulting. The number can go up to 3x or 4x (or higher) for consulting companies with a lot of recurring revenue from managed services and multiyear delivery road maps.

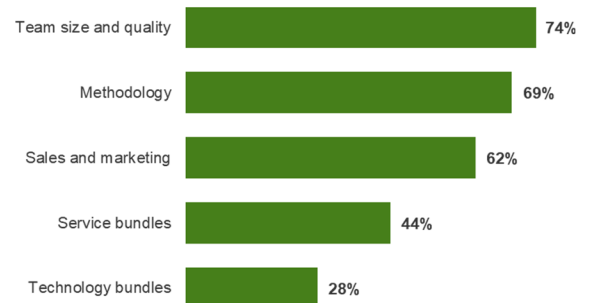
Best Practices And Recommendations

The survey revealed that staff quality is the most important factor for a successful partner. As discussed above, partners are making large investments in their people in terms of hiring and training. This includes reskilling consultants from areas that are in less demand, e.g., email migration, and into growth areas, e.g., analytics and compliance. Partners are also investing in sales and marketing to meet the changing nature of sales and customer relationships from one-off big projects to ongoing relationship building and selling. Some specific best practices that partners shared in the survey include:

- › Having more consultants get Microsoft certifications.
- › Expanding coverage areas to better serve customers.
- › Strong sales and marketing to promote IP consumption.
- › Insisting that every customer buy change management services.
- › Providing the best answers for customers even if it means less business in the short-term to build trust.
- › Strengthening the relationship with Microsoft to be a first mover and better align the business with upcoming technologies and services.
- › Bringing new, bundled solutions to market that can be consumed in flexible ways.

Figure 10

“What has made you successful across these workloads?”



Base: 46 global Microsoft 365 Enterprise partners who are market leaders in different workload.
Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, Mar 2018

- › More closely aligning our messaging and offerings to the business needs of the CXO suite.
- › Deep expertise on the underlying technologies and adapting them to local culture and market trends.

In interviews with best-in-class partners, Forrester uncovered additional best practices that have made them very successful. One of the most important best practices is focusing on personas and the end-to-end customer journey. Because Microsoft 365 benefits different types of users in different ways, an important approach to make customers successful and increase adoption is to tailor the solutions to different worker personas. Many partners said that this is both what makes their projects successful and is a good opportunity for increased revenues and longer-term engagements.

Another best practice is creating holistic service offerings that encompass governance, business consulting, and change management. Deploying technology is no longer enough to win and retain customers. Some leading partners will not take on new customers if they do not agree to buy change management services. Increasing user adoption is a major key to successful projects and long-term relationships.

“We try to segment first-line workers into seven to 12 personas and provide our customers with advice on what workloads and licenses they need, along with advice on how to ensure strong workforce adoption [of Microsoft 365]. We have found that adoption is very persona-related.”

General manager, EMEA partner

Best-in-class partners are also placing greater emphasis on going deeper with existing accounts versus winning new customers. They are doing this in several ways, including: building out new practice areas; engaging more with LOB technology decision makers and influencers; investing time and effort into strengthening user adoption outside of the traditional delivery methods, e.g., lunch and learn sessions for customers; and, adding first-line workers into existing deployments for knowledge workers. As much as 50% to 80% of revenue growth is coming from up- and cross-selling to existing customers.

Creating differentiated vertical and domain-based capabilities and messaging helps partners win and keep customers. This involves hiring people with deep domain and/or vertical expertise. Developing resalable IP tied to specific vertical problems and opportunities areas is very valuable to their customers. Partners are also creating marketing content that speaks to these specializations and doing more targeted marketing.

In a November 2017 Forrester Research report, looking at how technology vendors and channel partners can be successful in the future, Forrester made several recommendations which are very applicable to Microsoft 365 partners:⁸

- › Create hyperspecialized skills such as subindustry, LOB, segment, sector, geography, and corresponding technology acumen.
- › Target influencers and shadow buying organizations. Knowing what they read, where they go, and who they follow is important in building your visibility and sales plan.
- › Revise marketing plans to reach beyond the tech organization. Raising visibility with business leaders and providing air cover for these new shadow channels is critical to improving your consideration rate. Develop collateral that is customer obsessed and focuses on a specific business problem by subindustry, LOB, technology, segment, and geography.
- › Deliver new self-service tools for business leaders and shadow channels. Aim to reduce the friction in the buying journey. Gain an immediate competitive advantage by becoming more transparent in process and deploying external web and mobile tools to aid in the entire buying journey of customers and their influencers.

Based on the information provided by partners in both interviews and surveys, Forrester makes the following additional recommendations to help Microsoft 365 partners grow and develop best-in-class practices:

- › Focus marketing and sales messaging on digital business transformation and developing the modern workplace.
- › Use digital and social marketing and selling tools to create a frictionless customer experience and help contain customer acquisition costs.

- › Develop competencies, methodologies, and offerings to help customers define their long-term journey and develop personas to maximize customers' benefits realization. Multiyear road maps are essential.
- › Look at creating amortization pricing models that spread out project costs over a longer time period on a per user per month basis. This includes licensing, migration/deployment, and ongoing support costs.
- › Evaluate and make plans for how a shift to monthly recurring revenue (MRR) pricing will impact salesperson incentivization and future cash flows. This is especially important for VARs, LSPs, and GSIs.
- › Sell to LOBs and other buyers to uncover new business opportunities across the organization while strengthening relationships with the CIO technology organization.
- › Keep messaging aligned with Microsoft's and update the messaging as new solutions become available.
- › Managed services will be of increasing importance to lock in customers and increase revenues and margins. Given the constant stream of new features being released for Microsoft 365 and the difficulty of staying up to date across the Microsoft 365 workloads, partners have an opportunity to become more embedded within their customers' enterprise transformation initiatives with managed services and pull-through projects.
- › Build out new practice and solution areas and technology or vertical domain expertise to differentiate and maximize business opportunities in high demand areas with your existing customer installed base. This could include security compliance, modern desktop, first-line workforce, or a myriad of vertical market specialization areas.
- › Look at all approaches to provide customers with holistic, end-to-end solutions. This can be accomplished by investing in new practices, acquiring other consulting companies, or partnering with other best-in-class providers.
- › Build out business consulting capabilities, including adoption and change management services, while continuing to strengthen core technical knowledge and expertise.
- › Create resalable IP to differentiate from competitors and to increase margins.
- › Expand offerings to include Azure and other Microsoft cloud services. There are many cross-sell opportunities from Microsoft 365 into these services.

The Financial Opportunity — Multiple Entry Points

Forrester looked at the financial opportunity for partners based on different entry points — modern desktop, security, teamwork, and first-line worker industries. For each, Forrester created a separate TEI study demonstrating the revenue opportunities and investment requirements (see Appendix A). Below is a summary of findings for each entry point. This section then calculates the expected results from a complete, three-year customer journey covering all solution areas.

Modern Desktop

The modern desktop with Microsoft 365, consisting of Windows 10, Office 365 ProPlus, and Enterprise Mobility + Security (EMS), is a complete solution that securely provides the collaboration and productivity tools that users require and the modern management features that IT needs to support business goals. Enterprise security and data privacy were commonly identified as key business challenges brought to partners, and often those challenges were front and center in the customer's decision process of whether or not to migrate to Microsoft 365. According to a recent Forrester Data's Global Business Technographics® Infrastructure Survey, 51% of technology decision makers surveyed by Forrester indicated that security and privacy would be the key reason(s) they upgrade to Windows 10.⁹

A major new theme that has emerged this year is the growing customer demand for desktop management, update services, security and compliance services, and application remediation and management solutions alongside Windows 10 transformation projects. Partners are becoming more advisory focused and have built a variety of new professional and managed services offerings, covering a variety of domains that modernize and automate IT, boost employee productivity and teamwork, increase device performance, reduce IT costs, and improve enterprise security and compliance. Growing Windows readiness projects, including strategy, pilot, and proof-of-concept (PoC) engagements, are rapidly being displaced by business process and application remediation work, ensuring that customers can stay current and productive once on the latest version of Office ProPlus and Windows 10. As one partner put it, "Windows 10 transformation services are becoming more advisory focused. Organizations need someone to support the remediation of applications with each update."

\$853

Anticipated three-year revenue for leading Microsoft 365 modern desktop partners, per user.

\$310

Anticipated three-year profit for leading Microsoft 365 modern desktop partners, per user.

68%

Managed services as a percentage of overall partner three-year gross profit.

Forrester looked at the potential financial impact to partners for direct project services, pull-through project services, managed services, and value-add resalable IP. Partner benefits from expanding their modern desktop practice and offerings include:

- › New revenue and profit opportunities.
- › More predictable cash flows and higher customer lifetime value through managed services.
- › Higher customer satisfaction and retention.
- › Improved engagement with customers on critical business themes: security, Windows 7 end-of-life, and modern IT management.

Direct Project Revenue

Partners support their customers' journeys to Microsoft 365 and modern, always up-to-date management by providing a variety of business transformation and technology implementation consulting services around Microsoft 365 workloads. Our interviews with partners revealed that the typical customer journey to Microsoft 365 begins with a strategy, assessment, and advisory engagement, followed by a pilot with a subset of enterprise users and applications. Initial consulting engagement opportunities focus on: 1) fully assessing each customer's application readiness and infrastructure prior to migrating to Windows 10; 2) building a future-state strategy and road map for Microsoft 365; and 3) conducting a small Microsoft 365 pilot, typically covering 5% to 10% of enterprise users.

"Getting customers to Windows 10 and to cloud management — it's just such a different world for them, and they just want to have someone else take care of it for them. It makes managed services a more compelling end state for a lot of our customers. The market around managed services is growing and will continue to grow."

Solutions manager, NA partner

The pilot phase of the project helps partners demonstrate and validate the business value of Microsoft 365 modern desktop, paving the way for enterprise-wide deployment. In addition, pilot engagements around Windows 10 help partners control application remediation risks, allowing partners to better price full deployment projects.

Successful strategy consulting, assessment, and pilot engagements typically are followed by full Microsoft 365 deployment and/or subsequent migration projects. While partners revealed that pilot projects typically are one of the least profitable projects, full Microsoft 365 deployment consulting projects generated gross margins ranging from 35% to 60%, contributing significantly to partners' bottom lines. All partners indicated that they expect their gross margins on migration and deployment consulting engagements to grow over time as they build out standardized tools and templates to streamline the migration process for their customers.

Pull-Through Project Revenues

Mature Microsoft partners with more advanced Microsoft 365 modern desktop practices offer a variety of follow-on project services or pull-through projects. These projects are geared at driving organizational adoption of Microsoft 365, training and educating users on how to effectively leverage Microsoft 365, modernizing legacy applications, and ensuring customers can always keep Office 365 ProPlus and Windows 10 evergreen.

Notably, change management and adoption services are seen by many partners as a critical means of differentiating their offerings and expanding their value proposition to customers. Change management and adoption consulting projects saw significant customer adoption, with several partners indicating that they would not take on Microsoft 365 projects without at least some change management, adoption, and training component. Furthermore, continuous learning and innovation services provide partners with annuity revenue streams that ensure partners are continually engaged with their customers from a change management and Microsoft 365 adoption perspective. One partner estimated that "for every dollar of deployment and migration project revenue we earn, we generally see approximately 15 cents to 40 cents of change management service revenue."

Windows 10 update services, which are discussed in the next section regarding managed services, often are prefaced by a proof-of-concept or consulting phase following Windows 10 migration and deployment projects, which help partners better scope the application remediation requirements needed around future Windows 10 updates, enabling more accurate per-user monthly pricing for future managed services.

Managed Services

While partners interviewed by Forrester had varied managed services capabilities and offering maturity levels, virtually all partners were actively investing in their managed services solutions. Partners are rapidly building out IP to streamline service delivery, investing in IT service management systems and capabilities, and fine-tuning their pricing models to shift their business mix away from one-off project revenues toward monthly recurring revenues. By packaging a combination of managed services, licensing, and support into broader Microsoft 365 and digital transformation deals, partners bolstered their margins, created ongoing annuity streams, and became more deeply engaged with their customers. Partners delivered managed services offerings include desktop management, evergreen-as-a-service, and device-as-a-service. Emerging managed services areas abound, including Windows Analytics-as-a-service, Windows Defender ATP-as-a-service, and identity and access management-as-a-service. Partners indicated that managed services attach rates currently vary between 10% and 50% of their deployment and migration customers, but these partners noted that they expect their attach rates to grow significantly in the future as customers increasingly rely on their partners to keep their systems secure and up to date. Several partner see managed services making up 50% to 60% of their entire business mix in the next 18 months.

Value-Added Resalable IP

Some of the most advanced partners interviewed by Forrester are investing in building proprietary applications and solutions that they can sell to their installed customer bases and attach to Microsoft 365 and digital transformation deals. Solutions that help organizations streamline the Microsoft 365, and particularly the Windows 10, migration process and improve adoption and utilization of Microsoft 365 tools and capabilities are commonly attachable to larger Microsoft 365 deals.

Economic Model

Forrester created an economic model looking across these areas and based on the following assumptions:

- › Based on a single deal with 5,000 user adopters and a two-year managed services contract. The model assumes 2% customer churn in Year 3 of the analysis, consistent with what we learned from interviewees.
- › Direct project services, including deployment professional services, are segmented into two distinct engagement phases. The first phase project, covering strategy, assessment, and advisory, followed by a pilot with a subset of enterprise users and customers applications, brings average project sizes of \$75,000 for a 5,000-user organization. The second phase consists of Microsoft 365 deployment and migration projects, focusing on workloads including Windows 10, Exchange, EMS, SharePoint, OneDrive, and Microsoft Teams. Deployment and migration project revenues for these workloads total \$900K in this analysis. Forrester notes that engagement revenue will vary significantly across industries and organization sizes.
- › Pull-through project services are primarily around change management and adoption and proof-of-concepts for regular Microsoft 365 update and evergreen services. Total revenues are \$260K and margins grow from 45% to 50% over the three years.
- › Managed services and bundled solutions delivered as a service offering come in a variety of packages and pricing models. The core managed services offered by many partners, which include modern desktop management, technical and end-user support, and evergreen-as-a-service, focuses on making sure all user systems are always up to date. The table below provides a breakdown of the different managed service opportunities, attach rates, pricing models, and service levels.

"We are aiming to bundle more services and to make us stickier to customers by selling and attaching additional products and services to deals. We are aiming to provide modern IT solutions for the workplace that include both end-user support and managed services."

Director, global partner

SERVICE LINE	ATTACH RATE	PER USER, PER MONTH FEE	EXAMPLE SERVICE LEVELS
Desktop management, security patch services, support	20% to 25%	\$10	Desktop management based on EMS, Microsoft Intune, and SCCM. Security updates for more than 40 standard applications. Tier 1 and Tier 2 technical and end user support.
Evergreen-as-a-service and support	20% to 25%	\$22	Update services around Windows 10 and Office ProPlus to ensure customers are always up to date and have access to all new feature sets. Includes Tier 1 and Tier 2 technical and end user support.
Device-as-a-service (device lease excluded)	3% to 5%	\$30	Device procurement, financing, shipping, configuration, firmware updates, technical support, break-fix, next-day device replacement, and end-of-life services.
Subscription-plus silver-tier managed services plan	3% to 5%	\$50	Microsoft 365 E3 license (device not included), software management and updates, and technical support plan.
Surface Hub-as-a-service (device excluded)	Low	\$230 per device/year	Microsoft Intune license, updates, break-fix, and service desk.

Tenant-level microservices	High	\$800 to \$1,200 per tenant/ month	Per-tenant management of various Microsoft 365 workloads, with offerings including antimalware management, Windows Analytics-as-a-service, and Windows Defender ATP-as-a-service.
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- › Resalable value-added IP includes solutions that both reduce partner delivery costs and increase revenues: a Windows 10 migration tool that brings in \$25 per user and attaches to 80% of deals; and a Microsoft 365 personalized use application that brings in 65 cents in annual revenue and attaches to 80% of deals. Resalable IP gross margins are assumed to be 65% over the three-year analysis. Gross margins on IP varied from 60% to 80% across interviewed partners.

The financial analysis finds that a typical Microsoft 365 engagement life cycle accrues revenues of \$853 and gross profits of \$310 per user over the three-year analysis for the best-case partner scenario. For an organization with 5,000 users, the Microsoft 365 modern desktop business opportunity opened the door to over \$4.2M in revenues and over \$1.5M in gross profit for the best-case partner scenario, resulting in a 36% overall deal gross margin.

Security And Compliance

The robust security and compliance workloads and solutions within Office 365, Enterprise Mobility + Security (EMS), and Windows 10 enable partners to build new practice areas to assist customer in four areas: Identity Management and Access Control (IDAM); information protection; threat protection; and, security management. Partners that build new security and compliance solution areas that help customers in these areas are increasing revenues, improving margins, creating customer stickiness, and helping differentiate their offerings from other partners.

Interviewed partners shared that they are getting traction with new and existing customers in the security space due to recent high-profile security threats and breaches and new regulations like the General Data Protection Regulation (GDPR). Given this increasing focus on security and compliance themes across industries and regions, partners are actively building diverse security offerings to help customers with varying security program maturity levels. Successful project work opened the door to a wide range of lucrative managed services opportunities. Partners also benefited from license revenue sharing from upselling to the Microsoft 365 E5 stock keeping unit (SKU) given the additional security solutions included in the E5 license.

“With GDPR, we have a good opportunity to speed up adoption and sell and implement [Microsoft 365] E3 and E5. We could see a 20% uplift in projects and revenue because of GDPR.”
EMEA partner

\$694

Anticipated three-year increased revenue for leading Microsoft 365 security and compliance partner, per user.

\$314

Anticipated three-year gross profit for leading Microsoft 365 security and compliance partner, per user.

Over 50%

Percentage of three-year revenues coming from managed services.

Partner benefits from expanding their security and compliance practice and offerings include:

- › New revenue and profit opportunities.
- › Higher renewal rates and increased customer stickiness.
- › Increased win rates on other non-security Microsoft 365 customer opportunities.
- › Upselling opportunities that increase customer lifetime value.

Security is one of the main reasons that companies are moving to Microsoft 365 (including an upgrade from Office 365), and this creates a lot of opportunity inside and outside of the security area. One European partner said, “Security is 80% of the reason why customers are moving to Microsoft 365 Of all the Microsoft 365 value propositions, security and EMS are most important to [customers].”

Direct Project Revenue

Initial engagements are aimed at understanding each customer’s existing security solutions and policies as well as assessing and remediating any security vulnerabilities, policy and governance deficiencies, and technology gaps in each customer’s environment. They lay the foundation for pilot and full-deployment engagements around

the Microsoft 365 security and compliance workloads and solutions. Some partners specialize in a particular vertical, e.g., healthcare, or Microsoft 365 solution area, e.g., compliance and eDiscovery. Others are building broader, more comprehensive practices, offering both professional and managed services to solve business leaders' critical security and compliance challenges across virtually all verticals. Notably, the implementation of Microsoft's identity and access management solutions, including Azure Active Directory (AD), Windows Hello, conditional access, and Windows credential guard, is often done at the beginning of the customer journey and is seen by partners as the foundation for future security and cloud transformation project work.

A typical customer journey and engagement model around Microsoft 365 security and compliance solutions during this phase consists of:

- › Secure Score assessment.
- › Cloud security policy development and technology road map.
- › Microsoft 365 security pilot.
- › Microsoft 365 identity and access management and threat protection implementation services.
- › Information protection implementation services.

Pull-Through Project Revenues

Microsoft partners with more mature security practices often help their customers build multiyear security visions and road maps as part of the initial project work, positioning themselves as their customers' trusted security partner. Subsequent security consulting project work, or pull-through projects, builds upon the initial assessment and strategy and deployment work, and includes data governance, GDPR, and enterprise security policy and process design and implementation services. These pull-through engagements not only provide partners with the ability to engage more deeply with customers on critical security and compliance themes; they also bring in additional consulting revenues that are, on average, approximately two times the initial consulting revenue. For some partners, pull-through revenues could be much larger.

"Our security offerings cover the complete Microsoft 365 Modern Workplace platform. That translates to years of work."

EMEA partner

The pull-through project revenues included in a typical three-year project life cycle consist of:

- › Ongoing security policy implementation services over the three years.
- › Governance and change management consulting.
- › Risk identification, remediation, and mitigation efforts.
- › Data inventorying, protection, and security compliance (especially around GDPR for organizations that do business in Europe).

Managed Services

Managed services bring partners predictable and high retention recurring revenue streams that improve the accuracy of long-term budgeting, forecasting, and planning, while increasing company value in instances in which selling to another consulting company is desirable. Understandably, partners are keenly interested in shifting their business mixes to include more MRR, generated through the introduction of myriad managed services and other offerings that ensure their customers remain secure and compliant in a rapidly evolving threat and regulatory landscape.

"There's going to be a lot of interest in efficient long-term managed services. Companies don't want to hire 20 privacy people when they can outsource this to a provider who can take care of data protection and vulnerability monitoring, management, and response."

NA partner

Managed service offerings vary greatly in terms of service configuration, pricing models, service-level agreements (SLAs), and contract periods. Some managed services are priced on a per-user or -server basis, while other partners offer services at a flat fee with annual contracts. Partners also offer a variety of service tiers to customers, with actual service pricing varying with technical and end-user support requirements, hours of availability, and SLA response times.

Value-Added Resalable IP

Most partners interviewed for this study are actively building proprietary software and solutions and packaged resalable intellectual property to complement and augment existing Microsoft 365 security workloads and solutions, and to provide cross-vendor solution security. Some examples include:

- › Creating an end-user information access and monitoring tool that looks across Microsoft other vendors' collaboration solutions to more quickly spot and address possible end-user security breaches.
- › Holistic security operation solution integrated with Microsoft Intelligent Security Graph (ISG), to enable security teams to capture, enrich, and validate security alerts from Azure with the logs from its own product.
- › SharePoint and Azure AD sync.
- › Data inventorying and mapping.

Economic Model

Forrester created an economic model looking across these areas and based on the following assumptions:

- › A single deal with 5,000 user adopters and a two-year managed services contract. The model assumes 2% customer churn in Year 3 of the analysis, consistent with what we learned from interviewees.
- › Direct project services include the following Year 1 engagements: \$20,000 Secure Score assessment; \$100,000 cloud security policy and technology road map; \$25,000 Microsoft 365 security pilot; \$100,000 in Microsoft 365 identity and threat protection implementation services; and \$25,000 in information protection implementation services. Forrester notes that engagement revenue will vary significantly across industries and organizational sizes. Gross margins used in this financial example are 45%.
- › Pull-through project revenues totaled \$508,000 per deal over three years. This included ongoing security policy implementation services, governance model creation and coaching, risk and compliance assessments, and consulting around GDPR. Gross margins used in this financial example are 45%.
- › Managed services included in the "Better" partner scenario include cloud server and technology security management, which assume attach rates ranging from 20% to 30% over the three-year analysis, and per-server monthly revenues of \$219. The "Best" case partner scenario includes a wide range of end-user and internal security services, including cloud server security monitoring and backup (\$219/server/month), end-user security monitoring, alerting and updating (\$20/user/month), EMS and Azure AD sync and support (\$3/user/month), and outsourced EMS management (\$20/user). Gross margins used in this financial example grow from 35% in year 1 to 41% in year 3 of the analysis due to ongoing partner investments in service delivery automation.
- › CSP channel revenue is 12% of the license costs paid to Microsoft. Microsoft may offer, from time to time, promotional kickers which could increase the revenue share percentage. For Microsoft 365 channel revenue, Forrester assumed an 80% gross margin since some of these monies are intended to go back into increased user adoption activities.

The financial analysis finds that a typical Microsoft 365 security and compliance engagement life cycle accrues revenues of \$694 and gross profits of \$314 per user over the three-year analysis for the best-case partner scenario. For an organization with 5,000 users, the Microsoft 365 security and compliance business opportunity opened the door to over \$3.4M in revenues and over \$1.5M in gross profit for the best-case partner scenario, resulting in a 45% overall deal gross margin.

Teamwork

The Microsoft 365 universal toolkit for teamwork centers around Microsoft Teams and Skype for Business, and it incorporates SharePoint, Yammer, Exchange, and OneDrive. It also creates pull-through opportunities for other tools and services, including Microsoft Power Apps, Flow, and Office 365 APIs, to help enable effective teamwork within organizations. Teamwork practices create a number of upselling and cross-selling opportunities while expanding their value proposition to their existing Microsoft 365 customer base. Furthermore, by expanding their collaboration capabilities and value proposition, partners were able to improve their win rate and close more Microsoft 365 deals with net-new labels. All of this results in a large opportunity for Microsoft partners as shown in the table below.

\$959

Anticipated increased revenue from Microsoft 365 teamwork solutions and services, per user.

\$577

Anticipated increased profit from Microsoft 365 teamwork solutions and services, per user.

Over 60%

Average gross margin on end-to-end Microsoft 365 collaboration solutions.

Partners experienced many benefits from expanding their teamwork practice and offerings, including:

- › New revenue and profit opportunities.
- › Improve win and renewal rates.
- › Grow average deal sizes.
- › Streamline sales cycles by offering a robust teamwork solution portfolio and value proposition.
- › Drive increased adoption of SharePoint and other Microsoft 365 tools and services which brings revenue opportunities.

“Microsoft Teams is a really low-effort product for us. We just go into organizations and show people how to use it, and the next time you come back two weeks or three weeks later, everyone is using it. It is great for us — it creates easy wins.”

EMEA partner

Direct Project Revenue

Deployment projects generally begin with readiness assessments and education engagements where partners inform customers about Microsoft 365's collaboration features and capabilities, and how they can use them to complement their existing collaboration platforms and workflows. As part of the readiness assessment, partners design a modern collaboration architecture that considers both the complexity of the end customer's existing collaboration platforms along with the organization's current IT maturity. Successful education, readiness, and architecture design project phases are almost always followed by pilot and full deployment engagements. One interviewee said: “We need to educate our customers on Microsoft 365's collaboration capabilities, and how they should be used, and how it complements existing solutions. They need to understand this — if you just turn it on, it might create a mess.”

Pull-Through Project Revenues

Partners noted that a significant part of any collaboration professional services engagement is change management and end-user adoption consulting. Several interviewees built out sophisticated change management capabilities to differentiate their offering and expand their value proposition to customers. Change management and adoption consulting were critical components to any deployment engagement, and partners noted that change management could account for 30% to 60% of total collaboration professional service revenue. Notably, several partners indicated that change management consulting projects often converted into longer-term change management managed services over time.

Managed Services

Core managed services offerings, which include tiers 1, 2, and 3 of technical and end-user support, and varying degrees of reactive and proactive collaboration solution management and administration see broad customer adoption with most partners who are experiencing attach rates at or near 100%. More premium managed services often packaged core managed services with ongoing change management and adoption services, third-party applications, and organizational analytics and reporting. One partner indicated that annual managed service contract values amount to approximately one-third of the first-year deal revenue.

“Our goal is to have 100% of our customers adopt our managed services offerings. We are all measured on the growth of our managed services business.”

EMEA partner

Partners also said that they are developing their own IP to power and streamline the delivery of proactive managed services and support for their Microsoft 365 customers. For example, partners invested in R&D to develop tooling and scripting for automating monitoring, patch management, and support functions associated with their managed service offerings.

Value-Added Resalable IP

The majority of interviewed partners are building proprietary software and solutions and packaged resalable IP to

complement, augment, and integrate Microsoft 365 with their existing IT environment or address the business needs and pain points within specific industry verticals. Examples include Microsoft Teams customization, configuration and provisioning tools, workflow integration tools, Skype audiovisual integration software for conference rooms, and hyperspecialized industry-focused collaboration IP. Partners said:

- › “We partnered with several other vendors to build a wildly popular virtual media gateway solution for Skype that we offer for \$200 per port, per month.”
- › “Our proprietary audio integration middleware attaches to 50% of our Microsoft 365 collaboration focused deals.”
- › “Building IP into Microsoft Teams is on our road map. We need to become very hyperspecialized and industry-specific in areas such as oil and gas. To do this, however, we need a repeatable business model.”
- › “The digital workplace accelerator we built into Microsoft Teams integrates new workflows and customizes the interface for specific business use cases. We deliver this with an upfront base charge around \$60,000 with an additional \$4 per user, per year fee for ongoing administration, management, and support.”

Economic Model

Forrester created an economic model looking across these areas and based on the following assumptions:

- › A single deal with 5,000 user adopters and a two-year managed services contract.
- › Deployment professional services were segmented into three distinct engagement phases: education consulting; collaboration readiness, assessment, planning, and architecture design; and Microsoft Teams and extended Microsoft 365 deployment services. Collaboration education engagements had an average deal size of \$15,000; collaboration readiness, assessment, planning, and architecture engagements had an average deal size of \$36,000; and Microsoft deployment services have an average deal size of \$500,000. All professional services saw gross margins of 50%. Forrester notes that engagement revenue will vary across industries and organizational sizes.
- › Pull-through change management and adoption services averaged \$330,000 per deal and had gross margins of 50%.
- › Monthly bundled managed services subscriptions were segmented into four tiers: basic collaboration support, advanced collaboration support, premium collaboration support, and change management as a service. Managed service attach rates, price points, and example service levels are outlined in the table below. Core managed services, which include basic, advanced, and premium collaboration solution support collectively had a 100% attach rate.

SERVICE LINE	ATTACH RATE	PER USER, PER MONTH FEE	EXAMPLE SERVICE LEVELS
Basic collaboration solution support	20%	\$4	Technical and end-user support (T1, T2, T3) during regular business hours (8 a.m. to 5 p.m.) and reactive solution management, monitoring, alerting, and reporting.
Advanced collaboration solution support	75%	\$6	Technical and end-user support (T1, T2, T3) from 8 a.m. to 8 p.m., and proactive solution management, monitoring, alerting, and reporting.
Premium collaboration solution support	5%	\$12	24x7 premium technical and end-user support (T1, T2, T3), proactive solution management, monitoring, alerting, and reporting, and organizational analytics and reporting.
Change management as a service	50%	\$6.25	Ongoing change management and adoption analytics, reporting, and training services.

- › CSP channel revenue assumptions are the same as in security and compliance.

- › Resalable value-added IP solutions included a proprietary audio-visual integration middleware solution that costs \$1,000 per tenant, per month with a 50% attach rate. There was also a digital workplace accelerator that attached to 25% of deals with an upfront base charge of \$25,000 and brought \$2.50 per user in annual fees for management and support.

The financial analysis finds that a typical teamwork Microsoft 365 engagement life cycle accrues revenues of \$959 and gross profits of \$577 per user over the three-year analysis for the best-case partner scenario. For an organization with 5,000 users, the Microsoft 365 teamwork business opportunity opened the door to nearly \$4.8M in revenues and nearly \$2.9M in gross profit for the best-case partner scenario, resulting in a 60% overall deal gross margin.

First-line Worker Industries

Microsoft 365 F1 empowers first-line workers to be more productive, collaborative, and creative in their roles using Office 365, Windows 10 Enterprise, and Enterprise Mobility + Security (EMS). By working with a userbase that has been traditionally underserved by IT, partners can expand their total addressable market to include new customer segments and verticals, upsell and grow their business relationships with existing Microsoft 365 customers and create recurring revenue streams through the delivery of managed services and value-added resalable IP.

The need for customers to expand their digital transformation initiatives beyond their corporate facilities has driven the Microsoft 365 opportunity around first-line workers. Partners, many of which are increasingly focusing on driving revenue growth within their existing customer installed bases, see the first-line worker business opportunity as a way to upsell existing customers and deliver additional customer value. Beyond growing existing customer relationships, many partners have used their first-line worker practices and solutions to concurrently expand into new vertical market segments, especially in healthcare, manufacturing, and retail (Forrester completed separate TEI partner opportunity studies for manufacturing and healthcare, and the references to them can be found in Appendix A). In pursuing these business segments, partners developed comprehensive offerings for first-line workers, spanning professional services, managed services, license sales, and value-added IP. This represents a large opportunity for partners.

“There is a 4 to 1 ratio of first-line workers to corporate workers in a number of verticals we work with. This represents an opportunity for hundreds of thousands of new users for our Microsoft 365 practice.”

EMEA partner

4 to 1

Ratio of firstline to corporate workers in industries such as hospitality, manufacturing, retail, and healthcare.

\$509

Anticipated increased revenue for leading Microsoft 365 first-line worker solution partners, per user, over three years.

38%

Average gross margin on end-to-end Microsoft 365 first-line worker solutions.

Partner benefits from expanding their first-line worker practice and offerings include:

- › Access to new customer segments that expand partners' total addressable markets (TAM).
- › Maximizing sales with existing accounts to achieve growth with low customer acquisition costs and minimal upfront investments.
- › Annuity and recurring revenue through managed services and follow-on project services.

Direct Project Revenues

The first step is a consulting engagement to assess and better understand the existing technologies and business processes within each customer's operational environment. These projects typically involve onsite analyses and interviews to understand, segment, and develop a set of employee profiles for the customer's first-line workforce. This baseline engagement is critical for understanding the business challenges, pain points, and legacy business processes and technologies that are hampering the efficiency, effectiveness, and employee

“First-line workers are certainly a growth area for us. The first wave [of a Microsoft 365 project] is onboarding corporate, then we work with first-line workers. We find that this is often the second or third phase of a project.”

EMEA partner

experience of first-line workers. One partner explained: “We try to segment first-line workers into seven to 12 personas and provide our customers with advice on what workloads and licenses they need, along with advice on how to ensure strong workforce adoption [of Microsoft 365]. We have found that [Microsoft 365] adoption is very persona-related.”

Technical and persona assessment and road mapping consulting projects are typically followed by Microsoft 365 deployment and migration projects. Deployment and migration projects are broken down into manageable waves to ensure successful adoption. The first wave typically consists of email and Office Online, with subsequent phases covering SharePoint, OneDrive, and Microsoft 365 collaboration workloads, including Microsoft Teams.

Pull-Through Project Revenues

Pull-through projects include adoption and change management consulting; portal, group, and workflow development in SharePoint and Teams; continuous learning and innovation services; business consulting services; and custom application development and application refactoring services. They allow partners to continually engage with their customers over time, ensuring that their customers’ first-line workforces effectively adopt and utilize the productivity-enhancing technologies and tools that are deployed during earlier project phases. Change management and adoption projects and services, including the development of training portals, on-demand content tailored to specific job roles and personas, and organization usage analytics and reporting, are impactful ways to continually engage with your customers and drive revenue growth with existing customers.

“For every dollar of deployment and migration project revenue we earn, we generally see approximately 15 cents to 40 cents of change management service revenue.”

NA partner

Managed Services

While recurring managed service revenues may represent only a small portion of a partner’s overall business mix today, all partners indicated that managed services are growing in strategic importance. One partner expects managed services to grow from just 25% of its overall annual revenue today to over 60% in the next three years. Attaching managed services to large first-line workforce digital transformation projects is one way to shift the business mix and grow MRR.

Partners that previously established managed services offerings for information workers typically offer similar services to first-line workers, although organizations are more likely to purchase more basic and less comprehensive service tiers for their first-line workforce. Modern desktop management and technical and end-user support services generally see the highest adoption across organizations with first-line workforces, with attach rates that vary from as low as 10% to as high as 80%. In addition, some partners have success providing security and device-as-a-service (DaaS) managed services for first-line workers in verticals including retail, construction, and manufacturing.

Value-Added Resalable IP

To shift their business mix toward recurring revenue over time, partners are building proprietary software and applications that meet the vertical and horizontal business requirements of their customers. Solutions that complement and augment Microsoft 365’s workloads or help organizations drive and improve adoption and utilization of Microsoft 365 tools and capabilities are a core focus for many partners with large Microsoft 365 installed bases. These offerings are the easiest to attach to broader first-line workforce transformation projects. Some examples of successful value-added pieces of IP include the following:

- › “We offer a prebuilt intranet solution for SharePoint that has very high adoption across our Microsoft cloud customer base. This is a very competitive market, so revenues average about €10 per user, per year.”
- › “We offer a native application for Microsoft 365, including a personalized organizational news feed, that we price at 65 cents per user annually.”

Economic Model

Forrester created an economic model looking across these areas and based on the following assumptions:

- › Based on a single deal with 20,000 first-line worker user adopters from a 25,000-employee organization, and a two-year managed services contract, the model assumes 2% customer churn in Year 3 of the analysis, consistent with what we learned from interviewees.

- › Direct project services are segmented into two phases. The first phase includes assessing the existing technical environment, business processes, and personas for the organization's first-line workforce, and brings in average project revenues of \$75,000. The second phase is made up of Microsoft 365 deployment and migration projects, focusing on workloads including Exchange, EMS, SharePoint, OneDrive, and Microsoft Teams. Deployment project revenues for these workloads total \$620,000 in this analysis. Forrester notes that engagement revenue will vary significantly across industries and organizational sizes.
- › Pull-through project revenues are generated through the delivery of change management and adoption consulting projects, SharePoint portal and Teams application development, custom application development projects, and continuous innovation services. Over the three-year analysis, total pull-through project revenue generated from these services exceeds \$850,000. Change management sees 75% attach rates and average project revenues of \$400,000. SharePoint and Microsoft Teams pull-through projects see 50% attach rates and are benchmarked at 32% of Year 1's direct project services revenues. Custom application development projects for first-line workers have a 25% attach rate and average \$225,000 in project revenue. All pull-through project revenues are adjusted to reflect the attach rates provided by partners. Forrester notes that pull-through project revenues will vary significantly across partners and readers should consider revenue streams most applicable to their own business models.
- › For the "Better" and "Best" case partner scenarios, our model incorporates several managed services offerings. Managed services included in the "Better" partner scenario cover modern desktop management, as well as technical and end-user support, which sees attach rates ranging from 20% to 30% over the three-year analysis, and per-user monthly revenues ranging from \$8.00 to \$10.25. The "Best" case partner scenario includes a few security-oriented managed services along with a DaaS offering. For more detail on the attach rates, pricing, and service components of each managed service offering, please see the table below.

SERVICE LINE	ATTACH RATE	PER USER, PER MONTH FEE	EXAMPLE SERVICE LEVELS
Desktop management	20% to 30%	\$8	Desktop management based on EMS and Microsoft Intune and security updates for more than 40 standard applications.
Technical and end-user support	20% to 30%	\$2.25 per user or enterprise block plans	Tier 1 and 2 technical and end-user support for first-line workers and their IT administrators.
Device-as-a-service	5% to 10%	\$40	Device, onsite delivery, technical support, configuration, and break-fix services.
Security managed services	20% to 30%	\$23	Security monitoring, alerting, and remediation. Support onboarding new users in EMS and Azure AD.

- › CSP channel revenue assumptions are the same as for modern desktop.
- › Resalable value-added IP brought 70% gross margins and attach to 80% of Microsoft 365 first-line worker projects. Per-user annual pricing varies from 65 cents for a Microsoft 365 personalized use application to \$10 annually for a prebuilt SharePoint intranet solution.

The financial analysis finds that a typical Microsoft 365 engagement life cycle accrues revenues of \$509 and gross profits of \$183 per user over the three-year analysis for the best-case partner scenario. For an organization with 20,000 first-line users, the Microsoft 365 first-line worker business opportunity opened the door to over \$10M in revenues and over \$3.9M in gross profit for the best-case partner scenario, resulting in a 38% overall deal gross margin.

A Sample End-To-End Customer Journey Opportunity

Each of the entry points is a possible starting point for a multi-year customer journey that provides additional opportunities for partners to engage with an existing customer, thereby increasing revenues and gross profits. The chosen entry point will vary based on a customer's needs and a partner's area(s) of expertise. Below is an example of one possible three-year customer journey with modern desktop as the entry point.

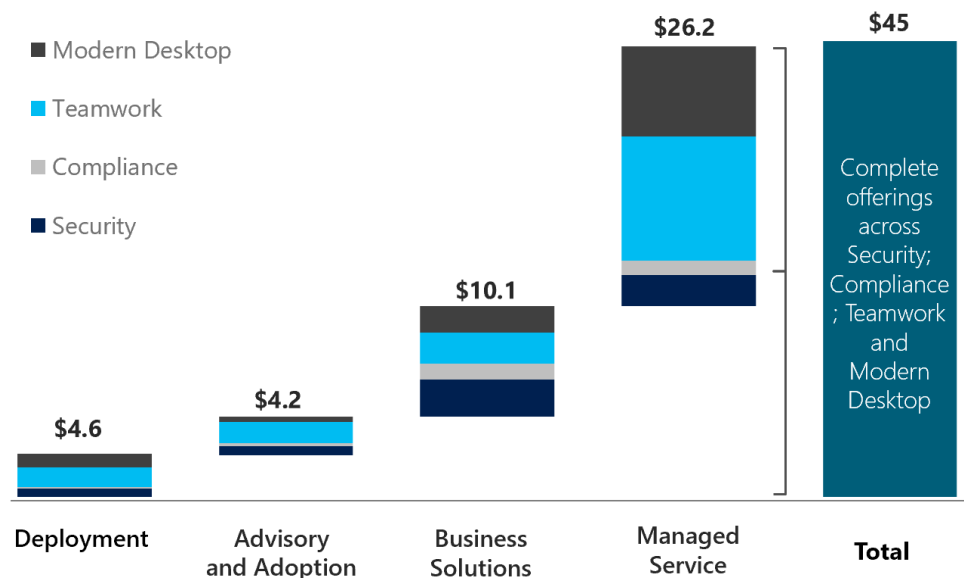
A typical journey includes three stages. The first stage is all about activation – assessing an organization's existing technologies and business processes, building a strategic technology roadmap, and standing up Microsoft 365 solutions and getting users onboarded. The second stage focuses on adaptation and adoption – configuring workloads to streamline business processes, ongoing integration with other business systems, providing change management and adoption consulting support, and deploying managed services. In the third phase, partners augment these solutions to deliver greater value to customers – delivering value-add IP building on Microsoft 365 off-the-shelf-solutions and additional managed services to ensure customers are realizing the full productivity, security, and teamwork benefits of Microsoft 365. Across the journey, specific services and solutions, attach rates, pricing and profitability levels will vary as discussed in the previous entry point sections of this study and the other partner studies listed in Appendix A.

For this analysis, Forrester calculated the revenue opportunity on a per-user, per-month basis. We removed overlapping services across the different solution areas, e.g. multiple strategy and planning engagements, change management initiatives, helpdesk managed services, etc. The voice opportunity, which was not included in this year's Teamwork analysis, was added back in from a previous partner opportunity analysis. There is approximately a 30% overlap across all the entry points when combined into a complete customer journey. Forrester also excluded the potential CSP channel margin opportunity since not all partners are eligible for it in all cases.

The opportunity was grouped into four categories:

- › Deployment – Initial efforts to standup and rollout the solutions.
- › Advisory and adoption – Upfront strategy and planning, persona-based solution definition, and change management services.
- › Business solutions – Traditional system integration build activities such as SharePoint integrations, LOB solution and application integrations, etc. Value-add IP that partners built on top of the Microsoft 365 solutions are also included.
- › Managed services – A wide range of services as described earlier ranging from proactive security monitoring to fully outsourcing of user support functions

Forrester estimates that the partner revenue opportunity for this example three-year customer journey is approximately \$45 per user per month for a customer organization with 5,000 knowledge workers. This represents a 40% gross margin across all solution areas and services and totals \$8.11 million over three years.



There may also be an opportunity to expand the overall digital business transformation initiative to firstline workers if the customer is an industry with many of them, e.g. healthcare and manufacturing. The three-year, firstline opportunity is estimated to be another \$14.13 revenue per user per month, and there are regularly as many as 4 times the number of firstline workers as there are knowledge workers in these industries.

Investment

To build and scale various Microsoft 365 practices, partners are making strategic investments in staffing, marketing, research and development, and training. Overall investment levels depend on how many practice areas are being expanded and/or being developed brand new. While many partners had existing sales, presales, engineering, and developer talent sets that they repurposed for various Microsoft 365 practices, others need to acquire additional talent, including practice leads, industry portfolio managers, sales, and customer and technical support personnel.

Investments also varied widely by practice area. Readers should review the individual TEI partner opportunity studies (See Appendix A for a list of studies) for a detailed discussion of investments. Below are some high-level findings.

Partners said that additional customer and technical support staff come at an average fully burdened annual salary of \$70K per FTE, while practice leads, which several partners added at the regional or industry level, come at an average fully burdened salary of \$185K per FTE. One partner hired 15 FTEs to support their change management and adoption consulting offerings. Average annual partner training spend ranged from a few thousand to hundreds of thousands of dollars annually.

Partners are also making significant research and development investments to bring new managed service offerings, vertical solutions, and value-added IP to market. One partner interviewed for the study has a dedicated team of developers and line-of-business professionals commissioned to focus exclusively on building new managed service offerings, streamlining and automating service execution, and building tools, templates, and offerings for targeted industries and business units. Research and development spend varied widely across partners from a few hundred thousand to several million dollars annually.

Partners are reallocating some of their marketing spend towards Microsoft 365 marketing and business development. Overall, Forrester has benchmarked additional marketing spend around the Microsoft 365 market opportunity to be approximately 5% of gross practice sales.

Conclusions

In the year since Microsoft announced Microsoft 365 for Enterprise, Forrester has seen a lot of development and growth in how partners are going to market and the services that they are offering their customers. In part, this is driven by customers' macro trends to deploy modern workplace solutions as part of a digital transformation initiative and a preference for SaaS-based solutions. This increased maturity is resulting in greater deal flow, higher revenues, and improving margins.

Expanding Microsoft 365 practices deliver many benefits to partners, including:

- › Growing and more predictable recurring revenue streams from offerings such as managed services.
- › Increasing margins with a move into new areas such as value-add IP and business consulting.
- › Diversifying across practice areas and industries which can reduce risk from market downturns and changing trends.
- › Developing more strategic relationships with the corporate IT organization as well as other LOB buyers and influencers.
- › Creating competitive differentiators to help win more deals, attract talent, and retain customers.

"Our customers have also demanded more comprehensive, strategic ways to service them. They're less interested in one-and-done projects and more interested with managed services or ways that they can completely offload components that used to be internally driven."

CTO, NA partner

Revenue and gross profit opportunities vary by practice area — modern desktop, security and compliance, teamwork, and first-line worker industries — as shown in this study. A typical 5,000 user, three-year customer journey delivered by a best-in class Microsoft partner, as depicted in the included example with modern desktop as the entry point, delivers \$45 per user per month in revenue which equates to \$8.11 million in revenue for the entire opportunity. There may also be an add-on opportunity with a customer's firstline workers for an additional \$14.13 in revenue per firstline user per month.

Forrester expects these opportunities to continue to grow in terms of number of deals, revenues per user, and average gross margins. Partners are continuing to make investments and to innovate, especially in developing their own IP, to both bring down delivery costs and to sell to customers on top of the Microsoft 365 workloads. It has been one year since the launch of Microsoft 365 Enterprise, and partners anticipate that the positive trends that have developed should continue into Year 2 and beyond.

Appendix A: Supplemental Material

Microsoft End User Forrester TEI studies

- › “Creating Business Value With Office 365 E5 Solutions — A Total Economic Impact Methodology Analysis,” July 2018.
- › “Creating Business Value With Microsoft 365 E5 Solutions — A Total Economic Impact Methodology Analysis,” July 2018.
- › “The Total Economic Impact Of Microsoft Windows Defender Advanced Threat Protection,” July 2017.

Microsoft Partner Forrester TEI studies

- › “The Business Opportunity For Microsoft 365 Modern Desktop For Microsoft Partners,” July 2018.
- › “The Partner Business Opportunity For Microsoft 365 Security And Compliance Solutions,” July 2018.
- › “The Business Opportunity For Microsoft 365 Collaboration Solutions For Microsoft Partners,” November 2017.
- › “The Partner Business Opportunity For Maximizing The Impact Of Firstline Workers With Microsoft 365,” July 2018.
- › “The Partner Opportunity For Microsoft 365 Business — A Total Economic Impact Partner Opportunity Analysis,” July 2018.
- › “The Partner Business Opportunity In Manufacturing With Microsoft 365,” July 2018.
- › “The Partner Business Opportunity In Healthcare With Microsoft 365,” July 2018.

Appendix B: Endnotes

¹ Source: "Predictions 2018: Employee Experience Powers The Future Of Work," Forrester Research, Inc., November 8, 2017.

² Source: "The Path To Customer Obsession Is Paved With Enterprise Collaboration," Forrester Research, Inc., February 8, 2018.

³ Source: "Predictions 2018: Employee Experience Powers The Future Of Work," Forrester Research, Inc., November 8, 2017.

⁴ Source: "The Global Tech Market Outlook For 2018 To 2019," Forrester Research, Inc., March 6, 2018.

⁵ Source: "Your Digital Transformation Is Not Bold Enough — Five Signs Of Trouble And Key Fixes," Forrester Research, Inc., May 9, 2017.

⁶ Source: Ibid.

⁷ Source: "Three Trends Shape Digital Services Engagements," Forrester Research, Inc., February 9, 2018.

⁸ Source: "Death Of The Traditional IT Channel," Forrester Research, Inc., November 7, 2017.

⁹ Source: Forrester Data Global Business Technographics Infrastructure Survey, 2016, Forrester Research, Inc.

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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 benefits 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 365 partner practices.

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 partner names for the interviews and survey.