The Partner Opportunity For Microsoft 365 Enterprise

A Total Economic Impact™ Partner Opportunity Analysis
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Executive Summary

Microsoft 365 Enterprise (formerly Secure Productive Enterprise) solution represents a fundamental change in how Microsoft positions its solutions and goes to market for enterprise customers. Microsoft 365 Enterprise (M365) is a bundled solution consisting of Office 365, Windows 10, and Enterprise Mobility + Security (EMS). This serves as a very large opportunity for partners of all types and sizes to engage with existing and new customers to increase revenues and create a multiyear recurring revenue business/delivery model.

Over the past few years, Forrester has interviewed Microsoft partners and their customer to understand the partner opportunity around Microsoft solutions. In 2017, Microsoft commissioned Forrester Consulting to look at the benefits partners can achieve with M365 and the associated effort to move into these new areas. In total across the various studies, Forrester has interviewed more than 40 partners and approximately 100 customers. Additionally, Forrester surveyed almost 500 customers around the benefits of M365 solutions and how Microsoft partners helped them achieve the benefits.

A major new theme that emerged this year is that partners and their customers no longer think about these solutions as individual workloads but as a coordinated multiyear journey to achieve business objectives. At the highest level, Forrester learned that M365 is central to customers’ digital transformation initiatives, that these engagements are about helping customers with a multiyear journey, and that M365 creates a wide range of additional revenue/service delivery opportunities for partners. One interviewee said: “For our customers interested in digital transformation, the revenue opportunity is huge. We are especially excited about ongoing consulting work and managed services.”

Quantified Revenue Opportunities

Forrester looked across the four main practice areas that are the service wrappers for Windows 10, Office 365, and Enterprise Mobility Suite (EMS) Microsoft products: Collaboration, Modern Desktop, Security & Compliance, and Cloud Voice. These practice areas are a way for partners to organize the delivery organization and to build P&Ls. Across these areas, Forrester quantified a range of revenue opportunities and looked at the M365 incremental opportunity beyond Office 365.

Based on the interviews and surveys, Forrester created a composite partner organization that delivers five new M365 projects in Year 1, 10 in Year 2, and 15 in Year 3. This organization experienced present value benefits of $42.3 million over three years versus overhead costs of $6.4 million, adding up to a net present value (NPV) of $35.9 million and an ROI of 565%. From a per-user perspective, each 5,000-user three-year customer journey delivers a present value benefit of $509.28 over the three years.
We based our numbers on one full M365 deployment for one new customer with 5,000 users for the composite partner organization analysis:

- **Initial consulting.** The total initial deployment opportunity for a 5,000-user customer delivers $1.1 million in revenue. The risk-adjusted gross revenues present value (PV) with a 40% gross margin is $352,754 for each completed implementation.

- **Ongoing consulting.** The opportunity here is primarily around subsequent Office 365 phases such as additional SharePoint deployments or rollouts of Skype for Business (SfB) and PBX solutions to more users. Gross margins increase over time through greater automation and economies in scale. The PV gross revenues in Years 2 and 3 total $159,774.

- **Managed services.** A very wide variety of managed services can be delivered, ranging from simple remote monitoring solutions to complete technology-as-a-service solutions that include provisioning users’ devices. Forrester applied different contract values and margins to the different solution areas. A consistent attach rate was used, which increases over time. These revenues are very appealing to interviewed partners because they are predictable and grow with each additional customer/user. For each 5,000-user customer, the total PV gross revenues were $1,271,407.

- **Value add intellectual property (IP).** Many of the interviewed partners are creating value add solutions that sit on top of M365 or enhance the solution. Some examples include remote monitoring and reporting tools, workflow engines that automate business processes, mobile applications, and industry specific portals and templates. The total monthly solution price increases over time as customers adopt more individual solutions and see increased value. The same attach rate as that for managed services was used. The three-year PV total benefit was $667,483.

- **M365 license channel margin.** If partners are digital partners of record (DPORs) or cloud solution providers (CSPs), they receive a portion of the license ESP revenues paid to Microsoft. Forrester made some forward-looking assumptions here that are subject to significant change. Forrester assumed that the organization has an equal blend of M365 E3 and E5 licenses, that 12% of revenues are paid out to the partner, and that a partner is eligible for these payments one-third of the time because of DPOR/CSP designation. Given these assumptions, the total PV gross revenue was $94,977.

**Costs.** In addition to direct delivery costs such as consultant salaries, which are included in gross margin calculations in the Benefits section of this study, the interviewed partners experienced the following risk-adjusted costs to build out new practice areas and grow their M365 practices:

- **Practice leads.** Forrester assumed that two new practice leads needed to be hired to cover all parts of M365. The most commonly reported practice area that needs to be built out is security. The total three-year cost is $1,642,769.
Customer experience and demonstration lab. To demonstrate the full potential of M365 to customers, partners built out a demonstration lab and added some devices for on-site demos. In addition to hardware, there are Azure and M365 license costs to host the demonstration accounts. The PV total cost was $176,973.

Value add IP development. Creating resalable IP requires an investment in software development and business process templating and best practices. Forrester assumed that 10 full-time equivalents (FTEs) worked on these activities during the initial M365 practice launch. Six FTEs remained afterward, updating existing offerings and bringing additional ones to market. This PV cost totals $2,863,660 over the life of the study.

Training. Different roles such as consultants and software developers needed training in the new solution areas. Between hiring training leads, developing and delivering training content, and attending Microsoft conferences, the total training spend was $684,607.

Marketing. There was a wide range in reported amounts of incremental marketing spend. Some partners said that nearly all marketing spend would be reallocated, and others believed there would be considerable investment in incremental marketing. Forrester took a middle-road approach and assumed $300,000 a year in incremental spending. The PV total over the initial period and subsequent three years was $985,661.
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 and organizing around the four M365 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 M365 and its underlying solutions.

CUSTOMER INTERVIEWS
Interviewed 12 partners selling M365 and underlying solutions plus an online survey of nine others to obtain data with respect to costs, benefits, and risks. Forrester also used data from six other partner and user TEI studies covering Office 365, Windows 10, and EMS.

COMPOSITE ORGANIZATION
Designed a composite partner organization based on characteristics of the interviewed partners.

FINANCIAL MODEL FRAMEWORK
Constructed a financial model representative of the interviews using the TEI methodology and risk-adjusted the financial model based on issues and concerns of the interviewed organizations.

CASE STUDY
Employed four fundamental elements of TEI in modeling the partner opportunity for M365. Given the increasing sophistication that enterprises have regarding ROI analyses related to IT investments, Forrester’s TEI methodology serves to provide a complete picture of the total economic impact of purchase decisions. Please see Appendix A for additional information on the TEI methodology.

DISCLOSURES

Readers should be aware of the following:

This study is commissioned by Microsoft and delivered by Forrester Consulting. It is not meant to be used as a competitive analysis.

Forrester makes no assumptions as to the potential ROI that other 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 customer names for the interviews and survey.
The Driving Forces And Opportunity For M365

Digital Business Transformation

In discussions with Microsoft customers who have deployed Microsoft 365 Enterprise and its underlying solutions, Forrester heard repeatedly that digital business transformation is one of their top priorities. Forrester Research reports (see Appendix B for references) confirm this finding. In Q3 2015, 82% of surveyed companies said that their business would be digitally disrupted in the next 12 months.¹ That time is now.

Microsoft’s customers’ overarching digital business transformation goal was to “improve business outcomes through the use of digital technologies.” The most important business outcomes were:

- Generating urgency.
  - Faster time-to-market/value.
  - Increased agility.
- Unlocking value.
  - Greater collaboration and communication – both internally and with customers and partners.
  - Better intelligence and analytics with a single view into corporate information.
- Improving financial results.
  - Ability to move the needle on whatever matters the most – revenues, profitability, customer growth, and/or stock price.

These goals are now more easily and, in some cases for the first time, achievable using cloud-based technologies and process orchestration. Microsoft customers felt that M365 would be one of their main digital business transformation enablers. The CTO at a US-based bank said: “Every company has a digital transformation initiative. For us, M365 along with Dynamics CRM and data lakes is our digital transformation trifecta.”

Microsoft customers also felt that the time to act is now. Several factors drive this sense of urgency. The first is a general belief that the technologies are now mature enough to make this transformation valuable and easy. The second is that they are hearing that the timing is right from consulting and research firms. Lastly, they are concerned that if they don’t act now, their competitors will outpace them or players from outside their industry will entirely disrupt them.

In 2016, when Forrester interviewed Microsoft partners delivering Office 365 engagements, the focus was on workload-specific deployments and customer conversations — enterprise social, business intelligence, control and compliance, and/or trust. Now, the focus is on a more holistic approach to define and deliver the appropriate customer journey tailored to their business priorities. Therefore, most of this study looks across all M365 workloads. Later, the study discusses specifics for each of the partner practice areas — Collaboration, Modern Desktop, Security & Compliance, and Cloud Voice.

The Expanded Partner Opportunity

The breadth of the M365 technical solutions and the bundle in which they’re delivered means that the total market potential is growing in two ways:

1. Partners can expand their relationship with existing customers in several ways. M365 touches many
business initiatives versus traditional IT ones, which opens access to line of business (LOB) technology spend in addition to that which the CIO’s office holds. M365 also creates opportunities for many different types of revenue streams and multiyear customer journeys. (These are discussed in more detail below.)

2. The combined M365 solution, with simplified pricing, marketing, and deployment, means that more companies are willing to embark on this journey and sooner. That should significantly increase the total addressable market (TAM). One customer who has deployed M365 said: “[M365] probably accelerated our adoption of these technologies by one year. Since Microsoft is putting more of its R&D into cloud-based solutions versus on-premises, it makes sense to move sooner rather than later.”

Through discussions with Microsoft partners, Forrester has identified a wide range of revenue generating opportunities shown in the diagram below.

M365 is comprised of Windows 10, Office 365, and EMS. In part, Microsoft Azure and Graph underpin these solutions. There are nine specific revenue opportunities Forrester has identified that fall under the technical consulting, business consulting, and intellectual consulting categories. Often, these touch multiple areas and are completed in conjunction with other services. One interviewee said: “We are very excited about the M365 opportunities. We are focused on managed services and tying together everything that we offer our customers — licenses, consulting ISV solutions, networking expertise, etc. With M365, we can bring together all the building blocks.” These services are discussed below in more of a chronological fashion rather than order of importance.

**STRATEGY AND ROAD MAP CONSULTING**

All partners that have traditional consulting business models described the importance of the upfront strategic consulting engagement. One interviewee said that 85% of customer journeys start this way. Sometimes this is done as a presales activity, but most often it is a paid engagement. The partner benefits by establishing a more strategic, trusted advisor relationship; has more interaction with LOB leaders and the chief experience officer suite; and helps define a multiyear road map, which includes many projects in which they can participate. Using M365 to position themselves as trusted advisors and a strategic partner was one of the most common and important sentiments the interviewed partners shared with Forrester.
SOFTWARE AND DEVICE PROVISIONING
Partners may provide the M365 licenses and/or various hardware. The license component depends on DPOR or CSP status and is discussed in the quantified benefits section of the study. Many interviewed partners supply hardware as part of different delivery models. Some sell communications equipment such as VoIP phones, headsets, and conference room setups upfront. Others provide user devices such as laptops, phones, and tablets. A few partners have created a full technology-as-a-service solution that includes all user devices and Windows tablets.

For those in the former category, the revenue and margin on reselling communications equipment was not high but created a stronger relationship with customers because they provide the complete solution. For those with a technology-as-a-service offering, this created large revenue opportunities and, in one case, was an entire business model. This model also increases stickiness because the devices need replacement every few years.

MIGRATION AND CONFIGURATION CONSULTING
Most upfront consulting activity centers on standing up the M365 solutions and moving customers from their previous solutions to M365. This can take up to one year or longer depending on the workloads being used and the complexity and size of previous solutions. One of the largest opportunities is around SharePoint Online (SPO) migrations. There are often many portals and workflows that need to be slowly migrated over the course of several years.

CUSTOMIZATION AND INTEGRATION CONSULTING
The initial projects may include customization and integration activities. These typically involve other Microsoft solutions such as Dynamics or Azure services. It can also include integration with third-party systems such as data repositories or integration of Cloud PBX into traditional PBX solutions. Customization and integration efforts often continue into future years as part of the customer journey road map.

BUSINESS PROCESS REDESIGN CONSULTING
Improving business processes is central to digital business transformation. Much like an enterprise resource planning deployment, this is an excellent time to review existing business processes and improve them. The change in underlying solutions may necessitate some business process reengineering. Partners felt that this is a key activity to increase the likelihood that customers will realize the full benefit of M365. These activities often continue in subsequent years as additional workloads or M365 features are rolled out.

ORGANIZATIONAL AND CHANGE MANAGEMENT CONSULTING
Complementing business process redesign is organizational and change management consulting. While M365 is not typically associated with a traditional organizational redesign, it does impact IT and support functions. The change management piece is critical to get right since an M365 program touches almost every worker across the organization. These activities can continue beyond the initial phases to support organizational realignments and the rollout of new solutions to new business units.

TRAINING
Training is a component of many offerings discussed immediately above. There is typically training for the IT organization and for internal trainers who will offer user training across the organization. Ongoing training is often part of a managed services solution. One partner has created a training portal with 4,000 on-demand training assets. It charges up to €4 per user per month for access to this content.

MANAGED SERVICES
Managed services is one of the most important revenue streams and is discussed in the financial example later in this study. Partners have a wide range of offerings and delivery models — everything from a very simple and inexpensive security monitoring service to an entire technology-as-a-service turnkey solution. Current attach rates were typically around 20% to 25% depending on the workload and are increasing. For most partners, managed services represented around 25% of total revenues, and the goal was to increase it to 50%.

RESALABLE INTELLECTUAL PROPERTY
Many partners have created resalable IP in one format or another. For some, it was management and reporting tools that sit across Microsoft and third-party solutions. Others have created specific features and apps that make the M365 solutions more effective. A common offering was industry-specific workflows, portals, and out-of-the-box reports. Almost every partner had a strong desire and efforts underway to increase these offerings. The typical margin for these solutions is in line with standard software-as-a-service (SaaS) 80% margins.

Practice Area Specifics

In conversations with partners, Forrester learned of differences between the practice areas in terms of opportunity and delivery. Forrester also learned that these are a natural way to organize and build P&Ls. Aligning delivery with Microsoft messaging makes marketing and customer conversations more effective. It also helps with internal training and other activities that work better when aligned with how Microsoft is organized.

COLLABORATION

The M365 solutions that fall under the Collaboration practice area include Exchange Online, SharePoint Online, Skype for Business, Yammer, and Microsoft Teams. Partners felt that this practice area resonates well with prospects regarding the digital business transformation and customer journey. From a timing perspective, these solutions typically span the entire multiyear program. Exchange is often the first deployment project, and SharePoint Online migrations can take several years.

Change management and business consulting is very important in this practice area because how people work together fundamentally changes, and this has very large cultural implications for customers. This is especially true for some of the newest solutions being introduced into M365 such as Microsoft Groups and Microsoft Teams.

Interviewed partners shared the following observations about their Collaboration practices:

- “Exchange Online is where we usually begin with new customers. We do an assessment to determine if it is right for them, and often a hybrid interim solution is the right way to begin.”
- “We begin our Skype for Business programs with a customer immersion experience. This is a 10-day pilot that costs around $20,000. It is then followed with a first phase, which usually costs between $50,000 to $100,000.”
- “Skype for Business is often a standalone project for us. Which workloads we roll out depends on how much funding a customer has available. We’ll then pick up the rest when they have more money.”
- “SharePoint Online is the big moneymaker for consulting services, our add-on technology solutions, and managed services. We do a lot of follow-on work customizing workflows and building online communities of practice.”
- “With SharePoint, we build a lot of custom dashboards and reports. We also spend a lot of time taking their legacy applications and workflows and rebuilding them in SharePoint.”
- “Yammer deployments do not bring in a lot of technical consulting revenue, but there is a lot of change management consulting.”
- “Groups and Teams is becoming huge for us. It is a part of the large productivity play. There is a lot of change management consulting revenue here.”

MODERN DESKTOP

Modern Desktop is comprised of Windows 10, Office Professional Plus (if not deployed as part of Office 365), and either ConfigMgr or Azure AD with Intune. There was a wide range of opinions about the partner opportunities here. Generally, Office Professional Plus was not seen as a big moneymaker. As for Windows 10, because the upgrade is easier than to previous versions of Windows, the initial consulting opportunity may be smaller than in the past. However, there are a lot of full-stack managed services opportunities around these solutions and 1LS support. There is also the opportunity to provide the hardware devices as a full technology-as-a-service offering. For this study, Forrester focused on the Windows 10 opportunity because this is where partners have had the most opportunity to date.

Widespread interest and adoption in Windows 10, as part of Modern Desktop, is creating business opportunities
for Microsoft partners ready to make the transition from a transactional business model to an ongoing relational business model. According to Forrester’s recent survey of technology decision makers, more than 61% of newly purchased PCs during 2017 are expected to run Windows 10. This finding was confirmed in interviews with Microsoft Partners, most of which indicated that they expect business adoption of Windows 10 to reach 80% to 90% by 2019.

Customers are increasingly demanding more comprehensive managed services from their business partners. Today’s business customer is less interested in one-and-done projects; increasingly, customers are looking for ways to offload cumbersome IT activities or find ways to leverage an expert partner to increase business agility. Customers’ general unpreparedness related to continuous management of their OSes compound these customer dynamics. As one customer put it: “They ask us to give them guidelines and put plans in place to help them get to Windows 10. That is opening the door for a managed service conversation. Often, we hear customers tell us that they don’t have the resources to do this on a continuous basis, and they want us to manage this for them.”

Interviewed partners shared the following observations about their Modern Desktop practices:

› “We are doing some large Windows 10 deployments including one for 25,000 seats. Overall, we are seeing less than previous versions of windows because Microsoft has made it easier to upgrade to Windows 10.”

› “We see clients looking at device refresh and modern devices as part of the strategy for Windows 10 adoption. You know, I’ve got a number of situations where our clients are looking to mobilize the field in a more effective way and doing that with Windows 10 devices.”

› “Bundling everything into a service in a single contract that includes devices, management of those devices, application delivery, application packaging, and wraparound services to deliver experience is in growing demand.”

› “We are trying to converge our products and services into one single, valid proposition, and this is the concept of Smart Workspace. We can advise you, migrate the whole workspace, and manage it on your behalf. That’s the overall vision that we have, and this is where our customers and partners are expecting us to be.”

› “The biggest thing that customers don’t understand today is what Windows-as-a-service means and how disruptive that’s going to be to their environment. So, they’re not prepared to continuously manage a new OS with us every six months.”

› “In our upfront pilot projects, clients want to understand the new features of Windows 10 and what might be the most appropriate for them. They want to build a future-state strategy. And then the actual pilot is all about proving that to be real.”

› “We talk to customers about our value add IP while we talk to them about Windows 10 readiness and sell the Windows 10 program. Generally, everything is linked together with a back-end digital strategy.”

SECURITY & COMPLIANCE

Security & Compliance consists of Office 365 Advanced Security & Compliance workloads, EMS, and Windows DATP. For most interviewed partners, security was their weakest practice area and where they felt the need to invest a significant amount of time and money. They believe the largest opportunity for this practice is in managed services.

For partners working in Europe or with their customers doing business in Europe, there will be an increased opportunity in the security space with the rollout of the General Data Protection Regulation (GDPR). The suite of Security & Compliance solutions in M365 makes it easier for companies to meet the enhanced requirements — personal privacy, better logging and reporting, mandatory notifications, and transparent policies. This will require new systems and processes as well as a lot of training. Because there are hefty fines that back this up, customers will be highly motivated to engage consulting firms that can help. A typical partner comment was, “We have a lot of customers asking us about GDPR. I see a lot of consulting and training opportunities here.”

As part of this study and a separate study looking at Office 365 Advanced Security & Compliance workloads (see Appendix B for citation), partners described the different opportunities that exist across the different solutions. For Office 365, partners talked about two different types of offerings. The first was a low-cost automated monitoring solution that typically costs between $2 and $5 depending on what is included. It has a high attach
rate and margins around 80% because of automation and scale. The second was a broader Security & Compliance managed services offering at a higher price but with lower attach rates and margins.

For consulting services, compliance was one area where partners thought there was a lot of future opportunity. One partner said: "We do a lot of Office 365 Security work. Compliance is the niche offering, and then we move into other services." This often leads to follow-on consulting work in future years helping with eDiscovery and other compliance-related projects.

Partners also felt that having a good security story and competencies differentiates them from their competitors and greatly improves their trusted advisor status with customers. Partners specifically said:

- "We typically charge $25,000 for a security pilot and then $100,000 for the full deployment of each major security workload."
- "Our goal with managed services is to become stickier, especially around security. Security is a great opportunity for managed services."
- "Our current attach rate for security managed services is 20%, and it is growing very fast."
- "Our EMS managed service margin right now is only 35% because we are going for a land grab. All of our customers are starting to use our security managed services."
- "I am hearing from our security practice folks that security is coming up more and more in conversations with prospects. We often start with an across-the-board security assessment."
- "We are seeing a lot of opportunity and revenue growth in places where Microsoft is leading the security conversation."
- "Our customers are much more knowledgeable now about their need for better security. They think of Microsoft as a security company, so the number of security offerings we sell can be substantially greater."
- "The new Microsoft offerings make it easier for us to add value to customers. Small and medium-sized businesses do not have enough security folks, and the need in increasing. The opportunity is huge."
- "It is now all about end user security, and that is our space. Nobody can provide better security than public cloud providers. We are leading with security and seeing a lot of new sales opportunities."
- "Managed services will be more and more interesting — especially as Microsoft is looking to security partners like us to help their customers be more secure and productive."
- "There will be a lot of managed services opportunities around data governance. Improved intelligence and reporting will get us in the door to customers."
- "The advanced security workloads make us less of a commodity with our customers, compared with the hundreds of big firms out there. We are seen as a trusted advisor."
- "Adding new security offerings into our mix will make us stickier. It will bring down our customer churn rates."
- "We sit down with legal and IT teams to understand how our customers do eDiscovery and compliance. That usually leads to the next round of projects."
- "[M365] makes delivery easier than in the past when we had to talk about many different security vendors and integrate them all together. Customers are surprised to hear how many security solutions Microsoft has. This is not a one-size-fits-all approach since some customers like a single vendor to make sure there are no gaps, and others still prefer integrating spot solutions."
- "It is easier for customers to understand how the security jigsaw puzzle fits together, and it is easier for us to have the one-Microsoft conversation. From a managed services perspective, I see the long-term play to get more Microsoft security solutions into the customer."

CLOUD VOICE
Cloud Voice is comprised of the Cloud PBX and PSTN Conferencing solutions within M365. These are some of the newest offerings and, especially in the case of Cloud PBX, one of the later workloads that customers deploy. This is also one of the areas where partners have the least expertise because an entirely different type of
technology consulting company traditionally provided telecom solutions.

Rolling out Cloud PBX can be a multiyear effort based on when traditional PBX hardware is end-of-life or when new offices are opened or moved. Partners said that the margins on hardware such as voice over internet protocol (VoIP) phones are very thin and not a strong focus. Some partners encouraged their customers to buy the hardware directly from the hardware vendors.

Some of the remarks partners said include:

› “PSTN Conferencing is usually deployed after the other Skype solutions. A PSTN Conferencing project sells for upward of $150,000.”
› “We are rolling out Skype voice solutions across 26 countries for one customer. It will cost around £700,000 including the kit.”
› “PSTN conferencing is the easiest way to start our customers down the voice path. It’s a Trojan horse. Users then want all the flexibility of Cloud PBX on their devices.”
› “There is not that much margin in hardware anymore. Most of our customers are buying handsets and VoIP phones themselves. However, telepresence rooms can still have good margins on the hardware.”
› “We charge around £270,000 to set up 10,000 users with voice solutions and sell another £130,000 in other vendors’ hardware. The markup is only 5% to 10% on the hardware.”

Partner Best Practices

Microsoft provided Forrester with the names of partners that it considered among the very top choices for given practice(s) area. Forrester discussed best practices that it developed and lessons that it learned earlier. Interestingly, there was a high degree of similarity regardless of practice specialization. At first glance, all seems applicable to any solution offering, but the partners feel strongly that solutions especially apply to M365 practices and overall organizational development.

CULTURE AND ORGANIZATION

› “We invest heavily in our culture to make sure everyone knows how to talk to each other and our customers. This is especially important now that we are helping customers solve their biggest business challenges. Investing in our people is what leads to our success.”
› “We have a very rigorous hiring approach and only hire great people. This also applies to internal transfers to our [M365] related teams.”
› “Our core value is to truly help our customers. They see a lot of value in that.”
› “Our culture and values are what differentiate us. We have a strong desire to fix things and this leads to long-term relationships. [M365] really helps us establish these long relationships.”
› “We have three different delivery teams (business consulting, IT consulting, and managed services), which can cause challenges because they all have different styles. But it has a flywheel effect, passing leads to each other increases sales and they have each other’s backs.”

BUSINESS OUTCOME SELLING

› “With [M365], we have had to develop a different lens on how we sell. Our competitors are trying to sell a technical solution. We are selling business outcomes that totally changes the conversation. ‘Tell us what your business problems are so we can make it better and easier for you through technology. Success in the future is being able to talk about the business, although you rock solid technology skills and go with that.”
› “We changed our focus to strategically selling to new accounts so that they sign up for the full customer journey. This has changed the type and nature of the relationship for the better. Our customer managers deal with client success, and our account managers focus on getting them to spend.”
› “Embracing the Microsoft vision helps us stay one step ahead of the competition. Previously, we didn’t sell the journey that made our relationships more transactional.”
“With the new Microsoft solutions, we moved to a consultative sales model. We listen to our customers to understand their objectives and tailor a transformation journey for them.”

“Our salespeople work very closely with Microsoft. Fifty- to 60-percent of our new customer relationships are coming from cohosted events we do with Microsoft.”

TRAINING
“"We are overinvesting in training for our people because this is a disruptive technology. We do this better than most of our competitors.”
“"We do a lot of internal self-learning and collaboration. We use Yammer for knowledge sharing and developing a strong internal network of experts.”
“"One thing I would do differently is have more structure and training for my people early on.”

DELIVERY
“The most important thing is having good practice leads. We hired good people who have done this someplace else. They live and die by their specialization and own the delivery number. We have them create a business case for why their practice area should exist.”
“We have had to create new role definitions for our projects because a lot of what we are doing with Microsoft is on the bleeding edge. We are even in the HoloLens development program.”
“We have made a lot investment in modern workplace methodologies and people over the past two years. I wish I would have made a similar investment earlier on in SharePoint. That is where we can really sell a lot of business consulting.”

FORRESTER RECOMMENDATIONS
From the best practices and other information shared by Microsoft partners, Forrester had identified six specific recommendations for partners who are beginning with M365 or looking to improve their existing practices. These are:

1. Focus marketing and sales messaging on digital business transformation and the customer journey. Keep messaging aligned with Microsoft’s and update the messaging as new solutions become available.
3. If a partner does not have competencies across all four practice areas, look for alternative approaches to provide customers with holistic solutions. This can occur through investing in new practices, acquiring other consulting companies, or partnering with other best-in-class providers. Forrester spoke with several groups that have partnered together with very good results.
4. Invest early in across-the-board training, especially in upgrading security practices.
5. Business consulting is becoming much more important. Partners need to have planning, process engineering, and change management consulting capabilities. That said, strong technical capabilities remain a must have.
6. Create resalable IP to differentiate from competitors and to increase margins.
Financial Example

Forrester created a financial model showing the benefits and costs for a composite organization based on the interviewed and surveyed partners. Additionally, revenue streams that were already calculated in other Forrester studies (e.g., EMS deployment professional service fees) were used in this study. The total M365 revenues a partner generates will vary based on the number of projects delivered.

Additionally, if partners do not cover all workloads/practice areas, they will not realize those benefits. In interviews, partners described a range of approaches to covering all areas. The most common was investing to build new practice areas in-house. Acquisition of other consultancies was also an approach being used. One of the most interesting approaches was forming partnerships to provide a unified full suite of services and expertise to customers. Forrester spoke with two consortiums in Europe -- one made up of five consulting companies and the other made up of three, which have created joint offerings and go-to-market campaigns.

Two interviewed partners shared the same rule of thumb that for every dollar in upfront consulting, they expect 100 to 200 times in additional revenues during the customer’s full M365 journey. “The future work is 100x to 200x, compared with the first project. If they spend $50,000 upfront, they should spend $5 million to $10 million over the next five years.” That means we must treat our 3,000 users like a full enterprise customer now. They have $20 million problems and we’ll give you $5 million to fix it.”

Composite Organization

Based on the interviews, Forrester constructed a TEI framework, a composite partner company, and an associated ROI analysis that illustrates the areas financially affected. The composite partner organization is representative of the 12 companies that Forrester interviewed in this phase and builds on the thirty previous partner interviews. The composite partner organization presents the aggregate financial analysis. The composite partner organization that Forrester synthesized from the customer interviews has the following characteristics:

› It is a US-headquartered organization with operations across North America and an office in the UK for European projects.

› It delivers both professional services and value add software solutions. Both are delivered across several leading SaaS enterprise solutions, although Microsoft represents the majority of revenue and resources.

› There were existing Windows 10 and Office 365 practices. These were rebranded and aligned to Modern Desktop and Collaboration practices. A new security practice was established to cover EMS and the expanded security features in Windows 10 and Office 365. A Cloud Voice practice also had to be established.

› Client demand for the composite organization’s M365 services and solutions is growing fast.

› Forrester assumed that in Year 1 five M365 customer journeys are kicked off. This increases to 10 in Year 2 and 15 in Year 3.
The initial consulting effort consisted of several phases — a short strategic road-mapping project followed by a pilot and then standing up Windows 10, Office 365, and EMS as well as the required training. The main Office 365 workloads, along with all Windows 10 and EMS, were rolled out to users. Subsequent Office 365 work primarily around SharePoint and voice continued into subsequent years and is discussed later. Some of what partners said included:

- “We try to educate customers about the whole portfolio through visioning and road mapping. This strategic conversation is part of every program with kickoff now. Customers then typically spend $750,000 to $1 million in the first year.
- “We like to do a quick-win project for $100,000. We then follow on with a $500,000 project in the next phase.
- “Half of our new customers are still starting with identity and access management and then moving into Exchange Online. We work with the Microsoft Fast Track Center a lot and wrap our services on top of that.”

Forrester made several assumptions and used data from other TEI studies.

- Five M365 customer journeys are kicked off in Year 1, 10 in Year 2, and 15 in Year 3.
- The average number of users/seats are 5,000 for every customer.
- The Office 365 deployment revenues are taken from an Office 365 TEI study (see Appendix B). The deployment took eight months and three consultant FTEs billed at $1,200 per day.
- Windows 10 deployment costs are from a TEI Windows 10 partner study (see Appendix B).
- EMS deployment costs are from an EMS TEI study (see Appendix B). Professional services are estimated to be 70% of license costs. An average monthly license cost of $6.90 per user was used in that study, which is lower than the current list price for EMS licenses.
- Because there is overlap in professional services across these different projects (e.g., common program management, architecture and design, and business consulting), the total of these three efforts was discounted by 30%.
- A 40% gross margin was used in Year 1 to account for labor and other direct delivery costs. This increased over the life of the study because of economies of scale delivering more projects and from increased automation and templating. It also increased because more business consulting services were delivered, which partners said was higher margin than technical consulting.
There is a wide range in revenues based on customer size and workloads included, with the number of customer journeys kicking off. Different partners also had very different day rates and pricing models. To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year risk-adjusted total PV of $10.1 million.

### Initial Consulting

<table>
<thead>
<tr>
<th>REF.</th>
<th>METRIC</th>
<th>CALC.</th>
<th>YEAR 1</th>
<th>YEAR 2</th>
<th>YEAR 3</th>
</tr>
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<tbody>
<tr>
<td>A1</td>
<td>Number of projects</td>
<td>5</td>
<td>10</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>A2</td>
<td>Number of users</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>A3</td>
<td>Office 365 deployment</td>
<td>$800,000</td>
<td>$800,000</td>
<td>$800,000</td>
<td></td>
</tr>
<tr>
<td>A4</td>
<td>Windows 10 deployment</td>
<td>$450,000</td>
<td>$450,000</td>
<td>$450,000</td>
<td></td>
</tr>
<tr>
<td>A5</td>
<td>EMS deployment</td>
<td>A2*$6.90<em>12 months</em>70%</td>
<td>$289,800</td>
<td>$289,800</td>
<td>$289,800</td>
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<tr>
<td>A6</td>
<td>Total initial consulting</td>
<td>(A1*(A3+A4+A5))*70%</td>
<td>$5,389,300</td>
<td>$10,778,600</td>
<td>$16,167,900</td>
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<tr>
<td>A7</td>
<td>Gross margin</td>
<td>40%</td>
<td>43%</td>
<td>45%</td>
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<tr>
<td>At</td>
<td>Initial consulting</td>
<td>A1<em>A3</em>A4*A5</td>
<td>$2,155,720</td>
<td>$4,634,798</td>
<td>$7,275,555</td>
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<tr>
<td></td>
<td>Risk adjustment</td>
<td>▼10%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Atr</td>
<td>Initial consulting (risk-adjusted)</td>
<td></td>
<td>$1,940,148</td>
<td>$4,171,318</td>
<td>$6,548,000</td>
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</tbody>
</table>

### Ongoing Consulting

The ongoing consulting opportunity involves Office 365. Follow-on Windows 10 and EMS work is part of managed services, which we discuss later in the study. The main projects are migrating more SharePoint portals and associated data, rollouts of other SfB features such as PSTN dialing, and PBX deployments at customers’ more remote or new offices. Through the Office 365 E5 study, we determined that follow-on consulting is typically 32% of the first-year consulting revenue in each of the following two years.

Form the interviewed partners, Forrester heard:

- “If we do a good job on the first phase of SharePoint Online with our business analysts defining a road map, there is a good follow-on opportunity. We want to make the same money in subsequent years rolling out portals. Probably 50% of our new customers sign up to a multiyear road map.”
- “We like to start with a smaller upfront project and grow that to a couple of hundred thousand dollars in the next phase. Some of our customers spend millions of dollars over a few years.”

For the composite partner organization, Forrester assumes that:

- Annual ongoing consulting is 32% of the first-year revenues.
- The same gross margin rates from initial consulting are used here.

The amount of ongoing consulting depends on the amount of initial consulting and the workloads that still need to roll out. Partners reported sizeable variation in these areas. To account for these risks, Forrester adjusted this benefit down by 10%, yielding a three-year risk-adjusted total PV of $1.57 million. Future revenue streams associated with programs kicked off in Years 2 and 3 are not included.
Managed Services

As discussed earlier in the study, partners felt that managed services was their greatest opportunity. The types of managed services vary greatly, and the corresponding prices go from $3 per user per month for security monitoring to $100-plus for full technology-as-a-service offerings. Another variable is the attach rate. All partners saw this as something that would increase over time because M365 provides many more opportunities for managed services that deliver real business value and saves customers money by not doing these things in-house.

Some of what Forrester heard included:

- “We currently have a 14% attach rate on managed services. A realistic goal is 35%.”
- “Our cloud support business is growing 20% month-on-month.”
- Our Skype managed services margin is 70%.”
- “Managed services is a volume play so I built a global operations center in India. The more customers I sign up for managed services, the more margin I make.”
- “One in 3.5 customers use our managed services and it is growing. We make 50% margin on managed services.”
- “Our goal is 50% of all revenue coming from managed services in two years. We charge around $60 for all workloads in Office 365. ‘We take all your concerns and make them go away.’”
- “Manage services is hypercritical.”

Forrester made the following assumptions for the financial model:

- The initial attach rate was 20% and increased over the life of the study as the offerings matured and because of increased sales and marketing effort.
- The average Office 365 related monthly managed services fee was $65 per user. This included 1, 2, and 3 LS support and management of devices and underlying systems.
- From the Windows 10 partner TEI study, Forrester learned that typical managed services were $60 to $80 per user per month. Forrester used the midpoint of $70.
- From the Security Partner TEI study, Forrester used the example that a partner gave of charging $20 per user per month.
- Because there is overlap between these different managed services, the total of these three was reduced by 30%.
- Various gross margins were used for the different offerings based on what was reported by partners for this and other TEI studies. These margins increased over time as economies of scale and greater automation were achieved.

The managed services revenue opportunity will vary greatly based on how many total users there are and the attach rate as well as what services are being offered. To account for these risks, Forrester adjusted this benefit downward by 15%, yielding a three-year risk-adjusted total PV of $19.0 million.
Value add IP

Partners had different approaches to creating their own IP that they could sell to customers — software features and apps that sit on top of M365 to improve usability or fill feature gaps. Others created templated best practices portals and workflows for either specific industries or job functions (e.g., board of directors).

From the interviewed partners, Forrester heard:

› “We have created a lot of bundles that increases margins because of reuse. We have vertical specific bundles such as healthcare and horizontal bundles for roles like HR. We also have workload-specific bundles, one of which is document management.”

› “We are putting a lot of effort into creating our won IP solutions. They sit on top of the Office 365 stack. We are starting four to six new initiatives here. Our revenues doubled last year.”

› “We like our IP initiatives to be driven by customers and co-fund it with them. We are on the cusp of launching something very significant and repeatable in one of our verticals. It is definitely the way to higher margins and to differentiate in the future.”

› “Our IP revenues are 10% but growing fast. They are doubling year-on-year.”

› “We are making 80% SaaS margins on our IP solutions.”

For the composite partner organization, Forrester assumes that:

› The number of users with paid IP licenses is the same as the number of users with managed services.

› The monthly revenue per user across several IP offerings totaled $25. This increased to $35 by Year 3 of the study.

› An 80% gross margin was used as reported by many of the partners.

IP-related revenues will vary based on the offerings and take rates. To account for these risks, Forrester adjusted this benefit downward by 15%, yielding a three-year risk-adjusted total PV of $10.2 million.
The Partner Opportunity For Microsoft 365 Enterprise

There is an opportunity for partners to share in the M365 license revenue with Microsoft. This depends on them being a DPOR or a CSP partner. Some partners actively sought these relationships and revenues; others were not concerned about pursuing this. From the interviewed partners, Forrester heard:

› “We have made DPOR a real focus.”
› “We spend some of this money on services for clients to build adoption and hire technical account managers.”

For the composite partner organization, Forrester assumes that:

› In the deployment year, license revenues are collected for six months on average.
› M365 licenses are evenly split between E3 and E5 and list prices were used to calculate the average license price. A 35% discount was applied for the 5,000-user volume.
› Partners were only eligible for revenue sharing for 33% of the total users.
› Forrester used a 12% revenue share, which was shared by Microsoft as part of the Microsoft Security partner TEI study.
› An 80% gross margin was applied since some of the money is intended go back into activities to drive user adoption.

This benefit can vary widely and often doesn’t exist if partners are not eligible. To account for these risks, Forrester adjusted this benefit downward by 15%, yielding a three-year risk-adjusted total PV of $1.28 million.

### Microsoft 365 Enterprise License Channel Margin

<table>
<thead>
<tr>
<th>REF.</th>
<th>METRIC</th>
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<th>YEAR 2</th>
<th>YEAR 3</th>
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<tbody>
<tr>
<td>D1</td>
<td>Number of seats</td>
<td>=C2</td>
<td>2,500</td>
<td>12,500</td>
<td>33,750</td>
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<tr>
<td>D2</td>
<td>Monthly revenue per seat</td>
<td></td>
<td>$25</td>
<td>$30</td>
<td>$35</td>
</tr>
<tr>
<td>D3</td>
<td>Annual revenue</td>
<td>D1<em>D2</em>12 months</td>
<td>$750,00</td>
<td>$4,500,00</td>
<td>$14,175,00</td>
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<td>Dt</td>
<td>Value add IP</td>
<td>D2*80% gross margin</td>
<td>$600,000</td>
<td>$3,600,00</td>
<td>$11,340,00</td>
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<tr>
<td></td>
<td>Risk adjustment</td>
<td>↓15%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dtr</td>
<td>Value add IP (risk-adjusted)</td>
<td></td>
<td>$510,000</td>
<td>$3,060,00</td>
<td>$9,639,00</td>
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</table>

### M365 License Channel Margin

<table>
<thead>
<tr>
<th>REF.</th>
<th>METRIC</th>
<th>CALC.</th>
<th>YEAR 1</th>
<th>YEAR 2</th>
<th>YEAR 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>E1</td>
<td>Total number of users</td>
<td>A1*A2 [each year] [50% in deployment year]</td>
<td>12,500</td>
<td>50,000</td>
<td>112,500</td>
</tr>
<tr>
<td>E2</td>
<td>M365 annual license cost</td>
<td>Average ($32 and $57)*(1-35%)*12 months</td>
<td>$347</td>
<td>$347</td>
<td>$347</td>
</tr>
<tr>
<td>E3</td>
<td>Partner revenue</td>
<td>E1<em>E2</em>12%*33%</td>
<td>$171,815</td>
<td>$687,258</td>
<td>$1,546,331</td>
</tr>
<tr>
<td>Et</td>
<td>M365 license channel margin</td>
<td>E3*80%</td>
<td>$137,452</td>
<td>$549,806</td>
<td>$1,237,064</td>
</tr>
<tr>
<td></td>
<td>Risk adjustment</td>
<td>↓15%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Etr</td>
<td>M365 license channel margin (risk-adjusted)</td>
<td></td>
<td>$116,834</td>
<td>$467,335</td>
<td>$1,051,505</td>
</tr>
</tbody>
</table>
Flexibility

The value of flexibility is clearly unique to each partner, and the measure of its value varies from organization to organization. There are multiple scenarios in which a partner might choose to invest in its M365-related practices and later realize additional benefits.

The M365 ecosystem is quickly evolving. This creates many new opportunities to invest in new service offerings and new value add software solutions and to enter new practice areas. No future opportunities were included in the cost-benefit analysis within this study.

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

Total Costs

<table>
<thead>
<tr>
<th>REF.</th>
<th>COST</th>
<th>INITIAL</th>
<th>YEAR 1</th>
<th>YEAR 2</th>
<th>YEAR 3</th>
<th>TOTAL</th>
<th>PRESENT VALUE</th>
</tr>
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<tbody>
<tr>
<td>Ftr</td>
<td>Practice leads</td>
<td>$275,000</td>
<td>$550,000</td>
<td>$550,000</td>
<td>$550,000</td>
<td>$1,925,000</td>
<td>$1,642,769</td>
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<td>Gtr</td>
<td>Customer experience and demonstration lab</td>
<td>$99,000</td>
<td>$31,350</td>
<td>$31,350</td>
<td>$31,350</td>
<td>$193,050</td>
<td>$176,963</td>
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<tr>
<td>Htr</td>
<td>Value add IP development</td>
<td>$718,750</td>
<td>$862,500</td>
<td>$862,500</td>
<td>$862,500</td>
<td>$3,306,250</td>
<td>$2,863,660</td>
</tr>
<tr>
<td>Ltr</td>
<td>Training</td>
<td>$137,500</td>
<td>$220,000</td>
<td>$220,000</td>
<td>$220,000</td>
<td>$797,500</td>
<td>$684,607</td>
</tr>
<tr>
<td>Jtr</td>
<td>Increased marketing</td>
<td>$165,000</td>
<td>$330,000</td>
<td>$330,000</td>
<td>$330,000</td>
<td>$1,155,000</td>
<td>$985,661</td>
</tr>
<tr>
<td></td>
<td>Total costs (risk-adjusted)</td>
<td>$1,395,250</td>
<td>$1,993,850</td>
<td>$1,993,850</td>
<td>$1,993,850</td>
<td>$7,376,800</td>
<td>$6,353,660</td>
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</tbody>
</table>

Direct delivery costs such as consultant labor are included in the Benefits section in the form of gross margin calculations. The costs below are related to setting up and managing M365 related practices.

Practice Leads

The composite organization had existing Office 365 and Windows 10 practices. It did some security work as part of those but needed to strengthen this area. Therefore, it added a security practice lead. It also added a Cloud Voice practice lead for the advanced workloads in SfB including Cloud PBX.

The number of practice leads that needs to be added will depend on which practices the partner has or adds and which existing practice leads have the needed expertise to cover the broader solution areas under M365. To account for these risks, Forrester adjusted this cost upward by 10%, yielding a three-year risk-adjusted total PV of $1.6 million.

Customer Experience And Demonstration Lab

Partner organizations may need to expand their existing lab environment and/or add a new one. Costs include any needed hardware, such as laptops, soft phone handsets, and equipment to demonstrate a hybrid deployment. Additionally, value add software and other solutions may require the Azure environment, which comes with subscription costs. The Azure costs are considerably less in the initial period because there are no customer demonstrations that took place then. Some partners reported not needing to add anything because they already had labs for the various solution components. To be conservative, Forrester assumed that a new

The table above shows the total of all costs across the areas listed below, as well as PVs discounted at 10%. Over three years, the composite organization expects risk-adjusted total costs to be a PV of more than $6.3 million.

Implementation risk is the risk that a proposed investment may deviate from the original or expected requirements, resulting in higher costs than anticipated. The greater the uncertainty, the wider the potential range of outcomes for cost estimates.
These costs vary depending on what was in place beforehand and how many solution areas a partner covers. To account for these risks, Forrester adjusted this cost upward by 10%, yielding a three-year risk-adjusted total PV of $176,973.

### Customer Experience And Demonstration Lab

<table>
<thead>
<tr>
<th>REF.</th>
<th>METRIC</th>
<th>CALC.</th>
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<th>YEAR 2</th>
<th>YEAR 3</th>
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<tbody>
<tr>
<td>G1</td>
<td>Hardware</td>
<td>Maintenance at 10%</td>
<td>$85,000</td>
<td>$8,500</td>
<td>$8,500</td>
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<tr>
<td>G2</td>
<td>Azure subscription and license fees</td>
<td></td>
<td>$5,000</td>
<td>$20,000</td>
<td>$20,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>Gt</td>
<td>Customer experience and demonstration lab</td>
<td>G1+G2</td>
<td>$90,000</td>
<td>$28,500</td>
<td>$28,500</td>
<td>$28,500</td>
</tr>
<tr>
<td>Gtr</td>
<td>Customer experience and demonstration lab (risk-adjusted)</td>
<td>G1+G2</td>
<td>$99,000</td>
<td>$31,350</td>
<td>$31,350</td>
<td>$31,350</td>
</tr>
</tbody>
</table>

### Value-Add IP Development

Partners that have value add IP spent considerable effort and money on developing it and bringing it to market. One partner reported spending “€500,000 to €1 million developing each new solution.” Another reported spending “$2 million per year on software development.” Partners whose IP is more around best practice workflows and portals should spend considerably less money.

For the composite organization, Forrester assumed that there were three development efforts taking place to update and build new solutions. Each team had three developers, and there was a PM overseeing all this effort. The initial period to create a minimally viable product (MVP) solution was six months. In subsequent years, six FTEs continued to build on these solutions and develop new ones. Because this effort will vary greatly based on the number and types of IP solutions, Forrester adjusted this cost upward by 15%, yielding a three-year risk-adjusted total PV of $2,863,660.

### Value Add IP Development

<table>
<thead>
<tr>
<th>REF.</th>
<th>METRIC</th>
<th>CALC.</th>
<th>INITIAL</th>
<th>YEAR 1</th>
<th>YEAR 2</th>
<th>YEAR 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Number of FTEs</td>
<td>10</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>H2</td>
<td>Number of months</td>
<td>6</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>H3</td>
<td>Monthly fully loaded salary</td>
<td>$125,000/12 months</td>
<td>$10,417</td>
<td>$10,417</td>
<td>$10,417</td>
<td>$10,417</td>
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<tr>
<td>Ht</td>
<td>Value add IP development</td>
<td>H1<em>H2</em>H3</td>
<td>$625,000</td>
<td>$750,000</td>
<td>$750,000</td>
<td>$750,000</td>
</tr>
<tr>
<td>Htr</td>
<td>Value-add IP development (risk-adjusted)</td>
<td>H1<em>H2</em>H3</td>
<td>$718,750</td>
<td>$862,500</td>
<td>$862,500</td>
<td>$862,500</td>
</tr>
</tbody>
</table>

### Training

The time spent by individual consultants and software developers on learning M365 solutions is included in the gross margin component of the Benefits section of this study. Additional training costs include having a training manager responsible for gathering and customizing training materials and making these materials available on the internal SharePoint training site. There is also a cost for employees to attend Microsoft conferences to get specialized training.

For the composite organization, Forrester assumed that $200,000 was spent annually building out training material and on Microsoft conferences. This is lower in the initial period when there is content development taking place but...
less training delivery. Because this will vary based on the size of the organization and the existing skill sets, Forrester adjusted this cost upward by 10%, yielding a three-year risk-adjusted total PV of $684,607.

### Training

<table>
<thead>
<tr>
<th>REF.</th>
<th>METRIC</th>
<th>CALC.</th>
<th>INITIAL</th>
<th>YEAR 1</th>
<th>YEAR 2</th>
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<tr>
<td>I1</td>
<td>Internal training</td>
<td>$125,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td></td>
</tr>
<tr>
<td>It</td>
<td>Training</td>
<td>=I1</td>
<td>$125,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
</tr>
<tr>
<td></td>
<td>Risk adjustment</td>
<td>↑10%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Itr</td>
<td>Training (risk-adjusted)</td>
<td></td>
<td>$137,500</td>
<td>$220,000</td>
<td>$220,000</td>
<td>$220,000</td>
</tr>
</tbody>
</table>

### Marketing

All interviewed partners emphasized the importance of marketing, both to existing clients and to prospects. This was essential for building awareness and filling the sales pipeline. Some interviewees said that marketing spend, which was specific to the new areas within M365 and came from existing budgets, became no incremental spend. Others reported adding incremental marketing budget to the existing one. To be conservative, Forrester assumed that the entire marketing spend was incremental.

For the composite organization, Forrester assumed that $300,000 was spent annually on M365-related marketing. And $150,000 was spent in the initial period creating content, but there was a lower cost for advertising and other outbound marketing activities. This will vary greatly based on size and, in some cases, no incremental marketing spend took place, Forrester adjusted this cost upward by 10%, yielding a three-year risk-adjusted total PV of $985,661.

<table>
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Financial Example Summary

CONSOLIDATED THREE-YEAR RISK-ADJUSTED METRICS

Cash Flow Chart (Risk-Adjusted)

The financial results calculated in the Benefits and Costs sections can be used to determine the ROI, NPV, and payback period for the composite organization’s investment. Forrester assumes a yearly discount rate of 10% for this analysis.

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

From dozens of interviews and hundreds of survey responses over the past three years, Forrester has tracked the evolution of partner opportunities with Office365 and now M365. With the creation of M365, partners can further expand revenue opportunities in several ways:

- Go deeper and broader with existing customers through a larger solution set.
- Establish more strategic customer relationships.
- Attract new customers as digital transformation becomes increasingly top of mind with customers and through marketing messaging consistent with Microsoft’s vision.
- Build on M365 with value add IP and unique managed service solutions. M365 also helps partners differentiate, increase stickiness, and firmly entrench itself as a trusted advisor.

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Appendix A: Total Economic Impact

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

**Total Economic Impact Approach**

- **Benefits** represent the value delivered to the business by the product. The TEI methodology places equal weight on the measure of benefits and the measure of costs, allowing for a full examination of the effect of the technology on the entire organization.

- **Costs** consider all expenses necessary to deliver the proposed value, or benefits, of the product. The cost category within TEI captures incremental costs over the existing environment for ongoing costs associated with the solution.

- **Flexibility** represents the strategic value that can be obtained for some future additional investment building on top of the initial investment already made. Having the ability to capture that benefit has a PV that can be estimated.

- **Risks** measure the uncertainty of benefit and cost estimates given: 1) the likelihood that estimates will meet original projections and 2) the likelihood that estimates will be tracked over time. TEI risk factors are based on “triangular distribution.”

The initial investment column contains costs incurred at “time 0” or at the beginning of Year 1 that are not discounted. All other cash flows are discounted using the discount rate at the end of the year. NPV calculations are calculated for each total cost and benefit estimate. NPV calculations in the summary tables are the sum of the initial investment and the discounted cash flows in each year. Sums and present value calculations of the Total Benefits, Total Costs, and Cash Flow tables may not exactly add up, as some rounding may occur.

**PRESENT VALUE (PV)**

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

**NET PRESENT VALUE (NPV)**

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

**RETURN ON INVESTMENT (ROI)**

A project’s expected return in percentage terms. ROI is calculated by dividing net benefits (benefits less costs) by costs.

**DISCOUNT RATE**

The interest rate used in cash flow analysis to take into account the time value of money. Organizations typically use discount rates between 8% and 16%.

**PAYBACK PERIOD**

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

Related Forrester Research


Microsoft End User Forrester TEI Studies


Microsoft Partner Forrester TEI Studies


Endnotes

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