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The Partner Opportunity For Microsoft 365 Business

Forrester Consulting conducted a Total Economic Impact™ (TEI) study and examined the potential increased revenue and profitability that partners can achieve through selling Microsoft 365 Business to their customers. Microsoft 365 Business is an integrated solution consisting of Office 365, Windows 10, and security features that provides a secure productivity toolset for small and medium-size companies' employees.

Forrester interviewed six partner organizations that participated in the early adoption program and had customers using Microsoft 365 Business. Through these discussions, Forrester identified the benefits that partners may realize from selling Microsoft 365 Business and the potential incremental costs from building out this practice. Partners will benefit from broadening their service offerings, building more strategic relationships with customers, and creating long-lasting revenue streams.

At the highest level, interviewed partners said that Microsoft 365 Business will help them increase revenues in several ways and will also reduce delivery costs. These have a direct, positive impact on partner profitability.

> "I really like [Microsoft 365 Business]. It's a great option for our SMB customers because it has everything they need in one place."
>
> — *CSP program manager*

8%	10%	20%
Anticipated percentage point improvement in managed services margins.	Expected percentage point increase in managed services attach rate.	Anticipated percentage point increase in deployment and advisory services revenue.

> **Higher managed services attach rates and margins.** Increasing managed services attach rates and revenues was the most important benefit cited by partners. While the service offering and pricing varied widely, partners consistently felt that they could increase the attach rate by 10 percentage points from 80% to 90% because of the broader benefits in Microsoft 365 Business and increase margins from the low 50% range to 60% because incremental costs grow more slowly than the cost of supporting more customers and services.

> **Increased CSP channel revenue.** Cloud Solution Provider (CSP) firms typically receive 12% of license revenues. The total remuneration will increase as more users are signed up and from increased per-user license revenues.

> **Greater implementation consulting services revenue.** Consulting revenues will increase because more customers will move to Microsoft 365 Business than otherwise would have moved to the individual solutions. Additionally, the added scope should increase per-project revenues by 20%.

> **Lower delivery costs.** Partners stated that their delivery costs will decrease by 5 to 10 percentage points because of the management tools and templating within Microsoft 365 Business and because customers will use the additional self-service tools. This will increase consulting and managed service margins.

Partners also reported a couple of other benefits that underpin the quantifiable benefits described above. Sales cycles are accelerated because the Microsoft 365 Business story is compelling and the simplified licensing model makes the buying decision easier. Microsoft 365

> "This is what we've been waiting for. Our customers can get everything they need from one vendor, which greatly simplifies things for them. It fits our business model perfectly."
>
> — *Cloud sales manager*

Business also makes partners stickier with their customers because they are viewed as a trusted advisor and because of multi-year managed service contracts.

For this study, Forrester conducted six interviews with partners that were participating in the Microsoft 365 Business early adoption program. All partners were based in the United States.

Partner 1	25 employees and $4.5 million in revenues. Target customer is 25 to 100 users; 70% of revenues are from managed services.
Partner 2	1,500 employees and $800 million in revenues. Half of the revenues are from their CSP program.
Partner 3	50-employee hardware-as-a-service partner selling through channel partners and online.
Partner 4	14 employees and $6.5 million in revenues. Sells fully bundled managed services solutions through 250 channel partners. Median customer size is 50 to 60 users.
Partner 5	14 employees and $2.5 million in revenues. Average CSP customer is 1,750 users; 75% of revenues come from managed services.
Partner 6	62 employees and $8 million in revenues. Managed services are currently 40% of revenues and should grow to 50% by end of year.

Microsoft 365 Business Increases Revenues And Margins

All the interviewed partners expressed that Microsoft 365 Business will increase their revenues and margins. Absolute results will vary greatly based on the number and size of typical engagements. Areas of specialization will also affect benefits. For example, if a partner does not have a security practices, it will either forgo those associated revenues or need to create expertise in that area.

For each of the benefit areas, Forrester has included proof points from the interviewed partners. Readers should apply the ones that are most relevant to their organization.

Increased CSP Channel Revenue

Channel revenue was of varying importance to the interviewed partners. One interviewee reported that 10% of their total revenues came from the CSP license revenue sharing. The general consensus was that these revenues should grow because partners will sign up more customers and because the per-user license costs may be higher as the solution breadth expands. Since Microsoft 365 Business pricing has not been announced yet, there was uncertainty about the potential upside.

› "There is a big opportunity for license revenues with all of our CSP customers."

› "We have very few Windows 10 customers now, so we will make additional money on all the [Microsoft 365 Business] licenses that bring Windows 10 to our customers."

› "When we get our Office 365 customers to add Windows 10 or mobile security, we will make money on the license uplift."

› "We can attach more Windows 10 and [mobile security] to Office 365 if the pricing is right. Currently our attach rate is in single digits."

Greater Implementation Consulting Services Revenue

For most partners, implementation consulting revenues were not viewed as secondary to ongoing managed services revenues. Gross margins were typically around 40%. Revenues will grow because more customers will deploy the extended solution set than they would if

"[Microsoft 365 Business] is a very exciting product. It is the first fully bundled solution that touches Windows, security, and Office. It feels very enlightened, and it's great that Microsoft is looking at it from the customer journey perspective."

— *President*

"Implementation and onboarding revenues will go up because there is more involved with the [Microsoft 365 Business] solution. It will probably be double to triple the Windows consulting revenue."

— *President and founder*

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buying the underlying products individually. Additionally, each project will result in increased revenue because of the increased project scope.

› "For the migration, we charge 3x per user what their annual recurring fees are. We are selling more of these services."

› "Every user needs to be set up again in Active Directory as part of a [Microsoft 365 Business] deployment, and this takes 45 to 60 minutes per user. This is an opportunity to increase our onboarding consulting service revenues."

› "We generally charge low upfront fees because we want to get the recurring managed services revenues. The minimum cost is $300 for a single user. After that, our fees depend on the length of their managed services contract. For a one year contract, we charge 3x the monthly fee to set up a user, and it goes down to 1x the monthly fee for a three-year contract."

› "We are doing some more upfront strategy and planning consulting because of [Microsoft 365 Business]."

› "Migrations from Windows 7 or 8 to Windows 10 will be a moneymaker for us. It is taking 2 to 3 hours to migrate each user."

› "[Microsoft 365 Business] makes the buying decision easier so we can sell to more customers."

Higher Managed Services Attach Rates And Prices

Interviewed partners had many different managed services models, but the partners consistently said that this was the most important revenue stream for them. Typically, the partner offers a single, per-user price that included Microsoft licenses, user support, and technical management of the solutions. In the past, this included third-party solutions such as antivirus, which are now part of the Microsoft 365 Business suite. Some partners bundle in the device, making it a full technology-as-a-service solution.

The average attach rate for managed services was 80%. Partners believed that this could increase by 10 percentage points because of the added service opportunities with Microsoft 365 Business, resulting in a 90% attach rate. Additionally, the churn rate has been very low, on average 3%, which means that these are long-term relationships. Partners also felt that they could increase their managed services margins from 50% to 60%.

Partners are creating their own intellectual property (IP) that becomes part of the managed services offerings. This takes the form of backend tools for simplified administration and frontend solutions to deliver best practices. Mentioned examples included a board of directors' portal and a safety monitoring application. IP helps partners differentiate and improve margins with repeatable solutions. IP associated revenue is included in the managed services revenue.

Some examples of Office 365 managed service offerings that should also apply to Microsoft 365 Business include the following:

› "$150 per user per month for Microsoft licenses, unlimited 24x7 helpdesk, anti-virus, and backup solutions."

› "We sell 25 desktop bundles for $250 per month for end user device monitoring."

› "Our typical managed services contract is $125 per user per month. It includes licensing, anti-virus, unlimited helpdesk and support, and monitoring."

› "For sub-100 user companies, we charge $99 per user per month. This includes Microsoft licenses and our support. If they need laptops or devices, this goes up to $159 per month."

"[Microsoft 365 Business] allows us to position more managed services because there is more included in the licenses — security, monitoring, remote management, upgrades, etc."

— *CSP program manager*

"We are very excited about the cost savings potential. There will be fewer security events we have to deal with, and improved automation will make things lighter or no-touch for us."

— *President*

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Lower Delivery Costs

Interviewed partners all felt that delivery costs for consulting and managed services will decrease because of the tools and templates built into Microsoft 365 Business. Customers can be charged the same as they are now for Office 365 or Business Premium bundles, so the cost savings would improve bottom-line profitability. The extent of the savings is still uncertain, but the consensus estimate was a 5 to 10 percentage point improvement on the current 40% project delivery gross margin.

› "Once we effectively get plugged into the APIs and SDKs [software development kit], we will be able to automate a lot of what we do. This will make a big difference in what we can provide our customers. Customer self-service tools will also bring down our costs."

› "We have seen costs steadily go down over the last couple of years for zero-touch device deployment and application management. We expect this to continue with [Microsoft 365 Business]."

› "Our margins are increasing because of customer growth. Support costs pretty much stay the same when we add customers and users, so our margins should continue to go up."

› "There is a large potential to have higher margins on our deployment services. Since the solution is already integrated, our effort is less. We can still charge the same amount as we were previously."

Accelerated Sales Cycles

The total addressable market should increase because the Microsoft 365 Business solution applies to a wide range of small and medium-size businesses, and the ease of implementation and management makes it more appealing. Because it is an easier story to tell in terms of business benefit and licensing, the sales cycles should be shorter.

› "[Microsoft 365 Business] is a better story for small businesses compared with previously having to talk about all the different licenses. Bringing it all into one makes sales much easier. All of our existing customers will be up for it."

› "Our revenue per cost of sale will increase with [Microsoft 365 Business]."

› "Pitching an integrated solution should makes sales easier."

› "We will get new customers more easily because [Microsoft 365 Business] is easy for our channel partners to understand. Talking about everything separately is hard to do. [Microsoft 365 Business] will help our partners sell more through us."

› "There is a big opportunity to grow the market because of [Microsoft 365 Business]. The secure, fast, and easy cloud story and the marketing push behind it will result in quick growth."

Better Customer Stickiness

Microsoft 365 Business changes the relationship with customers. The conversations are more strategic, and the trusted advisor status is enhanced. This results in increased customer lifetime value from longer-term relationships and the ability to upsell more. Additionally, selling more managed services automatically increases the duration and stickiness of the delivery model.

› "[Microsoft 365 Business] makes us stickier. Our increased managed services attach rate makes us very sticky."

> "With [Microsoft 365 Business], we are making the customer's life easier and are a better trusted advisor. The security story alone sells it."
>
> — *President*

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- "Adding [security] and Windows 10 will make us stickier. It will have a positive impact on our retention rates."

- "We have a 100% trusted advisor status with our customers because we brought [Microsoft 365 Business] to them even in beta form. It was exactly what they were looking for, and they are thrilled."

- "[Microsoft 365 Business] should make us stickier like the CSP program did."

Associated Costs

Interviewed partners felt that adding Microsoft 365 Business to their existing solution portfolio was easy to do and did not require much incremental cost. Existing employees could easily be trained up on Microsoft 365 Business if current practice areas included Office 365, Windows 10, and some security. If a partner had no security skills, this required some training and, in some cases, hiring of resources. Increased training costs were estimated to be 5 to 10 percent above what is spent now.
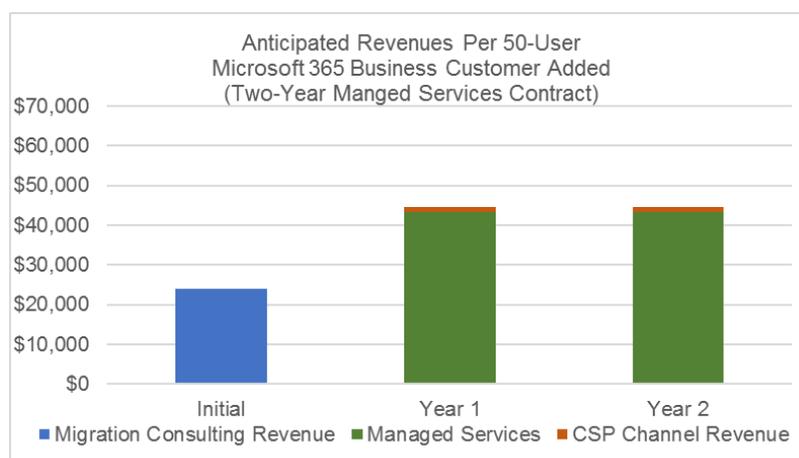
Some partners reported that Microsoft 365 Business marketing spend would come out of existing budgets, and others anticipated increasing their marketing spend. For those who were planning to spend more, marketing spend directly on Microsoft 365 Business was expected to increase the overall marketing budget by 5%.

Partners reported purchasing several mobile devices and laptops for demonstration and testing purposes. The cost of demo and lab equipment was several hundred to several thousand dollars.

A Financial Example

This study outlined the various benefits that Microsoft partners should realize from offering the Microsoft 365 Business solution and service wrapper to customers. To more clearly illustrate this, Forrester built out a simple model that depicts the increased revenue opportunities for each customer who adopts Microsoft 365 Business. This is built on the following assumptions:

- Fifty users and a two-year managed services contract.

- Monthly bundled managed services subscription, including Microsoft licenses, tier 1 user support, tiers 2 & 3 IT support, ongoing training, and technology management of $100 per user. $20 of this was for the Microsoft licenses. The attach rate for managed services is 90%.

- Initial deployment services charged at 2x the annual managed services fees. This would increase to 3x with a one-year managed services contract and decrease to 1x with a three-year contract.

- CSP channel revenue is 12% of the license costs paid to Microsoft. Since Microsoft 365 Business pricing had not been published at the time of writing, Forrester assumed a $20 per user monthly charge as a placeholder. Microsoft may offer, from time to time, promotional 'kickers' which could increase the revenue share percentage.

Anticipated Revenues Per 50-User
Microsoft 365 Business Customer Added
(Two-Year Manged Services Contract)

Legend: Migration Consulting Revenue (blue), Managed Services (green), CSP Channel Revenue (orange)

From a gross margin perspective, Forrester applied the anticipated increased margins of 45% (previously 40%) for consulting services and 60% (previously 50%) for managed services. For Microsoft 365 Business channel revenue, Forrester assumed an 80% margin since some of these moneys are intended to go back into increased user adoption activities.

The resulting combined gross margin across the revenue streams shown above is 57.3% because most future revenues come from higher-margin managed services compared with the initial deployment consulting. This increased revenue at higher margins, along with improved cash-flow predictability, should be highly beneficial to Microsoft partners that actively sell Microsoft 365 Business to their customers.

About Microsoft 365 Business

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

Microsoft 365 Business provides small and medium-size businesses with all the capabilities they need in a single bundle with simplified pricing. Microsoft 365 Business is available from Microsoft Cloud Solution Provider partners and includes:

Office Applications

Whether you're working in your office or on the go, you get a familiar, top-of-the-line set of productivity tools. Office applications like Word, Excel, and PowerPoint — always the latest versions — let you create, edit, and share from your PC or your iOS, Android, or Windows device with anyone in real time.

File Storage And Sharing

Employees can do more wherever they are with secure access, sharing, and file storage — at work, at home, or on the road. Because your business files are automatically saved online, employees can access, edit, and share the latest version, even when they're on the go.

Email And Calendar

Access email, contacts, and shared calendars anywhere. Now your employees can work wherever they work best.

Online Meetings And Group Chat

With online multi-party HD video and audio meetings, it feels like working together face-to-face, virtually anywhere. With the new chat-based workspace, employees can reference and contribute to ongoing team chat or private chats.

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Always The Latest Version

Office 365 stays up to date, so you'll always be working with the latest version of your favorite applications, such as Word, Excel, PowerPoint, and Outlook.

Most Secure Windows Yet

Windows 10 is designed to disrupt the malware and hacking industry by moving the playing field to one where they lose the attack vectors that they depend on.

Apps Protection And Device Management

Help to ensure that the data and information that belong to your business stay with your business. Microsoft 365 Business lets you set IT policies that enforce controls on how data is handled on personal devices and company-owned devices and gives businesses the ability to remove company data when it is lost or stolen.

Flexible Per-User, Per-Month Billing

Subscriptions are an annual commitment, but you can choose to pay on an annual or monthly basis. Licenses can be added at any time, and they can be reassigned as experience changes in your workforce.

Disclosures

The reader should be aware of the following:

› The study is commissioned by Microsoft and delivered by Forrester Consulting. It is not meant to be a competitive analysis.

› Forrester makes no assumptions as to the potential ROI that other organizations will receive. Forrester strongly advises that readers use their own estimates within the framework provided in the report to determine the appropriateness of an investment in building a Microsoft 365 Business practice.

› Microsoft reviewed and provided feedback to Forrester. 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.

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

ABOUT FORRESTER CONSULTING

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

ABOUT TEI

Total Economic Impact™ (TEI) 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. The TEI methodology consists of four components to evaluate investment value: benefits, costs, risks, and flexibility. https://go.forrester.com/consulting/content-marketing-consulting/

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