

The Partner Business Opportunity For Maximizing The Impact Of Firstline Workers With Microsoft 365

Introduction

Forrester Consulting conducted a Total Economic Impact™ (TEI) study to examine and demonstrate the revenue and profitability opportunities available to Microsoft partners that build practices and business solutions that support firstline workforces leveraging the Microsoft 365 F1 SKU. Microsoft 365 F1 empowers firstline workers to be more productive, collaborative, and creative in their roles using Office 365, Windows 10 Enterprise, and Enterprise Mobility + Security (EMS).

Forrester interviewed four Microsoft partners across North America and EMEA with well-established Microsoft 365 practices and solutions focused on empowering firstline workforces. Our interviews revealed many incremental revenue and profit opportunities available to Microsoft partners that invest in building Microsoft 365 product and service offerings focused on firstline workers. Furthermore, by working with a userbase that has been traditionally underserved by IT, partners expanded their total addressable market to include new customer segments and verticals, upsold and grew their business relationships with existing Microsoft 365 customers, and created recurring revenue streams through the delivery of managed services and value-added resalable intellectual property (IP).

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

The revenue and profit opportunity analysis below is built on a composite 20,000-firstline-user deal that represents the deal characteristics identified in Forrester's partner interviews. The analysis below is intended to be used as a framework for partners to understand the total three-year business potential associated with Microsoft 365 firstline worker customer deals.

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

- EMEA partner



“If we want to make a true impact on our healthcare customers, we need to connect their frontline workers, the ones working with patients, to IT. These workers haven't been connected to IT in the past.”

- NA partner



4:1

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

\$509

Anticipated increased revenue for leading Microsoft 365 firstline worker solution partners, per user, over three years

38%

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

Microsoft 365 Expands Microsoft Partners' Total Addressable Market And Grows Their Business Impact On Customers

Partners interviewed by Forrester benefit in the following ways from building out and scaling Microsoft 365 firstline workforce practices:

- › **Access to new customer segments that expand partners' total addressable markets (TAM).** The firstline worker market space offers partners massive user growth opportunities for their Microsoft 365 practices. By revisiting existing accounts and exploring new industry verticals and customer segments traditionally underserved by IT, partners can drive growth with new and existing accounts, while expanding their value propositions around employee productivity, teamwork, and security to new parts of the organization. Partners with firstline workforce solutions are better suited to meet the unique productivity and collaboration needs of verticals with large firstline workforces, particularly in industries such as retail, hospitality, healthcare, and manufacturing.
- › **Maximizing sales with existing accounts to achieve growth with low customer acquisition costs and minimal upfront investments.** In response to the long sales cycle and high customer acquisition costs associated with bringing in net-new brands, partners are increasingly focused on driving growth within their existing customer installed bases. By revisiting existing customers with successful corporate user Microsoft 365 implementations, partners are able to position next-phase digital transformation and Microsoft 365 project work that could encompass tens of thousands of users or more in industries with large firstline workforces. In addition, partners are able to leverage and repurpose existing Microsoft 365 practice resources to grow and scale their firstline solution areas, making only minimal incremental investments in new talent, research and development (R&D), marketing, and sales. With that said, partners with limited existing Microsoft 365 capabilities, IP, and solutions, along with partners that aggressively pursue net-new customers in verticals where they have limited brand recognition, should expect additional investment requirements in areas including staffing, marketing, sales, training, and R&D.
- › **Annuity and recurring revenue through managed services and follow-on project services.** Beyond the initial strategy and deployment project work, partners are having success with downstream value-added professional and managed services that bolster user adoption of Microsoft 365 and ensure firstline workers can work productively and securely. These downstream revenue streams grow customer lifetime value and ensure that partners are continually engaged with their customers as new business challenges and opportunities arise. In addition, these recurring and annuity revenue streams deliver high-margin, predictable cash flows for partners.

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

- EMEA partner



Forrester interviewed four Microsoft partners with well-established Microsoft 365 practices focused on empowering firstline workforces across North America and EMEA, with several specializing in industry solutions that overlapped with their firstline workforce capabilities. Partners interviewed for the study had the following characteristics:

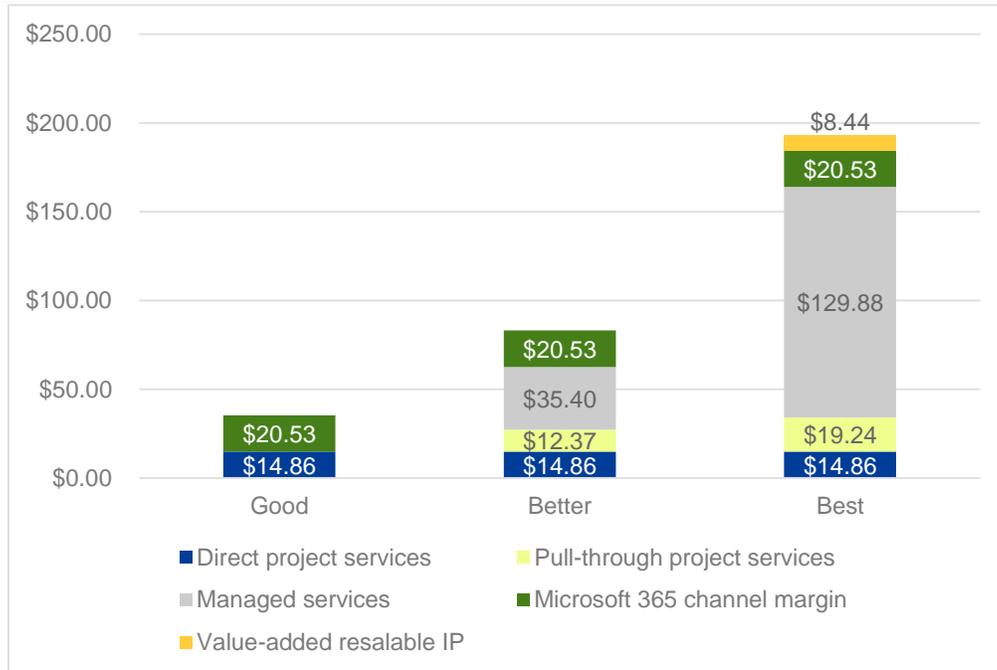
PARTNER	REGION	SCALE
Partner 1	EMEA	Fifteen million GBP in annual revenue and approximately 50 employees
Partner 2	NA	Sixty employees with over 50 million CAD in annual revenue, including 18 million in recurring managed services revenues
Partner 3	EMEA	Nearly 7,000 employees and more than 4,000 consultants located in 86 offices across seven countries.
Partner 4	NA	A \$480 million practice with several industry-specific productivity and security solutions delivered by over 2,700 employees

Partners That Pursue The Firstline Worker Opportunity Will Grow Revenue With Existing And New Customers

Microsoft partners interviewed for this study are building broad portfolios of solutions that activate, complement, and support Microsoft 365 for their customers' firstline workforces. Partners are actively positioning these solutions as a way of enhancing and supporting the security, teamwork, and productivity of underserved firstline workforces working in production, in the field, and directly with customers. For the solution areas and revenue and profit streams below, Forrester has included proof points from the interviewed partners. In building a business case for developing a firstline workforce practice area, partners should apply the solution areas and revenue streams below that are most relevant to their organization.

Our interviews found varying maturity levels across partners' firstline worker practices. The table below shows the gross profit for a 20,000 user firstline workforce deal, including a breakdown of the types of products, services, and solutions offered by partners' firstline worker practices, from "good" practice offerings to "best-in-class" offerings provided by Microsoft's most advanced partners.

Three-Year Per-User Gross Profit Opportunity Based On Composite 20,000-User Deal By Partner Maturity



Direct Project Revenues

Microsoft partners offer a variety of professional service and consulting solutions aimed at deploying, tailoring, and enabling Microsoft 365 workloads and capabilities for customer's firstline workforces. The first step to deploying Microsoft 365 for firstline workers is a consulting engagement to assess and better understand the existing technologies and business processes within each customer's operational environment. These projects typically involve onsite analyses and interviews to understand, segment, and develop a set of employee profiles for the customer's firstline workforce. This baseline engagement is critical for understanding the business challenges, pain points, and legacy business processes and technologies that are hampering the efficiency, effectiveness, and employee experience of firstline workers. One partner explained: "We try to segment firstline workers into seven to 12 personas and provide our customers with advice on what workloads and licenses they need, along with advice on how to ensure strong workforce adoption [of Microsoft 365]. We have found that [Microsoft 365] adoption is very persona related."

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

Interviewed partners revealed that direct strategy, deployment, and migration project services generate gross margins ranging from 35% to 50%. More importantly, successful delivery of these services increases the likelihood of higher-margin follow-on project work and managed services, improving per-seat revenue and profitability.

- › “While our customers’ office workers are normally connected to IT, their manufacturing people, retail sales staff, and nurses are not. This is a huge opportunity for us to increase our installed base and deliver more value to our existing customer base.”
- › “Firstline healthcare workers have a lot of administrative work. If we get [our firstline health workers] 5 minutes per day with SharePoint workflows, it will not only save the company millions, it can also save lives.”

Microsoft 365 License Channel Margin

Channel margin and rebates from the resale of Microsoft 365 F1 licenses can vary in strategic importance for Microsoft partners. As a reseller, partners can accrue additional revenue by reselling Microsoft 365 licenses to at least a portion of their customer base. Partners are also able to upsell Microsoft 365 Enterprise E5 to a portion of their customer’s firstline workforce to capitalize on Advanced Threat Protection.

With that said, all partners interviewed for the study were CSPs that resold licenses to customers and managed the billing relationship. Notably, one partner found the resale of Microsoft 365 and other third-party application licenses to be a strong business opportunity in the large enterprise space, indicating that “large enterprises don’t want a bunch of different invoices for each of their applications; they want a single invoice for 10 to 20 of their applications. We average 20% to 30% margins across our license reselling business.”

Pull-Through Project Revenues

More mature Microsoft partners offer follow-on consulting work, or pull-through projects, that extend their value proposition to customers with large firstline workforces. These projects can include adoption and change management consulting; portal, group, and workflow development in SharePoint and Teams; continuous learning and innovation services; business consulting services; and custom application development and application refactoring services.

Pull-through project services allow partners to continually engage with their customers over time, ensuring that their customers’ firstline workforces effectively adopt and utilize the productivity enhancing technologies and tools that are deployed during earlier project phases. Change management and adoption projects and services, including the development of training portals, on-demand content tailored to specific job roles and personas, and organization usage analytics and reporting, are impactful ways to continually engage with your customers and drive revenue growth with existing customers.

- › “Ninety percent of the [Microsoft 365] project is change management and re-engineering legacy business processes.”
- › “Over one-third of our professional services revenue is change management related today.”

“We make sure not to give [firstline workers] technologies that are too complex. We start by giving them email, SharePoint portals, and collaboration tools, and provide training to make sure they are using these tools effectively.”

- NA partner



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

- NA partner



- › “We offer continuous learning and innovation services that include a quarterly activity of evaluating and assessing organizational adoption that ranges in price from \$5,000 to \$20,000 per organization, per month, based on the customer size and technical complexity.”

Managed Services

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

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

Below are specific quoted examples of the Microsoft 365 managed services developed and marketed for customers’ firstline workforces:

- › “We offer a training and end user support around the Microsoft 365 F1 SKU as a managed service for €2 per user, per month.”
- › “We have a complete desktop managed services we deliver based on EMS and Intune for \$8 per user, per month.”
- › “We provide firstline technical and end user support for firstline workers in retail for £1.90 per user, per month.”
- › “We are increasingly interested in bundling services that include both end user support and managed services.”
- › “We offer basic managed services starting at \$9 to \$10 per user each month, growing to \$70 per user for our most premium managed services. For a couple of deals, we bundle in premium devices, bringing our monthly per seat revenue up to \$170.”

Value-Added Resalable IP

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

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

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

- EMEA partner



Good



Licensing

- Microsoft 365 F1 licenses



Direct project services

- Assess current state technologies and employee personas; build road map
- Deploy critical identity, threat protection, communication, collaboration, and productivity tools



Better



Pull-through project services

- Change management and adoption consulting
- SharePoint portals and Teams applications
- Custom application development



Managed services

- Provide technical and end user support
- Manage firstline worker devices, kiosks, and applications



Best



Pull-through project services

- Continuous learning, adoption, and innovation services



Managed services

- Security monitoring and remediation services
- Device-as-a-service (DaaS)



Repeatable IP

- SharePoint social and intranet solutions
- Microsoft 365 usage reporting and applications
- Vertical and line-of-business solutions

Firstline Worker Practice Investment Requirements

Partners interviewed for the study had well-established Microsoft 365 practices that predated their new, strategic emphasis on firstline workers. As such, interviewees had existing sales, presales, engineering, and developer talent sets that could be repurposed to build out and scale their firstline workforce cloud productivity solutions. However, partners are still making additional hiring investments to support and grow the business. For example, one partner hired seasoned industry practice leads for the manufacturing and healthcare sectors at a fully burdened salary of \$185,000 per full-time equivalent (FTE), who were responsible for driving sales and brand recognition in their respective industries. Another partner made several new hires to scale and support the organization's change management capabilities, noting, "We are hiring educators, not engineers, to become productivity consultants for our change management offerings." One partner hired 15 behavioral science graduates to support its change management and adoption services offerings.

Partners also make significant ongoing investments in training and talent development. Average annual partner training spend ranged from a few thousand to hundreds of thousands of dollars annually, and the spend was targeted at achieving various Microsoft certifications and building expertise in industries with large firstline workforces.

Additionally, partners invest significantly in research and development (R&D) to build new customer solutions, particularly managed services and proprietary, resalable value-added applications that address common customer challenges. For instance, one partner took 18 months and five developers to build a cloud sales portal for third-party independent software vendors (ISVs), whose solutions it then marketed and sold to its installed base. Partners are also investing in building internal business solutions to help scale, streamline, and optimize service delivery and profitability. One partner spent \$50,000 building an internal performance dashboard using a Power BI consultant and Microsoft application program interfaces (APIs) to determine which offices and countries were underperforming on sales, and which Microsoft 365 workloads were seeing the best customer adoption.

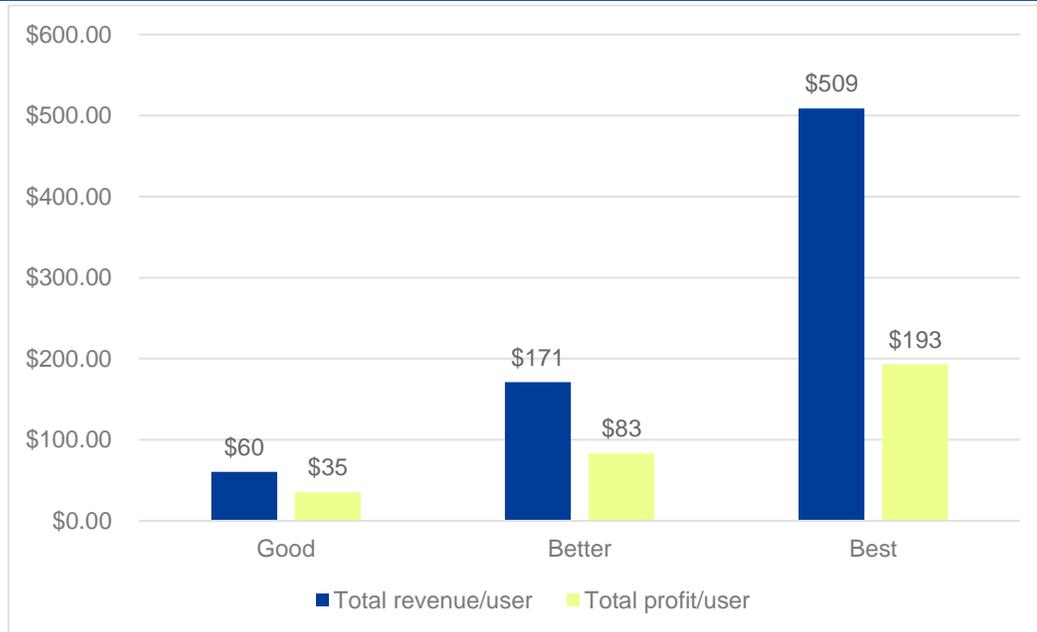
While some partners reallocate marketing resources from existing marketing budgets to their firstline worker practices, others add incremental digital and content marketing investments to support the growth of the firstline worker business. One partner commissioned a white paper on firstline workers in the retail industry, amplifying the findings in a series of digital marketing campaigns that cost approximately \$65,000 each. Forrester has benchmarked additional marketing spend to be approximately 5% of gross practice sales.

A Financial Example: Good, Better, And Best Partner Practices And Solutions

This study outlines the various revenue and profit streams that Microsoft partners may realize from building Microsoft 365 practices and solutions focused on firstline workforces. To more clearly illustrate this, Forrester has built a simple model that depicts the product and service revenue opportunities for a customer that adopts Microsoft 365 for its firstline workers. This economic model is built on the following assumptions:

- › The economic model is based on a single deal with 20,000 firstline worker user adopters from a 25,000-employee organization, and a two-year managed services contract. The model assumes 2% customer churn in Year 3 of the analysis, consistent with what we learned from interviewees.
- › Direct project services are segmented into two phases. The first phase includes assessing the existing technical environment, business processes, and personas for the organization's firstline workforce, and brings in average project revenues of \$75,000. The second phase is made up of Microsoft 365 deployment and migration projects, focusing on workloads including Exchange, EMS, SharePoint, OneDrive, and Microsoft Teams. Deployment project revenues for these workloads total \$620,000 in this analysis. Forrester notes that engagement revenue will vary significantly across industries and organizational sizes.
- › Pull-through project revenues are generated through the delivery of change management and adoption consulting projects, SharePoint portal and Teams application development, custom application development projects, and continuous innovation services. Over the three-year analysis, total pull-through project revenue generated from these services exceeds \$850,000. Change management sees 75% attach rates and average project revenues of \$400,000. SharePoint and Microsoft Teams pull-through projects see 50% attach rates and are benchmarked at 32% of Year 1 direct project services revenues based on the findings from the Forrester Consulting case study titled, "The Partner Opportunity For Microsoft 365 Enterprise."¹ Custom application development projects for firstline workers have a 25% attach rate and average \$225,000 in project revenue. All pull-through project revenues are adjusted to reflect the attach rates provided by partners. Forrester notes that pull-through project revenues will vary significantly across partners and readers should consider revenue streams most applicable to their own business models.
- › For the "better" and "best" case partner scenarios, our model incorporates several managed services offerings. Managed services included in the "better" partner scenario cover modern desktop management, as well as technical and end user support, which sees attach rates ranging from 20% to 30% over the three-year analysis, and per-user monthly revenues ranging from \$8.00 to \$10.25. The "best" case partner scenario includes a few security-oriented managed services along with a DaaS offering. For more detail on the attach rates, pricing, and service components of each managed service offering, please see the table below.

Three-Year Revenue And Profit Opportunity Based On Composite 20,000-User Deal Across Practice Categories



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

- › CSP channel revenue is 12% of the license costs paid to Microsoft. Microsoft may offer, from time to time, promotional “kickers” that could increase the revenue share percentage. For Microsoft 365 channel revenue, Forrester assumes an 80% gross margin, since some of these monies are intended to go back into increased user adoption activities. In addition, Forrester assumes that the partner is only eligible for revenue sharing for 33% of the total users.
- › Resalable value-added IP brought 70% gross margins and attached to 40% of firstline worker projects. Per-user annual pricing varied from 65 cents for a Microsoft 365 personalized use application to \$10 annually for a prebuilt SharePoint intranet solution.

Forrester’s interviews with four existing partners and the subsequent financial analysis found that a composite organization based on these interviewed partners is able to accrue revenues of \$509 and gross profits of \$193 per

firstline user over the three-year analysis for the best-case partner scenario. For an organization with 20,000 firstline workers, the firstline worker business opportunity opens the door to over \$10 million in revenue and nearly \$3.9 million in gross profit for the best-case partner scenario, resulting in a 38% deal gross margin. As partners increasingly look to achieve growth from their existing customer installed base, products and services that enhance firstline worker productivity, creativity, collaboration, and security will become an attractive business opportunity for Microsoft partners.

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 firstline worker 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.

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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.

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¹ Source: "The Partner Opportunity For Microsoft 365 Enterprise," a Forrester Consulting report prepared for Microsoft, July 2017.