

The Partner Business Opportunity In Healthcare For Microsoft 365

Forrester Consulting conducted a Total Economic Impact™ (TEI) study to examine the revenue and profitability opportunities available to Microsoft partners who build practices and business solutions that are focused on healthcare customers. Partner opportunities abound as healthcare organizations explore ways to improve productivity, collaboration, and security through cloud solutions that streamline healthcare delivery and administrative processes, increase information sharing, improve patient outcomes, reduce operational and care delivery costs, and better secure protected health information (PHI).

Microsoft 365, which consists of Office 365, Windows 10 Enterprise, and Enterprise Mobility + Security (EMS), provides partners with a powerful toolkit to help their healthcare customers achieve digital business transformation. Microsoft 365 has been built to transform healthcare collaboration in three broad ways (with an example for each):

- › **Process-centric** – Health professionals who are engaged in daily huddles in order to communicate, share, and track important information with the team.
- › **Patient-centric** – Health professionals who need to work together and coordinate with one another in order to effectively care for their patients.
- › **Project-centric** – Health researchers who collaborate on groundbreaking discoveries to advance new health treatments and cures and to share their knowledge across the industry.

Forrester interviewed more than 30 Microsoft partners across North America, EMEA, and LATAM with well-established Microsoft 365 practices for a series of partner studies; this study focuses on ten partners with strong healthcare practices and solution sets. This analysis also pulls from another case study titled, “The Partner Business Opportunity For Maximizing The Impact Of Firstline Workers With Microsoft 365,” which explores the end-to-end business opportunity for serving firstline workforces across a number of industries using Microsoft 365.

Partners work with healthcare organizations to improve quality of care, increase access to care, and lower the cost of healthcare delivery using Microsoft 365 packaged with their own value-added services and IP solutions. Typical high-priority initiatives for healthcare organizations include:

- › Capture medical information in a secure and compliant environment.
- › Share real-time information and discuss complex cases between providers and administrative staff.
- › Communicate and collaborate with health teams in a secure, compliant environment.
- › Streamline administrative/medical committee meetings and disseminate information.

“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 weren’t connected to IT in the past.”

– EMEA partner



3%

Percentage more that healthcare organizations currently spend on data security and network security relative to other industries

The revenue and profit opportunity analysis below is built on a composite 8,000 user deal (6,000 of which are firstline healthcare providers) 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 healthcare customer deals.

4:1

Ratio of firstline to corporate workers in industries such as healthcare.

\$532

Anticipated increased revenue for leading Microsoft 365 healthcare solution partners, per user, over three years.

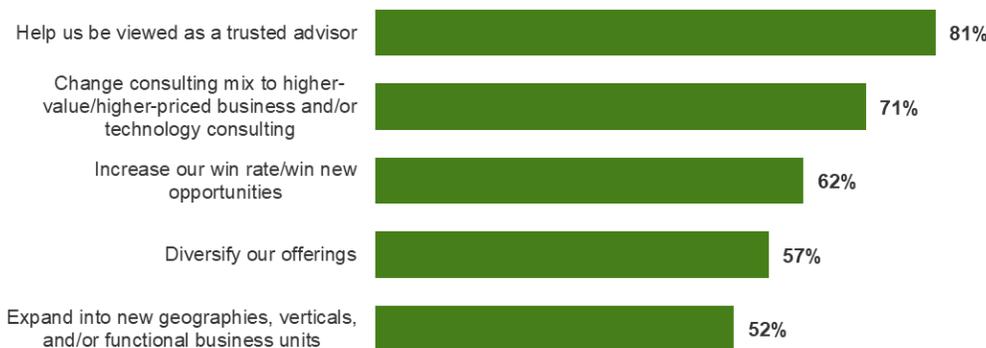
38%

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

Microsoft 365 Expands Healthcare Partners’ Total Addressable Market And Strengthens Their Relationships With Customers

Survey respondents with well-established healthcare practices are benefiting in many ways. The chart below shows that Microsoft partners are becoming more important to their customers, making more money, and positioning themselves for success in new areas, geographically and functionally.

Microsoft 365 helps partners improve their businesses in the following ways:



Base: 21 Microsoft 365 partners with healthcare practice

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

Forrester explored these benefits in greater detail during interviews with partners and learned that by building out and scaling Microsoft 365 healthcare practices, healthcare partners are benefiting in the following ways:

- **Maximizing sales with existing accounts.** Almost all partners Forrester interviewed are focused on driving growth in their existing customer-installed base. Given the long sales cycle associated with bringing in net-new brands, partners are revisiting existing customers with successful corporate-user Microsoft 365 implementations, with the objective of expanding their digital transformation initiatives to other areas of the business. For large healthcare customers such as hospitals, there are many opportunities to go deeper with them by deploying tailored information-sharing and process-streamlining solutions. Many of these opportunities focus on coordinating patient care across doctors and other care providers, patients and their families, and outside parties such as home nursing and insurance companies. Improving billing and collecting, along with improved regulatory compliance, is also very important.

“We are trying to raise the value of each customer rather than gaining more customers. We will achieve this by helping customers gain full use of Microsoft’s solution via adoption services.”

– EMEA partner



- › **Expanding partners' total addressable markets (TAM).** More so than almost any other industry, partners in the healthcare industry must be true subject matter experts to succeed and grow. Those who do invest the time and money to accomplish this are rewarded with a foothold in a growing and dynamic industry. Most healthcare companies are investing heavier in IT-based solutions (3 percentage points more on average compared to other industries); this is reflective of the growing security and compliance requirements in the sector. Additionally, growing scrutiny from governments and insurance companies means that healthcare companies need to control costs while improving patient outcomes. Each of these trends creates additional opportunities for partners with the right skills and expertise.
- › **Increasing 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 healthcare 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.

“Microsoft convinced us to build a healthcare industry-focused solution. It was so helpful for growing our practice. We learned so much from talking with other partners in other geographies.”

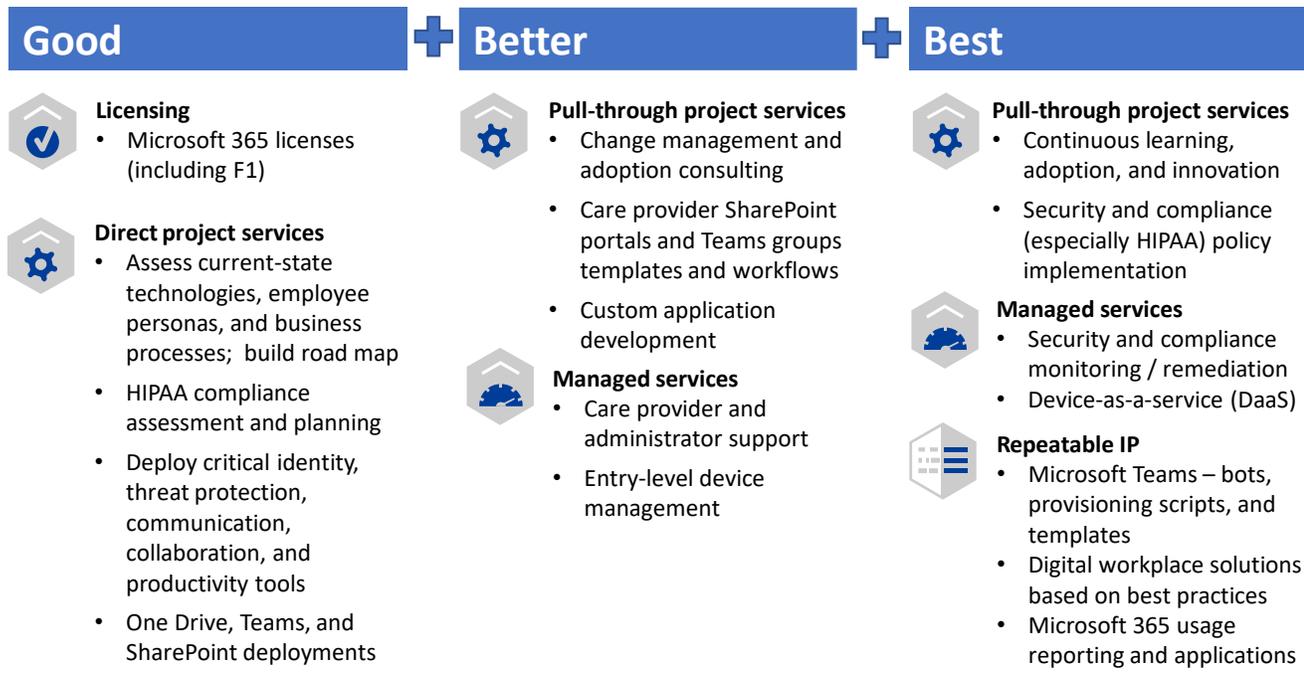
– EMEA partner



Partners That Pursue The Healthcare Industry Opportunity Will Grow Revenue With Existing And New Customers

All ten Microsoft partners, with well-established healthcare practices, are growing their revenue and profitability by building a hyper-specialized portfolio of solutions that activate, complement, and support Microsoft 365 for healthcare customers. Partners are actively targeting these solutions by enhancing and supporting the security and productivity of existing and new customer care providers and administration users. This represents a very wide and diverse set of mission-critical areas that need improvement. For the solution areas and revenue and profit streams below, Forrester has included proof points from the interviewed partners. Readers should apply the solution areas that are most relevant to their organization.

Our interviews found varying maturity levels across partners' healthcare practices. The table below shows the breakdown of the types of products, services, and solutions offered by partners' healthcare practices, from “good” practice offerings to “best-in-class” offerings provided by Microsoft's most advanced partners.



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 healthcare customers. A very common starting place in the healthcare customer journey is around security and compliance. An upfront planning consulting engagement develops a three-year road map to address the largest opportunities around improving patient outcomes and driving operational efficiencies. It also focuses heavily on existing compliance and security shortcomings and how to deploy best-in-class solutions to address any gaps. “We start with selling a security assessment,” said one partner. “We are not pushing Microsoft solutions at this point. We are selling a security story.”

Partners are creating personas for the different user types, e.g., supervisors, nurses, physicians, researchers, etc., to identify which solutions best match their needs and to drive adoption. One partner explained that: “In healthcare we often start with the firstline worker. We want healthcare workers to be empowered to do more — to deploy collaboration, based using [Microsoft] Teams.”

Technical and persona assessments 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 user adoption. The first wave typically consists of email and collaboration workplaces based on SharePoint and Microsoft Teams. According to an interviewed partner, these projects can deliver fast results to customers: “Firstline healthcare workers have a lot of administrative work. If we get them 5 minutes per day with SharePoint workflows, it will not only save the company millions, it can also save lives.”

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

“For healthcare specifically, we implement portals based on Microsoft 365, such as client portals, referral portals, and employee portals. We also deploy intranets and apps. We integrate the back-end systems and multi-app processes healthcare organizations already work with. The target group includes healthcare workers, self-reliant clients, supporting relatives, and stakeholders from the whole chain.”

– EMEA partner



likelihood of higher-margin follow-on project work and managed services, improving per-seat revenue and profitability.

Pull-Through Project Revenues

More mature Microsoft partners offer follow-on consulting work, or pull-through projects, that extend their value proposition to healthcare customers. These projects can include: adoption and change management consulting; ongoing 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. Follow-on project work around security and compliance is also a popular area for partners working with healthcare organizations.

Pull-through project services allow partners to continually engage with their customers over time, ensuring that customers 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. Interviewed partners said:

- › “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 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.”

“We have had huge wins in healthcare. In one case we were able to fully take over a 9,000-user account. It was our first with the CSP deal desk.”

– NA partner



Managed Services

While recurring managed service revenues may represent only a small portion of a partner's overall business mix today, all partners indicate 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 healthcare digital transformation projects is one way to shift the business mix and grow monthly recurring revenue (MRR).

One of the largest managed services areas where partners are finding success is security and compliance. One partner said they do “proactive security monitoring, ongoing security assessments, and HIPAA compliance reviews.” This partner-built solutions to help automate the compliance and audit functions. Other common managed services include user support, training portal seats, ongoing management of governance processes, and device-as-a-service (DaaS).

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

- › “We have a complete desktop managed service we deliver based on EMS and Intune for \$8 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.”

“CSPs have many managed services opportunities. If a customer has an application on Azure, we manage it. If they do an Office 365 project, we put managed services around that. Healthcare customers don't want to think about it.”

– EMEA partner



Microsoft 365 CSP Channel Margin

Channel margin and rebates from the resale of Microsoft 365 F1, E3, and E5 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 that would otherwise be using an F1 license to capitalize on Advanced Threat Protection.

With that said, most partners interviewed for the study were cloud solution providers (CSPs) that resell licenses to customers, provide customer support and service-level agreements (SLAs), and invoice customers for their Microsoft cloud solutions. 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."

Value-Added Resalable IP

To shift their business mix toward recurring revenue over time, partners are building proprietary software and applications that meet the business requirements of their healthcare customers. These opportunities are more important to healthcare partners than to partners with more generalist business models. In part, this is because a deep vertical expertise is crucially important to win and retain healthcare customers. Packaged, resalable pieces of IP provided by Microsoft partners with healthcare specialties often serve to augment existing Microsoft 365 workloads, enabling partners to quickly deliver tailored healthcare solutions using Microsoft Teams, SharePoint portals, and other Microsoft 365 solutions. Some examples of successful, resalable value-added pieces of IP include the following:

- › An application that connects to back-end systems to make them available on mobile devices.
- › Customized patient SharePoint portals that incorporate required security and tailored workflows.
- › Automated compliance and auditing tools.
- › Integration between Microsoft 365 and third-party ERP systems and other line-of-business applications.
- › "Single pane of glass" dashboards for improved collaboration.
- › Custom bots for FAQs and other commonly sought information.
- › Custom team and channel configurations, provisioning scripts, application themes, and templates.
- › Co-creation with healthcare customers of custom solutions to integrate devices, e.g., in-home monitoring.

"When we looked at healthcare, security and privacy were very important, along with high up-time and scheduling, especially for home care organizations. So, we now provide our own set of solutions on top of the Microsoft stack for those specific needs."

– EMEA partner



Three-Year Per-User Gross Profit Opportunity Based On Healthcare Composite 8,000-User Deal By Partner Maturity

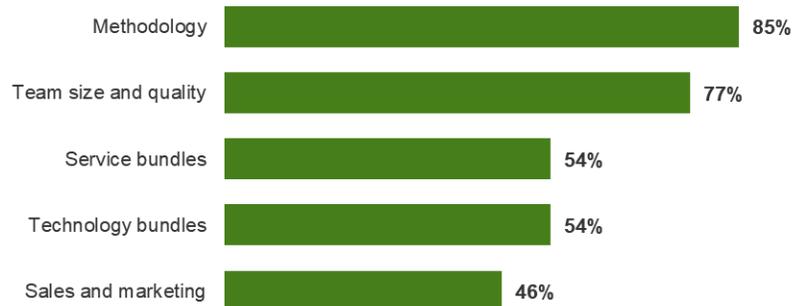


Healthcare Practice Investment Requirements

As discussed earlier, it is especially important for partners in the healthcare space to invest money and effort into developing true vertical expertise. Survey respondents said that healthcare-specific methodologies were the most important element contributing to their success, followed by high quality employees with healthcare expertise.

Partners interviewed for the study all had well-established Microsoft 365 practices. Some of them had previous expertise in healthcare and others made the strategic decision to invest in the space. Out of 70 survey respondents with Microsoft 365 practices, 27% said they had (at least basic) healthcare practices and another 27% said they plan to develop one in the “next few years.”

“What has made you successful with [healthcare customers]?”



Base: 21 Microsoft 365 partners with healthcare practice

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

For partners that are expanding into the healthcare vertical, or any other new space for that matter, hiring a practice lead with deep industry experience is critical to success. For example, one partner hired a seasoned healthcare practice lead to drive sales and brand recognition, as well as define new solutions and offerings, at a fully burdened salary of \$185,000. 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. The average annual partner training expenditures ranged from a few thousand to hundreds of thousands of dollars annually, and the spend was targeted at achieving various Microsoft certifications and building deep expertise in the healthcare industry.

Additionally, partners invest significantly in research and development (R&D) to build out managed services offerings; to scale, streamline, and optimize managed service delivery; and to build proprietary value-added applications and solutions around common customer challenges that can then be sold to customers or packaged as part of their managed services. Many partners are doing custom applications co-development with a customer that they can then repurpose for other customers. Several examples were given above in the Value-Added Resalable IP section of this study.

While some partners reallocate marketing resources from existing marketing budgets to their healthcare practices, others add incremental digital and content marketing investments to support the growth of the healthcare business. 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 healthcare. To more clearly illustrate this, Forrester has built a simple model that depicts a partner’s product and service revenue opportunities associated for a single healthcare customer that adopts Microsoft 365. This economic model is built on the following assumptions:

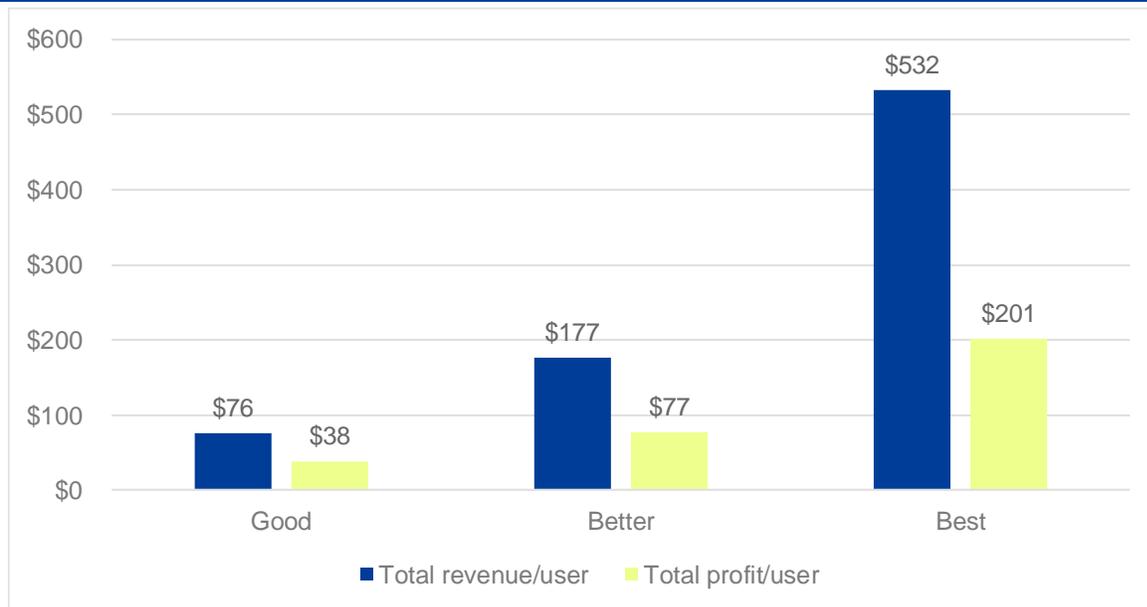
- › The economic model is based on a single deal with 8,000 users (6,000 of which are firstline healthcare providers), and a two-year managed services contract. The model assumes 2% customer churn in Year 3 of the analysis, consistent with what we learned from interviewees.
- › Direct project services are segmented into two phases. The first phase includes assessing the existing technical environment, business processes, existing security and compliance practices, and provider and worker personas at the healthcare organization, and brings in average project revenues of \$50,000. The second phase is made up of Microsoft 365 deployment and migration projects, focusing on workloads including Exchange, EMS, SharePoint, OneDrive, identity and access management, and Microsoft Teams. Deployment project revenues for these workloads total \$379,000 in this analysis. Forrester notes that engagement revenue will vary significantly based on 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. There are also significant ongoing project opportunities around security policy strategy and implementation, governance, risk, and compliance, and GDPR compliance. This gives partners the opportunity to activate incremental Microsoft 365 security and compliance workloads with new and existing customers. Over the three-year analysis, total pull-through project revenue generated from these services was nearly \$800,000. Change management sees extremely robust attach rates of 75%, with several partners indicating these projects being added automatically to all Microsoft 365 deployment and migration consulting deals. SharePoint and Microsoft Teams pull-through projects see 60% attach rates. Custom application development projects have a 25% attach rate, while security and compliance consulting has a 50% attach rate. 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 organizations and 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 include modern desktop management, as well as technical and end-user support, which see attach rates ranging from 13% to 20% over the three-year analysis, and per-user monthly revenues ranging from \$8.00 to \$10.25. The “best” case partner scenario includes a few security-oriented managed services along with a DaaS offering. For more detail on the attach rates, pricing, and service components of each managed service offering, please see the table below.

SERVICE LINE	ATTACH RATE	PER-USER, PER-MONTH FEE	EXAMPLE SERVICE LEVELS
Basic desktop management	13% to 20%	\$8	Desktop management based on EMS, Microsoft Intune, and System Center Configuration Manager, including security updates for more than 40 standard applications

Desktop management plus technical and end user support	10% to 16%	\$2.25 per user or enterprise block plans	Basic desktop management services plus Tier 1 and 2 technical and end-user support for healthcare workers and their IT administrators
Device-as-a-service	3% to 5%	\$60	Device, onsite delivery, technical support, configuration, break-fix services
Security managed services	15% to 20%	\$23	Security monitoring, alerting, and remediation and support for onboarding new users in EMS and Azure AD

- › Cloud-service provider (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 10% to 40% of healthcare projects, depending on the specific piece of IP. Per-user annual pricing varied from 65 cents for a Microsoft 365 personalized use application to \$7 per seat, per month for prebuilt healthcare collaboration environments built on Teams, SharePoint, and custom apps and workflows using Power Apps and Microsoft Flow.

Three-Year Revenue And Profit Opportunity Based On Composite 8,000-User Healthcare Deal



Forrester’s interviews with ten existing partners with well-established healthcare practices and the subsequent financial analysis found that a composite organization based on these interviewed partners is able to accrue revenues of \$532 and gross profits of \$201 per user over the three-year analysis for the best-case partner scenario. For a healthcare organization with 8,000 users, the business opportunity opens the door to over \$4.2 million in revenue and more than \$1.6 million in gross profit for the best-case partner scenario, resulting in a 38% deal gross margin. As partners increasingly look to create deep vertical expertise in the healthcare sector to help customers improve patient outcomes and control costs, this opportunity should become larger and more lucrative.

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 healthcare industry 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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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.

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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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