

A Forrester Total Economic Impact™
Study Commissioned By Microsoft
July 2018

The Partner Opportunity For Microsoft 365 Modern Desktop

A Total Economic
Impact™ Partner Opportunity Analysis

Table Of Contents

Executive Summary	1
Partner Revenue And Margin Opportunities	2
TEI Framework And Methodology	4
Analysis	5
Interview Highlights	5
Benefits Of Building A Microsoft 365 Modern Desktop Practice With Customers Expecting More From Their Business Partners, Managed Services Will Grow In Strategic Importance	8
Partner Revenue And Margin Opportunities	10
Direct Project Services	10
Pull-Through Project Services	11
Managed Services	12
Value-Added Resalable IP	14
A Financial Example: Good, Better, And Best Partner Practices And Solutions	15
Microsoft 365 Modern Desktop Practice Investment Requirements	16
Appendix A: Endnotes	18

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Executive Summary

Business Opportunity



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

\$853



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

\$310



Managed services as a percentage of three-year deal gross profit

68%

The convergence of changing customer, market, and technology dynamics is driving organizations to prioritize digital business transformation initiatives to gain and protect competitive advantage, empower their employees with productivity-enhancing technologies, and improve their customers' experience. The proliferation of mobile and increasingly distributed workforces has catalyzed technology decision makers to 1) explore technology and business solutions that enhance teamwork; 2) bolster employee productivity; 3) simplify and streamline IT; and 4) improve the security of devices, customer information, and corporate intellectual property (IP). Microsoft partners with the right offerings and subject matter expertise to support businesses on their digital transformation and IT modernization efforts are poised to benefit from higher customer lifetime value, increased recurring revenues, and more satisfied customers.

Forrester Consulting conducted a Total Economic Impact™ (TEI) study to examine and demonstrate the revenue and profit opportunities available to Microsoft partners that build Microsoft 365 modern desktop practices. The modern desktop with Microsoft 365, consisting of Windows 10, Office 365 ProPlus, and Enterprise Mobility + Security (EMS), is a complete solution that securely provides the collaboration and productivity tools that users require and the modern management features that IT needs to support business goals.

The purpose of this study is to provide Microsoft partners with a framework to evaluate the potential financial impact of building, delivering, and supporting the modern desktop for current and prospective Microsoft 365 customers. Forrester interviewed 20 Microsoft partner organizations, including systems integrators, licensing solution providers (LSPs), cloud solution providers (CSPs) and value-added resellers (VARs), distributors, and original equipment manufacturers (OEMs) across NA, EMEA, APAC, and LATAM, that had established Microsoft 365 modern desktop practices. Forrester's interviews revealed that the "get-current" motion around Windows 10 has hit a critical mass, with as much as 60% to 70% of partners' Windows customer bases currently in the migration process. While most interviewees expect a spike in migration demand leading up to end-of-support for Windows 7 in 2020, partners are moving to future-proof their business models and solution portfolios by building, marketing, and selling myriad pull-through consulting, managed services, and resalable pieces of IP to support their clients' digital transformations and IT modernization objectives.

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

Three-Year Financial Summary For 5,000-Seat Modern Desktop Deal



Three-Year Revenues:
\$4.3M



Total Gross Profit (Risk-Adjusted):
\$1.5M

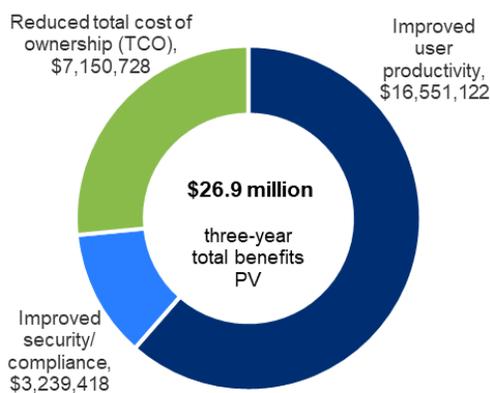


Deal Gross Margin (%):
36%



Recurring Revenue (% Of Total Revenue):
71%

Partner Sales Play: Three-year risk- and PV-adjusted benefits for 5,000 knowledge workers using the modern desktop



Source: The Total Economic Impact™ Of The Microsoft 365 Modern Desktop

becoming more advisory focused. Organizations need someone to support the remediation of applications with each update.”

Partner Revenue And Margin Opportunities

The revenue and profit opportunity analysis below is built on a composite 5,000-user deal that’s representative of the deal characteristics identified in Forrester’s interviews with 20 Microsoft partners with established modern desktop practice areas. The intent of the analysis below is to provide a framework for partners to understand the total three-year business potential associated with serving a customer that adopts Microsoft 365 modern desktop.

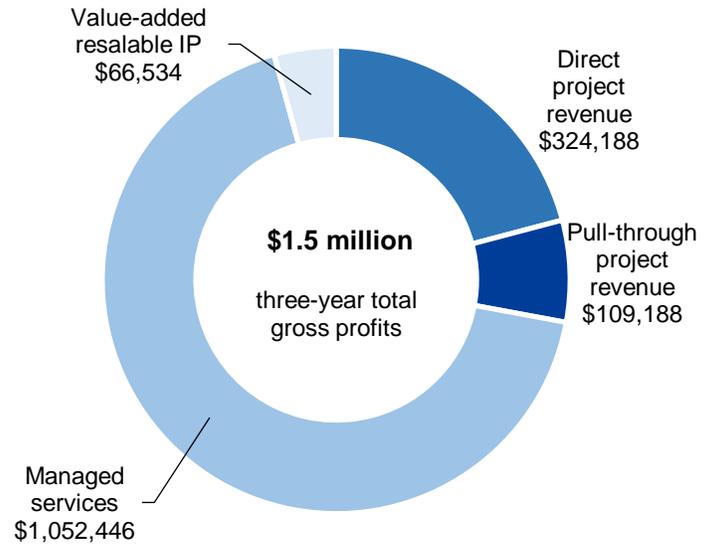
- › **Direct project revenue.** Partners support their customers’ journeys to Microsoft 365 and modern, always up-to-date management by providing a variety of strategy, design, business transformation, and technology implementation consulting services. Assessment, strategy, and advisory projects, including the development of a future-state vision and road map for Microsoft 365, naturally leads to pilot and full-deployment engagements around Microsoft 365. Partners have multiple entry points in terms of supporting customers on their journeys to Microsoft 365, including Windows 10 migrations, identity and access management solution implementation (e.g., Azure AD; Conditional Access; Windows Hello; Windows Credential Guard), and Office 365 ProPlus projects. Direct project services account for 23% of per-seat revenue and \$65 in gross profit per seat over three years.
- › **Pull-through project revenue.** Initial strategy, advisory, and deployment work can create follow-on consulting project opportunities or pull-through projects. Pull-through projects cover a range of domains that help customers capture the benefits of Microsoft 365 and modernize legacy applications to be compatible with cloud management. As Microsoft partners shift toward a trusted advisor role for their customers, ongoing opportunities abound around change management, adoption consulting, and continuous innovation services. Pull-through project work accounts for 6% of per-seat revenue and \$22 in gross profit per seat over three years.
- › **Managed services.** All partners are actively building out managed services offerings, developing IP to streamline service delivery, and fine-tuning their pricing models, to shift their business mix toward monthly recurring revenues. In this year’s study, we found that partners have built several additional and more sophisticated managed services offerings, including desktop management, evergreen-as-a-service, and device-as-a-service. Emerging managed services areas abound, including antimalware management-as-a-service, Windows Analytics-as-a-service, Windows ATP-as-a-service, and identity and access management-as-a-service. Several partners see managed services making up 50% to 60% of their entire business mix in the next 18 months. Managed services, explained in detail in the body of this study, account for 69% of per-seat revenue and \$210 in gross profit per seat over three years.
- › **Value-added resalable IP.** Partners are accelerating investments in the development of value-added IP and SaaS offerings that they can attach to Microsoft 365 modern desktop deals. Solutions range from vertical solutions to solve specific business problems in industries spanning healthcare, manufacturing, and financial services, to horizontal solutions that accelerate Windows 10 migrations and augment the productivity, teamwork, and security functionality of Microsoft 365. Repeatable IP sales account for 3% of per-seat revenue and delivers \$13 in gross profit per seat.

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

Global business development director, global partner



Total Gross Profits Per 5,000-User Customer Journey (Best Case)



Partner Investments

In addition to direct delivery and costs of goods sold, such as delivery consultant and engineer salaries, which are included in the gross margin calculations in the Partner Revenue And Margin Opportunities section of this study, interviewed partners make several investments in IP and to build out new service and solution offerings for their Microsoft 365 modern desktop practices. Interviewed partners strategically invest in the following areas:

- › **Additional staffing expenses.** To drive the growth in their practices, partners invest in practice leads and additional consulting talent, including digital transformation consultants and security systems engineers. Partners without existing Microsoft practices likely will need to make additional hires in areas including sales, marketing, business analytics, and engineering.
- › **Research and development.** Partners make material R&D investments in new consulting frameworks, new managed services offerings, resalable IP, and internal tools and systems to streamline service and delivery.
- › **Additional marketing spend.** Partners make additional marketing hires and allocate marketing budgets for digital, social, content, and event marketing campaigns around Microsoft 365 modern desktop, its value proposition, and how partners can support customers on their journeys to modern IT.
- › **Selling, general and administrative expenses.** G&A expenses are benchmarked to be 5% of gross sales annually.

TEI Framework And Methodology

From the information provided in the interviews, Forrester has constructed a Total Economic Impact™ (TEI) framework for those partners building out a Microsoft 365 modern desktop practice area.

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



DUE DILIGENCE

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



PARTNER INTERVIEWS

Interviewed 20 partners selling Microsoft 365 modern desktop services and solutions.



COMPOSITE DEAL

Designed a composite three-year modern desktop customer journey and road map based on examples provided by partners.



REVENUE MODEL FRAMEWORK

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

DISCLOSURES

Readers should be aware of the following:

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

Forrester makes no assumptions as to the potential ROI that other partners will receive. Forrester strongly advises that readers use their own estimates within the framework provided in the report to determine their market opportunity and associated costs.

Microsoft reviewed and provided feedback to Forrester, but Forrester maintains editorial control over the study and its findings and does not accept changes to the study that contradict Forrester’s findings or obscure the meaning of the study.

Microsoft provided the partner names for the interviews and survey.

Analysis

Interview Highlights

For this study, Forrester conducted 20 interviews with existing Microsoft partners across NA, EMEA, APAC, and LATAM with experience building, selling, and delivering Microsoft 365 modern desktop solutions. Forrester interviewed CEOs, CTOs, VPs, and directors at Microsoft partner organizations.

Partner Developments: One Year Later

The interviewed partners had the following characteristics in common:

- › **They have expanded entry points through Microsoft 365, with security front-and-center.** Last year's analysis focused squarely on the immediate Microsoft 365 strategy, pilot, and migration opportunity, catalyzed by Windows 7 end-of-support in January 2020 and Office 2010 end-of-support in October 2020. While the end-of-support issue is on every customer's radar, the true catalyst appears to be the enhanced security and data privacy capabilities of Microsoft 365. According to the recent Forrester Analytics Global Business Technographics® Infrastructure Survey, 2016, 51% of technology decision makers surveyed by Forrester indicated that security and privacy would be the key reason they upgrade to Windows 10.¹ This year, implementation of Microsoft's identity and access management solutions, including Azure Active Directory (AD), Windows Hello, conditional access, and Windows credential guard, gained traction as a partner entry point on the customer journey to Microsoft 365 modern desktop, as this sets the foundation for future security and cloud transformation project work, including desktop management through Intune.
- › **They have found novel solutions to support customers in staying current.** While the "stay-current" services motion has limited customer traction to date, partners are adopting multiple pricing and delivery models to support customers with Windows and Office updates, as well as the application remediation that comes along with keeping these systems evergreen. Larger enterprise customers were understandably surprised to learn that update services were being recommended by partners, in some instances, prior to fully deploying Windows 10. This year, partners have responded with new messaging, marketing, and service-delivery models that have helped customers understand the business value, productivity gains, and business benefits of always up-to-date systems and modern IT.
- › **They have growing portfolios of managed services and IP to help customers modernize IT and bolster enterprise security.** Last year's study found myriad managed services opportunities for Microsoft modern desktop partners, although attach rates were relatively low at the time of the interviews. Over the past 12 months, managed services pricing and operational models have been formalized and fine-tuned. Partners are now actively marketing and selling these solutions to new and existing customers. New managed services offerings this year cover the expanded Microsoft 365 toolkit — Office ProPlus, Windows 10, and EMS — including novel new offerings around Windows ATP, Windows Analytics, Intune, and Azure Active Directory (AD). While partners have had varied success in attaching these services to deals, one partner had attached evergreen and support services to 100% of its managed services contracts. Others are experimenting with automatic managed services purchase agreements.

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

Solutions manager, NA partner



"We keep everyone on the most current versions of their firewalls and operating systems. Update services and customer support are included in every managed services contract we sell. Keeping people current lowers our own cost of support."

CEO, UK partner



- › **Partners have shifted to trusted advisors.** We wrote last year that one-and-done Windows 10 deployment projects are disappearing. This hypothesis has been affirmed, with one partner saying, “We are reshaping our offerings away from standard Windows 10 migration services. We’re becoming much more advisory focused, helping clients assess and transform and then ensuring that we can support the remediation of their applications through modern management.”

Partner Managed Services Areas Around The Modern Desktop

As mentioned earlier, partner revenue opportunities fall into four core categories, aligned with the customer journey to the modern desktop: direct project services; pull-through project services; managed services; and resalable IP. Underlying these revenue categories are several core solution areas, each bringing a unique opportunity for partners to target prospects and re-engage with existing customers. These solution areas are quantified and explained in more detail in the Partner Revenue And Margin Opportunity section of this study.

- › **Desktop management and security patch services.** Desktop management services include Intune and System Center Configuration Center (SCCM) desktop management, with almost every customer with more than 1,000 seats using a hybrid approach consisting of both Intune and SCCM. These services typically include Intune for assignment of security and compliance policies, device configuration, and application deployment and monitoring. In addition, these services cover security patches for a common set of applications. Pricing varied across partners, ranging from \$2 to \$15 per user, per month. Volume discounts were common for large accounts.
- › **Agile update and evergreen-as-a-service with actionable analytics.** Modern desktop partners interviewed for this study have built, or are building, consulting and managed services offerings to support customers in keeping Office 365 ProPlus, Windows 10, and other enterprise systems up to date. Partners noted that most customers had not budgeted for, nor were they aware of, the heavy lifting associated with keeping Windows 10 up to date over time. Partner pricing models for evergreen services varied widely, with per-user monthly pricing ranging from \$10 to \$50, depending on which Microsoft 365 shop keeping unit (SKU) was being kept evergreen. Most modern desktop partners serving enterprise customers expect to use proof-of-concept consulting engagements, using time and material pricing, to mitigate the risks associated with misquoting customers requiring massive amounts of application remediation. Most partners expected future Microsoft 365 updates to require less heavy lifting. Partners indicated that tools, including Windows Analytics, provide the critical insights and visibility needed to identify and resolve potential application compatibility issues within customers’ environments, enabling partners to effectively plan and execute Windows 10 updates.

“We are reshaping our offerings away from standard Windows 10 migration services. We’re becoming much more advisory focused, helping clients assess and transform and then ensuring that we can support the remediation of their applications through modern management.”

Director, product management workplace and mobility, global partner



“[Our desktop management solution] is about 7 or 8 euros per month, per user. It includes some basic functionality built on Intune and security updates for more than 40 standard applications from our sales service portal.”

Productivity specialist, EMEA partner



- › **Identity and access management.** The Forrester Consulting case study, “The Partner Business Opportunity For Microsoft 365 Security And Compliance Solutions,” reveals that implementation of Microsoft 365’s identity and access management solutions, including Azure Active Directory (AD), Windows Hello, conditional access, and Windows credential guard, is often done at the beginning of the customer journey to Microsoft 365 and is seen by partners as the foundation for future security and cloud transformation project work.² Given the importance of Azure Active Directory in being able to deploy Intune images and enable modern IT management, this was seen as a key partner entry point. Partners should consider identity project opportunities as a parallel entry point next to Windows 10 migration and update service PoCs. While identity and access managed services are not common, one partner had an Azure AD and EMS managed service offering priced at \$3 per user, per month.
- › **End user and technical support; change management and adoption; and training services.** Managed end user and technical support contracts are one of the most popular managed services offerings. Pricing varies from a couple of dollars up to \$12 per user, per month, depending on service-level agreements and whether onsite staff are required. Support services are typically packaged and bundled with other managed services, particularly desktop management and evergreen-as-a-service offerings. In addition, change management and adoption services, which often leverage monitoring technologies to track and report on user adoption of Microsoft 365, are becoming increasingly common with partners — accelerating renewal cycles and growing revenue. Given the new features and applications released in each Office 365 ProPlus update, partners play a critical role in user enablement and education.
- › **Device-as-a-service.** Most system integrators and OEMs interviewed by Forrester offered some type of device-as-a-service offering. Offerings typically bundled a wrapper of services, including device procurement, financing, shipping, configuration, firmware updates, technical support, break-fix, next-day device replacement, and end-of-life services, along with Microsoft 365 licenses and the other value-added managed services described above. Interestingly, several partners saw DaaS as an accelerant to Windows 10, given that it shortens refresh cycles to two to three years versus the typical four- to five-year refresh cycle for their non-DaaS counterparts. Several partners built comprehensive Modern Workplace-as-a-service (MWaaS) offerings priced between \$100 and \$195 per user, per month, which bundles everything from the device, to the Microsoft 365 license, to the evergreen-as-a-service and desktop management services wrapped around it.
- › **Line-of-business application update, compatibility, and remediation services.** The idea of “stay current” has extended well beyond Microsoft 365 to the customer’s line-of-business applications. While several partners left the application testing and remediation around line-of-business and desktop applications for Windows 10 updates squarely on the client’s own IT team, others saw this as an additional managed services opportunity. For partners offering managed application services, application update services for line-of-business applications and security patches for third-party applications were typically priced in a custom way, for a fixed monthly fee.

“Identity is a foundational project that you need to do to move to the cloud. Connecting customers’ on-premises directory systems to Office 365 so then you’re able to manage that identity typically takes a bit of work that always needs to be done before you can do anything else.”

General manager, APAC partner



“The other thing that we think is a real advanced movement to DaaS for clients, is that it keeps them current. One of the things that we’re seeing is [DaaS] shortens the life of devices because people are more focused on device refresh. This accelerates how they modernize their workplace environments; upgrade to Windows 10 and begin using modern management.”

Director, global partner



“All of our managed services follow the ‘stay-current’ idea. We’ll keep you current — so we’ll keep you on the latest firewalls, we’ll keep you on the latest versions of Office and Windows, we’ll update your mobile device management solution, your phone systems — all that kind of stuff. If you have a managed service from us for CRM, we will guarantee that you will never be more than six months out of the latest version.”

CEO, UK partner



Benefits Of Building A Microsoft 365 Modern Desktop Practice

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

- › **Incremental revenue and profit.** While partners interviewed for the study varied in the maturity of their Microsoft 365 modern desktop practices, all partners fully understood the strategic importance of expanding their portfolios to include professional services, managed services, and resalable IP that goes well beyond the Microsoft 365 migration and deployment project services that historically were core to their business mix. With these new offerings come a myriad of revenue opportunities with attractive margins, creating post-project annuity revenue streams for partners. Pull-through projects and managed services also expand engagement with partners' customer-install bases, ensuring they are top of mind when future business opportunities arise.
- › **More predictable cash flows and higher customer lifetime value through managed services.** High customer acquisition costs and the expected decline of deployment project revenues over time require partners to explore innovative new ways of delivering business value to their customers. As a result, partners interviewed for the study were in the processes of building, marketing, and selling robust portfolios of managed services to help better serve their customers and create monthly recurring revenue (MRR) for their businesses. These managed services often bundle fully managed services in with support, Microsoft solutions, and proprietary value-add software into a subscription, thereby helping partners to bolster margins, to create ongoing annuity streams, and to increase customer lifetime value.
- › **Higher customer satisfaction and stickiness.** By offering more comprehensive service offerings, partners could shift their business models away from one-and-done projects, toward a more relational model where they become their customers' trusted partners. By expanding their value propositions and helping demonstrate their business impact over time, partners also made themselves stickier with customers. One partner stressed the importance of attaching products and services to deployment projects to ensure ongoing engagement with its customers.
- › **Improved engagement with customers on critical business themes: security, Windows 7 and Office 2010 end-of-support, and modern IT management.** With Windows 7 end-of-support approaching, virtually all partners interviewed for this study saw their customer bases exploring Windows 10 pilots and proofs of concept. Beyond these events and business challenges, customers were looking to modern devices and IT to make their employees more productive, collaborative, and secure on-premises and in the field. Often, this is easier said than done and further complicated by the 18-month support period for both Windows 10 and Office ProPlus. One partner said, "Often we hear customers tell us they don't have the resources to [manage Windows 10] on a continuous basis and they want us to manage this for them." As a result, partners saw the opportunity to re-engage, cross-sell, and upsell their existing customer base.

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

Director, global partner



"A lot of our customers have outlived Windows 7, and most of them never moved to Windows 8. Our customer base is now more open to migrating to Windows 10 — timing is good, and this is a good opportunity for us."

EMEA partner



With Customers Expecting More From Their Business Partners, Managed Services Will Grow In Strategic Importance

Partners interviewed for this study are in the process of building and scaling their Microsoft 365 modern desktop practices and growing their revenue and profitability by building a portfolio of services and solutions. To encourage long-lasting strategic relationships with key customers, Microsoft 365 modern desktop partners are building managed services and IP to ensure their clients' systems are always up to date and secure and that each customer gets the most value out of their investment in Microsoft 365. For the solution areas below, Forrester built out an economic model that depicts the product and service revenue and profit opportunities for a partner that delivers comprehensive Microsoft 365 modern desktop solutions to a 5,000-seat customer. In

considering this revenue opportunity analysis for your own business, apply the solution areas that are most relevant to your business.

Our interviews uncovered significant variance in maturity levels across partners' Microsoft 365 modern desktop product and service solution portfolios. The table below shows the breakdown of the types of products, services, and solutions offered by partners' Microsoft 365 modern desktop practices, from good practice offerings to best-in-class offerings provided by Microsoft's most advanced and mature partners.

Microsoft 365 Modern Desktop Practice: Good, Better, And Best

Good	+	Better	+	Best
 <p>Licensing</p> <ul style="list-style-type: none"> • Microsoft 365 licenses  <p>Direct project services</p> <ul style="list-style-type: none"> • Assess current state technologies and build road map • Microsoft 365 pilot, migration, and deployment projects  <p>Managed services</p> <ul style="list-style-type: none"> • Desktop management • Technical and end user support 		 <p>Pull-through project services</p> <ul style="list-style-type: none"> • Change management and adoption consulting • Microsoft 365 update and evergreen service proof-of-concepts and consulting • Continuous innovation and learning services  <p>Managed services</p> <ul style="list-style-type: none"> • Evergreen-as-a-service 		 <p>Managed services</p> <ul style="list-style-type: none"> • Device-as-a-service (DaaS) • Application update and remediation services • Windows Defender ATP-as-a-service • Windows Analytics-as-a-service  <p>Resalable IP</p> <ul style="list-style-type: none"> • Application compatibility tools • Microsoft 365 usage reporting and applications • IP to streamline Microsoft 365 migrations • Vertical and line-of-business solutions

The following revenue and profit opportunity analysis below is built on a composite 5,000-user deal (called the composite deal) that's representative of the deal characteristics identified in Forrester's partner interviews. The analysis below can be used as a framework for partners to understand the total three-year business potential associated with building a Microsoft 365 modern desktop practice.

Partner Revenue And Margin Opportunities

Total Gross Margins (USD)

REF.	REVENUE CAT.	Year 1	Year 2	Year 3	TOTAL
Atr	Direct project revenue	\$324,188	\$0	\$0	\$324,188
Btr	Pull-through project revenue	\$61,560	\$23,328	\$24,300	\$109,188
Ctr	Managed services	\$269,416	\$350,520	\$432,511	\$1,052,446
Dtr	Value-added resalable IP	\$63,356	\$1,606	\$1,573	\$66,534
	Total benefits (risk-adjusted)	\$718,519	\$375,453	\$458,384	\$1,552,356

Direct Project Services

Partners support their customers' journeys to Microsoft 365 and modern, always up-to-date management by providing a variety of business transformation and technology implementation consulting services around Microsoft 365 workloads. Our interviews with partners revealed that the typical customer journey to Microsoft 365 begins with a strategy, assessment, and advisory engagement, followed by a pilot with a subset of enterprise users and applications. Initial consulting engagement opportunities focus on: 1) fully assessing each customer's application readiness and infrastructure prior to migrating to Windows 10; 2) building a future-state strategy and road map for Microsoft 365; and 3) conducting a small Microsoft 365 pilot, typically covering 5% to 10% of enterprise users. The pilot phase of the project helps partners demonstrate and validate the business value of Microsoft 365 modern desktop, paving the way for enterprisewide deployment. In addition, pilot engagements around Windows 10 help partners control application remediation risks, allowing partners to better price full deployment projects.

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

Partners can lead with multiple entry points in terms of implementing Microsoft 365 solution areas, with most partners leading with Windows 10 migrations, Office ProPlus deployment projects, and/or identity and access management solutions. Partners shared the following insights regarding their direct project service offerings:

- › "For Windows 10 migrations, we typically move 10% of the customer's workforce during the pilot phase, which results in \$250,000 to \$500,000 in project revenues for our larger, enterprise customers."
- › "In our upfront pilot projects, clients want to understand the new features of Windows 10 and which ones might be the most appropriate for them. They want to build a future-state strategy. Then, the actual pilot is all about proving that to be real."
- › "If we identify all of the problem applications through the proof of concept and the pilot, by the time we flip to actual deployments, we've mitigated a lot of our risks, so it can be extremely profitable."

The table above shows the total of all benefits across the areas listed below, as well as present values (PVs) discounted at 10%. Over three years, the composite organization expects risk-adjusted total benefits to be a PV of over \$1.5 million.

In modeling the revenue and margin impact of direct project services for the composite deal, this analysis assumes the following:

- › Direct project services are segmented into two distinct engagement phases. The first phase project, covering strategy, assessment, and advisory, followed by a pilot with a subset of enterprise users and customers applications, brings average project sizes of \$75,000 for a 5,000-user organization.
- › Next-phase project work includes migration and deployment work around key Microsoft 365 workloads, Windows 10, Office ProPlus (especially Exchange and OneDrive), and Microsoft 365 identity and access management workloads. The deployment and migration projects bring in a total of \$900K in this analysis.
- › Gross margins for direct project services are 35%.

Impact risk is the risk that the business or technology needs of the organization may not be met by the investment, resulting in lower overall total benefits. The greater the uncertainty, the wider the potential range of outcomes for benefit estimates.

Forrester notes that engagement revenues will vary significantly across industries and organization sizes. To account for these risks, Forrester adjusted this revenue category downward by 5%, yielding a three-year total gross profit of \$324,188 or \$65 per seat.

Direct Project Services: Calculation Table (USD)

REF.	METRIC	CALC.	Year 1	Year 2	Year 3
A1	Microsoft 365 strategy, assessment, pilot, and PoC		\$75,000		
A2	M365 Identity implementation services		\$50,000		
A3	Office 365 deployment project		\$400,000		
A4	Windows 10 deployment project		\$450,000		
A5	Total direct project revenue	A1+A2+A3+A4	\$975,000		
A6	Gross margin		35%		
At	Direct project revenue	A5*A6	\$341,250	\$0	\$0
	Risk adjustment	↓5%			
Atr	Direct project revenue (risk-adjusted)		\$324,188	\$0	\$0

Pull-Through Project Services

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

Notably, change management and adoption services are seen by many partners as a critical means of differentiating their offerings and expanding their value proposition to customers. Change management and adoption consulting projects saw significant customer adoption, with several partners indicating that they would not take on Microsoft 365 projects without at least some change management, adoption, and training component. Furthermore, continuous learning and innovation services provide partners with annuity revenue streams that ensure partners are continually engaged with their customers from a change management and

“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



Microsoft 365 adoption perspective.

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

- › “For some deals, we see change management revenues equal the full [Microsoft 365] deployment project costs.”
- › “We offer continuous learning and innovation services that include a quarterly motion 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.”

In modeling the revenue and margin impact of pull-through project services for the composite deal, this analysis assumes the following project revenue streams referenced in rows B1 through B3 in the table below, and gross margins ranging from 45% in Year 1 to 50% in Year 3 of the analysis. Attach rates and engagement revenues will vary significantly across partners. To account for these risks, Forrester adjusted this revenue category downward by 10%, yielding a three-year total gross profit of \$109,188 or \$22 per seat.

Pull-Through Project Services: Calculation Table (USD)

REF.	METRIC	CALC.	Year 1	Year 2	Year 3
B1	Change management and adoption consulting		\$75,000		
B2	Update service PoC		\$50,000		
B3	Continuous learning and innovation		\$27,000	\$54,000	\$54,000
B4	Total pull-through project revenue	Sum(B1:B3)	\$152,000	\$54,000	\$54,000
B5	Gross margin		45%	48%	50%
Bt	Pull-through project revenue	B10*B11	\$68,400	\$25,920	\$27,000
	Risk adjustment	↓10%			
Btr	Pull-through project revenue (risk-adjusted)		\$61,560	\$23,328	\$24,300

Managed Services

While partners interviewed by Forrester had varied managed services capabilities and offering maturity levels, virtually all partners were actively investing in their managed services solutions. Partners are rapidly building out IP to streamline service delivery, investing in IT service management systems and capabilities, and fine-tuning their pricing models to shift their business mix away from one-off project revenues toward monthly recurring revenues. By packaging a combination of managed services, licensing, and support into broader Microsoft 365 and digital transformation deals, partners bolstered their margins, created ongoing annuity streams, and became more deeply engaged with their customers.

Partners delivered managed services offerings include desktop management, evergreen-as-a-service, and device-as-a-service. Emerging managed services areas abound, including Windows Analytics-as-a-service, Windows Defender ATP-as-a-service, and identity and access management-as-a-service. Partners indicated that managed services attach rates currently vary between 10% and 50% of their deployment and migration customers, but these partners noted that they expect their attach rates to grow significantly in the future as customers increasingly rely on their partners to keep their systems secure and up to date. Several partner see managed services making up 50% to 60% of their entire business mix in the next 18 months.

According to one partner, “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. They’re not prepared to continuously manage a new operating system with us every six months.” In addition, some partners were exploring adding managed services requirements, like what some partners have done around change management and adoption

services, so that all Microsoft 365 deployment and migration deals include some degree of ongoing managed services.

In modeling the revenue and margin impact of managed services for the composite deal, Forrester made the following assumptions:

- › The economic model is based on a single deal with 5,000 user adopters and a two-year managed services contract. The model assumes 2% customer churn in Year 3 of the analysis, consistent with what we learned from interviewees.
- › **Good managed services:** These core managed services are offered by many, if not all, partners and include desktop management and technical and end user support. Attach rates and per-user, per-month pricing is provided in the table below. These figures have been risk-adjusted downward by 5% to account for variability in pricing across partners along with overlap between services.
- › **Better and best managed services:** Partners with more mature managed services practices had more sophisticated offerings, including evergreen-as-a-service, device-as-a-service, and more premium bundled services, licensing, and support packages. The table below provides a more granular breakdown of the different managed services opportunities, attach rates, pricing models, and service levels. Attach rates and per-user, per-month pricing is provided in the table below. These figures have been risk-adjusted downward by 10% to account for variability in pricing across partners along with overlap between services.

SERVICE LINE	ATTACH RATE	PRICING	EXAMPLE SERVICE LEVELS
Desktop management, security patch services, support	20% to 25%	\$10 per user/month	Desktop management based on EMS, Microsoft Intune, and SCCM. Security updates for more than 40 standard applications. Tier 1 and Tier 2 technical and end user support.
Evergreen-as-a-service and support	20% to 25%	\$22 per user/month	Update services around Windows 10 and Office ProPlus to ensure customers are always up to date and have access to all new feature sets. Includes Tier 1 and Tier 2 technical and end user support.
Device-as-a-service (device lease excluded)	3% to 5%	\$30 per user/month	Device procurement, financing, shipping, configuration, firmware updates, technical support, break-fix, next-day device replacement, and end-of-life services.
Subscription-plus silver-tier managed services plan	3% to 5%	\$50 per user/month	Microsoft 365 E3 license (device not included), software management and updates, and technical support plan.
Surface Hub-as-a-service (device excluded)	Low	\$230 per device/year	Microsoft Intune license, updates, break-fix, and service desk.
Tenant-level microservices	High	\$800 to \$1,200 per tenant /month	Per-tenant management of various Microsoft 365 workloads, with offerings including antimalware management, Windows Analytics-as-a-service, and Windows Defender ATP-as-a-service.

In modeling the revenue and margin impact of managed services for the composite deal, this analysis assumes the following project revenue streams referenced in rows C2 through C7 in the table below, and blended gross margins ranging from 34% in Year 1 to 37% in Year 3 of the analysis. Actual attach rates and pricing will vary significantly across partners and are highly dependent on deal size. To account for these risks, Forrester adjusted this revenue category downward by 8%, yielding a three-year total gross profit of \$1,052,446 or \$210 in gross profit per seat.

Managed Services: Calculation Table (USD)

REF.	METRIC	CALC.	Year 1	Year 2	Year 3
C1	Total users	2% churn in Year 3	5,000	5,000	4,900
C2	Basic desktop management services revenue per month	\$10 per user/month	\$120,000	\$132,000	\$147,000
C3	Evergreen-as-a-service plus 24x7 end user and technical support revenue per month	\$22 per user/month	\$264,000	\$290,400	\$323,400
C4	Subscription-plus managed services	\$50 per user/month	\$300,000	\$450,000	\$588,000
C5	Device-as-a-service (device removed)	\$30 per user/month	\$90,000	\$90,000	\$88,200
C6	Surface Hub-as-a-service	\$230 per device/year	\$2,300	\$2,300	\$2,300
C7	Tenant-level microservices (ATP, Windows Analytics)	\$868 per month	\$10,416	\$10,416	\$10,416
C8	Total managed services revenues	Sum(C2:C7)	\$786,716	\$975,116	\$1,159,316
C9	Total gross margin % (blended)		34.2%	35.9%	37.3%
Ctr	Total gross profit (risk-adjusted)		\$269,416	\$350,520	\$432,511

Value-Added Resalable IP

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

In modeling the revenue and margin impact of value-added resalable IP for the composite deal, this analysis assumes the following:

- › The deal includes a Windows 10 migration tool that brings in \$25 per user and attaches to 80% of deals.
- › The deal includes a Microsoft 365 personalized use application that brings in 65 cents in annual revenue and attaches to 80% of deals.
- › Resalable IP gross margins are assumed to be 65% over the three-year analysis. Gross margins on IP varied from 60% to 80% across interviewed partners.

Actual attach rates and pricing varied across interviewed partners. To account for these risks, Forrester adjusted this revenue category downward by 5%, yielding a three-year total gross profit of \$66,534 or \$13 in gross profit per seat.

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

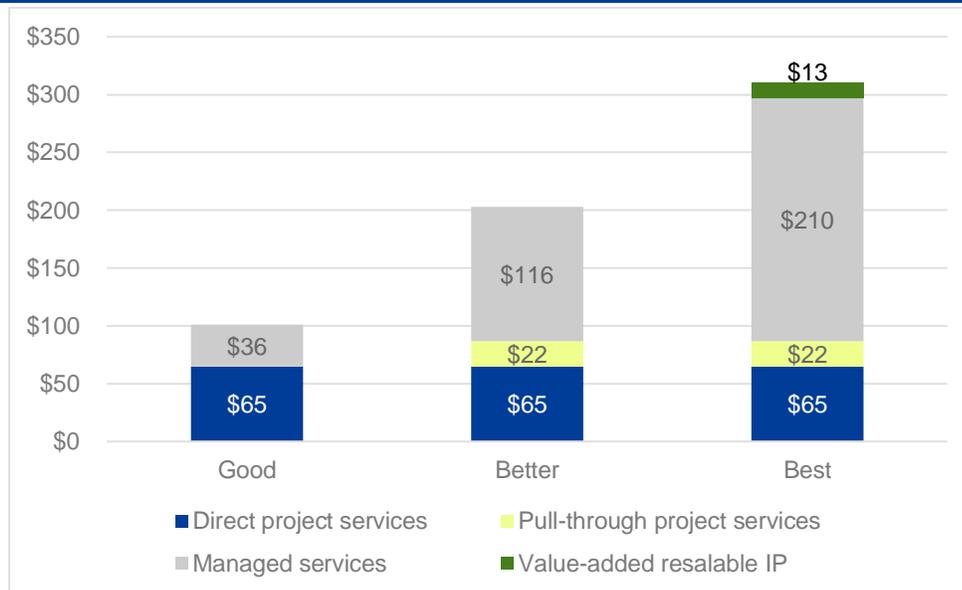
Director, product management, global partner



Value-Added Resalable IP: Calculation Table (USD)

REF.	METRIC	CALC.	Year 1	Year 2	Year 3
D1	Total modern desktop users		5,000	5,000	4,900
D2	Use app for O365 per user annual pricing		\$0.65	\$0.65	\$0.65
D3	Windows 10 migration IP per seat rev		\$25.00		
D4	Total revenue	$(D1*(D2+D3)*80\%)$	\$102,600	\$2,600	\$2,548
D5	Gross margin		65%	65%	65%
Dt	Value-added resalable IP	$D4*D5$	\$66,690	\$1,690	\$1,656
	Risk adjustment	↓5%			
Dtr	Value-added resalable IP (risk-adjusted)		\$63,356	\$1,606	\$1,573

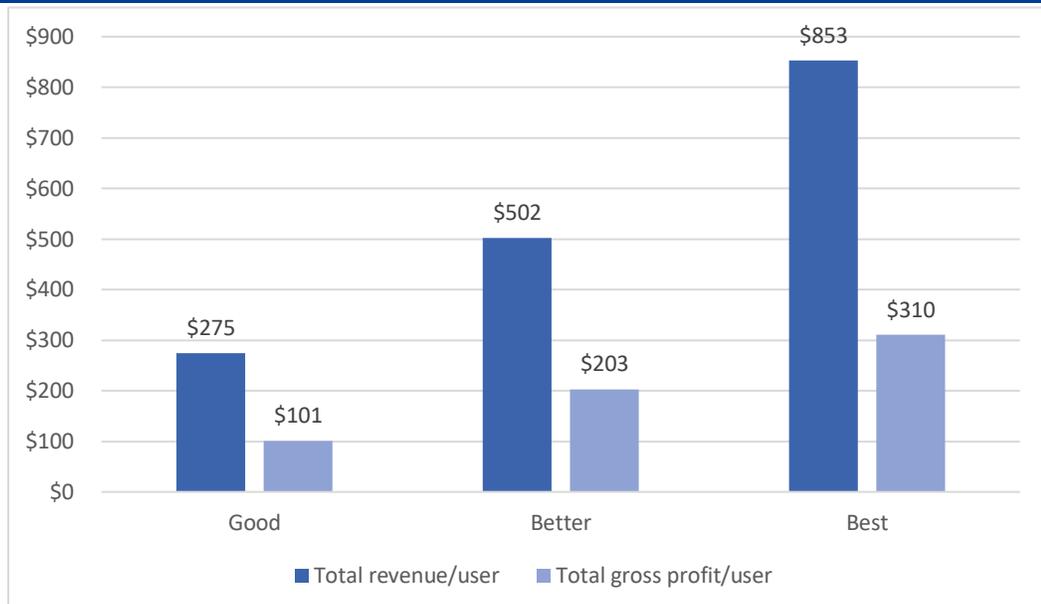
Three-Year Per-User Gross Profit Opportunity Based On Composite 5,000-User Deal By Partner Maturity



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

After interviews with 20 existing Microsoft partners and the subsequent financial analysis, Forrester found that a composite organization based on these interviewed partners was able to accrue revenues of \$853 and gross profits of \$310 per user over the three-year analysis for the best-case partner scenario. For an organization with 5,000 users, the Microsoft 365 modern desktop business opportunity opened the door to nearly \$4.3 million in revenues and over \$1.5 million in gross profit for the best-case partner scenario, resulting in a 36% overall deal gross margin.

Three-Year Revenue And Profit Opportunity Based On Composite 5,000-User Deal Across Practice Categories



Microsoft 365 Modern Desktop Practice Investment Requirements

Staffing Costs

To build and scale their Microsoft 365 modern desktop practices, partners made strategic investments in talent acquisition. While many partners have existing sales, presales, engineering, and developer talent sets that they repurposed for their Microsoft 365 modern desktop practices, several partners acquired additional talent, including practice and digital leads, who were often assigned to target large accounts, regions, and key industry sectors. As seen in the table below, digital and practice leads, which several partners added at the regional or industry level, come at an average fully burdened salary of \$185K per full-time equivalent (FTE). Notably, as deployment and migration revenues taper off in coming years, partners will be in a strong position to reallocate consulting resources to other value-added, higher-margin business services and offerings. In addition, as migration processes become more streamlined through the introduction of time-saving IP, former deployment project resources can be focused on building, delivering, and selling higher-margin services, including many of the pull-through consulting services, managed services, and pieces of resalable, packaged IP discussed in the revenue and margin opportunity section of this study.

Interestingly, one partner hired 15 FTEs to support its practice's change management and adoption consulting offerings, hiring mostly educators and behavioral scientists. Partners also make additional hires in sales, engineering, consulting, or customer and technical support personnel. Base compensation and fully loaded annual salaries are included in the table below.

Staff Salary Assumptions

POSITION	BASE COMPENSATION	FULLY LOADED SALARY
Sales staff	\$100,000	\$125,000
Practice and digital leads	\$148,000	\$185,000
Engineers for presales project delivery	\$90,000	\$112,500
Back-office, technical, and customer support	\$56,000	\$70,000
Consulting project managers	\$110,000	\$137,500

Research And Development

Partners are investing significantly in research and development to bring new managed services offerings, vertical solutions, and value-add IP to market. One partner interviewed for the study had a dedicated team of developers and line-of-business professionals in its chief technology office, which was commissioned to

focus exclusively on building new managed services offerings; streamlining and automating service execution; and building tools, templates, and offerings for targeted industries and business units. Research and development spend varied widely from a few hundred thousand to several million dollars annually.

Modern desktop partner R&D investments fell into two core categories:

- › **Internal tools and processes to streamline and improve service delivery.** These are investments in internal tools and systems to streamline service delivery, enabling partners to scale rapidly. For instance, several partners invested in service management tools and chatbot technologies to help triage customer support issues and in automated quoting systems, to reduce sales costs.
- › **Managed services development and packaged resalable IP.** These are investments to build new managed services offerings and value-added resalable IP. One partner commissioned a dedicated team of eight developers over a period of eight months to build out its desktop management and update service offerings.

Additional Marketing Spend

Partners noted that customer acquisition costs for Microsoft 365 deals are high, averaging around \$6,000 per deal. As a result, partners are experimenting with digital and social selling techniques and chat engines to improve their profitability. Overall, Forrester has benchmarked additional marketing spend for a Microsoft 365 modern desktop practice area to be approximately 5% of gross practice sales.

Selling, General, And Administrative Costs

General and administrative expenses, including accounting and financial staff and practice overhead, average 5% of annual gross sales.

Appendix A: Endnotes

¹ Source: Forrester Analytics Global Business Technographics Infrastructure Survey, 2016, Forrester Research, Inc.

² Source: “The Partner Business Opportunity For Microsoft 365 Security And Compliance Solutions,” a Forrester Consulting report prepared for Microsoft, July 2018.