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

The Partner Opportunity For Microsoft 365 Business

A Total Economic Impact™ Partner Opportunity Analysis

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Project Director:
Adam Schlegel

ABOUT FORRESTER CONSULTING

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

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Business Opportunity

Three-year average revenue per seat from Microsoft 365 Business:

$1,284

Three-year average gross profit per seat from Microsoft 365 Business

$413

Year 3 Microsoft 365 Business practice gross margin:

34%

Executive Summary

Microsoft 365 Business, Microsoft's comprehensive productivity, security, and device management solution tailored for small and medium-size businesses (SMBs), has grown significantly in market awareness, customer adoption, and business capabilities since its market introduction in late 2017. The SMB space, traditionally seen as financially conservative, slow to adopt new technologies, and difficult to pursue due to its highly variable needs, price sensitivity, and challenging sales cycles, represents a whitespace market opportunity for Microsoft partners. As SMB technology budget holders and decision makers move away from a strategy of sweating their IT assets toward a more strategic and active approach to technology adoption, Microsoft partners can capitalize on growing IT budgets and accelerated refresh cycles.[1]

Microsoft commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study to examine and demonstrate the business opportunity and return on investment (ROI) Microsoft partners may realize by building a practice area and solution portfolio around Microsoft 365 Business. The purpose of this study is to provide Microsoft partners with a framework to evaluate the potential business opportunities associated with offering a comprehensive portfolio of products, business and technology consulting services, managed services, and value-added intellectual property (IP) geared at helping SMBs transform their businesses, bolstering productivity, teamwork, and security.

To better understand the revenues, margins, investments, and risks associated with establishing a Microsoft 365 Business practice, Forrester interviewed 13 partners and surveyed another 67 with experience delivering Microsoft 365 Business services and solutions for SMB customers. Partners interviewed for the study are highly geographically dispersed, with presences across North America, Latin America, and EMEA. Partners included in this study are making significant business model shifts and practice investments to build inroads with the traditionally underserved SMB marketplace. Most of these partners are experiencing sizeable upticks in the number of leads and opportunities they are receiving from the SMB space as a result of their Microsoft 365 Business solutions and go-to-market programs. Our study finds that Microsoft partners with clever go-to-market approaches and repeatable IP that streamline the activation and adoption of Microsoft 365 Business workloads within the SMB space are poised to capitalize on this whitespace business opportunity, generating strong growth in coming years.

Partner Revenue And Margin Opportunities

The revenue and margin opportunity analysis below, built on a composite partner representative of those interviewed by Forrester, is intended to be used as a framework to help partners understand the total business potential associated with building and scaling a practice area around Microsoft 365 Business. For each of the revenue categories below, per user three-year gross profits are calculated. In addition, practice-level gross profit margins and other key performance indicators (KPIs), including return on investment (ROI), payback period, and net present value (NPV), are built using the assumptions captured in the "Composite Partner Sales By Year" table on page 3 of this case study.

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Three-Year Financial Summary (Risk- And PV-Adjusted)

ROI
130%

Total gross profit (PV)
$3.5 million

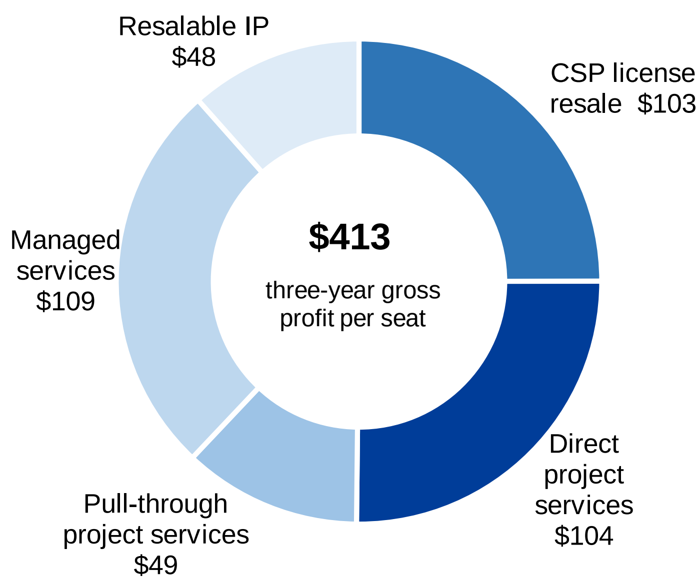
NPV
$2.0 million

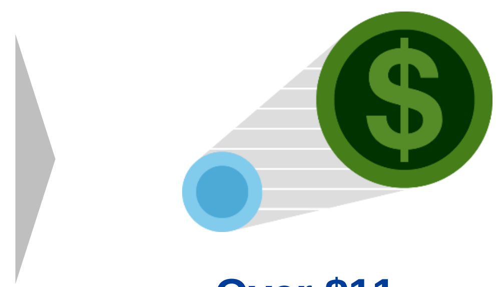
Payback
17 months

- **Microsoft Cloud Solution Provider (CSP) program margin and incentives.** As part of the Microsoft CSP program, partners are entitled to channel margin, rebates, and incentives that materially impact their P&L statements. Microsoft CSPs resell Microsoft licenses, provide customer support and service-level agreements (SLAs), and invoice customers for their Microsoft cloud solutions. Given the touchpoints and continual engagement CSPs have with organizations across the customer life cycle, Microsoft CSPs have unique upselling and cross-selling opportunities across a variety of new revenue streams, spanning professional services, managed services, and value-added resalable IP, which are explained in more detail in the financial analysis section below. While conventional CSP license pricing, margins, and incentives vary by shop keeping unit (SKU), these income streams make up 25% of the composite partner's gross profit over the three-year analysis, and bring in, on average, approximately $103 per user over three years in gross margin per user.
- **Direct project services.** All partners offered a variety of business and technical professional services to support customer adoption of Microsoft 365 Business. Partners generally adopted a multiple-stage approach to supporting customers on their journeys to Microsoft 365 Business. Partners generally begin with a short business assessment, technology strategy, and visioning engagement to educate customers on the realm of possibilities with Microsoft technologies; make next-step recommendations related to their productivity, security, and collaboration needs; and lay the foundation for the deployment of Microsoft 365 Business. Actual deployment and migration projects often begin with basic communication and collaboration workloads, including Exchange and Microsoft Teams. Approximately 90% of SMB customers will also stand up and migrate data and information to SharePoint and OneDrive as part of these initial projects. Direct project services bring in 25% of the composite partner's gross profit, or $104 per seat, over the three-year analysis.
- **Pull-through project services.** Successful migration strategy and deployment work inevitably leads to subsequent consulting engagements or pull-through projects. Pull-through project offerings vary significantly across partners, but generally fall into three categories: security and compliance; business intelligence and analytics; and change management and adoption. Engagement sizes range from $5,000 to $20,000 and see attach rates of between 25% and 35% of Microsoft 365 Business deals. Pull-through project services bring in 12% of the composite partner's gross profit, or $49 per seat, over the three-year analysis.
- **Managed services.** Given the need for simplicity and pricing transparency within the SMB space, partners are rapidly creating robust portfolios of managed services tiers to meet the diverse business needs of SMB customers. In doing this, several partners shifted 80% to 100% of their revenue mix to monthly recurring revenue at the time of the interview. Managed services are typically priced on a per-seat basis with monthly pricing ranging from $15 to $104 and attach rates across managed services tiers ranging from 10% to 35%. Notably, partners indicated that SMB customers are very receptive to outsourcing IT support, Microsoft 365 updates, training, and security monitoring, management, and remediation to a trusted third-party partner, particularly since many have limited or no IT staff within their own organizations. Because of these higher-than-average attach rates, managed services bring in 26% of the composite partner's gross profit, or $109 per seat, over the three-year analysis.

- **Value-added resalable intellectual property (IP).** Several partners invest in the development of proprietary software solutions aimed at common vertical or horizontal business challenges identified across their customer bases. Partners resell this IP to their SMB customers, with some horizontal solutions, such as SharePoint social intranet solutions, garnering attach rates as high as 50%. Furthermore, partners identified gross profit margins ranging from 60% to 80% from the sale of their value-added IP. Value-added resalable IP bring in 12% of the composite partner's gross profit, or $48 per seat, over the three-year analysis.

Three-Year Gross Profit Per Microsoft 365 Business User (Best Case)





Over $11
Monthly gross profits per user

Partner Investments

In addition to direct solution and service sales and delivery costs, including delivery consultant, engineer, and IT support and help desk staff salaries, which are included in the gross margin calculations in the Financial Analysis section of this study, interviewed partners made several incremental investments in establishing, promoting, and scaling their Microsoft 365 Business practices. In modeling the investments needed to successfully establish and grow a Microsoft 365 Business practice, Forrester assumes the following practice investments for the representative composite partner:

- **Additional staffing expenses.** To drive the growth of its Microsoft 365 Business practice with SMBs, partners invest in practice leads and additional consulting talent, including General Data Protection Regulation (GDPR) 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 (R&D).** Partners are making material R&D investments in proprietary, value-added products and in internal tools and systems to streamline their service delivery, bolstering their gross profitability and enabling them to scale rapidly in the SMB space. Specific R&D investments modeled in this analysis include: 1) an IT and end user support service management portal; 2) chatbots to triage customer support and troubleshooting issues; and 3) the development of a resalable data discovery tool for GDPR compliance, which was packaged and resold to customers.

- **Additional marketing expenditures.** The composite partner hires additional marketing full-time equivalents (FTEs) to support its digital and social campaigns in the SMB space at a fully loaded annual salary of $98,550 per employee.
- **Training expenses.** The composite partner incurs an opportunity cost for training employees on Microsoft 365 Business workloads, features, and capabilities on a quarterly basis. The organization trained between eight and 15 billable and nonbillable employees on Microsoft technologies each year across the three-year analysis.

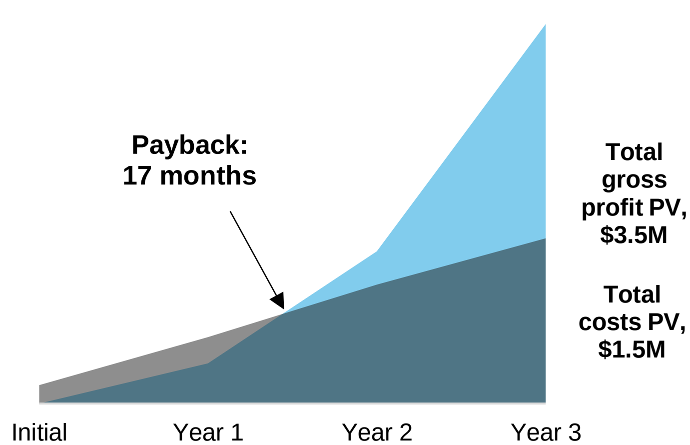
Partner Outcomes

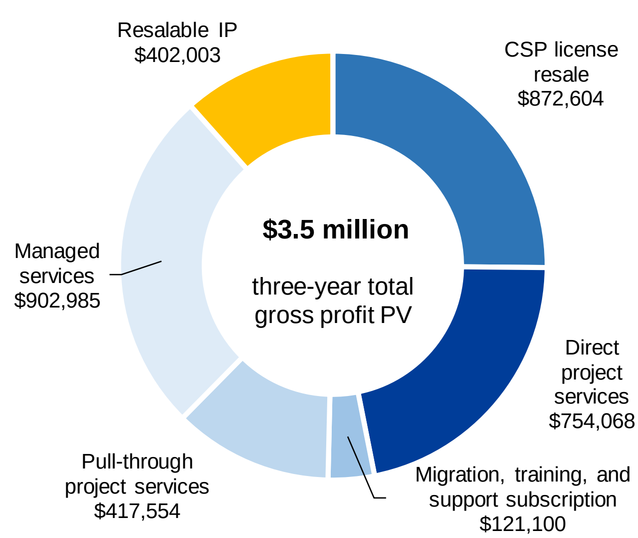
Based on in-depth interviews with 13 partners and survey of another 67 Microsoft partners with Microsoft 365 Business practice areas, Forrester built a financial analysis based on a representative composite partner that sells the Microsoft 365 Business deals captured in the table below. Forrester's analysis found that a composite partner based on these interviewed partners experiences present value-adjusted total gross profits of $3.5 million over three years versus investment and overhead expenses of $1.5 million, adding up to a net present value (NPV) of just under $2.0 million and an ROI of 130%. As seen in the charts below, the composite partner pays back its initial practice investments in 17 months.

Composite Partner Sales By Year

DEALS SOLD	YEAR 1	YEAR 2	YEAR 3
25 seat deals	5	15	25
50 seat deals	5	10	20
100 seat deals	5	10	15
300 seat deals	3	5	8
Total deals sold	**18**	**40**	**68**
Total seats sold per year	**1,775**	**3,375**	**5,525**
Cumulative seats sold	**1,775**	**5,150**	**10,675**
Average deal size by seat count		**85 seats**	

Financial Summary





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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 practice area around Microsoft 365 Business.

Forrester took a multistep approach to evaluate the business impact of building a Microsoft 365 Business practice area for Microsoft Partners:

DUE DILIGENCE
Interviewed Microsoft stakeholders and Forrester analysts to gather data relative to Microsoft 365 Business and other Microsoft solutions aimed at the SMB space.

PARTNER INTERVIEWS
Interviewed 13 partners and surveyed another 67 partners selling Microsoft 365 Business services and solutions to obtain data with respect to investments, revenues, margins, and risks.

COMPOSITE PARTNER
Designed a composite partner based on characteristics of the interviewed organizations.

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

CASE STUDY
Employed four fundamental elements of TEI in modeling the business impact of Microsoft managed services: margins, investments, flexibility, and risks. Given the increasing sophistication that enterprises have regarding ROI analyses related to IT investments, Forrester's TEI methodology serves to provide a complete picture of the total economic impact of purchase decisions.

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 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 developing a Microsoft 365 Business practice.

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 but did not participate in the interviews.

Financial Analysis

Microsoft 365 Business Practices: Good, Better, Best

Partners interviewed for this study are in the process of building and scaling their Microsoft 365 Business practices and building portfolios of services and solutions that make their SMB customers more productive, collaborative, and secure. For the partner business opportunities below, Forrester built out an economic model that depicts the product and service revenue and profit opportunities for a partner that builds and scales a Microsoft 365 Business practice area. In considering this revenue opportunity analysis for your own business, apply the revenue streams and gross profitability levels that are most relevant to your business.

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

Microsoft 365 Business Practice: Good, Better, And Best

Good

Licensing
- Microsoft 365 Business licenses

Direct project services
- Assess current-state technologies and build road map
- Microsoft 365 Business migration and deployment projects

Better

Migration, training, and support subscriptions
- Subscription package for Microsoft 365 Business activation and adoption
- Consulting block hour package

Pull-through project services
- SecureScore assessments
- Power BI/business intelligence projects
- Change management and adoption consulting
- Governance, risk, and compliance/GDPR

Best

Managed services
- Technical and end user support
- Evergreen-as-a-service
- User training and adoption services
- Modern workplace as a service ("business-in-a-box")

Resalable IP
- GDPR data discovery tools
- SharePoint ("intranet-in-a-box")
- Vertical and line-of-business solutions

Composite Partner

Based on the interviews, Forrester constructed a TEI framework, a composite Microsoft 365 Business partner, and an associated business opportunity economic analysis. The composite partner is representative of the 80 companies that Forrester interviewed and surveyed as part of this study. The composite partner organization is used to present the aggregate financial analysis in the next section. The composite partner that Forrester synthesized from the partner interviews has the following characteristics:

› A North American-based Microsoft partner with operations throughout the US, Canada, Central America, and Western Europe.

› The partner makes the strategic decision to become a Microsoft Cloud Solution Provider (CSP) given the attractive partner margins.

› The organization delivers professional and managed services, along with value-added proprietary and third-party software solutions.

Total Gross Margins (USD)						
REF.	REVENUE CAT.	Year 1	Year 2	Year 3	TOTAL	PRESENT VALUE
Atr	CSP license resale	$108,205	$321,338	$677,036	$1,106,579	$872,604
Btr	Direct project services	$136,500	$292,500	$516,750	$945,750	$754,068
Ctr	Migration, training, and support subscription	($26,790)	$36,794	$153,128	$163,131	$121,100
Dtr	Pull-through project services	$76,500	$165,000	$281,700	$523,200	$417,554
Etr	Managed services	$55,583	$273,293	$833,996	$1,162,872	$902,985
Ftr	Resalable IP	$57,270	$150,439	$300,287	$507,996	$402,003
	Total benefits (risk-adjusted)	$407,268	$1,239,364	$2,762,896	$4,409,528	$3,470,314

CSP License Resale

The resale of Microsoft 365 Business, Office 365 Business Premium, Office 365 Business Essentials, and the Microsoft 365 Enterprise SKUs (E3 and E5) through the Microsoft CSP program serve as both a substantial revenue stream and a platform for upselling and cross-selling for Microsoft partners in the SMB space. In addition to reselling licenses, Microsoft CSPs provide technical and user support and service-level agreements to end customers and provide billing services for each customer's Microsoft cloud solutions. As part of the CSP program, Microsoft partners earn margin on the resale of a variety of Microsoft 365 and Office 365 license SKUs and earn additional rebates and incentives that bolster the profitability of their CSP revenue streams.

In modeling the revenue and margin impact of CSP sales for the composite partner, Forrester made the following assumptions:

- Forrester uses list pricing for Microsoft 365 Business, Office 365 Business Premium, Office 365 Business Essentials, and Microsoft 365 Enterprise (E3 and E5 SKUs). In actuality, CSPs have autonomy in their pricing models for the resale of Microsoft 365 Business and other SKUs.
- Microsoft 365 Business licenses range from 25% of total seats sold in Year 1 to 45% of total seats sold in Year 3 as the composite partner upsells customers with Office 365 Business Premium and Business Essentials licensing SKUs.
- While Office 365 Business Premium and Business Essentials licenses collectively make up 60% of all licenses sold in Year 1 of the analysis, consistent with our interview findings, these two SKUs drop to a total of 40% of total licenses sold by Year 3 of the analysis as customers move to the Microsoft 365 Business SKU.
- Monthly licensing costs range from a low of $5 per seat for Office 365 Business Essentials to a high of $57 per seat for Microsoft 365 Enterprise E5.
- Gross profit margins average 30%, inclusive of all channel margin, incentives, and rebates.

While conventional CSP license pricing, margins, and incentives vary by shop keeping unit (SKU), these income streams make up 25% of the composite partner's gross profit over the three-year analysis, and bring in, on average, approximately $104 per user over three years in gross margin per user. Over the three-year analysis, CSP licensing resale margins total a PV of $872,604 for the composite partner.

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 gross profits to be a PV of just under $3.5 million.

"We want to grow to a 500-million-pound company over the next five years. To do this, we need to build our CSP revenues and grow our attach rate for managed services."

Cloud engagement manager, EMEA partner

CSP Licensing Resale: Calculation Table (USD)

REF.	METRIC	CALC.	Year 1	Year 2	Year 3
A1	Net-new seats sold		1,775	3,375	5,525
A2	Gross run rate		$379,668	$1,127,503	$2,375,563
A3	Annual churn		5%	5%	5%
A4	Churn adjusted run rate	A2(1-A3)	$360,685	$1,071,127	$2,256,785
A5	Gross margin		30%	30%	30%
At	CSP license resale	A4*A5	$108,205	$321,338	$677,036

Direct Project Services And Migration, Training, And Support Subscriptions

While the SMB customer journey to Microsoft 365 Business has multiple entry points, with partners often responding to their customers' most acute business needs, the majority of engagements start with a short business and technology assessment, strategy, and migration strategy project. In this phase of the customer life cycle, partners inventory existing systems and business processes, develop a Microsoft 365 road map, and build a phased approach to the customer's adoption of Microsoft 365 Business. While some partners offer smaller, less comprehensive strategy workshops at limited or no cost, most initial strategy projects range in size from $5,000 to $20,000, depending on the region, company size, industry, and workforce composition.

Next-phase project work includes the deployment and migration work for key Microsoft 365 Business workloads. While starting points vary across customers, deployment and migration engagements around basic teamwork and productivity workloads, including Exchange and Microsoft Teams, are common according to partners. Next-phase deployment and migration projects around SharePoint and OneDrive are also very popular among SMB customers. Collectively, these projects bring in, on average, $22,500 in consulting revenues for typical SMB customers with under 100 seats, while larger organizations and more complex business environments command larger project sizes. Several partners use these direct project services as a loss leader for more lucrative downstream follow-on consulting engagements and managed services.

> "The typical customer journey to Microsoft 365 falls into three stages. It starts with improving communications with Exchange and Teams. Then, in Phase 2, we take all their files and documents and put them on OneDrive and SharePoint and move their legacy systems to Azure. From there, we educate them on how to work better and with files and documents."
>
> *Sales manager/founder, EMEA partner*

In response to the high price sensitivity of technology buyers in the SMB space, several partners are exploring fixed-price subscription models that include migration and deployment work, training, block consulting hours, and IT and end user support. These offerings are typically priced with a fixed annual per-tenant fee, along with a monthly per-seat charge, ranging from $27 per seat, per month, up to $50 per seat, per month. Microsoft licenses are typically sold separately from these services. While these services packages are generally unprofitable in early years, deals became profitable over time as partners streamline their migration and IT service delivery models.

For the composite partner, the analysis assumes a varying number of deals across customer size segments and pricing models (e.g., per-project pricing or fixed-price subscription models) over the three-year forecast. In modeling the revenue and margin impact of direct project services for the composite partner, Forrester assumes the following:

- The composite organization sells 14 traditional time- and material-based direct project consulting engagements in Year 1 of this analysis, growing that figure to 53 engagements in Year 3 of the analysis, as seen in row B1 below. Engagement pricing for each project phase can be seen in rows B2 through B4 below. Gross margins are 30%.

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› Revenues from fixed-price Microsoft 365 migration, training, and support subscriptions are only sold to a subset of deals with 100 seats or less. Each fixed-price Microsoft 365 migration, training, and support deal has an annual base charge of $10,000 per tenant and a per-seat monthly charge of $30. Gross margins, as seen in row C8 below, range from -30% in Year 1 to 20% in Year 3, as its installed base of customers require less migration work and it implements IP to streamline its IT support and migration workflows.

Direct project services and migration, training, and support subscriptions gross profits collectively bring in 25% of the composite partner's gross profit, or $104 per seat, over the three-year analysis.

Direct Project Services: Calculation Table (USD)

REF.	METRIC	CALC.	Year 1	Year 2	Year 3
B1	Number of customers using project model		14	30	53
B2	Technology assessment, strategy, and visioning workshop		$10,000	$10,000	$10,000
B3	Exchange and Teams migration and deployment		$15,000	$15,000	$15,000
B4	SharePoint and OneDrive deployment		$7,500	$7,500	$7,500
B5	Direct project service revenue	B1*(B2+B3+B4)	$455,000	$975,000	$1,722,500
B6	Gross margin		30%	30%	30%
Bt	Direct project services	B5*B6	$136,500	$292,500	$516,750

Migration, Training, And Support Subscriptions: Calculation Table (USD)

REF.	METRIC	CALC.	Year 1	Year 2	Year 3
C1	Total number of customers using amortized model		4	10	15
C2	Number of seats		150	550	800
C3	Fixed-price base annual fee per tenant		$10,000	$10,000	$10,000
C4	Per-user, per-month migration, training, and support fees		$30	$30	$30
C5	Gross run rate	$C6_{PY}$+(C1*C3)+(C2*C4*12)	$94,000	$387,300	$805,935
C6	Churn adjusted run rate	Assumes 5% churn	$89,300	$367,935	$765,638
C7	Gross margin ($)		($26,790)	$36,794	$153,128
C8	Gross margin (%)	C7/C6	-30%	10%	20%
Ct	Migration, training, and support subscription	C7	($26,790)	$36,794	$153,128

Pull-Through Project Services

Successfully delivered Microsoft 365 Business strategy, deployment, and migration work typically leads to next-phase project work or pull-through projects services. While partners offer customers a variety of follow-on engagements across multiple workloads and business domains, most work falls into three key categories: security and compliance; business intelligence and analytics; and change management and adoption.

Pull-through project engagements vary in total deal size, ranging from

$5,000 to $20,000 per project. Attach rates typically vary between 25% and 35% across Microsoft 365 Business deals. Security and compliance projects, including security assessments and GDPR data policy, governance, and business process development engagements, see some of the highest attach rates in this revenue category (35%). The Forrester Analytics Business Technographics® Priorities And Journey Survey, 2018 revealed overall SMB unpreparedness around GDPR across geographies relative to larger enterprises, meaning future attach rates should continue to be robust.[2] Notably, in this phase of the customer journey, some of Microsoft's most progressive SMB partners are starting to leverage tools including PowerApps, Flow, and SharePoint to streamline and automate their customers' manual and tenuous business processes and workflows. Given the nascent state and low overall attach rates of these project categories, these revenue streams have not been included in this ROI and profitability analysis. With that said, Microsoft partners should consider these types of offerings in their overall growth strategy with both new and existing customers.

"In Phase 3, we start to look at their business processes and start to automate things. So, maybe they don't have good solutions for handling employee data. We can use PowerApps, Flow, and SharePoint to build automation on everyday tasks throughout the organization."

Sales manager/founder, EMEA partner

In modeling the business impact of these pull-through project services for the composite partner, Forrester made multiple assumptions:

- Average project deal sizes and attach rate for each pull-through project service can be found in the chart below.
- Given the price sensitivity of SMB customers, gross profit margins on pull-through consulting engagements are 30%. Average consulting project gross margins range between 25% and 50% across interviewed partners.

PULL-THROUGH PROJECT TYPE	ATTACH RATE	PRICE	DESCRIPTION
SecureScore assessments	25%	$7,000	• Identify security vulnerabilities and benchmark against security best practices.
Business intelligence, reporting, and analytics	25%	$15,000	• Integrate an organization's accounting systems and databases with Power BI and establish basic reporting capabilities.
GDPR business process analysis	30%	$20,000	• Discover data, present data, and re-engineer business processes and policies around data governance.
Change management and adoption project	25%	$5,000	• Host bi-annual or quarterly workshops to assess user adoption complete with actionable recommendations.

Over the three-year analysis, pull-through project services bring in 12% of the composite partner's gross profit, or $49 per seat. After discounting these profits to present-value, pull-through project services margins total $417,554 over the three-year analysis for the composite organization.

Pull-Through Project Services: Calculation Table (USD)					
REF.	**METRIC**	**CALC.**	**Year 1**	**Year 2**	**Year 3**
D1	Total number of clients		18	40	68
D2	Total SecureScore assessment and security workshop revenues		$35,000	$70,000	$119,000
D3	Total Power BI business intelligence project revenues		$75,000	$150,000	$255,000
D4	Total GDPR security projects revenues		$120,000	$280,000	$480,000
D5	Change management and adoption projects		$25,000	$50,000	$85,000
D6	Pull-through project revenue	Sum(D2:D5)	$255,000	$550,000	$939,000
D7	Gross profit margin		30%	30%	30%
Dt	Pull-through project services	D6*D7	$76,500	$165,000	$281,700

Managed Services

All partners interviewed for this study emphasized the growing strategic importance of attaching managed services to Microsoft 365 deals. The criticality of managed services in the SMB space extends beyond the typical reasons seen in the enterprise space — mainly the ability to build recurring revenue streams and create more consistent and frequent engagement and touchpoints with customers. Specifically, customers in the SMB space — often without dedicated IT departments and the requisite skills, capabilities, and bandwidth to run their own digital business transformation initiatives — rely heavily on Microsoft partners for a variety of outsourced traditional IT functions, including end user support; help desk; training; and system updates, patching, and management.

While SMB customers purchased managed services more often than their larger, enterprise counterparts, the diverse IT and business service requirements of SMB customers are highly varied across industries and geographies. As a result, Microsoft partners are building out a variety of managed services tiers at multiple price points and service levels, to grow their managed services recurring revenue base. Managed services are typically priced on a per-seat basis, with monthly pricing ranging from $15 to $104 and attach rates across managed services tiers ranging from 10% to 35%. Notably, several Microsoft 365 Business partners are seeing significant traction with their security managed services offerings, with partners experiencing 10% to 20% attach rates.

> "Where we see the best attached rates from a managed services perspective is with very small customers. We also see high attach rates around [Microsoft 365 Business] security workloads — EMS, AIP, Azure AD."
>
> *Microsoft cloud engagement manager, EMEA partner*

In modeling the economic impact of the composite partner's managed services around Microsoft 365 Business, Forrester made multiple assumptions:

- Managed services tiers, attach rates, pricing, and service levels can all be found in the chart below.
- Gross margins on managed services offerings quickly grow from 25% to 45%, as the composite partner invests in tooling, scripting, and customer support technologies to streamline service and support delivery.

Managed services bring in 26% of the composite partner's gross profit, or $109 per seat, over the three-year analysis. Over the three-year analysis, managed services margins total a PV of $902,985.

SERVICE LINE	ATTACH RATE	PER-USER, PER-MONTH FEE	EXAMPLE SERVICE LEVELS
Support and Microsoft 365 updates	11% to 14%	$26	Technical and end user support block plan for desktops, mobile devices, and Microsoft 365 solutions. Includes updates and evergreen services for Office and

			Windows.
Cloud support, Microsoft 365 updates, and training	8% to 12%	$35	Technical and end user support block plan for desktops, mobile devices, and Microsoft 365 solutions; evergreen services for Office and Windows; ongoing training portal and adoption services.
Full support, Microsoft 365 updates, training portal	5% to 7%	$70	Premium, 24x7, unlimited support package covering desktops, mobile devices, Microsoft 365, and other third-party solutions; evergreen services for Office and Windows; ongoing training portal and adoption services.
Device, Microsoft 365 license, support, and training	0% to 2%	$23	Full support package plus premium device lease, inclusive of device configuration, break-fix, and end-of-life services. This service tier includes the evergreen managed services provided in the offerings above, along with ongoing training portal and adoption services.
Security managed services	10% to 20%	$15	Proactive security monitoring, management, and remediation services.

"We probably see close to a 25% gross margin [on managed services] today, and we expect that to grow rapidly to be higher than 50% if we do it right. We're doing proactive management of our customers' environments and things of that nature. I think that we should see a significant gross margin in that area. And, of course, from the IP side of the house, if you find the right solution, then it can make you a lot of money."

Managed Services: Calculation Table (USD)

REF.	METRIC	CALC.	Year 1	Year 2	Year 3
E1	Number of net-new managed services seats		444	1,013	1,934
E2	Total cloud support and Microsoft 365 update services sales		$62,303	$126,360	$241,332
E3	Total cloud support, Microsoft 365 updates, and training service sales		$65,231	$148,838	$284,261
E4	Total full support, Microsoft 365 updates, training portal service sales		$74,550	$170,100	$324,870
E5	Total premium device, desktop management, support, and training service sales		$0	$63,180	$120,666
E6	Security managed services		$31,950	$91,125	$198,900
E7	Gross run rate	Sum(E2:E6) + E9 (prev. year)	$234,034	$821,935	$1,950,867
E8	Average annual churn rate		5%	5%	5%
E9	Churn adjusted run rate	E7*(1-E8)	$222,332	$780,838	$1,853,324
E10	Gross profit margin		25%	35%	45%
Et	Managed services	E9*E10	$55,583	$273,293	$833,996

Resalable IP

Microsoft's most advanced partners are building out resalable and proprietary software solutions aimed at common vertical or horizontal business challenges identified across their customer bases. Partners resell these proprietary offerings to their SMB clientele, with some horizontal solutions, such as packaged SharePoint intranet solutions, achieving attach rates as a high as 50% to 60%. Other emerging offerings include data discovery tools to support SMB clients on their journeys to GDPR compliance. While several partners are investing in building vertical-specific offerings, the diversity of SMB business models and industries, combined with the more generalist approach adopted by most interviewed SMB partners, makes specialist business models less attractive than in the enterprise space.

In modeling the business impact of resalable IP for the composite partner, Forrester made the following assumptions:

› The organization offers a prebuilt intranet solution for SharePoint that attaches to 40% to 50% of Microsoft 365 Business deals over the three-year analysis. In addition, the organization offers a data discovery solution for GDPR compliance, which has a 20% attach rate on closed deals over the three-year analysis.

› The SharePoint intranet solution is priced at $10 per user, per year. GDPR data discovery tool subscriptions are prefaced by a $7,000 proof-of-concept engagement and are subsequently priced at $10 per endpoint, per month. Each GDPR data discovery tool customer averages 1.5 endpoints per Microsoft seat.

› Resalable IP gross margins are 60% over the three-year analysis. Gross margins on IP varied from 60% to 80% across interviewed partners.

Resalable IP brings in 12% of the composite partner's gross profit, or $48 per seat, over the three-year analysis. Over the three-year analysis, resalable IP margins total a PV of $402,003.

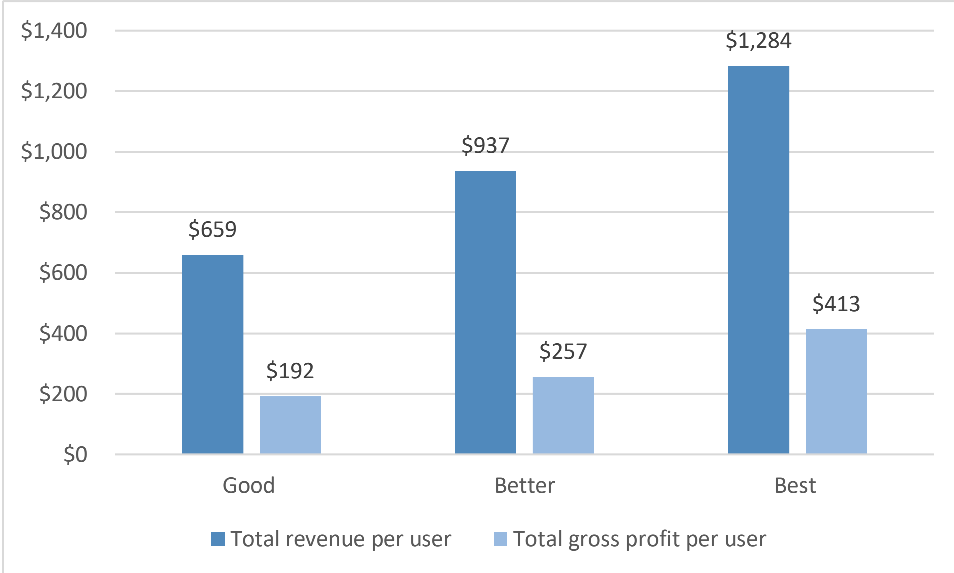
Resalable IP: Calculation Table (USD)

REF.	METRIC	CALC.	Year 1	Year 2	Year 3
F1	Total number of seats sold (churn-adjusted)		1,686	4,808	9,817
F2	SharePoint social intranet IP	40% to 50% attach; $10 per	$6,745	$21,637	$49,083
F3	GDPR data discovery PoC		$28,000	$56,000	$98,000
F4	GDPR data discovery subscription		$60,705	$173,095	$353,395
F5	Gross repeatable IP sales	Sum(F2:F4)	$95,450	$250,732	$500,478
F6	Gross profit margin		60%	60%	60%
Ft	Resalable IP	F5*F6	$57,270	$150,439	$300,287

Financial Summary: Per-Seat Microsoft 365 Business Revenue And Profitability Opportunity

Forrester's interviews with 13 partners and survey of another 67 partners with experience delivering Microsoft 365 Business services and solutions for SMB customers, and subsequent financial analysis, found that a composite partner based on these interviewed partners accrues revenues of $1,284 and gross profits of $413 per user over the three-year analysis for the best-case partner scenario, resulting in a 32% overall deal gross margin.

Three-Year Per-Seat Revenue And Profit Opportunity Across Partner Scenarios



Total Costs (USD)

REF.	COST	Initial	Year 1	Year 2	Year 3	TOTAL	PRESENT VALUE
Gtr	Staffing expense	$0	$362,742	$362,742	$362,742	$1,088,227	$902,087
Htr	Research and development	$170,000	$47,250	$92,250	$72,250	$381,750	$343,477
Itr	Additional marketing spend	$0	$49,275	$98,550	$98,550	$246,375	$200,284
Jtr	Training	$0	$20,000	$28,000	$32,000	$80,000	$65,364
	Total costs (risk-adjusted)	$170,000	$479,267	$581,542	$565,542	$1,796,352	$1,511,212

Staffing Expense

Partners are investing in additional business development and consulting talent to drive growth and meet demand for Microsoft 365 Business. Business development practice leads are responsible for growing Microsoft 365 market penetration in target SMB sectors, including professional services, healthcare, hospitality, and financial services, and come at a fully loaded annual salary of $185,000. Partners are investing in additional GDPR and security consulting and engineering talent to meet growing demand for security- and compliance-focused projects.

For the composite partner, Forrester assumes that a GDPR consultant and security systems engineer are hired to support its security and GDPR consulting and services, at fully burdened annual salaries of $168,750 and $186,700 per year, respectively. The model assumes that these security engineering and GDPR consulting resources spend 50% of their time on Microsoft 365 Business projects in the SMB space. As such, only half their annual salaries are included in the cost calculation

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

"Our sales team targets companies without internal IT departments. Generally, this means we are targeting companies under 75 seats."

CEO, EMEA partner

below. Partners with existing security and compliance resources for their enterprise-focused practices that can be repurposed for SMB projects should evaluate the specific talent and headcount increases required for their own businesses. Over the three-year analysis, staffing expenses total a PV of $902,087.

Staffing Expense: Calculation Table (USD)

REF.	METRIC	CALC.	Year 1	Year 2	Year 3
G1	Practice leads	1 FTE at $185K	$185,000	$185,000	$185,000
G2	GDPR consultant	50% attribution	$84,375	$84,375	$84,375
G3	Security systems engineer	50% attribution	$93,367	$93,367	$93,367
Gt	Staffing expense	G1+G2+G3	$362,742	$362,742	$362,742

Research And Development

All partners interviewed for this study make material R&D investments in both resalable IP and internal IP to improve and automate their business and service delivery processes. 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 in the SMB space and bolster their gross profitability.
- **Packaged resalable IP.** These are investments in new value-added, proprietary offerings, including training portals, compliance tools, and prebuilt SharePoint intranet solutions, that can be packaged and attached to Microsoft 365 Business deals.

Specific internal R&D investments modeled in this analysis include: 1) an IT and end user support service management portal to streamline the delivery of support services and 2) chatbots to triage and troubleshoot customer issues virtually. R&D investments in proprietary, packaged resalable IP studied in this model include the development of a data discovery tool for GDPR compliance and the ongoing creation of Microsoft 365 Business trainings over the three-year analysis. Over the three-year analysis period, R&D expenses total a PV of $343,477.

Research And Development: Calculation Table (USD)

REF.	METRIC	CALC.	Initial	Year 1	Year 2	Year 3
H1	Service management portal		$75,000			
H2	Chatbots		$20,000		$20,000	
H3	GDPR data discovery tool		$75,000		$25,000	$25,000
H4	Training development	0.5 FTE at $94,500		$47,250	$47,250	$47,250
Htr	Research and development	Sum(H1:H4)	$170,000	$47,250	$92,250	$72,250

Additional Marketing Spend

To mitigate the effects of high customer acquisition costs, partners in the SMB space are hyper-focused on driving leads into their marketing funnels using digital and social marketing campaigns. One partner executes a series of six campaigns, all with separate landing pages, tailored to high-priority themes that resonate in the SMB space, including security; "business-in-a-box"; and upgrading to the modern workplace. Several Microsoft 365 Business partners have campaigns focused on improving productivity, security, and manageability for a simple and transparent per-user, per-month price. Others focused campaigns on specific verticals, including professional services,

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healthcare, hospitality, and financial services.

Partners with existing Microsoft 365 practices often repurpose existing marketing budgets in creating tailored SMB campaigns, resulting in limited, if any, increase in overall marketing spend. In modeling the incremental marketing spend for the composite partner, this model assumes an additional marketing FTEs is hired (see row I1 in the table below) to support, manage, and report on its digital and social campaigns in the SMB space, at a fully loaded annual salary of $98,550. Over the three-year analysis period, additional marketing spend totals a PV of $200,284.

Additional Marketing Spend: Calculation Table (USD)

REF.	METRIC	CALC.	Year 1	Year 2	Year 3
I1	Additional marketing hires		0.5	1.0	1.0
I2	Fully loaded salary		$98,550	$98,550	$98,550
It	Additional marketing spend	I1*I2	$49,275	$98,550	$98,550

Training

All partners incur an opportunity cost for training both billable (e.g., consultants, engineers, developers) and nonbillable employees (e.g., presales, sales, IT operations and support staff) on the evolving features and capabilities of Microsoft 365 Business on a quarterly basis. In modeling this cost category for the composite partner, Forrester assumes that the organization trained between eight and 15 billable and nonbillable employees on Microsoft technologies each year across the three-year analysis. A full 8-hour day was allocated for Microsoft 365 Business training on a quarterly basis, and the opportunity cost for training is only calculated for billable staff, which encompass 50-60% of trained employees. Over the three-year analysis period, training costs total a PV of $65,364.

Training: Calculation Table (USD)

REF.	METRIC	CALC.	Year 1	Year 2	Year 3
J1	Number of staff trained, per year		8	12	15
J2	Number of training days per year		4	4	4
J3	Percentage billable		60%	60%	50%
J4	Billable employees trained		5	7	8
J5	Average billable daily rate		$1,000	$1,000	$1,000
Jt	Training	J2*J4*J5	$20,000	$28,000	$32,000

Appendix A: Endnotes

[1] Source: “SMBs Now View Their Tech Investments Through An Enterprise-Like Lens,” Forrester Research, Inc., April 25, 2017.
[2] Forrester Analytics Global Business Technographics Priorities And Journey Survey, 2018, Forrester Research, Inc.

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