

The Business Opportunity For Microsoft 365 Collaboration Solutions For Microsoft Partners

Forrester Consulting conducted a Total Economic Impact™ (TEI) study to examine and demonstrate the revenue and profitability opportunities available to Microsoft partners that build collaboration practices around Microsoft 365 Enterprise. The Microsoft 365 universal toolkit for teamwork centers around Microsoft Teams, and incorporates SharePoint, Yammer, Exchange, and OneDrive, while creating pull through opportunities for other tools and services, including Microsoft Power Apps, Flow, and Office 365 APIs, to help enable effective teamwork within organizations.

Forrester interviewed five Microsoft partner organizations across North America, EMEA, and APAC that had established collaboration practices built around Microsoft 365 Enterprise. Our interviews revealed a number of incremental revenue and profit opportunities available to Microsoft partners who invested in building Microsoft 365 collaboration practices, along with a number of tangential benefits including strengthened customer relationships, improved renewal rates, and increased win rates on new Microsoft 365 deals.

The Microsoft partners that were interviewed for this study indicated that the Microsoft 365 universal toolkit for teamwork created a number of upselling and cross-selling opportunities, while expanding their value proposition to their existing Microsoft 365 customer base. Furthermore, by expanding their collaboration capabilities and value proposition, partners were able to improve their win rate and close more Microsoft 365 deals with net-new labels. Our interviews revealed that partners were able to accrue additional product and service revenue streams, spanning professional services, managed services, CSP license sales, and value-added IP sales, by deploying, managing, supporting, and augmenting Microsoft Teams and the Microsoft 365 teamwork toolkit for their customers.

The revenue and profit opportunity analysis below is built on a composite 1,000 user deal that's representative of the deal characteristics identified in Forrester's partner interviews. The analysis below is intended to be used as a framework for partners to understand the total three-year business potential associated with building a Microsoft 365 collaboration practice.

“Microsoft Teams is a really low-effort product for us. We just go into organizations and show people how to use it, and the next time you come back two weeks or three weeks later, everyone is using it. It is great for us — it creates easy wins.”

— EMEA partner



\$543

Anticipated increased revenue from Microsoft 365 collaboration solutions and services, per user.

\$327

Anticipated increased profit from Microsoft 365 collaboration solutions and services, per user.

Over 60%

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

- › **Microsoft 365 collaboration toolset deployment project revenue.** Partners increased their consulting project revenues by \$71 per user by educating customers on the collaboration features of Microsoft 365, assessing each customer's current collaboration environment, building modern solution architectures for effective teamwork, and deploying Microsoft Teams and other components of Microsoft 365.

- › **Adoption and change management.** Partners differentiated themselves by expanding their value proposition beyond deployment to include comprehensive change management and adoption professional services. While change management tactics varied across interviewees, partners engaged customers and catalyzed usage through both onsite consulting and training, and remote, digital user engagement. One partner indicated that change management consulting generated gross margins above 60%, and often led to ongoing managed service deals across the customer life cycle.
- › **Managed services.** Partners developed proprietary technologies to power the delivery of proactive managed services, and support for their Microsoft 365 collaboration customers. Microsoft 365 collaboration managed services were offered at a variety of price points and service levels, with premium shop keeping units (SKUs) often packaged with ongoing change management services, complementary third-party applications, 24x7 help desk and end user support, and organizational analytics and reporting. Collaboration managed services, including first line support and management and administration of the collaboration toolkit, saw broad customer adoption. Managed services helped partners generate recurring subscription revenue equivalent to approximately 33% of the first-year deal revenue.
- › **Microsoft 365 CSP channel revenue.** Cloud solution provider (CSP) firms typically receive 12% of license revenues. The total remuneration will increase as more per-user license revenues increase with the number of users signing up.
- › **Value-added repeatable IP.** Several partners indicated that they were rapidly building packaged resalable intellectual property (IP) that extended or complemented Microsoft 365 and addressed industry-specific business needs. Partners who built value-added IP saw attach rates of 25 to 50% and gross margins of 80%.

Partners also reported a couple of ancillary benefits that underpin the quantified revenue and profit streams above. Specifically, one partner indicated that it was able to increase its win rate with Microsoft Teams, noting, “There are a few Microsoft 365 deals that were on the edge, and Teams pushed the deal over the edge.” Other partners noted that they were able to expand their value proposition to customers by fully activating the collaboration features and toolsets with Microsoft 365, which strengthened their relationship with customers and improved their renewal rates.

For this study, Forrester interviewed five Microsoft partners with established Microsoft 365 collaboration practices across North America, EMEA, and APAC. Partners interviewed for the study had the following characteristics:

PARTNER	REGION	SCALE
Partner 1	North America	Nearly 11,000 employees with over \$2 billion in annual revenues across US, EMEA, and APAC, including over \$40 million in Microsoft revenues.
Partner 2	APAC	Sixty employees in the organization’s collaboration practice with over \$15 million in collaboration revenues. Average deal sizes were just under 1,000 seats.
Partner 3	EMEA	Fifteen million GBP in annual revenue and approximately 50 employees.
Partner 4	EMEA	One hundred employee collaboration practice managing over 200 M365 customers. Collaboration solutions make up 30% of its Microsoft revenue.
Partner 5	EMEA	Ten-year Microsoft partner with 50 employees and strong Middle Eastern market presence.

“Part of our value proposition today is that we go beyond installing, migrating, and implementing Microsoft Teams. One of the big cornerstones of our service portfolio is change management.”

- EMEA partner



“There are a few Microsoft 365 deals that were close, and Teams pushed the deal over the edge.”

- EMEA partner



Advanced Collaboration Workloads Expand Customer Value And Grow Partner Revenue and Profitability

All Microsoft partners interviewed for this study grew their revenue and profitability by upselling, activating, complementing, and supporting the Microsoft 365 universal toolkit for teamwork. For the revenue and profit streams below, Forrester has included proof points from the interviewed partners. Readers should apply the revenue streams that are most relevant to their organization.

Deployment Consulting

Microsoft partners offered a variety of professional service offerings aimed at successfully implementing Microsoft Teams and Microsoft 365 universal toolkit for teamwork. Deployment projects generally began with readiness assessments and education engagements where partners would inform customers about Microsoft 365's collaboration features and capabilities, and how they could use these to complement their existing collaboration platforms and workflows. As part of the readiness assessment, partners designed a modern collaboration architecture that considered both the complexity of the end customer's existing collaboration platforms, along with the organization's current IT maturity. Successful education, readiness, and architecture design project phases were almost always followed by pilot and full deployment engagements.

Interviewed partners revealed that deployment consulting projects generated gross margins ranging from 30% to over 60%. All partners indicated that they expected their gross margins on deployment consulting engagements to grow over time as they gained experience working with Microsoft Teams and built out standardized tools and templates to streamline the deployment process for their customers.

- › “The main thing here is to interact with different business end users. To understand what they do, it's very important, and not what Office 365 does. This is our main role. We know Office 365, we know it will address collaboration issues, but we don't understand what and who is working with the solution.”
- › “We need to educate our customers on Microsoft 365's collaboration capabilities, and how they should be used, and how it complements existing solutions. They need to understand this — if you just turn it on, it might create a mess.”
- › “Prior to deploying new solutions, we conduct a network readiness and active directory assessment to identify gaps and risks when implementing new collaboration workloads.”

Adoption And Change Management Consulting

Partners interviewed for the study noted that a significant part of any collaboration professional services engagement was change management and end user adoption consulting. Furthermore, several interviewees built out sophisticated change management capabilities in order to differentiate their offering and expand their value proposition to customers. Change management tactics varied across partners, but included comprehensive communication plans, remote and onsite trainings for leadership and individual contributors, and development of on-demand content tailored to specific job roles and functions.

Change management and adoption consulting was seen as a critical component of any deployment engagement, and partners noted that change management could account for 30% to 60% of total collaboration professional service revenue. Notably, a

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- EMEA partner



“For us, change management is part of the project. Change management is everything from putting poster everywhere, to training employees, to having high-level meetings with leadership.”

- APAC partner



number of partners indicated that change management consulting projects often converted into longer term change management managed services over time.

- › "A critical part of our value proposition is that we not only install, migrate, and implement-- one of the big cornerstones of our deployment is change management."
- › "Over one-third of our professional services revenue is change management related today."
- › "For us, change management is part of the project. Change management is everything from putting posters everywhere, to training employees, to having high-level meetings with leadership."
- › "We have some clients that are trying to 'explode' into new, different ways of work and collaboration with Microsoft Teams."

Managed Services

Interviewed partners consistently identified driving adoption of managed services, along with their high-margin recurring revenue streams, as a critical strategic imperative for their businesses. Partners built and packaged a number of Microsoft 365 collaboration-oriented managed services, and bundled solutions delivered as a service, at a variety of price points and service levels to meet the diverse business needs of their client bases. Core managed services offerings, which include Tier 1, 2, and 3 of technical and end user support, and varying degrees of reactive and proactive collaboration solution management and administration, saw broad customer adoption with most partners experiencing attach rates at or near 100%. More premium managed services often packaged core managed services with ongoing change management and adoption services, third-party applications, and organizational analytics and reporting. One partner indicated that annual managed service contract values amounted to approximately one-third of the first-year deal revenue.

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

- EMEA partner



Partners indicated that they were developing their own intellectual property (IP) to power and streamline the delivery of proactive managed services and support for their Microsoft 365 customers. For example, partners invested in research and development (R&D) to develop tooling and scripting for the purpose of automating monitoring, patch management, and support functions associated with their managed service offerings.

Some examples of the diverse Microsoft 365 collaboration managed services packages that partners were offering include the following:

- › "We offer a fixed price video conferencing and support managed service offering for \$4 per user, per month."
- › "We offer services to manage and administer Microsoft 365 on behalf of our customers and layer security and compliance solutions on top of this to ensure customers are using all of the Microsoft 365 security features. These are priced at \$5 per user, per month."
- › "Our basic first line support services for collaboration start at \$4 per user, per month for support during business hours, growing to \$12 per user, per month for 24x7 premium support."
- › "We offer ongoing change management as a service which costs between \$60,000 and \$90,000 per year for an average 1,000 user deal."
- › "We sold a video conferencing and support managed service contract for a 50,000-user company in the Nordics with pull through revenue of over \$100,000 per month."

Microsoft 365 CSP Channel Margin

Channel margin and rebates from the resale of Microsoft 365 licenses varied in strategic importance across interviewed Microsoft partners. With that said, all partners interviewed for the study were CSPs that resold licenses to customers and managed the billing relationship. Partners were able to accrue additional revenue by reselling Microsoft 365 licenses to at

least a portion of their customer base. Notably, one partner indicated that Microsoft Teams had helped close additional Microsoft 365 deals.

Value-Added Resalable IP

The majority of partners interviewed for this study built proprietary software and solutions and packaged resalable intellectual property (IP) to complement, augment, and integrate Microsoft 365 with their existing IT environment or address the business needs and pain points within specific industry verticals. Examples included Microsoft Teams customization, configuration and provisioning tools, workflow integration tools, Skype audio visual integration software for conference rooms, and hyperspecialized industry-focused collaboration IP.

While the specific use case of each resalable piece of IP varied across interviewees, partners found success by bringing some of the following solutions to market:

- › “We partnered with several other vendors to build a wildly popular virtual media gateway solution for Skype that we offer for \$200 per port, per month.”
- › “Our proprietary audio integration middleware attaches to 50% of our Microsoft 365 collaboration focused deals.”
- › “Building IP into Microsoft Teams is on our road map. We need to become very hyperspecialized and industry-specific in areas such as oil and gas. In order to do this, however, we need a repeatable business model.”
- › “The digital workplace accelerator we built into Microsoft Teams integrates new workflows and customizes the interface for specific business use cases. We deliver this with an upfront base charge around \$60,000 with an additional \$4 per user, per year fee for ongoing administration, management, and support.”

Improved Win Rate, Higher Deal Sizes, And Customer Stickiness

In addition to the incremental revenue and profit streams enabled through the Microsoft 365 universal toolkit for teamwork, partners indicated that they were able to improve their win and renewal rates, grow their average deal sizes, and streamline their sales cycles by offering a robust collaboration solution portfolio and value proposition. In addition, by fully activating Microsoft Teams and other collaboration features and toolsets within Microsoft 365, partners expanded their value proposition to existing customers, and drove increased adoption of SharePoint and other Microsoft 365 tools and services.

- › “With Teams, SharePoint is more important. We see growing momentum for SharePoint engagements along with Teams.”
- › When somebody pays for an E3 license, today he’s getting more for that E3 license than he did two years ago. So [Microsoft Teams] increases the value of my existing sale, and this is very important — since these licenses are reoccurring, there’s always that incentive to make sure that customer is tied directly to us.”
- › “Typically, it would take four or five months to close a deal. Now it’s two or three meetings to scope the work and you’re good to go.”

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-APAC Microsoft partner

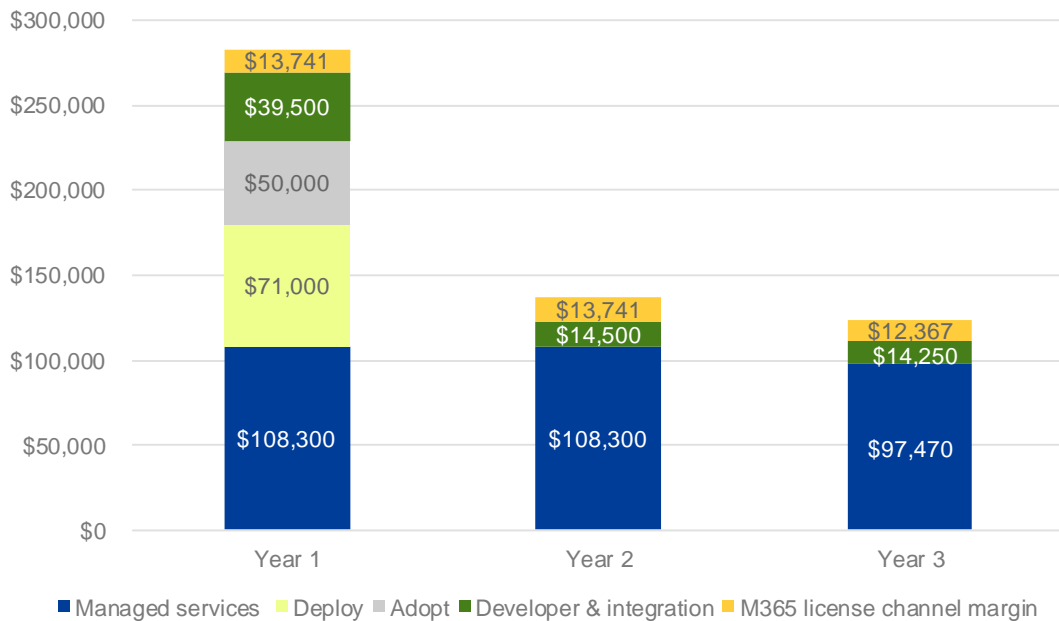


“You don’t have to convince people as much anymore, so sales and implementations are a lot faster. Typically, it would take four or five months to close a deal. Now it’s two or three meetings to scope the work and you’re good to go.”

- EMEA partner



Three-Year Revenue Opportunity Based On Composite 1,000 User Deal — By Year



Collaboration Practice Investment Requirements

Partners interviewed for the study had existing Microsoft 365 practices and substantial in-house cloud, collaboration, unified communications, and change management capabilities. As such, partners indicated that they built out their collaboration practices using their existing staff, and that no incremental talent acquisition, salary, or human resource expenses were incurred as a result of building their collaboration practices. Forrester notes that partners without existing Microsoft 365 practices or internal cloud, collaboration, unified communications, and change management skill sets may need to make additional people, tools, and process investments. For example, partners without existing change management capabilities will likely need to hire new staff with proven experience building and implementing change management strategies and programs with enterprise clients. Partners without these in-house skills sets should account for incremental hiring and salary expenses as part of their decision to build a Microsoft 365 collaboration practice.

Partners who built out proprietary IP and managed service offerings made significant investments in order to build, maintain, market, and sell these offerings. Research and development, staff and sales training, and go-to-market expenses to build out these proprietary products and services ranged from a few hundred thousand dollars to build a minimum viable product up to several million to build and maintain more mature resalable IP and ISV offerings.

While the majority of partners reported that their collaboration practice's marketing spend would be reallocated from their existing marketing budgets, others projected increased marketing spend in areas such as digital, events, thought leadership, and sales enablement. For those requiring incremental marketing expenditures, Forrester has benchmarked additional marketing spend to be approximately 5% of gross collaboration sales.

A Financial Example

This study outlined the various revenue and profit streams that Microsoft partners may realize from building collaboration practices around Microsoft 365. To more clearly illustrate this, Forrester built out a simple model that depicts the product and service revenue opportunities for a customer who adopts Microsoft Teams and the extended Office 365 toolkit for collaboration. This economic model is built on the following assumptions:

- › The economic model is based on a single deal with 1,000 user adopters and a two-year managed services contract.

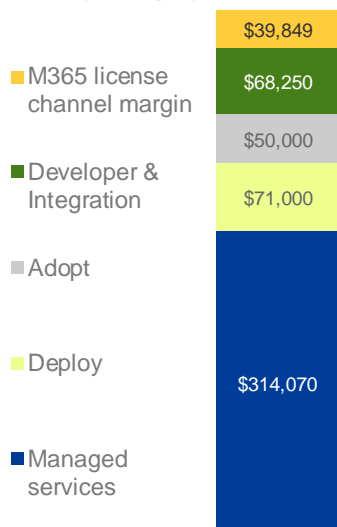
- › Deployment professional services were segmented into three distinct engagement phases: education consulting; collaboration readiness, assessment, planning, and architecture design; and Microsoft Teams and extended Microsoft 365 deployment services. Collaboration education engagements had an average deal size of \$15,000; collaboration readiness, assessment, planning, and architecture engagements had an average deal size of \$36,000; and deployment services has an average deal size of \$20,000. All professional services saw gross margins of 50%. Forrester notes that engagement revenue will vary across industries and organizational sizes.
- › Change management and adoption services averaged \$50,000 per deal and had gross margins of 50%.
- › Monthly bundled managed services subscriptions were segmented into four tiers: basic collaboration support, advanced collaboration support, premium collaboration support, and change management as a service. Managed service attach rates, price points, and example service levels are outlined in the table below. Core managed services, which include basic, advanced, and premium collaboration solution support collectively, had a 100% attach rate.

SERVICE LINE	ATTACH RATE	PER USER, PER MONTH FEE	EXAMPLE SERVICE LEVELS
Basic collaboration solution support	20%	\$4	Technical and end user support (T1, T2, T3) during regular business hours (8 to 5) and reactive solution management, monitoring, alerting, and reporting.
Advanced collaboration solution support	75%	\$6	Technical and end user support (T1, T2, T3) from 8 a.m. to 8 p.m., and proactive solution management, monitoring, alerting, and reporting to ensure system availability.
Premium collaboration solution support	5%	\$12	24x7 premium technical and end user support (T1, T2, T3), proactive solution management, monitoring, alerting, and reporting, and organizational analytics and reporting.
Change management as a service	50%	\$6.25	Ongoing change management and adoption analytics, reporting, and training services.

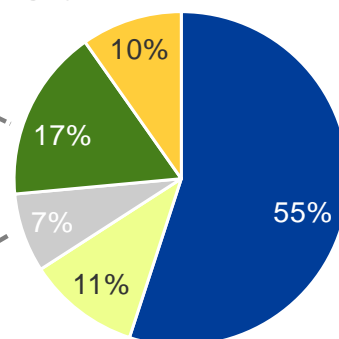
- › CSP channel revenue is 12% of the license costs paid to Microsoft. Microsoft may offer, from time to time, promotional “kickers” which could increase the revenue share percentage. For Microsoft 365 channel revenue, Forrester assumed an 80% gross margin, since some of these monies are intended to go back into increased user adoption activities.

Three-Year Composite Deal Total Revenue And Margin Opportunity Based On Composite 1,000 User Deal

Three-year Microsoft 365 collaboration solution partner revenue by category (1,000 user deal)



Three-Year Microsoft 365 collaboration deal gross profit (% of revenue) by category (1,000 user deal)



The resulting combined gross margins across the revenue streams shown above is 60.2% as higher margin revenue streams from managed services and value-added IP sales accrue in years 2 and 3 of the collaboration deal. The incremental high-margin revenue streams generated from collaboration deals, along with the expanded value proposition that Microsoft 365's extended collaboration toolkit provides to new and existing end users, should be beneficial to partners that actively sell Microsoft 365 collaboration solutions.

Disclosures

The reader should be aware of the following:

- › The study is commissioned by Microsoft and delivered by Forrester Consulting. It is not meant to be a competitive analysis.
- › Forrester makes no assumptions as to the potential ROI that other organizations will receive. Forrester strongly advises that readers use their own estimates within the framework provided in the report to determine the appropriateness of an investment in building a Microsoft 365 Collaboration practice.
- › Microsoft reviewed and provided feedback to Forrester. Forrester maintains editorial control over the study and its findings and does not accept changes to the study that contradict Forrester's findings or obscure the meaning.
- › Microsoft provided the partner names for the interviews but did not participate in the interviews.

ABOUT FORRESTER CONSULTING

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ABOUT TEI

Total Economic Impact™ (TEI) is a methodology developed by Forrester Research that enhances a company's technology decision-making processes and assists vendors in communicating the value proposition of their products and services to clients. The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders. The TEI methodology consists of four components to evaluate investment value: benefits, costs, risks, and flexibility.

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