The Revenue And Growth Opportunities For Microsoft Azure Partners

A Total Economic Impact™
Partner Opportunity Analysis

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Key Findings

Increase in deal flow pipeline:
50% to 100%

ARR uplift from building on Azure advanced workloads:
10%

Follow on services revenue per dollar spent on planning:
$8.75

Introduction

Microsoft Azure (Azure) presents partners with various benefits and opportunities to grow and scale their businesses. Forrester investigated three questions related to Azure and partners: 1) What are the revenue and gross margin economic opportunities, 2) what are the factors that are driving growth and making partners successful in terms of what they bring to market and how they go to market, and 3) what are best practices and calls to action partners should follow to continue in their Azure-partner journeys? This study expands upon last year's study in a way that parallels Azure's expansion in capabilities and market reach as well as the diverse new business models, technologies, and services that partners are bringing to market.[1] A major driver was increased customer demand for software-as-a-service (SaaS), platform-as-a-service (PaaS), and infrastructure-as-a-service (IaaS) solutions. Partners are helping in all stages of these journeys by providing both technologies and services. They are also expanding how they go to market through direct and indirect channels, including Azure Marketplace.

As part of the analysis, Forrester interviewed 16 Azure partners with established Azure practices. They were evenly split between service-led partners and technology-led partners. They also represented a wide range of sizes from several million euros in revenues to multibillion-dollar global players. Some partners provide services and technologies across up to six public cloud providers, and partners consistently shared that customer demand for Azure-specific solutions had expanded greatly in the last year. Interviewees' organizations were at different stages of Azure-partner maturity in terms of how long they have been a partner as well as the depth and breadth of their offerings and relationship with Microsoft. Forrester discusses how these differences affect a partner's opportunities in this study.

The changing landscape of the Azure solutions portfolio has impacted what services and technologies Azure partners bring to market. Partners are migrating customers' infrastructure and applications to Azure, innovating with new cloud-native applications and capabilities, and enabling success through better adoption and management tools. Partners are also helping customers expand into specialized solution areas such as internet of things (IoT) and analytics. One partner said: "The Azure trifecta is enable, migrate, transform. If we didn't focus in all three areas, we wouldn't win as many deals."

Azure also provides tools and services that help increase developer productivity. This means partners can deliver more code of better quality faster and at a lower cost, both as part of custom services projects and bringing IP to market. One technology-led partner explained: "The ability to have a real CI/CD (continuous integration/continuous delivery) pipeline in the Azure platform is huge in terms of our nimbleness. That makes development faster and cheaper. We used to roll out new versions three times per year. On Azure, we can now do two rollouts a month with the same amount of engineering effort. We are bringing a lot more features and fixes to market."

There have also been changes in how partners go to market. There is more emphasis on a multichannel approach, including selling directly, through partners/resellers, in collaboration with Microsoft field sales, and directly through Azure Marketplace. Azure-partner maturity often had a large impact on which channels were part of the go-to-market approach. Many partners cited Azure Marketplace, as part of the broader Microsoft commercial

marketplace effort, as increasingly important. (A companion study discusses the relationship between commercial marketplace and Azure Marketplace in more detail.[2]) To take advantage of all these opportunities, partners are

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investing significantly across a wide range of areas to drive success. Forrester explores all of these themes in this study.

Forrester includes financial examples for both service-led and technology-led partners; these illustrate, on a per-deal basis, how partners are making more money and reducing costs with Azure. A "typical" midsized opportunity for a technology-led partner is $373,000 over three years, and it is $1.25 million for a service-led partner opportunity. Five key takeaways from the financial model are:

› Partnering with Azure doubles the size of the deal flow pipeline for technology-led partners and 50% for service-led partners via Marketplace, Azure customer demand, and Microsoft cosell.

› Building solutions optimized for Azure lowers resalable IP cost of goods sold (COGS) 5 percentage points by leveraging Azure-native capabilities and improving ease of management.

› Bringing new solutions to market on top of Azure advanced workloads enables a 10% uplift in license annual recurring revenue (ARR).

› More specialized Azure services increase project margins by 10% as customers see more value and are willing to pay more.

› Every dollar in assessment and planning revenue drives $8.75 in expected follow-on services over the three-year life of the financial model.

Azure Partner Growth Drivers

Service- and technology-led partners consistently said that three main drivers are instrumental in the growth of their Azure practices. These are levers they can pull to accelerate their growth. First, Azure consumption and revenue expanded substantially over the past year as the overall demand for public cloud solutions increased, and, as is often reported in the press, Azure market share grew. This has resulted in a larger total addressable market (TAM) for partners. Second, the expanded set of Azure-native capabilities is an area where partners can build new technology and services offerings. Third, partners are leveraging more channels to market to increase their deal flow.

Increased Customer Demand For Azure

Forrester's Business Technographics team surveys thousands of technology buyers on their business and technology priorities as well as what they are buying and why. Questions around public cloud include which providers buyers are choosing for individual services (e.g., backup and recovery) as well as more generalized use of public cloud platforms. This research shows that customer demand is growing quickly for various Azure services.[iii] Fifty-one percent of the 2,073 developer respondents who are using Azure plan to increase their usage. Users' interest in Azure is consistent with Forrester's 2020 Wave surveying North American public cloud platform providers, which scored both Azure's partner ecosystem and marketplace strategy five-out-of-five.[iv] This growth creates many opportunities for partners to increase the total deal value of what they sell to customers and to sell to more customers through multiple channels such as Azure Marketplace.

Partners expanded upon how increased Azure demand is driving growth. They regularly described very high year-on-year services and technology business growth, at rates ranging from 25% to 150% each year. Partners also said that much of the demand is from enterprise customers. Global 2,000 companies are increasingly migrating to public clouds and Azure. Most of them already have some on-premises Microsoft-based solutions that are being migrated, making Azure a natural fit as their public cloud provider. Partners said these deals tend to be 50% to 100% larger in terms of services and technologies revenues than their average contract value. One technology-led partner said: "Overall, our deals are bigger with Microsoft. We get into the entire enterprise as part of a strategic plan rather than going department by department. This should lead to a doubling in average deal size. We are migrating more customers over as they learn to trust the cloud."

Expanded Azure Capabilities Create More Opportunities

At the most basic level, just having Azure available as an option is important for many customers, and there was pent-up demand from customers and prospects. Technology-led partners described how they saw large

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increases in leads when the Azure-based version of their offerings became available. This was across both enterprise and small and medium-size business (SMB) customers: "A lot of our existing on-premises customers were waiting for our Azure cloud solution to launch. When it did, there was a big spike in leads. This increased again when the high-availability version of our solution came out. Sixty percent of our total leads are now for Azure." The technology-led partner financial model includes an example of a 10% revenue uplift potential from a new offering using Azure's analytics capabilities, and this was available only in the fully rebuilt Azure version of the solution.

Ease of compliance and security is a large reason customers are looking to Azure, and partners want to build their solutions on it. A partner in the healthcare space said: "Azure has made security and compliance significantly easier. When moving from on-premises to Azure, customers are required to do HIPAA compliance and ISO 2701 information security certifications. That discussion all goes away because Microsoft already has the certificates."

Service-led partners can help their customers deploy, adopt, and manage these new solutions as well as create custom solutions on top of Azure's advanced capabilities to achieve business transformation. This creates Azure-specific opportunities to increase the lifetime value of a customer. Partners provided many examples, including:

› "We do follow-on work in the IoT and AI arenas after a customer is comfortable with their move to Azure and wants to realize the full value of the cloud."

› "We are helping customers move to solutions like Azure Data Lake, Azure Databricks, and Azure Data Factory solutions. This helps them get better performance and do things they couldn't before. These are multimillion-dollar opportunities."

Leveraging More Channels To Market

Azure enables partners to add and/or expand four channels to market: direct sales, partner/reseller network, Microsoft field sales organization, and Azure Marketplace. If and how a partner uses each channel depends on the solutions it is selling, how it was selling before its Azure-related practice, and its Azure-partner maturity. That said, the expanded pipeline is estimated to be a 100% increase from the original pipeline for technology-led partners, with the largest variable being how much a partner increases its reseller network with Microsoft partners. For service-led partners, the increase is estimated to be 50%.

Many partners are building out their direct, in-house sales organization to meet the increased TAM. Partners can achieve this through cross-training existing salespeople to sell Azure-centric solutions and/or hiring more salespeople and building out new teams. This can include adding sales capabilities in new countries because Azure makes it easier to sell internationally. These sellers are finding it easier to close deals. One partner explained: "Our close rates have improved since moving to the Azure platform for a couple of reasons. Being on Microsoft Azure and leveraging the Microsoft brand and reliability is a selling point. Also, our sales motion has changed from talking to IT to the C-suite."

Microsoft has a vast network of existing partners in many areas of specialization and across the globe. Many of the interviewed partners are adding other Microsoft partners to their partner/reseller networks: "We have expanded our partner network to include a lot of Microsoft Gold SIs. We are investigating adding Microsoft MSPs (managed services providers) to our partner channel."

Partners of all sizes and types are actively working with the Microsoft field sales organization to generate new leads and close deals together. These are often net-new customers and larger enterprise deals. For smaller service and technology partners, this makes it possible to get into larger deals for the first time. For the most part, newer partners that are not yet involved in cosell/comarketing motions with Microsoft are working hard to do so. Partners said the following regarding the value of the cosell/comarketing potential:

› Service-led partner: "Microsoft has been a great partner. Our tight relationship with the Microsoft field has been driving our growth and is getting better."

› Technology-led partner: "Microsoft generates more referrals than all of our other technology partners combined."

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> › Service-led partner: "Sixty-percent of our leads come from Microsoft — mainly services but also some new IP cosell opportunities. So far this year, IP-related leads have delivered €500,000 in sales."

> › Technology-led partner: "Our Microsoft contact in the US introduced us to marketing managers in Europe. They've helped connect us to prospects for a free trial."

> › Service-led partner: "Microsoft leads will grow substantially this year. If a prospect is receiving funding from Microsoft for an assessment or PoC (proof of concept), it can really speed up the sales process."

> › Technology-led partner: "We've seen a big shift in the last 1.5 years. Seventy percent of our leads are coming from the Microsoft field teams as part of the Cloud Economics Program. In 2017, we had three engagements, and in the first half of this year, we've already done 45."

> › Technology-led partner: "We are getting contacts that we have not had before. It's a big opportunity for us to expand our install base."

Partners are expanding their reach in terms of geographies, customer size, and buyer types by making products and services available in the Azure Marketplace. The results are a channel to many prospects they could not reach otherwise, increased ease and speed of sale, and new marketing opportunities using Marketplace Rewards. Forrester discusses Azure Marketplace in more detail below. A product marketing manager in a partner's new cloud offering group said: "We are still not thought of as a cloud company. Marketplace gets us in earlier in the sales cycle. We are reaching DevOps and developers, which are different groups of buyers."

Channel mix varied greatly from one partner to the next depending on the solutions they offer, their overall size, and the strength of their relationship with Microsoft. Repeat business from existing customers and referrals was almost always the largest source of new leads. For service-led partners, leads coming from Microsoft ranged from 15% to 70%; the reseller channel was not used much but could be as high as 15%. Some partners did have services listed in Azure Marketplace, but this was mainly for information awareness with low transaction levels.

For technology-led partners, Microsoft field sales leads typically varied from 5% to 25% although one small partner participating in the Cloud Economics Program said that Microsoft leads have quickly grown to 70% of the total. The reseller network was much more important, with many partners seeing 25% to 50% of their leads coming from other Microsoft partners/resellers. Azure Marketplace sales varied from little presence in the Marketplace to 25% of total sales. The pie charts below show what a typical channel distribution might look like for partners.

Percentage Of Leads (Technology-Led Partner)
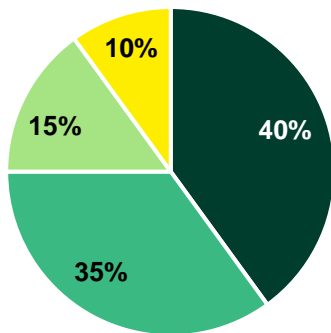
- ▪ Direct
- ▪ Own partners/resellers
- ▪ Microsoft field sales
- ▪ Azure Marketplace

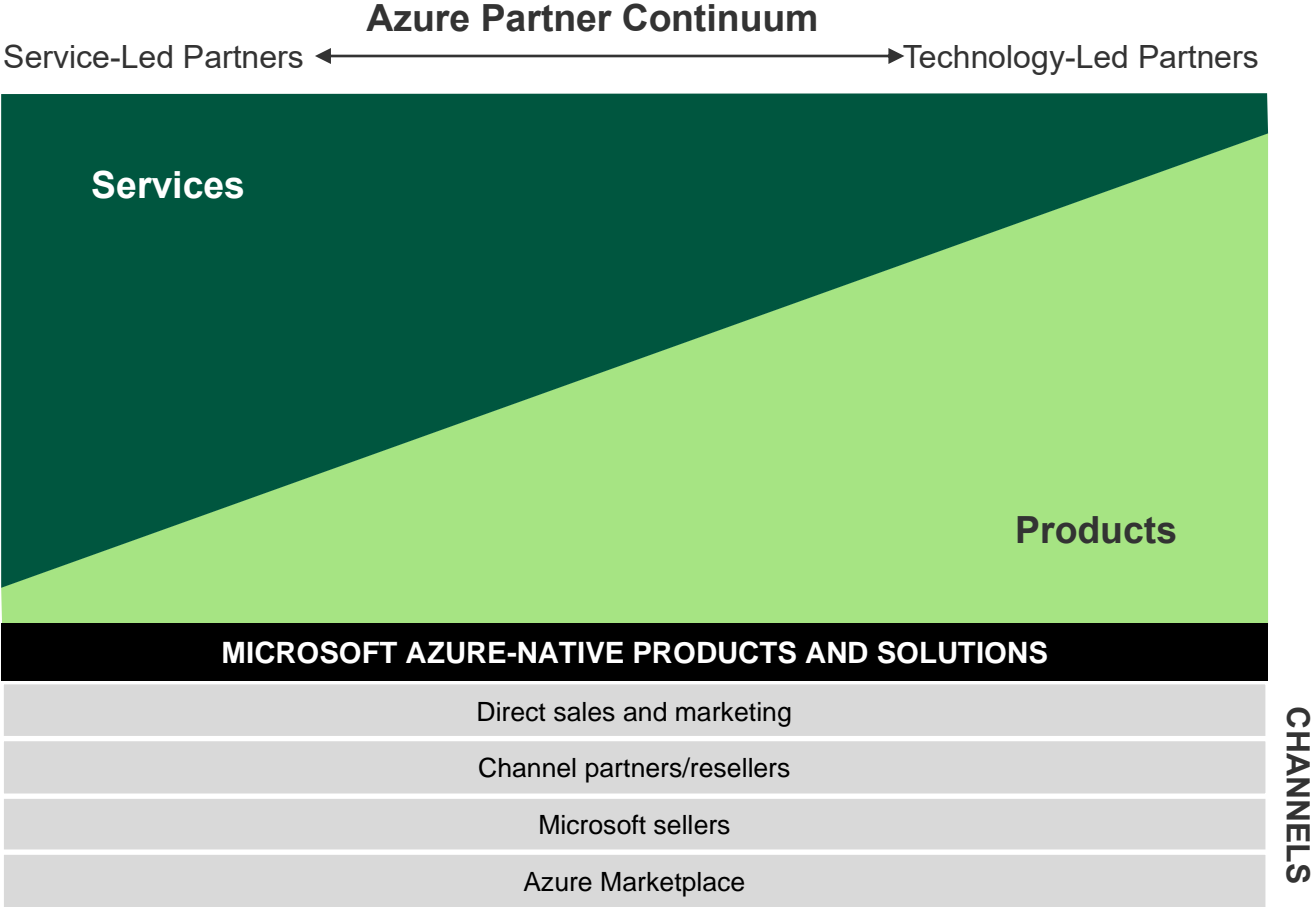**Percentage of Leads (Service-Led Partner)**
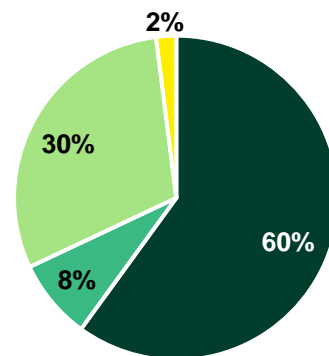
- ▪ Direct
- ▪ Own partners/resellers
- ▪ Microsoft field sales
- ▪ Azure Marketplace

Base: 16 decision makers at Azure partners with established Azure practices
Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, July 2020

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Partner Maturity

The previous section described growth drivers and partners' experiences in a somewhat standardized way. Each interviewed partner had its own unique story to tell in terms of its expertise with various Azure products and solutions it is building on, what it is selling, and the sales channels it is using. There were some common differences in these three areas based on a partner's Azure maturity. In general, more mature partners have more deal flow and increased TAM (as discussed previously), and they create more advanced service and technology offerings, which increases a deal's total revenue opportunity and gross margins (quantified in the financial models later in the study). The diagram below represents the relationship between a partner's offerings, the Azure products and solutions a partner has expertise in, and the channels they use to market.

Azure Partner Continuum

Service-Led Partners ←——————————————————————→ Technology-Led Partners

Services

Products

MICROSOFT AZURE-NATIVE PRODUCTS AND SOLUTIONS

Direct sales and marketing
Channel partners/resellers
Microsoft sellers
Azure Marketplace

CHANNELS

Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, July 2020

Traditionally, Microsoft has thought of partners (and partners of themselves) with a clear divide between technology partners and services partners. Within each, there is a menagerie of acronyms to describe them, including SI (systems integrator), ISV (independent software vendor), CSP (cloud services provider), MSP (managed services provider), and MSSP (managed security services provider). The reality is that most partners are selling a reasonable mix of technologies and services, and much of the distinction between the subtypes is blurring.

This is of particular interest to traditional services partners that are often investing heavily in IP to both streamline their delivery of services and create repeatable IP. There are two goals: 1) increase delivery margins and 2) create repeatable, cloud technology revenue streams. One interviewee specifically said that the IP the partner has created for in-house use increased its profitability for some services by 30%, which, based on other partners' statements, Forrester believes to be a good benchmark. With regards to resalable IP, it is usually specific to Azure capabilities such as data visualization using Azure analytics. One partner even fully changed its business model from a services company to an analytics product company. Partners typically see 80% margins on IP, and

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it smooths out cashflows. In addition to more money being added to the bottom line, both forms of technology solutions can result in higher valuations at the time of acquisition.

Many technology solution providers have thought of services as a necessary evil driving down overall margins, even though typical services to license sales ratios were $3 to $1 or higher. However, the cloud has greatly reduced long-term contracts and big renewals, meaning if a customer is not using its licenses, it is more likely to cancel them. Adoption and consumption matter more now than ever, so services are critical to technology-led partners to ensure customer retention and, ideally, increase customer lifetime value. This is especially true for solutions tied to advanced Azure capabilities, which can be business-transformational and require more upfront design work as well as adoption and change management consulting. Partners' description of services and revenues varied greatly based on the nature of their solutions (discussed in more detail in the financial examples). For those with anything more than the simplest SaaS offerings, services typically made up 5% to 20% of overall revenues. Service delivery capabilities can be in-house or partners/resellers — or some combination of them.

Some partners, whether service- or technology-led, track the ratios between their revenues and the Azure consumption revenues (ACR) that they drive. Many are compensated on the consumption that they drive. Readers interested in understanding those economics can refer to last year's study, in which Forrester explored this opportunity. For the services partners that were tracking it, the services-to-ACR ratios were around 3 to 1. Some partners are compensated on this ACR.

A partner's Azure maturity in terms of the length, depth, and breadth of relationship with Microsoft and Azure affects the solutions it is bringing to market (both technology and service). Size also matters when it comes to how much a partner has to invest in building out competencies. Many newer partners may be doing little more than porting over solutions from on-premises or another public cloud. Some that are "born in the cloud" may be hyperfocused on specific workloads or business problems to better compete with their larger, more established competitors. That all said, newer partners can more quickly expand their expertise and solutions portfolio compared to an on-premises solution provider because Azure includes many building blocks that can be used to assemble new technology and service offerings.

The two financial examples in this study include offerings that less-mature partners may not be able to deliver when starting out. In the service-led model, these include some advanced work on cloud-native application development and in specialized areas such as IoT. Their ability to create and sell value-add IP may also be reduced early on. Together, this can lower the expected three-year revenue from a new customer by up to 30%. The maturity impact on offerings is much less of an issue for technology-led partners because their main product is one in which they have the necessary expertise. What they may be lacking is the ability to create and sell add-on solutions, which take advantage of advanced Azure workloads in areas like analytics and IoT, meaning that these partners will miss out on a 7% expected revenue uplift.

A partner's maturity is of much more significant influence on its go-to-market channels. Generally speaking, partners that have a longer history with Microsoft and Azure are more likely to have established a strong coselling model with Microsoft field sales. Size is also important because larger partners can invest more in their alliance programs and the training and support that they provide to Microsoft field sellers. Additionally, more mature partners are more likely to take advantage of the global Microsoft partner network and coopt them into their own partner/reseller networks. That all said, some of the smaller and newer partners interviewed have had phenomenal success in their cosell/comarketing efforts, as in the earlier example of a small technology-led partner that has 70% of its leads coming from Microsoft field sellers.

The pie charts above show that a more mature technology-led partner can expect around 15% of its leads to come from Microsoft and one-third of leads from its own resellers. A substantial portion of a partner's reseller channel could be other Microsoft partners onboarded as part of the Azure expansion. Therefore, a newer partner may miss out on between 15% to 50% of the deal flow it would otherwise expect. For service-led partners, the Microsoft channel is much more important at 30%, and its own reseller network less so at 8%. This means that a newer partner may miss out on as much as 38% of potential deal flow.

Successful participation in Azure Marketplace is much less sensitive to a partner's Azure maturity in terms of the percentage of total sales going through Marketplace. Less mature partners may actually have a higher proportion of sales going through Azure Marketplace because that is how they designed their business model and offerings. However, they are less likely to make as good use of Marketplace Rewards. More mature partners are spending a lot of effort on using their Marketplace Rewards for comarketing with Microsoft. The following

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section speaks more to the value of Azure Marketplace and what partners are doing to maximize its value.

Azure Marketplace

Azure Marketplace is one of the four components that comprise Microsoft's broader commercial marketplace go-to-market channels for partners, the others being AppSource for business applications, Quote Center for Microsoft field sellers, and Partner Center for other Microsoft partners/resellers. Interviewed partners described a wide range of ways that Azure Marketplace benefits them, including increased and faster sales, better and cofunded marketing, and lower sales and delivery costs. To date, partners have been mostly selling technology solutions through Azure Marketplace, but services are increasingly being sold.

Reaching New Customers

There are many ways partners are reaching new customers through Azure Marketplace. Marketing campaigns, sometimes funded with Marketplace Rewards, direct prospects to the Azure Marketplace where they can learn more about the solutions and easily buy them. User discovery/search exposes partners to new buyer types (e.g., cloud developers) who are the target audience for new cloud offerings. Another area partners described was geographic expansion. Free trials are an important way partners are getting new prospects and winning deals. These are just some of the ways partners are winning new logos and growing their businesses. Some specific examples included:

› "We ran a digital marketing campaign from April through June. There were 2,900 click-throughs into our page on Azure Marketplace. That resulted in 619 leads, of which 124 did trial downloads. We got 30 face-to-face meetings. We estimated the marketing influence on our pipeline was $237 million."

› An ISV with $40 million in annual Azure cloud revenues said: "We have had $6 million in lifetime sales in Azure Marketplace. We are currently at $400,000 in MRR (monthly recurring revenue), and it is growing 25% per year."

› "We had a prospect in New Zealand. To close the deal would have required a lot of legal work and setting up a local trading company. We encouraged them to buy via Marketplace. What had been four months of prior effort then closed in only a couple of weeks."

› "It is pretty common for people to find us in the Marketplace, spin up a free trial, and contact sales. Those are some of our best leads because they have a high win rate. Our average deal size is $40,000 ARR."

› "Pretty much everyone who does a free trial stays on with us afterwards."

The technology-led financial model below is a good example of what this can mean to a partner financially. The earlier pie chart shows that 10% of leads come directly via marketplace. In this example, increased sales via Azure Marketplace are worth $4.57 million dollars for every 100 partners added (100 new customers x 10% x $457,000). Partners can use this framework to calculate the potential upside to their organizations.

Transacting More

The examples above are mainly about winning new logos. Similar to the New Zealand example, partners are also using Azure Marketplace to transact leads they already have in their sales pipelines. Often, these could be leads they otherwise would not close. There are three main reasons they do this: 1) Azure Marketplace makes transacting easier because Azure stored payment methods can be used, Microsoft handles things like billing and collecting, and Private Offers allow bespoke offers to easily be presented; 2) some prospects are more comfortable having the deal on Microsoft's paper rather than having to set up another vendor relationship; and 3) ongoing account management is easier. Transacting more in Azure Marketplace can reduce selling costs and increase gross margins. Partners shared the following examples:

› "Sales productivity has absolutely gone up, which has reduced our selling costs."

› "Our sales model will become a hybrid one in which salespeople do the hunting, and transacting takes place via Marketplace. That saves salespeople a lot of paperwork and spending time on other less valuable activities."

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- "Private Offers is very useful. We use it to give discounts and bundle in services to get customers going faster."

- "There are many deals that wouldn't get done at all if they had to be on our own paper."

- "One hundred percent of our deals are done on Microsoft's paper. We've included an NDA (nondisclosure agreement) in our Marketplace page just in case it is needed."

- "Marketplace is a huge help in closing deals faster. This eliminates the lengthy legal, security, and contract reviews."

- "This makes it significantly easier to handle everything around billing and money collection."

- "Invoicing is all automated, which saves us money and time."

- "When a customer buys via the Marketplace, we associate the subscription ID to the transaction. This means we know where to deploy our solution and can automate the process."

- "Deployment is very automated, which eliminates the need for professional services to set up a new customer."

With regards to winning deals that a partner otherwise might not, this can be looked at from the value of a 1% increase in win rates. For every 100 leads for a technology-led partner, a 1% increase in win rate would be worth $45,700 (100 leads x 10% via Azure Marketplace x $457,000 average three-year potential deal value). For service-led partners, a 1% increase in win rate would be worth $25,000 per 100 leads (100 leads x 2% via Azure marketplace x $1.25 million average three-year potential deal value).

Selling Faster

Unlike traditional enterprise license agreements, a month's lost revenue is never recouped in recurring-revenue pricing models. This can have a very large effect on a recurring-revenue partner's (technology- or service-led) financials. There is also an associated, reduced selling cost benefit. Some examples of selling faster were included above, and partners shared these additional examples of faster time-to-revenue-recognition:

- "We launched in Azure Marketplace last quarter. Our typical sales cycle is six months, so we should have had zero sales so far. Instead, we've already had two big wins, each worth around $500,000 in ARR. In one case, we were already coselling with Microsoft to one prospect when COVID broke out. This accelerated the deal. In Marketplace, they can transact without additional paperwork. The deal was won in two or three weeks. Phenomenal."

- "Absolutely, without a doubt, Marketplace accelerates sales. We are in the healthcare space, so our customers are risk-averse when it comes to adding new technologies. Typical sales cycles include months of architectural, security, and governance reviews. One of the biggest value propositions of Marketplace is that anything in there is blessed by Microsoft and best-in-class. From a time-to-market perspective, that is big. We've always been on Azure, so the difference is Marketplace and customers' perceptions."

Based on the technology-led financial example, the first-year expected ARR (with attach rate applied) is $321,000. That means that a one-month reduction in the sales cycle is worth an additional $26,750 in additional MRR in Year 1 ($321,000/12 months). For a service-led opportunity, a one-month reduction in the sales cycle is worth $5,000 in additional MRR ($60,000/12 months).

Marketing And Marketplace Rewards

Partners spoke at length about how they are working with Microsoft and taking advantage of Marketplace Rewards to fill the sales funnel. Partners can use Microsoft resources and funding to execute more innovative and successful campaigns. Additionally, Marketplace Rewards includes analytics to help create, iterate, and manage better campaigns. Partners shared the following examples:

- "Our marketplace customer base grew 27% last year in terms of the number of customers and 25% in terms of revenue. We used 17 different rewards in the past year that helped us expand our relationships and win new customers."

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- "We have a lot of valuable interactions with Microsoft through rewards. Some of our joint activities include webinars, blogs, and newsletters to Microsoft sellers."

- A small ISV with 50 employees estimated that the marketing support and rewards it receives from Microsoft were "probably worth $75,000 to $100,000 last quarter."

- "We get a lot of metrics from Azure Marketplace. I use the top-of-funnel metrics to improve my campaigns, and my product people get information about which SKUs are being used and how."

The value of increased pipeline is covered in the reaching new customers and transacting calculations above. Partners should also consider what the actual cost savings are compared to funding these initiatives themselves if they wanted to undertake the same level of marketing. This is a cost-avoidance benefit.

Keys To Success

The most successful Azure Marketplace customers are investing time and money across several areas. These represent best practices that both newer and more established partners should emulate where appropriate.

Partners are creating and executing marketing campaigns that are tied to Azure Marketplace. Marketplace Rewards is often a big part of this, and having someone focused on making the best use of the rewards is critical. The earlier example of a marketing campaign that directed people to the Azure Marketplace page and resulted in $237 million in marketing-attributed pipeline demonstrates the importance of properly executing marketing campaigns.

Partners are educating their internal sales teams and reseller networks on why they are in Azure Marketplace and how these sellers can benefit from it. They especially need to understand how they will be compensated for opportunities that they originate but are then transacted in Azure Marketplace. One partner said: "We make sure that our sellers know that Marketplace exists and shouldn't be scared. We incentivize both our partners and sales team to transact in Marketplace."

Related to educating the salesforce is making the necessary changes to sales systems and processes. This can include taking data feeds from Azure Marketplace to attribute sales properly and ensure that closed deals are transitioned to deployment and execution. A partner explained: "We had to make changes in our sales operations. Getting revenue recognition right for our sales reps and partners was especially important."

Being successful requires regular data analysis of what is working and what needs to be improved in Azure Marketplace. This includes listing content, marketing campaigns, and what direct and indirect sellers are doing successfully. This also includes analyzing which SKUs are actually selling and what improvements can be made to products and services listed in the marketplace properties to increase sales. These analyses require a lot of effort, and some partners have multiple people dedicated to said effort.

All partners, whether new or more established with Azure, should make sure that they are putting enough effort into managing their listings, integrating Azure Marketplace into sales systems and processes, and taking full advantage of Marketplace Rewards. It is not a simple matter of "if you build it, they will come." Partners get out of Azure Marketplace what they put into it.
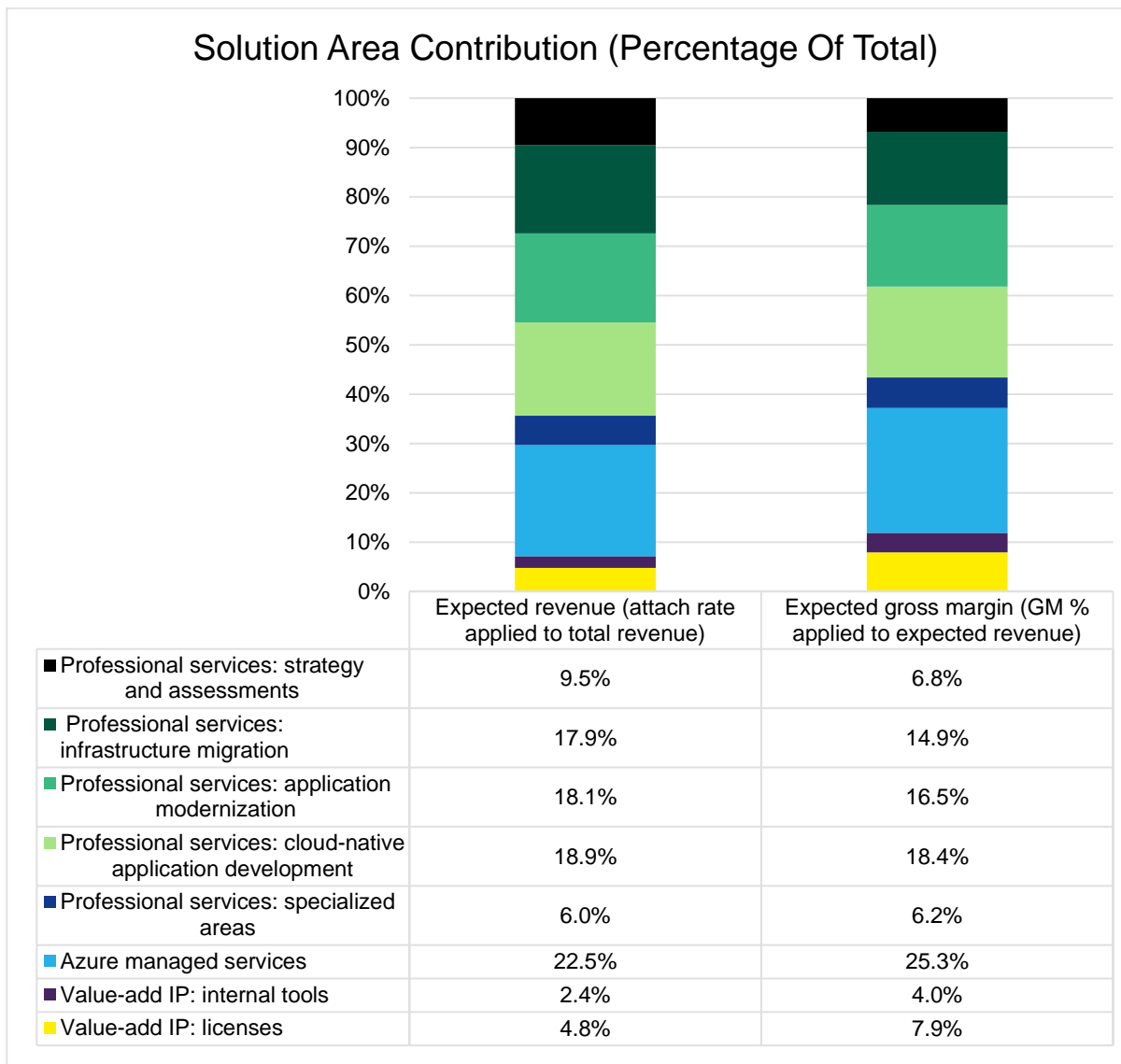
Financial Examples

The previous sections described how and why customers are moving to Azure, why partners are focusing on their Azure business, the various drivers for making money from technologies and services tied to Azure, and how Azure Marketplace amplifies these benefits. This section translates all of this into financial examples of how partners are actually making money — one for service-led partners and one for technology-led partners. Because there was extreme variation in the absolute size of interviewed partners, these models look at the value of adding one new customer rather than forecasting customer volume growth. The value of adding one new customer also varies widely, so each example includes a percentage contribution view that can be applied to a reader's average three-year deal value to get an approximation of what one new customer may mean to their organization. Less advanced partners may not be able to deliver all solutions included in these examples. These areas are called out in the narrative so that newer partners can better understand what their opportunity may look like.

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The financial models are a composite of what partners shared and represent the lower end of the midrange of partners' actual experiences. All of the assumptions are based on this composite deal size. Each model shows two different views. The expected revenue applies an attach rate (the likelihood of any single customer buying a specific technology or service solution) to the total potential value of a new customer (if a customer buys everything that makes up the partner's basket of goods and services). Gross margin applies margin rates to the expected revenues. Technology solution margins are generally much higher than service solution margins, so this view is important in understanding how both contribute to a partner's financial success.
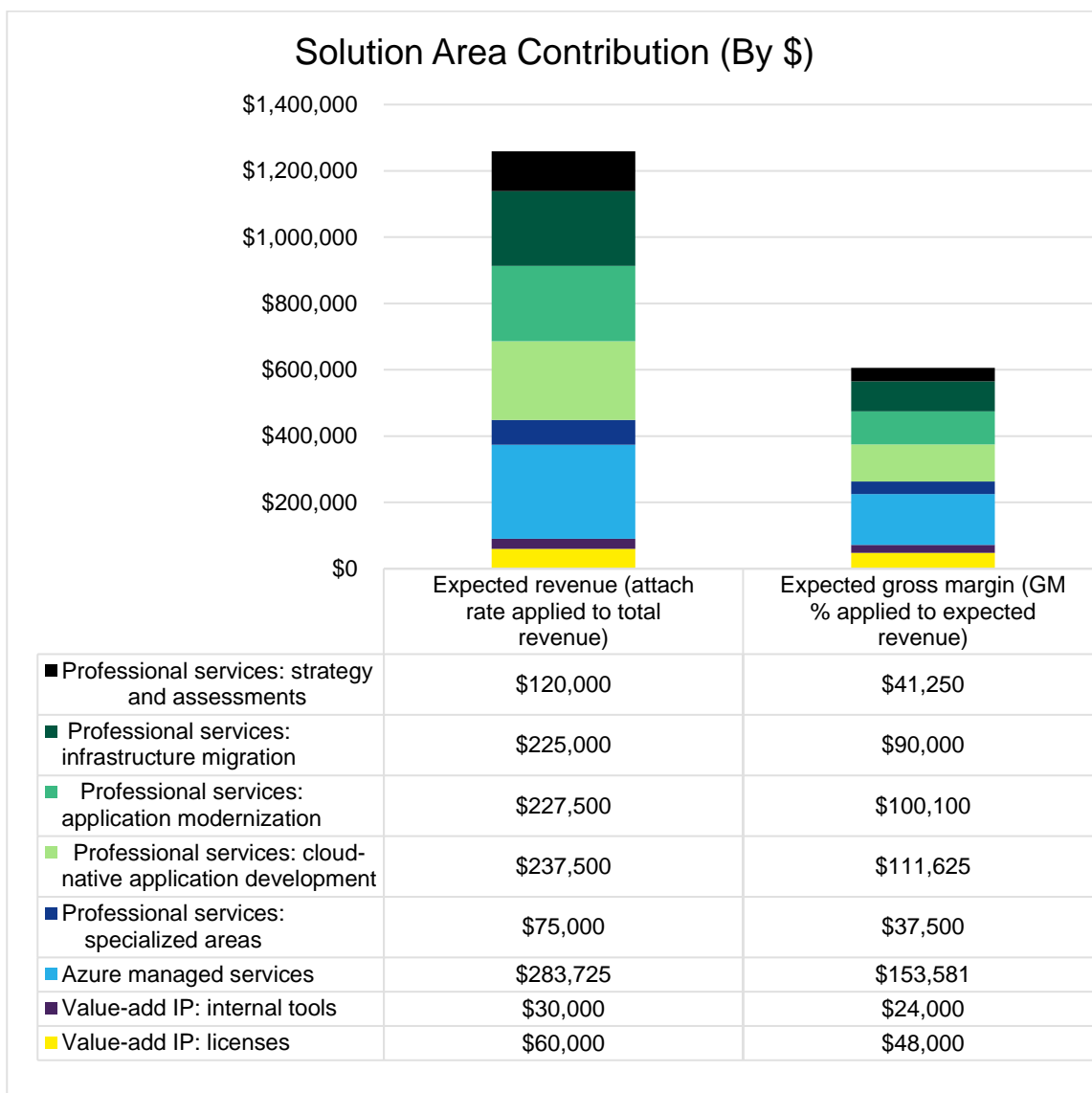
Service-Led Partner Example

Services cover many areas, and there was a wide variety among interviewed partners in their managed services versus project services proportions. Managed services ranged from 2% to 70% of overall services revenue. The proportion of value coming from resalable IP varied too, ranging from less than 1% to 10% of overall revenues. The composite partner organization Forrester developed based on the partner interviews had 22.5% of expected revenues coming from managed services, which was 25.3% of gross margin because managed services were more profitable than project-based work. IP sales represented 4.8% of expected revenues but 7.9% of overall gross margin because it was very profitable.

Solution Area Contribution (Percentage Of Total)

	Expected revenue (attach rate applied to total revenue)	Expected gross margin (GM % applied to expected revenue)
■ Professional services: strategy and assessments	9.5%	6.8%
■ Professional services: infrastructure migration	17.9%	14.9%
■ Professional services: application modernization	18.1%	16.5%
■ Professional services: cloud-native application development	18.9%	18.4%
■ Professional services: specialized areas	6.0%	6.2%
■ Azure managed services	22.5%	25.3%
■ Value-add IP: internal tools	2.4%	4.0%
■ Value-add IP: licenses	4.8%	7.9%

Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, July 2020

The dollar-value view shows that the expected three-year revenue from adding one new customer is $1.25

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million. Newer partners may not be delivering professional services in specialized areas or cloud-native application development. They also may not have yet built resalable IP. If these three revenues streams are removed from the model, the expected opportunity for a newer partner is $886,000 over three years.

Solution Area Contribution (By $)

	Expected revenue (attach rate applied to total revenue)	Expected gross margin (GM % applied to expected revenue)
■ Professional services: strategy and assessments	$120,000	$41,250
■ Professional services: infrastructure migration	$225,000	$90,000
■ Professional services: application modernization	$227,500	$100,100
■ Professional services: cloud-native application development	$237,500	$111,625
■ Professional services: specialized areas	$75,000	$37,500
■ Azure managed services	$283,725	$153,581
■ Value-add IP: internal tools	$30,000	$24,000
■ Value-add IP: licenses	$60,000	$48,000

Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, July 2020

Professional Services: Strategy And Assessment

Strategy and assessment work is the foundation for downstream Azure migration, modernization, and next-generation managed service engagements because it allows partners to demonstrate to prospects how they could benefit from Azure and what steps they need to take to attain those benefits. Strategy and assessment work involves documenting the customer's requirements from both IT and end user perspectives, analyzing the customer's existing infrastructure and workloads, and ultimately building a roadmap for Azure migration that considers the organization's budget and timeline constraints. This work also helps enable customers' future success by considering things such as future DevOps models and incorporating adoption and change management components.

Interviewed partners said that they always do some piece of upfront work and that the size and cost of this project could vary greatly depending on how a customer was planning to use Azure. These projects were typically lower margin than follow-on project work because expensive resources such as architects were more heavily involved and because these engagements were viewed in part as paid selling opportunities. Partners also said that they make extensive use of in-house developed IP to aid in discovery and visualization. For the

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financial model, Forrester assumed:

› The average cost of a strategy and assessment engagement was $150,000, attaching at 100%.

› Twenty percent of the deal revenue was attributed and allocated to an IP revenue category. The resulting $30,000 was subtracted from here and shown later in a separate internal tools category.

› The average gross margin for a strategy and assessment engagement was 27.5%.

The expected gross contribution of a strategy and assessment engagement at a single new customer was $41,250.

Professional Services: Infrastructure Migration

The typical first phase in an overall Azure roadmap coming out of the previous strategy phase is a migration, or lift-and-shift, of workloads to IaaS. This is a faster, lower-cost approach compared to complete application modernization initiatives or building cloud-native solutions. This can be the permanent solution for some workloads or an interim step. Partners reported that they have high transition rates from the strategy to the migration, and this was why they invested so much into making those initial engagements successful.

Migrations vary greatly depending on what workloads are being migrated and the absolute size of the lift-and-shift. Several partners' rule of thumb for pricing a migration was $1,000 or £1,000 (depending on where the partner was located) per server. Using offshore resources could cut costs to $500 or £500 per server. Another partner described a migration involving 600 virtual machines (VMs), which lasted 26 weeks and cost €400,000. For the financial model, Forrester assumed:

› A typical migration cost $250,000 and attached at 90%.

› The average gross margin was 40%.

The expected gross contribution of a migration engagement at a single new customer was $90,000.

Professional Services: Application Modernization

The original roadmap or post-migration analysis of performance and costs may dictate that some workloads need a cloud-based development platform to achieve the desired outcomes from Azure, such as the ability to rapidly deploy changes and updates to applications. For these applications, organizations must use Azure PaaS instead of IaaS. However, to enable the PaaS framework, an application must either be built or modified specifically for this framework. For organizations that want to continue leveraging a set of legacy applications instead of building new applications on Azure, this necessitates additional refactoring or rearchitecting work (also called "modernization").

Partners shared many application modernization examples. Pricing depended on the type of application being updated. A partner focused on SMB customers put the typical price at $25,000 to $40,000 per application. Partners working with enterprise customers said projects range from $250,000 to $500,000 and can be in excess of $1 million. One interviewee said that the goal of application modernization is to "unlock innovation and do things you couldn't before. A large application modernization project ranges for us from $3 million to $4 million." This partner attributed 10% of revenues to change management work, which is included here but more geared toward enabling customers for successful use of Azure. For the financial model, Forrester assumed:

› The average application modernization project cost $325,000 and attached at 70%.

› The gross margin on this was 44%, which is higher than the migration because it is more specialized work that commands higher day rates.

The expected gross contribution of an application modernization engagement at a single new customer was $100,100.

Professional Services: Cloud-Native Application Development

Not all Azure workloads are rehosted, modernized, or hybrid-extended from on-premises environments. There are two primary reasons an application may need to be developed natively on Azure instead: 1) As a result of an initial strategy and assessment phase, some legacy on-premises applications may be deemed too large or complex to be cost-effectively modernized for Azure, and therefore, rebuilding these applications on the Azure platform may actually be the cheaper and faster alternative; or 2) some applications will need to be built

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specifically for Azure to fully unlock and benefit from use cases such as AI, machine learning (ML), IoT, or other emerging technologies. Whichever the case, cloud-native application development entails more custom work relative to other professional services and thus carries a higher cost of services.

Once again, partners shared examples with a wide range of prices. They were all consistent in saying that this is much more specialized, higher-value work which commands higher prices and margins. However, newer partners may not yet have the skills required to both sell and deliver these projects. One partner described a typical team consisting of 10 people, including project management, change management, developers, database administrators (DBAs), user experience (UX), etc. One project at an enterprise customer had a team of this composition mix working for six months, and the project cost several million dollars. Other partners reported these projects typically costing several hundred thousand dollars. For the financial model, Forrester assumed:

› Developing a single cloud-native application cost, on average, $950,000, and this was done for 25% of the customers.

› The gross margin on this work was higher than the previous areas at 47%.

The expected gross contribution of a cloud-native application development engagement at a single new customer was $111,625.

Professional Services: Specialized Areas

This year, partners reported increased delivery of projects in specialized areas. The most common were around analytics, AI, and IoT. Partners are using the advanced capabilities of Azure to make these projects possible at price points and timeframes that are acceptable to customers. Once again, newer partners may not yet be delivering these types of projects. Partners provided the following examples:

› "We are doing a lot of fast AI projects leveraging Azure Cognitive Services. A typical project lasts six months. Despite how it sounds, that is actually very fast because there is so much we can leverage with pretrained algorithms."

› "Building on Azure accelerated our AI practice because we don't have to create all our own tools. It sped up our capability by 30% to 50%."

› "We did a BI (business intelligence) project around invoicing that lasted two years and cost $1 million."

For the financial model, Forrester assumed:

› A typical engagement around specialized workloads cost $750,000 and attached at 10%.

› The gross margin on this more specialized, valuable work was 50%.

The expected gross contribution of a specialized area development engagement at a single new customer was $37,500.

Azure Managed Services

Migrating applications to Azure does unlock the potential to experience the cost savings, scalability, agility, and security benefits of the cloud. Additionally, building new specialized services and solutions on top of Azure can transform a business. However, these benefits are not simply a foregone conclusion for all customers. Without active management of workloads on Azure, costs can easily spiral out of control, application performance can stagnate, and organizations can fail to meet IT and business objectives set at the start of the Azure migration journey. Organizations often rely on a partner to navigate these challenges and actively manage their Azure workloads once they have successfully migrated to Azure.

Partners are keen to sell managed services because they are typically multiyear contracts that make cashflows more even and predictable. Additionally, creating automation and management tools can make this more profitable than most project-based work. Partners have created a range of managed services that map to different Azure solutions and vary based on the level of service (e.g., 24x7 support). Quite often, there are three tiers of managed services called Bronze, Silver, and Gold. Partners price these solutions for any given customer based on the size and nature of the Azure implementation and the anticipated effort required. One partner said that if it lacks the information to create a fixed-price offering, it will quote it at 22% of whatever the Azure consumption is each month. Another partner estimated that managed services sell for around 30% of the cost of the upfront professional services work, which is now under management.

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Managed services are attaching at higher rates than in the past and anticipated to continue to grow in the future. One partner in Europe reported that its attach rate for managed services has increased from 20% to 80% over the past year. For the financial model, Forrester assumed:

› A silver-tier managed services contract was included, which was priced at $15,000 per month based on the size and composition of the Azure solutions under management and attached at 50%. The contract was in place for the full three years of the study.

› The gross margin was 50% in Year 1, and this increased to 54% in Year 2 and 58% in Year 3. This increase was attributed to greater use of tools to streamline and automate operations and to economies of scales as more customers added on managed services.

› The expected gross contribution of a three-year managed services contract at a single new customer was $153,581.

Value-Add IP: Internal Tools

All partners are developing IP for in-house use to streamline and automate the delivery of professional and managed services. This financial example included the $30,000 in allocated internal tooling revenues from the strategy and assessment phase. One partner provided a clear example of how investing in internal tools can increase billable rates because the IP is bundled into the services and customers see greater value from the projects: "Our average billable rate has increased 30% over the last two years. People are paying more for our IP and our expertise. That's a big advantage of Azure — getting away from a basic time-and-materials pricing model."

Unlike the strategy and assessment services, which were delivered with a gross margin of 27.5%, the internal tools revenue linked to this effort had an 80% margin because, once the investment is made, the incremental cost to use it on a new project is low. Therefore, the expected gross margin contribution of these tools as part of the strategy and assessment work for a single new customer was $24,000.

Value-Add IP: Licenses

In addition to the internal IP described above, some more advanced partners were also developing customer-facing solutions for specific horizontal or vertical use cases and sold these licenses to existing migration customers. Solutions typically included ongoing monitoring, analysis, and optimization of data flowing through Azure and often integrated additional capabilities such as AI or ML to deliver value in real time or automatically package insights for consumption. IP licenses are becoming a larger part of revenues for some partners. One partner with €3 million in annual sales has had €500,000 in IP-related sales in the past year.

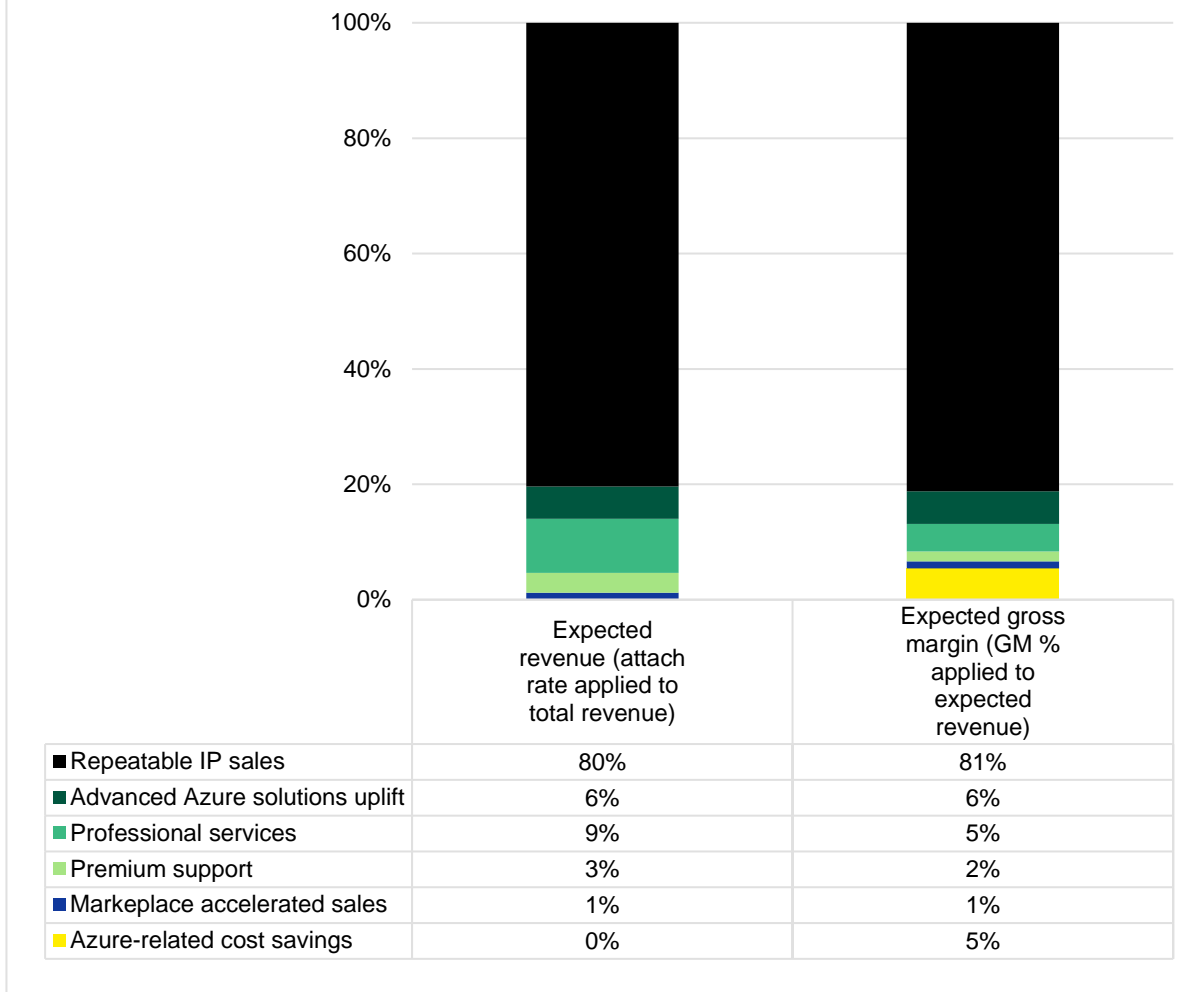For the financial model, Forrester assumed:

› The average ARR for IP licenses was $200,000 and attached at 10%.

› There was an 80% gross margin on IP licenses.

The expected gross contribution of a single new customer using this IP for the life of the three-year study was $39,790.
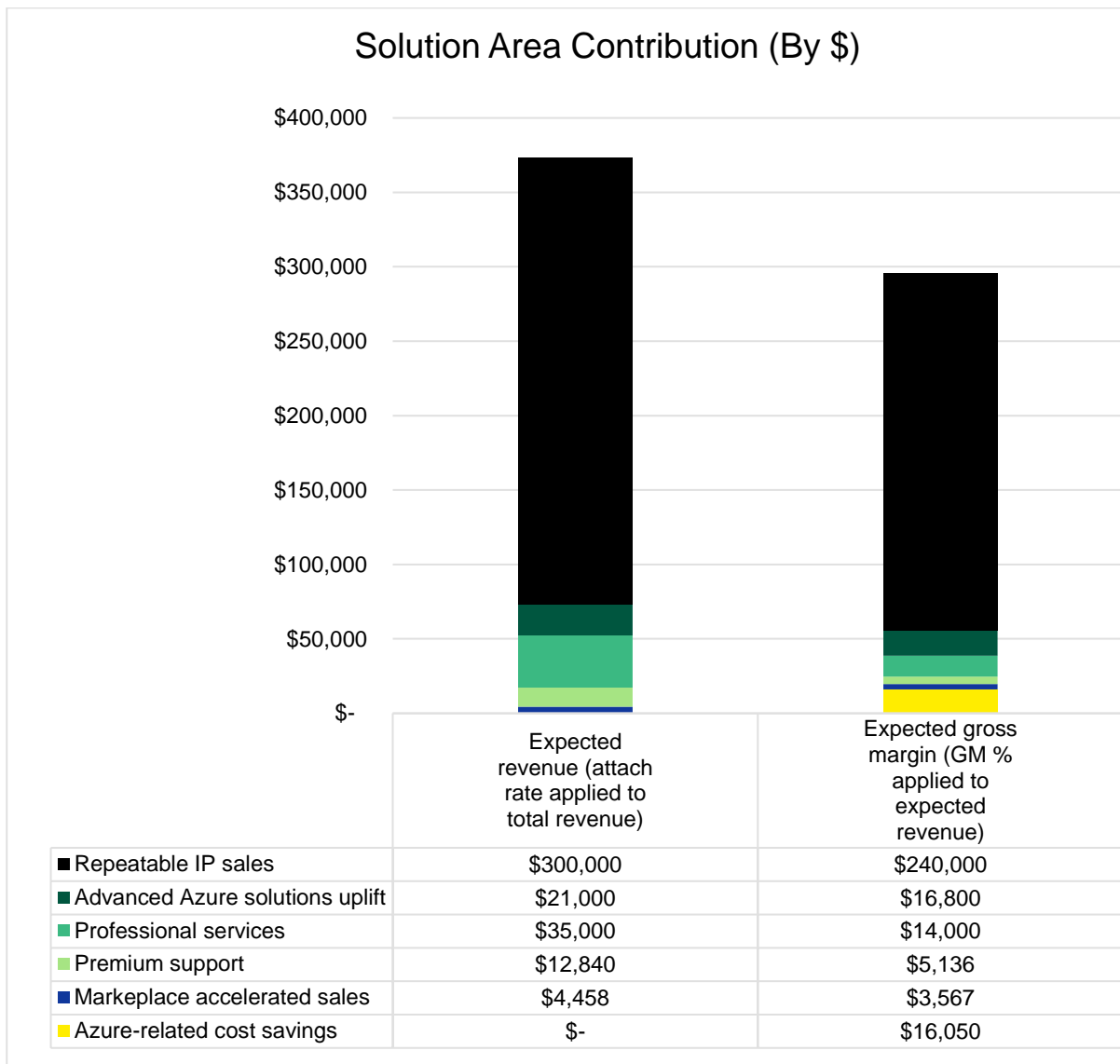
Technology-Led Partner Example

There is almost a limitless number of solutions that partners can build on top of and related to Azure and sell via various channels. These technology-led partners often have services associated with the deployment and ongoing management of the technologies, which can either be delivered by in-house professional services or channel partners. Often, technology-led partners prefer to have their channel partners deliver services to not drag down overall margins. Regardless of delivery method, they were usually around 10% to 15% of total revenues for anything other than the simplest SaaS solutions. In addition to the core IP license revenues and associated services, there were three additional benefits that are entirely incremental to the Azure versions of a partner's solutions: advanced Azure solutions uplift, Azure Marketplace accelerated sales, and Azure-related cost savings (described in detail below). Together they contributed 12% to gross margin, which can be a meaningful addition to overall partner profitability.

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Solution Area Contribution Percentage Of Total)

	Expected revenue (attach rate applied to total revenue)	Expected gross margin (GM % applied to expected revenue)
■ Repeatable IP sales	80%	81%
■ Advanced Azure solutions uplift	6%	6%
■ Professional services	9%	5%
■ Premium support	3%	2%
■ Markeplace accelerated sales	1%	1%
■ Azure-related cost savings	0%	5%

Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, July 2020

The dollar-value view shows that the expected three-year revenue from adding one new customer is $373,000. Newer partners may be porting over cloud or on-premises solutions and not yet have built advanced cloud solutions. Additionally, they may not benefit from Azure Marketplace accelerated sales because they may not be fully optimizing their marketplace-related sales and marketing. If these three revenues streams are removed from the model, the expected opportunity for a newer partner is $295,000 over three years.

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Solution Area Contribution (By $)

	Expected revenue (attach rate applied to total revenue)	Expected gross margin (GM % applied to expected revenue)
■ Repeatable IP sales	$300,000	$240,000
■ Advanced Azure solutions uplift	$21,000	$16,800
■ Professional services	$35,000	$14,000
■ Premium support	$12,840	$5,136
■ Markeplace accelerated sales	$4,458	$3,567
■ Azure-related cost savings	$-	$16,050

Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, July 2020

Repeatable IP Sales

The interviewed partners described a wide range of IP that they sell including SaaS solutions for individual users and enterprisewide systems, IaaS and PaaS management tools, data aggregation and visualization solutions, and a wide range of cloud security solutions. One of the enterprise SaaS solutions sold for up to $600,000 per year, and one partner selling data integration and analytics tools had an average contract value of $300,000. Many of the tooling providers had an ARR around $30,000 to $70,000 per year. For some partners, their offering was a new version of on-premises or other public cloud solutions they were previously selling. For others, these were net-new solutions built on and for Azure. Partners all reported high year-on-year growth rates and margins around 80%.

For the financial analysis, Forrester assumed:

> › The license ARR for a new customer was $100,000, and this was held constant over the three years of the study. This offering attached at 100%.

> › The gross margin was 80%.

The expected gross contribution of a single new customer using this IP for the life of the three-year study was $240,000.

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Advanced Azure Solutions Uplift

Partners that created an Azure version of previous solutions said that they could add new features and extensions that customers found very valuable. This was an upsell opportunity to both existing customers and prospects. One example was an analytics add-on to an enterprise SaaS solution built on top of Azure's analytics tools. This sold for 10% to 15% of the base solution and was being purchased by almost every eligible customer, which was 80% of the install base. Another area where partners reported building advanced solutions was IoT. Newer partners may not have yet built these types of solutions.

For the financial model, Forrester assumed:

› A new solution uplift like the one described here was included and assumed to be 10% of the base $100,000 licenses and attached at 70%.

› The same 80% gross margin was applied.

The expected gross contribution of a single new customer was $16,800 over three years.

Professional Services

Professional services most commonly took place during deployment, but some partners had ongoing opportunities. The level of services varied greatly depending on the type of solution. At the higher end, a cybersecurity partner said that, for every dollar of license revenue, there is $1.50 to $2.00 in services revenue in the first year. Beginning in the second year, the services to license revenue ratio was 1 to 1. As in the service-led financial model, technology built on and for advanced Azure workloads increases the total services revenue potential. When Azure is used for business transformation, it requires more upfront planning and design work as well as change management consulting.

For the financial analysis, Forrester assumed:

› Deployment services were 25% of the $100,000 first year licenses and attached at 100%.

› Ongoing services around optimizing solution performance and taking advantage of new features were worth $10,000 in Years 2 and 3 and attached at 50%.

› A standard 40% gross margin was applied to all services.

The expected gross contribution for three years of professional services for a single new customer was $14,000.

Premium Support

Another service area some partners offered was premium support. This could be better service-level agreements (SLAs) from a shared help desk or, for some of the larger vendors, a dedicated technical account manager. Premium support can represent a form of managed services. For the financial analysis, Forrester assumed:

› A premium support contract was 20% of annual license sales, which in this case included the $100,000 for the base technology and the expected $7,000 in Azure solutions uplift revenue. Therefore, the more ARR that a partner generates, the more advanced solutions built on Azure's capabilities will increase the premium support contract value. The contract was worth $21,400 per year and attached at 20%.

› The same standard gross margin of 40% was applied.

The expected gross margin for three years of premium support for a single new customer was $5,136.

Azure Marketplace Accelerated Sales

Earlier, this study showed partners' examples of accelerating the sales cycle because Azure Marketplace eliminates many sales activities, such as legal review of contracts. In a recurring-revenue model, any MRR missed because of an extended sale cycle can never be made up. Newer partners that have not optimized their Azure Marketplace sales and marketing may not realize this benefit early on. For the financial model, Forrester assumed:

› Twenty-five percent of all deals are transacted via Azure Marketplace, and this served as the attach rate on the first-year $107,000 ARR.

› Transacting in the Azure Marketplace reduced the sales cycle by two months, which is the one-time added MRR included in the model.

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› The same 80% license gross margin was applied.

The expected gross margin from the one-time added MRR for a single new customer was $3,567.

Azure-Related Cost Savings

In addition to all of the increased revenue opportunities discussed above, partners talked about realizing higher gross margins on their Azure solutions compared to other cloud versions of their solutions, including nonoptimized porting of on-premises solutions into Azure VMs. This was because partners could incorporate Azure-native services as part of their own solutions, which reduced their COGS from better integrations and automation and because fully rearchitecting for Azure reduced their internal Azure consumption fees. Margin improvement may be higher when compared to on-premises versions. Partners shared the following examples:

› "Margins will be better for our Azure cloud business because the COGS are so much lower without hardware."

› "The reason we focus exclusively on Microsoft is because of the depth of integration and automation by staying narrow. It is easier for our solutions to help our customers move their data back and forth between on-prem and the Azure cloud."

› "Our fully rearchitected Azure solution has better uptime and availability than our on-prem and Azure VM-based versions. That makes our management easier and cheaper."

› "The ability to have a real CI/CD pipeline as part of the Azure platform is huge in terms of our nimbleness. That makes development faster and cheaper. We used to roll out updates three times per year. Now, with the same amount of engineering effort, we roll out two updates a month. That brings a lot more features and fixes to market."

For the financial model, Forrester assumed:

› The $107,000 ARR was a combination of the base solution and the expected revenue from the analytics add-on.

› A 5% gross margin uplift compared to other cloud versions was applied in all three years of the study.

The expected gross margin uplift from lower delivery costs for a single new customer is $16,050 over three years.

Investments

Partners are making sizeable and strategic investments in their Azure practices to succeed. Absolute investment amounts vary greatly based on many factors, including a partner's size, prior Microsoft solution offerings, technology and service offerings, and go-to-market strategies. The largest investment area for service-led partners is their labor delivery costs, and for technology-led partners it is their development effort. Therefore, this section describes the investment categories and rationale rather than prescribe how much a partner should expect to spend.

› **Services delivery labor.** The largest cost category for services partners is the labor to deliver projects and managed services. Expected profit margins were discussed in the financial examples above. Labor resources are scaled up (and hopefully down) based on delivery pipelines.

› **Product development labor.** This applies mainly to technology-led partners, but, as discussed earlier, service-led partners are increasingly getting into the resalable IP space. Partners described increasing investments in roles such as developers, DevOps, and service delivery managers. These investments are larger if the partner did not have prior Microsoft solution development capabilities. Some partners are making large investments in specialty areas such as AI, analytics, and IoT.

› **Back-end system and toolings.** Partners are investing in back-end systems across a wide range of areas. Service-led partners are making investments in "accelerators" to automate or streamline activities such as Hadoop migrations. Many partners were building data visualization tools to assist their delivery teams. Technology-led partners are investing beyond core product development to integrate their solutions with Azure Marketplace to facilitate provisioning, onboarding, and billing.

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- › **Microsoft alliance programs.** Successfully building and managing an alliance program with Microsoft was one of the most important success criteria (see best practices below), so partners are investing significantly here. This includes hiring/appointing an alliance manager and other alliance team members, depending on size and geography, to work with Microsoft field sales on education and lead pursuit. This effort also includes working with the Azure Marketplace team to take advantage of marketplace marketing rewards and complete joint activities such as webinars and eBooks.

- › **Marketing.** Partners are, for the most part, increasing their overall cloud marketing budgets, and Azure is taking a larger proportion of that spend. In the near term, this overall growth trend has been affected by COVID-19. One partner described total marketing spend increasing by 28% and that the Azure-related spend increased by 35%, thus outpacing overall growth. Marketing spend covers many areas to fill the funnel, including ad campaigns, social media content, hosting webinars, attending conferences, etc. Microsoft sometimes funds some of these activities, especially as part of the Azure Marketplace Rewards program.

- › **Sales.** Many partners reported adding salespeople for direct sale of Azure-related solutions. This can often involve coselling activities with their own partners/resellers.

- › **Training.** The training investment underpins many of the investments above and best practices discussed below. Especially important is achieving various certifications, which helps both delivery and sales. Having various certifications creates a comfort level with prospects and helps close deals. There are also minimum certification requirements to achieve different partner levels. One partner gave as an example that all its sales engineers are pursuing their Azure SQL data engineering certifications.

Best Practices And Call To Action

Partners shared various best practices that they felt made them successful. In many cases, they were able to achieve these best practices because of the previously described investments. These are a call to action for what partners should be doing to succeed. Newer partners may be taking their first steps in these areas and/or making very large investments to go "all in" with Azure, while more established partners might have achieved a sufficient level of achievement so that ongoing investment levels may only be needed to maintain the status quo.

Increasing Sales

- › **Creating compelling, Azure-specific solutions.** Azure creates many unique opportunities to increase the total opportunity size at a customer. This includes building solutions that take advantage of Azure advanced workloads and building internal service delivery capabilities to help customers transform their businesses using Azure. The financial models include several examples of these, and the most successful partners have done one or both of these things. Partners also said that this is becoming more important for them as a growth driver and to differentiate.

- › **Working closely with Microsoft.** This was one of the most cited best practices. Partners are investing a lot of time and effort into building strong relationships with Microsoft. This covers many areas, including the field sales organization, marketing, the Azure Marketplace Rewards team, and a designated partner development manager (PDM), if assigned one. One interviewee said: "We work really hard on our Microsoft relationship and especially with our PDM. That makes a big difference. The value you get from the partnership is based on how much you invest yourself in the relationship."

- › **Investing in Azure Marketplace.** As discussed above, partners are focusing more on selling both technology and service solutions in the Marketplace. This involves a lot more than just adding a listing. In addition to selling more in the Marketplace, a strong presence helps in engaging Microsoft field sales, channel partners/resellers, and in-house direct sales. Strong Marketplace presence also unlocks many Marketplace rewards, and fully using them is a related best practice. One partner explained how it "used to just let the Marketplace exist and did not get a lot of value in it." The partner added: "Recently, we are doing a lot more with our Microsoft counterpart to launch a new product, which is very beneficial. Microsoft also helps make sure we are aware of all the opportunities that exist and are leveraging rewards in the right way."

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Reducing Costs/Improving Margins

› **Optimizing offerings for Azure.** Partners that are optimizing their technology offerings for Azure have increased gross margins as included in the financial example. Service-led partners are also optimizing how they deliver their services to increase margins. This includes creating tools and templates the professional and managed services teams use to boost efficiency. The financial models included all of these examples with the technology-led partner increasing gross margins by 5 percentage points and the service-led partner selling internal IP at an 80% gross margin rate rather than services at around 40%. Because these benefits are at the gross margin level rather than the revenue level, a small improvement can have a large impact on the partner's bottom line.

› **Using Azure tools in the product development process.** Azure provides many off-the-shelf tools that make it faster and less expensive for partners to build offerings. These include more general capabilities such as CI/CD and advanced workloads around things like analytics and IoT that partners can coopt into their technology offerings. Partners provided examples of delivering a lot more code with no new hires, which improves operating margins.

› **Reaching economies of scale.** As discussed earlier, being successful in Azure requires an investment of time and/or money. Partners that have gone "all in" on Azure are seeing greater growth in terms of closing more deals and the average deal size increasing. This means that upfront and ongoing costs are spread out over a larger area, which results in higher operating margins.

General

› **Refining processes and policies to better align with Azure.** Developing an Azure practice can have a large impact on existing processes and policies. Beyond product development and service delivery processes, partners were most looking at process refinement for coselling with Microsoft and resellers, sales attribution and compensation, and transacting in the Marketplace. Processes may have to vary in different geographies as partners expand due to marketplace sales.

› **Providing training and certification.** Training and certification are crucial for successful sales and delivery of both services and technologies. The available training and certifications are constantly evolving, and partners stressed the importance of staying on top of it. One partner explained: "We followed the Microsoft training roadmap when we first got started. That got us the certifications we needed to succeed and to move up in the Microsoft partner ecosystem." Another partner said: "We are now focusing on advanced specialization training programs. We are starting to track the value of this training to our bottom line, and we are getting a lot more than we realized."

› **Participating in various Microsoft programs.** Microsoft has created many programs that benefit partners and their customers. Some examples, in addition to the incentive and rewards programs previously described, include the Azure Expert MSP Program, Azure Migration Program, Cloud Adoption Framework, and Cloud Economics Program. Partners said that these programs help them reduce costs and increase sales, leading to more profitable growth. One partner gave the example that it makes heavy use of the Azure Migration Program and currently has five AMP projects running. This same partner is also participating in the Windows Virtual Desktop program, which is starting to drive a new source of revenue.

› **Hiring great people.** Partners stressed the importance of hiring great people in all roles. Because of the importance of the Azure practice, partners are working especially hard to ensure that employees in this area are top quality. One partner said: "We set the bar very high for our new hires. It's easier to get into Harvard than our company. We'll say no to more Azure work rather than hire the wrong person to deliver an additional project."

Conclusion

This year's analysis, based on interviews with 16 Azure partners, showed that they are making money in more varied ways than in the past and that the total opportunity is growing larger. The general adoption of public clouds is accelerating. Many customers, especially in the enterprise space, want to move their on-premises

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solutions to Azure because they are Microsoft shops. Advanced services within Azure are making it possible for partners to offer more solutions and more profitability. Azure Marketplace is making it easier for partners to transact and enter new markets.

These trends are driving opportunities for both technology-led partners that offer solutions on and around Azure and for service-led partners that help customers deploy and manage these technologies. Furthermore, these opportunities apply to both newer and more established Azure partners. For the technology-led partners, the average expected revenue opportunity for each added customer is nearly $373,000 over three years. For the service-led partners, adding one customer to Azure is worth $1.25 million in expected revenues over three years. For many of the interviewed partners, these numbers were much larger because of the size and complexity of their technology and service offerings. Five key takeaways, regardless of partner size, were:

› Partnering with Azure doubles the size of the deal flow pipeline for technology-led partners and 50% for service-led partners via Marketplace, Azure customer demand, and Microsoft cosell.

› Building solutions optimized for Azure increases IP margins by 5% from leveraging Azure capabilities and ease of management.

› Bringing new solutions to market on top of Azure advanced workloads enables a 10% uplift in license ARR.

› More specialized Azure services increase project margins 10 percentage points because customer see more value and are willing to pay more.

› Every dollar in assessment and planning revenue drives $8.75 in expected follow-on services over the three-year life of the financial model.

To be successful, there are several things partners should be doing. First, and most importantly, they should be investing time and money into establishing a strong relationship with Microsoft. This includes building relationship with the Microsoft field sales organization, building compelling Azure Marketplace content and taking advantage of Marketplace Rewards marketing opportunities, and optimizing their back-end systems and processes to the Azure ecosystem. Doing these things will help both newer and more mature Azure partners achieve the successes described in this study.

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Appendix A: Endnotes

[1] Source: "The Partner Opportunity Assessment For Azure Service Providers: A Total Economic Impact™ Partner Opportunity Analysis," Forrester Consulting report prepared for Microsoft, July 2019.

[2] Source: "The Value Of Commercial Marketplace For Microsoft Partners: A Total Economic Impact™ Partner Opportunity Analysis," Forrester Consulting report prepared for Microsoft, July 2020.

[iii] Source: Forrester Analytics Business Technographics® Developer Survey, 2020.

[iv] Source: "The Forrester Wave™: Public Cloud Development And Infrastructure Platforms, North America, Q1 2020," Forrester Research, Inc., March 16, 2020.

> » Partner ecosystem: Compared to others in the evaluation has among the most partners providing development tools, admin and management tools, application services, and ISV/SaaS products.

> » Marketplace and community: Has a marketplace with integrated commercial terms for thousands of partner products.

Disclosures

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