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The Partner Opportunity For Microsoft Modern Work
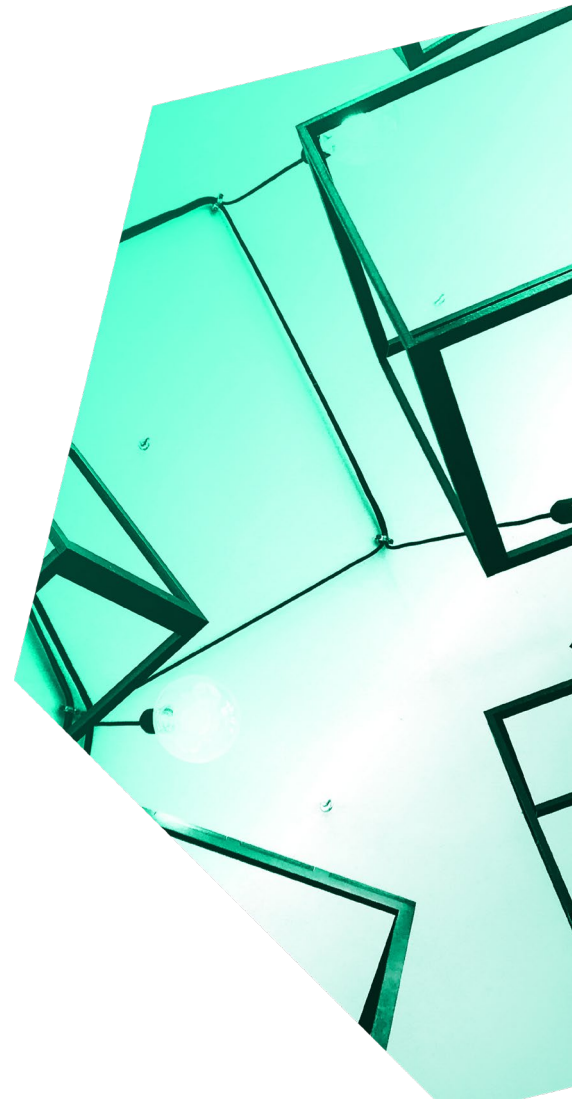
A Total Economic Impact™ Partner Opportunity Analysis

JULY 2023

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Introduction

> The partner opportunity to deliver services and solutions related to Microsoft Modern Work grew significantly in the past year for both enterprise (16%) and SMB customers (19%). This growth was driven by better uptake of the Microsoft 365 E5 and Business Premium SKUs, partners expanding beyond traditional collaboration into new solution areas where Microsoft is investing heavily, and the increased adoption of Microsoft Teams. Partners that have made the necessary investments reported higher revenues and profitability.

The Modern Work partner opportunity continues to evolve and at an ever-increasing pace. Hybrid working models continue to change, requiring companies to support employees in new and innovative ways. Increasingly, Microsoft Teams is the platform where work gets done, with Microsoft now reporting 300 million monthly active users.[1] Companies are starting to wrap their heads around how artificial intelligence (AI) will further transform work and — more specifically — what solutions like Microsoft Syntex and Microsoft Copilot can do for them. At the same time, increased economic uncertainty is causing companies to tighten their belts and look for ways to consolidate spending.

Microsoft commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study to examine how partners can benefit from investing in and expanding their Microsoft Modern Work practices for both SMB and enterprise customers.[2] Modern Work is comprised of many Microsoft products, and this translates into partner opportunities across seven solution areas:

- **Teamwork and Collaboration.** Microsoft Teams is the hub for Teamwork that brings together chat, online meetings, calling, devices, apps, and third-party solutions. The Teamwork and Collaboration opportunity as described in this study excludes the partner opportunities related to Microsoft Teams Rooms and Microsoft Teams Phone because they are described and quantified separately. This year's study only briefly discusses this solution area

KEY STATISTICS*

Enterprise customer expected revenue opportunity (with attach rates applied):

$109.05 per user per month

SMB customer expected revenue opportunity (with attach rates applied):

$45.30 per user per month

*Based on a 36-month customer journey

because of its relative maturity and so that more attention could be given to newer growth areas.

- **Microsoft Teams Rooms.** This is the partner opportunity for configuring physical meeting rooms with Teams devices and the Microsoft Teams Rooms Basic and Pro licenses. A large part of this work involves designing and delivering consistent experiences to users, whether they are working in a meeting room or on a PC at home. Because of this solution area's tight coupling with Teamwork and Collaboration and its relative maturity, it is similarly deemphasized in this year's analysis.

- **Microsoft Teams Phone.** This is the partner opportunity around deploying public switched telephone networks (PSTNs) with Microsoft Teams through either Microsoft or telco calling plans. Fixed-line telco calling plans can be enabled through either Microsoft Direct Routing or Operator Connect while mobile telco calling plans can now be enabled

through the new Teams Phone Mobile. Operator Connect has become especially important to telcos in FY23.

- **Employee Experience.** This is the opportunity to empower companies with Microsoft Viva, an employee experience platform that connects employees to each other and to their companies to achieve their full potential. Viva apps in general availability (GA) include Connections, Engage, Insights, Goals, Learning, Topics, and Sales. Microsoft regularly launches additional apps.

- **Cloud Endpoints.** This is the partner opportunity to work with customers to modernize their endpoint ecosystems and enable them to take advantage of Cloud Endpoints, support hybrid and remote work, empower employees to be productive across diverse hybrid work scenarios, and progress towards a Zero Trust security posture. There are also opportunities to deploy Windows 365 Cloud PCs and virtual machines using Azure Virtual Desktop (AVD).

- **Microsoft Syntex.** Microsoft Syntex is a family of solutions for AI-powered content management in the flow of work. These solutions are designed to make it easier to enhance, manage, and extend content to Microsoft 365 apps and custom development. Microsoft Syntex also works with Microsoft Viva, Microsoft Purview, SharePoint, Power Platform, and the new Microsoft Copilot solutions to further streamline and automate work.

- **Modern Work Security** Ensuring that everyone and everything is secure is more important than ever. The wide range of Microsoft security, compliance, and identity and access management (IdAM) offerings underpin all of the collaboration-related opportunities discussed earlier. This study includes highlights from a Forrester partner opportunity that Microsoft commissioned in 2022.[3]

This year's study focuses on what has changed for Modern Work partners in FY23 and where things are likely heading in FY24. This includes: 1) what

customers are looking for from Microsoft partners, 2) how partners are making money, and 3) the best practices and investments that create success. For this year's study, Forrester interviewed fifteen partners with practices in one or more of the aforementioned solution areas. These interviews build on more than 170 previous partner interviews, 150 customer interviews, and multiple partner surveys Forrester conducted during the past nine years. The study also pulls in partner data from other TEIs focused on the partner opportunities for Windows 365 and Microsoft Security.[4,5]

Forrester created partner opportunity models for both enterprise and SMB customers based on what leading partners achieved in FY23 and what they expect to achieve in FY24. These models quantify the opportunities for deployment, advisory and adoption services, solutions development, and managed services. Accounting for attach rates, Forrester found that the expected revenue opportunity for a new enterprise customer is up by 16% year-over-year (YoY) and that the SMB revenue opportunity is up by 19% YoY.[6]

While partners have built highly profitable businesses around various engagement models, they generally realize a larger total addressable market (TAM) and higher margins as they move from deployment to providing managed services and building custom IP. This can be conceptualized as a good-better-best scenario.

TEI FRAMEWORK AND METHODOLOGY

From the information provided in the interviews with partners of various sizes from around the globe, Forrester constructed a Total Economic Impact™ framework for those partners considering building and growing one more Microsoft Modern Work practice areas.

The objective of this framework is to identify the revenue streams, investments, flexibility, and risk factors that affect the investment decision. Forrester took a multistep approach to evaluate the holistic opportunity for partners building and growing a Modern Work practice.

DISCLOSURES

Readers should be aware of the following:

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

Forrester makes no assumptions as to the potential ROI that other organizations will receive. Forrester strongly advises that readers use their own estimates within the framework provided in the study to determine the appropriateness of an investment in a Microsoft practice.

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

Microsoft provided the partner names for the interviews but did not participate in the interviews.

DUE DILIGENCE
Interviewed Microsoft stakeholders and Forrester analysts to gather data relative to the Microsoft Modern Work partner opportunity

INTERVIEWS
Interviewed 15 representatives of partner organizations with one or more existing Teamwork and Collaboration, Microsoft Teams Rooms, Microsoft Teams Phone, Cloud Endpoints, Employee Experience, and Microsoft Syntex practices to obtain data with respect to revenue opportunities, investments, and best practices.

FINANCIAL MODEL FRAMEWORK
Constructed a financial model representative of the interviews using the TEI methodology. The model normalizes all results as a per-user-per-month opportunity over a 36-month customer journey.

CASE STUDY
Created a case study that explains the benefits and investments a partner can expect when building one or more Modern Work practices. The case study also explores the best practices partners have identified, which have made them successful.

Market Trends

THE CUSTOMER PERSPECTIVE

Forrester Analytics' Global Business Technographics™ surveys thousands of technology purchasers and decision-makers from around the world. Survey insights highlight macro trends that drive customers' decisions concerning Modern Work solution adoption and partner selection.

A 2023 survey of 4,817 business and technology professionals found that 68% of organizations will not return, mostly or completely, to the office/workplace as before the COVID-19 pandemic. Of these, 16% of respondents noted they will remain in a fully flexible work plan with no in-office requirements.[7] The same survey underscored this impact on technology: 34% of business and technology professionals said their second highest technology priority (34%) is to increase investment in technologies to empower hybrid work.[8]

Hybrid work translates to opportunities for Microsoft partners to manage digital workplace services. A survey of 2,182 services decision-makers whose organizations work or plan to work with a third-party services provider for digital workplace services listed desktop infrastructure (VDI) or desktop-as-a-service (DaaS) management (14%) and cloud-productivity suite deployment (12%) as the top two services respondents hope to outsource to third-party services.[9]

With regards to telecommunications, a survey of 4,049 telecom decision-makers found that 76% of respondents are interested in using or increasing as-a-service managed network and telecom services.[10] The top three reasons are to simplify operational management, provide more flexibility for business and IT, and focus more on core business competencies.

These datapoints demonstrate not only that the solutions that make up Microsoft Modern Work are in demand, but that companies are looking for third-party service providers for support in navigating these journeys.

THE PARTNER PERSPECTIVE

Interviewees shared their views on the high-level trends that are driving opportunities and what they believe will be even more important during the next year. These include the following:

- **Microsoft Teams is increasingly becoming prominent as a place where work gets done.** More and more organizations are using Microsoft Teams as a platform on which to complete work, orchestrate workflows, and consume other solutions, and this is creating many new opportunities for partners across all service areas. In the collaboration areas, partners are creating customized experiences as part of Teamwork and Collaboration and also integrating Microsoft Teams Rooms and Microsoft Teams Phone for seamless experiences. Various Viva apps such as Connections and Topics can live within Teams as part of an integrated experience. The Microsoft Syntex content can be presented in a Teams environment. Finally, all of this is made available and secured for use from anywhere via Cloud Endpoints and Modern Work Security. There are also partner opportunities that can cross all of these services to create and sell their own IP, which Forrester detailed in a partner opportunity study about creating Microsoft Teams applications.[11]

> **"Next year, our ISV revenues will grow 75%, and our gross margins should increase to 65%."**

- **The move to hero SKUs is fueling growth.** Partners are reporting many more migrations to the hero SKUs Microsoft M365 E5 (E5) for enterprise customers and Microsoft 365 Business Premium (Business Premium) for companies with up to 300 users. Partners consider this very important because they increasingly view the core Teamwork and Collaboration space as becoming commoditized or already completed. The increased number of features across so many solution areas significantly increases partners TAM. And partners are especially excited about where Microsoft Syntex is going in conjunction with Copilot. With regards to employee experience, larger partners are less enthused than smaller ones about Viva deployment opportunities because they can be priced relatively low.

"We have moved 80% of our customers to E5, which increases the offerings we have to sell."

- **Operator Connect is fueling accelerated Microsoft Teams Phone growth for both enterprise and SMB customers.** This year's study includes many telcos and other specialized voice partners. They universally spoke highly of the direction in which Microsoft is taking Operator Connect, and they said that it enables their organizations to grow faster and be more efficient. This is especially important when servicing the SMB market.

"Operator Connect is great. We've invested a lot of money to make the buyer journey easier and faster."

- **Macroeconomic factors continue to affect what customers want and increase partner opportunities.** The post-pandemic rush to remote work and the evolving hybrid-work models continue to drive opportunities, especially in Cloud Endpoints and Microsoft Teams Phone. The difficulty in hiring and retaining IT professionals is growing, especially in the SMB space. This is increasing customer demand for partner services, especially managed services. Additionally, economic uncertainties have CFOs asking why they are double-paying for solutions that their organizations also have as part of Microsoft 365. This is driving greater adoption of features that previously may have gone unused.

"We have seen 230% growth across all managed services, and attach rates have grown to 50%."

- **Security is figuring more prominently into everything partners do.** More Modern Work partners are delivering aspects of security, compliance, and identity included in E5 and Business Premium because of increased customer demand. Another 2023 Forrester survey found that improving security and privacy was the top IT objective for 4,816 respondents.[12] Partners view security as a way to add more value and become stickier with customers, and they also fear they will lose customers to other partners if they do not improve their security-related competencies.

"We try to make it where customers can easily bundle Windows 365 with Endpoint Management and Managed Security altogether in one monthly price."

- **Partners continue to see frontline worker opportunity growth at enterprise customers.** Partners continue to say that there is customer interest in extending Modern Work capabilities to frontline workers. The expected value of this work per frontline is estimated to be 16% of what customers are willing to spend on knowledge workers, but companies often have many more frontline workers than knowledge workers, which can make the frontline worker opportunity significant. The frontline worker opportunity grew 12% in FY23 compared to FY22. That said, most partners are still figuring out how to tap this opportunity in ways that are price-compelling to customers and profitable for partners.

"We are seeing a pickup in frontline-worker opportunities. Organizations saw the importance of frontline workers during the pandemic, and they now need to optimize them because of labor shortages. We see this as a huge opportunity and have made it a priority for next year."

The Partner Opportunity For Enterprise Customers

ENTERPRISE OPPORTUNITY OVERVIEW

The trends discussed earlier resulted in increased revenues across all solution areas in FY23, both in terms of total revenue potential (e.g., what partners are offering) and the expected revenue associated with the likely bundles of services and products customers are buying (attach rates applied). The expected revenue opportunity grew by 16% for an enterprise customer on a three-year journey.
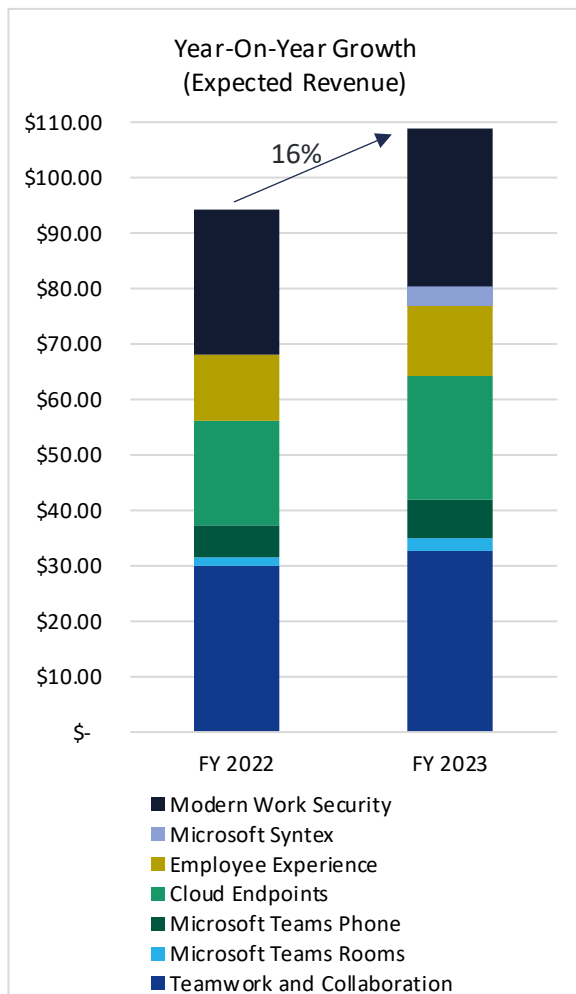
Year-On-Year Growth (Expected Revenue)

$110.00	
$100.00	16%
$90.00	
$80.00	
$70.00	
$60.00	
$50.00	
$40.00	
$30.00	
$20.00	
$10.00	
$-	
	FY 2022 FY 2023

- ■ Modern Work Security
- ■ Microsoft Syntex
- ■ Employee Experience
- ■ Cloud Endpoints
- ■ Microsoft Teams Phone
- ■ Microsoft Teams Rooms
- ■ Teamwork and Collaboration

Forrester broke down the expected revenue opportunity across four partner services: deployment, advisory, solutions development, and managed services.

- **Deployment opportunities grew by 28%.** The increase in deployment opportunities was largely driven by customers expanding beyond core collaboration capabilities in Microsoft 365. The solution areas with the largest growth in new deployments were Microsoft Teams Phone and Cloud Endpoints. Although Microsoft Syntex is a newer area, partners reported high win rates going from workshops into POCs or full deployments.

- **Advisory services grew by 22%.** Advisory services continue to be important, although customers do not like to pay for them. Broader Modern Work implementations require more up-front planning and have larger change management requirements. Some partners insist customers buy some advisory services to improve the chances of a successful deployment and to achieve the associated business case.

- **Solutions development grew by 11%.** Solutions development includes the resalable IP that partners are creating (either as standalone solutions for sale or used to make deployments and managed services more efficient), custom solutions development, and advanced integration work. The Microsoft Teams-as-a-hub trend is leading to more custom development and integration work, and partners are selling a lot of their own IP for users.

- **Managed services grew by 12%.** Managed services is where partners expressed the most interest because of the desire for predictable and recurring revenues and the potentially high margins when

delivered at scale. Managed services is the single largest partner service area, representing half of the total expected revenue. The fastest growth was in Microsoft Teams Phone and Cloud Endpoints.

"Services usually start with a workshop or assessment. From there, we usually do our consultant services, and then we try to drive it into managed services."

Enterprise Customer Revenue Opportunity By Solution Area

Solution area	Total revenue per user per month	Blended attach rate	Expected revenue per user per month	Expected YOY growth
Teamwork and Collaboration	$89.65	37%	$32.80	10%
Microsoft Teams Rooms	$10.30	20%	$2.10	11%
Microsoft Teams Phone	$16.75	42%	$7.00	24%
Cloud Endpoints	$56.10	40%	$22.30	19%
Employee Experience	$74.15	17%	$12.70	6%
Microsoft Syntex	$7.90	43%	$3.40	N/A
Modern Work Security	$71.10	40%	$28.75	10%
Total	**$325.95**	**33%**	**$109.05**	**16%**

Enterprise Customer Revenue Opportunity By Partner Service

Partner service	Total revenue per user per month	Blended attach rate	Expected revenue per user per month	Expected YOY growth
Deployment	$43.25	45%	$19.45	28%
Advisory	$40.55	28%	$11.30	22%
Solutions development	$84.30	26%	$21.85	11%
Managed services	$157.85	36%	$56.45	12%
Total	**$325.95**	**33%**	**$109.05**	**16%**

MICROSOFT TEAMS PHONE

Microsoft Teams Phone adoption is being driven by several factors, including the migration of more customers to premium E5 SKUs to take advantage of calling capabilities (which can consolidate costs) and Microsoft's increased focus and investment in this solution area opening new opportunities for partners. A CSP partner with a well-established voice practice said, "Teams Phone is a great way to get customers to upgrade to E5."

Partners now view Microsoft's calling offerings as comparable to other vendors' solutions in terms of features and pricing. Because of this parity, customers are now telling partners that when their Private Branch Exchange (PBX) contracts are up, they want to move their voice services to Teams so they're integrated with the rest of their organization's Microsoft collaboration solutions.

Operator Connect has been a game changer for telcos. It has made it easier and cheaper for them to onboard and service new and existing customers.

- **Deployments vary depending on if it is direct routing, a Microsoft calling plan, or Operator Connect.** Regardless of the approach, partners are making it as easy and inexpensive as possible for customers to move to Microsoft Teams Phone. The up-front charge for a standard deployment/migration is typically in the $2 to $3 per-user range. That said, one partner does not charge any up-front fees for a standard deployment because it is pushing for the managed services contract. Partners are very enthusiastic about Microsoft Teams Phone workshops, and one has a 60% win rate progressing to the next phase. Partners also said that Microsoft's End Customer Investment Funding (ECIF) program is very useful in getting existing E5 customers to turn on the calling features.

- **Advisory services can be worth more than the deployment work.** Advisory services consist of up-front strategy and planning work as well as training and adoption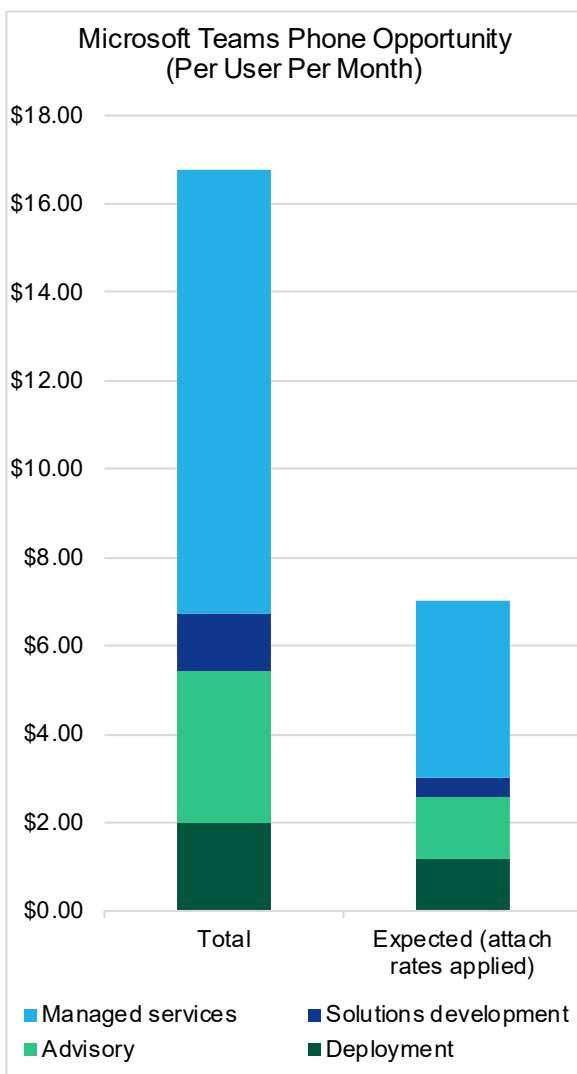 services. For large customers with many locations and complex on-premises installations, the planning work can be quite large. This is especially true when contact centers are involved. An interviewee at a communications service provider (CSP) said: "One of the biggest opportunities is around adoption. The configuration piece is easy, but users are used to a desk phone and know how to use it."

- **Solutions development in terms of custom integrations is a way partners differentiate.** Some customers come from other full-cloud voice providers as a competitive takeaway, but most customers still come from more traditional on-premises or hybrid voice infrastructures. Telcos and other specialized voice partners mainly complete these complex migrations. And partners are also creating and selling a range of their own solutions to fill gaps in Microsoft's offerings (e.g., contact center and attendant consoles and tools to improve quality of service and manageability). Partners with their own calling plans said they are very profitable. One partner said: "One of our main differentiators is how we have architected our calling platform for repeatability and efficiency. We also have the skills in-house to translate the old way of doing voice to the Microsoft ecosystem."

> **"Microsoft is dominating the other calling platforms. It is, by far, the biggest opportunity because of the dominance of Office 365 and Teams. Our revenues have grown upwards of 30% in the last year."**

- **Partners are mainly interested in the managed services potential of Microsoft Teams Phone.** Managed services expected revenues grew by 19% because more customers wanted to get away from in-house management and partners expanded their managed services offerings. The most commonly added service is the monitoring and operation of Microsoft Teams Phone and user support to broader Teams-managed services contracts. In this case, the managed service may be split between a more general productivity partner and a telco provider. There are also more specialized managed services such as hybrid voice infrastructure management and contact center quality of service (QOS) management. An interviewee from a global systems integrator (GSI) reported: "Teams Phone is growing faster than the

standard Teams areas. Our overall deal size has grown, and managed services attach rates have improved." This growth is reflected in the overall Microsoft Teams Phone attach rate of 42%.

Microsoft Teams Phone Opportunity (Per User Per Month)

Legend:
- Managed services
- Solutions development
- Advisory
- Deployment

Telcos And Microsoft Teams Phone

This year's interviewees included representatives of four global telcos that have been successful selling Microsoft Teams Phone. Their feedback was very consistent in terms of Microsoft's position in the industry, the value of Operator Connect, and the ways in which their organizations are increasing revenues and profitability. Interviewees from the four telcos said the following:

- **Telcos are more profitable.** "Operator Connect is more profitable than direct routing. The APIs make everything easier, and we are making a lot of money."

- **Microsoft Teams Phone is being sold to existing and new customers.** "We are mostly selling Teams Phone to existing customers, but it also help us win customers from our competitors."

- **Customer demand for fully outsourced voice management is increasing.** "We are selling managed services, not voice. Most enterprises weren't asking for this a year ago, but now they want to free up their IT organizations. Currently, we are onboarding 30,000 users per month."

- **Unified comms and collaboration are driving growth.** "There is a transition in the European market. As a telco, we jumped on the Microsoft 365 bandwagon to expand Modern Work to mobile devices. We want to be seen as the digitization partner."

CLOUD ENDPOINTS

Cloud Endpoints achieved 19% YoY growth because it is at the intersection of support for hybrid working and security. Windows 365 is becoming more popular with customers, but partners are still seeing more opportunities for Azure Virtual Desktop. That said, there is a use case for each solution, which partners are helping their customers figure out. Windows 11 continues to roll out on supported devices, but extended refresh cycles have delayed broader adoption. Endpoint management opportunities using Intune and Autopilot continue to see large growth, and endpoint detection and response (EDR) is feeding into the extended detection and response (XDR) opportunities discussed in the partner opportunity study about Microsoft Security.

> **"We have launched managed services around AVD and Windows 365 as the next iteration of our managed desktop offering. We have had an 80% win rate with it."**

- **Deployments have many different starting points depending on a customer's most pressing needs.** An increasingly common starting point is a Windows 365 or AVD deployment. Often, this is a migration from other vendors' virtualization solutions. Azure virtualized server deployments sometimes take place in conjunction with AVD. Intune and Autopilot deployments continue to be core to partners' Cloud Endpoints deployments, which can run into the hundreds of thousands of dollars and very often transition into managed services.

- **Advisory services can deliver a 40% uplift on deployment revenues.** There is a lot of up-front strategy and planning required because of the impact on user experiences and workflows. There is also a need to train both IT staff and end users.

- **There has been a significant increase in partner-created IP.** Some IP is being sold in an independent software vendor (ISV) model, and some of it is bundled into deployments and managed services to increase efficiencies and profitability. One partner created a broader ISV-type portfolio that includes add-on authentication services, certificate services, file aggregation, and unified search. Cloud Endpoints can also require custom integration work in complex hybrid environments.

- **Eighty percent of the expected revenue opportunity is in managed services.** For many partners, the goal of their other Cloud Endpoints offerings is to win the managed services contract. Managed services takes many forms, including: the device component of a comprehensive L1 to L3 user support contract; EDR managed services; AVD or Windows 365 management; and fully outsourced management of user and infrastructure endpoints, including monitoring and patching. Some of these offerings feed into more security-centric managed SOC and managed XDR opportunities.
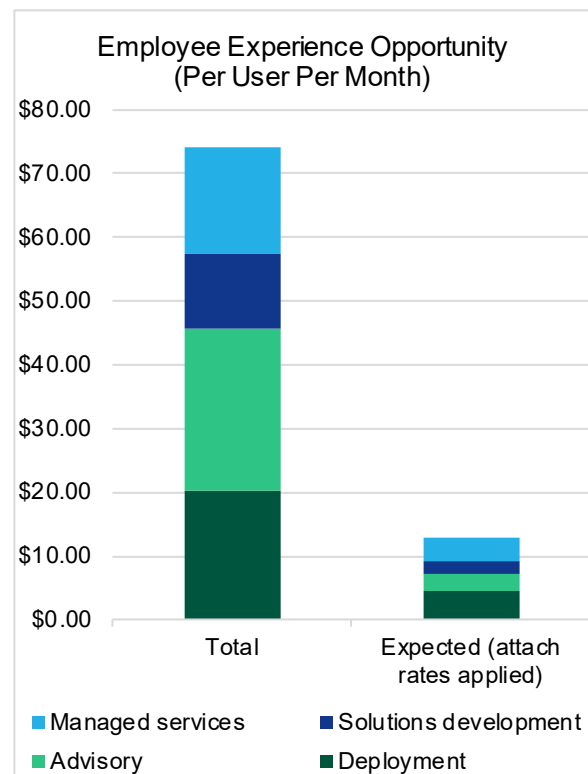
Cloud Endpoints Opportunity (Per User Per Month)

Legend:
- Deployment
- Advisory
- Solution development
- Managed services
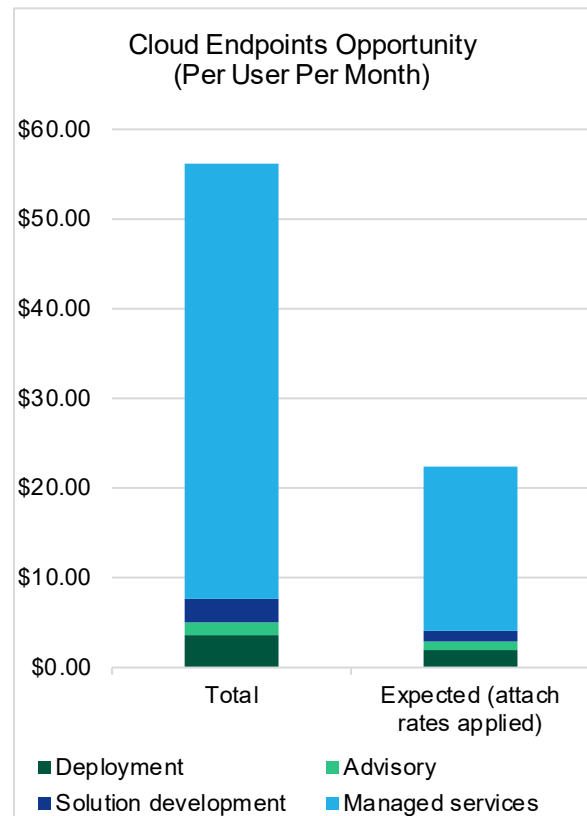
EMPLOYEE EXPERIENCE

Employee Experience is the partner opportunity associated with the Microsoft Viva suite and individual apps. Some Viva features across many of the apps are available in seeded form with Microsoft 365, but partners said their biggest opportunities depend on customers having premium features. There were mixed views of the Employee Experience opportunity: Larger partners view it as still too small, but smaller partners said their Employee Experience practices contribute significantly to their growth. This is reflected in the financial model, with the total revenue model remaining flat because partners did not bring a lot of new Viva-related offerings to market. However, the existing portfolio is attaching at higher rates for partners that invest in this area, which delivers a 6% increase in expected revenues.

> **"HR buyers are excited by Viva. Our job is to help them use the data to understand their employees."**

- **Deployment sizes increased as customers adopted more Viva apps.** Partners said the most common app deployments are Connections, Topics, and Insights and that workshops are successful in moving forward to at least a pilot, with a 75% progression rate. Win rates for full deployments ranged from 10% to 25%, depending on the app. One partner said, "Ninety percent of all intranet projects involve Connections."

- **There are a wide range of advisory services at the strategic and implementation levels.** Because so much of Employee Experience is about transforming how people work, up-front strategizing and planning are very important. There can also be a large training component. Partners reported many tactical advisory opportunities such as learning catalog development and content creation.

- **Advanced integration work can add 35% onto deployment costs.** Because the Viva apps can touch so many different systems, partners said there can be large integration projects. Some partners are also building their own ISV solutions that either augment Viva capabilities or leverage them in different ways. An ISV partner that was adding a learning module based on Viva Learning to their existing solution portfolio said it would deliver a 10% to 15% uplift in their solution pricing. Some partners also are doing custom application work using Power Platform to extend Viva applications.

- **Partners continue to define and sell managed services, but attach rates were flat this year.** Most partners are optimistic that expected revenues from managed services will grow over the next two years, but they believe the market is still in an early adoption stage. The potential opportunity is very large because there is so much data and content associated with the Viva apps and making full use of it is complex. Some partners have created a retainer model for project-based work with all of this content while the market for true managed services develops.

Employee Experience Opportunity
(Per User Per Month)

Legend: Managed services, Solutions development, Advisory, Deployment

MICROSOFT SYNTEX

This is the first year Microsoft Syntex is included in this analysis, although partners did discuss it last year in relation to other solution areas. The small dollar amounts in this model are in part because deal size is more closely correlated to the number of document types and workflows rather than the number of employees. Additionally, partners were very happy with the new pricing models and expect their Microsoft Syntex practices to grow quickly. Partners are especially excited about how Microsoft Copilot will accelerate Microsoft Syntex opportunities.

> **"There will be a lot of large opportunities around automation through content management and customized workflows. Syntex can be multimillion-dollar opportunities."**

- **Successful deployments begin with tightly scoped POCs/pilots.** Because the application of AI to content and documents is new, partners said that POCs/pilots are very important in demonstrating the value to customers. The best practice is to include three document types or workflows that are sufficiently different in nature to determine the level of effort required and benefits for a full rollout. Fifty percent of pilots are transitioning to full deployments, and the pricing is driven by the number of document and workflow use cases. A typical price is $75,000 per use case. An interviewee from a GSI said, "Syntex should increase our existing deployment project size by 50%."

- **Advisory services represent a 25% uplift on deployment services and solutions development.** Partners said that advisory services are a part of every project. Up-front planning and strategy work is important because of the potentially large changes to

workflows and how people work. There are also ongoing process redesign initiatives as well as education around AI and training for the IT organization and business users.

- **Building custom workflows and complex integrations is driving large opportunities.** Especially in this area, Microsoft Syntex pricing is not based on the number of employees. Instead, it is driven by the scope of processes. One partner shared an example of a $2 million project to create custom workflows for a customer with 70,000 employees, but they said that smaller companies could easily spend the same amount of money. Some partners are also creating and selling their own solutions that leverage Microsoft Syntex. One partner said, "My organization added Syntex to the core proposition in our own software offering, and already 20% of our customers are using those capabilities."

- **Partners are now beginning to define managed services.** Because Microsoft Syntex is still mostly in the deployment phase at customers' organizations, partners have only just begun to define and market their managed services. One partner described managed service opportunities as "the constant improvement of existing workflows and hunting for new workflow automations." The total three-year value of these managed services is currently estimated to be one-third of deployment costs, but this will almost certainly increase.

> **"I think the opportunity for Syntex is going to be huge, and it will develop over the next 18 to 24 months."**

Syntex Opportunity
(Per User Per Month)

TEAMWORK AND COLLABORATION

Forrester did not explore the Teamwork and Collaboration solution area in detail this year because of its relative maturity and ubiquity among partners compared to the previously discussed solution areas. Partners did share their past year experiences, which Forrester used to update the partner opportunity financial model. Based on this, Forrester estimated that the Teamwork and Collaboration opportunity grew across all partner services by 10% in FY23.

The partner opportunity study about creating Microsoft Teams applications found that ISV-type partners are also experiencing strong growth.[13] This is largely because Teams is becoming more of a platform and Microsoft is providing good support for partners in this area. One ISV partner said: "Teams is the trusted platform that businesses run on. When you integrate with the tools that people already use and trust and you are recommended by that vendor, that comes with infinite benefits."

**"The average deal size is up 15%. Most of the growth is in managed services, where attach rates can be as high as 40%."**

Teamwork And Collaboration Opportunity (Per User Per Month)

Legend: Managed services, Solutions development, Advisory, Deployment

MICROSOFT TEAMS ROOMS

Similar to with the Teamwork and Collaboration solution area, Forrester did not go into detail about the Microsoft Teams Rooms opportunity in this year's study. Partners shared their observations about what is new in this area in conjunction with discussions about the other solution areas. Some partners said that uncertainty about what the future of hybrid work looks like has affected deals in terms of the number of opportunities and the types of rooms being built. Some customers are holding off on building out meeting rooms, and customers that are building meeting rooms focus on smaller huddle rooms rather than large conference rooms.

Despite these macroeconomic factors, partners reported growth, which is being driven largely by the need for hybrid-work collaboration rooms as more companies require employees to spend some time in the office. Voice partners said that as many as 40% of Microsoft Teams Phone deployments include some meeting rooms. Partners of all types reported creating more managed services offerings, and they said they are being well-received. Forrester estimates that the FY23 Microsoft Teams Rooms growth was 10% across all partner services, which is parallel to the growth for Teamwork and collaboration.
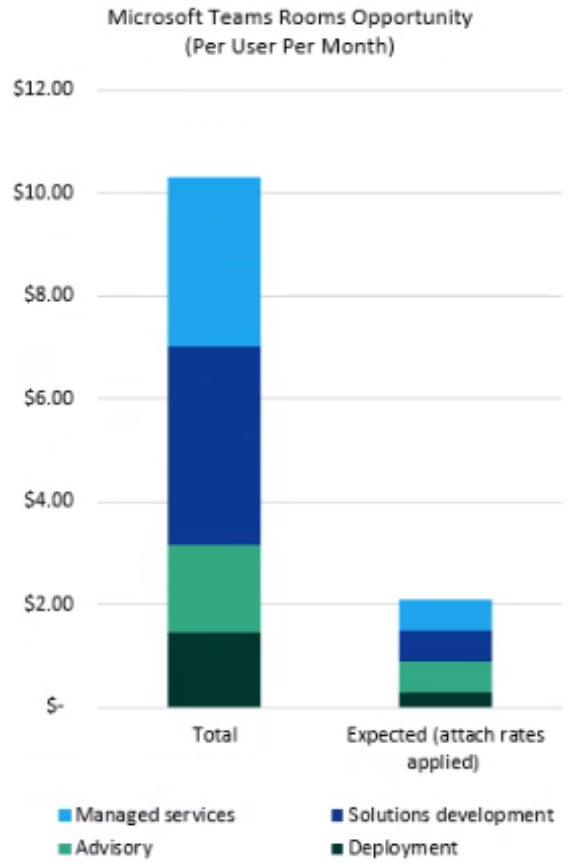
"We are seeing a lot more meeting room implementations than in the past. These are small rooms where people can collaborate when they go into the office. The margins on our managed services are 70%."

Microsoft Teams Rooms Opportunity (Per User Per Month)

Legend:
- Managed services
- Solutions development
- Advisory
- Deployment

X-axis: Total, Expected (attach rates applied)
Y-axis: $-, $2.00, $4.00, $6.00, $8.00, $10.00, $12.00

MODERN WORK SECURITY

Forrester conducted a separate partner opportunity study that looked at the partner opportunities for Microsoft 365 Security, Multi-Cloud Security, Compliance, Identity, and XDR.[14] Modern Work partners are increasingly able to build practices and deliver services in some of these solution areas because of the added capabilities in E5. For this analysis, Forrester included Microsoft 365 Security, Identity, and the parts of Compliance related to data security.

"Syntex is creating whole new conversations around compliance. It should be a game changer for us because every organization is interested in applying AI in this area."

Modern Work Security Opportunity
(Per User Per Month)

- Managed services
- Advisory
- Solutions development
- Deployment
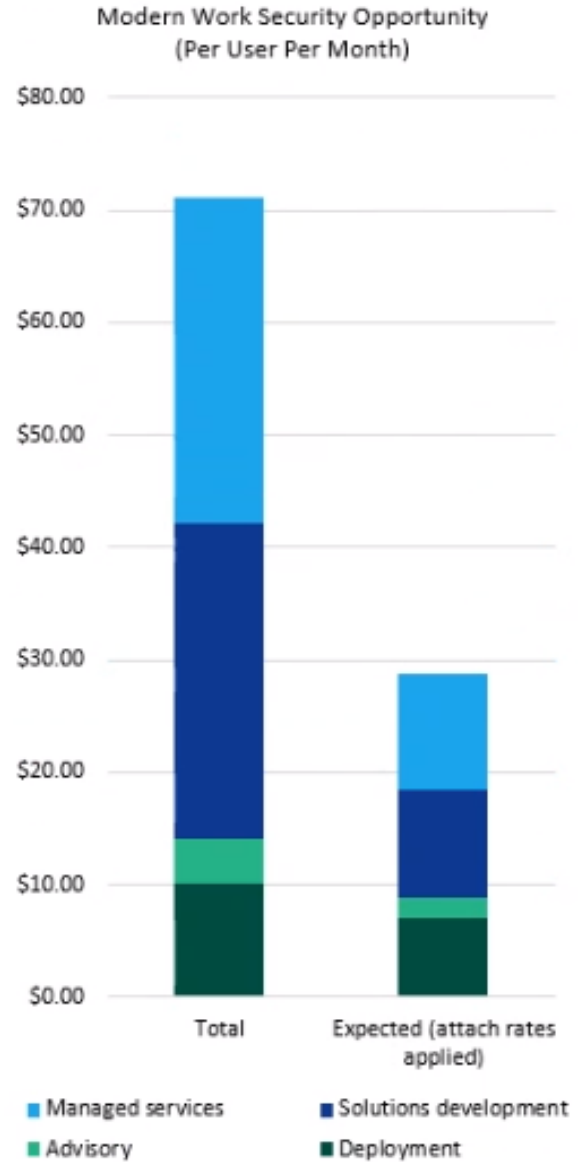
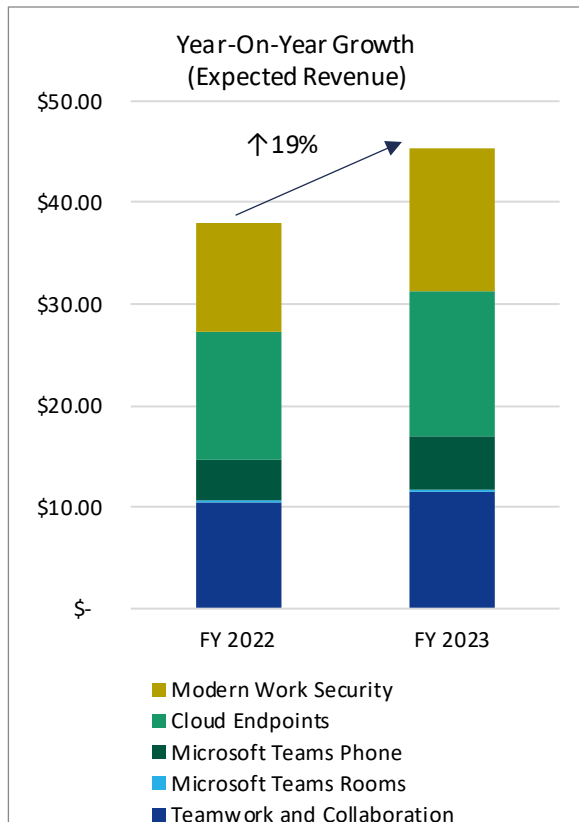# The Partner Opportunity For SMB Customers

SMB OPPORTUNITY OVERVIEW

Most of the trends discussed in the enterprise opportunity section apply to SMBs as well, so this section is focused on what is different from the enterprise opportunity. The SMB opportunity excludes the Employee Experience and Microsoft Syntex solution areas because they currently remain overwhelmingly an enterprise opportunity. However, partners are beginning to speak about SMB opportunities in this area.

The Modern Work SMB partner opportunity has grown significantly, in large part because SMBs are struggling to hire, train, and retain IT staff. This requires them to use more external resources. Additionally, the increased adoption of Business Premium is driving more partner opportunities, and the expected revenue opportunity grew by 19% for an SMB customer on a three-year journey.

Forrester broke down the expected revenue opportunity across four partner services: deployment, adoption, solutions development, and managed services.

- **Deployment opportunities grew by 22%.** The increase in deployment opportunities was largely driven by customers expanding beyond core collaboration capabilities in Microsoft 365. The solution areas with the largest growth in new deployments were Microsoft Teams Phone and Modern Work Security.

- **Adoption services grew by 16%.** Adoption-related work is more basic than the bigger advisory work for enterprise customers. For SMB customers, partners are much more prescriptive (e.g., establishing the 120 settings they must follow) and are providing more standardized training content and governance models. This year's growth was much larger than the previous year's because the newer solution areas such as Microsoft Teams Phone and Cloud Endpoints have had a huge impact on how people work.

- **Solutions development grew by 15%.** Partners are creating a lot of new IP that complements Microsoft's solutions. Partners are either selling these to customers or using them to streamline their own deployments and managed services capabilities. Streamlining and automation are especially important in the SMB market in order to profitably serve these smaller customers. There is not a big need for custom integration work for most customers, although there is a small opportunity for custom application development.

Year-On-Year Growth (Expected Revenue)

Legend:
- Modern Work Security
- Cloud Endpoints
- Microsoft Teams Phone
- Microsoft Teams Rooms
- Teamwork and Collaboration

- **Managed services grew by 20%.** Managed services continues to be where partners expressed the most interest because of the desire for predictable and recurring revenues and the potentially high margins when delivered at scale. Managed services is the single largest partner service area, representing 42% of the total expected revenue. As discussed earlier, customers' interest in managed services is because they are unable to recruit and retain the necessary in-house IT staff. The fastest growth was in Microsoft Teams Phone and Cloud Endpoints.

> **"We are starting to shift our focus to SMB and mid-market. We think there is a lot of opportunity there."**

SMB Customer Revenue Opportunity By Solution Area				
Solution area	**Total revenue per user per month**	**Blended attach rate**	**Expected revenue per user per month**	**Expected YOY growth**
Teamwork and Collaboration	$44.40	26%	$11.55	10%
Microsoft Teams Rooms	$0.90	28%	$0.25	10%
Microsoft Teams Phone	$10.70	48%	$5.10	28%
Cloud Endpoints	$36.75	39%	$14.45	16%
Modern Work Security	$41.65	33%	$13.95	29%
Total	**$134.40**	**34%**	**$45.30**	**19%**

SMB Customer Revenue Opportunity By Partner Service				
Partner service	**Total revenue per user per month**	**Blended attach rate**	**Expected revenue per user per month**	**Expected YOY growth**
Deployment	$16.60	74%	$12.25	22%
Adoption	$10.80	51%	$5.50	16%
Solutions development	$32.85	25%	$8.30	15%
Managed services	$74.15	26%	$19.25	20%
Total	**$134.40**	**34%**	**$45.30**	**19%**

MICROSOFT TEAMS PHONE

FY23 was a very good year for Microsoft Teams Phone in the SMB segment. SMBs have simpler needs that Microsoft solutions can almost entirely meet without custom integration or complex migrations. Additionally, Operator Connect has made it possible for telcos to cost-effectively serve this market. Partners reported many competitive takeaways from other cloud-calling providers as customers look to consolidate their collaboration estates to achieve better business outcomes and reduce costs.

> **"Since we started selling Operator Connect, we have been getting a lot of smaller customers from all over the world. They find us through internet searches and the Teams Admin Center."**

- **Deployments are up 48%.** The number of deployments is up significantly in the SMB market for the reasons previously discussed. Most deployments are fully managed by the partner, but some customers prefer to do their own configurations, which cuts the revenue opportunity by 50%.

- **Adoption services primarily consist of training.** SMB projects do not require the up-front strategy and planning that enterprise customers do because of simpler requirements and because SMBs almost always opt for a full-cloud deployment. There is an up-front and ongoing training opportunity for both IT and end users because telephone usage is ubiquitous and has remained largely unchanged for so long.

- **Solutions development is mostly partners selling their add-on solutions.** Partners said there is little custom integration work required and that they have created a wide range of solutions based on their own

IP that they sell to customers. This includes improved manageability and features such as attendant consoles. Partners selling their own calling plans said those are very profitable, and there is also a growing opportunity to add mobile data onto existing plans for the use of Microsoft Teams on mobile/cellular phones. Partners are also selling headsets and telephones to be a one-stop shop, but this is not viewed as an important revenue opportunity.

- **Managed services opportunities have grown by 25%.** SMBs are especially keen to not have any ongoing telco management responsibilities. A big part of this growth has been the competitive takeaways from other cloud-voice providers, which already included fully outsourced management. These managed services include end-user support while Operator Connect enables automations to deliver this cost effectively. One partner said: "Operator Connect allows me to automate and to create self-service tools. We built a bot to guide customers on how to go into their tenant to add numbers and calling plans all by themselves."

Microsoft Teams Phone Opportunity (Per User Per Month)

Legend: ■ Managed services ■ Solutions development ■ Adoption ■ Deployment

CLOUD ENDPOINTS

Similar to enterprises, SMBs are eager to bring Microsoft's latest solutions to users' devices to empower worker flexibility and productivity. Customers also want to improve the management and security of those devices. This is creating many new opportunities for partners, which is why the expected revenue opportunity is up 16%. Windows 365 continues to gain popularity in the SMB segment.

> **"We have this Windows 365 practice because there's been this hole in the market, especially for small and medium business customers, where they do need this [computing] solution, and it doesn't make sense to go to Azure Virtual Desktop."**

- **Intune and Autopilot are still the largest parts of deployments.** Almost every customer is deploying Intune and Autopilot to manage endpoints. These projects typically take one week. Windows 365 is currently attaching at a rate of 10%, and partners expect this to increase in FY24.

- **Adoption services add 20% to the deployment costs.** Partners at SMBs said there is little need for up-front assessments and planning because of their simpler IT estates and requirements. Instead, adoption services are mainly around IT and end-user training.

- **Partners are creating many of their own tools that they sell to customers and use internally.** Device management tools being sold to customers typically cost around $2 per user per month. Partners are also creating a lot of IP they use internally to streamline deployments and managed services. There is almost

no need for custom integration and development work.

- **Managed services is two-thirds of the Cloud Endpoints opportunity.** Across all solutions areas and partner services, Cloud Endpoints managed services is the single largest expected revenue opportunity for partners. They are fully managing devices in terms of operations, security, and user support. Very often, this is tied into a broader, full-IT outsourcing contract. EDR services tie into broader managed SOC security opportunities. There are also more targeted opportunities around Windows 365 management. One partner said, "If you make Windows 365 part of your managed endpoint experience, it allows you to generate recurring revenue by having a managed service around it."
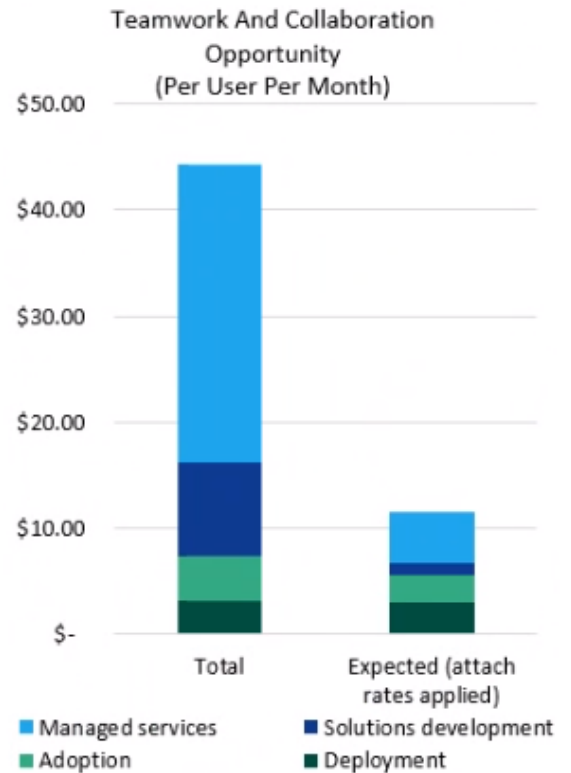

Cloud Endpoints Opportunity (Per User Per Month)
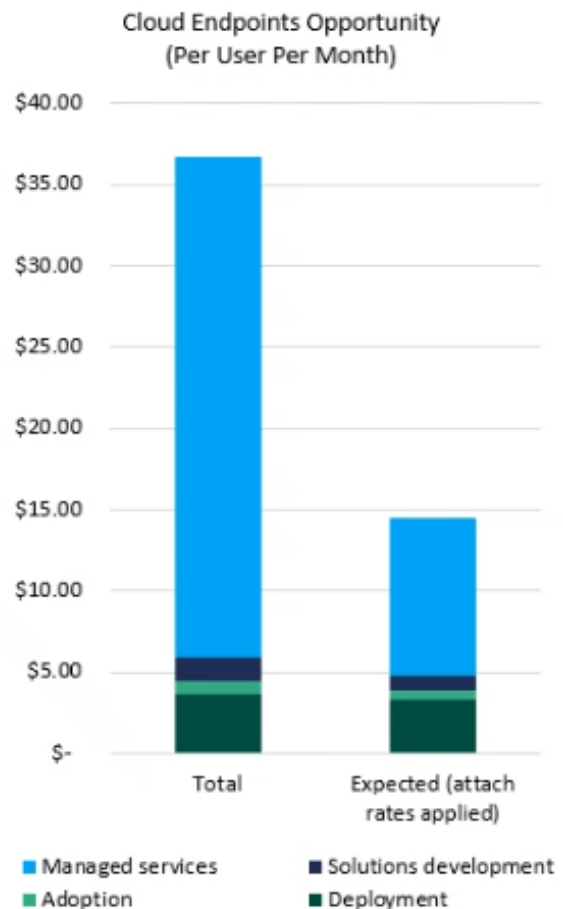
TEAMWORK AND COLLABORATION

As with enterprise customers, Forrester did not explore the Teamwork and Collaboration solution area for SMBs in detail this year because of its relative maturity and ubiquity among partners compared to the previously discussed solution areas.

Partners did share their past year experiences, which were used to update the partner opportunity financial model. Based on this, Forrester estimated that the Teamwork and Collaboration opportunity grew across all partner services by 10% in FY23. The Teams application ISV opportunity contained in another TEI study and described in the enterprise section also applies here.

> **"We're particularly excited to continue investing in Teams and perhaps doubling down on the investment because of the focus that we see Microsoft placing on the third-party app ecosystem."**

Teamwork And Collaboration Opportunity (Per User Per Month)

Legend:
- Managed services
- Solutions development
- Adoption
- Deployment

MICROSOFT TEAMS ROOMS

Similar to with the Teamwork and Collaboration solution area, this year's study does not go into detail about the Microsoft Teams Rooms opportunity. Generally speaking, the SMB opportunity is quite small (around 10%) compared to that for enterprise customers because there is a lot more DIY and many fewer meeting rooms. All that said, the total opportunity has grown approximately 10% in the past year.

> **"One of our IP offerings I'm most proud of is based on Microsoft Teams Rooms. We combined the hardware, peripherals, and all the installation services. We then have a managed services wrapper."**

Microsoft Teams Rooms Opportunity (Per User Per Month)

Legend:
- Managed services
- Adoption
- Solutions development
- Deployment
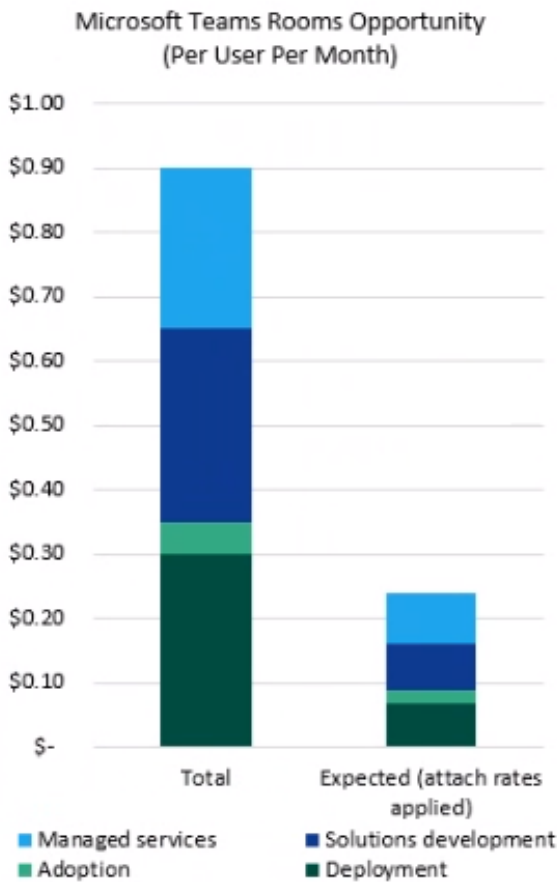
MODERN WORK SECURITY

As with the opportunity for enterprise customers, the Modern Work Security opportunity for SMBs comes from the separate partner opportunity study about Microsoft Security.[15] The solution areas relevant to SMB customers are Microsoft 365 Security, Identity, and the parts of Compliance related to data security. These opportunities have grown faster for SMBs than enterprises because it's more difficult for SMBs to hire, train, and retain IT security professionals. Additionally, SMB customers realize they are increasingly coming under complex cyberattacks they thought only larger organizations faced. Partners interested in learning more about these opportunities should consult this previous study.

"The Zero Trust story works very well in the SMB and SMC space — much more so than with enterprise."

Modern Work Security Opportunity
(Per User Per Month)

■ Deployment ■ Adoption
■ Solutions development ■ Managed services
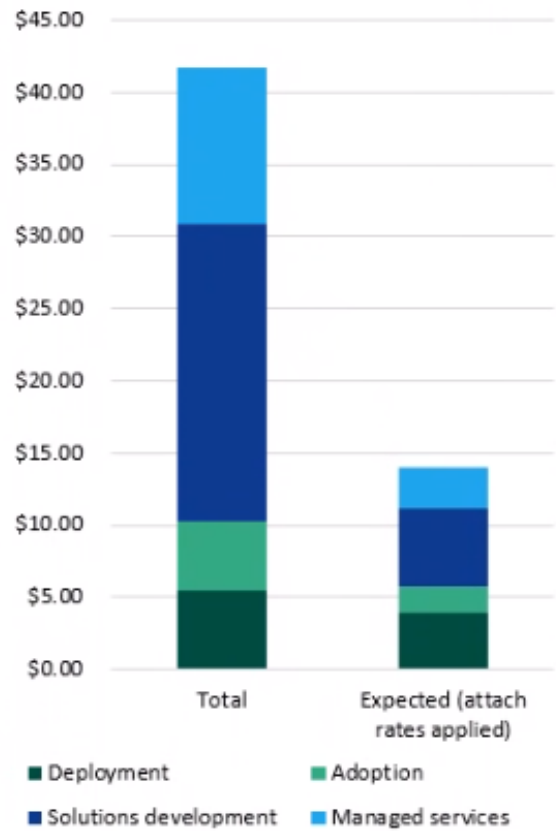
Partner Investments And Best Practices

Each year, Forrester asks representatives of Microsoft partner organizations what new best practices and investments are fueling their success in terms of go-to-market and delivery. This year, much of the conversation was around expanding into new solution areas and driving consumption. Specific examples of where partners are investing and developing best practices include:

- **Upskilling existing employees**. For consultancies, the competition for high-quality human capital is higher than ever. Therefore, partners said that more effort is going into training and upskilling employees rather than hiring new people. This upskilling is across all roles, and there is a heavy emphasis on presales and delivery. Related to this is that partners desire to acquire the new Microsoft Cloud Partner Program specializations. Partners all spoke very favorably of the new program and said they are working hard to get enough staff the certifications necessary for each specialization. One interviewee said that a core KPI is for every employee to get at least one meaningful certification per year.

- **Investing in standardization and automation.** Partners stressed the importance of creating more standardized methodologies, processes, and tools. The shortage of consulting professionals is contributing to the need for greater automation. And this is especially important for partners that service SMBs or that are moving into this segment. Otherwise, it is not possible to be profitable. Microsoft Teams Phone partners were especially emphatic about the need for increased automation.

- **Expanding into more solution areas.** More of the generalist Teamwork and Collaboration partners are expanding into other solution areas as this solution area continues to mature. For many, this means creating Modern Work Security practices in the areas that are easiest to expand into. Partners felt it is important to be able to cover more solution areas so

they do not lose customers to other partners with broader portfolios.

- **Leveraging Microsoft funding, programs, and marketing messages.** Partners are increasingly taking advantage of Microsoft programs to create upgrades to the Microsoft 365 E5 and Business Premium SKUs and to drive consumption. Opinions were mixed about some of the funded workshops, but partners generally said they do result in new, large customer journeys. Each partner that has accessed ECIF funding was very happy with that program. Partners also said that it was important to follow Microsoft's marketing strategy and messaging around "doing more with less."

- **Investing in AI.** There is uncertainty about where AI is going in terms of Microsoft solutions and customer demand. However, partners expect a lot of growth in this area across most Modern Work solution areas as well as across broader security and Azure opportunities. This means partners are starting to invest in building internal skills and planning offerings and IP solutions. Customer feedback about the Content AI Partner Program was very favorable in terms of the information being shared by Microsoft. One partner said, "I expect AI and Copilot to really grow the Employee Experience market."

- **Investing in the Microsoft relationship.** Consistent with past years' studies, partners all said that what they get out of their Microsoft partnership depends on what they put into it. Partners have been expanding their Microsoft relationship teams and investing in co-sell education activities such as lunch-and-learn sessions. They are also putting more of their offerings into the Microsoft marketplaces to support co-sell initiatives.

Conclusion

FY23 partner growth was driven by several external trends, including the evolving response to hybrid working, IT skills shortages, and uncertain economic times. Increased adoption of the premium Microsoft 365 E5 and Microsoft 365 Business Premium SKUs also created more partner opportunities. This resulted in larger deal sizes and a significant increase in managed services opportunities, which partners are especially interested in achieving. Growth was especially large in the areas of Microsoft Teams Phone and Cloud Endpoints, and the new Microsoft Syntex solution area is also seeing early successes.

Partners expect their success to accelerate in FY24 because of the market trends discussed earlier, and because of the presumed impact AI will have on Modern Work across most solution areas. Achieving this success requires partners to make the necessary investments in people, methodologies, and solutions to be successful, and this increasingly means acquiring the new Microsoft Cloud Partner Program specializations.

Summary Of The Microsoft Modern Work Partner Opportunity (Enterprise)

Solution area	Total revenue per user per month	Expected revenue per user per month	Expected YOY growth
Teamwork and Collaboration	$89.65	$32.80	10%
Microsoft Teams Rooms	$10.30	$2.10	10%
Microsoft Teams Phone	$16.75	$7.00	24%
Cloud Endpoints	$56.10	$22.30	19%
Employee Experience	$74.15	$12.70	6%
Microsoft Syntex	$7.90	$3.40	N/A
Modern Work Security	$71.10	$28.75	10%
Total	**$325.95**	**$109.05**	**16%**

Summary Of The Microsoft Modern Work Partner Opportunity (SMB)

Solution area	Total revenue per user per month	Expected revenue per user per month	Expected YOY growth
Teamwork and Collaboration	$44.40	$11.55	10%
Microsoft Teams Rooms	$0.90	$0.25	10%
Microsoft Teams Phone	$10.70	$5.10	28%
Cloud Endpoints	$36.75	$14.45	16%
Modern Work Security	$41.65	$13.95	29%
Total	**$134.40**	**$45.30**	**19%**

Appendix A: Endnotes

[1] Source: Microsoft FY23 Third Quarter Earnings Conference Call, April 25, 2023.

[2] Total Economic Impact 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.

[3] Source: "The Partner Opportunity For Microsoft Security," a commissioned study conducted by Forrester Consulting on behalf of Microsoft, July 2023.

[4] Source: "The Partner Opportunity for Windows 365," a commissioned study conducted by Forrester Consulting on behalf of Microsoft, April 2023.

[5] Source: "The Partner Opportunity For Microsoft Security," a commissioned study conducted by Forrester Consulting on behalf of Microsoft, July 2023.

[6.] An attach rate is the likelihood of a given service/solution being including in what a customer purchases. Attach rates are applied to solution areas (i.e., Microsoft Teams Phone, Cloud Endpoints, Employee Experience, Microsoft Syntex, Teamwork and Collaboration, and Modern Work Security) and to partner services (i.e., deployment, advisory, business solutions, and managed services). In other words, Forrester applied the rate to the typical mix of solutions and services that customers buy. This rate will vary based on how the partner has entered into Microsoft Modern Work (e.g., a collaboration partner will attach a lot more to Teamwork and Collaboration than other kinds of organizations and a telco will attach a lot more to Microsoft Teams Phone. Use the following calculation: Total opportunity x attach rate = expected opportunity.

[7] Source: Forrester's Priorities Survey, 2023.

[8] Ibid.

[9] Source: Forrester's Business And Technology Services Survey, 2022.

[10] Source: Forrester's Networks And Telecom Survey, 2022.

[11] Source: "The Partner Opportunity For Creating Microsoft Teams Applications," a commissioned study conducted by Forrester Consulting on behalf of Microsoft, April 2023.

[12] Source: Forrester's Priorities Survey, 2023.

[13] Source: "The Partner Opportunity For Creating Microsoft Teams Applications," a commissioned study conducted by Forrester Consulting on behalf of Microsoft, April 2023.

[14] Source: "The Partner Opportunity For Microsoft Security," a commissioned study conducted by Forrester Consulting on behalf of Microsoft, July 2023.

[15] Source: "The Partner Opportunity For Microsoft Modern Security," a commissioned study conducted by Forrester Consulting on behalf of Microsoft, July 2023.

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