

A Forrester Total Economic Impact™
Study Commissioned By Microsoft
July 2019

The Partner Opportunity Assessment For Azure Service Providers

A Total Economic Impact™
Partner Opportunity Analysis

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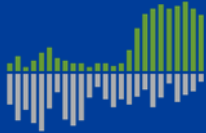
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Key Business Outcomes For Azure Partners



Year 3 practicewide gross margin (%):

49%



Year 3 practicewide operating margin (%):

37%



Average cumulative revenue per customer over three years of Azure services and consumption:

\$1.3 million

Executive Summary

The partner business landscape for cloud migration, modernization, and next generation managed services has continued to evolve as businesses become increasingly mature in their cloud journeys. Helping customers get out of their data centers, while still expected, is no longer by itself enough. Customers now recognize that cloud use cases extend beyond simply cost savings and that partners play a critical role in helping them unlock these benefits. In responding to this demand, many partners have started building and offering their services around Microsoft Azure due to its robust breadth of capabilities for both infrastructure-as-a-service (IaaS) and platform-as-a-service (PaaS) deployments. This study examines the experiences of partners that have built and scaled their Azure practices while offering a range of both professional and managed services to drive their customers' cloud transformation journeys from start to finish.

Microsoft commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study to identify the business opportunity and return on investment (ROI) Azure partners may realize by developing or expanding their practice areas to include Azure services across the customer engagement life cycle. The purpose of this study is to provide partners with a framework to evaluate the potential business opportunity for partners building an Azure practice by delivering end-to-end migration, modernization, and next generation managed services, including strategy and assessment, migration execution, refactoring and rearchitecting, cloud-native application development, managed services, value-added IP licensing, and billing and business support while reselling Azure consumption.

To better understand the revenue streams, investments, and risks associated with an Azure services practice, Forrester interviewed 14 partners with multiple years of experience delivering migration, modernization, and next generation managed services through Azure. To illustrate the financial impact and subsequent partner business opportunity for Azure service providers, Forrester aggregated the characteristics of these 14 partners to create a single composite organization.

Azure Partner Revenue And Margin Opportunities

The composite partner organization captured the following Azure services revenue streams, which are representative of those experienced by the companies interviewed:

- › **Azure professional services.** Interviewed partners offered professional services to cover every stage of their customers' cloud journeys, from strategy workshops and technical assessments to help customers understand which workloads should be migrated to Azure and when, to executing the migrations, to modernizing or building new applications to take advantage of the cloud-native benefits of Azure. Partners typically delivered multiple professional services engagements per customer as they continued to embed themselves in their customers' transformation efforts. Over our three-year analysis, Azure professional services totaled 75% of the composite partner organization's total gross profits.
- › **Azure managed services.** Once customers had successfully migrated to their desired deployments on Azure, they needed to ensure that their workloads were optimized for factors such as cost, performance, and

Financial Summary Showing Three-Year Risk And PV-Adjusted Results



ROI
141%



Total Gross Profit (PV)
\$44.3 million



NPV
\$25.9 million



Payback
13 months

security. Partners developed tiered managed services offerings to tackle each of these needs, and some even offered DevOps managed services or application managed services to further abstract the need for their customers to actively manage their cloud environments. Partners looked to extend managed services agreements to their existing professional services customers to deepen their relationships and gradually shift from one-time to recurring cash flows. Over our three-year analysis, Azure managed services made up 13% of the composite partner organization's total gross profits.

- › **Value-added IP licenses.** Partners differentiated themselves from their competitors by building out horizontally or vertically aligned practice areas and offering customers specific use case-driven solutions built on or leveraging the Azure platform. These solutions included anything from custom industry-driven monitoring solutions to real-time consumption analytics and optimization tools. Value-added IP offerings addressed very niche markets, and partners found that these solutions often had few, if any, natural competitors. Consequently, gross margins for value-added IP licenses were typically the highest among Azure partner services. Over our three-year analysis, value-added IP licenses amounted to 6% of the composite partner organization's total gross profits.
- › **Azure consumption resell and business support.** Successful partners looked at distributing and reselling Azure consumption as more than simply providing basic business support, such as handling billing and invoicing. Instead, these partners used their reseller platforms to become the central point for their customers' Azure subscriptions and ultimately glean valuable data around which to build and offer their professional and managed services. Nonetheless, resellers did receive a cut of their customers' Azure consumption, which, over our three-year analysis, made up 6% of the composite partner organization's total gross profits.

By Year 3, the composite partner organization had achieved the following gross profits and margins across its portfolio of revenue streams:

Gross Profits And Margins In Year 3 Operations *(As Applied To Forrester's Composite Partner Organization)*

REVENUE CATEGORY	YEAR 3 GROSS PROFIT	YEAR 3 GROSS MARGIN %
Azure professional services	\$22,581,820	44%
Azure managed services	\$4,637,471	54%
Value-added IP licensing	\$2,289,600	80%
Azure consumption resale and business support	\$2,526,585	7%
Total gross margins	\$32,035,476	49%

These revenue streams can be further broken down into distinct Azure services, as depicted by the three-year pro forma revenue and margin table below:

Azure Services Pro Forma Revenue And Margins *(As Applied To Forrester's Composite Partner Organization)*

REF.	REVENUE STREAM	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
PL1	Azure professional services: strategy, assessment, migration, modernization, and new application development	Professional services: strategy and assessments		\$3,360,000	\$4,800,000	\$6,000,000
PL2		Professional services: migration execution		\$5,670,000	\$10,935,000	\$15,592,500
PL3		Professional services: refactoring and rearchitecting		\$4,158,000	\$11,345,400	\$19,512,900
PL4		Professional services: cloud-native application development		\$4,760,000	\$7,752,000	\$10,336,000
PL5		Total Azure practice professional services revenue		\$17,948,000	\$34,832,400	\$51,441,400
PL6		Azure practice professional services gross margins		\$6,712,860	\$14,196,116	\$22,581,820
PL7		Azure professional services gross margin %	PL6/PL5	37%	41%	44%
PL8	Azure managed services: monitoring, optimization, security, and custom services	Bronze-tier managed services		\$589,680	\$1,783,782	\$3,571,618
PL9		Silver-tier managed services		\$453,600	\$1,372,140	\$2,747,399
PL10		Gold-tier managed services		\$362,880	\$1,097,712	\$2,197,919
PL11		Total Azure practice managed services revenue		\$1,406,160	\$4,253,634	\$8,516,935
PL12		Azure practice managed services gross margins		\$632,772	\$2,105,549	\$4,637,471
PL13		Azure practice managed services gross margin %	PL12/PL11	45%	50%	54%
PL14	Value-added intellectual property: licensing and subscription	Value-added IP licensing revenue		\$504,000	\$1,476,000	\$2,862,000
PL15		Value-added IP licensing gross margins		\$403,200	\$1,180,800	\$2,289,600
PL16		Value-added practice managed service gross margin %	PL15/PL14	80%	80%	80%
PL17	Azure cloud consumption: resale and business support	Annual Azure consumption resale and business support		\$5,745,852	\$17,565,579	\$35,091,453
PL18		Azure consumption resale and business support margins		\$413,701	\$1,264,722	\$2,526,585
PL19		Azure consumption resale and business support margin %		7%	7%	7%
PL20		Total revenues	PL5+PL11+PL14+PL18	\$20,271,861	\$41,826,756	\$65,346,920
PL21	Practice totals	Total gross margins	PL6+PL12+PL15+PL18	\$8,162,533	\$18,747,187	\$32,035,476
PL22		Total gross margin %	PL21/PL20	40%	45%	49%

Azure Partner Investments

Beyond direct service delivery costs, including base compensation and corporate overhead expenses for delivery resources such as software developers, solution architects, cloud engineers, consultants, and project managers, which are included in the gross margin calculations in the aforementioned section, interviewed partners incurred a number of other startup and ongoing operational costs necessary to build and scale their Azure practices. The Azure services pro forma expense table below quantifies these investments, as applied to the composite partner organization.

- › **Nondelivery operational staffing expenses.** Partners invested in a number of operational roles that were critical to managing and scaling an Azure practice but not directly involved in service delivery. These roles included sales, customer service, technical presales, and practice sales and delivery leads. Over our three-year analysis, nondelivery operational staffing expenses made up 29% of the composite partner organization's total Azure practice investments.
- › **Research and development (R&D) expenses.** Initial R&D activity entailed dedicating a number of solution architects to developing custom tooling, scripts, templates, and processes, augmented by various third-party tools, in advance of Year 1 operations. Partners also continued to invest in R&D after the launch of the practice to incrementally improve existing IP or develop new solutions and offerings leveraging Azure for future years. Over our three-year analysis, research and development expenses totaled 24% of the composite partner organization's total Azure practice investments.
- › **Training expenses.** Partners invested in formal Microsoft training courses to obtain certifications and ultimately achieve practice-level competencies. At the same time, successful partners also placed a strong emphasis on their internal training programs, which focused more on mastering the application of internal tools and processes and ultimately improving service delivery. Over our three-year analysis, training expenses amounted to 18% of the composite partner organization's total Azure practice investments.
- › **Marketing expenses.** Partners built out descriptive content and collateral for their various services and devoted resources to creating and managing their digital marketing platforms and communication channels. These marketing efforts supported sales activities and allowed customers to easily access the partners' catalogs of services. Over our three-year analysis, marketing expenses accrued to 12% of the composite partner organization's total Azure practice investments.
- › **General and administrative (G&A) expenses.** G&A expenses involved the cost of office space and utilities as well as the wages of various back-office functions such as billing and invoicing, finance and accounting, forecasting, and legal. Over our three-year analysis, general and administrative expenses made up 17% of the composite partner organization's total Azure practice investments.

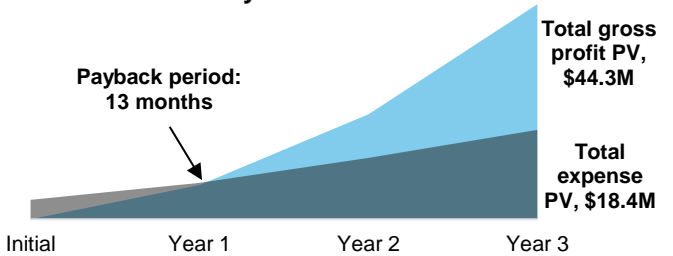
Azure Services Pro Forma Expenses (As Applied To Forrester's Composite Partner Organization)

REF.	EXPENSE CATEGORY	INITIAL	YEAR 1	YEAR 2	YEAR 3
CST1	Nondelivery operational staffing expenses	\$0	\$1,704,150	\$2,130,219	\$2,572,649
CST2	Research and development expenses	\$2,147,918	\$925,167	\$937,070	\$949,212
CST3	Training expenses	\$1,732,500	\$142,887	\$950,706	\$884,213
CST4	Practice marketing expenses	\$0	\$425,709	\$878,362	\$1,372,285
CST5	General and administrative expenses	\$0	\$638,564	\$1,317,543	\$2,058,428
CST6	Total costs	\$3,880,418	\$3,836,477	\$6,213,900	\$7,836,787

Azure Partner Business Outcomes

Forrester’s interviews with 14 existing partners and subsequent financial analysis found that the composite partner organization based on these interviewed partners experienced total risk-adjusted present value gross profits of \$44.3 million over three years versus total risk-adjusted present value investments of \$18.4 million, combining to a net present value (NPV) of \$25.9 million and an ROI of 141%.

Financial Summary

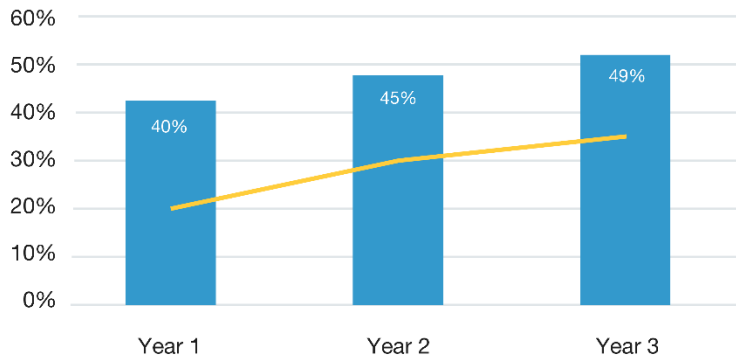


During this period, Azure practice profitability continued to increase, with gross margins growing from 40% in Year 1 to 49% in Year 3.

Operating margins told much of the same story, increasing from 21% in Year 1 to 37% in Year 3 as the composite partner continued to better leverage each dollar of expense over time.

Gross Margin And Operating Profit Of Azure Practice

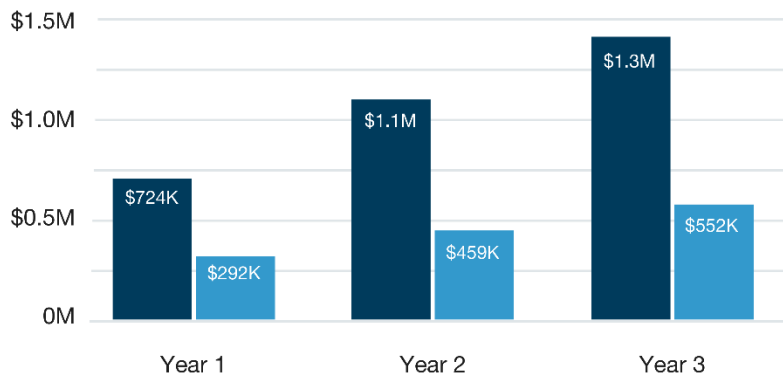
● Gross margin ● Operating profit



Practicewide profits are, of course, driven by individual customers that procure initial partner services and continue to engage the partner in subsequent years to drive their Azure transformations. To calculate the potential value of an average customer over a three-year Azure journey, Forrester took practicewide revenues and margins for the composite partner organization and broke them down on a mathematical per-customer basis using average service deal sizes, attach rates (percentage of new services sold as a result of a previous service), and pull-through rates (percentage of existing services that result in a downstream purchase of the same service). Over three years of Azure services, the average cumulative revenues per customer grew from \$724K in Year 1 to \$1.3 million in Year 3 as customers purchased follow-on professional and manages services. Likewise, cumulative gross margins per customer started at \$292K in Year 1 and grew to \$552K by Year 3.

Accretive Customer Value Over Three Years Of Azure Services

● Revenue per customer ● Gross margin per customer



TEI Framework And Methodology

From the information provided in the interviews, Forrester has constructed a Total Economic Impact™ (TEI) framework for those organizations building out a Microsoft Azure Partner practice.

The objective of the framework is to identify the investments, revenues, flexibility, and risk factors that affect the investment decision. Forrester took a multistep approach to evaluate the partner business impact of a Microsoft Azure practice:



DUE DILIGENCE

Interviewed Microsoft stakeholders and Forrester analysts to gather data relative to Azure practices.



PARTNER INTERVIEWS

Interviewed 14 partner organizations selling Azure services and solutions to obtain data with respect to revenues, investments, and risks.



COMPOSITE ORGANIZATION

Designed a composite partner organization based on characteristics of the interviewed partners.



FINANCIAL MODEL FRAMEWORK

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



CASE STUDY

Employed four fundamental elements of TEI in modeling the business impact of building an Azure practice: revenues, investments, flexibility, and risks. Given the increasing sophistication that enterprises have regarding ROI analyses related to IT investments, Forrester's TEI methodology serves to provide a complete picture of the total economic impact of purchase decisions. Please see Appendix A for additional information on the TEI methodology.

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 partner organizations will receive. Forrester strongly advises that readers use their own estimates within the framework provided in the report to determine the appropriateness of an investment in a Microsoft Azure 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.

Journey Of The Azure Customer

ASSESSING THE JOURNEY OF CUSTOMERS THAT HAVE MIGRATED TO OR MODERNIZED WORKLOADS FOR MICROSOFT AZURE

Interviewed Respondents

For this study, Forrester conducted a quantitative survey of 282 IT and operations decision makers.

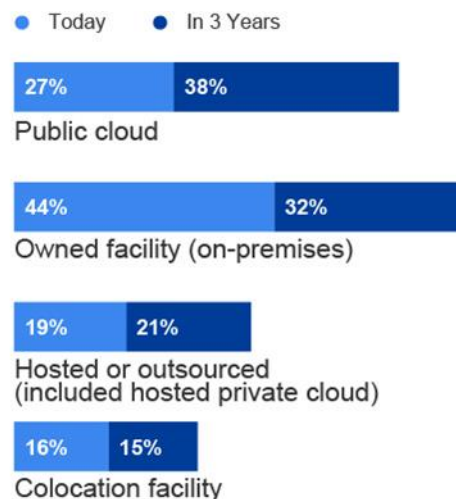
Firmographics. Forrester conducted the survey with respondents from companies in the United States, Canada, Australia, Germany, France, Japan, and China. Companies within the United States were required to have 1,000 or more employees, while companies outside of the US were required to have 500 or more employees. Of those surveyed, the main industries that emerged were technology (software vendor), manufacturing and materials, financial services and/or insurance, retail, and healthcare. Companies with annual revenue reaching from \$1M to \$5B and above were surveyed, with the largest number of respondents falling between \$500M to \$999M (18%), \$1B to \$5B (34%), and \$5B and above (13%).

Demographics. All respondents were manager-level or higher within the IT department at their organizations, spread across technology management, technology infrastructure and operations, software/application development and delivery, enterprise architect (EA), and DevOps. All possess knowledge and procurement of cloud computing architecture, strategy, implementation, decision authority/influence around cloud migration efforts in their companies, and public/private/hybrid cloud architectures. Of those surveyed, the following roles were present: enterprise architects, cloud software engineers, solution architects, infrastructure engineers, and cloud operations managers. Finally, all respondents were required to have migrated at least one of the following workloads to Azure: apps on Windows Server, SQL Server, apps on Linux (RHEL, SUSE), or open source database (e.g., PostgreSQL, MySQL, MariaDB, NoSQL, CosmosDB).

Infrastructure and applications. We asked respondents about their infrastructure today and in three years: Owned facility (on-premises) has the largest presence today at 43.5%, with public cloud coming in second at 26.6%; hosted or outsourced cloud followed with 18.5%, and colocation facility with 15.7%. In three years, public cloud is due for the largest increase to 37.6%, while owned facility will drop to 31.9%. In terms of operating system, Windows was the most widely used, followed by Linux. Respondents indicated that of their total applications, 64.4% are running on Windows, followed by Linux, and finally macOS Server.

Migration, modernization, and managed services. Of workloads being migrated to and modernized for Microsoft Azure, organizations most widely house workloads to manage business operations, e.g., sales, marketing, supply chain, field service, transportation and logistics, employee and partner collaboration tools, bidding and estimation, scheduling, fraud and audit, internet-of-things (IoT) applications managing sensor data (71%). This is closely followed by workloads to manage core business records and data, e.g., financial accounting, inventory, payroll and human resources, manufacturing resource planning, production management, customer accounts, records management (61%); workloads to engage with customers and partners, e.g., portals, mobile apps, websites, in-store systems, customer service and support, eCommerce (54%); and workloads to measure business

“What percentage of your infrastructure is in the following categories? What do you expect it to look like in three years?”



Base: Variable IT and operations decision makers with influence over cloud computing and architecture

“Across these environments, which of the following types of workloads did or does your company plan to migrate to or modernize for Microsoft Azure?”

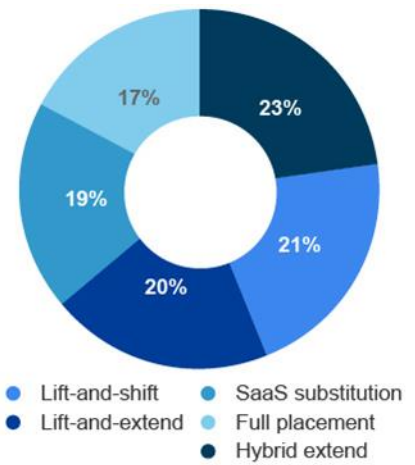


Base: 282 IT and operations decision makers with influence over cloud computing and architecture

success, e.g., business analysis and reporting, big data and advanced analytics, business performance analysis

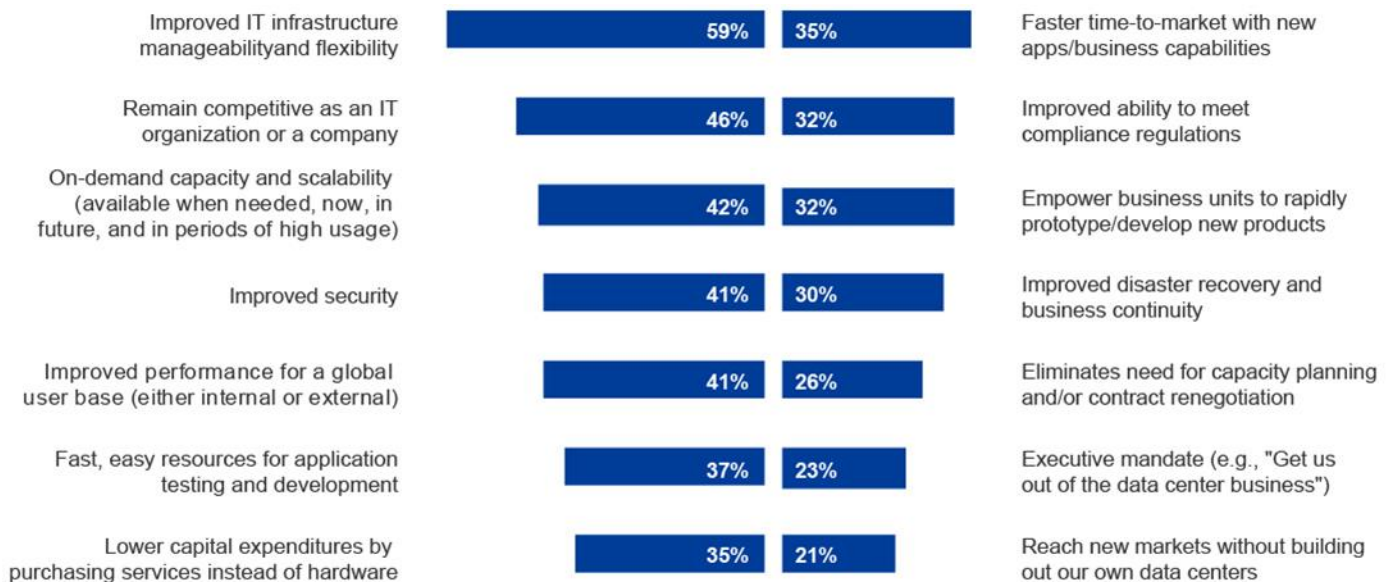
tools (51%). This is supported by respondents' selection of highly prioritized applications/categories in the Azure migration process, with the top six apps being collaboration software, enterprise content management, IoT/machine-to-machine (M2M) technology, ERP software, website or mobile applications, and content and experience. Enterprise organizations appear to prioritize migrating apps that assist in business operations and resource management. The preferred methods of migrating these apps vary, with lift-and-shift leading, followed by software-as-a-service (SaaS) substitution, lift-and-extend, full replacement, and hybrid extend coming in last.

“Thinking of all of the applications that you plan to migrate to or modernize for Microsoft Azure, approximately what percentage of applications has or is your organization planning to do so using the following approaches?”



Base: 281 IT and operations decision makers with influence over cloud computing and architecture

“What were/are the top five reasons driving you toward migrating to and modernizing your workloads for Azure?”



Base: 281 IT and operations decision makers with influence over cloud computing and architecture

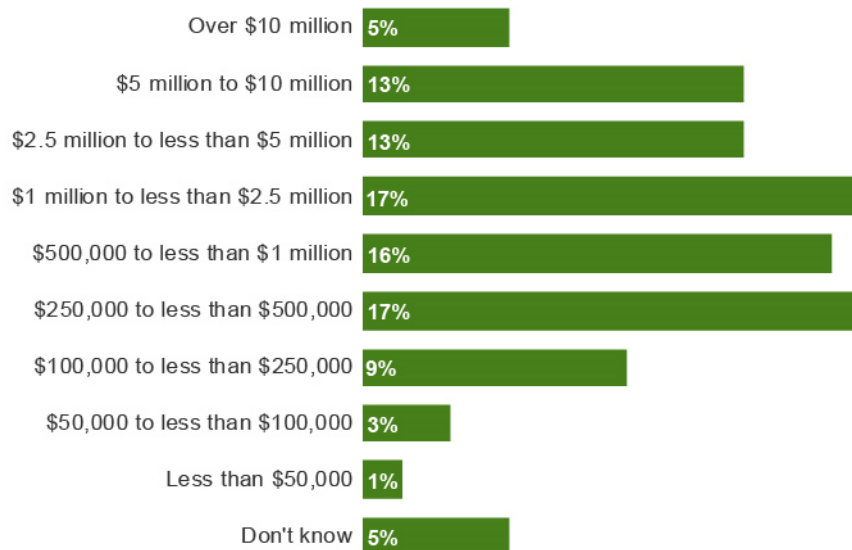
Partner selection and support. Enterprise organizations face many challenges when it comes to migration and modernization. Those challenges ranked highest include cost optimization, security and privacy issues, performance issues, compliance issues, and application architecture of existing apps. Due to this ever-growing list of challenges barring adoption of the cloud, 67% of organizations choose to leverage a partner when moving enterprise workloads to Azure.

Companies have their pick of migration partners, but their selection hinges on a partner's ability to mitigate those challenges. Among the most common important attributes listed when selecting a public cloud vendor are cost (91%), cloud management and self-service access (90%), compliant cloud computing availability (87%), customer experience (86%), and service selection (85%). When selecting a public cloud vendor, companies hope for the benefits of cloud to extend from positive customer experience, to ease of use, and above all, to cost

reduction. When selecting a cloud migration/modernization service partner, organizations indicated that their top three priorities include: application migration and modernization strategy (52%), application migration and modernization execution (48%), and cloud-native application development (44%). When looking for a migration partner, companies need an entity they can rely on at every stage of their cloud journeys.

As we evolve into a world that is increasingly cloud-centric, enterprise organizations are moving away from the comfort and familiarity of on-premises systems and enjoying the benefits of cloud environments. While the move to the cloud is tempting, it can be difficult to know where to begin. The migration process can be arduous and, at worst, a costly security risk. Organizations can navigate these challenges by leveraging partners throughout their cloud journeys. The budget numbers don't lie; organizations are investing heavily in the cloud, with 76% spending up to \$10M in the last 12 months.

“Using your best estimate, what was your organization's public cloud consumption spend for the past 12 calendar months (excluding spend on software-as-a-service [SaaS] applications)?”



Base: 282 IT and operations decision makers with influence over cloud computing and architecture
 Note: Percentages do not total 100 because of rounding.

“Please select how important the following attributes are when selecting a public cloud vendor.”



Base: 282 IT and operations decision makers with influence over cloud computing and architecture

Analysis

For this study, Forrester conducted 14 interviews with existing Azure partners with experience building and scaling an Azure practice by delivering end-to-end migration, modernization, and next generation managed services. Forrester interviewed a diverse set of Azure partners, including Azure expert managed service providers (MSPs), application development shops, and system integrators (SIs).

Key Partner Challenges

Interviewed partners grappled with a number of common challenges and complexities in building and scaling their Azure practices:

- › **Customers are increasingly mature in their cloud journeys.** As businesses and enterprises continue to gain a richer understanding of the potential of cloud computing, conversations around the cloud are moving beyond the topic of cost savings to now unlocking unique cloud use cases, such as those leveraging AI, machine learning (ML), or IoT. At the same time, these conversations no longer just involve IT. Because of the evolution of PaaS as well as the role of partners in helping abstract the complexity of the cloud, technical know-how is no longer a prerequisite to becoming involved in, or even procuring, cloud services. Consequently, partners are finding that cloud budgets and decision makers are increasingly found in the lines of businesses rather than IT. The implication for partners is a fundamental shift in the type of practice-level investments made, the breadth of services offered, and the way they pitch and position their services to customers, all with a greater emphasis on delivering business outcomes.
- › **IaaS is now just the first of many steps.** Just a few years ago, partners could create and effectively scale their practices by solely offering lift-and-shift services to the cloud across a variety of workloads. Today, customers see the lift-and-shift as just the initial piece of a broader transformation journey. Customers expect partners to be able to drive this transformation for them from front to end, allowing them to move the right workloads to the cloud at the right time, while optimizing each workload for the most effective deployment model and architectural framework. For partners, it is therefore increasingly important to be well-rounded across both IaaS and PaaS deployments, particularly if the partner expects to retain the customer beyond the initial migration stage.

“The drivers of cloud transformation are now coming from the business side, not from IT. There’s an exciting opportunity to leverage services on Azure beyond just the infrastructure side, and we’re just scratching the surface of it.”

*Chief technology officer,
North America Azure partner*



“Infrastructure is just one piece of the puzzle. The spinning of VMs on Azure versus another cloud provider is not the exciting piece. The exciting piece is getting them on Azure, continuing to optimize their environment, and looking at what could become more native on Azure so we can start leveraging Azure services beyond just the infrastructure side of things.”

*Chief strategy officer,
North America Azure partner*



- › **Deal characteristics are changing.** In light of a rapidly changing cloud landscape, customers are taking a much more piecemeal approach to their migrations in favor of maintaining business agility. Many interviewed partners have begun to deliver their professional services engagements in a shorter timeframe to demonstrate some quick wins and gain approval to start the next phase of the migration. Others have opted to perform some professional services, such as technical assessments, for free as part of presales efforts to identify areas where they could immediately add value. Forrester believes that these presales services are a critical part of securing migration and modernization deals.¹ Finally, partners have noticed an increased demand for innovative services, such as application modernization or cloud-native application development. One partner commented, “Because of digital transformation, our projects have gone from two- to four-year engagements to now six to 12 months, and we’re needing to do much more innovative work.”
- › **New services require a new skill set.** Given the changing dynamics across customers, services, and deal characteristics noted above, interviewed partners needed to ensure that they had the right talent in place to build their Azure practices around. The convergence of Windows, SQL, Linux, and open source workloads in migration deals, for instance, meant that practice engineers, architects, and developers needed to be well-versed in multiple workloads. One partner described: “We don’t find very many projects where it’s just one of those workloads (Windows, SQL, Linux, open source). Most of our projects include at least three, if not all of those.” Lastly, partners found that it was not enough to just hire the right skill sets. Without an adequate investment in internal training programs, partners could not effectively create and maintain deep expertise in practice focus areas, such as building unique customer-facing IP or delivering services around targeted horizontal, verticals, or usage of emerging technologies on Azure.

“Because of digital transformation, our projects have gone from two- to four-year engagements to now six to 12 months, and we’re needing to do much more innovative work.”

*Managing director,
EMEA Azure partner*



“We don’t find very many projects where it’s just one of those workloads (Windows, SQL, Linux, open source). Most of our projects include at least three, if not all of those.”

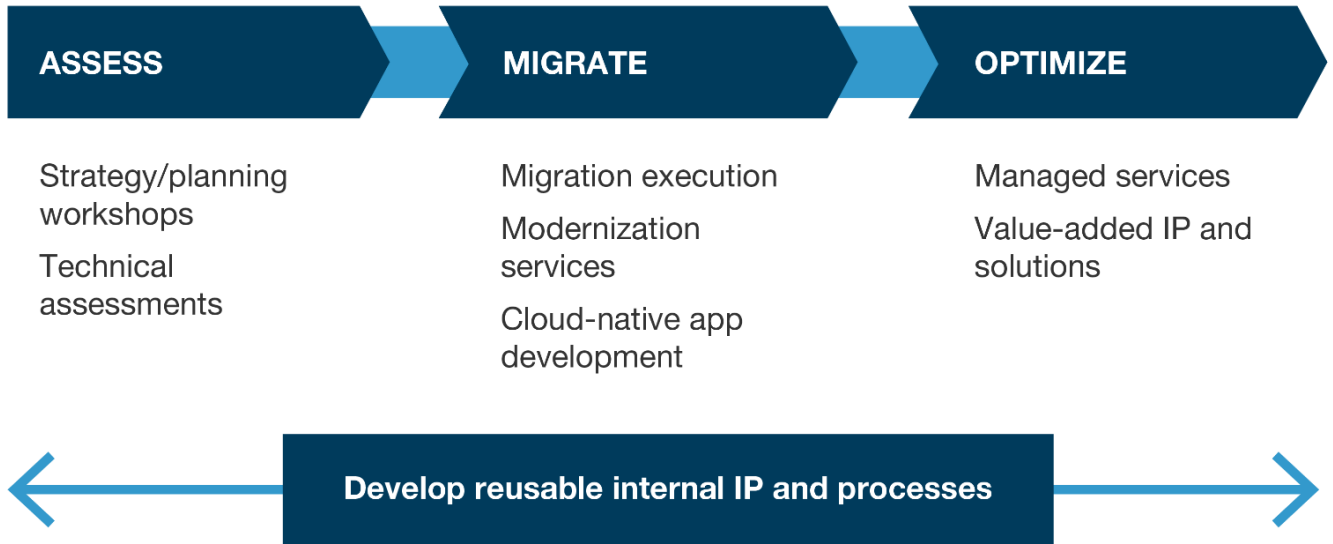
*Infrastructure practice lead,
North America Azure partner*



Shaping A Successful Azure Practice

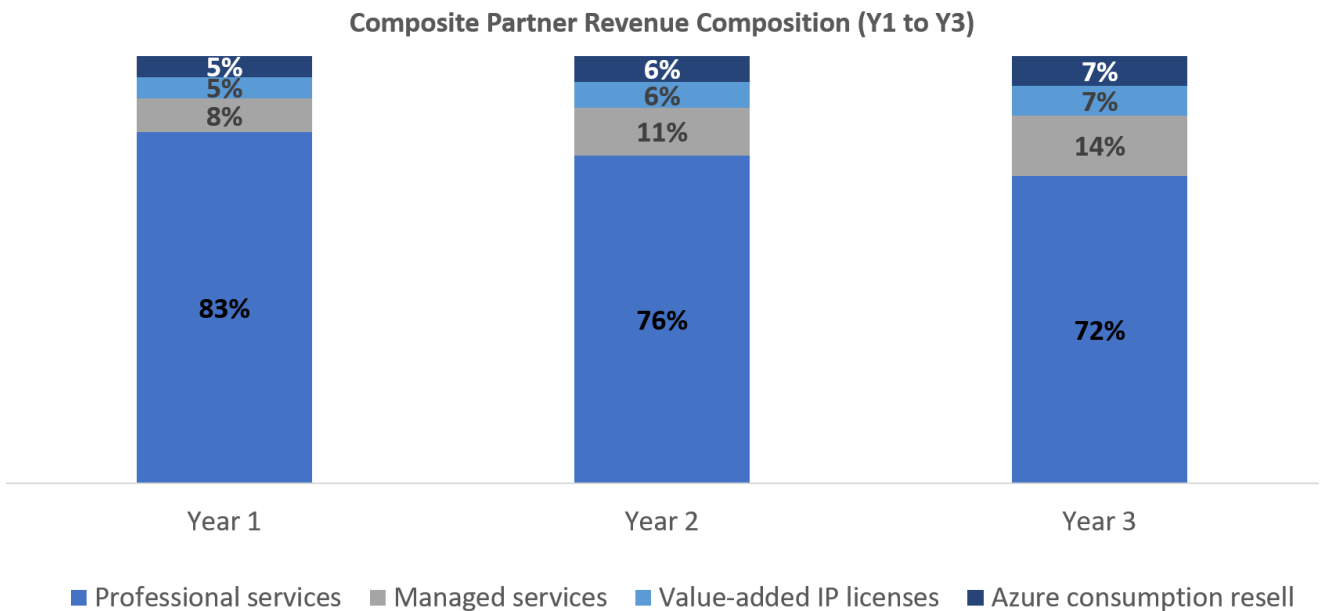
In light of the aforementioned challenges, successful partners made strategic decisions around the types of practice-level investments made, services offered, and go-to-market approaches used to ensure continued growth of their Azure practices. Interviewed partners shared the following best practices:

- › **Own the full customer engagement life cycle.** Today’s customers expect partners to be able to provide them with a comprehensive portfolio of services as they make their journeys to the cloud whereas in the past, customers were more willing to procure services with multiple partners for disparate needs. While interviewed partners built and offered expertise in various areas, almost all partners offered some degree of services across the three stages of the customer engagement life cycle depicted in the chart below: 1) assess; 2) migrate; and, 3) optimize. In doing so, partners boosted win rates, raised overall retention, and achieved pull-through revenues across different professional and managed services, ultimately improving practice-level operating margins over time.



- › **Prioritize research and development as a way to create new internal IP and service offerings.** Successful partners never stopped investing in their internal templates, frameworks, scripts, tools, and processes. While certain services naturally benefited more than others from having a set of reusable IP, all partner service offerings became more profitable in the long run by automating or assisting specific tasks delivered across customers. Furthermore, many partners also combined their own IP with other third-party tools to create and deliver unique service offerings. The continued focus on R&D allowed partners to incrementally improve their service margins while unlocking new potential revenue streams.
- › **Hire well-rounded talent but train for niche focus areas.** Talent acquisition, retention, and management was a key focus area across interviewed partners. In particular, partners looked for expertise across different workloads and operating systems as well as familiarity with both on-premises and cloud-native frameworks and architectures. Acquiring this broad range of talents meant that partners could be well-equipped to drive the end-to-end transformation process while allowing for individual delivery resources to be staffed on different project types across the customer engagement life cycle. Once hired, however, delivery resources would typically be trained and aligned to specific practice areas, allowing the partner to deliver innovative services while still covering its bases with respect to more table-stakes offerings.

› **Grow recurring and annuity revenue streams.** As a subset of professional services, such as lift-and-shifts, has become commoditized, partners have focused their investment efforts on building new managed services and value-added IP offerings that would allow them to secure more reliable, recurring revenues. Several interviewed partners developed high-touch managed service offerings such as DevOps managed services or application managed services to allow the customer to abstract the application development process and instead focus on desired business outcomes from Azure. Other partners invested in building out deep industry or horizontal expertise so they could provide customers with targeted use case-driven analytics, monitoring, or optimization solutions. These solutions proved highly sticky with customers due to the lack of alternatives in the market, and over time, allowed partners to increasingly shift the overall composition of practice revenues towards managed services and value-added IP licensing while still growing professional services. For the composite partner, this shift is depicted by the chart below:



Composite Partner Organization

Based on the interviews, Forrester constructed a TEI framework, a composite partner organization, and an associated ROI analysis that illustrates the revenue streams and investment areas associated with building and scaling an Azure practice. The composite partner organization is representative of the 14 partners that Forrester interviewed and is used to present the aggregate financial analysis in the next section. The composite partner that Forrester synthesized from these interviews has the following characteristics:

› Operates across North America, Western Europe, and the Nordics with headquarters based in the US.

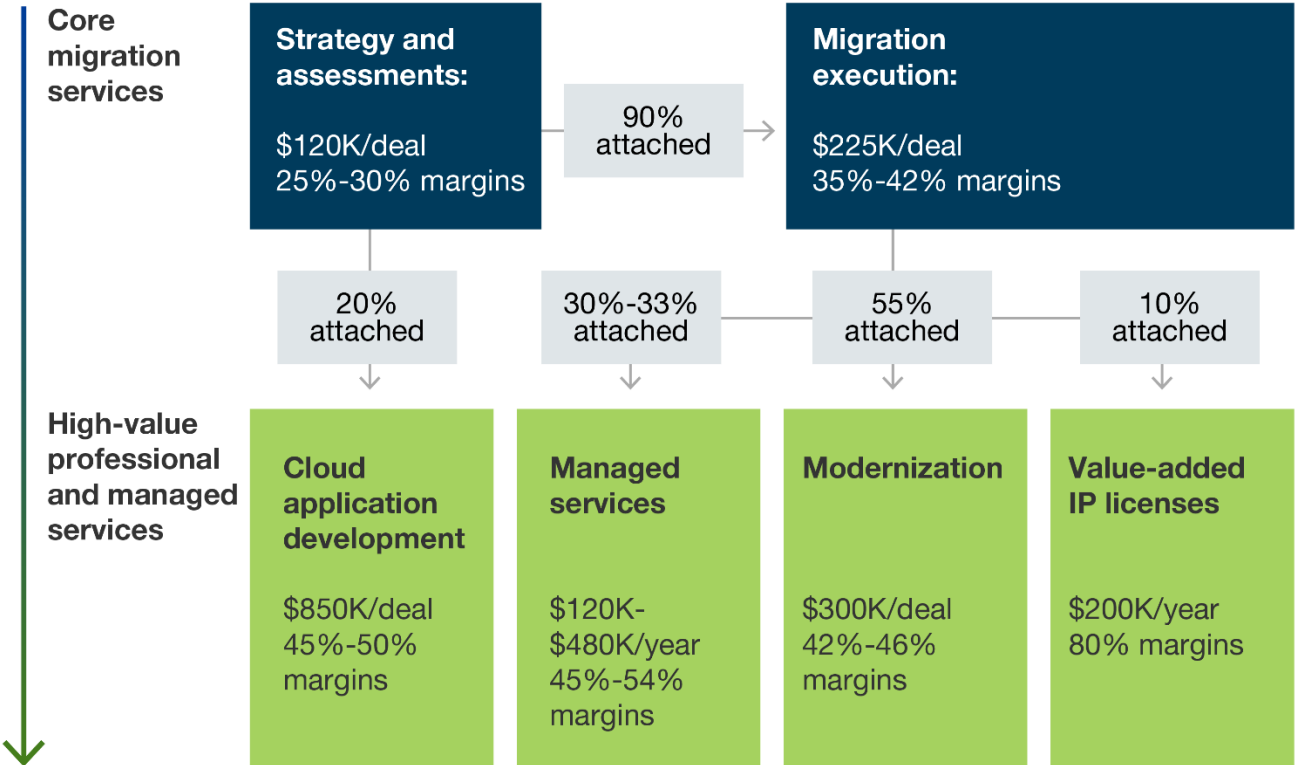
- › Offers its customers a broad portfolio of services around Azure, including business support through reselling agreements, migration, modernization, and innovation professional and next generation managed services, and value-added IP licensing for targeted use case-driven solutions. Additionally, the partner holds competencies across Windows, SQL Linux, and other open source workloads.
- › Total Azure practice revenues started at \$20 million in Year 1 and grew to over \$65 million in Year 3 as the partner organically acquired new customers, deepened relationships with existing customers, and continued to focus on incremental margin improvement. Similarly, the partner serviced 28 net-new customers in Year 1, growing to 50 net-new customers by Year 3.
- › Prior to starting an Azure practice, the partner already had an existing practice to offer its customers services and solutions around a different cloud platform. Over time, the partner recognized the demand for Azure services, particularly given factors such as the number of Microsoft enterprise workloads that customers were using and the increasing prevalence of multicloud deployments.



- › **Y1 to Y3 revenues: \$20M to \$65M**
- › **Y1 to Y3 new customers: 28 to 50**
- › **Competencies across Windows, Linux, and open source workloads**

Financial Analysis

The financial analysis portrayed in this section uses averages based on data from 14 partner interviews for metrics such as deal sizes, margins, and attach rates and applies these averages to the composite partner organization constructed for this study, as illustrated below:



For interviewed partners, the customer engagement life cycle for Azure migration, modernization, and next generation managed services typically started with strategy and assessment services, most of which also resulted in an initial lift-and-shift engagement. Once partners successfully delivered this core set of migration services, customers were then more willing to explore other, more innovative services such as cloud-native application development, modernization services, managed services, and licensing for proprietary value-added IP. These services represented richer deal sizes and margins, and therefore partners were keen on deepening their relationships with customers while attaching these services throughout the customer transformation journeys. Furthermore, for each of these services, a percentage of existing customers would procure repeat engagements in subsequent years, allowing revenues to build on top of each other with each passing year of operations. The risk-adjusted present value impact of these cumulative revenue streams is detailed below:

COMPOSITE PARTNER REVENUE AND MARGIN OPPORTUNITIES

Total Revenue

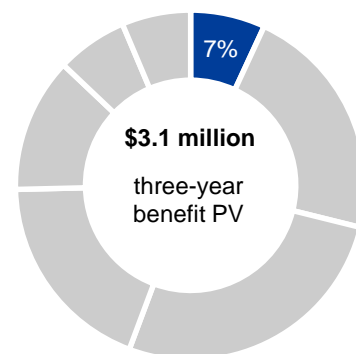
REF.	BENEFIT	YEAR 1	YEAR 2	YEAR 3	TOTAL	PRESENT VALUE
Atr	Professional services: strategy and assessments	\$798,000	\$1,254,000	\$1,724,250	\$3,776,250	\$3,057,273
Btr	Professional services: migration execution	\$1,885,275	\$3,999,476	\$6,273,253	\$12,158,004	\$9,732,426
Ctr	Professional services: refactoring and rearchitecting	\$1,659,042	\$4,753,155	\$8,583,676	\$14,995,873	\$11,885,490
Dtr	Professional services: cloud-native application	\$2,034,900	\$3,479,679	\$4,871,551	\$10,386,130	\$8,385,745
Etr	Azure managed services	\$601,133	\$2,000,271	\$4,405,598	\$7,007,003	\$5,509,593
Ftr	Value-added IP licenses	\$383,040	\$1,121,760	\$2,175,120	\$3,679,920	\$2,909,492
Gtr	Azure consumption resell	\$351,646	\$1,075,013	\$2,147,597	\$3,574,257	\$2,821,641
	Total revenue (risk-adjusted)	\$7,713,037	\$17,683,355	\$30,181,044	\$55,577,436	\$44,301,660

Professional Services: Strategy And Assessments

For Azure partners, strategy and assessment work is often 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 an IT and end user perspective, analyzing the customer's existing infrastructure and workloads, and finally building a road map for Azure migration that considers the organization's budget and timeline constraints. This road map outlines the optimal architecture (e.g., IaaS vs. PaaS) and deployment model (e.g., public cloud, hybrid cloud, etc.) for each workload, the interdependencies across different workloads in the customer's environment, and subsequently at which stage each workload should be migrated to Azure to minimize downtime, reduce the risk of failure, and optimize for costs. Furthermore, the road map creates a natural lead-in to other Azure professional services by detailing which applications or workloads can be lift-and-shifted to Azure "as-is," which will need surface-level adjustments (refactoring) or development work (rearchitecting) after migration, or which need to be developed natively on Azure. One customer noted: "Our first step is always to sell an assessment. We'll have a team made up of an account executive, a solution architect, and some resources from Microsoft who will help sell that. And then as a result of that assessment, we will provide the customer with a proposal for migration services and other services such as solution architecting."

To model the revenue and margin impact of strategy and assessment professional services work for the composite partner organization, Forrester assumed:

The table above shows the total of all revenues across the areas listed below, as well as present values (PVs) discounted at 10%. Over three years, the composite organization expects risk-adjusted total revenues to be a PV of more than \$44 million.



Strategy and assessments:
7% of total gross profits

- › Each new customer needed a single migration strategy and assessment engagement. The composite partner then created a road map as an output of each engagement, revealing any additional professional services work or migration activity needed in subsequent years.
- › The average deal size per strategy and assessment engagement was \$120,000. Across partner interviewees, deal sizes ranged from \$30,000 on the low end to \$200,000 on the high end, depending on the size, deployment characteristics, and complexity of the customer's environment, as well as the resources and time needed to deliver the engagement on the partner side. Typically, strategy and assessment engagements involved a small team of between one to three technical delivery resources and lasted anywhere from one to six weeks.
- › Average strategy and assessment gross margins ranged from 25% in Year 1 to 30% in Year 3 as partners accumulated experience and continued to invest in reusable templates and processes to reduce direct delivery costs.

Strategy and assessment project revenues and gross margins varied widely across partners due to differences in factors such as pricing models (e.g., fixed vs. variable), competitive pressures, and the degree to which processes, such as technical workload assessments, could be automated. Additionally, some partners opted to partially or entirely absorb the cost of strategy and assessment work as a presales activity to gain an entryway into other, more profitable Azure services.

To account for these variances, Forrester adjusted this gross profit category downward by 5%, yielding a three-year risk-adjusted total PV of \$3,057,273.

“Our first step is always to sell an assessment. We'll have a team made up of an account executive, a solution architect, and some resources from Microsoft who will help sell that. And then as a result of that assessment, we will provide the customer with a proposal for migration services and other services such as solution architecting.”

*VP of market development,
North America Azure partner*



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

Strategy And Assessments: Calculation Table

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
A1	Number of strategy sessions and migration planning assessments completed		28	40	50
A2	Average strategy and assessments deal size		\$120,000	\$120,000	\$120,000
A3	Total strategy and assessments revenues	A1*A2	\$3,360,000	\$4,800,000	\$6,000,000
A4	Average strategy and assessments gross margin		25.00%	28.50%	30.25%
At	Professional services: strategy and assessments	A3*A4	\$840,000	\$1,320,000	\$1,815,000
	Risk adjustment	↓5%			
Atr	Professional services: strategy and assessments (risk-adjusted)		\$798,000	\$1,254,000	\$1,724,250

Professional Services: Migration Execution

Following a strategy and assessment engagement, organizations have a clear path to digitally transforming their workloads on Azure. However, before committing to more complex and often more expensive projects involving refactoring or rearchitecting of applications to perform optimally in the cloud, organizations typically look to lift-and-shift workloads to IaaS first to “proof-of-concept” certain benefits, such as the cost savings potential of migrating to Azure. At the same time, organizations

recognize that some of these applications may eventually need to be modernized for the cloud in the near future and thus place a high degree of emphasis on a partner's ability to provide a comprehensive suite of Azure migration services beyond the initial lift-and-shift.

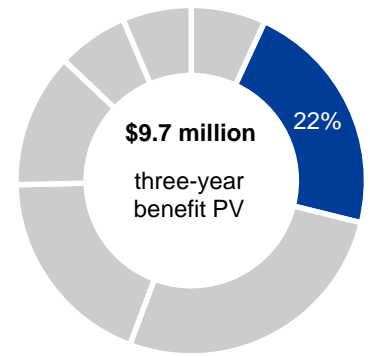
For partners, these increasing customer expectations have impacted the characteristics of migration projects. Demand for lift-and-shifts continues to remain strong, but the duration of projects has decreased in favor of maintaining business agility in case workloads require any immediate refactoring or development work. Projects are increasingly iterative as customers take a piecemeal approach to migrations, resulting in frequent pull-through project work in years following an initial lift-and-shift engagement. One partner explained, "Because of digital transformation, our projects have gone from two- to four-year engagements to now six to 12 months, and we're needing to do much more innovative work."

To model the revenue and margin impact of migration execution professional services work for the composite partner organization, Forrester assumed:

- › Net-new migration execution projects were sold as a direct result of migration strategy and assessment work at an attach rate of 90%. Furthermore, 50% of deals completed in Year 1 resulted in an additional follow-on migration execution project in Year 2, and 25% of deals completed in Year 1 resulted in an additional follow-on migration execution project in both Years 2 and 3. For the full calculations, please refer to Appendix B.
- › The average deal size per migration execution engagement was \$225,000. Migration deal sizes varied widely, ranging from \$50,000 on the low end to upwards of over \$1,000,000, depending on the size and scope of the migration.
- › Gross margins started at an average of 35% in Year 1 and grew to an average of 42% in Year 3. Interviewed partners attributed margin growth to continued investments in reusable IP and processes (e.g., migration factories) that reduced delivery cycle times and eliminated much of the technical complexity of executing an Azure migration.

The revenue and gross margin impact from migration execution engagements that other partners experience will vary based on pricing and project characteristics unique to each practice. For example, some partners may bill per hour or resource while others use fixed project pricing. Additionally, partners may specialize in executing a specific size or type of migration to increase the efficiency of delivering repeated projects.

To account for these variances, Forrester adjusted this gross profit category downward by 5%, yielding a three-year risk-adjusted total PV of \$9,732,426.



Migration execution: 22% of total gross profits

"Because of digital transformation, our projects have gone from two- to four-year engagements to now six to 12 months, and we're needing to do much more innovative work."

*Managing director,
EMEA Azure partner*



Migration Execution: Calculation Table

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
B1	Number of migration execution deals completed	APP:B	25.2	48.6	69.3
B2	Average migration execution deal size		\$225,000	\$225,000	\$225,000
B3	Total migration execution revenues	B1*B2	\$5,670,000	\$10,935,000	\$15,592,500
B4	Average gross margin for migration execution deals		35.00%	38.50%	42.35%
Bt	Professional services: migration execution	B3*B4	\$1,984,500	\$4,209,975	\$6,603,424
	Risk adjustment	↓5%			
Btr	Professional services: migration execution (risk-adjusted)		\$1,885,275	\$3,999,476	\$6,273,253

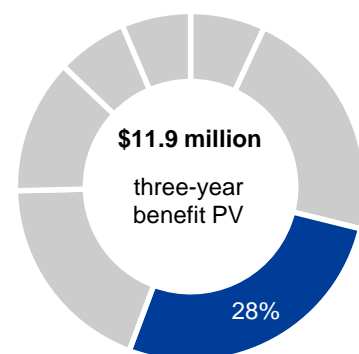
Professional Services: Refactoring And Rearchitecting

After lift-and-shifting an initial workload or set of workloads to Azure, organizations often find that while certain benefits can be immediately achieved with “as-is” IaaS, such as a reduction in costs, some workloads might 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), which is often left in the hands of a partner.

Partners have found significant business opportunity in delivering modernization work, particularly after an initial migration, as customers gradually recognize that some applications require additional configuration or development work to perform optimally on Azure. Furthermore, modernization often requires an in-depth understanding of both an application’s underlying architecture as well as the Azure platform. These qualifications are typically gathered by completing both informal/internal training and formal Azure and workload-specific coursework, resulting in Microsoft-designated certifications. Modernization projects are, in turn, typically priced more generously, with higher margins relative to lift-and-shifts to reflect the more specialized skill set required to deliver on these engagements.

To model the revenue and margin impact of refactoring and rearchitecting professional services work for the composite partner organization, Forrester assumed:

- › Net-new refactoring and rearchitecting projects were sold as a direct result of migration execution work at an attach rate of 55%. Furthermore, 80% of deals completed in Year 1 resulted in an additional follow-on refactoring or rearchitecting project in Year 2, and 40% of deals completed in Year 1 resulted in an additional follow-on refactoring or rearchitecting project in both Years 2 and 3. For the full calculations, please refer to Appendix B.



Modernization:
28% of total gross profits

“Demand for modernization is growing significantly whereas it was limited in the past when the benefit of the public cloud was poorly understood. The majority of our customers now do a combination of lift-and-shift and modernization.”

*Chief executive officer,
EMEA Azure partner*



- › The average deal size per refactoring or rearchitecting engagement was \$300,000. Deal sizes vary based on size and complexity of applications being modernized.
- › Gross margins started at an average of 42% in Year 1 and grew to an average of 46% in Year 3. Interviewed partners attributed margin growth partially to continued investments in reusable processes and partially to continued training and experience of delivery teams. Margin growth over the first three years of the Azure practice was slower than that of migration strategy and assessment or migration execution engagements due to projects naturally being more customized and thus more difficult to scale effectively.

“Most of our customers shift first and modernize afterwards because it is difficult to make the business case for application transformation without demonstrating some cost savings first.”

*Head of business technology,
APAC Azure partner*



The revenue and margin impact from modernization engagements that other partners experience will vary based on pricing and project characteristics unique to each practice and individual skill sets and training of the delivery team.

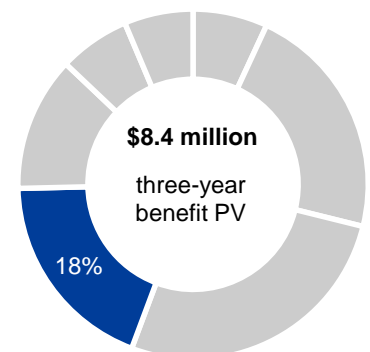
To account for these risks, Forrester adjusted this gross profit category downward by 5%, yielding a three-year risk-adjusted total PV of \$11,885,490.

Refactoring And Rearchitecting: Calculation Table

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
C1	Number of refactoring and rearchitecting deals completed	APP:C	13.860	37.818	65.043
C2	Average refactoring and rearchitecting deal size		\$300,000	\$300,000	\$300,000
C3	Total refactoring and rearchitecting revenues	C1*C2	\$4,158,000	\$11,345,400	\$19,512,900
C4	Average gross margin for refactoring and rearchitecting deals		42.000%	44.100%	46.305%
Ct	Professional services: refactoring and rearchitecting	C3*C4	\$1,746,360	\$5,003,321	\$9,035,448
	Risk adjustment	↓5%			
Ctr	Professional services: refactoring and rearchitecting (risk-adjusted)		\$1,659,042	\$4,753,155	\$8,583,676

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; 2) some applications will need to be built specifically for Azure to fully unlock and benefit from use cases such as AI, 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. For example, while other migration services may even be delivered solely with engineers, cloud-native application development projects will almost always additionally require a team of developers and solution architects.



**Cloud-native application development:
18% of total gross profits**

Reflecting this higher cost of services, partners sold cloud-native application projects at a significant premium to other professional services engagements. Consequently, these projects were mostly procured by large enterprises as part of broader technology adoption or transformational efforts. One partner described: “We had a large customer come to us looking to build a brand-new asset management product leveraging IoT. First, they just wanted us to do a feasibility study to see if IoT would be a good fit. But once we proved that it could work, they then asked us for the whole gamut, including building, deploying, and operationalizing the solution using Azure.” Finally, partners found that cloud-native application work often led to application or DevOps managed services arrangements, since customers’ internal teams would have had limited to no experience managing the new applications themselves. In fact, one interviewed partner asserted that this end-to-end application development and management work might even become an expected service in the near horizon. This partner said: “The future is application portfolio management. You’re going to need to be able to go to a customer and say, ‘I could build you five or six additional revenue streams and I can also manage and continue to drive all of those going forward.’”

To model the revenue and margin impact of cloud-native application development services for the composite partner organization, Forrester assumed:

- › Net-new cloud-native application development projects were sold as a direct result of initial strategy and assessment work at an attach rate of 20%. Furthermore, 20% of deals completed in Year 1 resulted in an additional follow-on cloud-native application development project in Year 2, and 10% of deals completed in Year 1 resulted in an additional follow-on cloud-native application development project in both Years 2 and 3. For the full calculations, please refer to Appendix B.
- › The average deal size per cloud-native application development engagement was \$850,000. Deal sizes varied significantly, with smaller projects starting at \$200,000 to larger projects reaching well into the millions.
- › Gross margins started at an average of 45% in Year 1 and grew to an average of 50% in Year 3. Interviewed partners attributed margin growth to continued training and experience of delivery teams. Margin growth over the first three years of the Azure practice was slower than that of migration strategy and assessment or migration execution engagements due to projects naturally being more customized and thus more difficult to scale effectively.

The revenue and margin impact from cloud-native application development engagements that other partners experience will vary based on pricing and project characteristics unique to each practice and individual skill sets and training of the delivery team.

To account for these risks, Forrester adjusted this gross profit category downward by 5%, yielding a three-year risk-adjusted total PV of \$8,385,745.

“We had a large customer come to us looking to build a brand-new asset management product leveraging IoT. First, they just wanted us to do a feasibility study to see if IoT would be a good fit. But once we proved that it could work, they then asked us for the whole gamut, including building, deploying, and operationalizing the solution using Azure.”

*Cofounder,
North America Azure partner*



“For every dollar of migration revenue, we’ll get \$8 of AI application development revenue.”

*AVP of partner ecosystems,
Global Azure partner*



Cloud-Native Application Development: Calculation Table

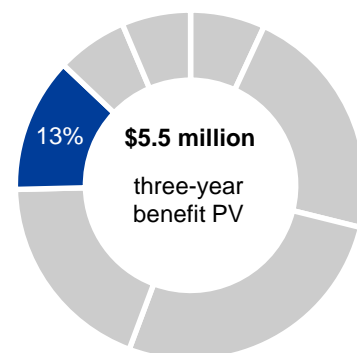
REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
D1	Number of cloud-native application development deals completed	APP:D	5.6	9.12	12.16
D2	Average cloud-native application development deal size		\$850,000	\$850,000	\$850,000
D3	Total cloud-native application development revenue	D1*D2	\$4,760,000	\$7,752,000	\$10,336,000
D4	Average gross margin for cloud-native application development deals		45.0000%	47.2500%	49.6125%
Dt	Professional services: cloud-native application development	D3*D4	\$2,142,000	\$3,662,820	\$5,127,948
	Risk adjustment	↓5%			
Dtr	Professional services: cloud-native application development (risk-adjusted)		\$2,034,900	\$3,479,679	\$4,871,551

Azure Managed Services

While migrating applications to Azure does unlock the potential to experience the cost savings, scalability, agility, and security benefits of the cloud, 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 help navigate these challenges and actively manage their Azure workloads once they have successfully migrated to Azure, and partners have responded to this demand with multiple managed service offerings based on the breadth and type of support needed.

All interviewed partners segmented their managed service offerings into a minimum of two and sometimes three separate tiers of services, each coming at different price points. Each partner refers to these tiers differently, but for the purposes of this study, Forrester refers to the first, or most basic, tier of services as “bronze,” the second tier as “silver,” and the third, or most expensive, tier of services as “gold.”

- › Bronze managed services included basic security and compliance monitoring, subscription management, and cost analysis, reporting, and optimization services.
- › Silver managed services included bronze features as well as Azure resource organization and management, application performance monitoring and optimization, and architecture optimization services.
- › Gold managed services typically involved either custom application managed services or DevOps managed services. These services were sometimes additive to the aforementioned managed services and sometimes priced as separate managed services offerings altogether.



**Managed services:
13% of total gross profits**

Given the commoditization of migration execution work, partners continued to place a heavy emphasis on growing their managed services businesses, particularly due to the ability to provide recurring revenues, allowing the size of managed services portfolios to organically multiply over time. Consequently, for the majority of interviewed partners, managed services had an increasing attach rate from migration deals as partners continued to invest heavily in building out and selling their managed service offerings.

To model the revenue and margin impact of Azure managed services for the composite partner organization, Forrester assumed:

- › Managed service deals were sold as a direct result of migration execution work at an attach rate ranging from 30% in Year 1 to 33% in Year 3. Managed services customers renewed their contracts in Years 2 and 3, making the value of managed services accretive over the three-year period analyzed for this study. For the full calculations, please refer to Appendix B.
- › Given the lower price point and organizations' initial emphasis on cost reduction on Azure, bronze managed services were the most popular level of managed services, with an overall 65% of managed services customers opting for this tier. Silver and gold managed services were sold less frequently with an overall 25% and 10% of managed services customers opting for silver and gold managed services, respectively.
- › The average monthly fee for bronze, silver, and gold Azure managed services was \$10,000, \$20,000, and \$40,000, respectively. Fees varied from partner to partner based on individual pricing and services offered, but typically grew at 2x for every incremental tier up.
- › Gross margins started at an average of 45% in Year 1 and grew to an average of 54% in Year 3. Interviewed partners attributed margin growth to continued investments in scripting, tooling, and reusable IP and processes, allowing for increased automation, particularly for bronze- and silver-level managed services.

The revenue and margin impact from Azure managed services that other partners experience will vary widely based on individual pricing and services offered. Partners adopted numerous different approaches to pricing their managed services offerings, often using multiple approaches across their services portfolios. For example, for bronze and silver managed services, most partners opted to charge their customers on a percentage of Azure consumption, by number or virtual machines, or at a fixed monthly rate. On the other hand, gold managed services were more often billed per application or hourly by resource, reflecting a greater degree of custom work required for these services.

To account for these risks, Forrester adjusted this gross profit category downward by 5%, yielding a three-year risk-adjusted total PV of \$5,509,593.

"We'll generally sell an assessment first, and then propose a migration deal. If we sell the migration deal, we'll then add a managed service pitch when the migration is complete. Most customers want some kind of support throughout the process, so we find that we're pretty successful in attaching these services."

*Cofounder,
EMEA Azure partner*



"We offer customers three levels of managed services. The first is cost optimization, including measuring and monitoring; level two is architecture optimization and resource management; and level three is customized, higher-value services, including some work around Azure DevOps."

*VP of market development,
North America Azure partner*



Azure Managed Services: Calculation Table

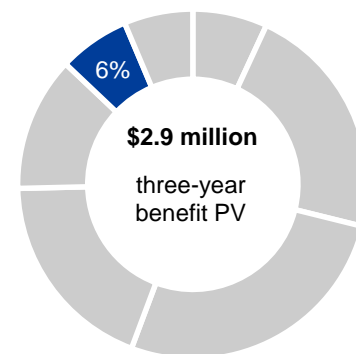
REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
E1	Number of Azure managed service deals	APP:E	7.560	15.309	22.921
E2	Number of “bronze” Azure management and optimization managed services	E1*65%	4.914	9.951	14.899
E3	Average monthly managed service revenues per bronze agreement		\$10,000	\$10,000	\$10,000
E4	Number of “silver” Azure management and optimization managed service agreements	E1*25%	1.890	3.827	5.730
E5	Average monthly managed service revenues per silver agreement		\$20,000	\$20,000	\$20,000
E6	Number of “gold” Azure management and optimization managed service agreements	E1*10%	0.756	1.531	2.292
E7	Average monthly managed service revenues per gold agreement		\$40,000	\$40,000	\$40,000
E8	Total annual managed services revenue	$((E2 \cdot E3) + (E4 \cdot E5) + (E6 \cdot E7)) \cdot 12 + E8_{\text{year } x-1}$	\$1,406,160	\$4,253,634	\$8,516,935
E9	Blended average gross margin of managed services		45.00%	49.50%	54.45%
Et	Azure managed services	E8*E9	\$632,772	\$2,105,549	\$4,637,471
	Risk adjustment	↓5%			
Etr	Azure managed services (risk-adjusted)		\$601,133	\$2,000,271	\$4,405,598

Value-Added IP Licenses

All interviewed partners developed some degree of internally facing proprietary IP or processes to create scalability across different migration services. However, some partners also developed customer-facing solutions for specific horizontal or vertical use cases and sold these licenses to existing migration customers. Horizontal solutions either augmented operational processes, such as billing and invoicing, or served specific business functional groups, such as human resources or finance. Vertical solutions were built around any number of targeted use cases, such as onshore/offshore support for oil and gas companies or predictive analytics solutions for retailers. 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.

Due to the deep industry or horizontal expertise needed to develop these solutions, partners that offered value-added IP to their customers found that they had few, if any, competitors with similar offerings. As a result, margins on value-added IP licensing were among the highest across partner revenue streams. To calculate the business impact of packaging and selling value-added IP, Forrester assumed the following for the composite partner organization:

- › Value-added IP licenses were sold as a direct result of migration execution work at an attach rate of 10%. For the full calculations, please refer to Appendix B.



**Value-added IP licenses:
6% of total gross profits**

- › Annual revenue per value-added IP license was \$200,000. Licensing fees varied from partner to partner based on individual pricing and services offered, but typically ranged between \$10,000 and \$30,000 per license, per month.
- › Gross margins for value-added IP licenses remained at 80% across the three-year investment cycle analyzed for this study.

The revenue and margin impact from value-added IP licensing that other partners experience will vary widely based on individual pricing, the type of solution offered, and the degree of manual input needed for ongoing management of these solutions. Some partners even opted to bundle these licenses together with more traditional managed service offerings instead of monetizing them separately.

To account for these risks, Forrester adjusted this gross profit category downward by 5%, yielding a three-year risk-adjusted total PV of \$2,909,492.

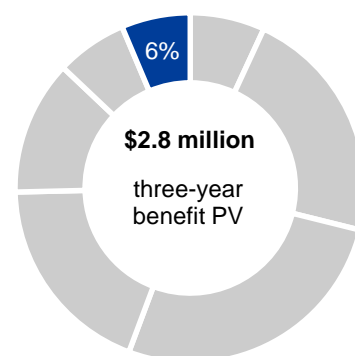
Value-Added IP Licenses: Calculation Table

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
F1	Number of value-added IP licenses sold annually	APP:F	2.52	4.86	6.93
F2	Annual revenue per value-added IP license		\$200,000	\$200,000	\$200,000
F3	Total annual value-added IP revenue	$(F1 * F2) + F3_{\text{year } x-1}$	\$504,000	\$1,476,000	\$2,862,000
F4	Value-added IP gross margin		80%	80%	80%
Ft	Value-added IP licenses	$F3 * F4$	\$403,200	\$1,180,800	\$2,289,600
	Risk adjustment	↓5%			
Ftr	Value-added IP licenses (risk-adjusted)		\$383,040	\$1,121,760	\$2,175,120

Azure Consumption Resell

In addition to providing professional and managed services, the majority of partners also resold Azure consumption to customers, often as part of a bundled package including migration or managed services. By reselling Azure consumption to customers, partners would be billed for monthly consumption at a discount from Microsoft and then pass on a part of that discount to customers, profiting in the process. However, while consumption resale did represent an additional revenue stream for Azure practices, partners did not see this as the primary use case. Instead, partners recognized that by becoming the central point of contact for customers' Azure subscriptions, they could more readily manage the end-to-end customer relationship and continue to embed themselves into customers' Azure journeys, ultimately driving more potential professional or managed service engagements. Successful resellers went beyond simply reactively handling billing, invoicing, and support for their customers and used their platform as an opportunity to better understand their customers' Azure subscriptions or consumption and usage, ultimately allowing partners to bundle their own or third-party services with traditional Azure services to create tailored solutions for their customers.

To model the revenue and margin impact of Azure consumption resell for the composite partner organization, Forrester assumed:



**Azure consumption resell:
6% of total gross profits**

- › All customers were sourced via direct Cloud Solution Provider (CSP) agreement, meaning the partner handled billing, invoicing, and support in addition to client management.
- › Azure consumption resell was bundled together with migration execution deals, allowing the partner to be the main point of contact once customers had migrated to Azure.
- › Average margins for cloud consumption resell were 7%. Given a CSP discount of 15% on Azure consumption, partners typically kept anywhere from 2% to 10% of the margin, passing on the remainder of the discount onto their customers.

Margins on Azure consumption resell will vary by partner depending on the type of licensing they support (e.g., EA vs. CSP), the percentage of any Microsoft discounts on consumption partners decide to pass on to their customers, and customers' overall monthly Azure consumption levels.

To account for these risks, Forrester adjusted this gross profit category downward by 15%, yielding a three-year risk-adjusted total PV of \$2,821,641.

Azure Consumption Resell: Calculation Table

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
G1	Total annual Azure consumption		\$5,745,852	\$17,565,579	\$35,091,453
G2	Average gross margin on Azure consumption		7.2%	7.2%	7.2%
Gt	Azure consumption resell	G1*G2	\$413,701	\$1,264,722	\$2,526,585
	Risk adjustment	↓15%			
Gtr	Azure consumption resell (risk-adjusted)		\$351,646	\$1,075,013	\$2,147,597

Flexibility

The value of flexibility is clearly unique to each partner, and the measure of its value varies across partner organizations. There are multiple scenarios in which a partner might choose to invest in a Microsoft Azure practice and later realize additional revenue and margin opportunities, including:

- › **Building out vertical or horizontal capabilities.** As demand for customized services continues to rise, partners recognize that the more tailored their services are, the higher their potential win rates and delivery margins could be. Some partners have explicitly attributed the success of their Azure practices to mastering a particular niche. Said one partner: "If you want to increase margins, you need to be providing a very specific service. For example, we provide solutions to monitor and analyze data such as temperature exclusively for the oil and mining industry. We're probably one of the only partners that offers something like this."

"If you want to increase margins, you need to be providing a very specific service. For example, we provide solutions to monitor and analyze data such as temperature exclusively for the oil and mining industry. We're probably one of the only partners that offers something like this."

*Senior director, global alliances
Global Azure partner*



- › **Deepening existing customer relationships.** The Azure platform enables resellers to analyze data such as customer subscriptions and cloud consumption over time. Equipped with this knowledge, partners can upsell additional managed services or proprietary solutions to help customers optimize cloud costs, improve workload performance, strengthen their security posture, and more, increasing stickiness in the process. One partner said, “Customers are always looking to improve their existing environment, which is why a huge chunk of our business comes from existing customers.”

Flexibility would also be quantified when evaluated as part of a specific project (described in more detail in Appendix A).

Flexibility, as defined by TEI, represents an investment in additional capacity or capability that could be turned into business benefit for a future additional investment. This provides an organization with the "right" or the ability to engage in future initiatives but not the obligation to do so.

Analysis Of Investments

QUANTIFIED INVESTMENT DATA AS APPLIED TO THE COMPOSITE

Total Investments

REF.	INVESTMENTS	INITIAL	YEAR 1	YEAR 2	YEAR 3	TOTAL	PRESENT VALUE
Htr	Nondelivery operational staffing expenses	\$0	\$1,704,150	\$2,130,219	\$2,572,649	\$6,407,018	\$5,242,608
Itr	Research and development expenses	\$2,147,918	\$925,167	\$937,070	\$949,212	\$4,959,367	\$4,476,574
Jtr	Training expenses	\$1,732,500	\$142,887	\$950,706	\$884,213	\$3,710,306	\$3,312,427
Ktr	Marketing expenses	\$0	\$425,709	\$878,362	\$1,372,285	\$2,676,356	\$2,143,945
Ltr	General and administrative expenses	\$0	\$638,564	\$1,317,543	\$2,058,428	\$4,014,534	\$3,215,918
	Total investments (risk-adjusted)	\$3,880,418	\$3,836,477	\$6,213,900	\$7,836,787	\$21,767,582	\$18,391,472

Nondelivery Operational Staffing Expenses

Interviewed partners invested in hiring for a number of operational roles that were critical to managing and scaling an Azure practice but not directly involved in service delivery. Of these roles, sales and customer service were the most foundational, with all partners dedicating some FTEs specifically to the Azure practice. Most partners also hired a handful of technical resources, such as engineers, to lead presales efforts like running and interpreting workload assessments. Finally, some practices invested in sales or delivery leads to build and deliver internal training programs and innovate new customer-facing services and offerings.

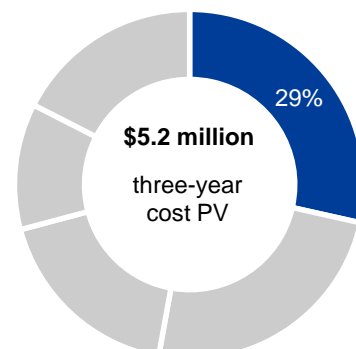
To calculate the investment in nondelivery operational staff made by the composite partner organization, Forrester assumed:

- › The full salary overhead burden rate across all FTEs was 25%.
- › Fully burdened salaries increased by 2% each year, adjusting for inflation.
- › The Azure practice required two practice delivery leads and one practice sales lead across the evaluated three-year period. The organization made no further investment in additional practice leads during this period.

Nondelivery operational staffing expenses that other partners incur can vary widely based on the following factors:

- › Partners with existing cloud-native practices may be able to cross-train existing resources to operate across different practices, therefore reducing the need for incremental hires whereas partners with more traditional IT services backgrounds focused on on-premises environments may find it necessary to invest more heavily in initial hiring as part of their practice startup activities. Furthermore, the number and types of roles needed may vary based on the partner's existing practice areas and deficiencies.

The table above shows the total of all investments across the areas listed below, as well as present values (PVs) discounted at 10%. Over three years, the composite organization expects risk-adjusted total investments to be a PV of more than \$18 million.



Nondelivery operational staffing: 29% of total expenses

Implementation risk is the risk that a proposed investment may deviate from the original or expected requirements, resulting in higher investments than anticipated. The greater the uncertainty, the wider the potential range of outcomes for investment estimates.

› Salaries may vary based on region, skill set, and job scope.

To account for these risks, Forrester adjusted this expense category upward by 5%, yielding a three-year risk-adjusted total PV of \$5,242,608.

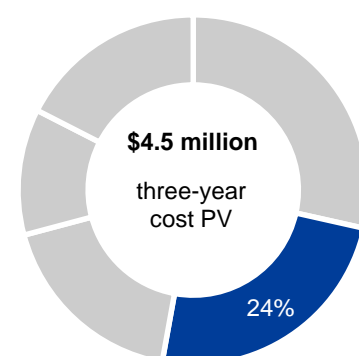
Nondelivery Operational Staffing Expenses: Calculation Table

REF.	METRIC	CALC.	INITIAL	YEAR 1	YEAR 2	YEAR 3
H1	Number of technical presales supporting Azure practice			3	4	5
H2	Number of sales staff supporting Azure practice			3	4	5
H3	Number of customer support staff supporting Azure practice			2	3	4
H4	Number of practice delivery and sales leads supporting Azure practice			3	3	3
H5	Fully burdened annual salary of technical presales			\$156,000	\$159,120	\$162,302
H6	Fully burdened annual salary of sales staff			\$135,000	\$137,700	\$140,454
H7	Fully burdened annual salary of customer support staff			\$75,000	\$76,500	\$78,030
H8	Blended fully burdened annual salary of practice delivery and sales leads			\$200,000	\$204,000	\$208,080
Ht	Nondelivery operational staffing expenses	(G1*G5)+ (G2*G6)+ (G3*G7)+ (G4*G8)		\$1,623,000	\$2,028,780	\$2,450,142
	Risk adjustment	↑5%				
Htr	Nondelivery operational staffing expenses (risk-adjusted)		\$0	\$1,704,150	\$2,130,219	\$2,572,649

Research And Development Expenses

Partners interviewed for the study made significant investments in research and development as a means to continually automate and effectively scale their practices, enabling them to gradually improve their practice-level margins while creating opportunities for new potential revenue streams over time. For most partners, initial R&D activity entailed dedicating a number of solution architects to developing custom tooling, scripts, templates, and processes, augmented by various third-party tools, in advance of Year 1 operations. Partners developed various types of IP for their practices during this period, including templates for proofs of concept, frameworks to speed testing, software to analyze workloads for optimization, planning and cost models, and more. Furthermore, partners continued to invest in R&D after the launch of the practice to incrementally improve existing IP or develop new solutions and offerings leveraging Azure for future years.

While partners found that continued R&D investments made service delivery more efficient across the practice, the practice areas most impacted were strategy and assessments, migration executions, and managed services. These services contained easily automatable processes or steps that would need to be made broadly across



**Research and development:
24% of total expenses**

customers, such as creating inventory of an organization’s applications or assessing virtual machines (VMs) for migration. One partner explained: “Our mindset when we do migrations is not to reinvent the wheel each time, but rather to look at our past experiences, assess the commonalities, and ask ourselves, ‘How can we make this more repeatable?’ That is what drove us to ultimately build out a migration factory.”

To calculate the investment in research and development made by the composite partner organization, Forrester assumed:

- › Initial buildout of IP, including tools, scripts, templates, and processes, involved a team of ten FTEs over the span of a full year. After practice launch, ongoing development of IP, including new solutions or offerings, involved a team of four FTEs.
- › The full salary overhead burden rate across all FTEs was 25%.
- › Fully burdened salaries increased by 2% each year, adjusting for inflation.

Research and development expenses that other partners incur can vary widely based on the following factors:

- › The types of services the partner provides will determine the degree to which they will need to invest in R&D relative to other investment areas. For example, traditional system integrators focused on mass migrations or lift-and-shifts would likely benefit from investing heavily in R&D whereas application development shops might instead put more capital behind other areas such as staffing and training.
- › Partners with existing cloud-native practices may be able to borrow and modify existing IP from those practices whereas partners with more traditional IT services backgrounds focused on on-premises environments may require larger initial investments.

To account for these risks, Forrester adjusted this expense category upward by 10%, yielding a three-year risk-adjusted total PV of \$4,476,574.

“Our mindset when we do migrations is not to reinvent the wheel each time, but rather to look at our past experiences, assess the commonalities, and ask ourselves, ‘How can we make this more repeatable?’ That is what drove us to ultimately build out a migration factory.”

President,
North America Azure partner



Research and Development Expenses: Calculation Table

REF.	METRIC	CALC.	INITIAL	YEAR 1	YEAR 2	YEAR 3
I1	Number of solution architects required for building tools, scripts, templates, and processes		10	4	4	4
I2	Fully burdened annual salary of solution research and development resources		\$135,265	\$135,265	\$137,971	\$140,730
I3	Third-party tooling expenses		\$600,000	\$300,000	\$300,000	\$300,000
It	Research and development expenses	(I1*I2)+I3	\$1,952,653	\$841,061	\$851,882	\$862,920
	Risk adjustment	↑10%				
Itr	Research and development expenses (risk-adjusted)		\$2,147,918	\$925,167	\$937,070	\$949,212

Training Expenses

With the commoditization of traditional lift-and-shift services, interviewed

partners have recognized that training their staff to be able to deliver additional value-added services will be key to winning and retaining customers going forward. Practices most commonly displayed the fruits of their training by taking formal Microsoft training courses, obtaining certifications, and ultimately achieving practice-level competencies. These competencies allowed partners to differentiate themselves from the pack by demonstrating expertise in specific workloads, architectures, or usage of the Azure platform. At the same time, successful partners also placed a strong emphasis on their internal training programs, which focused more on mastering the application of internal tools and processes and ultimately improving service delivery. One partner even mentioned creating separate internal training tracks to align each delivery resource to a specific type of service. This partner articulated: “We built out a rock-star academy, which includes trainers and individual curricula around different tracks. So, for instance, we’ll have an application development track, we’ll have an infrastructure track. . . . It’s a huge investment.”

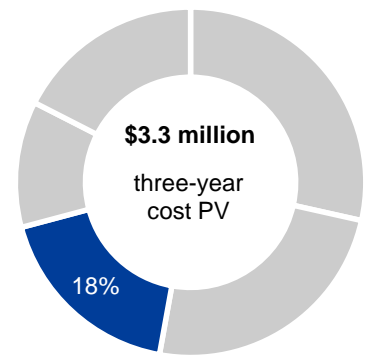
For the composite partner organization, Forrester assumed:

- › Each net-new delivery resource had to complete a set of both formal Microsoft and internal training before they could be staffed on Azure service projects. For the composite partner organization’s Azure practice, the average cost of providing this training was \$35,000 per new delivery resource. For other interviewed partners, the total cost of providing initial training typically ranged anywhere from \$10,000 to \$50,000 per resource, primarily depending on the types of certifications and competencies being attained.
- › Existing resources were required to undergo an average of one full business week of training per year to obtain any additional certifications and get up to speed on new offerings.
- › The full overhead burden rate for hourly compensation across all FTEs was 25%.
- › Fully burdened salaries increased by 2% each year, adjusting for inflation.

Training expenses that other partners incur can vary widely based on the following factors:

- › The types of services delivered, certifications required, and competencies achieved will impact the investment needed per resource.
- › Partners that must exclusively hire new talent for their Azure practices will likely require a larger investment to train each resource relative to partners that are reskilling resources from an existing cloud services practice.

To account for these risks, Forrester adjusted this expense category upward by 10%, yielding a three-year risk-adjusted total PV of \$3,312,427.



Training:
18% of total expenses

“We built out a rock-star academy, which includes trainers and individual curricula around different tracks. So, for instance, we’ll have an application development track, we’ll have an infrastructure track. . . . It’s a huge investment.”

*Chief strategy officer,
North America Azure partner*



Training Expenses: Calculation Table

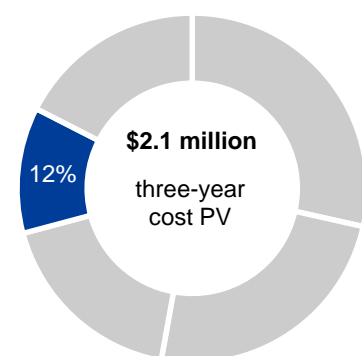
REF.	METRIC	CALC.	INITIAL	YEAR 1	YEAR 2	YEAR 3
J1	Number of total service delivery staff (e.g., engineers, architects, developers)		45	45	64	80
J2	Number of service delivery staff requiring dedicated Azure training and certification		45	0	19	16
J3	Certification and training investment made per incremental delivery resource		\$35,000	\$35,000	\$35,000	\$35,000
J4	Total certification and training expenses	J2*J3	\$1,575,000	\$0	\$675,000	\$562,500
J5	Number of days spent on ongoing training for Azure practice			5	5	5
J6	Average fully burdened daily rate per service delivery resource			\$577.32	\$591.49	\$603.33
J7	Total ongoing Azure training expenses	J1*J5*J6	0	\$129,897	\$189,278	\$241,330
Jt	Training expenses	J4+J7	\$1,575,000	\$129,897	\$864,278	\$803,830
	Risk adjustment	↑10%				
Jtr	Training expenses (risk-adjusted)		\$1,732,500	\$142,887	\$950,706	\$884,213

Marketing Expenses

Compared to other investment areas, Azure partners did not feel that they needed to make significant investments in marketing to grow their practices. Instead, partners relied more heavily on other avenues for lead generation, including customer referrals and leveraging their relationships with Microsoft account managers. At the same time, partners still emphasized the importance of having a core set of marketing assets to generate awareness and assist in lead generation. For instance, partners continued to invest in building out descriptive content and collateral for their various services and devoted resources to creating and managing their digital marketing platforms and communication channels. These marketing efforts supported sales activities and allowed customers to easily access the partners' catalogs of services.

For the composite partner organization, Forrester assumed that annual marketing investments amounted to a consistent 2% of annual gross revenues during each year of operations. Other partners calculated their annual marketing expenditure at between 1% and 3% of their annual gross revenues. The exact amount will vary by partner based on factors such as practice marketing budgets and the type of marketing activities performed. For example, in addition to the core marketing activities noted above, some practices may opt to dedicate additional resources to outbound marketing or engage a digital marketing agency to help do so, while other practices may invest more heavily in in-person marketing activities, such as conference hosting and participation.

To account for these risks, Forrester adjusted this expense category upward by 5%, yielding a three-year risk-adjusted total PV of \$2,143,945.



Marketing:
12% of total expenses

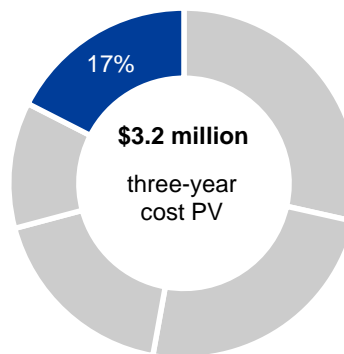
Marketing Expenses: Calculation Table

REF.	METRIC	CALC.	INITIAL	YEAR 1	YEAR 2	YEAR 3
K1	Total gross sales			\$20,271,861	\$41,826,756	\$65,346,920
K2	Marketing spend as a percentage of gross sales			2%	2%	2%
Kt	Marketing expenses	K1*K2		\$405,437	\$836,535	\$1,306,938
	Risk adjustment	↑5%				
Ktr	Marketing expenses (risk-adjusted)		\$0	\$425,709	\$878,362	\$1,372,285

General and Administrative Expenses

Partner organizations interviewed for this study mentioned spending an average of 3% of their annual gross practice sales on general and administrative expenses. This expense includes the cost of office space and utilities as well as the wages of various back-office functions such as billing and invoicing, finance and accounting, forecasting, and legal.

For the composite partner organization, Forrester applied a 5% upward risk adjustment to account for potential variances of the aforementioned factors in other partner organizations. Over three years of an Azure practice, total general and administrative expenses for the partner organization totaled a risk-adjusted PV of just over \$3.2M.



General and administrative: 17% of total expenses

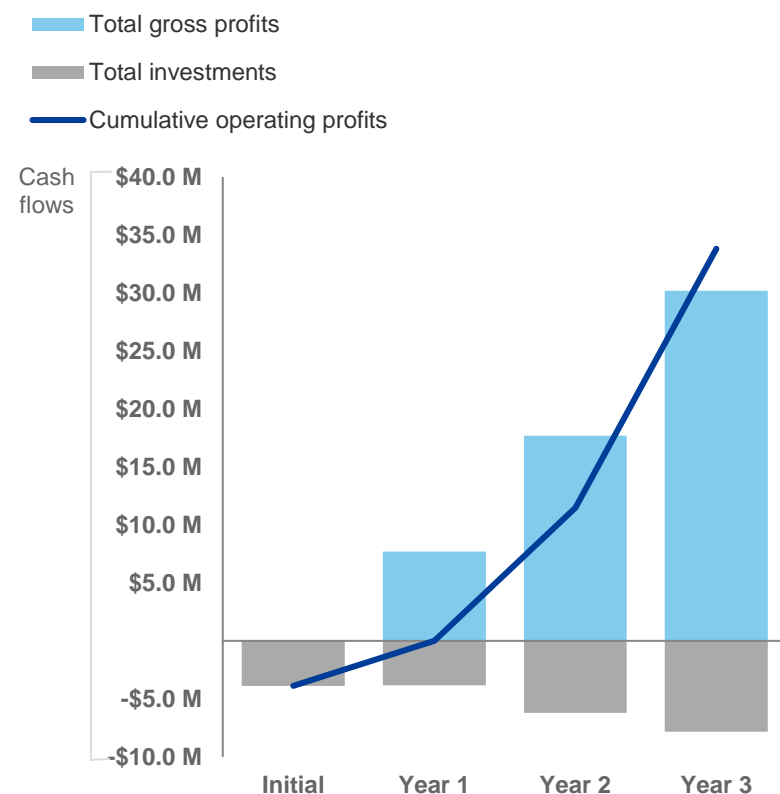
General And Administrative Expenses: Calculation Table

REF.	METRIC	CALC.	INITIAL	YEAR 1	YEAR 2	YEAR 3
L1	Total gross sales			\$20,271,861	\$41,826,756	\$65,346,920
L2	G&A as a percentage of gross sales			3%	3%	3%
Lt	General and administrative expenses	L1*L2		\$608,156	\$1,254,803	\$1,960,408
	Risk adjustment	↑5%				
Ltr	General and administrative expenses (risk-adjusted)		\$0	\$638,564	\$1,317,543	\$2,058,428

Financial Summary

CONSOLIDATED THREE-YEAR RISK-ADJUSTED METRICS

Cash Flow Chart (Risk-Adjusted)



The financial results calculated in the Revenue and Investments sections can be used to determine the ROI, NPV, and payback period for the composite organization's investment. Forrester assumes a yearly discount rate of 10% for this analysis.



These risk-adjusted ROI, NPV, and payback period values are determined by applying risk-adjustment factors to the unadjusted results in each Revenues and Investments section.

Cash Flow Table (Risk-Adjusted)

	INITIAL	YEAR 1	YEAR 2	YEAR 3	TOTAL	PRESENT VALUE
Total investments	(\$3,880,418)	(\$3,836,477)	(\$6,213,900)	(\$7,836,787)	(\$21,767,582)	(\$18,391,472)
Total gross profits	\$0	\$7,713,037	\$17,683,355	\$30,181,044	\$55,577,436	\$44,301,660
Net cash flow	(\$3,880,418)	\$3,876,560	\$11,469,455	\$22,344,256	\$33,809,853	\$25,910,188
ROI						141%
Payback period						13.0

Microsoft Partner Programs for Azure: Overview

The following information is provided by Microsoft. Forrester has not validated any claims and does not endorse Microsoft or its offerings.

About Microsoft Azure

Microsoft (Nasdaq “MSFT” @microsoft) enables digital transformation for the era of an intelligent cloud and an intelligent edge. Its mission is to empower every person and every organization on the planet to achieve more.

Microsoft Azure is an ever-expanding set of cloud computing services to help your organization meet its business challenges. With Azure, your business or organization has the freedom to build, manage, and deploy applications on a massive, global network using your preferred tools and frameworks, backed by Microsoft’s \$1B+ investment in security R&D and 3,500 cyber security experts designed to make Azure the most trusted cloud platform.

For more information on Azure please visit <https://azure.microsoft.com>.

Microsoft Partner Programs for Azure

The Microsoft Partner Network gives you the widest range of products in the industry as well as program options to differentiate your business, go to market, and sell your solutions.

The Azure Expert MSP badge is awarded to only the most high-fidelity cloud managed service providers on Azure, intended to give customers confidence when selecting a partner to help them meet their digital transformation goals. Azure Expert MSPs must meet a stringent set of requirements, including verified proof of excellence in customer delivery and technical expertise, and the successful completion of an independent audit of their managed services, people, processes, and technology. More information on the Azure Expert MSP program can be found on <https://aka.ms/JoinAzureExpertMSP>.

Azure advanced specializations provide a customer-facing label that proves a partner organization has met Microsoft’s highest standards of service delivery for specific scenarios such as migration, application modernization, container services, and more. Azure advanced specializations help increase partner visibility through priority discoverability and proactive positioning to Microsoft sellers and customers. More information on advanced specializations can be found on <https://aka.ms/AdvancedSpecializations>.

For more details about Microsoft partner programs and to view the full list of Microsoft Partner Network membership tiers and benefits, please visit: <https://partner.microsoft.com>.

Appendix A: Total Economic Impact

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.

Total Economic Impact Approach



Benefits represent the value delivered to the business by the product. The TEI methodology places equal weight on the measure of benefits and the measure of costs, allowing for a full examination of the effect of the technology on the entire organization.



Costs consider all expenses necessary to deliver the proposed value, or benefits, of the product. The cost category within TEI captures incremental costs over the existing environment for ongoing costs associated with the solution.



Flexibility represents the strategic value that can be obtained for some future additional investment building on top of the initial investment already made. Having the ability to capture that benefit has a PV that can be estimated.



Risks measure the uncertainty of benefit and cost estimates given: 1) the likelihood that estimates will meet original projections and 2) the likelihood that estimates will be tracked over time. TEI risk factors are based on "triangular distribution."

The initial investment column contains costs incurred at "time 0" or at the beginning of Year 1 that are not discounted. All other cash flows are discounted using the discount rate at the end of the year. PV calculations are calculated for each total cost and benefit estimate. NPV calculations in the summary tables are the sum of the initial investment and the discounted cash flows in each year. Sums and present value calculations of the Total Benefits, Total Costs, and Cash Flow tables may not exactly add up, as some rounding may occur.



Present value (PV)

The present or current value of (discounted) cost and benefit estimates given at an interest rate (the discount rate). The PV of costs and benefits feed into the total NPV of cash flows.



Net present value (NPV)

The present or current value of (discounted) future net cash flows given an interest rate (the discount rate). A positive project NPV normally indicates that the investment should be made, unless other projects have higher NPVs.



Return on investment (ROI)

A project's expected return in percentage terms. ROI is calculated by dividing net benefits (benefits less costs) by costs.



Discount rate

The interest rate used in cash flow analysis to take into account the time value of money. Organizations typically use discount rates between 8% and 16%.



Payback period

The breakeven point for an investment. This is the point in time at which net benefits (benefits minus costs) equal initial investment or cost.

Appendix B: Deal Calculations

The following calculation tables demonstrate how Forrester used average attach and pull-through rates to calculate the number of deals for each revenue stream found in the Financial Analysis section of this study:

Number Of Migration Execution Deals Completed: Calculation Table

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
APP:B1	Number of strategy sessions and migration planning assessments completed		28	40	50
APP:B2	Attach rate		90%	90%	90%
APP:B3	Number of new migration execution deals attached from strategy and assessment deals	APP:B1*APP:B2	25.2	36.0	45.0
APP:B4	Initial pull-through rate		50%	50%	50%
APP:B5	Secondary pull-through rate		25%	25%	25%
APP:B6	Number of migration execution deals pulled through from prior years by existing customers	$(APP:B3_{year\ x-1} * APP:B4) + (APP:B3_{year\ x-2} * APP:B5)$	0	12.6	24.3
APP:B	Number of migration execution deals completed	APP:B3+APP:B6	25.2	48.6	69.3

Number Of Refactoring And Rearchitecting Deals Completed: Calculation Table

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
APP:C1	Number of migration execution deals completed	APP:B	25.2	48.6	69.3
APP:C2	Attach rate		55%	55%	55%
APP:C3	Number of new refactoring and rearchitecting deals attached from migration execution deals	APP:C1*APP:C2	13.860	26.730	38.115
APP:C4	Initial pull-through rate		80%	80%	80%
APP:C5	Secondary pull-through rate		40%	40%	40%
APP:C6	Number of refactoring and rearchitecting deals pulled through from prior years by existing customers	$(APP:C3_{year\ x-1} * APP:C4) + (APP:C3_{year\ x-2} * APP:C5)$	0	11.088	26.928
APP:C	Number of refactoring and rearchitecting deals completed	APP:C3+APP:C6	13.860	37.818	65.043

Number Of Cloud-Native Application Development Deals Completed: Calculation Table

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
APP:D1	Number of strategy sessions and migration planning assessments completed		28	40	50
APP:D2	Attach rate		20%	20%	20%
APP:D3	Number of new cloud-native application development deals attached from strategy and assessment deals	APP:D1*APP:D2	5.6	8.0	10.0
APP:D4	Initial pull through-rate		20%	20%	20%
APP:D5	Secondary pull-through rate		10%	10%	10%
APP:D6	Number of cloud-native application development deals pulled through from prior years by existing customers	$(APP:D3_{\text{year } x-1} * APP:D4) + (APP:D3_{\text{year } x-2} * APP:D5)$	0	1.12	2.16
APP:D	Number of cloud-native application development deals completed	APP:D3+APP:D6	5.60	9.12	12.16

Number Of Azure Managed Service Deals Completed: Calculation Table

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
APP:E1	Number of migration execution deals completed	APP:B	25.2	48.6	69.3
APP:E2	Attach rate		30.0%	31.5%	33.0%
APP:E	Number of managed service deals	APP:E1*APP:E2	7.560	15.309	22.921

Number Of Value-Added IP Licenses Sold Annually: Calculation Table

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
APP:F1	Number of migration execution deals completed	APP:B	25.2	48.6	69.3
APP:F2	Attach rate		10%	10%	10%
APP:F	Number of value-added IP licenses sold annually	APP:F1*APP:F2	2.52	4.86	6.93

Appendix C: Endnotes

¹ Source: “Use Modernization And Migration Services To Speed Your Cloud Migration,” Forrester Research, Inc., June 4, 2019.