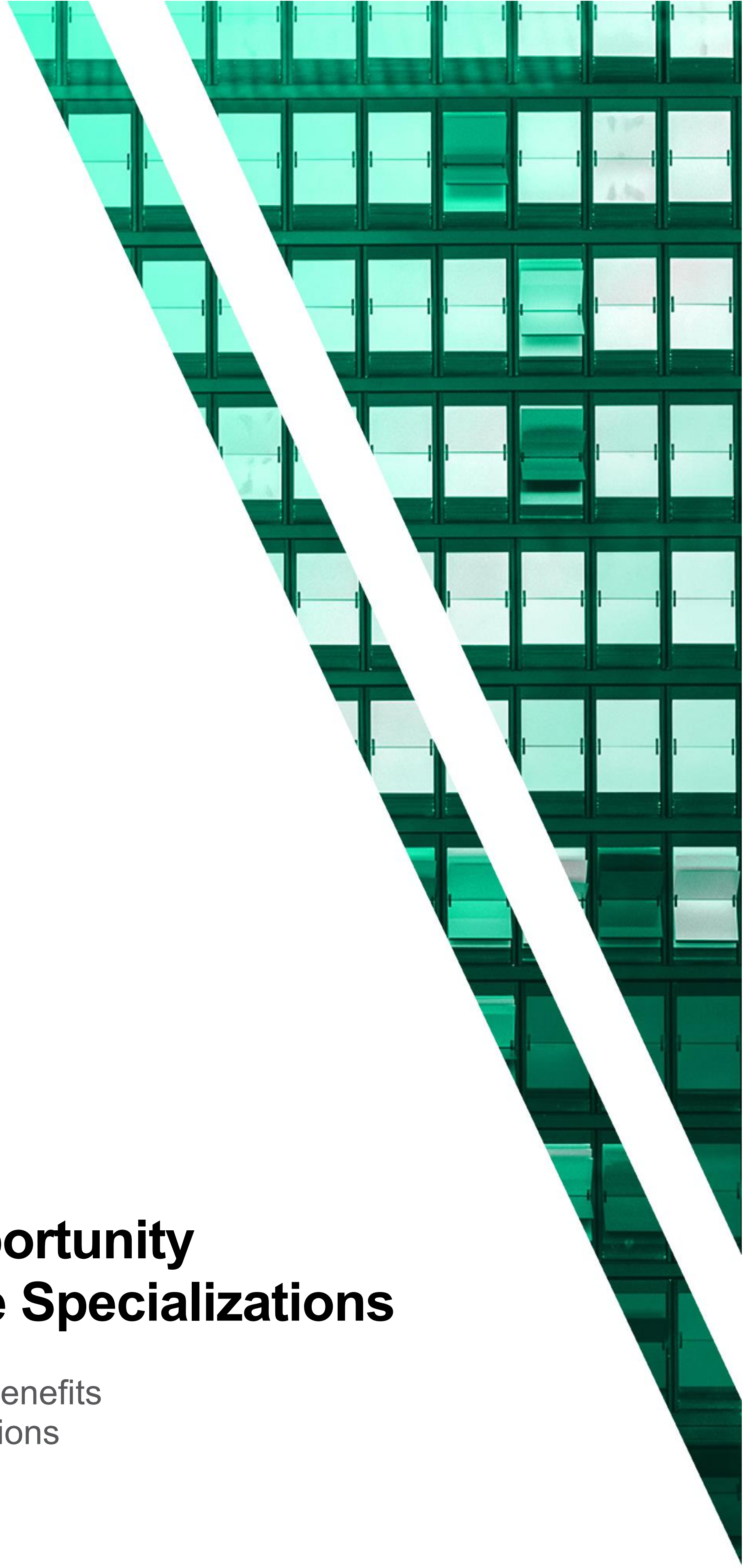
FORRESTER®



The Business Opportunity Of Microsoft Azure Specializations

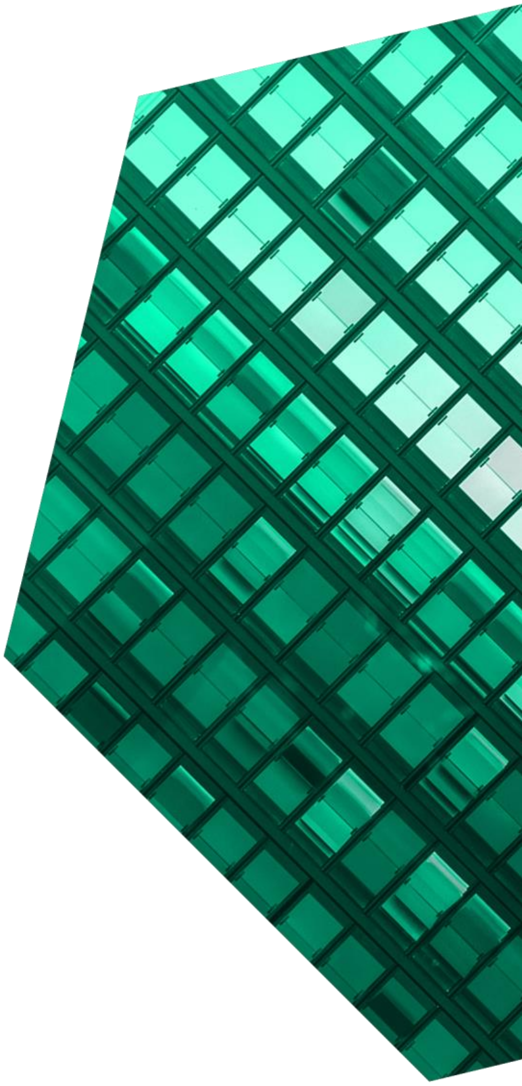
Cost Savings And Business Benefits Enabled By Azure Specializations

FEBRUARY 2024

A FORRESTER TOTAL ECONOMIC IMPACT™ STUDY COMMISSIONED BY MICROSOFT

Table Of Contents

Consulting Team: Roger Nauth



ABOUT FORRESTER CONSULTING

Forrester provides independent and objective research-based consulting to help leaders deliver key outcomes. Fueled by our customer-obsessed research, Forrester's seasoned consultants partner with leaders to execute their specific priorities using a unique engagement model that ensures lasting impact. For more information, visit forrester.com/consulting.

Executive Summary

Today, managed service providers, systems integrators, and technology consulting firms are faced with challenges gaining customer market share. At the same time, technical employees have options for managing their careers and may have low loyalty to employers who are not dedicated to providing skill-building careers in next-gen technologies like the cloud. Microsoft's Azure Specializations offers partners the ability to mitigate these challenges as well as increase profitable revenue opportunities.

Microsoft Azure Specializations help organizations confidently identify highly capable, high-impact partners who can quickly engage on relevant customer engagements by workload so they can ensure successful outcomes and meet their performance targets. Azure Specializations are renewed annually, aligned to priority solution plays, and required for partner cosell prioritization. Partners are validated through previous customer deployments, Azure-certified staff, and gold competency. In addition, partners must pass a live audit conducted by an independent auditor that assesses that partners meet a robust, repeatable process to ensure consistent customer outcomes, provide Azure landing zones designed according to Microsoft best practices, and have well-architected design of workloads.

Microsoft commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study to examine the potential business opportunity and return on investment (ROI) partners may realize by building and scaling an Azure Specializations partnership practice.[1] The purpose of this study is to provide potential and existing services partners with a framework to evaluate the potential business opportunity associated with building, managing, and selling Azure engagements as a partner in the Azure Specializations ecosystem.

To better understand the revenue streams, investments, and risks associated with an Azure Specializations practice, Forrester interviewed four representatives of existing Azure partners with experience collaborating with Azure to build or innovate and ultimately sell and scale their Azure Specializations partnership practice. These partners drive innovation, launch quickly, expand quickly, and streamline operations. To illustrate the financial impact and subsequent partner business opportunity for Azure Specializations partners, Forrester aggregated the characteristics of these interviewees and combined the results into a single composite organization.

KEY STATISTICS

Return on investment (ROI)
290%

Net present value (NPV)
$2.11M

KEY FINDINGS

Revenue opportunities. The composite partner organization captures the following revenue streams:

- **Profit generated from partnership, worth $1.7 million over three years.** Interviewees from Azure specialization partners touted significant profits as a result of their partnership.

- **Funding opportunities from Azure Specializations, worth $1.1 million over three years.** Microsoft Azure has a robust funding opportunity program in place for its partners, including those that are certified as Azure Specializations partners.

Key outcomes. Benefits that are not quantified for this study include:

- **Highly accessible and knowledgeable technical support and training.** Interviewees emphasized the value of Microsoft Azure's training options and technical support team to their organizations' employees as they worked to meet client needs on Azure projects.
- **Increased ability to penetrate larger clients and new markets.** The addition of Azure specialization capacities to their practices enabled interviewees' organizations to work with new clients of different sizes in different locations and industries.
- **Enhanced client experiences.** Bringing Azure Specializations and clients together through the partnership gave clients access to new technologies and open communication.
- **Brand recognition and trust.** Interviewees and their clients valued the recognition and trust that comes with the Microsoft brand.
- **Demonstration of audit.** Interviewees touted being able to demonstrate their organizations had gone through an audit with Microsoft and their procedures meet Microsoft's high standards.
- **Ability to work with Microsoft on codesign.** The interviewees' organizations benefited from the ability to work with Microsoft on the codesigning of Azure solutions.

Investments. Three-year, risk-adjusted PV investments for the composite organization include:

- **Training and certification expenses.** Microsoft Azure offers partners an extensive training and certification program. While partners do not pay a direct expense for this, the composite organization's opportunity expense is a risk-adjusted $335,000 over three years.

The Azure Specializations partnership keeps us in high-growth markets. It would take years to build a business with the relationship with Microsoft.

— Chief revenue officer, IT consulting and outsourcing

- **Partnership management expense.** The composite organization has one employee who devotes time to managing the partnership with Azure Specializations. This risk-adjusted expense is $390,000 over three years.

The representative interviews and financial analysis found that a composite organization experiences benefits of $2.83 million over three years versus costs of $725,000, adding up to a net present value (NPV) of $2.11 million and an ROI of 290%.

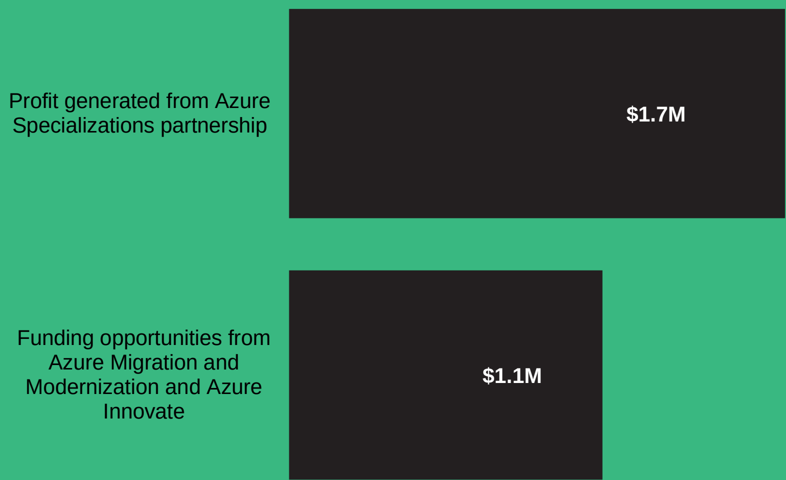
ROI
290%

BENEFITS PV
$2.83M

NPV
$2.11M

PAYBACK
<6 months

Benefits (Three-Year)



“One big benefit is the deeper contact with Microsoft. You have more technical conversations, have more benefits from the financial perspective, and get a better customer success story.”

— Microsoft Azure solutions architect, systems integrator

TEI FRAMEWORK AND METHODOLOGY

From the information provided in the interviews, Forrester constructed a Total Economic Impact™ framework for those organizations considering an investment in Azure Specializations.

The objective of the framework is to identify the cost, benefit, flexibility, and risk factors that affect the investment decision. Forrester took a multistep approach to evaluate the impact that Azure Specializations can have on an organization.

DUE DILIGENCE

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

INTERVIEWS

Interviewed four representatives at organizations using Azure Specializations to obtain data with respect to costs, benefits, and risks.

COMPOSITE ORGANIZATION

Designed a composite organization based on characteristics of the interviewees' organizations.

FINANCIAL MODEL FRAMEWORK

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

CASE STUDY

Employed four fundamental elements of TEI in modeling the investment impact: benefits, costs, flexibility, and risks. Given the increasing sophistication of ROI analyses related to IT investments, Forrester's TEI methodology provides 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 organizations will receive. Forrester strongly advises that readers use their own estimates within the framework provided in the study to determine the appropriateness of an investment in Azure Specializations.

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.

The Microsoft Azure Specializations Customer Journey

Drivers leading to the Azure Specializations investment

Interviews

Role	Industry	Geography	Number Of Employees
Strategic alliance director	Enterprise software	US headquarters; global market	60,000
Chief revenue officer	IT consulting and outsourcing	UK headquarters; European market	300
Vice president of Microsoft alliances and programs	IT services	Norway headquarters; European market	3,300
Microsoft Azure solutions architect	Systems integrator	Germany headquarters; European market	2,100

PARTNER GOALS, CHALLENGES, AND DRIVERS

Partners were diverse in size, background, functional and vertical Specializations, type, and degree of engagement with Microsoft Azure. They partnered with Microsoft to build and scale their consulting businesses for a myriad of reasons, including:

- **A lack of credibility.** The interviewees expressed to Forrester they experienced a perceived lack of credibility by customers as a result of not having Azure Specializations.
- **A lack of technical expertise.** Partners told Forrester they did not have the technical expertise for Azure services that customers required and demanded.

Partners discussed their reasons and objectives for choosing a partnership with Azure Specializations, stating the following:

- **Gold standard for cloud certification.** Interviewees from partner organizations told Forrester they felt the Azure Specializations certification is a top standard from a top-tier technology company and thus a big reason for choosing the partnership.
- **Revenue and funding benefits.** Interviewees unanimously shared that funding and revenue benefits were a major objective for the decision to obtain Azure Specializations partnership status.

COMPOSITE ORGANIZATION

Based on the interviews, Forrester constructed a TEI framework, a composite partner company, and an ROI analysis that illustrates the areas financially affected. The composite organization is representative of the four interviewees, and it is used to present the aggregate financial analysis in the next section. The composite organization has the following characteristics:

- A global technology services company with $2 billion in revenue and 16,000 employees.
- US or European headquarters with global or international target markets with a wide range of clients that value Microsoft Azure’s brand and technical expertise.

Key Assumptions

- **$2-billion services company**
- **16,000 employees**
- **US or European based**
- **Value Microsoft brand**

Analysis Of Benefits

Quantified benefit data as applied to the composite

Total Benefits						
Ref.	**Benefit**	**Year 1**	**Year 2**	**Year 3**	**Total**	**Present Value**
Atr	Profit generated from Azure Specializations partnership	$697,680	$697,680	$697,680	$2,093,040	$1,735,027
Btr	Funding opportunities from Azure Migration and Modernization and Azure Innovate	$361,250	$446,250	$531,250	$1,338,750	$1,096,347
	Total benefits (risk-adjusted)	$1,058,930	$1,143,930	$1,228,930	$3,431,790	$2,831,374

PROFIT GENERATED FROM AZURE SPECIALIZATIONS PARTNERSHIP

Evidence and data. Interviewees from Azure specialization partners touted significant profits because of their partnerships with Microsoft.

Modeling and assumptions. To calculate the value of this benefit for the composite organization, Forrester assumes the following:

- The composite organization generates an average of $5.4 million from the partnership with Microsoft for Azure Specializations.
- The composite organization achieves approximately a 19% profit margin annually from the Azure Specializations partnership.
- On average, 80% of the profit the composite experiences is attributable to the Azure Specializations program.

Risks. The value of this benefit can vary across organizations due to:

- The varying negotiated revenue share rates.
- The deal volume of the composite partners' clients, the number of clients, and the number of products in its integrations.
- The partner activity and engagement with Microsoft Azure. Less-engaged partners can expect lower profit from their Azure Specializations partnership.
- The services provided and the associated gross margins.

Results. To account for these risks, Forrester adjusted this benefit downward by 15%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of $1.7 million.

Profit Generated From Azure Specializations Partnership					
Ref.	**Metric**	**Source**	**Year 1**	**Year 2**	**Year 3**
A1	Revenue generated from partnership	Interviews	$5,400,000	$5,400,000	$5,400,000
A2	Profit margin from partnership	Interviews	19%	19%	19%
A3	Profit percentage attributed to Azure Specializations partnership	Composite	80%	80%	80%
At	Profit generated from Azure Specializations partnership	A1*A2*A3	$820,800	$820,800	$820,800
	Risk adjustment	↓15%			
Atr	Profit generated from Azure Specializations partnership (risk-adjusted)		$697,680	$697,680	$697,680
	Three-year total: $2,093,040			**Three-year present value: $1,735,027**	

FUNDING OPPORTUNITIES FROM AZURE MIGRATION AND MODERNIZATION AND AZURE INNOVATE

Evidence and data. Interviewees noted that Microsoft Azure has a funding opportunity program in place for its partners, including those that are certified as Azure Specializations partners.

Modeling and assumptions. To calculate the value of this benefit for the composite organization, Forrester assumes the following:

- There are an average of 17 funding opportunities for the composite organization in Year 1, 21 in Year 2, and 25 in Year 3.
- The composite organization enjoyed an average of $25,000 per funding opportunity through its relationship with Microsoft's Azure Specializations.

Risks. The funding opportunities can vary due to differences in:

- The varying contracted funding opportunity agreements.
- The volume of the composite partners' funding opportunities.

Results. To account for these risks, Forrester adjusted this benefit downward by 15%, yielding a three-year, risk-adjusted total PV of $1.1 million.

Funding Opportunities From Azure Migration And Modernization And Azure Innovate					
Ref.	**Metric**	**Source**	**Year 1**	**Year 2**	**Year 3**
B1	Number of funding opportunities	Interviews	17	21	25
B2	Funding per opportunity	Composite	$25,000	$25,000	$25,000
Bt	Funding opportunities from Azure Migration and Modernization and Azure Innovate	B1*B2	$425,000	$525,000	$625,000
	Risk adjustment	↓15%			
Btr	Funding opportunities from Azure Migration and Modernization and Azure Innovate (risk-adjusted)		$361,250	$446,250	$531,250
	Three-year total: $1,338,750		**Three-year present value: $1,096,347**		

UNQUANTIFIED BENEFITS

Interviewees mentioned the following additional benefits that their organizations experienced but were not able to quantify:

- **Highly accessible and knowledgeable technical support and training.** Interviewees praised the quality and availability of Microsoft's support team along with its training and certification program, which is continuously improving.
- **Increased ability to penetrate larger clients and new markets.** The addition of Azure specialization capacities to their practices enabled interviewees' organizations to work with new clients of different sizes in different locations and industries.
- **Enhanced client experiences.** Bringing Azure Specializations and clients together through the partnership gave clients access to new technologies and open communication.
- **Brand recognition and trust.** Interviewees and their clients valued the recognition and trust that comes with the Microsoft brand.
- **Demonstration of audit.** Interviewees touted being able to demonstrate their organizations had gone through an audit with Microsoft and their procedures meet Microsoft's high standards.
- **Ability to work with Microsoft on codesign.** The interviewees' organizations benefited from the ability to work with Microsoft on the codesigning of Azure solutions.

> **"We [enjoy] technical benefits from working closely with the Azure product teams in joint go to market selling."**
>
> *Vice president of Microsoft alliances and programs, IT services*

FLEXIBILITY

The value of flexibility is unique to each customer. There are multiple scenarios in which a customer might implement Azure Specializations and later realize additional uses and business opportunities, including:

- **Access to cutting-edge cloud technologies.** The interviewees valued the new features Microsoft Azure introduced over time and the corresponding opportunities that arose for their businesses.
- **Increased value from new programs.** Interviewees discussed how Microsoft Azure Specializations continued to evolve and improve, with programs like Azure Migration and Modernization Program (AMMP) that were partner-led. One interviewee told Forrester, "AMMP gives Microsoft [and us] more scale."
- **Earning more Specializations.** The Microsoft Azure solutions architect at a system integrator told Forrester: "The strategy is to earn the same specialization for ongoing years or earn more specializations. We have developed roadmaps to prioritize specialization, which makes sense for our us and our customers."

"AMPP gives Microsoft [and us] more scale."

Chief revenue officer, IT consulting and outsourcing

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

"We have more opportunity at the customers having earned the [Azure Specializations] status so we have more benefit — the interaction from both sides has much more value."

— Microsoft Azure solutions architect, systems integrator

Analysis Of Costs

Quantified cost data as applied to the composite

Total Costs							
Ref.	**Cost**	**Initial**	**Year 1**	**Year 2**	**Year 3**	**Total**	**Present Value**
Ctr	Opportunity cost from training and certification	$0	$176,000	$132,000	$88,000	$396,000	$335,207
Dtr	Partnership management expense	$82,500	$123,750	$123,750	$123,750	$453,750	$390,248
	Total costs (risk-adjusted)	$82,500	$299,750	$255,750	$211,750	$849,750	$725,455

OPPORTUNITY COST FROM TRAINING AND CERTIFICATION

Evidence and data. While there is no direct cost to partners for Azure specialization training and certification or the partnership in general, interviewees from partners discussed the extensive training and certification required to be an Azure specialization partner. Forrester modeled this as an opportunity cost given that the individuals trained and certified would otherwise be billable to the partners' clients.

Modeling and assumptions. This cost was valued using data provided by interviewees and Microsoft. For the composite organization, Forrester assumes the following:

- Approximately five billable employees are trained on an annual basis.
- Each employee spends 40 hours on average being trained and certified for each specialization.
- The composite goes through an average of four certifications for specializations in Year 1, 3 in Year 2, and 2 in Year 3.
- Forrester applied a fully burdened hourly billable rate of $200 per hour for a solution architect to model the opportunity cost to the business.

Risks. The value of this cost can vary across organizations due to:

- Potential changes to Azure specialization's training and certification programs.
- The number of trained employees required.

Results. To account for these risks, Forrester adjusted this cost upward by 10%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of $335,000.

Opportunity Cost From Training & Certification						
Ref.	**Metric**	**Source**	**Initial**	**Year 1**	**Year 2**	**Year 3**
C1	Trained and certified employees	Composite	0	5	5	5
C2	Training and certification time (hours)	Composite	0	40	40	40
C3	Average number of certifications per partner	Composite	0	4	3	2
C4	Fully burdened hourly salary of Azure solution architect	TEI standard	$0	$200	$200	$200
Ct	Opportunity cost from training and certification	C1*C2*C4	$0	$160,000	$120,000	$80,000
	Risk adjustment	↑10%				
Ctr	Opportunity cost from training and certification (risk-adjusted)		$0	$176,000	$132,000	$88,000
	Three-year total: $396,000			**Three-year present value: $335,207**		

PARTNERSHIP MANAGEMENT EXPENSE

Evidence and data. After integrating with Microsoft Azure, interviewees devoted ongoing labor for engaging, managing, and strengthening their partnerships. Interviewees from Azure specialization partners mentioned a range of time to manage the partnership on their ends, which Forrester modeled as an investment in the financial model.

Modeling and assumptions. This cost was valued using data provided by interviewees and Microsoft. For the composite organization, Forrester assumes the following:

- The composite organization requires 1 FTE to deploy the partnership program internally.
- The composite organization requires 1.5 FTEs on an ongoing basis to manage the partnership program.
- Each FTE spends approximately 15 hours per week managing the partnership program.
- Forrester applied a fully burdened hourly rate of $100 per hour for an FTE involved in partnership management.

Risks. The value of this cost can vary across organizations due to:

- The depth of the partnership and level of ongoing management and engagement with Azure.
- The organization size and the number of employees and the amount of time involved.
- The roles involved in partnership management and their associated pay.

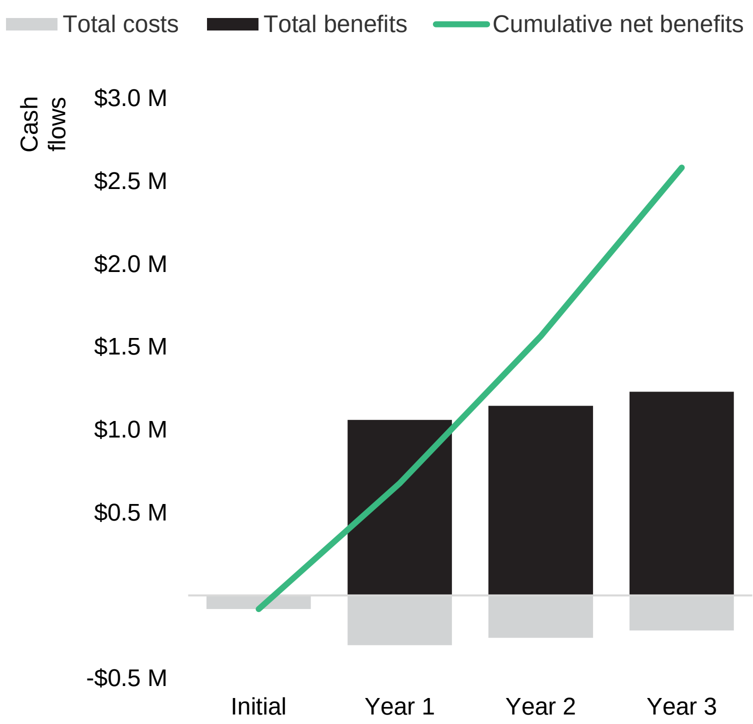
Results. To account for these risks, Forrester adjusted this cost upward by 10%, yielding a three-year, risk-adjusted total PV of $390,000.

Partnership Management Expense						
Ref.	**Metric**	**Source**	**Initial**	**Year 1**	**Year 2**	**Year 3**
D1	Number of FTEs involved in partnership management	Composite	1.0	1.5	1.5	1.5
D2	Partnership management hours per week	Composite	15	15	15	15
D3	Fully burdened hourly salary for partnership management	TEI standard	$100	$100	$100	$100
Dt	Partnership management expense	D2*50*D3	$75,000	$112,500	$112,500	$112,500
	Risk adjustment	↑10%				
Dtr	Partnership management expense (risk-adjusted)		$82,500	$123,750	$123,750	$123,750
	Three-year total: $453,750			**Three-year present value: $390,248**		

Financial Summary

CONSOLIDATED THREE-YEAR, RISK-ADJUSTED METRICS

Cash Flow Chart (Risk-Adjusted)



The financial results calculated in the Benefits and Costs 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 Benefit and Cost section.

Cash Flow Analysis (Risk-Adjusted Estimates)

	Initial	Year 1	Year 2	Year 3	Total	Present Value
Total costs	($82,500)	($299,750)	($255,750)	($211,750)	($849,750)	($725,455)
Total benefits	$0	$1,058,930	$1,143,930	$1,228,930	$3,431,790	$2,831,374
Net benefits	($82,500)	$759,180	$888,180	$1,017,180	$2,582,040	$2,105,919
ROI						290%
Payback						<6 months

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: Endnotes

[1] 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.


FORRESTER®