

The Revenue And Growth Opportunities For Microsoft ISVs

A Total Economic Impact™ Partner Opportunity Analysis

APRIL 2023

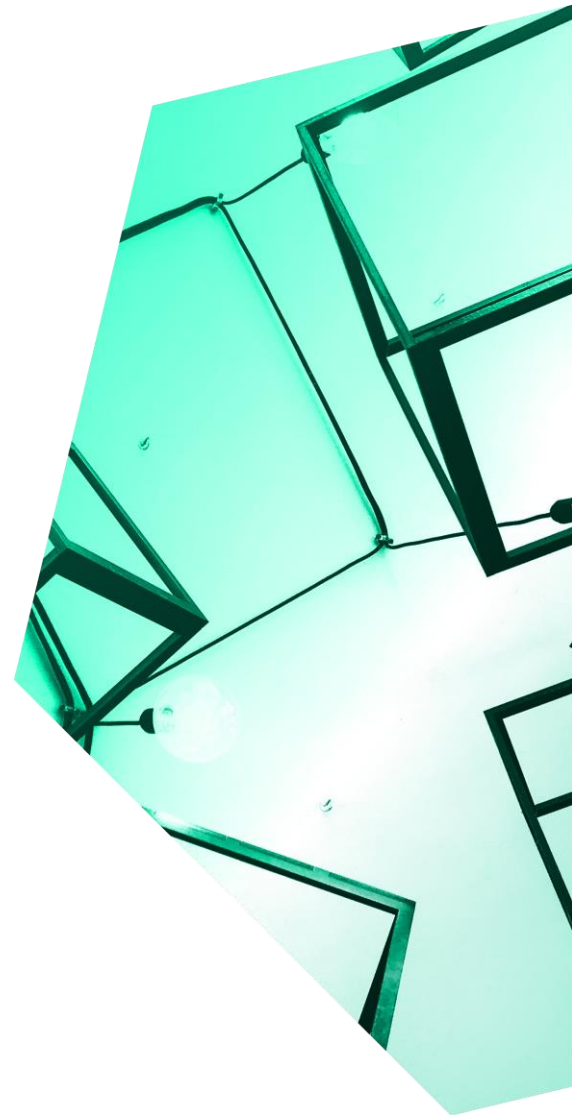
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ABOUT FORRESTER CONSULTING

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Executive Summary

Since coming to market, public cloud development and infrastructure platforms (PCDIPs) have evolved tremendously and now offer unmatched capabilities and the potential for innovation, collaboration, and agility.¹ Today, independent software vendors (ISVs) choose to build applications on platforms like the Microsoft Cloud and sell through marketplaces like the Microsoft commercial marketplace. By building in partnership with Microsoft and its ISV Success offering, ISVs can grow profitable practices.

The [Microsoft Cloud](#) is Microsoft's cloud technology platform. It consists of different products and solutions serving diverse industries and needs spanning security, infrastructure, digital and app innovation, data and AI, business applications, and modern work. To help ISVs build on the Microsoft Cloud and publish and sell their applications through the Microsoft commercial marketplace, Microsoft provides the [ISV Success](#) offering which includes partner benefits such as cloud credits, one-to-one technical consultations and advisory sessions, events, resources, and other support.

Microsoft commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study to examine the potential business opportunity ISVs may realize by building and scaling applications through Microsoft.² The purpose of this study is to provide potential and existing ISVs with a framework to evaluate the potential business opportunity associated with building intellectual property (IP) on the Microsoft Cloud through ISV Success.

KEY STATISTICS



Higher gross margin
14%



Larger deal sizes
25%

To better understand the revenue streams, investments, and risks associated with building on the Microsoft Cloud and participating in ISV Success, Forrester interviewed five representatives from three companies that are collaborating with Microsoft to build or innovate and ultimately publish and sell applications through the Microsoft commercial marketplace. These partners were all members of ISV Success with applications built on the Microsoft Cloud serving customers globally.

To illustrate the financial impact and business opportunity for Microsoft ISVs, Forrester aggregated the characteristics of these interviewees. These findings are presented with a financial example for a partner with \$100,000 in annual recurring revenue (ARR) via one customer. The revenue streams are presented as percentages of the total expected revenue and gross revenue opportunities. Readers can modify and scale this example.

Microsoft Cloud
gross margin

80%



KEY FINDINGS

Revenue opportunities. The financial example reflects the following revenue stream benefits, which are representative of those the interviewees' organizations experienced:

- **Core IP annual recurring revenue.** To start, interviewees told Forrester about the IP they built using Microsoft Cloud solutions and sold to customers generating ARR. Focuses of this IP included email security, meeting interpretation, and remote monitoring and management (RMM).
- **Microsoft Cloud-enabled add-on and integration revenue.** On top of their organizations' core IP, interviewees explained how they grew ARR with the Microsoft Cloud by building add-ons, integrations, and new features, such as Microsoft Teams chat monitoring, which enabled them to increase deal sizes. Over the one-year financial example, this supplemental revenue stream increases the expected revenue and the gross revenue opportunities by 6%.
- **Larger deals enabled by the Microsoft commercial marketplace.** Besides increasing deal sizes with add-ons, integrations, and new features, interviewees also told Forrester that co-selling with Microsoft and selling through the Microsoft commercial marketplace led to larger deals. Interviewees said that Microsoft helped them gain leads, reach larger customers globally, and easily transact. Over the one-year financial example, this supplemental revenue stream increases the expected revenue and the gross revenue opportunities by 7%.
- **Microsoft Cloud-enabled cost savings.** Alongside impacts to revenue, interviewees also recounted how building on the Microsoft Cloud and optimizing their IP improved their gross margins compared to prior applications or versions of their applications on other cloud platforms. Over the one-year financial example,

this supplemental revenue stream increases the gross revenue opportunity by 16%.

Key outcomes. Other benefits that provided value for the interviewees' organizations included the ISV Success offering; Microsoft's overall collaboration and support; faster deals with the Microsoft commercial marketplace; increased reach and deal support with the Microsoft commercial marketplace; the Microsoft brand and trust; the ability to meet client security and compliance needs with the Microsoft Cloud; and more differentiated applications.

Investments. Beyond the costs of IP, which are embedded in the gross margin calculations, partners also invested in research and development, partnership management, marketing, sales, training, and general and administrative expenses.

Best practices. To maximize the impact of the partnership and realize success building and selling their applications, the interviewees' ISVs created compelling, Microsoft Cloud-specific solutions, and worked closely with Microsoft and channel partners, as well as invested in Microsoft's commercial marketplace, optimized their offerings for the Microsoft Cloud, used Microsoft tools in the product development process, persevered and sought assistance, hired great people and trained them well, and took part in ISV Success.

Net results. The representative interviews and corresponding financial example calculated a 12% greater expected revenue opportunity and a 29% greater gross revenue opportunity with the Microsoft Cloud.



ARR uplift with Microsoft Cloud-enabled functionality
11%



Deal size uplift with the Microsoft commercial marketplace
25%



Microsoft Cloud gross margin improvement
14%



Microsoft Cloud gross margin
80%

“The trust and credibility we get because our solution is built with Microsoft ... is not only because of the software, but because of the relationship and the trust that customers have in Microsoft itself.”

— CEO, ISV building email security solutions

TEI FRAMEWORK AND METHODOLOGY

From the information provided in the interviews, Forrester constructed a Total Economic Impact™ framework for those ISVs considering building and growing with Microsoft.

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

DISCLOSURES

Readers should be aware of the following:

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

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

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

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



DUE DILIGENCE

Interviewed Microsoft stakeholders and Forrester analysts to gather data relative to the Microsoft Cloud.



INTERVIEWS

Interviewed five representatives at three partner organizations with existing Microsoft Cloud practices to obtain data with respect to costs, benefits, and risks.



FINANCIAL EXAMPLE

Designed a financial example 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 impact of a Microsoft Cloud practice: revenue, investments, 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 investment and partnership decisions. Please see Appendix A for additional information on the TEI methodology.

The Microsoft ISV Journey

■ Drivers leading to the Microsoft practice investment

Interviews					
Role	IP Focus	Region	Revenue	Employees	Founded
<ul style="list-style-type: none">• CEO• CMO• Service delivery director	Email security	APAC headquarters, global operations	Undisclosed	30	2001
Director of operations	RMM	EMEA headquarters, global operations	\$5 million	36	2015
CEO	Meeting interpretation	EMEA headquarters, global operations	\$250,000	12	2021

ISV GOALS, CHALLENGES, AND DRIVERS

The interviewees' ISVs were diverse in size, background, functional and vertical specializations, type, and degree of engagement with Microsoft. They partnered with Microsoft to build and scale their applications for myriad reasons, including:

- **Previous bare-metal and on-premises servers.** Before building with Microsoft, interviewees discussed how their organizations often relied on bare-metal and on-premises servers rather than a cloud platform. This setup led to challenges around scalability, cost, provisioning speed, and training with so many different providers and setups. "In the past, we'd have to have servers located on-premises in all the schools," the director of operations of a company developing RMM solutions explained.
- **An impetus to move to a cloud platform.** Interviewees told Forrester they knew without question that they needed to move to the cloud to scale and grow their businesses. The director of operations of an ISV creating RMM solutions explained: "We went back to scratch, and we decided that it would be 100% cloud. ... We needed scale because that was our problem before."

"Our relationship with Microsoft is absolutely key to what we do moving forward."

CEO, ISV building meeting interpretation solutions

- **Build opportunities.** The decision-makers Forrester spoke with also each saw entrepreneurial opportunities to build unique applications, which drove the creation of new IP and the partnership. The CEO of an ISV creating meeting interpretation solutions explained the build opportunity they discovered pushing them to partner: "I've been in this space for a long time, so especially during [the COVID-19 pandemic], I managed about 10,000 online meetings and there wasn't a dedicated, integrated, and good tool for Microsoft. ... It seemed a no-brainer that it was worth doing a dedicated product for Microsoft Teams."

SELECTING THE RIGHT PARTNER

In choosing a partner and platform around which to build and sell their applications, interviewees emphasized the importance of the following factors:

- **Alignment with Microsoft.** To start, interviewees expressed that they found alignment with Microsoft and its values. Commercially, they aligned driving Azure consumption and, objectively, they aligned pursuing common ground such as keeping clients secure. The CMO of a company developing email security solutions elaborated: “We felt that we were very closely aligned with Microsoft and its values. In particular, having those values represented as far up as [Microsoft executives] in some of their comments, gave us confidence.”

“We have the best solution on the market for interpreting the language in Microsoft Teams because we made a choice to be in the Microsoft Cloud.”

CEO, ISV building meeting interpretation solutions

- **Confidence in Microsoft.** Interviewees were confident in Microsoft, as were their organizations’ clients. Partner-wise, the director of operations of a business building RMM solutions stated: “We were confident with Microsoft. It was the number of offerings they had ... and all the different aspects. It was all there, and we knew it was going to keep getting better.” Client-wise, the same interviewee said: “Schools are very comfortable with Microsoft and their track record. ... Usually, when they say, ‘Where’s the data stored?’ we say, ‘Microsoft.’ That’s the end of the conversation.”

- **Building for the vast number of Microsoft customers, users, and devices.** After discovering a build opportunity for Microsoft customers and devices, interviewees indicated that the logical next step was to partner with Microsoft and build on the Microsoft Cloud. The director of operations of an ISV developing RMM solutions explained, “Since we were dealing mostly with Windows devices at the time and certain technology was only available on Azure, that’s where we started.”

On top of that, the sheer number of Microsoft users played a role in interviewees’ decisions, too. The CMO of an ISV building email security solutions said: “[My organization built an application] so that it could protect the 345 million plus Microsoft 365 customers, which meant a real paradigm shift in terms of our infrastructure and services. We needed to be able to rapidly scale and the Microsoft Cloud environment enables us to do that in a way that we weren’t able to before.”

- **Microsoft technology.** Besides partnering with Microsoft because of a perceived fit with users, customers, and devices, interviewees also partnered with Microsoft for its technology. Interviewees, such as the director of operations of an ISV building RMM solutions, called out

“It was a very conscious decision for us. We decided that if we were going to do a product for Microsoft, then we should do it using only Microsoft technologies. ... We’re confident we made the right choice.”

CEO, ISV building meeting interpretation solutions

specific technologies that played a role in their decisions: “We needed SignalR and that’s the technology that we’re using now over Microsoft Teams. We needed real-time communication.”

- **The Microsoft ISV partner ecosystem, resources, and support.** Beyond their applications, interviewees also detailed how the scale of Microsoft’s partner ecosystem, including the 90,000 partners in the Microsoft AI Cloud Partner Program, and the resources available to them, such as ISV Success, influenced their organizations’ decisions to partner. The service delivery director of a company building email security solutions explained, “Being a part of IP Co-Sell ... gave us benefits as an ISV partner to Microsoft from a strategic sales point of view.”

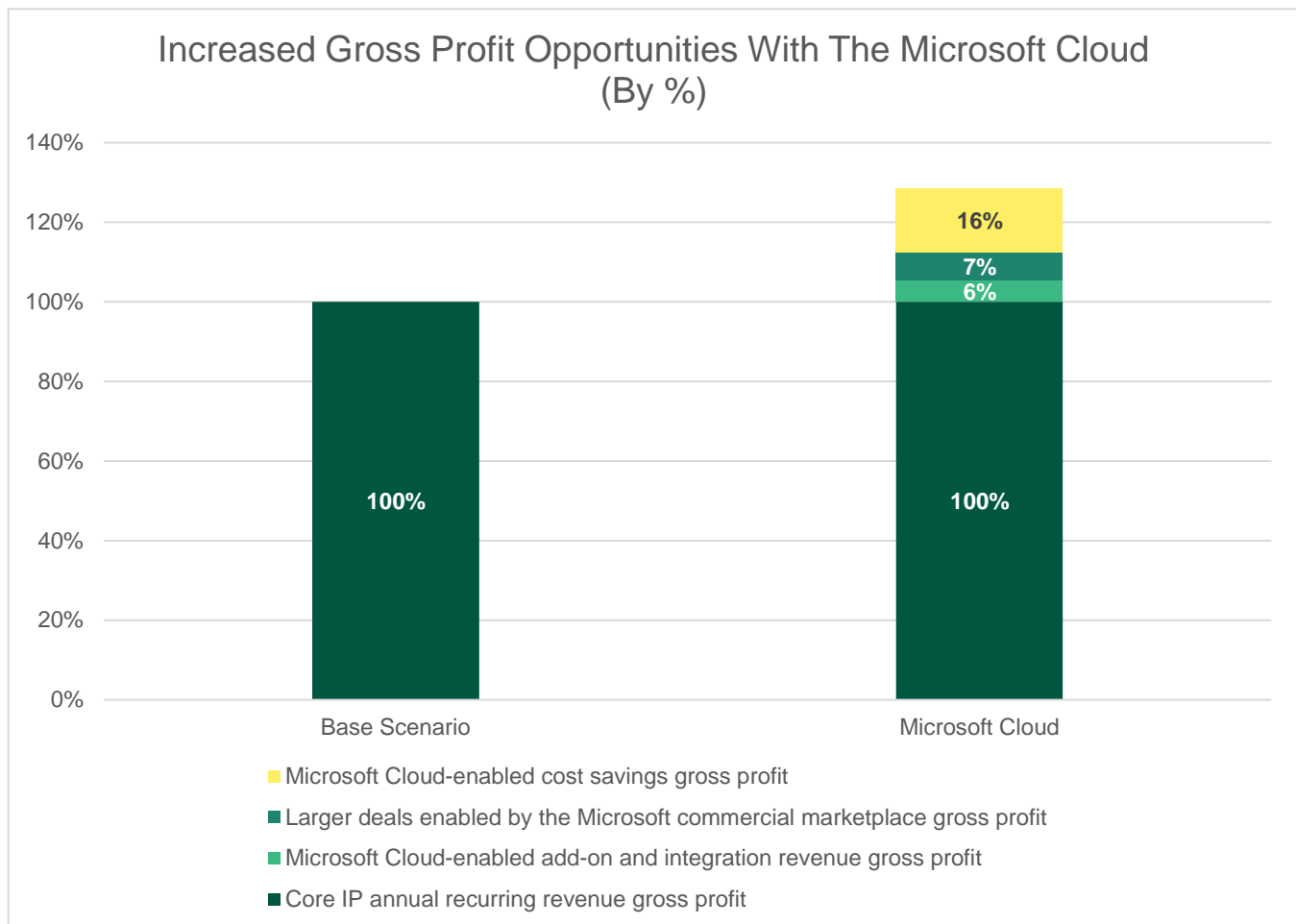
- **The Microsoft commercial marketplace.** Finally, interviewees detailed how they expected the Microsoft commercial marketplace to enable their organizations to efficiently sell IP to clients around the world in a way that they couldn’t do as easily or effectively before partnering. The CMO for an ISV building email security solutions explained, “The Microsoft commercial marketplace enables us to reach new customers globally, shipped via the marketplace, billed on Microsoft paper, and with a frictionless experience for partners and customers.”

“Launching in the marketplace has been transformational for us, and we definitely see it as the future operating model for our organization.”

— CMO, ISV building email security solutions

Increased Partner Revenue And Profitability

■ Quantified benefit data



“The reassurance customers get that our solution is within the Microsoft marketplace, that it’s being built with Microsoft, and trusted by Microsoft ... There’s no replacing that.”

— CEO, ISV building email security solutions

CORE IP ANNUAL RECURRING REVENUE

Evidence and data. Microsoft ISVs build and sell IP for many different purposes. For example, the interviewees' organizations built applications for email security with Microsoft 365, RMM software for schools and businesses, and live meeting interpretation software for Microsoft Teams. Some applications were new versions of pre-existing solutions, while others were net-new solutions built on the Microsoft Cloud for Microsoft customers.

- Interviewees reported varying customer counts of up to over 2,500 customers. However, regardless of size, interviewees reported that their organizations were gaining clients. Since their organization partnered with Microsoft, the director of operations of a company developing RMM solutions noted, "I have 353% [annual growth], then 166%, then 205%, then 136%, and then we have [planned growth] this year of 121%."
- The interviewees' organizations served a variety of customers and industries globally. They ranged from every Microsoft customer using email globally to schools in North America and Europe to Fortune 1000 businesses.

- For 10,000 users or devices, potential deal sizes ranged from \$30,000 to \$192,000 based on pricing shared by the interviewees.
- Cost-wise, the CEO of a company building meeting interpretation solutions shared, "Our gross margin [is] about 80%."

Modeling and assumptions. Forrester assumes:

- There is one new customer in Year 1.
- The average annual recurring revenue for a single new customer is \$100,000.
- The gross margin is 70%.

Risks. This revenue stream may vary based on:

- The number of customers purchasing IP.
- An organization's pricing model, prices, deal lengths, and resulting deal sizes.
- An organization's gross margin.

Results. For a single customer over one year, Forrester calculated an expected revenue opportunity of \$100,000 and a gross revenue opportunity of \$70,000. This represents the base expected revenue and gross revenue opportunities.

Core IP Annual Recurring Revenue			
Ref.	Metric	Source	Year 1
A1	Customers	Financial example	1
A2	Attach rate	Interviews	100%
A3	Customers purchasing IP	A1*A2	1
A4	Average annual recurring revenue per customer	Financial example	\$100,000
A5	Core IP annual recurring revenue	A3*A4	\$100,000
A6	Gross margin	Financial example	70%
At	Core IP annual recurring revenue gross profit	A5*A6	\$70,000
One-year total: \$70,000		One-year present value: \$63,636	

MICROSOFT CLOUD-ENABLED ADD-ON AND INTEGRATION REVENUE

Evidence and data. Beyond building core applications, interviewees discussed how their organizations created new revenue-driving features and extensions because they made the decision to build on the Microsoft Cloud. They told Forrester the technological capabilities of the Microsoft Cloud spurred innovation at their organizations, allowing for application price increases or larger deals from separate new add-on and integration sales. Customers valued the increased functionality and were willing to pay for it.

- Interviewees explained what new functionality the Microsoft Cloud was enabling them to build. The CEO of a company developing meeting interpretation solutions detailed how their organization was able to build recording functionality for their software, which they monetized as an add-on. Furthermore, they expected to continue adding new features and add-ons due to the Microsoft Cloud, saying, “The AI captioning transcription service will be substantial and will open new markets.”
- The director of operations of an ISV creating RMM solutions explained how their organization built a successful Microsoft Teams add-on for their core product: “For the Teams chat monitoring [add-on], we’ve sold 400,000 licenses so far. That’s generated half a million [in revenue].”

ARR uplift with Microsoft Cloud-enabled functionality

11%

- Interviewees told Forrester that their organizations upsold clients to higher pricing or separate add-ons anywhere from 10% to 90% of the time.
- On top of the core IP deal size, interviewees noted an uplift of 3% to 19%.

Modeling and assumptions. Forrester assumes 50% of customers purchase an add-on, integration, or higher price option.

Risks. This revenue stream may vary based on:

- The number of customers purchasing an organization’s IP and how many purchase add-ons, integrations, or higher price options.
- An organization’s prices, deal sizes, and the corresponding uplift.
- An organization’s gross margin.

Results. For a single customer over one year, Forrester calculated an expected revenue opportunity of \$5,500 and a gross revenue opportunity of \$3,850. This represents a 6% increase in the expected revenue and gross revenue opportunities.

“We have generated a lot of new business [with our Microsoft Teams add-on].”

Director of operations, ISV building RMM solutions

Microsoft Cloud-Enabled Add-On And Integration Revenue			
Ref.			
B1	Customers purchasing IP	A3	1.0
B2	Attach rate	Interviews	50%
B3	Customers purchasing add-ons and integrations	B1*B2	0.5
B4	Average uplift in annual recurring revenue per customer (%)	Interviews	11%
B5	Microsoft Cloud-enabled add-on and integration revenue	B3*B4*A4	\$5,500
B6	Gross margin	A6	70%
Bt	Microsoft Cloud-enabled add-on and integration revenue gross profit	B5*B6	\$3,850

“With the Microsoft partnership and Azure, it’s allowed us to punch way above our weight.”

— CEO, ISV building meeting interpretation solutions

LARGER DEALS ENABLED BY THE MICROSOFT COMMERCIAL MARKETPLACE

Evidence and data. Besides supplemental and new feature-driven revenue opportunities, interviewees said deals were bigger when collaborating with Microsoft and utilizing the Microsoft commercial marketplace. They discussed reaching new customers and transacting more, too.

- Interviewees explained how the ISV partnership resulted in leads. The CEO of a business developing meeting interpretation solutions estimated that 10% of their organization's leads came from AppSource and said: "We're starting to get traction [with field sellers]. ... [The] potential value is high."
- When co-selling with Microsoft and transacting via the commercial marketplace whether through AppSource, the Azure Marketplace, or the Microsoft Teams store, the director of operations of a company developing RMM solutions explained: "Yes, the partnership has [led to larger deals]. The larger ones have been through [co-selling with Microsoft]. We're talking about one in South America with just under a quarter of a million devices. Microsoft is getting some of the bigger deals." They added, "I'd say 25% bigger."

Deal size uplift with the commercial marketplace

25%

Modeling and assumptions. Forrester assumes 25% of customers sell through the Microsoft commercial marketplace.

Risks. This revenue stream may vary based on:

- The number of customers purchasing IP and how many transact via the commercial marketplace.
- An organization's prices, deal sizes, and the corresponding uplift.
- An organization's gross margin.

Results. For one year and a single customer, Forrester calculated an expected revenue opportunity of \$6,938 and a gross revenue opportunity of \$4,857. This represents a 7% increase in the expected revenue and gross revenue opportunities.

Larger Deals Enabled By The Microsoft Commercial Marketplace

Ref.	Metric	Source	Year 1
C1	Customers purchasing IP	A3	1.00
C2	Percent of deals transacted in Microsoft commercial marketplace	Financial example	25%
C3	Customers purchasing IP through the Microsoft commercial marketplace	C1*C2	0.25
C4	Microsoft commercial marketplace deal size increase	Interviews	25%
C5	Larger deals enabled by the Microsoft commercial marketplace revenue	C3*C4*(A4*(1+B4))	\$6,938
C6	Gross margin	A6	70%
Ct	Larger deals enabled by the Microsoft commercial marketplace gross profit	C5*C6	\$4,857
One-year total: \$4,857		One-year present value: \$4,415	

MICROSOFT CLOUD-ENABLED COST SAVINGS

Evidence and data. In addition to increased revenue opportunities, interviewees also discussed realizing higher gross margins with the Microsoft Cloud for their organizations' applications compared to prior or other versions of their applications. Interviewees explained how building with the Microsoft Cloud enabled them to optimize their software and reduce costs, leading to better margins.

The director of operations of a business building RMM solutions detailed how their organization was rewriting their application on the Microsoft Cloud: "We built this in 2016, and we're going through a full rewrite to bring it into the latest and greatest tech. ... We're working on it with Microsoft." They concluded, "Solely based on the cost savings ... we'll see a 25% [improvement in gross margin]."

"[Our developers are] doing it much faster [and] much quicker in Microsoft."

Director of operations, ISV building RMM solutions

Microsoft Cloud gross margin improvement

14%

Modeling and assumptions. Forrester assumes the initial gross margin is 70%, and the organization sees an improvement by building on the Microsoft Cloud.

Risks. This revenue stream may vary based on:

- The prior gross margin of an organization.
- An organization's ability to improve its gross margin and reduce its cost of goods sold (COGS).

Results. For one year and a single customer, Forrester calculated a gross revenue opportunity of \$11,244. This represents a 16% increase in the gross revenue opportunity.

Microsoft Cloud-Enabled Cost Savings

Ref.	Metric	Source	Year 1
D1	Expected revenue opportunity	A5+B5+C5	\$112,438
D2	Gross margin	A6	70%
D3	Microsoft Cloud gross margin improvement	Interviews	14%
D4	Microsoft Cloud gross margin	D2*(1+D3)	80%
Dt	Microsoft Cloud-enabled cost savings	D1*D3	\$11,244
One-year total: \$11,244		One-year present value: \$10,222	

UNQUANTIFIED BENEFITS

Interviewees mentioned the following additional benefits that their partner organizations experienced:

- **ISV Success.** As participants in ISV Success, the ISVs gained free, limited access to Microsoft Azure, GitHub Enterprise Cloud, Visual Studio, Azure support, and Microsoft 365 E5 to help them build their practices and applications. The CEO of an ISV building meeting interpretation solutions valued this at \$10,000 or more in savings. In addition to the software and tools, interviewees said their organizations could develop faster and get to market quicker because of the offering's consultations and training resources.
- **Microsoft's collaboration and support.** Beyond ISV Success, interviewees valued the opportunity to collaborate with Microsoft and appreciated the support they received. The CEO of an ISV creating meeting interpretation solutions praised Microsoft saying, "We have been amazed at how open and accessible the teams are to us ... the support teams are good." The director of operations of a company building RMM solutions added, "We've been working with Microsoft and they're reviewing our work, making sure we're on the right path."

"There were early relationships [with Microsoft], both building the solution, but also with how we go to market, comarketing, and positioning. The values we held dear from the relationship were around collaboration."

CMO, ISV building email security solutions

- **Faster deals with the Microsoft commercial marketplace.** Interviewees explained how selling through the Microsoft commercial marketplace made deals up to 50% quicker. The director of operations of a company developing RMM solutions explained why the sales cycle could be quicker: "Especially for a large corporation, the first thing they want [is to review] your terms and conditions, and that takes weeks. On the marketplace, we use the default terms Microsoft has. They've already been vetted by everyone's legal team and that streamlines the process to usually no paperwork."

"[Transacting with the Microsoft commercial marketplace] is 50% faster and then also 100% less paperwork."

Director of operations, ISV building RMM solutions

- **Increased reach and deal support with the Microsoft commercial marketplace.** On top of quicker sales, interviewees said Microsoft's commercial marketplace helped increase their organizations' global reach. The director of operations of an ISV developing RMM solutions in EMEA discussed how co-selling and transacting on the commercial marketplace helped close a deal in South America and sell in North America, where "the deals are much bigger." Interviewees also highlighted private offers, the Microsoft Azure Consumption Commitment (MACC), and more.

- **The Microsoft brand and trust.** In addition to the commercial marketplace, interviewees described benefits of aligning their organizations' brands with Microsoft and its impact on increasing customer and partner trust. The CEO of an ISV developing meeting interpretation solutions explained: "Being associated as a Microsoft [ISV] partner is very valuable from a marketing perspective when you're a very young, new company and product on the market. To be a Microsoft partner gives us gravitas that I wouldn't have if I'd used a suite of different tools."
- **Meeting client security and compliance needs on the Microsoft Cloud.** Building on the trust associated with Microsoft's brand, the opportunity to meet clients' security and compliance needs was a commonly cited benefit. The CMO for an ISV developing email security solutions explained: "There are some [industries] that are more vulnerable or that have more sensitivity ... [and] are clearly hot targets for cybercriminals. They hold valuable data ... so they become high-value targets for cybercriminals. ... We often find that we have good traction in those industries."

"Our customers are very reassured. When they know that we're full stack, 100% Microsoft ... it makes their decision-making process and compliance process of evaluating us a lot easier. Commercially, it's good for us and, in terms of security and peace of mind, it's good for our customers."

CEO, ISV building meeting interpretation solutions

- **More differentiated applications.** By building on the Microsoft Cloud, interviewees' organizations stood out from the competition. The CEO of a company building meeting interpretation solutions detailed: "Does it differentiate our applications? Absolutely. ... The fact we have gone through compliance and validation with Microsoft, and we are only using their tools is a big advantage. The bigger the customer and the stricter the IT department, the better we're positioned to get those customers because they are 100% Microsoft, and we're partners."

FLEXIBILITY

The value of flexibility is unique to each ISV. There are multiple scenarios in which a Microsoft ISV might implement a practice and build on the Microsoft Cloud and later realize additional opportunities, including:

- **Ease of access to new technologies driving future growth.** After joining ISV Success and building on the Microsoft Cloud, ISVs gained access to technologies and tools which could enhance their IP. "We can easily fold innovations from Microsoft into our product suite [such as] AI and multilingual transcriptions," the CEO of an ISV building meeting interpretation solutions said. They added, "The Microsoft tools are excellent, so we're very confident that that's going to be a benefit."
- **Further leveraging the Microsoft ISV partner ecosystem.** By partnering with Microsoft, ISVs could also collaborate with other ISVs within the ecosystem. From a product perspective, ISVs could embed and integrate one another's technology to enhance or add features. From a go-to-market perspective, they can share leads, perform joint business planning, and collaborate throughout the sales cycle to enhance win rates.

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

Microsoft ISV Investments And Best Practices

■ What best-in-class partners are doing to be more successful

MICROSOFT ISV INVESTMENTS

Interviewees said their organizations made sizeable and strategic investments in their practices to succeed. Beyond the IP costs, which are embedded in the gross margin, partners also invested in:

- **Research and development.** Interviewees told Forrester how their organizations committed time and money to developing their applications, researching technologies, learning, building systems, and purchasing tools. In particular, this meant hiring in-house developer teams and outsourcing development for specific purposes. These investments ranged from hundreds of thousands to millions depending on the partners' prior states and the partners' investments in specialty areas like AI, security, and analytics, but typically became smaller after initial development.
- **Partnership management.** Interviewees said their organizations devoted time towards the partnership and relationship with Microsoft. This typically entailed hiring a dedicated partnership manager, although some organizations had this role's responsibilities as a subset of another position, such as the CEO, depending on their size. These responsibilities included working with Microsoft field sellers on education and lead pursuit, working with the Microsoft commercial marketplace team, and other co-marketing and co-selling activities.
- **Marketing.** Marketing expenses included search engine optimization, advertising, webinars, collateral creation, white papers, business case studies, and more. Some interviewees' organizations had dedicated marketing roles like a CMO, while other interviewees' organizations were more bootstrapped. This spend varied from

partner to partner, but all interviewees highlighted some spending in this area as a best practice. The CEO of a company developing meeting interpretation solutions estimated marketing expenses at up to 5% of practice revenue.

- **Sales.** Sales expenses included the staff needed to sell their applications, and every partner had at least one employee engaging in sales activities. On one hand, the CEO of a company creating meeting interpretation solutions stated, "We're bootstrapping it for the time being, investing everything in the product and then I'm doing the sales and marketing." On the other hand, the director of operations of a company building RMM solutions noted how they had a dedicated director of sales counterpart.
- **Training.** Training investments included gaining certifications, using Microsoft provided on-demand coursework to build proficiencies, and educating sales staff about their applications. This typically involved team members allocating a portion of time for training and learning or dedicating time for the creation of training programs. Including research, one interviewee estimated that their developers devoted 10% to 20% of their time to training.
- **General and administrative.** Interviewees noted additional operating expenses to run their practices. These could include expenses for finance, legal, and other day-to-day costs. The CEO of an ISV developing meeting interpretation solutions estimated their organization's general and administrative expenses were less than 5% of practice revenue.

BEST PRACTICES

In addition to sharing the investments their organizations made, interviewees also underscored the various best practices they felt led to their success. When asked what advice and best practices they would share with other partners, whether new or existing, interviewees recommended that partners:

- **Create compelling, Microsoft Cloud-specific solutions.** To grow, differentiate, and help clients, interviewees discussed how it was important for their organizations to take advantage of technology like AI and build focused applications like Teams add-ons.
- **Work closely with Microsoft.** Interviewees endeavored to build strong relationships with Microsoft. This included the different areas of Microsoft that a partner might interact with such as marketing, field sellers, program staff, and more. The director of operations of a business developing RMM solutions shared advice they received: “Keep track of Microsoft like a customer. I was told to do that a long time ago. ... It was the best piece of advice [on] how to manage working with Microsoft.”

“We are continually finding where things can be improved. That’s one of our key strengths. Even though we’re a small company, our ability and agility to move swiftly to where the goal is with Microsoft, the partner community, and the end customer is key to the success of any relationship.”

CEO, ISV building email security solutions

- **Work closely with channel partners.** Besides working closely with Microsoft, interviewees also mentioned the importance of nurturing relationships with partners, including Cloud Solution Providers (CSP), to maximize the value of the partnership and commercial marketplace. The CMO of an ISV creating email security solutions explained, “Our strategy at the moment is to work with major Microsoft partners and to establish private offers for them to extend to their channel.” They further elaborated on how their organization collaborated with partners, training and educating them to drive sales.

“We are creating private offers for partners and for their channel. Yesterday, we had a webinar with one of those partners and their channel community talking through the offers that we’ve set up for them and helping to educate them so that they can come in and transact via the marketplace and via that partner itself.”

CMO, ISV building email security solutions

- **Invest in Microsoft’s commercial marketplace.** Relatedly, interviewees pointed out how it was important to do more than simply creating a listing on the commercial marketplace. They discussed engaging with Microsoft, engaging with resellers and other channel partners, making their listings transactable, marketing and driving traffic to their listings, and generally being active.

- **Optimize offerings for the Microsoft Cloud.** Interviewees described how they optimized and even rewrote applications to reduce costs and improve margins. Small cost reductions to the cost of developing and maintaining an application led to big improvements for the gross margin and bottom line.
- **Use Microsoft tools in the product development process.** When developing their applications, interviewees discussed using tools such as GitHub and Visual Studio that they received at no cost with ISV Success. The CMO of a company building email security solutions explained, “We are benefiting from the use of Visual Studio and Azure DevOps pipelines to improve our development process and speed up our releases.”

“The ISV Success [offer] is brilliant.”

CEO, ISV building meeting interpretation solutions

- **Persevere and seek assistance.** When starting to build a practice, develop an application, and grow a partnership with Microsoft, interviewees recommended persevering and asking Microsoft for help. The director of operations of a company developing RMM solutions explained, “Sometimes, it takes perseverance. ... The best practice is if you hit something, create a support ticket with Microsoft. ... You have to be open and frank and say these are our issues, this is what we need help with, and this is what I can do.”

Furthermore, to make the most of ISV Success, the CEO of a company building meeting

interpretation solutions recommended: “Reach out a lot. I never hesitate to contact them. They are always very supportive. The most important thing is to engage. You get as much as you ask for.”

- **Hire great people and train them well.** Interviewees stressed the importance of hiring the right team members and providing them the training they needed to perform. The CEO of a company developing meeting interpretation solutions explained, “We needed to find expertise in the field for those Microsoft tools” as their organization began to build their application. It was critical to hire employees with the right skill sets to build successful applications on time.
- **Take part in ISV Success.** Each interviewee’s organization participated in ISV Success. Interviewees said benefits of the offering included access to software and tools like Visual Studio, consultations with Microsoft experts, training resources, and community events. These benefits proved valuable to the interviewees as they built and grew their practices and developed their partnership with Microsoft.

“I would definitely [recommend ISV Success].”

Director of operations, ISV building RMM solutions

Conclusion

CONCLUSION AND KEY TAKEAWAYS

Forrester's interviews with five different interviewees across three different partner organizations found that partners benefitted from partnering with Microsoft and building IP on the Microsoft Cloud. Additionally, ISV Success offered partners an accelerated pathway to practice growth.

Five takeaways about the revenue and growth opportunities for Microsoft ISV partners include:

- **A 29% greater expected gross revenue opportunity.** Based on the interviewee conversations, Forrester built a financial example illustrating a 12% greater expected revenue opportunity and a 29% greater gross revenue opportunity by building on the Microsoft Cloud. Interviewees confidently stated that partnering with Microsoft was a net positive.
- **An 11% uplift in ARR from Microsoft Cloud-enabled add-ons and integrations.** Interviewees discussed how the Microsoft Cloud enabled their organizations to increase deal sizes by building new product features leading to higher prices or building new add-ons and integrations leading to more revenue.
- **A 25% increase in larger deals due to the Microsoft commercial marketplace.** By co-selling with Microsoft and transacting on the commercial marketplace, interviewees reported how deals that involved Microsoft were often larger. Additionally, these deals closed more

quickly and extended the reach of the interviewees' organizations globally.

- **A 14% greater gross margin with the Microsoft Cloud.** Interviewees discussed their organizations' prior states, including bare-metal and on-premises servers, which led to opportunities for cost savings with the Microsoft Cloud. They highlighted optimization and opportunities for continuous improvement to improve their organizations' gross margins.
- **Cost savings and resources with ISV Success.** As they continued on their ISV journeys, interviewees highlighted the value of Microsoft's support and resources, including the ISV Success offering. They said ISV Success reduced costs, shortened development time, and increased their speed to market. All-in-all, they recommended the offering for other new and existing ISVs.

To capitalize on this opportunity, interviewees shared the specific investments their organizations made, such as partnership management and marketing, as well as the best practices they followed and recommended, such as working closely with channel partners and participating in ISV Success. Making these investments and following these best practices could help both newer and more mature ISVs achieve the successes of the interviewees.

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 Source: “The Global Public Cloud Development And Infrastructure Platform Landscape, Q3 2022,” Forrester Research, Inc., August 4, 2022.

² Total Economic Impact is a methodology developed by Forrester Research that enhances a company’s technology decision-making processes and assists vendors in communicating the value proposition of their products and services to clients. The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.

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