Digital Transformation 2.0

The Partner Journey to Disruption

2.0

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Introduction

This IDC eBook, sponsored by Microsoft, provides partners with a current view of the market opportunities available and the benefits inherent in the acceleration of partner digital maturity. Learn how partners are continuing to create value in their businesses and how that is translating into greater growth.

It is now foundational for partners to define value across the business, from the transformational journey of partner functional areas such as sales, marketing, operations, and HR through to the creation of services and software that meet the evolving needs of customers. Equally important is how the partner journey equates to a greater level of trust with customers in addressing customer reliance on technology to drive business outcomes.
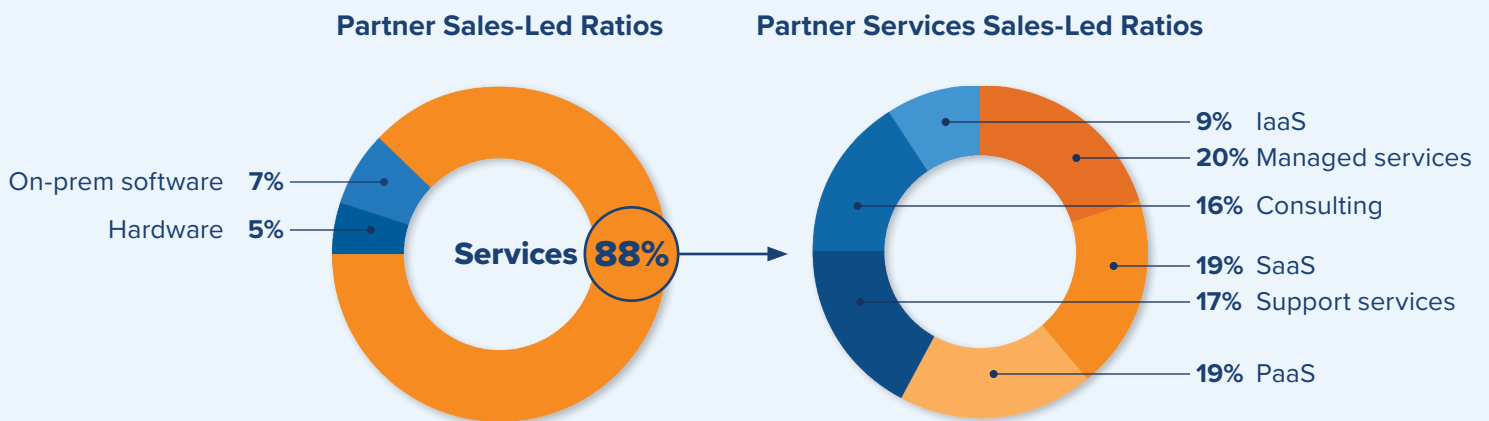
Transformative Partners

Microsoft Partner Value Defined

Although Microsoft has a large partner ecosystem of distinct and diverse businesses, one thing that defines them all is a focus on effecting change within their customers' and their own organizations.

This trend to digital-savvy and digitally integrated partners has been a journey taken to address and make real the same evolution at customers. The result is successful and accelerated business outcomes that IDC forecasts will amount to $2.1 trillion in spending related to digital transformation projects in 2023.

Partner value in today's market is being generated through a focus on core services (both project-based and recurring) and software. In fact, Microsoft partners are winning business by leading with a wide range of services. **In a survey of 175 Microsoft partners in North America, 88% of all partner business in a year was led by services.** A high 47% of those services was cloud, with the remainder being project-based, including consulting/professional services and managed services. Services, not widgets, are winning the day in generating value for customers.

What Microsoft Partners Are Leading with in Winning Deals

Partner Sales-Led Ratios

On-prem software **7%**
Hardware **5%**

Services **88%**

Partner Services Sales-Led Ratios

9% IaaS
20% Managed services
16% Consulting
**19%** SaaS
17% Support services
19% PaaS

Source: IDC's Software Partner Survey, January 2020 (Microsoft partner n = 175)

One outcome of the Microsoft partner focus on services and software is bullish growth prospects. Partner expectations over the next two years were that average revenue would increase by 23% in resale and 27% in partner intellectual property (IP), which includes services and software created and sold by the partner.

In addition, Microsoft partner investment in their own IP is an indication that the market swing to services and software is being reflected in partner business strategies. In fact, 39% of Microsoft partners surveyed were investing 6% or more of their total revenue in developing IP, including managed and cloud services, software, and project-based services. These have become important differentiators for partners and, not coincidentally, big drivers of revenue and profitability.

Microsoft Partner IP Investment as a Share of Revenue

■ 0%   ■ 1–5%   ■ 6–10%   ■ 11%+
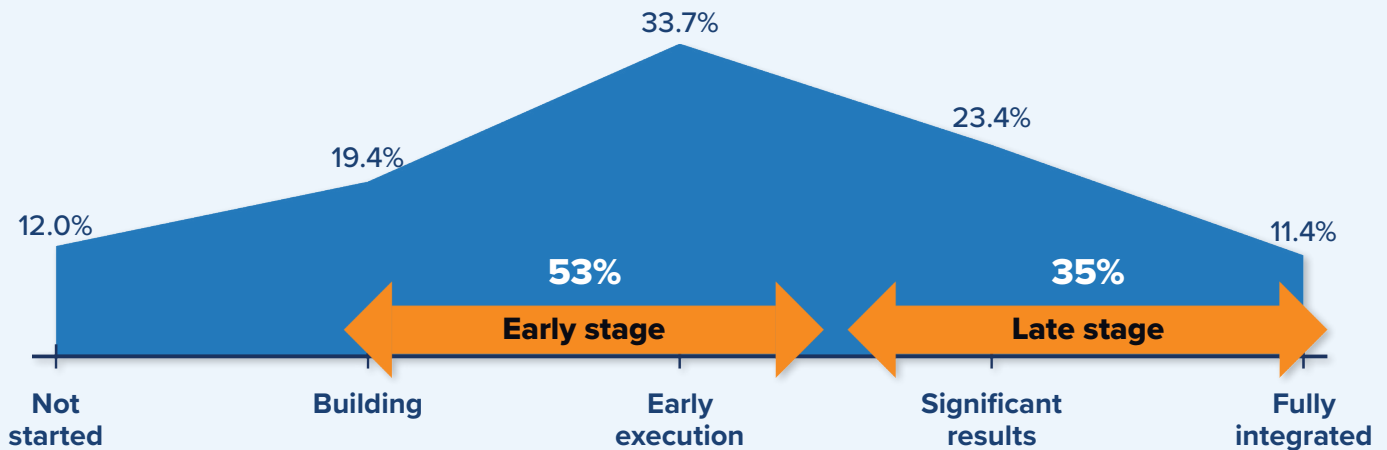
19%	42%	26%	13%

39%
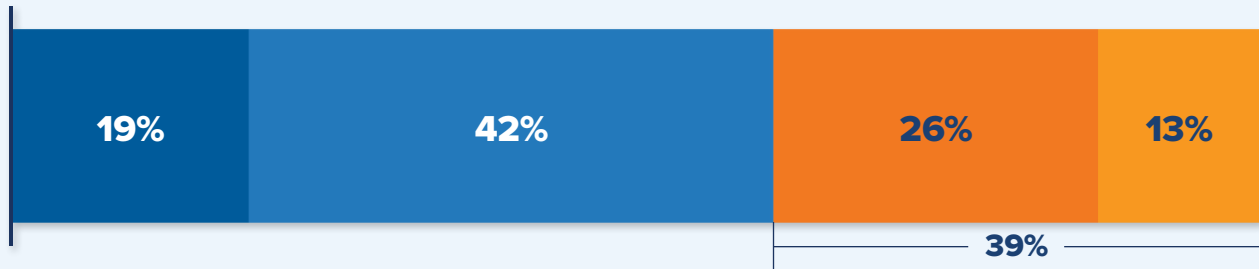
Source: IDC's Software Partner Survey, January 2020 (Microsoft partner n = 175)

The Microsoft Partner Digital Journey

Microsoft partners are continuing to scale their digital capabilities to further enhance the value of their businesses. IDC believes the partner transformation journey can be defined in five maturity stages, starting with those businesses that have not engaged with digital technologies and progressing through to those that have implemented a fully integrated digital-forward business.

While a small majority of Microsoft partners are in the early stages of this journey, 35% are in the late stages, which has implications to their business in the form of revenue and profit. It is important to point out that the partner transformation journey, which is no different than what customers are experiencing, is a complex process that comes with some key barriers.

Microsoft Partner Digital Maturity

Q: Please describe your company's current digital strategy. Is the strategy…
Source: IDC's Software Partner Survey, January 2020 (Microsoft partner n=175)

Those barriers cut across the entire partner business, from automating all processes and onboarding and training staff to ensure all have digital skills, all the way up to having an open, innovation-driven culture that starts with a leadership team that has the right vision. A partner's leadership and its people, processes, culture, and organizational structure are all impacted by this process, not to mention all the various functional areas of the business, including sales, marketing, operations, and HR.

Partners are essentially executing on their own transformation while continuing to drive business with customers that are also going down this path. This makes it important to have a planned approach to change—focusing on one area before starting another to prevent spreading the business too thin, because all of this takes time, resources, and money.

Microsoft partners perform well across many challenges that arise in the process of business change, especially in addressing operations to be more adaptive and agile, and the ability of its leadership to shape and lead a digital-forward business. These are key attributes on a transformative journey that will serve partners well, now and in the future.

Microsoft Partner Performance of Digital Challenges

Ability to transform operations to be more adaptive/agile	57%
Ability of leadership to lead the organizational change required to digitally transform	53%
Ability to develop, hire, and retain digital-savvy staff	49%
Ability to develop IP aligned with customer digital requirements	46%
Ability to engage customers across the customer life cycle	43%
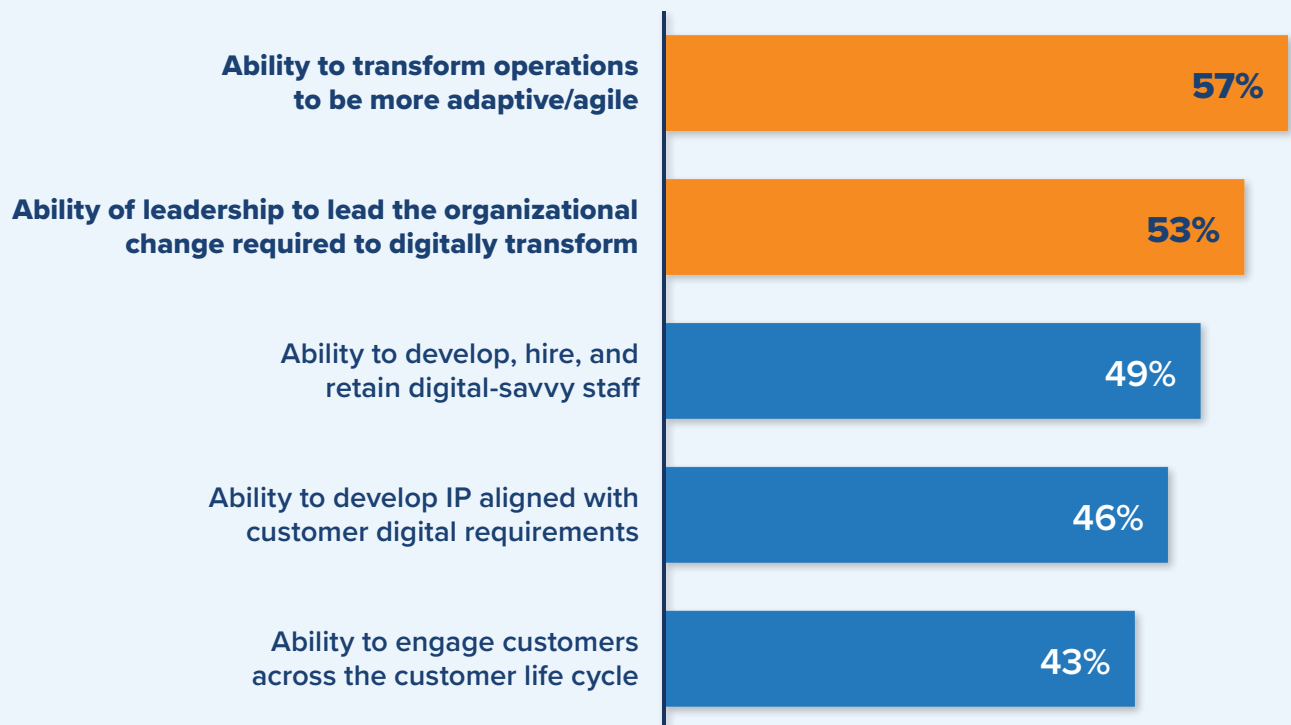
Q: How well does your company perform on each of these DX business challenges? (top two box score: perform well)
Source: IDC's Software Partner Survey, January 2020 (Microsoft partner n = 175)

The end goal of a shift to a digital-forward business is to reach a point of better business outcomes for partners. This is being experienced by partners at the highest stage of transformation; IDC calls them the Disruptors. These partners stand out with their larger investments in IP and higher expectations for IP revenue growth. They are also able to overcome key challenges on their journey through strong leadership, staff, and a focus on the customer life cycle.

Microsoft Partner Disruptor Differentiation

Revenue/Profit

Highest expected IP revenue growth next two years: 30%

People

Ability to hire and retain digital-savvy staff: 40% perform very well

Investments

Highest ratio spending more than 10% on IP: 29%

Leadership

Ability to lead organizational change: 36% perform very well

Customer Success

Ability to engage the customer life cycle: 38% perform very well

Source: IDC's Software Partner Survey, January 2020 (Microsoft partner n=175)

Partners with fully integrated digital strategies are well positioned to address customer requirements for transformation through a focus on IP and organizational excellence. In addition, becoming a digitally successful partner can be its own IP—i.e., the automation, agility, and operational efficiencies gained can become best practices for customers.

Transformative Markets
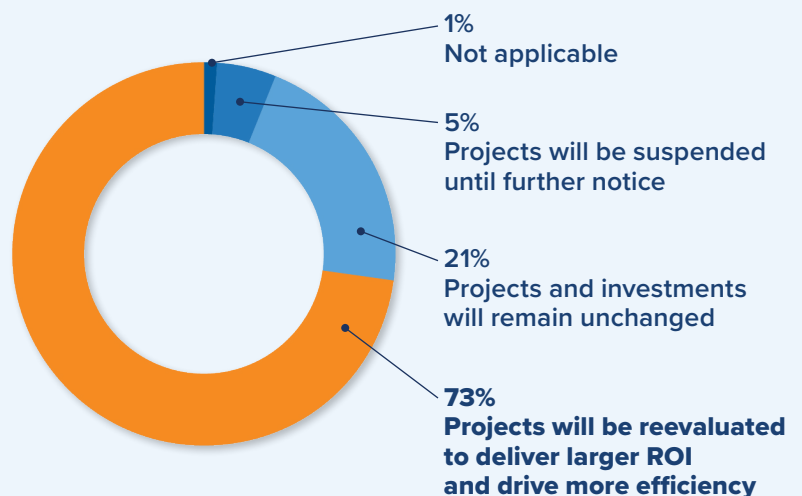
Customer Perspectives

Partners worldwide faced their biggest challenges during the COVID-19 outbreak. However, many were well positioned to focus on the growth opportunities presented as their customers looked to future-proof their businesses.

In fact, the COVID-19 crisis is just another proof point of how partners that have transformed their businesses are well positioned to help their customers accelerate their business outcomes.

As an example, customer transformation projects, rather than being canceled or delayed due to the crisis, are still in play. **In an IDC worldwide COVID-19 impact survey from April 2020 of 582 customers, most were reevaluating current technology-led transformation projects to find greater return on investment (ROI) and efficiencies from those deployments.** Partners will play a key role in helping customers meet these new targets.

COVID-19 Impact on Transformation Projects

Which of the following best describes the potential impact of the current pandemic crisis on your organization's technology-led transformation projects?

1%
Not applicable

5%
Projects will be suspended until further notice

21%
Projects and investments will remain unchanged

73%
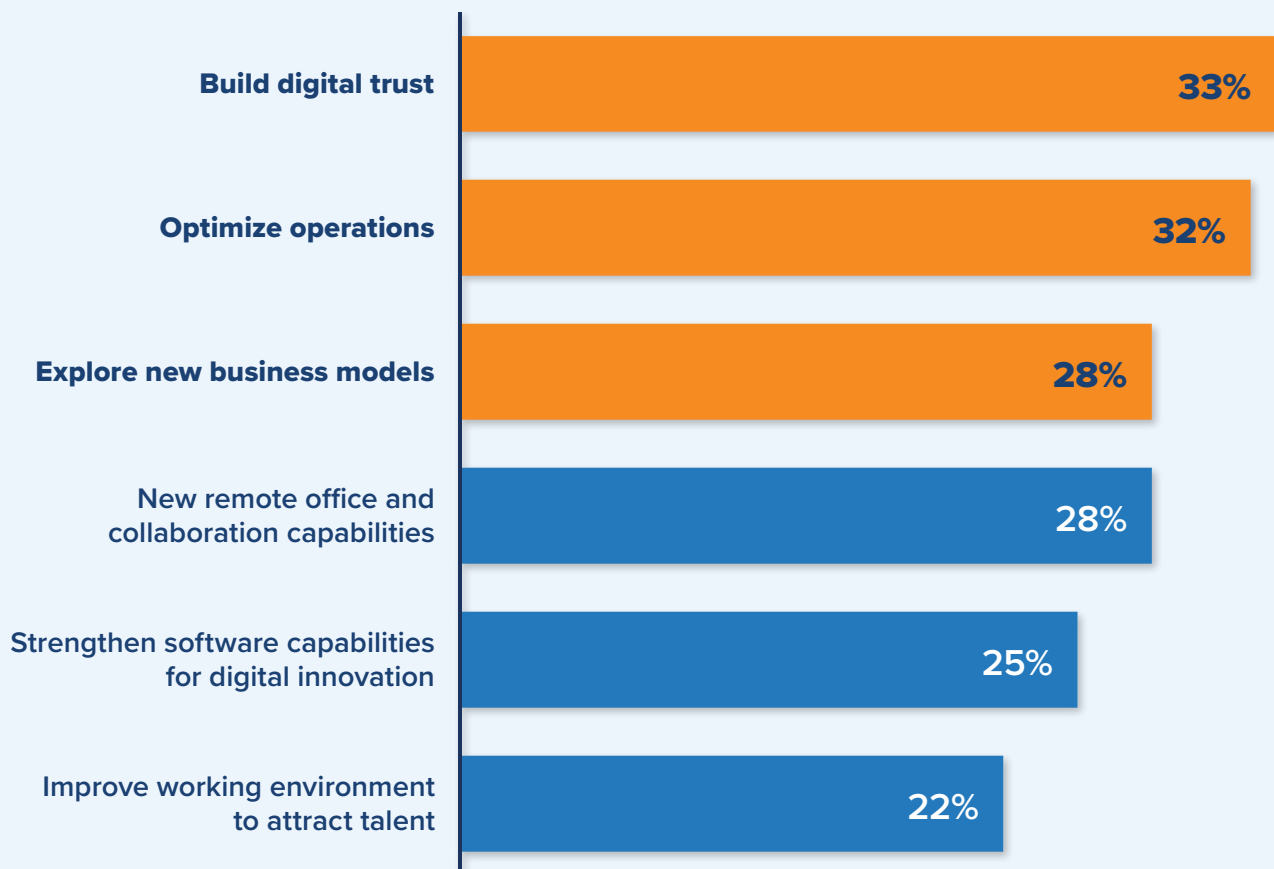Projects will be reevaluated to deliver larger ROI and drive more efficiency

Source: IDC Worldwide, COVID-19 Impact Survey, Wave 2, April 2020 (n=582)

There are also areas of transformation identified by customers to help their organizations move forward as the world emerges from the pandemic. These speak directly to partner value, e.g., helping customers improve the security and reliability of digital platforms, optimize operations to get the most out of the business, and move in new directions for employees and for the company.
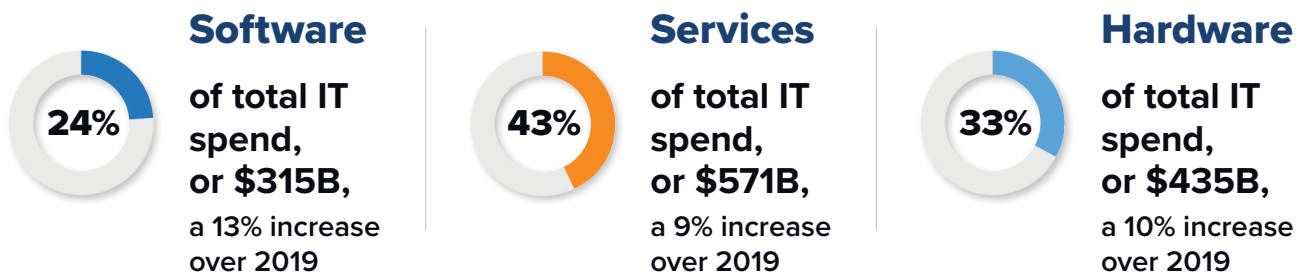
Customer Transformation Focus

In order to address the challenges that arise as a result of COVID-19, which of these digital transformation (DX) areas should your organization be focusing on?

Focus Area	Percentage
Build digital trust	33%
Optimize operations	32%
Explore new business models	28%
New remote office and collaboration capabilities	28%
Strengthen software capabilities for digital innovation	25%
Improve working environment to attract talent	22%

Source: IDC Worldwide, COVID-19 Impact Survey, Wave 2, April 2020 (Top six answers listed, n=582)
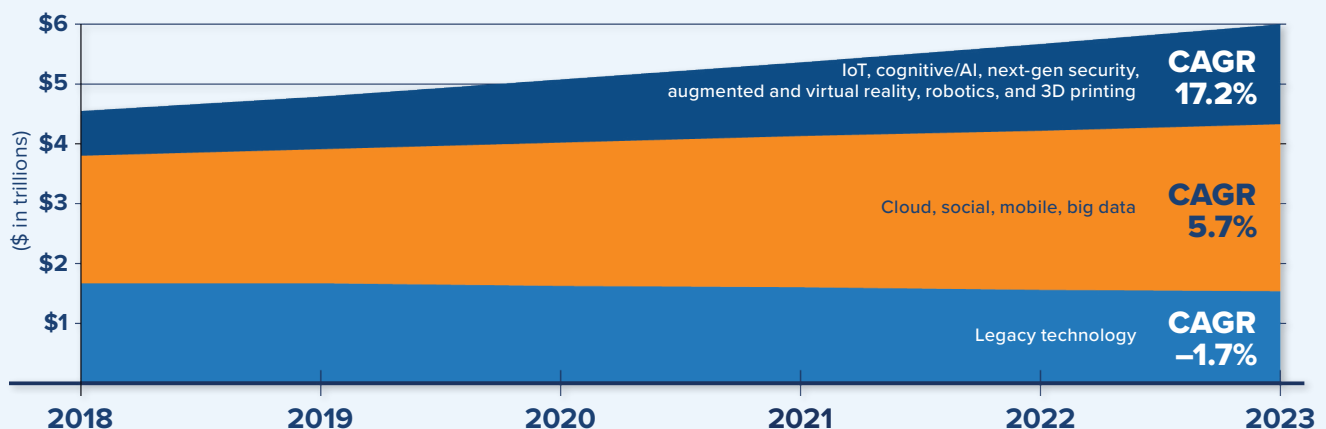
Robust Market Opportunity

The bottom line is that businesses worldwide are on course to invest
$1.3 trillion in 2020 across the spectrum of IT (software, services, hardware).
Partners focused on digital transformation (including technologies
such as cloud, big data, IoT, and AI) will see the majority of that spend.
IDC predicts the IT spending mix will break down as follows:

Software
24%
of total IT spend, or **$315B**,
a 13% increase over 2019

Services
43%
of total IT spend, or **$571B**,
a 9% increase over 2019

Hardware
33%
of total IT spend, or **$435B**,
a 10% increase over 2019

Perhaps more important is the view of the market by legacy versus leading
technologies that provides the basis for partner transformation and customer
value. Although IT spending is expected to grow over five years at 5.7%, much
bigger growth is coming from technologies such as cloud and big data, but
also IoT and AI—and especially that latter group, with a 17% growth rate. In fact,
the growth rate for cloud, big data, social, and mobile combined is almost 6%,
but removing the slower growth rate of mobile brings it closer to 14%.
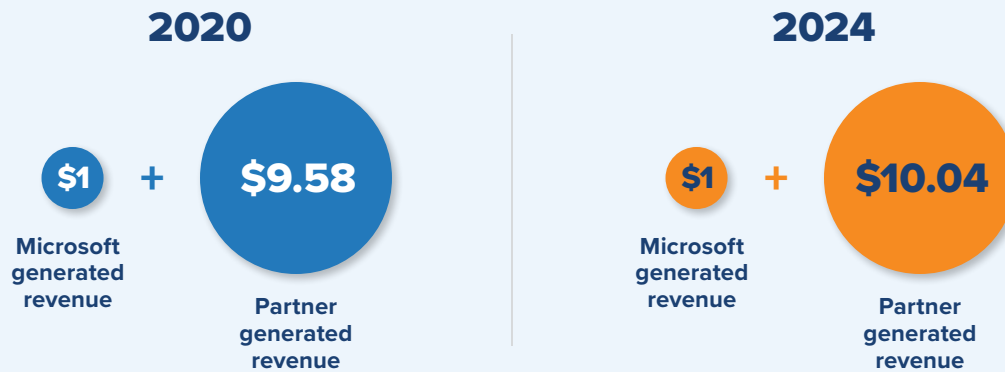
IT Spending 2018–2023

Overall CAGR 5.7%

IoT, cognitive/AI, next-gen security, augmented and virtual reality, robotics, and 3D printing — **CAGR 17.2%**

Cloud, social, mobile, big data — **CAGR 5.7%**

Legacy technology — **CAGR −1.7%**

($ in trillions)

$6 | $5 | $4 | $3 | $2 | $1

2018 | 2019 | 2020 | 2021 | 2022 | 2023

Source: IDC Worldwide Black Book: 3rd Platform Edition, May 2020

These opportunities align with the value that partners in the Microsoft ecosystem are delivering to customers. IDC estimates that for every $1 of revenue that that Microsoft generates in 2020, partners will generate an additional $9.58 of revenue through their own value creation, including partner services and software. By 2024 partner revenue generated for every $1 of Microsoft revenue is estimated to grow to $10.04.

Microsoft Partner Ecosystem Value

2020

$1
Microsoft generated revenue

+

$9.58
Partner generated revenue

2024

$1
Microsoft generated revenue

+

$10.04
Partner generated revenue

Microsoft partner ecosystem value has declined from previous estimates based on revised COVID-19 market forecasts.

IDC estimates that Microsoft partners will generate approximately $984 billion in revenue in 2020 solely on business related to Microsoft technology, and that this will grow to $1.2 trillion by 2024. This represents the value that is created in partner businesses based on their relationship with Microsoft and its technology.

Transformative Actions

Core Considerations

Partners continue to gain success along their journeys to be more agile and digitally engaged. These experiences are a template for all partners to consider and follow. This is especially true across the following four topics, each of which requires partner focus and investment.

Engaging Customers

Customer engagement in the digital age provides exceptional new opportunities for partners to engage, nurture, and maintain customer value and loyalty. Transformation as discussed in this eBook is an imperative in partner growth strategies that expands their ability to reach and inform prospects and customers and to drive differentiation, specialization, and expertise.

Partners need to:

→ Engage throughout the customer life cycle

→ Make the right investments

→ Embrace social selling and marketing

→ Build credibility with industry focus and specialization

In addition, a diverse workforce can bring credibility to interactions with clients.

Empowering Employees

Successfully empowering employees is a cornerstone of partner digital success. It is ultimately what ignites the engine of a profitable business as employees collaborate effectively and build new skills through learning programs that grow a practice's capabilities. Workplace diversity is now a business imperative with studies to prove that bringing different perspectives and experiences to the business can increase creativity and drive innovation, which contributes directly to the bottom line.

Empowering Employees (continued)

Partners that maintain a people-first, team-oriented culture prioritize the following:

→ Foster diversity to increase employee satisfaction and recruit the best talent

→ Develop talent management initiatives that support the company's goals and expectations

→ Make collaboration a priority and support it through process and digital tools

→ Create a culture of learning that is driven from the top down

IDC's recent survey *The Impact of Employer and Employee Engagement,* conducted in April 2020, shows the strong connection between a focus on diversity and inclusion as part of the overall employee experience and the impact this has in driving a people-first culture. Employees in this scenario feel part of one team driving business outcomes.

IDC's research shows that establishing a standardized approach to employee engagement increases employee commitment and productivity, lowers turnover costs, and, ultimately, generates higher profits. There is an increasing amount of research on the positive effects of overall Environment, Social, and Governance (ESG) measures, including human capital measures, that further emphasizes the implications of "doing good" as a company on the company's financial performance.

Optimizing Operations

Partner operations are the basis for their business agility. A digitally transformed partner requires automated processes to succeed and grow.

Operational excellence comes from fundamental business tenets that are required attributes, including the following:

→ Take a longer-term view of operational reengineering

→ Focus on key processes first

→ Identify and replicate processes

→ Consider digital KPIs as the new benchmark for success

Transforming Products

In today's hypercompetitive market, and with the emergence of complex digital technologies, the success of a partner business is defined more and more by unique solution offerings. It is important to understand the value of differentiation but at the same time work toward identifying and capitalizing on the right IP.

Several key recommendations specific to developing offerings include the following:

→ Identify solutions that fit with your business model

→ Understand the market trends that are driving the strategy

→ Think about IP as a differentiator

→ Use a stepwise approach to developing an offering

66 We've seen two years' worth of digital transformation in two months. From remote teamwork and learning, to sales and customer service, to critical cloud infrastructure and security—we are working alongside customers every day to help them adapt and stay open for business in a world of remote everything. **99**

Satya Nadella, CEO, Microsoft

Leveraging the Transformative Value of Microsoft and Its Technology

Microsoft CEO Satya Nadella addressed the COVID-19 impact globally, saying the pandemic had greatly accelerated businesses to further engage in digital technologies.

Partners are inextricably linked to this dynamic, including the vendor's technology and corporate mandate to accelerate digital transformation opportunities globally. This includes investments being made by Microsoft in many regions to expand access to cloud services through new datacenters, new solutions that support sustainability goals, and educational programs to increase employability opportunities at partners and customers.

Microsoft continues to add to its global footprint of datacenters in a bid to provide regional access to cloud services, including working closely with partners to support and deliver those services. Datacenters have recently been launched in New Zealand, Italy, and Poland, bringing Microsoft's cloud technology to a total of 60 regions that serve 140 countries.

Microsoft understands that its partner ecosystem and customer base worldwide comprises a diverse group of companies and employees. For this reason, it is committed to helping create a more sustainable and accessible environment in regions worldwide. The vendor's AI for Good initiative, as an example, utilizes AI and big data to address humanitarian challenges and preserve cultural heritage.

The company is focused on improving skills across the IT community, especially related to cloud services, to help expand employability opportunities where the opportunities exist and are growing. One example of this is i4 Accelerator in New Zealand, which provides access to training in digital technologies and is a public-private education program targeting primary industries such as manufacturing.

Conclusion

This IDC eBook has provided a current view of the market opportunities available to partners and the benefits in the acceleration of Microsoft partner digital maturity. Microsoft partners have continued to create value in their businesses, which has translated into growth opportunities.

Partner value is being generated through a focus on core services (both project-based and recurring) and software. This has led to bullish growth prospects, with average expected revenue increases of 23% in resale and 27% in partner services and software.

Partners are continuing to scale their digital capabilities on their journeys to further enhancing the value of their businesses and perform well across challenges that arise in the process of business change. In addition, Microsoft partner investment in their own IP is an important differentiator, and a big driver of revenue and profitability.

The Microsoft partner approach to transformation and growth, in concert with Microsoft's own transformation and growth, has become foundational for defining value across the partner business. Equally important is how this partner journey has created a greater level of trust with customers in addressing customer reliance on technology to drive business outcomes.

About the Analysts

Steve White
Program Vice President, Channels and Alliances, IDC

Steve manages a group of channels and alliances analysts as well as their related research products. Steve also works with the Strategic Alliances Leadership Council (SALC) members to define and research the key topics that affect strategic alliance investments, and provides analysis into alliance trends, best practices, and benchmarking. In the past few years this has included in-depth council discussions on cloud, economic pressures on alliances, key performance indicators, and alliance organizational best practices.

More about Steve White

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Director, Software Channels Research, IDC

Paul is focused exclusively on providing research-backed guidance to leading software and cloud vendors on partner strategy. In his role, Paul extensively studies vendor and partner dynamics as they relate to and impact go-to-market strategy with partners. This includes analysis of business models and practices in the development, implementation, and management of effective partner strategies across the ecosystem.

More about Paul Edwards

Message from the Sponsor

Digital transformation requires a planned approach. Microsoft offers an assortment of tools and resources to help partners assess their current capability and provide guidance on how to develop and execute their transformation plan.

Partner Transformation Readiness Assessment is an online tool designed to assess a partner organization's current cloud business and technical capability and provides a maturity score that shows how it compares to other transforming partners along with specific recommendations on next steps to continue the journey.

Download the assessment

Digital Transformation eBook series offers guidance on how successful partners have made the most of the digital transformation opportunity and grown their businesses.

Download the ebook series

Build a Practice page provides business development guidance on how to create a cloud practice, including how to define a strategy, hire and train the right people, operationalize and go-to-market. It also features a cloud business fundamental learning path.

Visit the page

Cloud Practice Development Playbooks offer guidance on how to build or expand a practice opportunity, such as in Cloud Migration and Modernization, Internet of Things, and Teams. These playbooks are written with partners, who share their best practices and insight on how they were successful in building a practice.

Download the playbooks

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