

WHITE PAPER

Partner Opportunity in the Microsoft Ecosystem

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IN THIS WHITE PAPER

Microsoft has long been a partner-centric company and has often led the industry with innovations in its partner programs. The changes to the Microsoft Partner Network effective November 1, 2010, land an evolution of the company's partner program that has been several years in the making. This brief white paper examines some of the implications of the new program.

ECONOMIC IMPACT OF THE MICROSOFT ECOSYSTEM

For nearly a decade, IDC has been charting the impact of Microsoft and the ecosystem of Microsoft partners and in-house IT professionals on the global economy and discussing what that economic impact means for partners.

In the most recent study, [*Aid to Recovery: The Economic Impact of IT, Software, and the Microsoft Ecosystem on the Global Economy*](#) (October 2009), IDC found that companies within the Microsoft ecosystem employed 6.1 million people and IT-using firms employed 8.8 million in-house IT professionals who work with Microsoft software or products based on it. Solution providers in the Microsoft ecosystem invested nearly \$180 billion in product design, testing, marketing, and delivery and brought in \$537 billion in revenues. In fact, for every dollar made by Microsoft in 2009, the ecosystem made \$8.70. The software and services subset made \$4.43.

The impact this ecosystem has on the global economy is significant. It accounts for 42% of all employees at IT companies or in IT departments at IT-using organizations. Those 15 million employees helped generate nearly \$500 billion in taxes in 2009 alone.

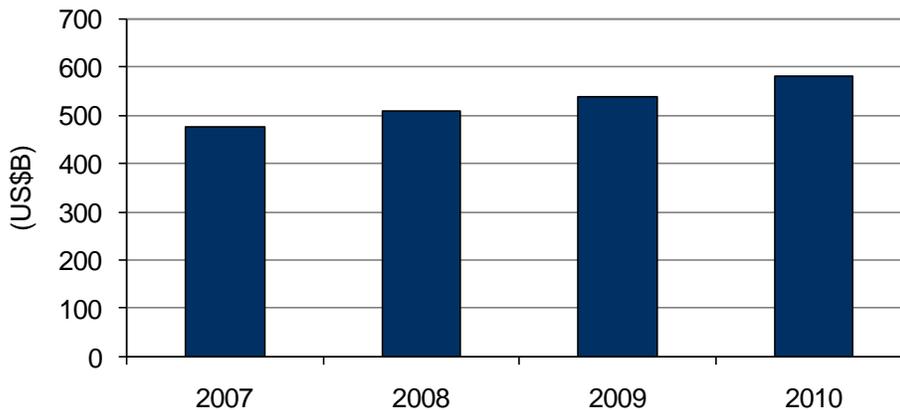
The impact and the importance of the Microsoft partner ecosystem probably can't be overstated — few people realize how extensive it really is. But it shouldn't be such a surprise. In 2009, 44% of the hardware sold (by value) and 56% of the software sold (by value) ran on Microsoft operating systems.

Accounting for 95% of Microsoft's revenues, Microsoft partners include companies that sell PCs, servers, storage, and smart handheld devices running Microsoft software; software vendors that write applications that run on Microsoft platforms; resellers that sell and distribute these products; and service firms that install and manage Microsoft-based solutions, train consumers and businesses on Microsoft products, and service customers for their own applications. Many companies do combinations of these functions.

The ecosystem is growing as well. IDC calculated that Microsoft and its community of partners generated \$537 billion in revenues in 2009. This was up 13% from 2007, during a period in which total worldwide IT spending increased less than half a percent. IDC estimates that Microsoft and its partners generated \$580 billion in 2010 (see Figure 1).

FIGURE 1

Growth of the Microsoft Ecosystem (Total Net Ecosystem Revenues)



Source: IDC, 2010

Perhaps more significant is that this growth has occurred in the midst of the most severe economic downturn since the Great Depression. IDC expects that for the next few years, the global IT industry, and especially the software sector, will outpace global growth in GDP and employment as businesses and governments continue to invest in IT. In the 2009 study, IDC estimated that IT spending would grow from \$1.4 trillion in 2009 to \$1.7 trillion in 2013.

OPPORTUNITY FOR PARTNERS

While the size and the importance of the Microsoft ecosystem are impressive, to the companies *within* that community, what's of more importance is the opportunity created by being part of the Microsoft partner ecosystem.

IDC has been studying that opportunity for nearly a decade as well.

In general, of course, the prosperity of partners is tied to Microsoft's fortunes. As we have seen, as Microsoft has grown, so have the revenues of its partners and the size of the partner community.

To support the symbiosis between Microsoft and its partners, both sides have worked together over the years to create a diverse set of tools and resources to assist partners in all phases of business development, from strategic planning to customer retention. Specific programs include Partner Learning Center, Partner Marketing Center, lead generation through the Pinpoint solution directory, Demo Showcase, Customer Satisfaction Index, Microsoft Financing, and many more. Based on partner and customer feedback, in November 2010, Microsoft introduced a new membership structure in the Microsoft Partner Network that more accurately recognizes solution provider competency and provides tailored benefits and resources, including several that help partners transition and extend their business to cloud computing.

In the 2009 study previously mentioned, IDC found that partner revenues were, indeed, a multiple of Microsoft's revenues. Table 1 shows the ratio by type of partner, as defined by IDC.

TABLE 1					
Ecosystem Revenues Compared with Microsoft's Revenues by Partner Type*					
Microsoft	Product-Oriented Partner (e.g., ISV, IHV)	Services-Oriented Partner (e.g., SI, Hoster)	Value-Added Partner (e.g., VAR)	Logistics-Oriented Partner (e.g., Large Account Reseller)	Retail Logistics Partner (e.g., Large Retail Electronics Store)
\$1.00	\$4.09	\$2.44	\$2.30	\$2.70	\$2.93

Note: *Full partner type definitions can be found in *IDC's Worldwide Partnering and Alliances Taxonomy, 2009* (IDC #220190, October 2009).

Source: IDC, 2009

Because partner revenues are not mutually exclusive — there is much partner-to-partner activity — the ratio of partner revenue to Microsoft revenue adds to more than \$8.70.

But even these figures are an average.

Over the years and through various studies, IDC has tracked a set of key performance indicators for the range of IT partners — independent software vendors, value-added resellers, systems integrators, service providers, etc. The indicators are part financial (e.g., gross margin, profit growth), part sales related (e.g., deal size, closing rate), and part operational (e.g., capacity utilization, billing rate).

IDC has found several positive examples of Microsoft partner success through these research studies:

- ☒ Companies that invest more in their Microsoft relationship perform better. In a 2009 study of partners focused on Microsoft Core IO technologies, IDC found that the partner group that invested in a greater number of, or more difficult, Microsoft Competencies enjoyed a 68% larger deal size and a 28% higher revenue per employee than the partner group that invested less. The partners' investment in increased skills was reflected by increased attention and support

from Microsoft. The recent changes to the competency structure as part of the Microsoft Partner Network are designed to increase partner visibility and accessibility, on the one hand allowing customers to more easily identify appropriate solution providers and on the other making it easier for partners to differentiate and market themselves to Microsoft employees and even other partners. (Source: *Microsoft Core Infrastructure: Partner Pathway to Business Performance*, IDC white paper #218659, June 2009)

- ☒ There is an inherent advantage in being part of the Microsoft partner ecosystem. In a study of the International Association of Microsoft Channel Partners (IAMCP) and its members' business activity together, IDC found that the total value of partner-to-partner activity rose from \$6.8 billion in 2007 to \$10.1 billion in 2009 — a 22% CAGR. While the association grew in membership, and despite a tough economic environment, IDC found that per-company partnering activity rose substantially over that time. Solution providers were doing more — and larger — deals. Partner-to-partner activity allows companies to increase their sales reach and access customer-specific knowledge, among other benefits. (Source: *Software Channel Leadership Council: The Growth of Partner-to-Partner Networking*, IDC #219876, September 2009)
- ☒ The broad ecosystem gives partners the opportunity to add areas of growth. Partners interviewed in a study of information worker projects regularly found that they obtained additional business in infrastructure upgrades or selling and supporting business intelligence and communications solutions. Microsoft Dynamics resellers found that they could make significant additional revenues — at excellent margins — selling additional services. (Sources: *Building a Microsoft-Based Information Worker Business Practice*, IDC white paper #211463, April 2008 and *Microsoft Dynamics Success Factors: Industry, Size, Efficiency, Services*, IDC white paper #220145, October 2009)
- ☒ Historically, the ecosystem has followed Microsoft as it adapts to transforming trends and is likely to do so in the future — from virtualization and Web 2.0 to mobility and cloud computing. For example, in a 2010 study of partners working with Microsoft's Office 365 cloud offerings (formerly Business Productivity Online Services), partners told IDC that they were able to provide customers with cutting-edge solutions that cut costs, reduced complexity, and increased quality of service. Customers and partners together were able to innovate and solve key business problems with what promises to become the new paradigm of computing. (Source: *Building a Successful Microsoft Business Productivity Online Services Practice*, IDC white paper #225156, October 2010)

Microsoft partners are also growing and even thriving in the current economy. According to press reports on Microsoft:

- ☒ In the IT services and software sectors of the 2010 Inc. 500 list of fastest-growing private companies in the United States, Microsoft partners account for almost half of the list. ([Inc. magazine](#))

- ☒ In the Fortune magazine list of the 100 fastest-growing large companies worldwide, Microsoft partners account for more than 50% of the technology sector companies represented. ([Fortune magazine](#))
- ☒ In the Forbes 100 list of best mid-cap stocks, Microsoft partners account for 80% of the companies in the technology sector. ([Forbes magazine](#))

HEADING FOR THE CLOUDS

One of the core benefits of participation in the Microsoft ecosystem is the ability to move, along with the industry, customers, and other partners, into the future in an aligned way.

Cloud computing, which IDC sees as part of a long-term industry transition much in the same way that client/server computing was a transition from the mainframe era, offers tantalizing benefits to current and potential customers. The most promising benefits for IT-using customers are lower capital costs and barriers to market entry, access to scarce skills, freedom from administrative headaches, and increased innovation.

The opportunities for Microsoft partners are significant. For example, subscription-based cloud computing offers state-of-the-art IT capabilities to companies across all sectors of the economy that have never been able to reap the competitive benefits of IT because they have not been able to make the necessary up-front capital investments.

In fact, in the 2009 IT economic impact study, IDC estimated the increased business revenues that could be associated with the increased innovation available to IT organizations and enterprises from the forecast growth in cloud computing. Over the next four years, those aggregate new revenues could hit more than \$800 billion worldwide.

Achieving that business growth will come only through enterprises, IT organizations, and industry players — including local Microsoft partner ecosystem members — working together to deploy the new technologies. The foot soldiers of this forward march will be the companies, like most of those in the Microsoft ecosystem, working directly with customers to make the future a reality.

But remember, while spending on SaaS will grow at over five times the rate of traditionally delivered software to reach \$40.5 billion by 2014, it will still account for only 10% of total software sales (total IT spending that year should be nearly \$1.9 trillion). And while Microsoft is expending a lot of time and resources creating cloud offerings for most of its products, its partners will be in the enviable position of being able to offer customers the choice of cloud or traditional offerings — or both.

CONCLUSION

The modifications announced in November 2010 to the Microsoft Partner Network have been designed to address the interests of partners in maximizing their opportunities in both cloud computing and the current lineup of Microsoft products.

These changes are also designed to help customers efficiently identify and connect with the appropriate partners for their business needs. By applying the tools available to partners, by seizing available opportunities, and by taking full advantage of leads provided by other partners, Microsoft partners will be well positioned in the competitive IT marketplace.

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