



THE MICROSOFT DIGITAL TRANSFORMATION SERIES

Part 1: The Digital Transformation Opportunity

Aligning business strategy to the digital transformation market opportunity

An IDC eBook, Sponsored by Microsoft



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Introduction

The Microsoft Digital Transformation series is a collection of five eBooks outlining the business opportunity to build or accelerate your digital transformation practice.

Learn how Microsoft partners have developed cloud technologies to evolve their digital transformation practices and deliver innovative services and solutions to customers.

Understand how Microsoft's digital transformation pillars are your roadmap to align solutions and customer transformation needs.



eBook #1: The Digital Transformation Opportunity

Gain insight into the opportunity and size of the rapidly growing digital transformation market, the digital maturity of your end-customers, and the business attributes for success. Align your business strategy to the digital transformation market opportunity.



eBook #2: Engaging Customers

Understand how partners are engaging customers across the transformation lifecycle and integrating customer centricity across the business and through data driven insights. Align your customer engagement strategy to help customers succeed on their digital journey.



eBook #3: Empowering Employees

Learn what partners are doing to recruit, train, and develop digital-savvy skills across their organizations. Understand how partners are building modern work environments with self-service and simplified processes leveraging data and insights to aid decision making.



eBook #4: Optimizing Operations

See how partners are transforming their operations to be more adaptive, agile, and efficient by harnessing technology and digital platforms. Identify where and how you can make improvements to your business through automated processes and governance.



eBook #5: Transforming Products

Learn how partners develop and capitalize on their products and owned intellectual property (IP), leverage data to enter new markets, revise business models to prioritize agility, and make customers their business partners on the joint digital journey. Understand the breadth and value of owned IP, and where your strategy should align.

IDC estimates the economic value of digital transformation to be \$20 trillion, or more than 20% of gross domestic product (GDP).

Digital transformation is a complex process that changes how enterprises work and go to market, which creates long-term opportunity for partners equipped to take customers on this on-going digital journey.

Transformation leverages digital technologies to innovate new business models, business processes, and services, and to improve experiences, operational efficiencies, and organizational performance.

In practical terms, transformation involves the use of third platform technologies — big data, analytics, social, and mobile — to optimize value and build competitive advantage. Organizations that can re-architect business operations for scale will most likely transform over the next 3-5 years and emerge as digital-native enterprises.

Partners are pivotal in driving this change, with unprecedented revenue and profitability opportunities.

Three converging trends are accelerating this partner opportunity.

Executive mandate. Digital transformation is at the forefront of customer conversations and is a board-level initiative. Executives view the path to capturing this opportunity as becoming technology-centric to deliver new customer experiences.

Line-of-business led. Line-of-business (LOB) leaders such as marketing, operations, sales, HR, and finance leaders are being called upon to drive business model changes and technology decisions, and to facilitate digital innovation towards a technology-centric business.

Built on the third platform. The new generation of technologies — big data, analytics, social, and mobile — are necessary to enable the achievement of a company's digital goals. These technologies, along with accelerators like the Internet of Things (IoT) and artificial intelligence (AI), will dominate the unprecedented increase in future technology spending.

Market Opportunity

Partners that transform digitally will capture their share of the \$1.7 trillion technology spend in 2019.

The cloud has changed more than the way we implement and manage IT; it's changing the very fabric of business. With ready access to data, and intelligent new ways to view, analyze and use the information, the cloud has engendered powerful new capabilities which are disrupting entire business models.

And to accomplish such disruptive innovation, business leaders are required to transform all aspects of their businesses. They're looking at their own markets for opportunities to leverage modern digital technologies to optimize operations, empower employees, transform products and services, and engage customers in new ways.

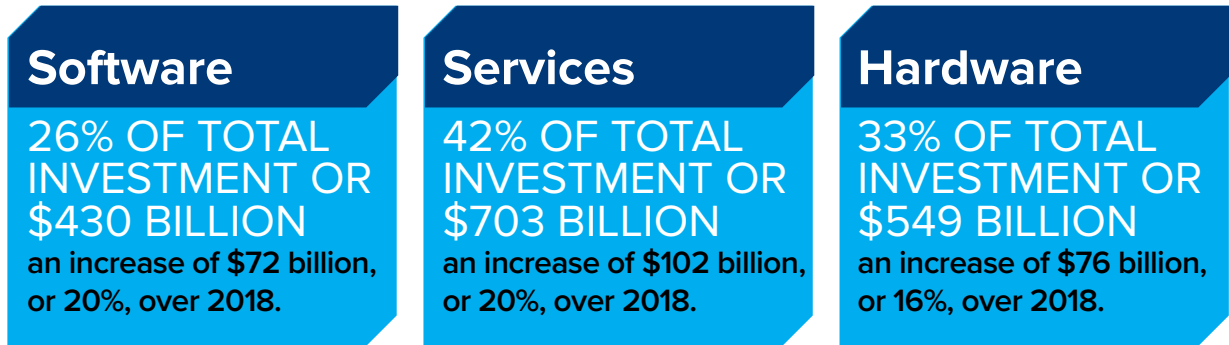
By 2019, IDC predicts all digitally transformed organizations will generate at least 45% of their revenue from "future of commerce" business models. And by 2020, in over half of Global 2000 firms, revenue growth from information-based products and services will be twice the growth rate of the balance of the portfolio.

Becoming known as a digital company is also affecting valuations. According to IDC, by 2020, investors will view digital businesses differently. Specific measures based on platform participation, data value, and customer engagement will account for over 75% of enterprise valuations.

In short, digital transformation is becoming a central strategy for modern business, but it requires new skills and investment, creating a massive opportunity for digitally savvy partners. Now is a critical juncture for partners to increase their digital sophistication and transform their own businesses to effectively meet the new customer expectations.

For every \$1 of revenue that Microsoft generates, partners generate an additional \$9.64 of revenue.

With 60% of enterprises now implementing an organization-wide digital platform strategy, IDC forecasts that the digital transformation opportunity will exceed \$20 trillion, or 20% of global GDP. Businesses worldwide are on course to invest \$1.7 trillion in 2019 across the spectrum of IT (software, services, hardware), and partners focused on modern digital platforms and cloud services will see the majority of that spend. IDC predicts the IT spending mix will break down as follows:



This growth will be fueled by intelligent cloud technologies and the increasing digital maturity of partners and their customers. In fact, IDC estimates that cloud partners (those that attach value to Microsoft cloud solutions) are growing twice as fast as their less cloud-capable peers. That's because spending on cloud IT and services will more than double by 2021.

And the opportunity is only growing. While 84% of partners are developing or executing on a digital strategy, over half are just starting out, and those with the highest level of digital maturity are seeing the highest gross margins across all their services.

According to IDC, the Microsoft partner opportunity related to digital transformation solutions will reach more than \$2 billion by 2022.

Transformative Solutions

To maintain relevancy and profitability, partners are shifting their focus to high-value digital solutions in the cloud. Advances in big data/analytics have created new markets for emerging technologies like AI and machine learning, IoT, and blockchain.

The expansion of the cloud ecosystem and access to data have created new security and compliance requirements, which become table stakes for digital transformation. In fact, IDC predicts that the General Data Protection Regulation alone will create a \$3.5 billion market opportunity.

With new AI use cases emerging every day, if you're not already leveraging AI in your solutions, chances are you will soon. According to IDC surveys, 67% of organizations globally have already adopted or plan to adopt AI. IDC sees the compound annual growth rate for AI spending near 50% in the U.S. and even higher in Asia/Pacific.

And blockchain is another learn-it-now technology because IDC predicts such distributed ledger solutions will see a five-year compound annual growth rate of 81.2% and total spending of \$9.7 billion in 2021.

But it starts with the cloud, and those offering cloud solutions the longest have higher digital maturity and the most growth potential. Those who have achieved success with digital platforms have several things in common:

- **CLOUD MASTERY:** 70% of partners surveyed were focused on cloud services to provide value. But again, that's just the start.
- **MODERN TECHNOLOGIES:** By 2019 IDC predicts that 40% of digital initiatives will be supported by cognitive/AI capabilities, big data, and IoT, providing critical insights for new operating and monetization models.
- **NEW SKILLS:** Partners skilled in digital technologies, transformation services and modern business practices will be at the forefront of the digital economy, and able to attract the best talent. By 2020, 85% of new hires will be screened for analytical and AI skills. And by 2020, 25% of Global 2000 companies will have developed digital training programs and digital cooperatives.
- **RECURRING REVENUE MODEL:** Partners focused on higher margin opportunities with managed services and packaged IP report an average 64% of revenue generated from non-resale activities.

Your digital maturity is paramount. It takes time and investment to make the incremental advances needed to become a “digitally native” organization. It starts with cloud and data sophistication, but only truly becomes transforming when you are able to frame those skills within the context of the entire business.

“ Our company is built on innovation-as-a-service – we’re providing proof of value instead of proof of concepts, and getting customers to innovative technologies like big data, AI and IoT. ”

— Anil Singh, Founder and CEO, Hanu Software

Business Strategy

Business transformation within the larger trend of digital transformation cannot be understated. As a partner you should align your strategy and goals to market opportunity, and focus on meeting customer requirements by leading with the transformation of your own business.

Partner transformation is an on-going journey where the development of IP – such as custom and packaged software, and an increased focus on project and recurring managed services, are leading to new value creation and growth opportunities in a quickly expanding digital market. In one partner's words, "it's a journey on a ship with no port" – meaning an ongoing evolution of the business.

Three key trends are helping shape this profitability opportunity:

By 2021, spending on cloud services and cloud-enabling IT will more than double to over \$530 billion.

Digital platforms/ecosystems: By 2020, 60% of all enterprises will have fully articulated an organization-wide digital platform strategy and will be in the process of implementing that strategy as the new IT core for competing in the digital economy.



Partner consulting and professional services capabilities will play a key role in defining and executing on customer roadmaps for digital transformation.

Cloud: By 2021, spending on cloud services and cloud-enabling hardware, software and services will more than double to over \$530 billion, leveraging the diversifying cloud environment that is 20% at the edge, and over 90% multi-cloud.



Partner cloud and managed services will play a key role in supporting customer cloud initiatives and ongoing integrations with a host of applications.

Hyper-agile applications. By 2021, enterprise apps will shift toward hyper-agile architectures, with 80% of application development on cloud platforms (PaaS) using microservices and cloud functions, and over 95% of new microservices deployed in containers.

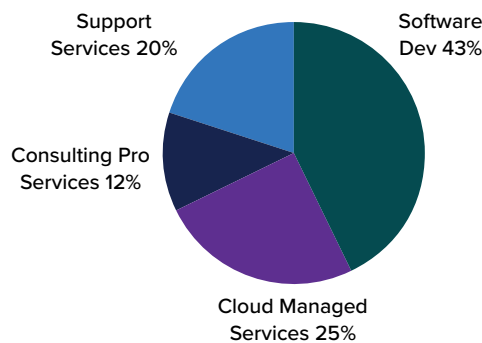


Partner development capabilities will take advantage of customer demand for custom and packaged software.

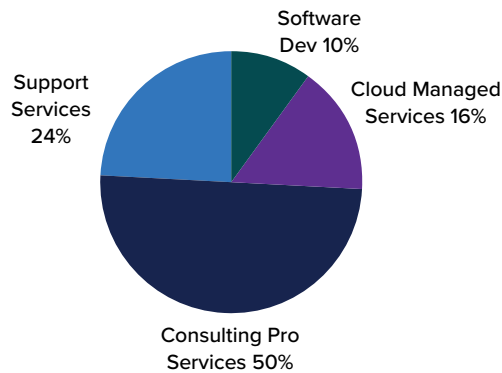
IP Ratio of Revenue

As transformation accelerates the agenda for your business development, the focus will be to create value across the spectrum of digital requirements with project services, managed services, and software and IP development offerings. In an IDC partner survey, partners reported an average 64% of revenue generated from non-resale activities, with solution-based services and software in the evolving market opportunity of the digital economy.

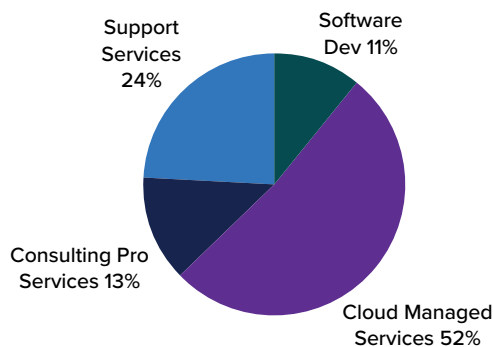
67%
(non-resale revenue ratio)
Software-Focused
(24% of partners)



68%
(non-resale revenue ratio)
Consulting-Focused
(21% of partners)



67%
(non-resale revenue ratio)
Recurring-Focused
(55% of partners)



Assessing the digital maturity of partners and customers is critical in establishing an approach to digital transformation, by understanding the core areas of potential business optimization. IDC has identified four key attributes, which are aligned with Microsoft's digital transformation pillars, with partner-specific definitions and metrics:

IDC predicts that by 2021, at least 30% of the channel will not exist in the format we know today.

» **Engaging Customers:** Tailor individual experiences by harnessing data for actionable insights. Assess customer readiness and envision opportunities to help organizations use technology to interact with customers in new ways, ranging from personalized digital experiences such as targeted offers and specific recommendations, to more efficient and effective customer service. Leverage big data, analytics, AI, and CRM, to facilitate customer engagement.

Key metrics for partner digital readiness include adoption of digital marketing and a focus on full customer lifecycle services capabilities, through customer success, and renewal/extensions.



Key questions for partners to ask themselves:

- Is customer centricity integrated across our business?
 - Are we recruiting new customers and continuing to grow existing customers?
 - Are we using data to drive customer insights?
 - Are we engaging business and marketing leaders as technology decision makers?
-

» **Empowering Employees:** Help employees achieve more by creating a work environment that fuels productivity, while flexible, and secure. Recruit and build digital-savvy skills across organizations and create opportunities for people to collaborate from anywhere, on any device. Build modern work environments by leveraging mobility and collaboration tools.

Key metrics for partner digital readiness include recruitment, training, compensation structure, and cloud capabilities for a digitally empowered and agile culture that enables employees to work anywhere.



Key questions for partners to ask themselves:

- Are we being intentional about our people priorities and related strategies?
- Are we using more data to drive insights and decision making?
- Are we delivering self-service and simplifying processes?
- Are we enhancing our employee skills?

» **Optimizing Operations:** Accelerate the responsiveness of business, by improving service levels and reducing costs. Reinvent products, services and business models using digital content. Transform operations to be more adaptive, agile, and efficient in meeting internal needs and customer requirements. By coordinating people and assets more efficiently, organizations can respond to issues in real time — and even preemptively solve them. Leverage IoT, analytics, and big data.

Key metrics for partner digital readiness include improvements in customer service, cost reduction and growth with data, automated processes, and governance.

 **Key questions for partners to ask themselves:**

- Are we harnessing the latest technology for the next level of efficiency?
- Are we leveraging digital platforms to reduce delivery timeframes?
- Are we able to bring new products and services to market efficiently?
- Are we anticipating and solving customer issues before they become issues?

» **Transforming Products:** Differentiate and capture emerging opportunities by using data as a strategic asset and shifting from hindsight to foresight. Develop solution sales that add value for customers that may include your own products and IP (i.e., services and/or software) that align with meeting customers' digital requirements.

The opportunity to embed software and technology directly into products and services is evolving how organizations deliver value. Implement technologies such as IoT, CRM, and ERP, to deliver on customer digital requirements. Leverage data to enter new markets, revise business models to prioritize agility and emerging trends, make customers business partners, and connect products to amplify and redefine their value.

Key metrics for partner digital readiness includes ratio of revenue and profitability from IP, and the types and value of IP.

 **Key questions for partners to ask themselves:**

- Are we leveraging data to enter new markets?
- Are we revising our business model to prioritize agility and emerging trends?
- Are we making customers our business partners?
- Are we connecting products to amplify and redefine our value?

The partner revenue opportunity in implementing these enterprise digital platform strategies is significant. Partners that are skilled in digital technologies, transformation services, and modern business practices will be at the forefront of the digital economic market opportunity to drive transformation in:

- Rationalizing legacy applications as an essential step in preparing the enterprise for digital transformation.
- Educating LOB leaders, and understanding the technologies that support speed, scale, and agility, and their role in any digital deployment.
- Optimizing modern marketing, recruitment and talent development, and customer product and service offerings.

Leverage data to enter new markets, revise business models to prioritize agility and emerging trends, make customers business partners, and connect products to amplify and redefine their value.

““ Digital transformation is becoming more and more relevant every day, and Microsoft technology is allowing us to build IP to take to our customers to help them digitally transform.””

— Ben Gower, CEO, Perspicuity

Customer Digital Maturity

Digital transformation is at the forefront of end-customer conversations and is being integrated into current and future technology investments. For this reason, you must be able to engage in the right conversations with business and technical leaders and focus your efforts around their key priorities and aspirations.

This is not simply a technical matter of moving data from on-premise datacenters to the cloud. Digital transformation allows organizations to re-imagine their business models and enter new markets, while increasing efficiencies and customer satisfaction. To do that, you can help them modernize not only their infrastructure and application architecture, but also help transform their business culture to deliver ongoing and rapid innovation.

It is also clear that digital transformation is not marketing hype and has moved quickly to customer adoption and execution as businesses experience disruption in their industries from advances in digital technology.

For partners, there are two common themes expressed relative to the digital opportunity and their experience:

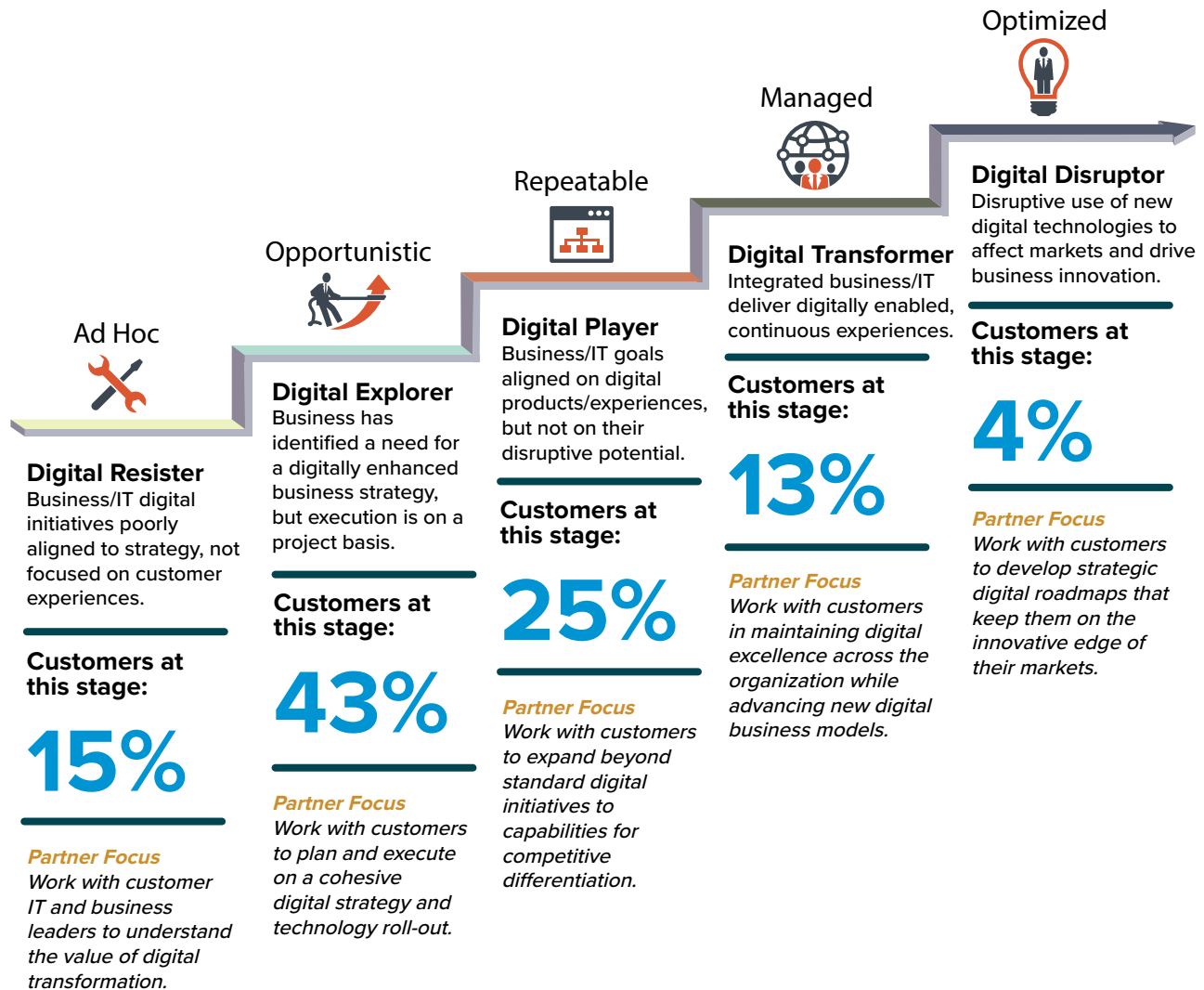
1. Partners are already investing in the transformation of their own businesses to be more capable of engaging customers across the vast digital transformation opportunity.
2. Customers and prospects want to understand the meaning, implications, and potential business outcomes of transforming a business digitally.

IDC's digital maturity model provides a framework, benchmarked from more than 1,500 companies worldwide, to assess where your customers and prospects are on their digital transformation journey, and where you can effectively engage at each businesses stage of development.

Use this framework to initially understand customer positioning relative to the five stages of digital maturity and develop the appropriate partner/customer dialogue.

58% of customers are in the Ad Hoc or Opportunistic stages of digital maturity representing significant untapped potential.

IDC End-Customer Digital Maturity Stages



Source: IDC's Digital Transformation MaturityScape, 2018

Microsoft's solutions help drive transformation outcomes for customers. The depth and breadth of Microsoft technologies provide a roadmap to align partner solutions to customer digital transformation needs.

““ We’ve reached the tipping point where customers have gone from moving to the cloud to now requiring transformation of their business.””

— Mitchell Feldman, Chief Digital Officer, Red Pixie

Bottom Line

Based on IDC's latest ecosystem economic impact model, the Microsoft partner opportunity related to digital transformation solution adoption will double from 2017 to 2022 – from just over \$1 billion to just over \$2 billion.

Market opportunity demands that partners shift focus from traditional IT to digital-specific initiatives and value to ride a longer-term wave of growth.

Microsoft's solutions are available to help you engage in the digital transformation opportunity, i.e., to provide customers with technology-based solutions, and drive your revenue and profitability. This is very important as you plan to adapt and grow your own business relative to an expanding digital market.

There is considerable symbiosis between that opportunity and Microsoft partner revenue multiples. In 2017, partners earned \$9.64 in revenue for every \$1 of Microsoft revenue generated, and this is expected to continue through 2022. That amount includes a mix of software (45%), services (50%), and hardware (5%), that are sold in relation to Microsoft solutions. That mix also reflects a high ratio of partner-created products and services.

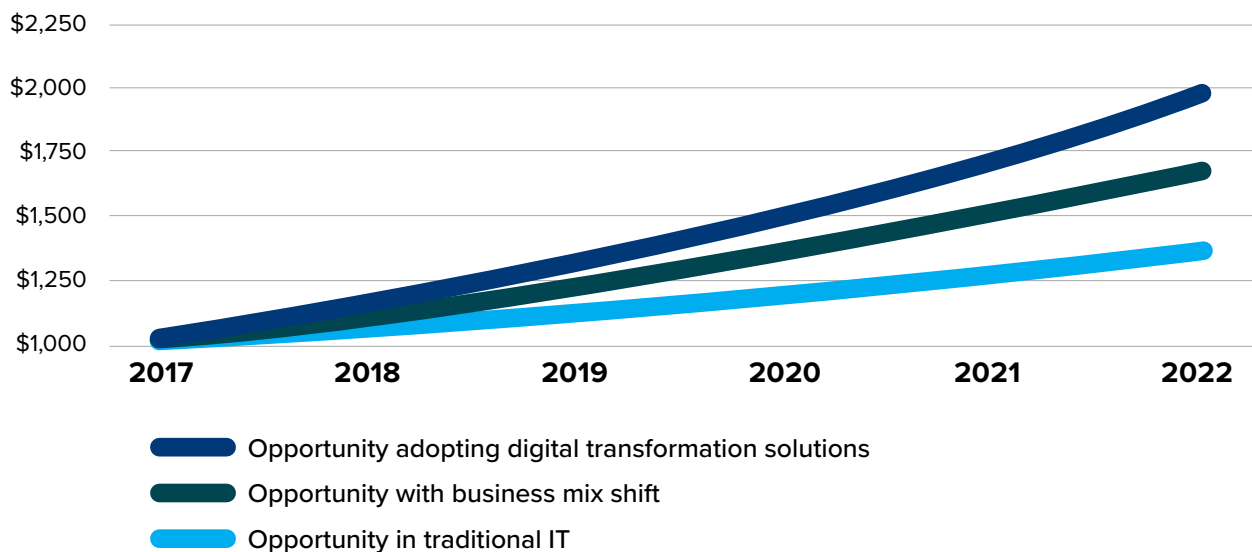


The Microsoft partner opportunity related to digital transformation will double from just over \$1 billion to just over \$2 billion by 2022.

Microsoft drives customer engagement through solutions that help extend partner value, i.e., positions partner software, consulting/professional services, and managed/cloud services as integral to customer success in meeting business outcomes. Partner value extension will continue to be an important driver for partners through the digital transformation of their customers, especially those with intellectual property. According to the IDC partner survey, partners with IP services show the highest gross margins (more than 70%) and margins increase across all types of services relative to partner’s digital maturity.

Also note that digitally mature partners are more focused on refining their product/service portfolios and developing new IP. But with more than half of the partners surveyed yet to transform, only 28% indicated that developing IP was a priority for next year, leaving a great opportunity for those with a solid digital strategy.

Total Available Market for Microsoft Partners (\$B Worldwide)



Microsoft’s partner ecosystem has benefited from Microsoft’s ability to pivot with key industry trends, including digital transformation. One of the core attributes of a Microsoft partner is the ability to leverage Microsoft’s technology and business innovation to set strategy and direction to drive the future of the business.

Cloud is a case in point. IDC’s view of cloud is that it’s part of a long-term industry transition that offers benefits to current and potential customers, but that more importantly becomes the foundation for digital transformation. Microsoft has been a cloud leader for many years, and in that time has invested heavily to support partner capabilities in leveraging that opportunity.

Recommendations

Given all the positive indicators around the Digital Transformation opportunity, IDC asked forward-thinking, digital-savvy Microsoft partners for their advice for other partners looking to make an impact on their customer's digital transformation journey:

- 1. Embrace the digital opportunity, and understand what it means to you**
Be a thought leader and drive transformation internally. Advocate transformation to customers and help them understand how they can change and how to interpret the disruption they are seeing in their own and other industries. Embrace this reality and define how you and your customer's business can transform.
- 2. Become a digital business yourself**
Be a trusted digital advisor to your customers. "Practice what you preach" and become a truly digital business yourself.
- 3. Focus on what you're good at, and what your customers need**
Unless you're a global company, the ability to be all things to all customers is unrealistic. Focus on your core competencies, and apply those competencies to accelerate your customers' digital transformation. Specialization will build differentiation.
- 4. Make customer outcomes the currency**
Focus on solution sales that deliver on customer outcomes, rather than transaction-based services. Understand your customer, be clear on their business goals, and deliver solutions against those goals. Build foundational customer relationships by establishing and aligning on the same goals.
- 5. Be easy to do business with**
Simplify customer engagement from your initial customer interface through to engagement. Have clear and simple pricing with outcome-based goals. Minimize complexities, and provide customers with more of a consumer-like experience.
- 6. Create a digital DNA or culture in your business**
Define change within your own business. Build a culture with your employees that promotes digital curiosity. Enable your employees to embrace new technologies like AI and automation.

What's Next In This Microsoft Digital Transformation Series

This eBook is one in a series of five that will be published throughout 2018. Each of the next four eBooks will seek to explore the digital maturity of the partner ecosystem relative to their ability to address the digital requirements of their customers, and how partners work with Microsoft to address key attributes aligned to the digital transformation pillars:



eBook 2: Engaging Customers



eBook 3: Empowering Employees



eBook 4: Optimizing Operations



eBook 5: Transforming Products

Appendix: Research Methodology

This study included two major research components: a quantitative study of partners worldwide and a series of in-depth interviews. IDC surveyed 639 partners through the web in December 2017. IDC also conducted 16 in-depth interviews in November and December 2017 with successful Microsoft partners with notable digital transformation practices.

Qualitative Interviews

Qualitative in-depth interviews were conducted with 16 Microsoft partners demonstrating digital transformation, to understand their view of the digital transformation opportunity, and the steps they have taken to position themselves for success with their customers.

MICROSOFT PARTNERS

Company Name	Headquarters
10th Magnitude	USA
Accelerator AB	Sweden
Awingu	Belgium
BitTitan	USA and Singapore
Blue Rooster	USA
Dimension Data	South Africa
EMIT	Ireland
Hanu Software	USA
Hitachi Consulting	USA
IAMCP	USA
Neural Impact	Canada
New Signature	USA
Perspiciuity	UK
RedPixie	UK
Resource IT	UK
Solliance	USA

Quantitative Survey

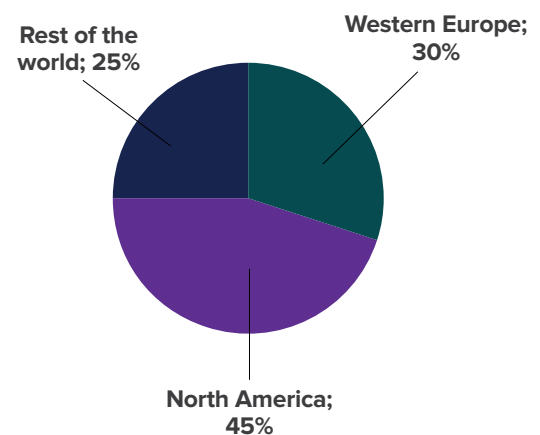
Geographic mix

The survey reached partners in 41 countries with mix of approx. 45% in North America, 30% in Western Europe, 15% in Asia Pacific and 10% Latin America.

Respondents

The set of respondents ranged from small local service providers to large, multi-billion dollar enterprises. Partners were randomly chosen based on their business model to resell, influence the sale of, or receive referral fees for the sale of third party IT products and/or services (including cloud services).

SURVEY RESPONDENTS



Qualitative interview candidates were chosen based both on their success with digital transformation and their business model mix.

Objectives of the research

The objective of the survey was to benchmark the maturity of how partners are digitally transforming different parts of their business and to quantify the impact digital transformation has on their:

1. Channel Business Models / Strategy
2. Customer Engagement
3. Employee Empowerment
4. Operational Efficiencies
5. Product Transformation

The objective of the qualitative interviews was to learn innovative digital practices that have led to the partner's overall success.

Outlying data points (large and small) were sometimes taken out of a calculation when otherwise a handful of responses would substantially skew the result.

IDC Global Headquarters

5 Speen Street
Framingham, MA 01701
USA
508.872.8200
Twitter: @IDC
idc-insights-community.com
www.idc.com

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