

WHITE PAPER

Microsoft Information Worker Solutions Competency: Partner Pathway to Business Performance

Sponsored by: Microsoft Corporation

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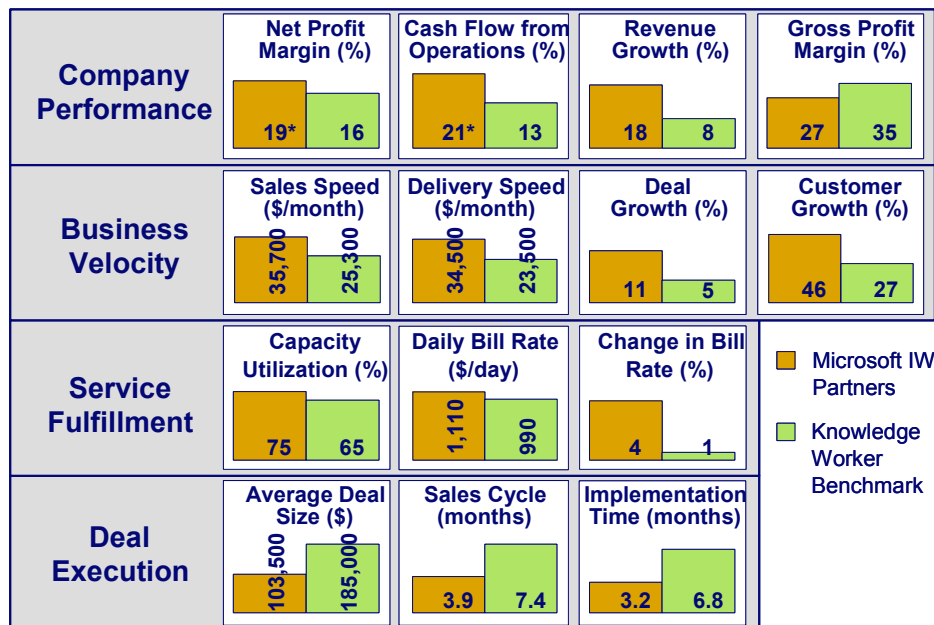
EXECUTIVE SUMMARY

Slower revenue growth across the IT industry since the blazing pace of the '90s has focused attention on bottom-line profitability and the many factors, both large and small, that contribute to partners' performance. IT vendors increasingly recognize that the business health of their partner community is critical to their success. In this context, Microsoft commissioned IDC to research the performance of Microsoft partners who have earned specific Microsoft-defined Competencies relative to the performance of comparable companies in the industry. This IDC White Paper covers our findings for the Information Worker (IW) Solutions Competency.

As part of our analysis, IDC formulated 14 key performance indicators (KPIs) to study the performance of IT solution providers. IDC's KPIs fall into four categories: company performance, business velocity, service fulfillment, and deal execution. IDC used these KPIs to analyze two main groups of IT solution providers: businesses that have achieved Microsoft's Information Worker Solutions Competency (IW Partners) and a broader group of companies that offer and focus on knowledge worker solutions (Knowledge Worker Benchmark). Knowledge Worker Benchmark companies generally have not earned the Information Worker Solutions Competency from Microsoft, but they do focus on the same solution set as IW Partners.

FIGURE 1

Information Worker Solutions Competency Partners' Businesses Compared to the Knowledge Worker Benchmark



Source: IDC, 2006

Our key findings are:

1. IW Partners run business units that outperform the Knowledge Worker Benchmark on 12 of 14 KPIs. Summary results are presented in Figure 1.
2. These results can be attributed, at least in part, to IW Partners' ability to control critical business levers in two areas:
 - ❑ **Fast execution.** IW Partners have significantly shorter sales cycles and implementation times as noted in Figure 1. They exert less effort to find and hire new sales, marketing, and technology people. They benefit from Microsoft's ability to connect them with high-yield prospects and with Microsoft's technical resources. Moreover, they have been able to start up their knowledge worker solutions business quickly. (IW Partners have a median start-up investment of \$25,000 and an average break-even period of one year.)
 - ❑ **Low cost structure.** IW Partners' service capacity utilization exceeds that of the Knowledge Worker Benchmark by 10 percentage points. By keeping their technical resources billable more of the time, IW Partners are able to do more with less, reducing the impact these resources have on nonbillable overhead costs. IW Partners also tend to have more productive relationships with their customers. Their number of deals per customer is over 1.5 times that of the Knowledge Worker Benchmark. As a result, they are able to keep costs in check by more fully mining their existing customer base.
3. IDC also found certain business characteristics in which strong results tend to coincide with strong business performance overall. In each of these areas, IW Partners have found ways to excel, thereby delivering high-impact results. These characteristics include a company's capacity to fund new business opportunities (IW Partners tend not to rely on external financing), the growth of its revenue and number of deals (IW Partners are growing at over twice the rate of the Knowledge Worker Benchmark), the approach it takes toward addressing multiple business and technology opportunities (IW Partners offer more solutions to more vertical industries), the size of deals they land (IW Partners have lower average deal sizes than the Knowledge Worker Benchmark, but they make up for it with speed of execution, mentioned above), and the reliance they have on services with high and increasing daily bill rates (IW Partners' bill rates are 12% higher than those of the Knowledge Worker Benchmark companies on average, and their rates are increasing while the Knowledge Worker Benchmark companies' rates are relatively flat).
4. One important measure did not have any relationship with the other KPIs: gross profit margin. In particular, high gross profit margin was not necessarily associated with high net profit margin or high cash flow from operations. Although IW Partners underperform the Knowledge Worker Benchmark on gross profit margin, this result is not nearly as significant to their overall performance.

These important conclusions were derived from a three-phase research study that involved interviews with more than 800 value-added resellers (VARs), systems integrators, and consultants in the United States, the United Kingdom, and Germany.

IDC's findings underscore the importance and benefit of both the Microsoft Partner Program and Microsoft Competencies. Microsoft partners who have not yet committed to the IW Solutions Competency are well advised to investigate the advantages it can provide, and companies that are not Microsoft partners may benefit from the Microsoft Partner Program and Competency initiatives.

IN THIS WHITE PAPER

IDC's Software Business Strategies group specializes in research on software partnering and partner alliances programs. In this role, the group was asked to investigate the business practices and performance of VARs and service providers, some of whom were Microsoft Partners with certification in Microsoft's Information Worker Solutions Competency. Please note that throughout this IDC White Paper, when we refer to the performance of various groups of companies, we mean their business performance.

In this IDC White Paper, we address the following questions:

- What is the performance umbrella, and why is a partner's performance a central issue for IT vendors today?
- What methods and KPIs did IDC develop to measure the performance of IT solution providers?
- How does the performance of Microsoft IW Partners compare with the performance of industry benchmark companies that provide knowledge worker solutions?
- What is the Microsoft Partner Program, and how do Competencies help partners perform better?
- How does IDC assess Microsoft's Partner Program in light of this research? What are Microsoft's channel strategy opportunities and challenges?

Methodology

IDC conducted phased research in three countries — the United States, the United Kingdom, and Germany — and focused primarily on two major types of partners: VARs and services-oriented partners (e.g., systems integrators and consultants). The research was conducted from June through August 2005. Phase 1 consisted of "Benchmark Research" that provided IDC with a baseline level of understanding of partner performance issues for different regions of the world. Phase 2 consisted of "Targeted Research" with Microsoft partners who have a practice focus in one of three Microsoft-defined Competencies: Advanced Infrastructure Solutions, Information Worker Solutions, and Mobility Solutions. Phase 3 consisted of in-depth interviews with executives of Microsoft partners who are engaged in at least one of the three competencies of interest.

From the Benchmark and Targeted Research, IDC developed KPIs (described in more detail later) plus other metrics to better understand company performance. Our analysis examined the relationship of KPIs to the partners' degree of engagement in the Microsoft Partner Program in general and the Information Worker Solutions Competency in particular. The Information Worker Solutions Competency is described in Appendix A. For a more detailed description of the research methodology, please see Appendix F.

The Information Worker Solutions Competency findings are reported in this IDC White Paper. Advanced Infrastructure Solutions and Mobility Solutions Competencies are analyzed in companion IDC White Papers. Generalized findings applicable across all Benchmark and Targeted Research are included in an IDC Executive Summary paper.

Microsoft's Information Worker Solutions Competency

Microsoft has recently deployed a Competencies and partner points initiative aimed at supporting channel partners, VARs, and systems integrators who install Microsoft products for small and midsize businesses. Partners invest in Competencies by acquiring expertise and advanced knowledge in specific technology areas. The Competencies framework provides partners with training and certification for specialized services to help them establish their expertise and enhance and make more visible the value proposition for their solutions. As part of the program, partners accumulate points that elevate their status within the program. With higher status comes access to more resources within Microsoft, including marketing support and other benefits.

Microsoft offers a number of different Competencies, one of which is Information Worker Solutions. Microsoft partners who achieve this Competency have proven their ability to deploy Microsoft products and technologies that help people generate, cultivate, and share ideas. For more information about the Information Worker Solutions Competency, please see Appendix A.

The Growing Importance of Partners' Business Performance

Although IT solution providers (often referred to as "partners" in this IDC White Paper) have always faced the challenge of building and maintaining profitable companies, their performance has only recently become a more pressing issue among the IT vendors themselves. Declining revenue growth rates across the IT industry have focused more attention on bottom-line profitability and the many factors, both large and small, that contribute to performance.

As part of this trend, partners are increasingly making technology adoption decisions based on hard-dollar business rationale. This decision-making environment is in contrast to that of the late 1990s, when partners relied on technology to "sell itself" and decisions were based largely on faith and trust in longstanding vendor relationships. In the past, IT vendors were focused on producing better technology and expected their partners to have the requisite business acumen to develop a successful business around their products. In the new climate, vendors realize that

the business health of their partner community is critical to their success. Thus, helping partners, many of whom are small companies with scarce resources, is an integral element of the partnership.

In addition, as vendors offer an increasingly broad array of partner benefits and services, partners need help to navigate these choices. Many partner programs are available, far more than a company can commit to. Vendors have come to realize that attracting and maintaining a roster of profitable partners can lead to competitive advantage and enhance relationships with end-user customers.

A Comprehensive View of Partners' Business Performance

When discussing the performance of their partners, IT vendors often think in terms of partner profitability. However, partners typically have several measures of business health that they commonly include in assessing their own performance. Therefore, in developing IDC's approach to analyzing partner performance, we used the following core principles:

- ☒ IDC adopted the traditional partner's perspective of performance, focusing on pragmatic business issues such as cash flow, deal size, sales cycle time, and services capacity utilization, in addition to net profit margin.
- ☒ IDC developed a suite of measures of company performance. We identified 14 KPIs that represent a comprehensive view of performance for the type of IT solution companies being analyzed. Although it is unlikely that any single manager would use all 14 measures in making business decisions, our research indicates that we have identified the most important measures.

The KPIs that IDC identified fall into four categories:

1. **Company performance.** Company performance KPIs include net profit margin, cash flow from operations (expressed as a percentage of revenue), gross profit margin, and revenue growth. These KPIs are important to business managers as a fundamental scorecard for evaluating the overall performance of a company.
2. **Business velocity.** Business velocity KPIs that we measured are sales speed (the revenue generated from a deal per month spent selling it), delivery speed (the revenue generated from a deal per month spent implementing the solution), deal growth, and customer growth.
3. **Service fulfillment.** Services are an important aspect of the partner's ability to provide complete solutions to its customers and to differentiate itself from the competition. We defined and captured three KPIs related to service fulfillment: capacity utilization (the percentage of total service delivery capacity sold in the past 12 months), daily billing rate, and the change in daily billing rate over the past 12 months.
4. **Deal execution.** Our experience with both technology vendors and partners shows that size and duration of deals are critical aspects of competitiveness and partner performance. We captured three main components of deal execution as KPIs: average deal size, average sales cycle time, and average implementation time.

IDC RESEARCH FINDINGS

This section presents a summary of IDC's research results (refer back to Figure 1). We examine and contrast the performance of the following groups of businesses:

- ☒ **IW Partners.** Business units of Microsoft partners focused on the IW Solutions Competency (sourced from the Phase 2 Targeted Research). These companies derive at least 25% of their total revenue from one or more of the following solution areas: collaboration and messaging, portals, business intelligence, project management, process management, and business productivity.
- ☒ **Knowledge Worker Benchmark.** Companies focusing on knowledge worker solutions, generally without the IW Solutions Competency (sourced from the Phase 1 Benchmark Research). These companies derive more than 25% of their total revenue from one or more of the following solution areas: collaboration and messaging, portals, business intelligence, project management, process management, and business productivity. However, these companies generally have not earned the IW Solutions Competency from Microsoft.

For background information about the population characteristics of these two groups of companies, please see Appendix C. Additional segmented information by country, partner type, and partner size can be found in Appendix D. Appendix E contains more detailed information about our findings for all these segments combined (i.e., across the entire Benchmark and Targeted Research).

Key Performance Indicators: Microsoft Information Worker Partners' Businesses Outperform Knowledge Worker Benchmark Companies' Businesses

A comparison of KPIs for IW Partners and Knowledge Worker Benchmark companies yielded the following results:

- ☒ For 12 of the 14 KPIs we measured, the business performance of the IW Partners exceeded that of the Knowledge Worker Benchmark companies.
- ☒ In the area of overall **company performance**, the revenue growth of IW Partners at 18%, is significantly higher than (more than double) the growth of Knowledge Worker Benchmark companies. This finding is particularly important because revenue growth is a visible and highly watched barometer of company performance by company executives and the industry overall. In addition, based on our research, revenue growth is one of two metrics (the other is deal growth) that together are good indicators of a company's net profit margin and cash flow from operations. We used this relationship as the basis to model these two KPIs for IW Partners. Our modeling methodology is explained in more detail in Appendix B.

The modeled net profit margin and cash flow from operations for IW Partners tend to be higher than the research data for the Knowledge Worker Benchmark companies, while the IW Partners' gross profit margin is significantly lower than that of the Knowledge Worker Benchmark companies. We discuss possible reasons for these results in the following section (see Why Are Information Worker Partners Performing So Well?).

- ☒ **Business velocity** KPIs also favor IW Partners. The sales speed of IW Partners tends to be higher than that of the Knowledge Worker Benchmark (40% higher than the Knowledge Worker Benchmark companies). Delivery speed of IW Partners also tends to be higher than that of the Knowledge Worker Benchmark companies (47% higher than the Knowledge Worker Benchmark companies). IW Partners' customer growth is significantly higher than that of the Knowledge Worker Benchmark companies (46% versus 27%). IW Partners' deal growth is also significantly higher than that of the Knowledge Worker Benchmark companies (11% versus 5%). In a world where speed and agility in the marketplace are as important as size, IW Partners have a large competitive advantage.
- ☒ **Service fulfillment** KPIs strongly favor IW Partners, who reported significantly greater capacity utilization (14% higher utilization), slightly higher daily bill rates (12% higher), and significantly higher increases in bill rates than the Knowledge Worker Benchmark companies. IW Partners are enjoying the best of both worlds: billing their people at higher rates and for a higher proportion of their available time.
- ☒ **Deal execution** KPIs show an interesting pattern. The average deal size of IW Partners tends to be lower than that of the Knowledge Worker Benchmark, but IW Partners' sales cycles and implementation times are both significantly shorter than those of the Knowledge Worker Benchmark (approximately half of the benchmark). IW Partners appear to be able to compensate for smaller deals by closing and delivering them faster.

"Our IW work is high margin, predictable and repeatable. We have a strong reputation for being capable of delivering business value."
– U.S. Microsoft Partner

"IW consulting has pretty much taken over as our predominant business model. It is now our core business."
– U.S. Microsoft Partner

Why Are Information Worker Partners Performing So Well?

We looked at other metrics in our research as well as the results from our executive interviews to explain these results. We conclude that these results can be attributed, at least in part, to IW Partners' ability to control critical business levers in the following two areas:

- ☒ Fast execution
- ☒ Low cost structure

Fast Execution

IW Partners are able to close and implement deals faster than industry benchmark companies. IW Partners excel in these two critical business areas. But fast execution goes beyond the front line of closing and implementing deals. It also involves the time it takes to find and hire new people, to get access to the right technical resources, to connect with high-yield prospects, and to start a new initiative. In all of these areas, we found evidence that IW Partners are able to leverage their relationship with Microsoft to their benefit:

"Our IW practice has led us to more C-level discussions than ever before. It has enhanced our perception in the marketplace."
– U.S. Microsoft Partner

- ☒ **Hiring new people.** IDC asked the industry benchmark respondents and the IW Partners about the ease with which they can find and hire new technical resources and sales and marketing resources. We found that IW Partners are able to identify and hire sales and marketing resources and technical resources faster than Knowledge Worker Benchmark companies. On a scale of 1 to 4, where 1 means "It takes a month or less" and 4 means "We cannot find qualified staff at all," IW Partners averaged 2.5 for sales and marketing resources while the Knowledge Worker Benchmark companies averaged 3.2. For technical resources, IW Partners averaged 2.9 while the Knowledge Worker Benchmark companies averaged 3.3. These results suggest that both sales and marketing resources and technical resources find the IW Partners more attractive. From the partner's perspective, it means it can fill vacant positions faster, get new people productive more quickly, and bring in the skills to support its business initiatives when needed.
- ☒ **Accessing Microsoft's technical resources.** Several executives stressed the importance of getting timely access to the right technical people within Microsoft. This access can happen both formally and informally, highlighting Microsoft's ability to recognize the business value of attending to the technical needs of its partners trained in the IW Solutions Competency.
- ☒ **Connecting with prospects.** IW Partners also mentioned the value of tapping into the network of Microsoft partners, specifically for lead generation. Partners will bring other partners into deals where they do not have the requisite capabilities in-house. Again, this can happen through the formal partnering initiatives that Microsoft has set up and also informally through Microsoft referrals because Microsoft has confidence in the quality of work and capability of its IW Partners.
- ☒ **Starting new initiatives.** As shown in Table 1, partners were able to generate high revenue growth and build financially rewarding businesses around Microsoft Information Worker Solutions. Beyond the five companies shown in Table 1, IDC in-depth interviews with 20 partners in the United States, Germany, and the United Kingdom found the following:
 - ☐ Partners were, on average, able to reach the break-even point in a year when they invested in building a business around Microsoft Information Worker Solutions.
 - ☐ Partners reported revenue growth that ranged from 5% to more than 100% based on a median initial investment of \$25,000.

"Investing in our IW business has expanded our footprint. We are able to talk to more customers and get in the door."
– U.S. Microsoft Partner

These findings indicate a speed of execution that any CEO would find appealing.

TABLE 1**Microsoft Partner Competency Start-Up Analysis: Information Worker**

Company	U.S. Microsoft Partner (1)	U.S. Microsoft Partner (2)	U.K. Microsoft Partner (1)	U.K. Microsoft Partner (2)	Germany Microsoft Partner (1)
Company Size (headcount)	10–49	50–99	10–49	100–499	1–9
Original Investment	\$25,000	\$50,000	\$54,300	Approximately \$100,000	\$12,200
First-Year Revenue	\$250,000	\$600,000	\$506,800	\$8,000,000	NA
Break-Even Point	Expected: 6 months Actual: 6 months	Expected: 18 months Actual: 18 months	Expected: 6 months Actual: 1 month	Expected: 1 customer Actual: 1 customer	Expected: 3 months Actual: 6 months
Revenue Growth/Year	Over 100%	103% CAGR in first three years	100%	45%	100%
Gross Margin	Year 1: 75% Year 2: 40% Year 3: 50%	Year 1: 35–40% Year 2: 20% Year 3: 25%	Year 1: 20% Year 2: 20% Year 3: 25%	Average across years 1 and 2 = 17%	Year 1: 100% Year 2: NA Year 3: NA
Time to 1st Customer	1 month	7 months	1 month	Immediate	1 month
Time to 2nd Customer	1 month	1 month	6 months	3 months	1 month

Source: IDC, 2006

Low Cost Structure

An important finding from our Benchmark Research is that higher gross profit margins do not necessarily translate into higher net profit margins. In fact, there is no correlation between the two KPIs. This finding suggests that the indirect costs typically found in the sales, marketing, development, and administration functions are lower among the IW Partners than the Knowledge Worker Benchmark. The fact that IW Partners have higher capacity utilization speaks directly to this point. By keeping their technical resources busier and billable, IW Partners are able to do more with less, reducing the impact these resources have on nonbillable overhead costs. This is especially important because human resources costs typically have the largest impact on an IT solution provider's profit and loss statement.

We also found that IW Partners tend to have more productive relationships with their customers, based on an average of .55 new deals per customer versus .35 new deals per customer for Knowledge Worker Benchmark companies. We believe that IW Partners are able to garner more deals per customer as a result of their credibility in the market and the strength of their customer relationships. Having highly productive customer relationships not only contributes to overall company performance but also helps keep costs in check by enabling partners to more fully mine their existing customer base.

"Exchange 2003 has helped our company's profitability. It helps us become more scalable because we deploy it to more customers for a given infrastructure, and it reduces our total cost of ownership."
– U.K. Microsoft Partner

In the executive interviews we found further evidence of factors that can lower the cost structure of IW Partners. One partner outlined the decision he made to align his sales and marketing efforts with Microsoft's efforts, allowing him to leverage the marketing research, marketing collateral, and advertising that Microsoft produces. Another described the contribution that Microsoft's technical evangelists and sales and marketing people made during a client demonstration. Yet another mentioned two executive briefings hosted by the partner but paid for by Microsoft. These factors contribute to allowing some IW Partners to maintain a lower marketing and sales cost structure than would otherwise be possible.

"Microsoft provides us with lots of marketing materials that we can customize with our logo. And our customers don't have to develop everything from scratch, and that's a benefit for us."
– U.S. Microsoft Partner

High-Impact Performance

IDC also found certain business characteristics in which strong results tend to coincide with strong business performance overall. In each of these areas, IW Partners have found ways to excel, thereby delivering high-impact results.

First, we found the strongest positive relationship with a company's KPIs occurred with its capacity to fund new business opportunities. This finding stands in contrast to a company's access to external capital, which is just one source of funding for new business opportunities. We found that IW Partners tend to start up their infrastructure solution offerings through internally generated funds rather than rely heavily on external financing to expand into new business opportunities. In this manner, they seem to have addressed a common constraint for businesses: the lack of available external capital.

Second, growth is important to the bottom line. There is a strong correlation between a company's revenue growth and deal growth and its net profit margin and cash flow from operations. IW Partners' very strong revenue growth and deal growth, compared with those of the Knowledge Worker Benchmark companies, put them in a favorable position for profitability and cash flow. The latter result is especially important given our first observation about the capacity to fund new business opportunities.

Third, a portfolio approach to the business is associated with stronger performance. By this we mean that a company with concentration in just one type of service, one technology platform, one customer size segment, one solution set, one vertical industry, one partner, and/or one type of revenue stream tended to perform poorly relative to companies that serve multiple markets, offer several types of services, and so forth. Although we do not have information from IW Partners about all seven of these aspects of their business, we asked them about the vertical industries they serve and the solutions they offer and found that they indeed take a portfolio approach through complementary diversification in adjacent industries or solution areas, more so than the Knowledge Worker Benchmark companies. In addition, if they have not already done so, IW Partners are well positioned to earn other Competencies from Microsoft to broaden their portfolio of Competencies and increase the value of their offerings in the market.

Fourth, better performance tends to be associated with bigger deals; however, companies with smaller deals can counter this tendency by executing these deals faster. IW Partners have done exactly that. Although they have smaller average deal sizes than the Knowledge Worker Benchmark companies, they have countered with shorter sales cycles and implementation times.

Fifth, companies offering services with high average daily bill rates, where those rates are increasing, perform better. With an average bill rate of \$1,110 per day, growing over the past 12 months by 4%, IW Partners are outperforming the Knowledge Worker Benchmark by 12% on the bill rate (\$990 per day), while the growth rate for the Knowledge Worker Benchmark is almost flat at 1%.

Finally, we found no correlation between gross profit margin and the other KPIs we measured for performance, including net profit margin. Therefore, although IW Partners underperform the Knowledge Worker Benchmark on gross profit margin, this result is not nearly as significant to their overall performance. Moreover, as we explained in the previous section, IW Partners have compensated by managing their indirect costs well.

"Getting the IW Competency has allowed us to become the single representative in our market. We have been able to price our solutions differently as a result."
– German Microsoft Partner

Services Drag Ratio

In addition to the various KPIs we observed with IW Partners and the Knowledge Worker Benchmark, IDC measured an important metric that captures the contribution vendors' products to the services portion of a partner's business: the services drag ratio. This ratio is usually expressed as "for every \$1 of resold software, a partner makes \$X of services revenue." The services drag ratio is particularly relevant for VARs because services-oriented partners typically do not resell, or resell very few, third-party software products.

We found that IW Partners who are VARs, on average, generated \$6.80 of in-house services revenue for every \$1 of resold third-party software. This finding compares favorably with a services drag ratio of approximately \$1 of resold software to every \$3 of in-house services revenue for VARs who focus on knowledge worker solutions, based on prior research conducted by IDC.

ESSENTIAL GUIDANCE

Channel partners are critical to the success of major software and system vendors because these partners bring the vendors' products directly to end users. Across the industry, vendors are increasingly interested in ensuring the success of their partners. IDC has defined and measured a framework of metrics that can be used to understand what makes partners succeed.

In addition to its Registered Member, Certified Partner, and Gold Certified Partner programs, Microsoft has created a suite of Competencies that further support partner success by cultivating partner expertise in key IT services areas.

Our research shows that the business units of Microsoft Partners focused on the Information Worker Solutions Competency outperform benchmark companies that deliver knowledge worker solutions on a variety of measures.

Our research further shows the common characteristics of high-performing partners and how IW Partners have found ways to excel. Microsoft and its broader community of partners can learn much from these companies. The information in this IDC White Paper provides an important road map for quantifying and boosting partner performance. IT solution providers can apply this road map directly to their business, while Microsoft can use it to help partners navigate key partner program resources, especially those available through the Information Worker Solutions Competency.

Challenges

Microsoft's competitors are cognizant of Microsoft's efforts and offer programs and incentives to attract their own partners. IDC would expect those competitors to increase and broaden their partner incentives over time, a challenge that Microsoft must be willing to address clearly and quickly.

In attracting new partners, Microsoft will be challenged to maintain standards that guarantee a high level of quality in those partners who hold Competencies while scaling up its organization. Microsoft's Partner Programs are an indication of partner quality, and customers need to trust that Microsoft certification means that partners possess the required skill set to tackle both simple and complex technology implementations.

Meeting competitive initiatives, maintaining standards of quality, and ensuring that Microsoft certifications continue to be respected in the marketplace are challenges that we feel can be successfully met by Microsoft.

Opportunities

Microsoft has stated that Competencies will change over time. The suite of choices will need to be expanded and refreshed on a regular basis to meet changing market conditions and dynamic customer requirements.

The success of many of Microsoft's Partners will attract more potential partners, which should broaden Microsoft's penetration of the IT market, particularly among small and midsize enterprises.

Because a company's capacity to fund new business opportunities is a key characteristic of overall company performance, Microsoft has an opportunity to expand its Microsoft Financing Program as an additional way to help its partners gain leverage to win new business and improve performance.

Conclusion

Microsoft has evolved its partner program in a timely manner to support its partners with a set of certified Competencies that are associated with strong partner business performance. IDC's findings indicate that partners with an Information Worker Solutions Competency outperform comparison groups consistently and across several measures of business success.

APPENDIX A

Information Worker Solutions Competency

This Competency is about deploying Microsoft products and technologies that help people generate, cultivate, and share ideas. A number of specializations make up the Information Worker Solutions Competency. They are as follows:

1. **Desktop installation of Microsoft Office, which is often accompanied by training and customization.** After initial configuration of Office tools, IT solution providers often follow on with regular maintenance and administration.
2. **Portal and content management solutions based on Microsoft Office SharePoint Portal Server.** Portals can serve information to either the members of an enterprise or to customers and trading partners.
3. **Project management consulting and support with Microsoft Office Enterprise Project Management Solution.** This specialization assists clients in embracing both the concepts of project management and Microsoft's product that enables improved alignment of projects with indicators of business value.
4. **Integration skills for Windows clients using Web services, Office Professional Edition, InfoPath, and Visual Studio Tools for Office.** This specialization assists clients in developing XML solutions that integrate with the familiar user interfaces of the Microsoft Office System and with data from multiple sources.
5. **Support for collaborating teams of workers** with solutions based on Microsoft Office SharePoint, OneNote, FrontPage, Outlook, Live Communications Server, Live Meeting, and Communicator 2005.

APPENDIX B

Modeling Net Profit Margin and Cash Flow from Operations

During our analysis of the Benchmark Research, IDC tested the potential dependencies, or correlations, among many metrics we measured. We found that over the entire sample, and within each country, a company's net profit margin and cash flow from operations were positively correlated with both its revenue growth and deal growth. Using this information, we created linear lines of regression for net profit margin and cash flow from operations, using revenue growth and deal growth as input variables for both. We then used these equations to model the net profit margin and cash flow from operations for the IW Partners. The resulting values, in effect, represent the incremental contribution of the Information Worker practice to the partner's net profit and cash flow from operations. We did not directly ask the Targeted Research respondents for their IW business unit net profit margin or cash flow from operations because they generally did not have their internal financial systems configured to measure these metrics.

We created several lines of regression, depending on the segmentation of the sample we were analyzing (i.e., by country, by partner type, and by partner size). The equations and key statistics associated with the "goodness of fit" for the lines of regression for the entire sample in the Benchmark Research are as follows:

☒ Net Profit Margin = $.464 \times \text{Revenue Growth} + .233 \times \text{Deal Growth} + 8.396$.
R squared = .23, F statistic = 84.1.

☒ Cash Flow from Operations = $.538 \times \text{Revenue Growth} + .145 \times \text{Deal Growth} + 9.844$. R squared = .16, F statistic = 48.8.

APPENDIX C

Partner Populations: Whom Are We Comparing?

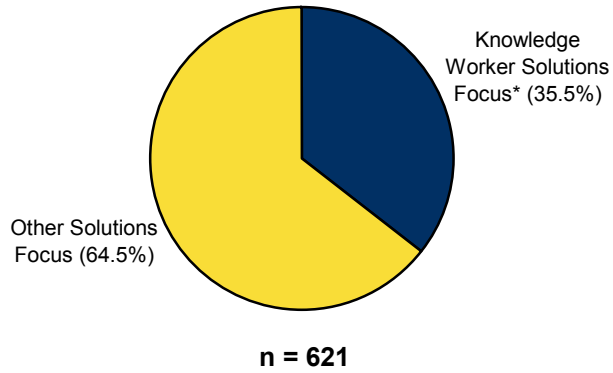
To provide a useful measure of the overall profitability of Information Worker Partners, IDC measured not only their KPIs but also the same KPIs for other groups of partners whose results can serve as reasonable benchmarks. To compare apples with apples, we compared Information Worker Partners (i.e., the business units offering knowledge worker solutions within Microsoft partners certified in Microsoft's Information Worker Solutions Competency) against Knowledge Worker Benchmark companies (i.e., companies in the industry that focus on offering knowledge worker solutions).

Figure 2 shows the relative proportion of VARs and services-oriented partners in the United States, Germany, and the United Kingdom that are focused on knowledge worker solutions versus other types of solutions.

In excess of one-third of the population is focused on knowledge worker solutions, according to our findings. In addition, it would appear that the Information Worker Solutions Competency from Microsoft is an exclusive designation, with only 4% of knowledge worker companies (1% of the population) having earned it to date. We would expect, therefore, that attaining this designation will be a competitive differentiator for these companies.

FIGURE 2

Distribution of Population of Companies Researched by Solution Focus



Notes:

* Microsoft partners with the IW Solutions Competency represent 4% of knowledge worker solutions-focused companies.

Countries include the United States, the United Kingdom, and Germany.

Source: IDC and Microsoft, 2006

APPENDIX D

Information Worker Partner KPIs by Country, Partner Type, and Partner Size

TABLE 2

Targeted Research Key Performance Indicators of Information Worker Partners by Country

	United States			United Kingdom			Germany		
	Weighted Mean	Confidence Interval (+/-)	Unweighted n	Weighted Mean	Confidence Interval (+/-)	Unweighted n	Weighted Mean	Confidence Interval (+/-)	Unweighted n
Company Performance									
Net Profit Margin	20%*	NA	NA	23%*	NA	NA	19%*	NA	NA
Cash Flow from Operations	21%*	NA	NA	31%*	NA	NA	18%*	NA	NA
Revenue Growth	19%	3%	76	21%	4%	45	14%	3%	57
Gross Profit Margin	27%	3%	69	35%	6%	45	19%	5%	46
Business Velocity									
Sales Speed (\$/month)	\$40,800	\$27,600	71	\$36,700	\$23,800	45	\$26,100	\$35,700	42
Delivery Speed (\$/month)	\$37,700	\$26,800	71	\$31,200	\$12,500	45	\$32,600	\$38,000	44
Deal Growth	15%	3%	75	9%	4%	48	6%	3%	56
Customer Growth	67%	27%	65	50%	16%	45	19%	6%	54
Service Fulfillment									
Capacity Utilization	73%	6%	75	75%	6%	46	76%	5%	55
Daily Bill Rate (\$/day)	\$1,250	\$200	68	\$1,170	\$120	47	\$860	\$90	52
Change in Bill Rate	6%	2%	76	5%	3%	48	0%	2%	57
Deal Execution									
Average Deal Size	\$110,000	\$54,000	71	\$106,200	\$85,000	45	\$90,300	\$79,800	44
Sales Cycle (months)	4.0	0.8	76	3.3	1.1	49	4.2	1.3	54
Implementation Time (months)	3.5	0.9	77	2.6	0.5	48	3.3	0.7	57

Notes:

Data reflects VARs and services-oriented partners with three or more employees.

* represents modeled estimates.

Source: IDC, 2006

TABLE 3

Targeted Research Key Performance Indicators of Information Worker Partners by Partner Type

	Value-Added Resellers			Services-Oriented Partners		
	Weighted Mean	Confidence Interval (+/-)	Unweighted n	Weighted Mean	Confidence Interval (+/-)	Unweighted n
Company Performance						
Net Profit Margin	20%*	NA	NA	17%*	NA	NA
Cash Flow from Operations	23%*	NA	NA	17%*	NA	NA
Revenue Growth	20%	3%	51	17%	2%	124
Gross Profit Margin	27%	5%	41	27%	3%	116
Business Velocity						
Sales Speed (\$/month)	\$24,800	\$31,800	44	\$40,700	\$20,800	111
Delivery Speed (\$/month)	\$26,000	\$31,600	46	\$38,500	\$19,500	111
Deal Growth	10%	3%	52	11%	3%	124
Customer Growth	29%	8%	49	55%	18%	112
Service Fulfillment						
Capacity Utilization	77%	5%	52	73%	5%	121
Daily Bill Rate (\$/day)	\$1,080	\$130	49	\$1,120	\$140	115
Change in Bill Rate	4%	2%	53	4%	2%	125
Deal Execution						
Average Deal Size	\$63,400	\$53,400	46	\$123,100	\$53,800	111
Sales Cycle (months)	3.3	0.8	52	4.2	0.8	124
Implementation Time (months)	2.5	0.6	53	3.5	0.6	126

Notes:

Data reflects partners in the United States, the United Kingdom, and Germany with three or more employees.

* represents modeled estimates.

Source: IDC, 2006

TABLE 4

Targeted Research Key Performance Indicators of Information Worker Partners by Partner Size

	1-99 Employees			100 or More Employees		
	Weighted Mean	Confidence Interval (+/-)	Unweighted n	Weighted Mean	Confidence Interval (+/-)	Unweighted n
Company Performance						
Net Profit Margin	20%*	NA	NA	18%*	NA	NA
Cash Flow from Operations	20%*	NA	NA	20%*	NA	NA
Revenue Growth	18%	2%	154	16%	11%	24
Gross Profit Margin	27%	3%	138	25%	20%	22
Business Velocity						
Sales Speed (\$/month)	\$26,600	\$7,700	134	\$302,700	\$450,500	24
Delivery Speed (\$/month)	\$26,400	\$5,600	135	\$265,000	\$449,200	25
Deal Growth	11%	2%	153	9%	10%	26
Customer Growth	47%	13%	139	24%	23%	25
Service Fulfillment						
Capacity Utilization	75%	3%	152	72%	26%	24
Daily Bill Rate (\$/day)	\$1,110	\$100	142	\$1,220	\$560	25
Change in Bill Rate	4%	2%	154	1%	6%	27
Deal Execution						
Average Deal Size	\$81,100	\$23,000	135	\$740,800	\$896,400	25
Sales Cycle (months)	3.8	0.6	153	6.9	7.8	26
Implementation Time (months)	3.1	0.5	154	5.3	5.0	28

Notes:

Data reflects VARs and services-oriented partners in the United States, the United Kingdom, and Germany.

* represents modeled estimates.

Source: IDC, 2006

APPENDIX E

Information Worker Partners' KPIs Compared with Benchmark Knowledge Worker Companies' KPIs

TABLE 5

Key Performance Indicators: Information Worker Partners Compared with Knowledge Worker Benchmark Companies

	Targeted Research Partners with Information Worker Competency			Benchmark Research Companies Focused on Knowledge Worker Solutions		
	Weighted Mean	Confidence Interval (+/-)	Unweighted n	Weighted Mean	Confidence Interval (+/-)	Unweighted n
Company Performance						
Net Profit Margin	19%*	NA	NA	16%	2%	263
Cash Flow from Operations	21%*	NA	NA	13%	2%	228
Revenue Growth	18%	2%	178	8%	1%	277
Gross Profit Margin	27%	3%	160	35%	4%	174
Business Velocity						
Sales Speed (\$/month)	\$35,700	\$17,100	158	\$25,300	\$8,600	256
Delivery Speed (\$/month)	\$34,500	\$16,300	160	\$23,500	\$9,500	259
Deal Growth	11%	2%	179	5%	2%	273
Customer Growth	46%	12%	164	27%	6%	259
Service Fulfillment						
Capacity Utilization	75%	3%	176	65%	3%	262
Daily Bill Rate	\$1,110	\$100	167	\$990	\$130	257
Change in Bill Rate	4%	2%	181	1%	1%	263
Deal Execution						
Average Deal Size	\$103,500	\$39,900	160	\$185,000	\$67,100	260
Sales Cycle (months)	3.9	0.6	179	7.4	1.2	265
Implementation Time (months)	3.2	0.5	182	6.8	0.9	271

Notes:

Scope is entire sample (VARs and services-oriented partners in the United States, the United Kingdom, and Germany with three or more employees).

* represents modeled estimates.

Source: IDC, 2006

APPENDIX F

Study Methodology

IDC conducted this research in phases from June to August 2005, beginning with a broad view of the partnering ecosystem and then focusing on Microsoft Partners who have qualified for specific Microsoft Competencies. Respondents were identified through publicly available and Microsoft-supplied lists. The lists provided by Microsoft identified partners with specific Competencies.

- ☒ In Phase 1, IDC randomly surveyed VARs and services-oriented partners (e.g., systems integrators and consultants). This survey provided a baseline level of understanding of partners' performance issues for different regions of the world. This Benchmark Research forms the basis against which we compare Competency-based businesses. The Benchmark Research sample size was 642 companies, covering the United States (438), the United Kingdom (104), and Germany (100).
- ☒ In Phase 2, IDC conducted Targeted Research with Microsoft partners (mainly VARs and services-oriented partners) who have a practice focus in one of three specific Microsoft-defined Competencies: Advanced Infrastructure Solutions, Information Worker Solutions, and Mobility Solutions. This research was aimed at understanding the performance of each of these business practice areas, viewed as business units of the companies we surveyed. The Targeted Research sample size for the Information Worker Solutions Competency was 184 partners, covering the United States (77), the United Kingdom (49), and Germany (58).
- ☒ In Phase 3, IDC conducted in-depth interviews with executives of Microsoft partners who are engaged in at least one of the three competencies of interest. These interviews provided qualitative and quantitative data that enriched our understanding of key issues such as deal size, investment opportunities, and assessment of partner programs. Interviews for the IW Solutions Competency were conducted with 20 partners covering the United States (11), the United Kingdom (5), and Germany (4).

From the Benchmark and Targeted Research, IDC developed KPIs plus other metrics to better understand performance characteristics. Our analysis examined the relationship of KPIs to the partners' degree of engagement in the Microsoft Partner Program in general and the Information Worker Solutions Competency in particular.

IDC refers generally to knowledge worker solutions as IT systems, software, and services that assist individuals in developing, sharing, and storing content. Specifically, IDC asked survey participants about the level of revenue they generated in the past 12 months for 20 commonly understood solution areas that IT solution providers offer their customers. Those respondents who indicated they generated more than 25% of their revenue from six of these solution areas were classified as "focused" on knowledge worker solutions. These six solution areas are collaboration and messaging, portals, business intelligence, project management, process management, and business productivity. The Information Worker Solutions Competency is specific to Microsoft and is described in Appendix A; however, it encompasses the same six solution areas we used to define knowledge worker solutions.

We have used definitions for VARs and services-oriented partners in accordance with *IDC's Worldwide Partnering and Alliances Taxonomy, 2005* (IDC #32968, March 2005). VARs derive 20% or more of their revenue from the resale of third-party products and 20% or more of their revenue from internally created services. Services-oriented partners derive 60% or more of their revenue from internally created services, but less than 20% of their revenue from the resale of third-party products.

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