AppDirect

The Microsoft Cloud Juggernaut: Understanding the Market for Reselling Microsoft Office 365

INDUSTRY BRIEF

Introduction

It's Microsoft's fastest growing commercial product ever: Microsoft Office 365 is now used by 60 million active commercial customers monthly.[1] One in four of Microsoft's enterprise customers use the cloud version of the company's flagship productivity software suite, and the solution is deployed in four out of five Fortune 500 companies.

From any vantage point, the Microsoft Office 365 Suite—which includes Word, Excel, Outlook, PowerPoint, OneNote, and OneDrive, in addition to new cloud capabilities such as Sway, Delve, and Graph—is one of the most successful business solutions ever.

While 60 million users and growing is an impressive figure, it's merely the tip of the iceberg as the shift to cloud starts happening in earnest. To reach its ambitious cloud revenue goal of $20 billion in 2018,[2] Microsoft needs to rely on partners, such as distributors and value-added resellers, to help it continue growing its market share of the cloud-based productivity application market.

This industry brief highlights adoption and usage trends for cloud applications and Office 365 to help companies understand the scope of the opportunity and make

[1] Callaham, John, "There are now 1.2 billion Office users and 60 million Office 365 commercial customers," Windows Central, March 31, 2016.

[2] "Microsoft by the Numbers," Microsoft.

an informed decision about reselling Microsoft Office 365 as part of their cloud services offering.

Cloud Spending Continues To Grow In Leaps And Bounds

IDC forecasts that worldwide public IT cloud services revenue—including software-as-a-service (SaaS), platform-as-a-service (PaaS), and infrastructure-as-a-service (IaaS)—will reach $141.2 billion by 2019, a 19.4 percent compounded annual growth rate.[4]

SaaS still makes up the majority of public cloud spending. According to its "2015: A Cloud Odyssey" report, cloud security company Bitglass found that the overall global adoption of cloud applications increased by 71 percent from 2014 to 2015.[5] Cloud IT management company BetterCloud found that the average number of cloud applications used in an organization rose from eight in 2015 to 12 in 2016—a 50 percent increase.[6]

Among public companies with revenue above $10 billion that use cloud-based email, Microsoft has more than an 80 percent share according to analyst firm Gartner.[7]

Microsoft Is The De Facto Business Productivity Standard

More than 1.2 billion people use Microsoft Office in 140 countries and 107 languages around the world. Outlook.com alone has more than 400 million active users.[8] That's an enormous market of users skilled in Microsoft's productivity suite, and it's exactly these people who are more likely to choose Office 365 because of its familiarity.

According to Gartner analyst Guy Creese, many business workers have strong attachments to Office software such as Outlook email, Excel spreadsheets, and PowerPoint slide presentations. For these users and the companies they work for, moving to Office 365 is "less jarring from an administrative point of view than moving to something completely new like Google [G Suite]," says Creese.[9]

IDC FINDS THAT CLOUD PARTNERS OUTPERFORM THEIR PEERS[3]

- The average value-added partner sells $4.14 of their own offerings for every $1 of Microsoft cloud solutions they sell or influence.
- That number bumps up to $5.87 for cloud partners (>50% cloud revenue)
- Compared to partners with less than 50% of their revenue coming from cloud services, cloud partners outperform them by:
  - 2 times on growth
  - 1.5 times on gross profit
  - 1.8 times on recurring revenue

INDUSTRY BRIEF

4 "Part 1: The Booming Cloud Opportunity," The Modern Microsoft Partner Series, IDC, 2016.
5 "Bitglass Research: 2015 Cloud Security Spotlight Report," Bitglass, March 2015.
6 Solomon, Scott, "Growing Pains: Latest Research Shows IT Struggling to Meet SaaS Application Demand," BetterCloud Monitor, April 13, 2016.
7 Donnelly, Caroline, "Microsoft Office 365 is Beating Google Apps in Enterprise Adoption Term Gartner Research Reveals," ComputerWeekly, February 1, 2016.
8 "Microsoft by the Numbers," Microsoft.
9 Sparapani, Jason, "Apps for Work vs. Office 365 Debate as Much About Culture as Tech," TechTarget, August 2016.

Regulated Industries Are Turning To Office 365

As confidence in cloud security has improved, more regulated industries are adopting cloud applications such as Office 365. While unregulated industry cloud adoption doubled from 26 percent in 2014 to 50 percent in 2015, adoption in regulated industries almost tripled from 15 percent to 39 percent during the same timeframe.[11]

Microsoft Office 365 is one of top three cloud apps: *Based on a survey conducted by cloud security company Bitglass, Microsoft Office 365 was second only to Salesforce in deployment, with 16 percent compared to Salesforce with 22 percent.*[10]

Gartner research shows that Microsoft's cloud email services are used within most vertical markets, and particularly by firms operating in highly regulated industries, such as the utilities, energy, and aerospace markets.[12] One reason is that Office 365 is compliant with U.S. regulatory standards such as HIPAA, CJIS, IRS 1075, SOC, and ISO 27001.[13]

Demonstrating its commitment to privacy and data regulations, Microsoft announced plans to offer Microsoft Azure with Office 365 in a first-of-a-kind model in Europe where access to customer data is controlled by a data trustee, T-Systems International, an independent German company and subsidiary of Deutsche Telekom.[14]

Organizations Of All Sizes Use Office 365

While 85 percent of the Fortune 500 have at least one Microsoft Cloud offering, Office 365 is attracting plenty of small and medium-sized businesses as well, with 50,000 small businesses signing up each month for Office 365.[15]

Why are companies of all shapes and sizes adopting Office 365? Here are a few differentiators that make Office 365 an attractive solution compared to other products:

- **EASY TRANSITION FOR USERS.** As the undisputed king of office productivity suites, Microsoft has the incumbent's advantage. Massive numbers of workers are skilled users of applications such as Word, PowerPoint, and Excel. Office 365 makes moving to the cloud an easy transition for everyone with Microsoft Office experience.
- **HYBRID APPROACH TO CLOUD.** With its on-premise roots, Microsoft makes it easier for companies that want or need a hybrid approach to cloud adoption. Organizations that need to keep some data and services local for compliance reasons can do so while still taking advantage of Microsoft's cloud-based services for mobility and productivity gains.

10 "Bitglass Research: 2015 Cloud Security Spotlight Report," Bitglass, March 2015.
11 "2015: A Cloud Odyssey," Bitglass, 2016.
12 Donnelly, Caroline, "Microsoft Office 365 is Beating Google Apps in Enterprise Adoption Term Gartner Research Reveals," ComputerWeekly, February 1, 2016.
13 Microsoft Trust Center.

- **PRIVACY AND SECURITY.** Office 365 is compliant with U.S. regulatory standards, such as HIPAA, CJIS, IRS 1075, SOC, and ISO 27001.
- **NEW APPS FOR THE CLOUD.** Microsoft is giving companies even more reason to move to Office 365 by expanding and enhancing its base productivity suite with new capabilities such as corporate social networking, web-based presentations, communications, and analytics capabilities. Some of the newer offerings include Sway, Delve, Graph, and MyAnalytics.

Going To Market With Office 365

Originally only large partners with deep pockets could afford to participate in Microsoft's reseller program for Office 365. In 2014, Microsoft revamped its APIs and launched the Microsoft Cloud Solution Provider (CSP) program to streamline selling Office 365 for all types and sizes of partners.

AppDirect's advanced platform can help companies become Microsoft CSPs quickly and cost-effectively by enabling partners to meet all Microsoft CSP criteria, go to market, and begin selling Office 365 and other cloud services within a matter of weeks. The AppDirect platform automates critical backend functions—such as billing, provisioning, and activation—saving time and money while improving the customer experience. For example, with the previous Microsoft Syndication program, it could take up to 90 days to provision and activate a customer on Office 365. With AppDirect, that same process can be reduced to a few minutes.

The Microsoft opportunity is massive for and resellers service providers alike. Powered by flexible technology from AppDirect, now is the ideal time to start selling Microsoft solutions, or improve the customer experience you already provide.

ABOUT APPDIRECT

AppDirect is the leader in cloud service commerce making software accessible globally. The AppDirect Cloud Service Commerce Platform unites providers, developers and consumers of cloud services into a single ecosystem. This makes it easy for businesses to find, buy, and manage cloud services from a central location and delivers new opportunities to distribute, sell, and market cloud services.

AppDirect-powered marketplaces, billing and distribution, and reselling services help providers—including Telstra, ADP, Vodafone, Deutsche Telekom, Cloud Foundry, Rackspace, and others—connect millions of businesses to solutions from Google, Box, DocuSign, Intel Security, and more.

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