

Cloud Solution Provider Program

Breakeven Guidance

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Introduction

The choice between being a Cloud Solution Provider under the Direct or Indirect model is a fundamental one for Microsoft Partners, and an understanding of their relative operating costs and contribution margin is critical in order to make the most appropriate business decision.

In order to better guide Partners in this decision, research was recently conducted and a financial model developed. By reviewing this document and working with the CSP Breakeven Calculator, individual Partners can determine which CSP model makes the most sense for them.

Operating Costs

As an overall comment, the costs of operating as a Direct CSP will vary from Partner to Partner, depending on the infrastructure they already have in place, but will at minimum involve the following elements:

Provisioning, Ticketing, & Billing

To meet customer expectations, automation is a core requirement for a Direct CSP in order to:

- Rapidly provision and migrate mailboxes in an error-free and cost-effective manner.
- Efficiently and effectively log support incidents, track their resolutions, and provide reporting to customers.
- Bill customers and track collections for optimal cash flow.

If a Partner does not already have this infrastructure in place, platforms like [ConnectWise](#) and [Autotask](#) are most often used.

Support Staff

Given the need to deliver 24x7x365 support, a minimum staff compliment of 8 is typically required to adequately operate 3 shifts per 24 hour period, and allow for vacations sick days and the like. This is the single biggest cost associated with operating as a Direct CSP.

Communications Infrastructure

An adequate communications platform (PBX system) is an obvious requirement to be a Direct CSP, and indeed most Partners will already have this in place. If not, the [Office 365 Phone System](#) can be used, or 3rd party providers such as [Comcast](#) can be leveraged.

Microsoft Support

To fully monetize the Cloud opportunity, embedding either [Advanced Support for Partners](#) or [Premier Support for Partners](#) in a broader Partner offering is a cornerstone for any Direct CSP. The former option is a minimum stage one recommendation.

Support Staff Equipment

If operating as a Direct CSP, a Partner must obviously provide them the necessary tools.

Training

In order to remain current with the evolving technology landscape that they are supporting, ongoing training is needed to ensure a competitive customer experience is consistently delivered by a Direct CSP provider.

Customer Acquisition & Retention

Beyond the provision of technical support, the final operating costs for a Partner to consider are the sales and marketing expenditures needed to acquire and retain customers. In the main, these will be comparable no matter which CSP model is chosen, but some Indirect CSP providers may provide more assistance to their Partners than others.

Revenue

Looking to the revenue side, the following elements must be considered:

Office 365

Any CSP provider will “anchor” their offering around Office 365, and receive margin from that activity, depending on which Office sku is involved and whether the Microsoft margin is received in full as a Direct CSP, or shared with an Indirect CSP provider.

Azure Consumption

Similar to Office 365, some level of Azure consumption and margin is also driven as a result of being a Cloud Solution Provider. The precise level is of course a function of the customer base a CSP serves, and whether the Direct or Indirect CSP model is chosen.

Partner Managed Services

The final revenue source to consider is what a Partner charges for their own managed services. This can vary significantly from Partner to Partner based on recent research detailed in the Appendix.

Conclusion

The CSP Breakeven Calculator presents a side-by-side comparison of the typical operating costs, revenue, and margin levels associated with each CSP model and calculates a break-even point based on the key variables in red. These variables can and should be adjusted based on an individual Partner's actual operating costs, revenue, and margin levels to produce a personalized breakeven point, but in general the following will typically prove to be the case:

1. If looked at from the standpoint of simply reselling Office 365¹, a Partner will generally require supporting between 15,000 – 20,000 end users in order for the Direct CSP model to be the best financial choice.
2. If average² Azure consumption is factored in, the Direct CSP breakeven point can be cut by as much as half.
3. If Azure consumption is not considered, or minimal, the breakeven point will be primarily driven by the level of Partner managed services detailed in the Appendix, and the degree to which any of these managed services are delivered directly or by an Indirect CSP.

¹ assuming average fee of \$20 per user per month

² assuming average consumption of \$750 per customer per year, based on the latest Microsoft data

Appendix



↑ Profitability

Add your services to Microsoft 365 Business

This page highlights typical services that partners add on to their sales of Microsoft 365 Business. Review and select the services that are applicable to your offerings and customers.

One-time project services		Typical Revenue	Typical Margins
Premium	Cloud Roadmap Development & Deployment	\$35 - \$70/ user	35-40%
Advanced	IT Security Audits	\$20 - \$30/ user	
Basic	Initial Setup & Migration	\$35 - \$50/ user	
Total price for offering all of the above project services		\$90-\$150/user	



Recurring managed services		Typical Revenue	Typical Margins
Premium	Key business process automation using flow & power apps Desktop as a service (hosted desktop, virtual workspace, application management) BI-driven automated dashboards (incidents logged, threats prevented) Simplified control panels	\$25 - \$50 user/month	40-50%
	Device as a service (hardware support)	\$75 user/month	
Advanced	Cyber-attack threat monitoring & prevention (virus, malware, ransomware, phishing, spam) Endpoint security monitoring and remediation (laptops, PCs, tablets, mobile phones) Security protocol compliance monitoring, management, and remediation Security admin based on remote portal score, and remote portal support Automated archiving, compliance monitoring and remediation Corrupt device quarantining and download prevention BYOD control Encryption monitoring and remediation	\$15 - \$25 user/month	
	Backup and DRaaS	\$10 user/month	
Basic	Help desk and remote user support (chat, phone, Skype) Remote device monitoring and management Identity & access (AD) monitoring, management and remediation E-learning (online, self paced)	\$10 - \$15 user/month	
Total price for offering all of the above managed services		\$125-\$175 user/month	



Microsoft 365 Business	Suggested Revenue \$20 user/month
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Note: revenue and margins levels are typical for European and North American Partners interviewed, and may vary depending on local market conditions.

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