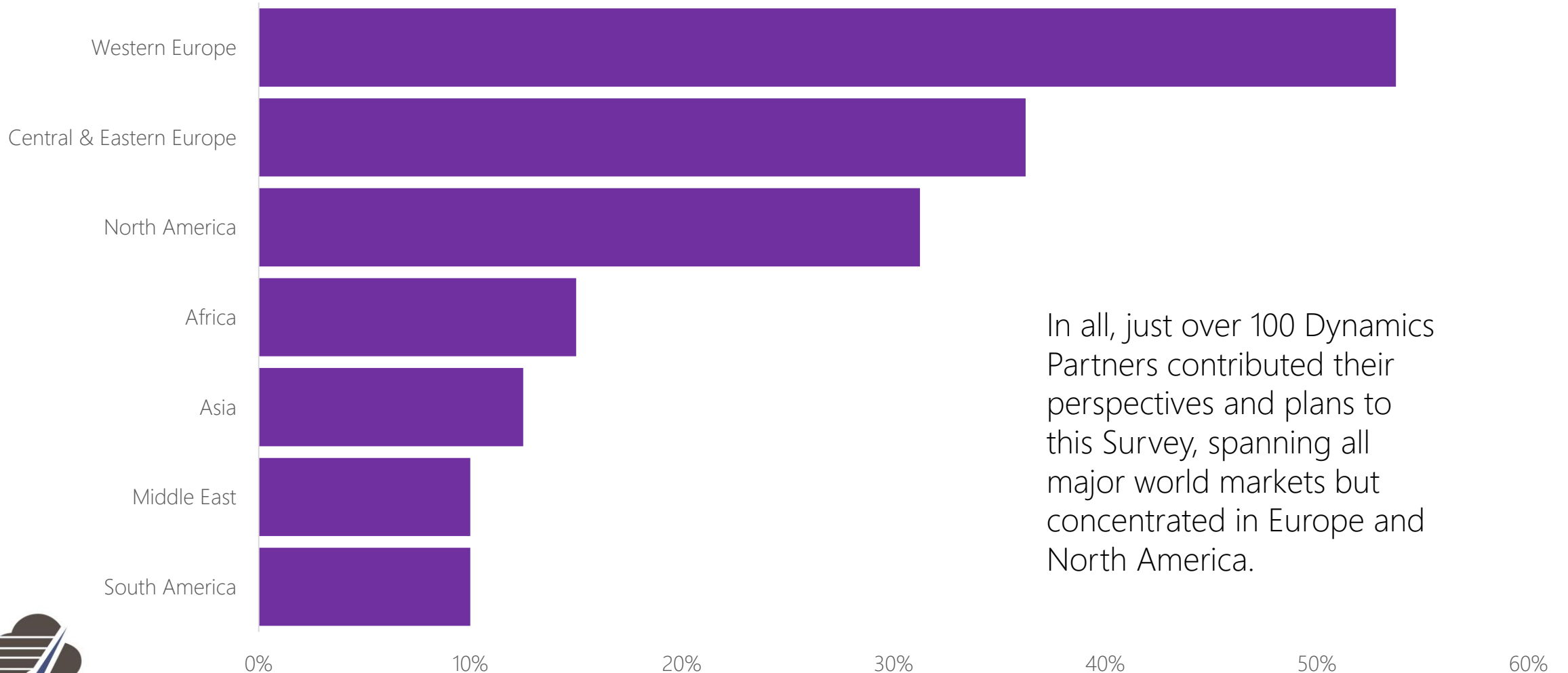


Dynamics 365 Business Central Perspectives

An Independent CloudSpeed Survey
October 2018

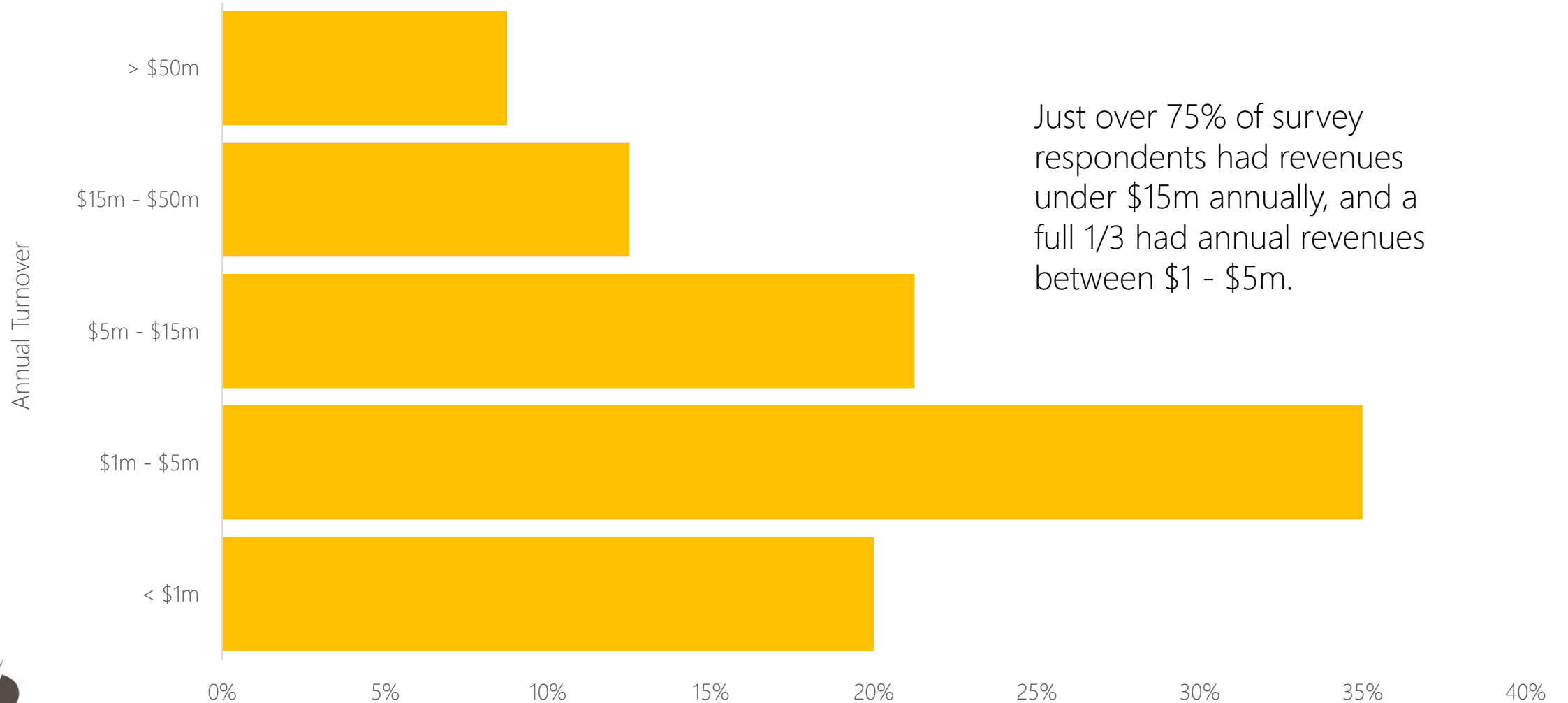


Survey Context – Markets Served



In all, just over 100 Dynamics Partners contributed their perspectives and plans to this Survey, spanning all major world markets but concentrated in Europe and North America.

Survey Context – Partner Size Breakdown



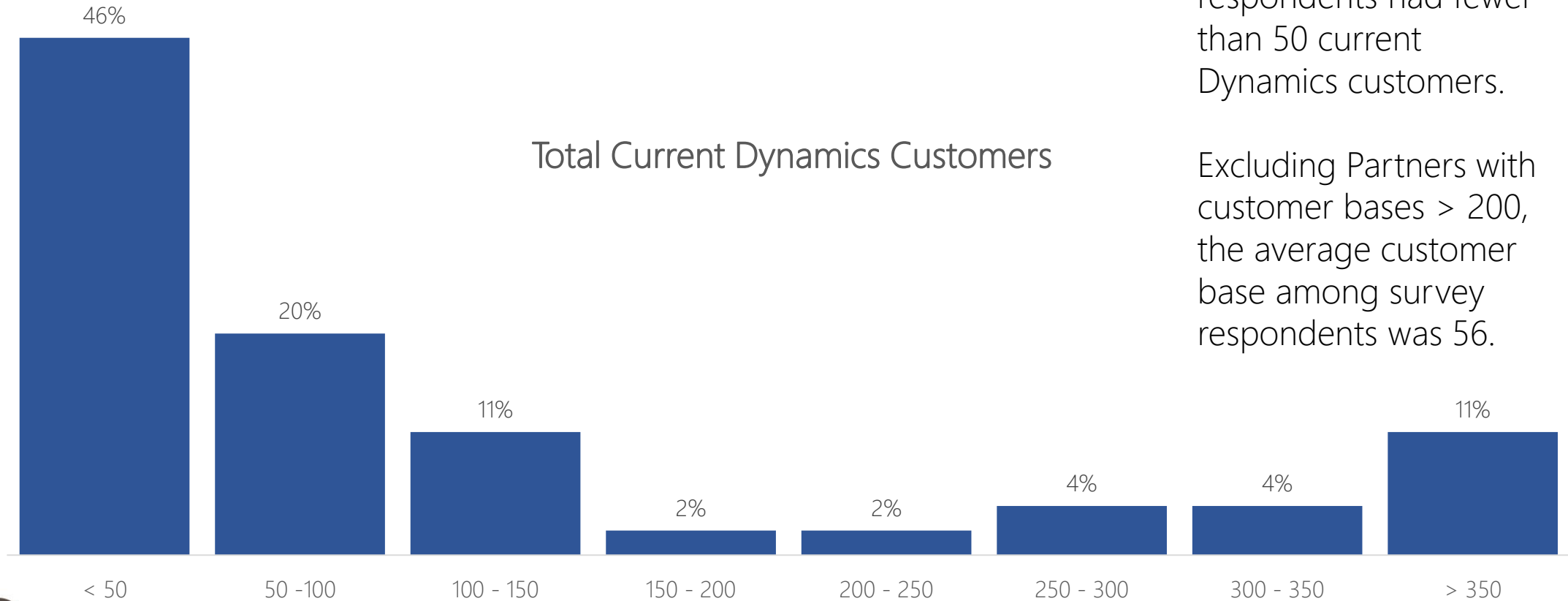
Just over 75% of survey respondents had revenues under \$15m annually, and a full 1/3 had annual revenues between \$1 - \$5m.

Current Customer Base Distribution

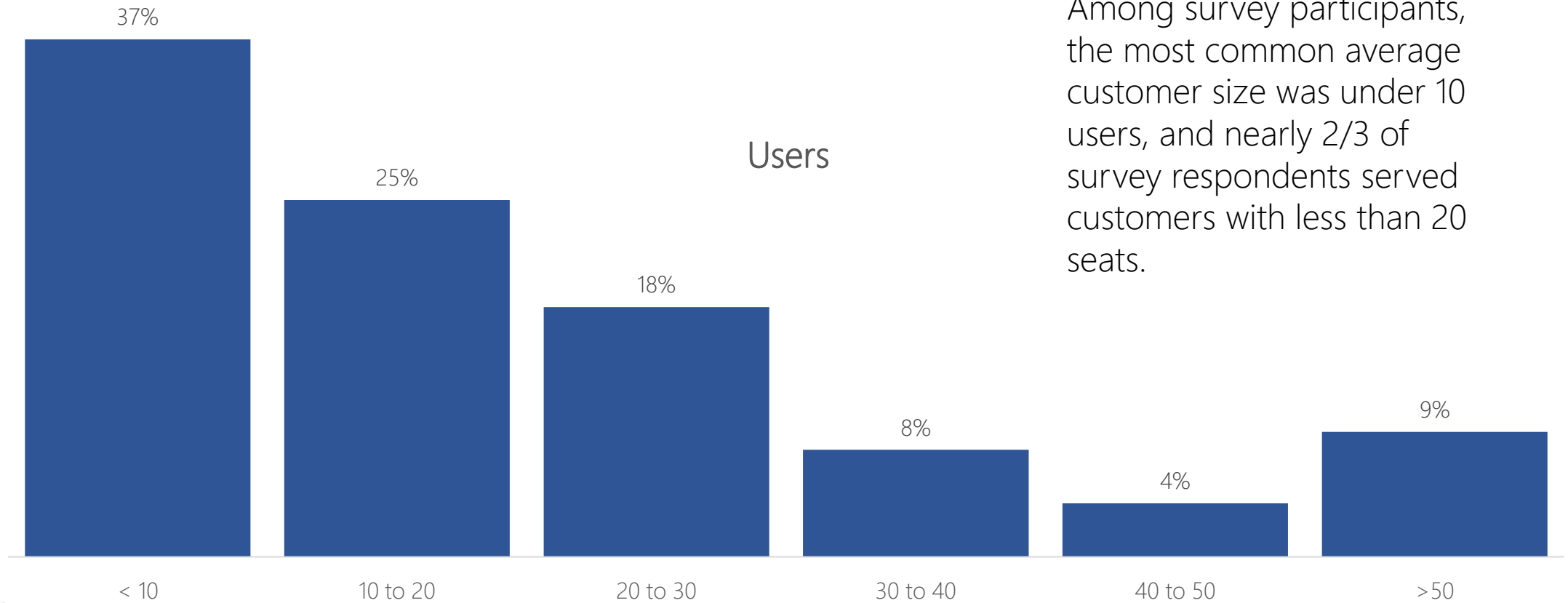
Nearly half of survey respondents had fewer than 50 current Dynamics customers.

Excluding Partners with customer bases > 200, the average customer base among survey respondents was 56.

Total Current Dynamics Customers

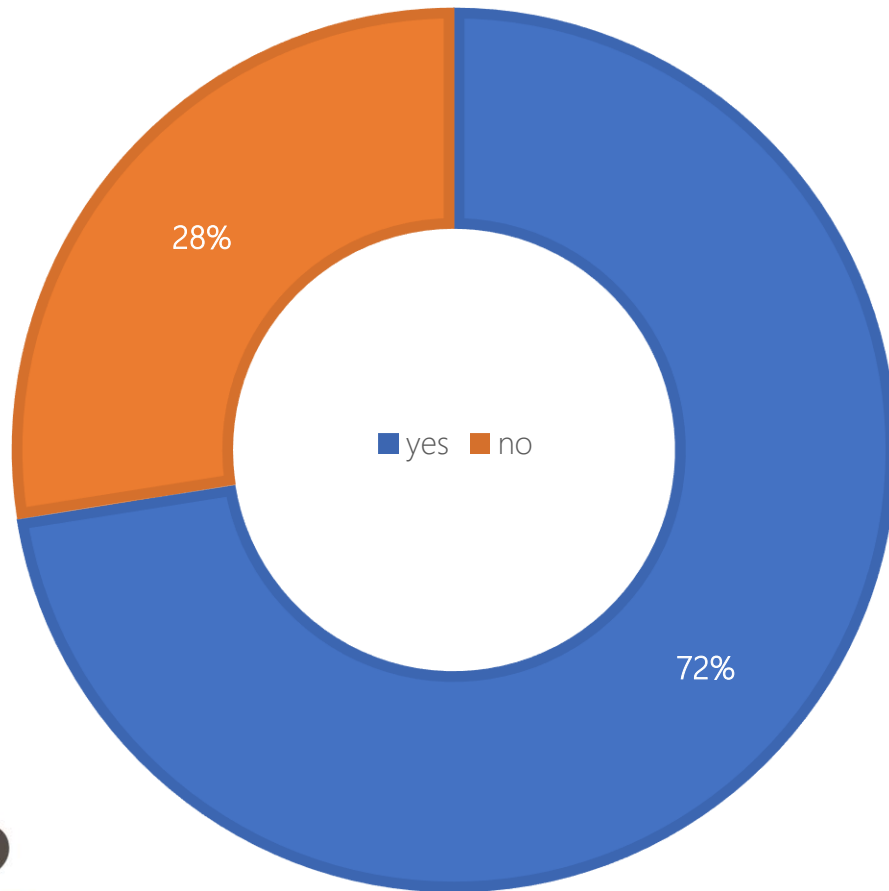


Current Average Customer Size

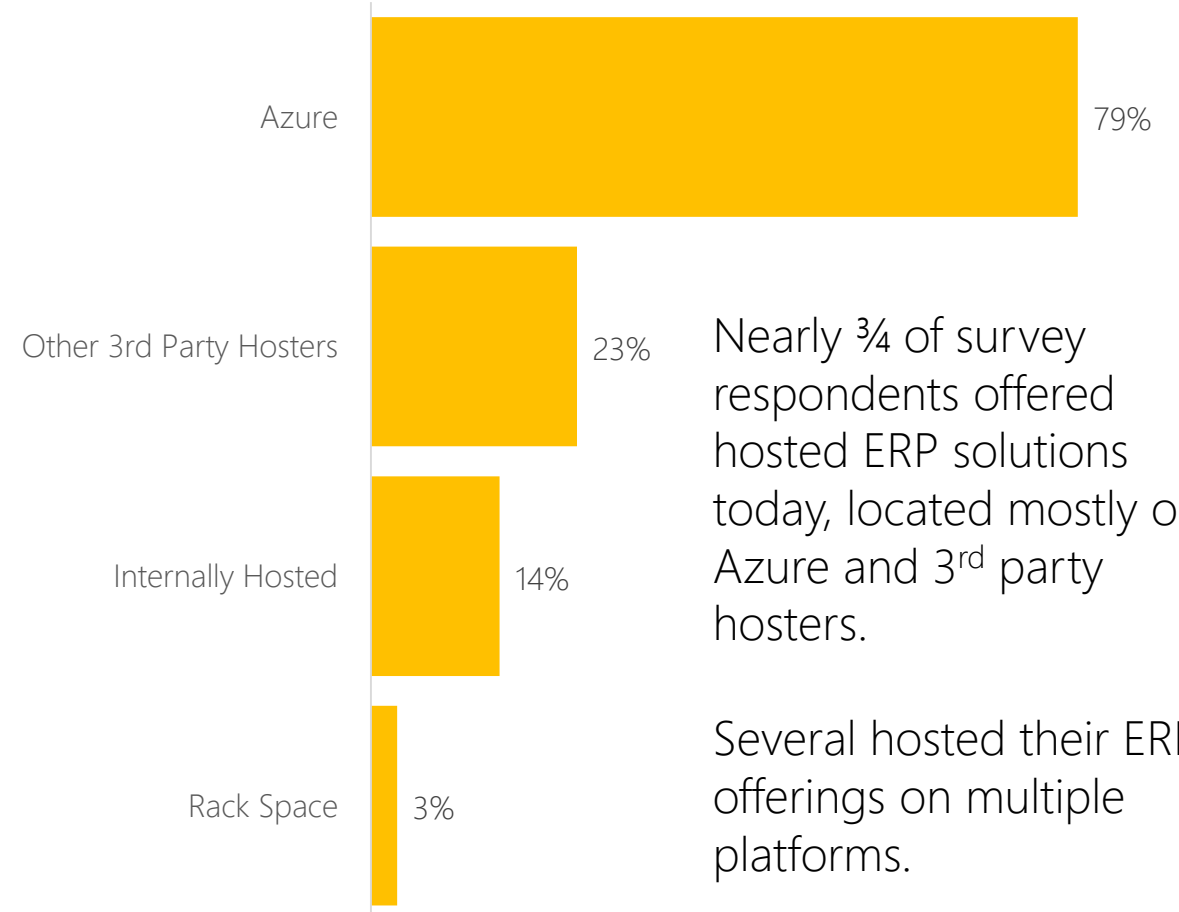


Among survey participants, the most common average customer size was under 10 users, and nearly 2/3 of survey respondents served customers with less than 20 seats.

Hosted Solutions Today



Hosting Locations Today

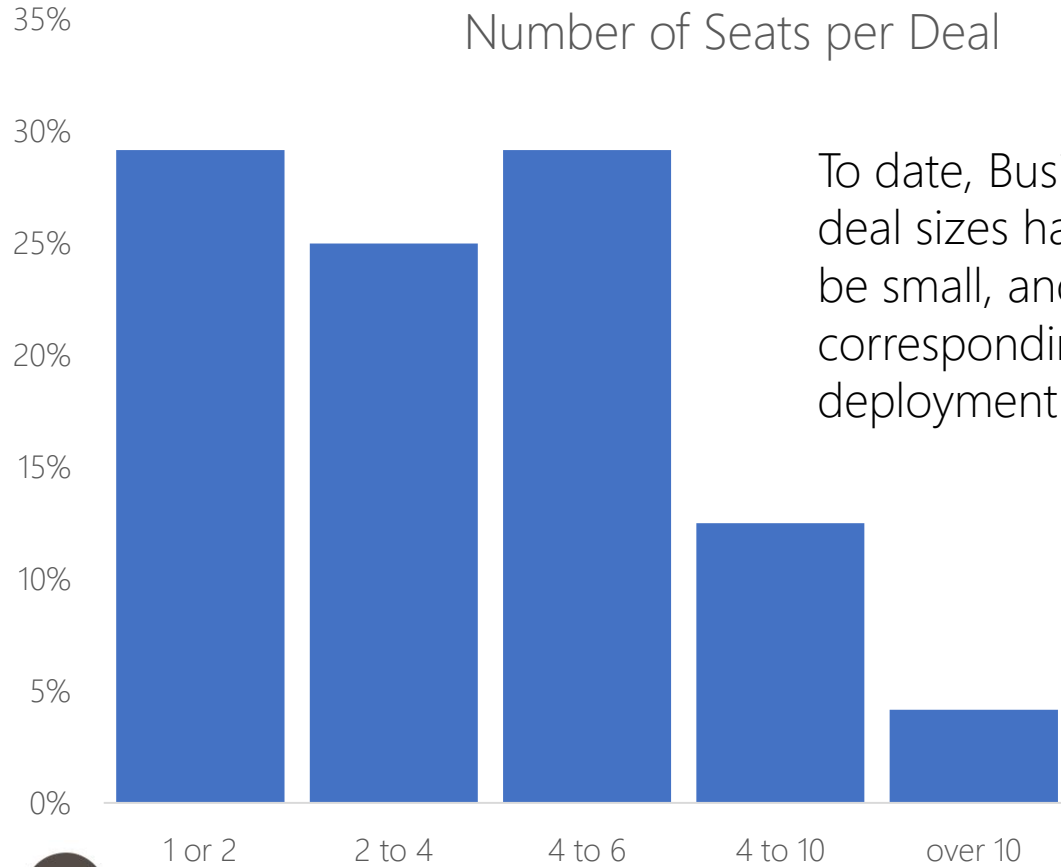


Nearly $\frac{3}{4}$ of survey respondents offered hosted ERP solutions today, located mostly on Azure and 3rd party hosters.

Several hosted their ERP offerings on multiple platforms.

D365BC Deal Size & Deployment Hours

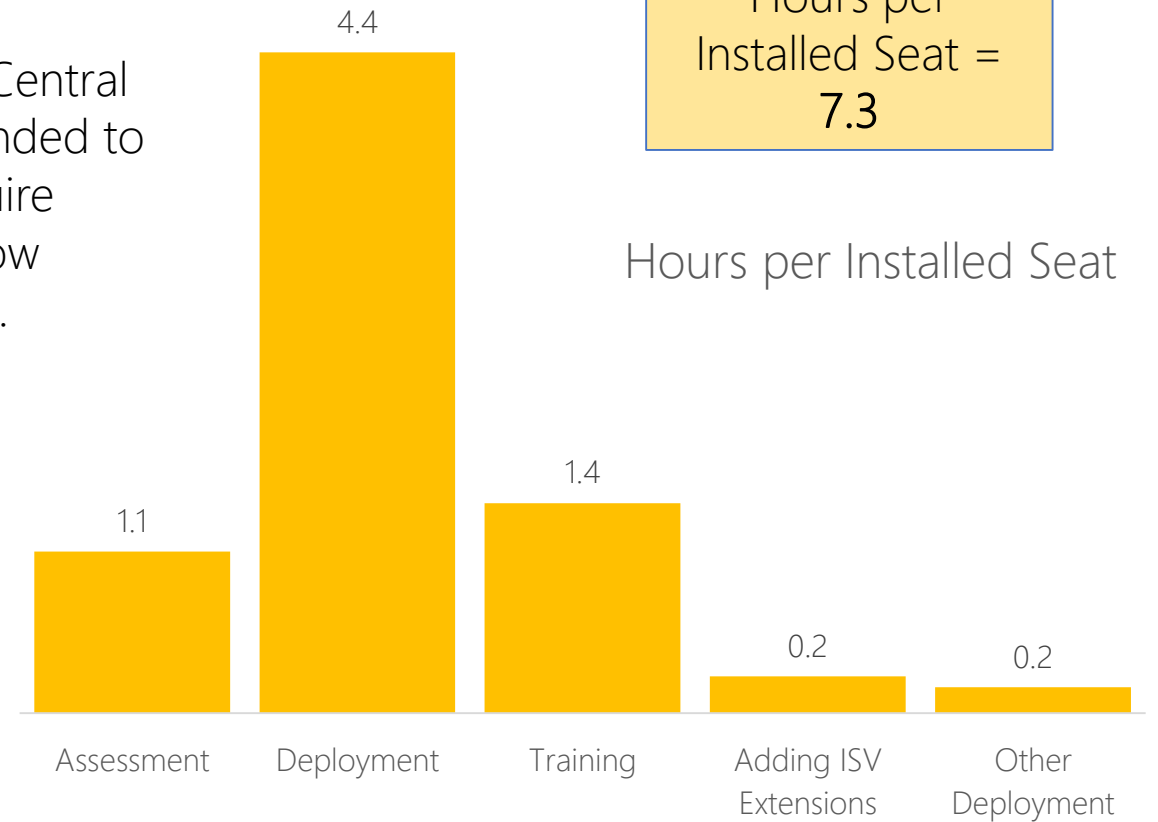
Number of Seats per Deal



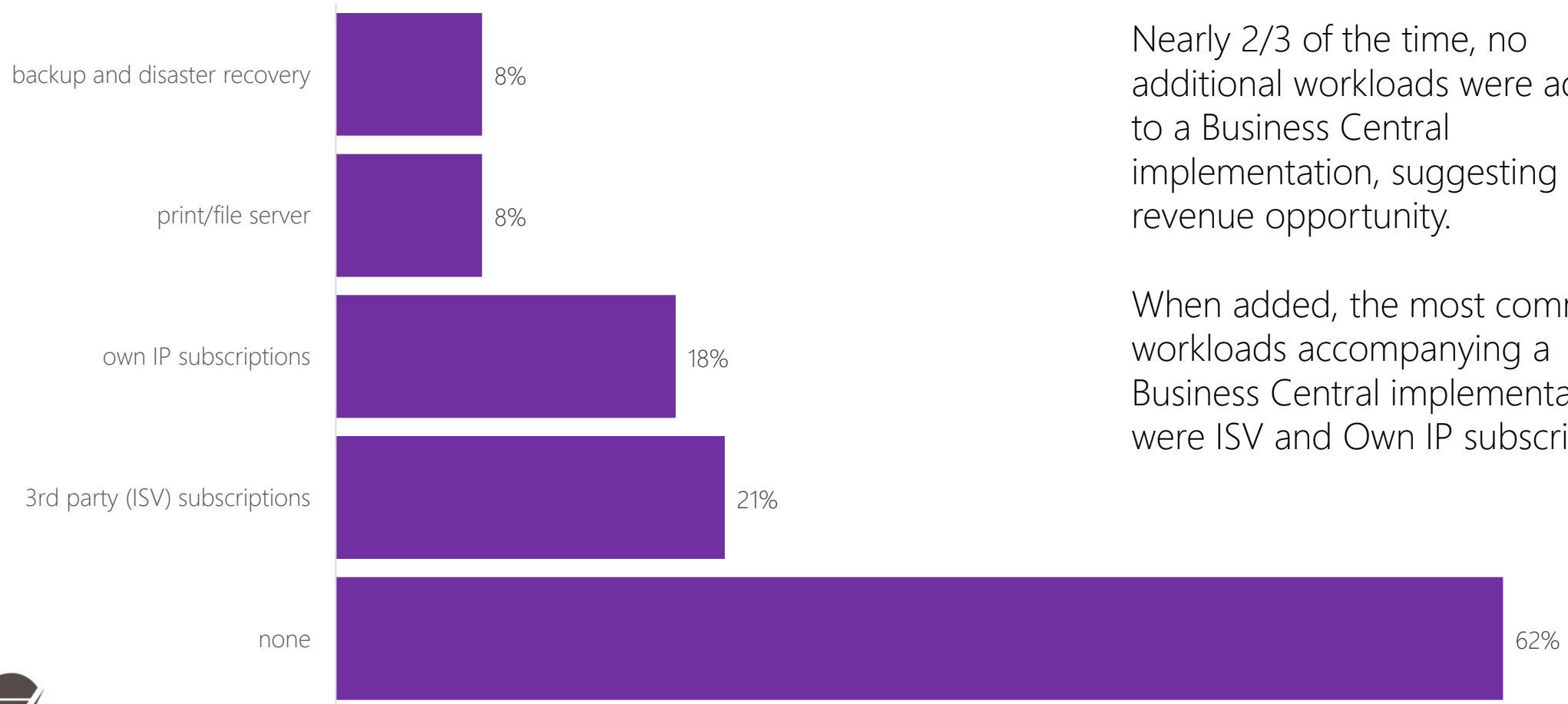
To date, Business Central deal sizes have tended to be small, and require correspondingly low deployment effort.

Total Installation Hours per Installed Seat = **7.3**

Hours per Installed Seat



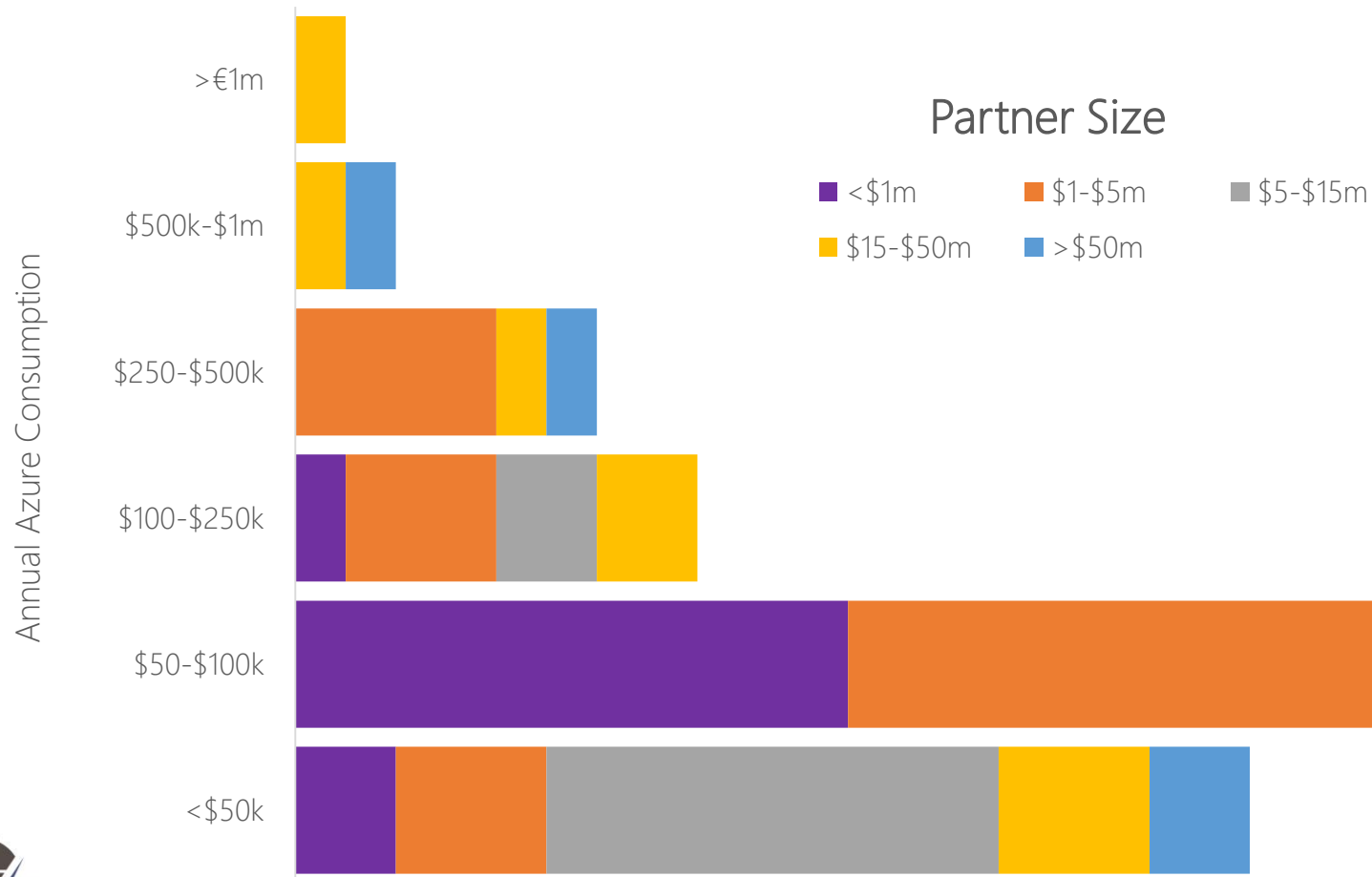
D365BC Workloads Typically Added*



Nearly 2/3 of the time, no additional workloads were added to a Business Central implementation, suggesting a lost revenue opportunity.

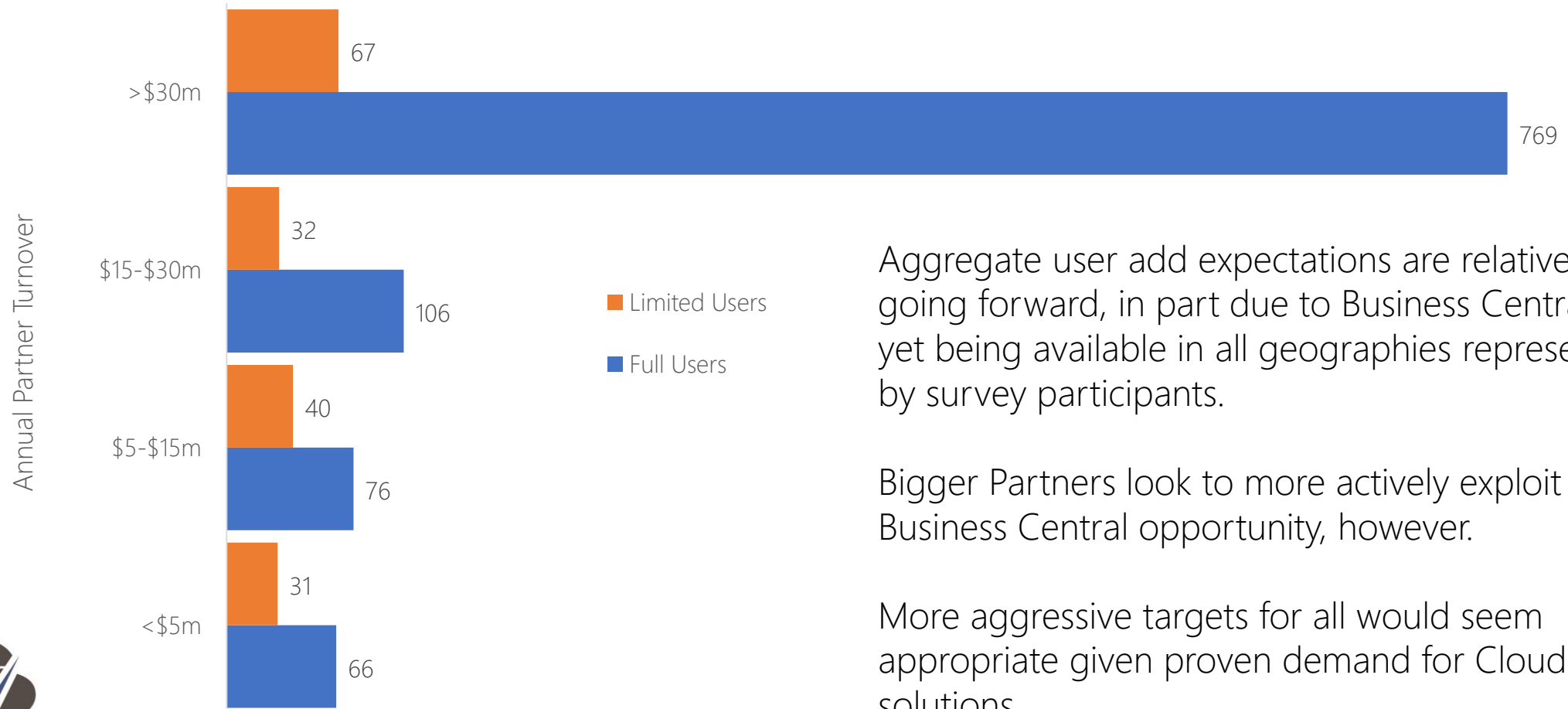
When added, the most common workloads accompanying a Business Central implementation were ISV and Own IP subscriptions.

Annual Azure Consumption



Overall, CloudSpeed estimates Azure consumption per Dynamics customer to be between \$2 - \$3k annually, a level materially lower than other customer types, again suggesting a lost revenue opportunity.

Sales Expectations Next 12 Months

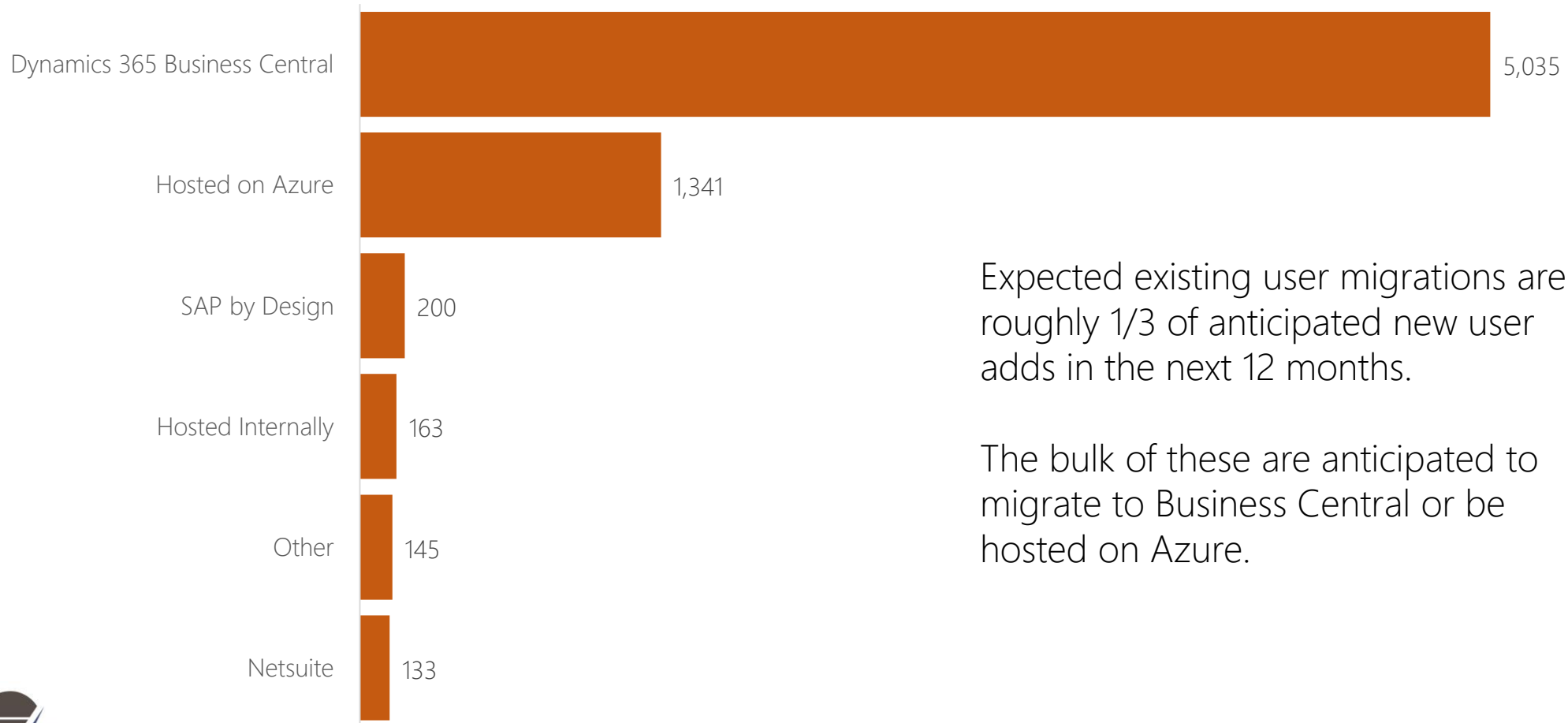


Aggregate user add expectations are relatively low going forward, in part due to Business Central not yet being available in all geographies represented by survey participants.

Bigger Partners look to more actively exploit the Business Central opportunity, however.

More aggressive targets for all would seem appropriate given proven demand for Cloud solutions.

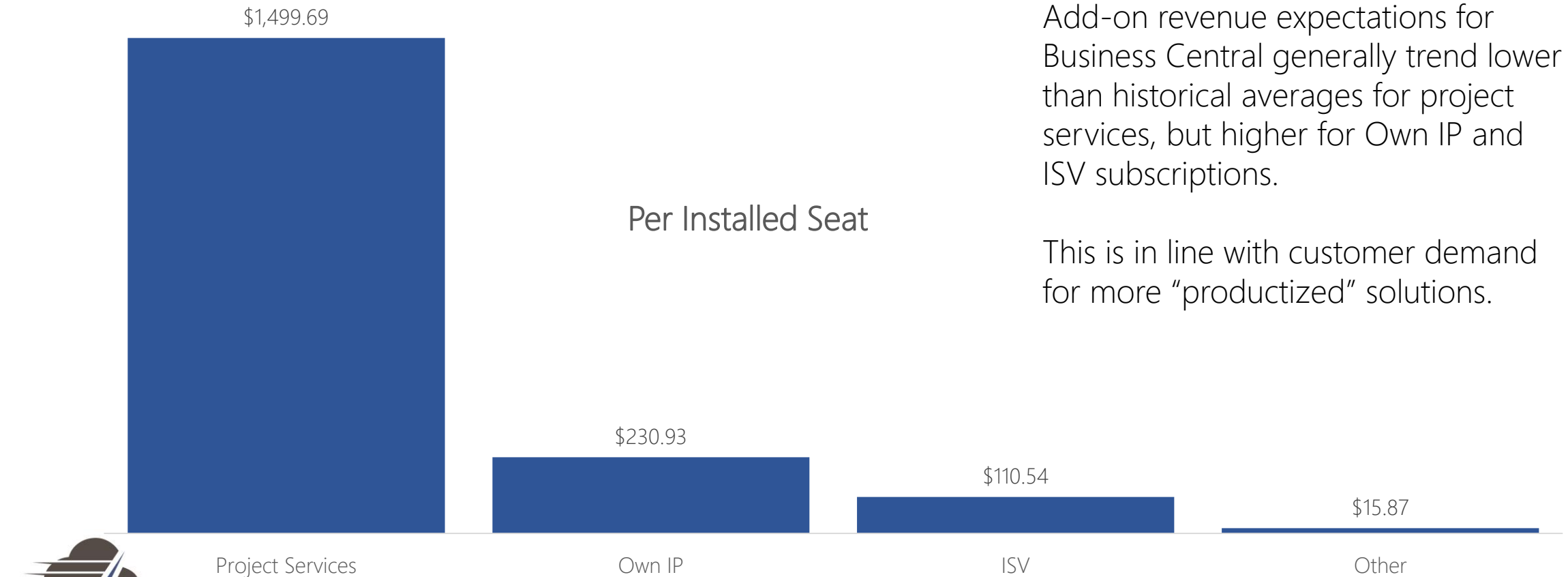
Existing User Migration Expectations



Expected existing user migrations are roughly 1/3 of anticipated new user adds in the next 12 months.

The bulk of these are anticipated to migrate to Business Central or be hosted on Azure.

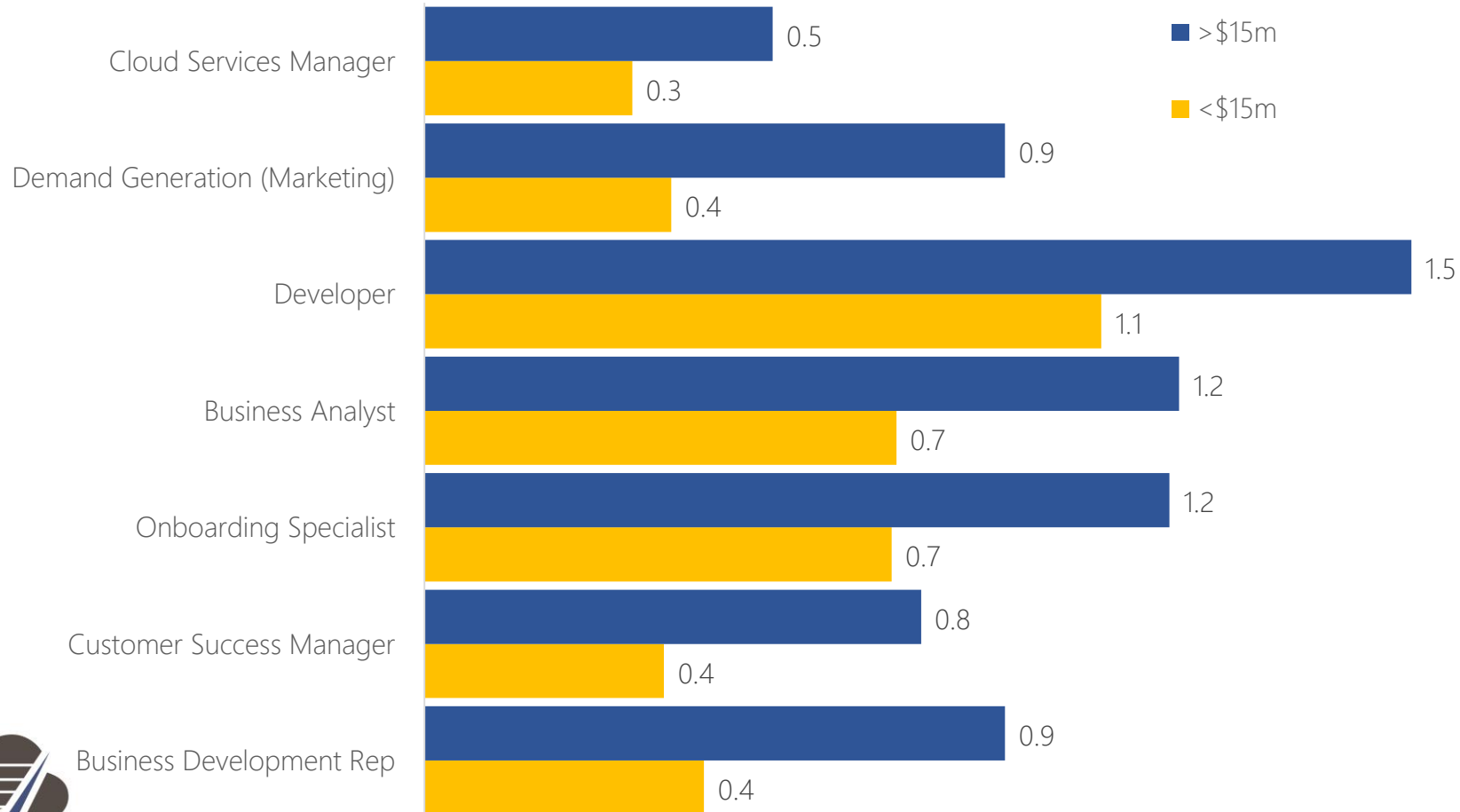
Add-on Revenue Expectations



Add-on revenue expectations for Business Central generally trend lower than historical averages for project services, but higher for Own IP and ISV subscriptions.

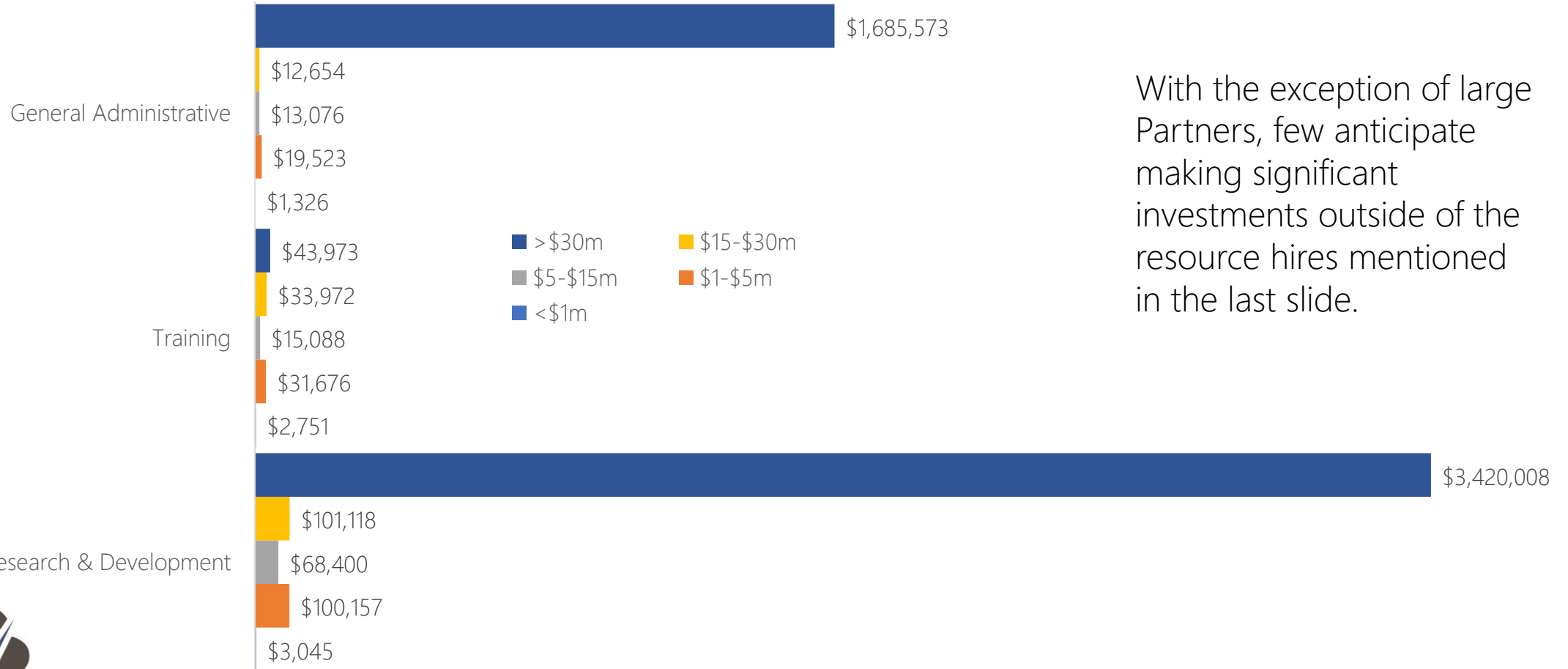
This is in line with customer demand for more “productized” solutions.

Resourcing Expectations (FTE's per Partner)



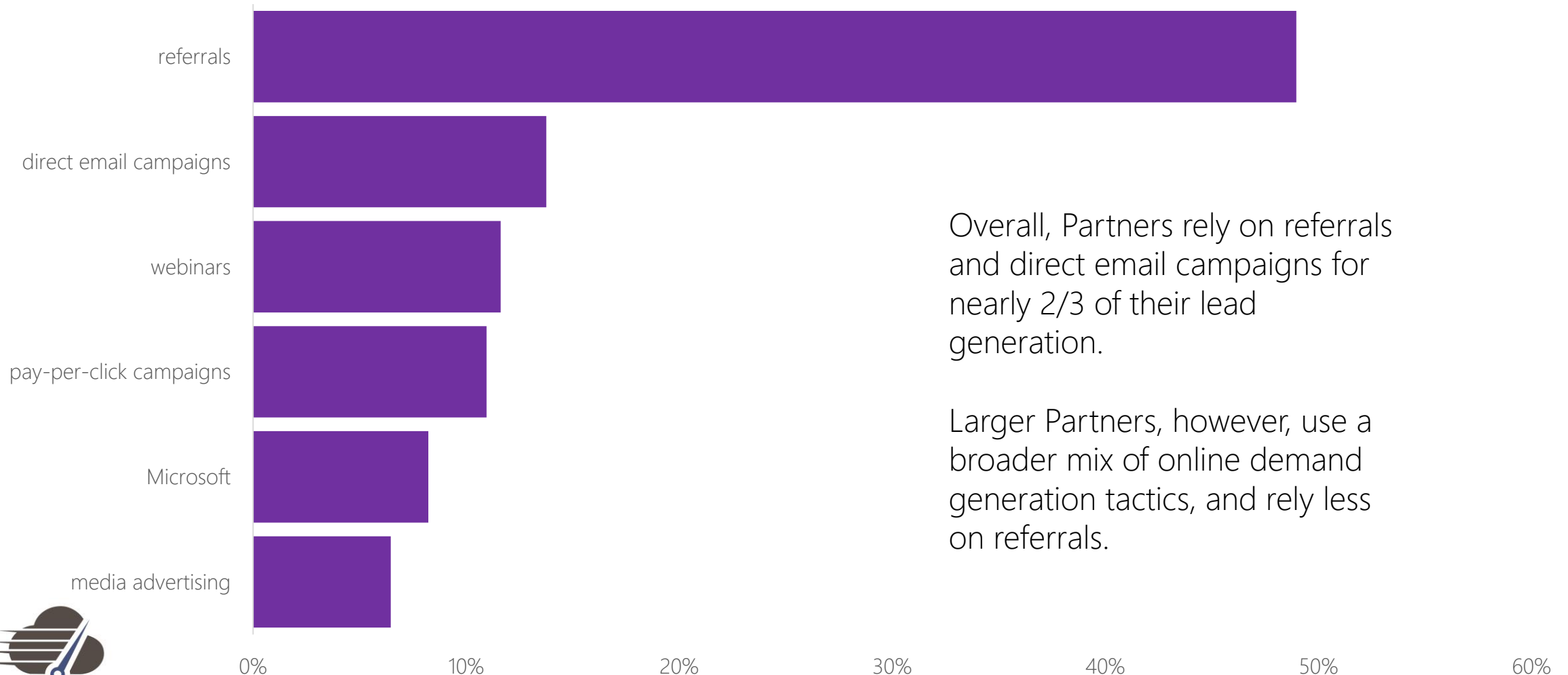
Irrespective of Partner size, the most commonly anticipated resource hiring categories are developers, business analysts, and onboarding specialists.

Other Investments (per Partner)



With the exception of large Partners, few anticipate making significant investments outside of the resource hires mentioned in the last slide.

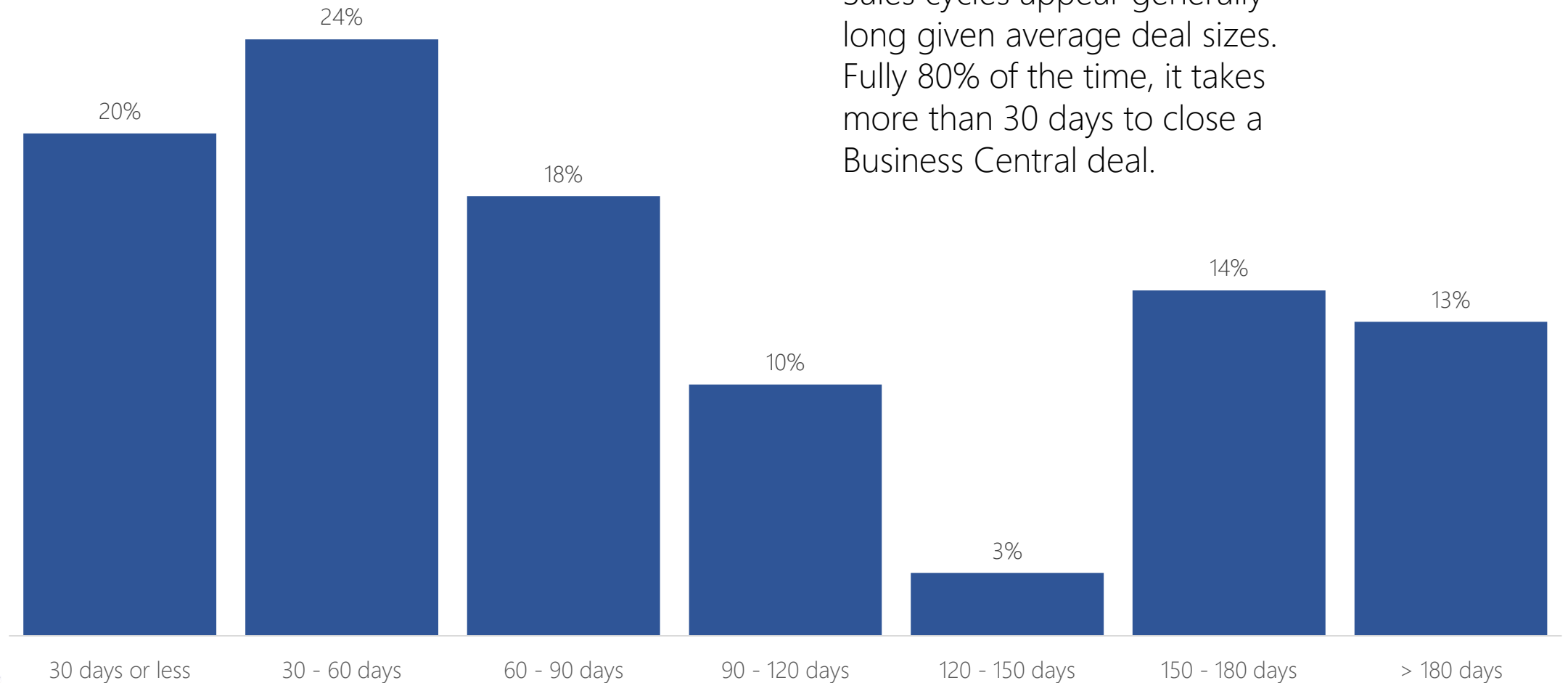
Current Lead Sources



Overall, Partners rely on referrals and direct email campaigns for nearly 2/3 of their lead generation.

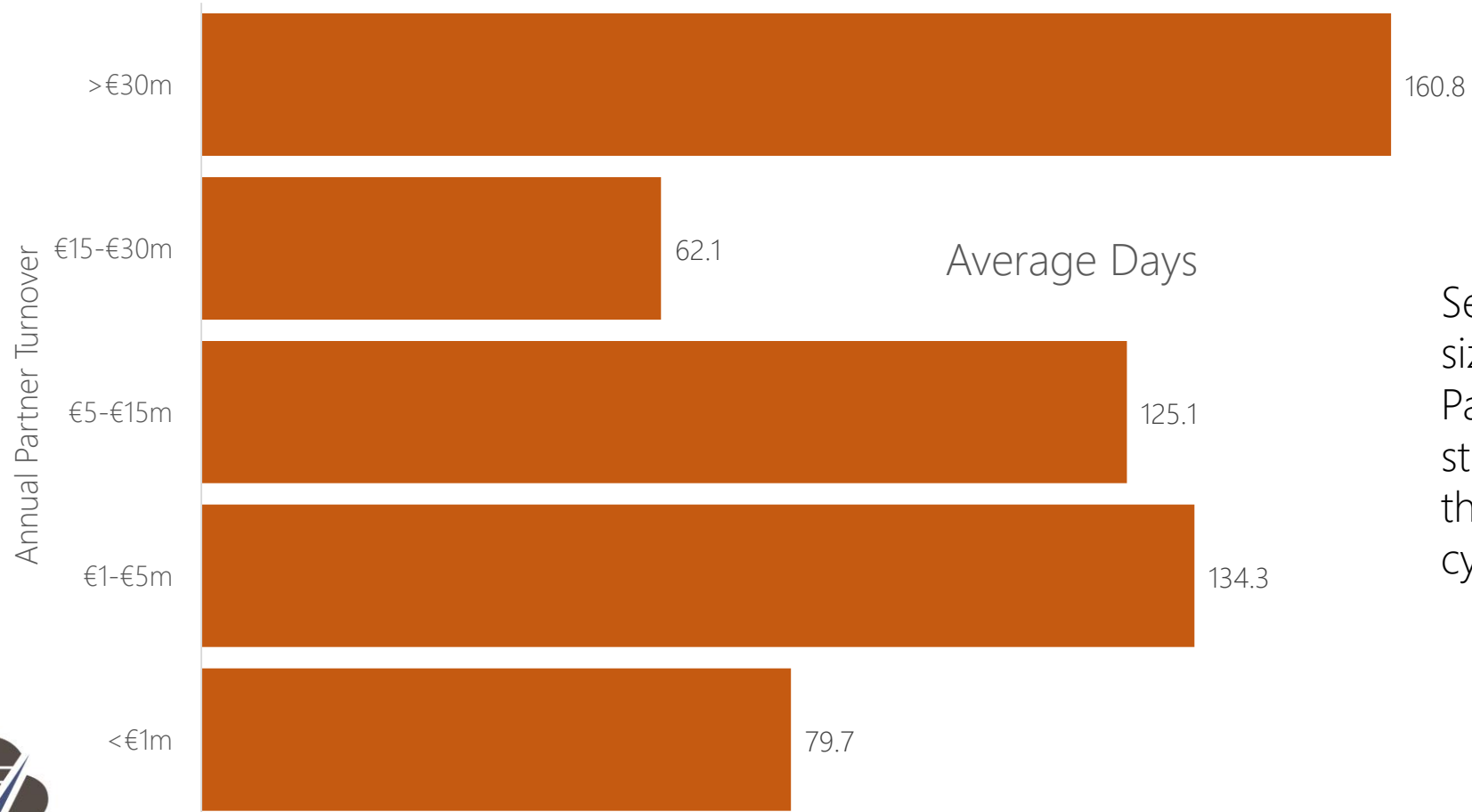
Larger Partners, however, use a broader mix of online demand generation tactics, and rely less on referrals.

Sales Cycle Duration



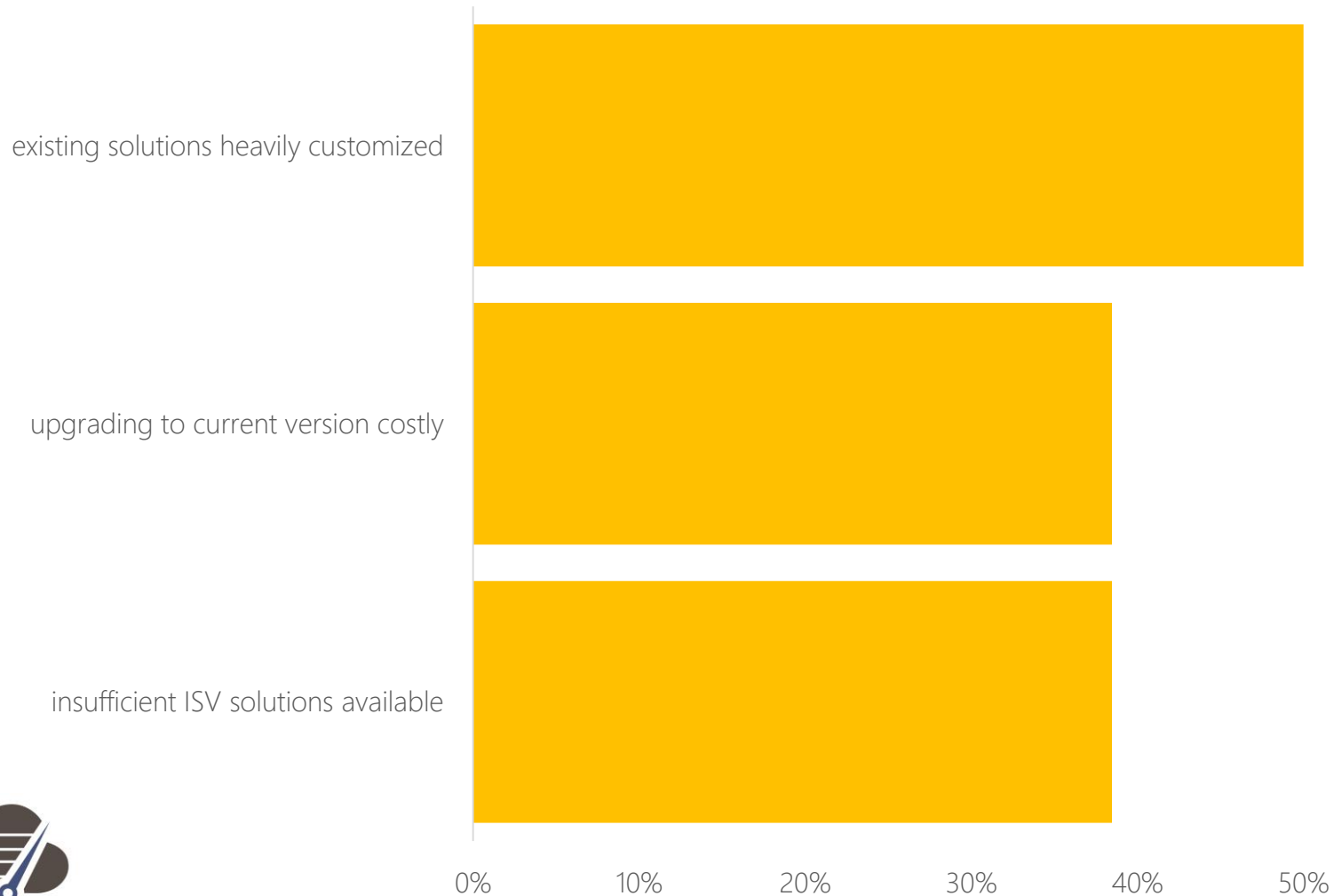
Sales cycles appear generally long given average deal sizes. Fully 80% of the time, it takes more than 30 days to close a Business Central deal.

Sales Cycle Duration



Segmented by Partner size, it appears that smaller Partners in particular struggle with condensing their Business Central sales cycle.

Biggest Obstacles



Nearly half of survey respondents felt that heavy customization of existing solutions was the biggest obstacle to their Business Central growth.

Over 1/3 also felt that the cost of upgrading and a lack of ISV solutions also impede their ability to achieve more significant user adds.

Recommendations

- Partners should look to increase their average deal size and customer add ambitions, to achieve financial critical mass earlier
- Partners should also attach ISV and own IP subscriptions to the greatest degree possible, to increase revenue footprint and customer retention
- Attaching Azure-based workloads wherever possible should be a further priority, to build lifetime customer value and increase business valuations
- Partners should look to actively convert existing customers, so they keep them
- Partners should drive down implementation costs with as much automation as possible, to reduce working capital requirements and more rapidly scale their Business Central business
- Partners should look to reduce customer acquisition costs with prudent investments in sales and marketing infrastructure and personnel
- Finally, Partners should use a forecast tool to plan their work, and then work that plan

contact dana@cloudspeed.co for information on this latest Forecast Tool to ensure your Business Central plans produce a worthwhile financial outcome

Dynamics 365 Business Central		Annual Perpetual Customers Converted	year 1	year 2	year 3	year 4
Current Customer Base Metrics		Annual D365 Customer Adds	year 1	year 2	year 3	year 4
Active Dynamics Customers Today	85	Resourceing	year 1	year 2	year 3	year 4
Average Users per Customer Today	12.0	Cloud Services Manager				
Dynamics Maintenance per License	€ 600	Business Analyst				
Concurrent/Named User Gross-up	1.3	Developer	0.5	0.5	0.5	0.5
New Customer Add Metrics		Demand Generation Marketing				
Average D365 Deal Size (Full Users)	6	Customer Success Manager	1.0	1.0	1.0	1.0
Average D365 Deal Size (Limited Users)	3	Onboarding Specialist	2.0	2.0	3.0	3.0
Dynamics 365 Fee Structure		Business Development Rep	1.0	1.0	1.0	1.0
Upfront Project Fees (new)	€ 11,835	Customer Acquisition & Retention Variable Costs	Variable Sales Cost	Cost per Qualified Lead	Leads to Closed Deal	Annual Retention Cost
Upfront Project Fees (converted)		Other Fixed Investments	year 1	year 2	year 3	year 4
Ongoing Project Fees (new & converted)		Other R&D				
Dynamics 365 Subscription Fee (Full)	€ 70	Training				
Dynamics 365 Subscription Fee (Limited)	€ 8	Incremental G&A				
Own IP Subscription Fee (Average)	€ 200	Own IP Attach Rate				
ISV Subscription Fee (Average)	€ 100	28%				
Managed Services Fee (Average)	€ 40	ISV Attach Rate				
Microsoft/ISV Margin Structure		30%				
Microsoft New Perpetual License Margin	35%	Managed Services Attach Rate				
Microsoft Maintenance Margin	18%	43%				
ISV Margin (ongoing)	30%	Key Operating Ratios				
Annual Delivery Resource Costs		Maximum Users/CSM	750	Annual Subscription Churn		
Cloud Services Manager	€ 90,000	Maximum Customer Adds/BDR	50			
Business Analyst	€ 75,000	Annual Utilization Hours	900			
Customer Success Manager	€ 65,000	Deployment Hours/Seat	7.35			
Developer	€ 80,000					
Onboarding Specialist	€ 55,000					
Annual Sales & Marketing Resource Costs		© CloudSpeed October 2018. All rights reserved.				
Business Development Rep	€ 50,000					
Demand Generation Marketing	€ 65,000					

Revenue Composition

Margin Composition

P&L Impact				
	year 1	year 2	year 3	year 4
Revenue	€ 258,383	€ 654,565	€ 1,161,772	€ 1,647,556
Contribution Margin	-€ 107,744	€ 105,234	€ 289,858	€ 483,704

Recommended Working Capital
€ 300,000

Anticipated Business Valuation Impact
€ 3,598,161





Thank You

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<https://cloudspeed.co/>

