

Brief: Microsoft Office Crosses The Cloud Rubicon

The Focus Is On Business Agility, And Here's Why It Matters

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WHY READ THIS REPORT

Microsoft used the SharePoint Conference 2014 to forcefully assert that its entire Office portfolio is pivoting to cloud-first development and delivery. Microsoft gave services like Yammer and OneDrive for Business center stage and teased the audience with next-generation capabilities, like Office Graph, that it will deliver only from the Office 365 cloud platform. Microsoft followed a few weeks later with an announcement of Office on iPad for Office 365 users. The message to technology management leaders is clear: In the near future, the best way to consume Microsoft Office technology will be via Office 365. This is emphatically a good thing: The cloud facilitates sharing, communication, and individual mobility across your business ecosystem. This report lays out how Microsoft is positioning itself to help your business become more agile and responsive to a customer-driven marketplace.

MICROSOFT OFFICE HAS REACHED A CLOUD INFLECTION POINT

Forrester met with Microsoft Office executives and customers at the recent SharePoint 2014 conference. According to Microsoft Corporate Vice President Jeff Teper, Microsoft's Office 365 had just completed its 18th consecutive quarter of triple-digital revenue growth. The big news shared by everyone we met is Microsoft Office's pivot to the cloud as a complete platform and a strategy for innovation. We don't think this is Microsoft simply responding to a trend or trying to stave off competitors like Box or Google. Instead, we believe that Microsoft is reimagining its relationship with information workers and business leaders through a redesigned cloud collaboration and productivity portfolio:

- **Yammer is evolving into the connective tissue of Microsoft's portfolio.** Microsoft is striving to let people connect wherever they are in the Office portfolio. British Airways demonstrated the benefit of this, using Yammer to connect frontline workers and executives. Teper confirmed Microsoft's continuing efforts to make its \$1.2 billion acquisition the social layer on top of Office. This includes integrating Yammer into Office Online (formerly Office Web Apps), embedding it into Office 365's navigation bar, and giving it single sign-on with Office 365.
- **OneDrive for Business is positioned as an easy on-ramp to cloud-enabled productivity.** General Manager Julia White indicated Microsoft intends to use OneDrive for Business to ease clients into the cloud with a standalone file sync and share offering. This basic file sync and share application comes with a dirt-cheap list price of \$5 per user per month — less than even Dropbox's rock bottom pricing. More interesting still was Jeff Teper announcing the OneDrive app will include Office tools for viewing and editing content. This is an encouraging sign that Microsoft is trying to fix its maligned multiplatform strategy for Office; but the OneDrive for Business product is still playing catch-up to market incumbents Dropbox and Box.



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- **Office Graph promises to simplify information discovery and utilization.** Microsoft's big idea — originally generated at Yammer — is tracking and organizing the relationships between people and content using a social graph on steroids. When it's released in the second half of 2014, this tool could help an employee find needed information or expertise anywhere inside her company or her company's federated partners. The data processing required to make this work creates value for Microsoft's cloud. However, this is a beta product, so expect Microsoft's positioning of the service and its ancillary components — such as the prototype mobile app Oslo — to evolve.
- **Open APIs should open the door for embedding Office in business processes.** We've been critical of Microsoft's approach to letting developers extend Office 365.¹ Microsoft announced a set of APIs that should allow developers to use SharePoint Online and other Office 365 services to build new apps and services. This will begin to put Microsoft on par with its cloud competitors, allowing clients to build context-specific apps for information workers. We will watch how developers use these APIs, particularly as they try to extend Microsoft's capabilities to mobile-device-wielding constituents.
- **Office on the iPad points to a new, more inclusive mobile vision.** On March 27, 2014, Microsoft finally released Word, Excel, and PowerPoint on the iPad. The full apps, available to Office 365 customers, show a pivot in Microsoft's thinking on where information workers can use their productivity tools.² This is a critical statement from Microsoft: It's not going to lock business leaders into the Windows mobile platform. While this is encouraging, Microsoft did not take the step of linking these apps to popular file repositories like Dropbox or iCloud.

BENEFITS AND CHALLENGES OF MOVING MICROSOFT OFFICE TO THE CLOUD

Between 2011 and 2013, North American and European Software decision-makers' interest in and implementation of collaboration software-as-a-service (SaaS) grew from 56% of those who have implemented or plan to implement collaboration software to 71%. Over that time period, the percentage of software decision-makers who already replaced or were looking to replace on-premises technology implementations with cloud versions within the next two years jumped 11 percentage points (see Figure 1).

We believe that Microsoft's move to make Office 365 a cloud collaboration and productivity platform is real, permanent, and game-changing for companies. But this move carries both benefits and challenges to technology management leaders:

- **Benefit: Office in the cloud is a better platform for a mobile workforce.** A mobile workforce is not trapped behind a firewall or immobilized by a corporate network. There's a reason sales leaders embrace salesforce.com and Microsoft Dynamics, both cloud customer relationship management (CRM) solutions: They better serve a field sales organization. With Office fully in the cloud, employees can more easily log into the full experience from any location on any device.

Challenge: Technology managers will have to embrace a multidevice future. When Microsoft held Office out on only Windows 8 tablets, technology managers could resist deploying iPads to all who want them. With this barrier removed, they will have to assess the tablets on other characteristics, such as user preference, not on collaboration and productivity. PC-level security may be an issue, but advanced solutions from enterprise mobile management companies like Mobile Iron and VMware AirWatch solve most of these problems already, and these solutions will only get better with experience.

- **Benefit: Microsoft will launch customers on a faster innovation curve.** Let's face it. When Microsoft only released software every three years, technology managers had all kinds of reasons to refresh their Exchange or SharePoint servers only every four or five years. The pace of improvement that information workers saw was glacial. That painful era is over for customers willing to move to cloud services. Cloud deployment means continuous delivery and very regular software upgrades.

Challenge: Resistant employees make embracing these innovations difficult. Steady improvement is great unless employees find change more unnerving than empowering. Experienced cloud service providers like salesforce and Cisco Systems WebEx do careful releases only two or three times a year (though with many incremental improvements as bug fixes and security patches warrant). On balance, however, it's better for technology managers to become master change agents and help employees digest the steady progression of the service.

- **Benefit: Partners can build new services around familiar technology.** Microsoft's traditional partners face a marketplace that demands cloud services that these vendors are unaccustomed to delivering. The vendor's expanding cloud portfolio and improved developer tools allow these independent software vendors, systems integrators, and value-added resellers to create support services around and build extensions to a familiar technology stack. This should shorten the path to market and provide a natural on-ramp to the cloud for Microsoft's ecosystem.

Challenge: Cloud services will force new business and operating models. As salesforce has demonstrated, the partners most likely to thrive in its cloud ecosystem are cloud providers or integrators themselves. This is well and good for new companies without a legacy business model. But for traditional SharePoint software companies, the move to subscription pricing, repeatable services, and ongoing customer relationships can be challenging to the existing sales compensation models, service organizations, and development processes.

Figure 1 The Market Conditions Finally Align To Accept Microsoft Office 365

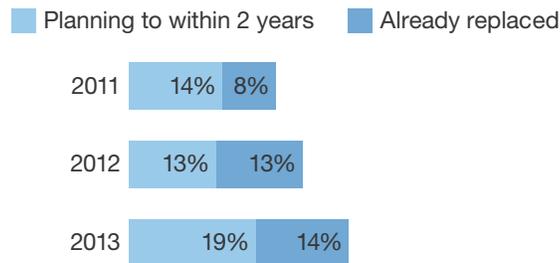
1-1 | Businesses overwhelmingly look to the cloud for collaboration tools

“What are your firm’s plans to use software-as-a-service (SaaS) to complement or replace the following applications?”
(Collaboration software)



1-2 | One third of organizations are ready for holistic collaboration and productivity suites

“What are your firm’s plans to use software-as-a-service (SaaS) to complement or replace the following applications?”
(Replace most/all collaboration software with SaaS)



Base: North America and European software decision-makers

Note: Percentages represent decision-makers at firms with 20 or more employees who have implemented or plan to implement collaboration SaaS.

Source: Forrsights Software Surveys, Q4 2011 (N = 690), Q4 2012 (N = 1,052), and Q4 2013 (N = 1,306)

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Source: Forrester Research, Inc.

MICROSOFT ANGLES TO IMPROVE YOUR BUSINESS AGILITY

Three-quarters of software decision-makers who plan to use or are using SaaS say improving business agility — an organization’s ability to embrace market and operational changes as a matter of course — was an important factor in their decision to use SaaS solutions.³

Embracing change, as business agility dictates, requires organizations to provide information workers with a great deal of flexibility. We have described this as three essential freedoms: the freedom to move information and data through the business ecosystem, the freedom for individuals

to move as necessary, and the freedom of individuals to interact when required.⁴ Microsoft is reimagining its portfolio to provide this liberty, but this is still a work in progress. If it can make this transition in a digestible manner for current and prospective clients, Microsoft can be a focal point for agility, allowing employees to:

- **Use social and content services to respond to market trends.** Many of Microsoft's Yammer customers invite their clients into the environment for discussions. As Office Graph comes online, it could make searching for market intelligence and other types of customer data simpler. Microsoft's API strategy could enhance this capability by allowing developers to leverage these data sources to build systems of engagement for employees to access and use this raw material.⁵
- **Connect experts and frontline workers through knowledge transfers.** Yammer and OneDrive for Business allow information dissemination via discussions and file sharing, respectively. What makes these tools more potent is their strong multiplatform stories, as both services have native app presence across popular mobile platforms like iOS. This means field employees who don't have computers, such as flight attendants, can still get the benefit of the conversations and content sharing Microsoft's cloud services provide.
- **Use APIs to build engaging information access points.** With Microsoft's new open API strategy, technologists could build tools around Microsoft services like SharePoint Online, Yammer, and Office Graph to help employees deliver better services. For example, you could imagine pulling customer data from Dynamics CRM, product collateral from OneDrive for Business, and e-signature technology from DocuSign to create a tablet app to expedite sales.
- **Harness elastic infrastructure to address challenges as they arise.** Microsoft has been on a long transformation of its business, first spinning up cloud services and then moving to a subscription model for Office. This ownership flexibility allows clients to right-size their resources for the challenge they're addressing. For example, Trek Bicycle uses Microsoft Azure to host a partner-facing website. This allows Trek to conserve its data center resources for other business-critical tasks while serving its customers/partners from reliable infrastructure.

SUPPLEMENTAL MATERIAL

Methodology

Forrester's Software Survey, Q4 2013, was fielded to 2,074 IT executives and technology decision-makers located in Canada, France, Germany, the UK, and the US from small and medium-size business (SMB) and enterprise companies with two or more employees. This survey is part of Forrester's Forrester's For Business Technology and was fielded during October 2013 and November 2013. ResearchNow fielded this survey online on behalf of Forrester. Survey respondent incentives include points redeemable for gift certificates. We have provided exact sample sizes in this report on a question-by-question basis.

Forrester's Forrsights Software Survey, Q4 2012, was fielded to 2,444 IT executives and technology decision-makers located in Canada, France, Germany, the UK, and the US from SMB and enterprise companies with two or more employees. This survey is part of Forrester's Forrsights for Business Technology and was fielded during November 2012 and December 2012. LinkedIn Research Network fielded this survey online on behalf of Forrester. Survey respondent incentives include gift certificates and research reports. We have provided exact sample sizes in this report on a question-by-question basis.

Forrester's Forrsights Software Survey, Q4 2011, was fielded to 2,438 IT executives and technology decision-makers located in Canada, France, Germany, the UK, and the US from SMB and enterprise companies with two or more employees. This survey is part of Forrester's Forrsights for Business Technology and was fielded during November 2011 and December 2011. LinkedIn Research Network fielded this survey online on behalf of Forrester. We have provided exact sample sizes in this report on a question-by-question basis.

Forrester's Business Technographics® provides demand-side insight into the priorities, investments, and customer journeys of business and technology decision-makers and the workforce across the globe. Forrester collects data insights from qualified respondents in 10 countries spanning the Americas, Europe, and Asia. Business Technographics uses only superior data sources and advanced data-cleaning techniques to ensure the highest data quality.

Companies Interviewed For This Report

Lakewood High School

Trek Bicycle

Microsoft

ENDNOTES

- ¹ Forrester has argued that Microsoft needs to establish itself as a "true cloud service." This means, in part, that they need to create an API strategy for Office 365 that allows developers and partners to enhance Office 365's capabilities and/or build new applications leveraging Office 365's resources. See the November 20, 2013, "[2016: Google Apps And Office 365](#)" report.
- ² Microsoft is offering a free version of its Office apps on iPad that allow users to view content and present. Full editing capabilities are accessible only with a subscription to Office 365.
- ³ Percentage represents respondents who answered four or five on a five-point scale where 1 = "not at all a factor" and 5 = "very important factor." Source: Forrsights Software Survey, Q4 2013.
- ⁴ For every customer journey your organization creates, there's a concomitant employee journey that guides a worker's delivery of services to your clients. Our study of employees highly connected in the ecosystem shows there are deficiencies in employee journeys. Fixing these issues starts with providing employees with more freedom to use their judgment to take actions to solve business problems. We discuss this in an upcoming report on creating a healthy customer experience ecosystem.

- ⁵ Systems of engagement become important for addressing employee needs at the moment of engagement, which we define as “The point in a workflow or customer interaction when an individual needs access to information or experts to help her take the next best action.” See the August 24, 2012, “[The Social CIO](#)” report.