LAW365

Microsoft Partner Insights 2022

Microsoft

Welcome to Microsoft Partner Insights 2022

I want to say a really big thank you to those who participated in this year's research. Your insights paint a vivid picture of the opportunities and roadblocks for Microsoft Partners this year.

The YOY comparisons are so interesting in a time defined by seismic change. The threat of Covid has been eclipsed by a war, an energy crisis, and a change in leadership for the Government and for the Nation.

One of the aftershocks of this change has been employees re-evaluating their priorities and adding pressure for Microsoft Partners to outbid one another on wellbeing, benefits, mental health, and hybrid working packages. If that's not intense enough for most business owners, the threat of a very real economic recession needs to be carefully considered against the demands of the workforce. Can it be achieved and how? For example:

- How can you attract the people you need when the UK saw 870,000 technology and digital job vacancies open in the first 5 months of 2022 and tech roles now make up 14% of all job opportunities in the UK? Staff turnover rates in the tech sector are the highest across all industries at 13.2% and studies show that the total cost of losing an employee is often 1.5-2X their annual salary.
- Should you invest in office space when the ONS reports that 85% of those who are currently homeworking want to adopt hybrid working?
- Can you innovate and ensure a strong company culture when teams are working remotely?

Diversity is also a challenge that employers are trying to address - One topic that caught my eye was the fundamental shortage of women in the tech sector – "We have struggled historically to recruit women, mainly because tech has been very male dominated." Diversity needs to start at school with more girls being encouraged to pursue STEM subjects. We're so lucky at Law 365 to have female lawyers and female leaders, but we also train our staff in tech (we think we have the world's only Azure and Office 365 qualified lawyers, do challenge me if I'm wrong on that!) which is helping to redress the balance.

Another positive was the growth in IP – the most profitable Microsoft Partners are creating IP, productising it, and protecting it. Now that my husband, Tim Wallis (Founder of Content and Code/Content + Cloud and now CVO at Law 365) is on board – we're able to help you at every stage of your IP journey.

Finally, one of the findings which really fascinated me was a Government study surfaced during the research for this book, which estimated that SMEs lose more than £13.6 billion per year by failing to take care of their legal issues.

With Microsoft Partners accounting for 1% of all UK VAT registered businesses, their contribution to this number will be sizeable.

It's an issue we encounter frequently -- Microsoft Partners come to us when they are planning their exit strategy and want to get their house in order before the due diligence discovers some ugly contract negotiations. However, often, it's too little too late.

Benjamin Franklin is credited with saying, "By failing to prepare, you are preparing to fail." So be proactive to get the most from your legal team. Enlisting our help early (3 to 4 years before exit) is a more economical fix long-term, and as Microsoft Partners specialists we're confident that we can get you set you up for success and the best valuation for your business.

I hope you find this book an enjoyable and illuminating read, packed to the last page with useful information that you can use to benchmark your own business against others and inform your decisions as you prepare for 2023.

Kim Simmonds

Kim Simmonds

CEO and Founder, Law 365 Limited

PS

You asked, and we listened.

The research tells us that Microsoft Partners still think that legal services are expensive and slow, so investing heavily in AI seemed the perfect way for us to address both of those concerns. LawyerBot 365 – our AI, which reads and reviews NDAs in minutes, is currently free to use so try it now **www.law365.co/lawyerbot365**

Don't need a lawyer? You can still become a member. The Law 365 membership program – offers LawyerBot 365, our award-winning book club, our research and high value content. We're creating a community and at the same time giving members access to all the ways we, as lawyer and business advisors, can help you grow with less risk.

With the prevalence of growth by acquisition, you'll see why Microsoft Partners have welcomed our new client offering - **HAPPY 365**. Bringing together the best in executive coaching, people development and employment services, we're helping clients build happier, more profitable, workplaces. Treating staff with compassion is one of my core values and it's wonderful to work with clients who want to do the same.

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About Law 365

Law 365 is an award-winning national firm exclusively serving Microsoft Partners. We specialise in commercial, technology and employment law, taking care of all your daily contract negotiations and employment and HR needs.

Disclaimer

This book has been written for Microsoft Partners as a summary of our research findings. The information does not constitute legal advice and should not be relied on as constituting legal advice.

Fancy a natter about legal matters?
Email **hello@law365.co** to arrange a meeting.

Sources and further reading

Please visit our website **www.law365.co** for a full list of links for sources in this book, product information about **LawyerBot 365** and **HAPPY 365**, and dozens of useful articles.

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Benchmarking Research

> *There was a significant amount of added value working with an organisation that works with other Microsoft Partners. This is because they understand the complexities of contracting for products and services directly -- and they understand having a dependence on Microsoft.*

Carl Grieves,

CEO, Silverbear

Welcome to the 2022 edition of Law 365's Microsoft Partner Insights. We teamed up with Incredible Results, analytics and data management experts, Coeo, and organisational development specialist and psychologist, Emily Frohlich, to conduct our third year of research into a key group UK Microsoft Partners.

- **What has the last year been like for them?**
- **What have been the main drivers for growth?**
- **What opportunities and threats do they see on the horizon?**

Our Microsoft Partner research has a significant qualitative element to it in the shape of a series of lengthy 1-to-1 interviews with all of the participating CEOs. In this book we have used direct quotes from these interviews where possible.

Key themes for 2022

- Economic headwinds – Rising wage inflation
- Intellectual property – Is it on your radar? And if not, why not?
- Recruitment - The War for Talent
- Employee retention – Prioritising employees & embracing flexibility
- Diversity and inclusion – A passive or purposeful approach?
- Office space – To have or not to have? That is the question.

About the research and participants

We asked over 50 of the UK's top Small and Medium-sized Enterprises (SMEs) Microsoft Partners to participate in this year's research. The group invited is pre-dominately from the networking group IT Leaders and Law 365's own clients.

Law 365 clients

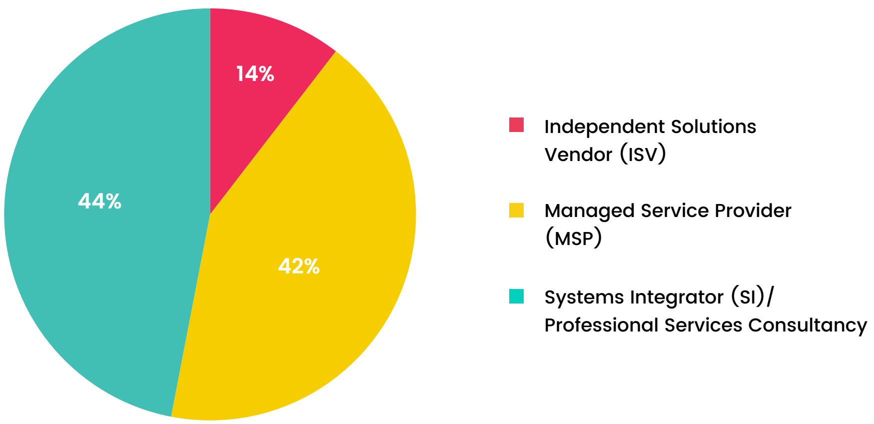
Advancing Analytics
Atech
Beamery
Bedroq
centiq
cloud business
Coeo
Content+Cloud
CORE
Crayon
DocsCorp
fifosys
greymatter
infinity group
Information EXP
inbay
kynetix
lanmark
LedgerEdge
Lima
nasstar
neroblanco
NETMETIX CLOUD NETWORK SPECIALISTS
Optial
PRODRIVE
PROGRAM FRAMEWORK
QUOSTAR
sagittarius .agency
Shaping Cloud
SILICON REEF
Simpson Associates The Data Analytics Company
[Third] Space
ultima
viadex
wanstor
Peppermint TECHNOLOGY

As in previous years, the research conducted was a mix of quantitative, which took the form of a 50+ question survey, and qualitative, involving a lengthy one-to-one interview with the C-level leaders of the participating Microsoft Partners.

The cohort encompassed the full spectrum of SME Microsoft Partner profiles, from size and type of business to ownership structure and Microsoft solution specialism.

In line with last year's results, Managed Service Providers (MSP) and Systems Integrators (SI) / Professional Services Consultancies formed the majority of the group -- accounting for 86% of participants, compared with 84% of participants last year.

Research Participants by Business Type

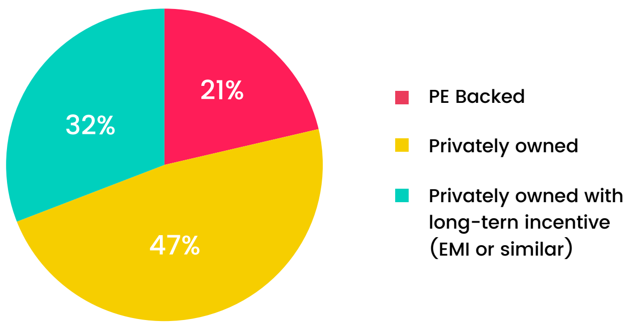


Ownership

Just over two-thirds (68%) of the Microsoft Partners involved are privately-owned or privately-owned with an Enterprise Management Incentive (EMI) scheme. This is slightly down from last year where this category accounted just over 70% of the group, and is representative of a small change in research participants this year, as well as the continued consolidation within the Microsoft Partner sector through acquisitions. This consolidation of Partners in the market is also reflected in the increased number of Private Equity backed participants this year. This number doubled – to 21% from 11% last year.

In fact, it has been a record year for M&A activity globally with data analytics company **GlobalData** reporting that "total deal volume jumped up 38% year-on-ear (YoY)", and that "technology, media, and telecom (TMT) continued to be the biggest sector in terms of both M&A deal value and volume—with 12,585 deals worth $1.27tn recorded in 2021."

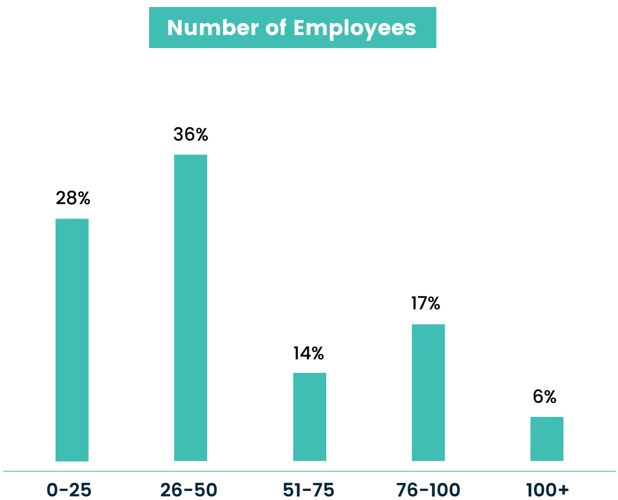
Ownership Structure



> *"It feels like 2022 will be breakthrough year for us. Our ownership will change a bit as we will exit some minority shareholders and bring new ones in to fund our next period of growth."*

Headcount

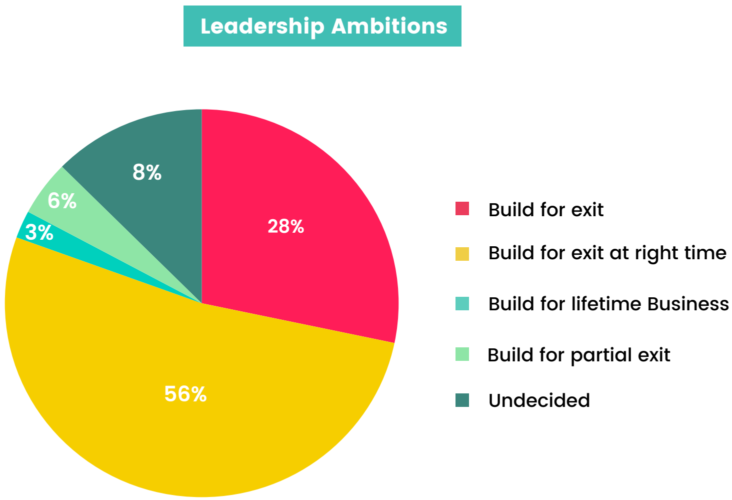
When categorising the Microsoft Partners by headcount the most common company size was the 26-50 employees bracket which accounted for just over a third (36%) of the cohort. The composition of the group in this respect was largely unchanged with 78% of companies under 75 employees, compared with 84% last year.



There was a notable shift in the 76 to 100 employees bracket, which increased massively, from 3% to 17%, offsetting the drop in the largest SME partners (100+ employees) which fell from 14% last year to 6% in 2022.

Long term ambitions

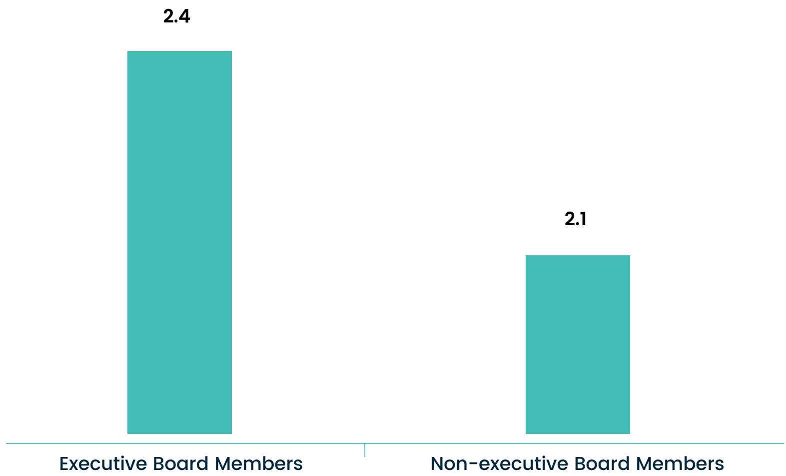
Given the incredible growth in the UK tech sector in the last 24 months and the resulting exponential increase in UK tech firm valuations, it is unsurprising to see that 'building for exit' featured heavily as a response to questions on leadership ambitions from the CEOs interviewed.



In fact 'building for exit' in one form or another accounted for an incredible 89% of the responses. This compares with 68% of respondents at the same time last year.

The **UK'S Digital Economy Council** (in conjunction with Dealroom) reported recently that the UK tech sector was valued at, "$446 billion in 2018, but is now valued at $942 billion after growing 42% between 2020 and 2021." The growth in valuation is attributed to "greater investment into software and digital companies at the start of the pandemic." In fact, the UK sector is currently worth over $1 trillion, a valuation that only China and the US have achieved.

The Boardroom



They say it can be lonely at the top, so we were interested to find out more from the leaders about the structure of their Board. The average number of Executive Board members was 2.4 with non-exec members taking an average of 2.1 seats. The maximum we found was 7 for exec and 5 for non-exec.

About IT Leaders

Established in 2012, IT Leaders is a networking group of CEOs and shareholding leaders of predominantly Microsoft Partners who come together to collaborate and learn from each other.

All participants are senior leaders or the singular leader of their business which creates a rich environment for discussion, comparison, problem solving and learning about the personal, shareholder and commercial considerations they face. Many have aspirations to grow and realise equity value. Some, during their time within the group, have realised that ambition and are now encountering a different set of opportunities and challenges. This evolution adds to the potential within IT Leaders as experiences and lessons are shared and compared.

IT Leaders are mainly clustered around various aspect of the Microsoft technology stack – some are leaders in a singular specialism, others offer a broader spectrum of expertise, most offer managed services of one type and some are entirely managed service providers. Many in the group develop IP either as part of their service or as software developers. The businesses range in size, headcounts averaging between 15 and 100, revenues between £5m an £15m, with outliers either side. The two things all participants have in common is an eagerness to learn and a driving ambition for success.

The group conducts annual benchmarking surveys to track and compare progress, pay scales, investment appetite, and their quarterly meetings involve discussions on current market conditions and topical industry issues.

IT Leaders has spawned additional meeting groups, one for sales leaders and another for technical and operational leaders. These additional groups have the exact same ethos and set-up and the connections established in the original CEO forum add value and understanding to the other groups and vice versa.

IT Leaders is a growing and thriving small institution of like-minded people. It operates by mutual contribution and consensus and is facilitated by Shaun Frohlich.

ABOUT

Shaun Frohlich

Founder of Incredible Results

With over 38 years of industry experience, Shaun is a well-respected figure amongst the IT leadership community and has spent the past 10 years helping people to shift their mindset from working on the business to realising growth potential and value from the business. His ability to inspire and equip others to create incredible personal and professional change is borne out of his own experiences – good and bad – in founding, growing, buying, transforming, investing in and selling IT businesses.

Shaun founded Bytes Technology Group in 1982 and Bytes Recruitment in 1997 and in 1999 successfully sold both via a trade sale before exiting in 2000. Following an interim management role at the early cloud services provider, Attenda, he led a buy and build strategy initially buying IT reseller Teksys, transforming the original business to create a software and services company, and more than doubling its revenues in 5 years via a combination of acquisitions and organic growth. After exit via trade sale in 2008 Shaun joined the leadership team at Microsoft as the director that led the partner channel. Shaun left Microsoft in 2012 to do what he has been doing ever since, helping IT businesses owners grow and realize equity value. In the past 8 years this has led to over 20 transactions comprising a mixture of MBO's partial and full exits.

ABOUT

Emily Frohlich

Facilitator | Coach | Psychologist

A psychologist by background, Emily has over 15 years' experience developing talent and driving performance in organisations, leaders, and teams. She has a Masters in Organisational Psychology and her work focuses on helping businesses understand and get the best from their people and customers.

Emily worked for business psychologists Nicholson McBride for 13 years, including 8 as a Client Director, before becoming an independent coach and consultant in 2019. As well as conducting client and stakeholder research such as the IT Leaders Survey, Emily is retained by EY as a Senior Executive Coach for central government where she works with senior leadership across multiple departments.

Emily has extensive experience working with global law firms, as well as in investment banking, private equity, management consulting, and in the public sector. At the heart of her approach is a focus on understanding behaviour and developing effective working relationships. Her work includes executive and board coaching, organisational change, leadership development, and research. Clients Emily has worked with recently include: Allen & Overy, Bank of England, Baird Asset Management, BCLP, Clyde & Co, EY, Fidelity International, HM Treasury, Home Office, Judicial Board, Ministry of Defence.

ABOUT

Coeo

Coeo is a trusted Microsoft Partner, helping businesses realise their full potential through better use of data. Since 2007, it has specialised in the Microsoft Data Platform and Analytics solutions with extensive knowledge in the finance, retail and technology industries.

Data is at the core of what Coeo do. Their expert team hold more Microsoft certifications than any other data platform specialist in Europe and are passionate about sharing their knowledge and expertise to help their clients become industry leaders.

For many years, Coeo has helped Incredible Results collect, analyse and gain insights from annual survey data. They use Azure to host and report on the insights from this Microsoft Partner research. Coeo is the first Microsoft Partner globally to be awarded with the prestigious Analytics on Azure Advanced Specialization. They also hold the Windows Server and SQL Server Migration to Azure Advanced Specialization and Microsoft Gold Partner status... so you can rest assured that your data estate will be in a safe pair of hands.

Coeo works with clients to create the most appropriate technology strategy for their business and provide mission-critical support when they need it. They are experts in architecting, optimising and migrating mission critical transaction processing systems. They accelerate deployment of enterprise class business intelligence solutions that win business confidence and deliver insight.

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Financial Review

Law 365 combines an excellent knowledge of commercial law with an ability to highlight pertinant issues for non-lawyers and think through the commercial ramifications of the contentious clauses in contracts.

Auriel Folkes,

Finance Director, Celaton

What a year 2021 was! Just as 2020 brought a myriad of opportunities and threats, 2021 presented all Microsoft Partners with its own array of challenges that forced them once again to adapt to a rapidly shifting landscape.

A banner year for the UK tech sector

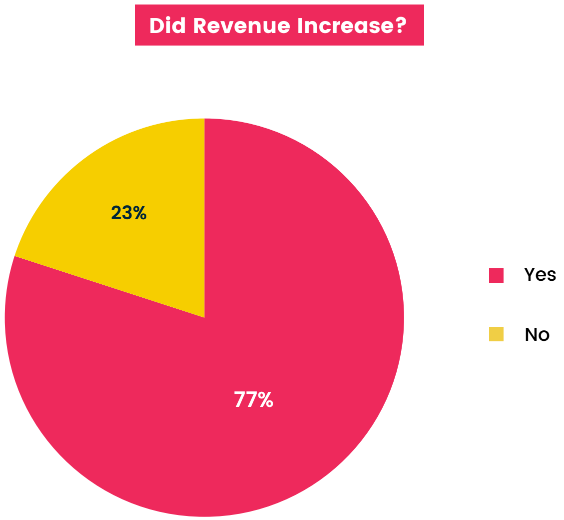
While the world news has been bleak, by almost any measure it has been a stellar couple of years for the majority of the UK tech sector. The level of investment across the industry has been unprecedented in established businesses but especially in start-ups. In fact, The British Business Bank reported that, "UK business creation figures from March 2021 show that a new technology business was created every half an hour during 2020, with nearly 19,500 registering in total across the UK."

The extraordinary growth of the tech sector has been fuelled by steady global demand for digital transformation, the continuous growth in cloud migration and adoption of cloud solutions, and increased IT complexity driving demand for managed services. Microsoft Partners we spoke to were ebullient about their success when we asked how their businesses had faired last year:

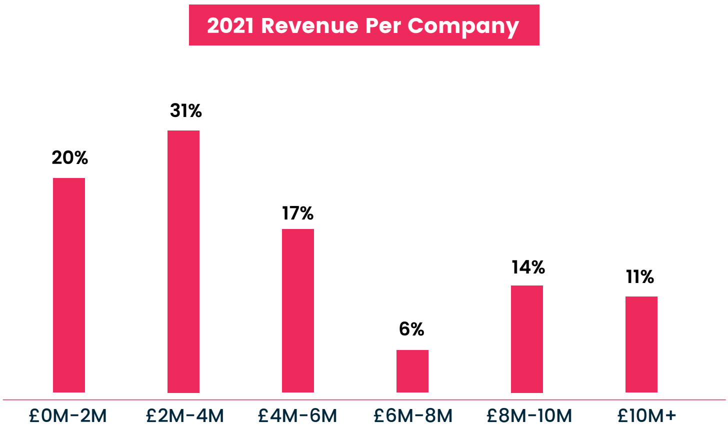
> *"Good – we ended the year as the best ever."*
> *"Great – two consecutively best ever years. We were coming out of a bad patch. Lots of positive things have aligned."*
> *"By end of Q1 we will see over 30% growth."*
> *"We've been really fortunate in growing in last 12 months. We've grown 30%."*
> *"Strong growth, we doubled [sales in] 2020 and 21."*

Revenue growth for ¾ of respondents

This theme was also reflected in the survey results where 77% of respondents said that revenue had grown over the last 12 months. This was in line with last year's research, which showed an almost identical number (74%) of Microsoft Partners who saw revenue growth in 2020.

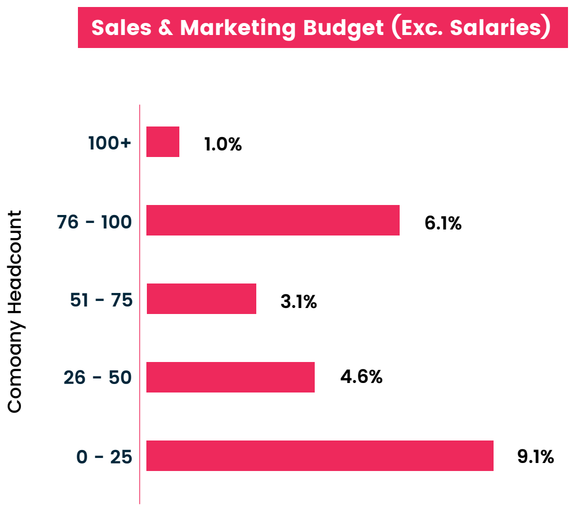


The chart below shows the revenue split amongst the group. Just under a third of companies surveyed generated revenue of between £2m and £4m last year. This is roughly in line with 2020 figures across all revenue brackets, with a slight uptick this year in the £2-4m bucket (31% vs 25%), but a slight drop in £4-6m companies (17% vs 22%). The average revenue generated across the group was £5.2m.



Speculate to accumulate

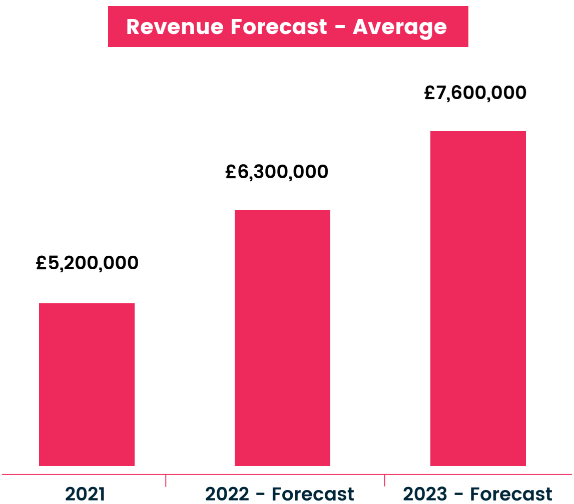
How much did companies invest in sales and marketing to achieve these revenue numbers? We found that the average sales and marketing budget (excluding salaries) across the group was 5.7%, including salaries this number jumped to 16.8%.



While this is interesting to read, these numbers by themselves do not paint the full picture as many variables come into play when determining the appropriate percentage of gross revenue to allocate to your sales and marketing budget. It is widely acknowledged that newer companies will need to spend more in this space to establish themselves and their strategy, somewhere in the region of 12-20% (Hubspot). More mature businesses who have already established a market share will often spend closer to 6-12%. The Partners in our group were predominantly B2B and therefore their budgets should be slightly lower than a traditional B2C company's would be.

The forecast looks sunny for 2023

It was great to see almost all the CEOs in the group were very bullish on the their companies sales pipeline for 2022 and beyond. The majority forecast a significant jump in year-on-year (YoY) revenue growth, with the average being 21.2% in 2022 and 20.6% in 2023.



This year we were able to dig deeper into the revenue numbers and gain a better understanding about which service lines are the main drivers for these Microsoft Partners.

Service Lines - Average Revenue Per Company

Managed services and Professional services top drivers of revenue

It will come as no surprise to most that managed services and professional services were the top two revenue generators on average and accounted for two thirds (67%) of all revenue generated by the surveyed group. The impressive growth in recent years across in these two services is forecast to continue for some time with sources reporting:

13% compound annual growth rates (CAGR) in digital transformation projects for the period 2022 to 2027 (**Gartner**)

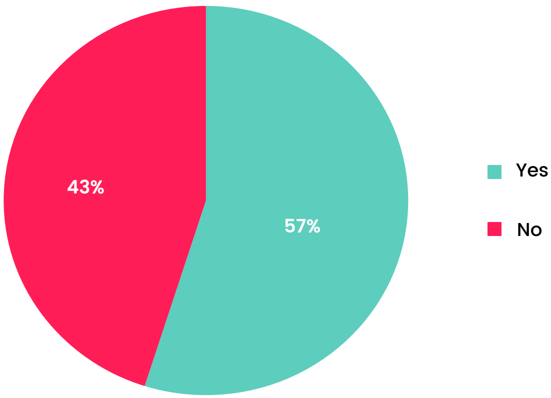
6.3% growth for helpdesk/support (2022-2027 CAGR, **Statista**)

15.8% growth for private cloud (2022-2030 CAGR, **Allied Market Research**)

Profit – The bottom line

The natural progression from revenue was to explore profitability. Given the strong revenue numbers being reported by most of the Microsoft Partners we spoke to, we wanted to find out if profits had followed suit. Over half of the partners (57%) said that Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) had grown in their last financial year.

Did EBITDA Increase?



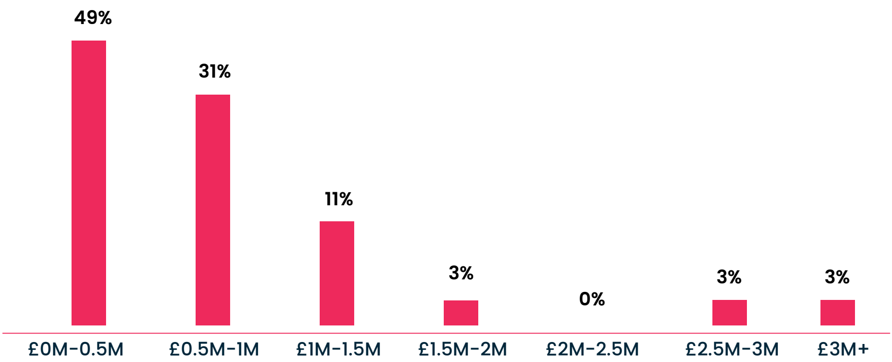
This was however, down on last year's results where 69% reported an increase in EBITDA. Many CEOs in the group commented that wage inflation and the 'war on talent' had impacted the bottom line as several were not able to fully pass this cost on their end clients. Additionally, many of the previous year's costs had been reduced because of the pandemic, however spending has risen on travel, subsistence, client, and staff entertaining.

It was encouraging to see that within these numbers 97% of respondents were profitable in the same period.

When grouping the partners by profit, the results at the smaller end of the spectrum were largely unchanged from last year, 49% of the group reported EBITDA of £0-0.5M compared with 47% the year before. All companies surveyed were profitable compared to 6% last year who were not.

Overall, 51% of the group generated a profit of greater than £500,000 versus 48% last year, and the average EBITDA for the group was £712,000.

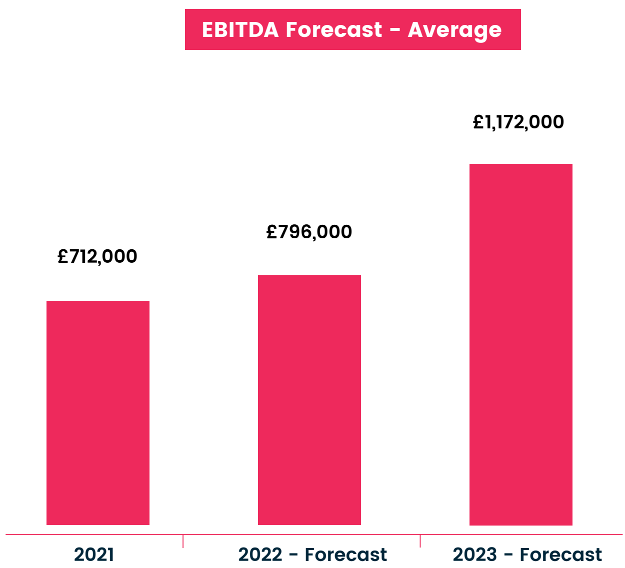
2021 EBITDA Per Company



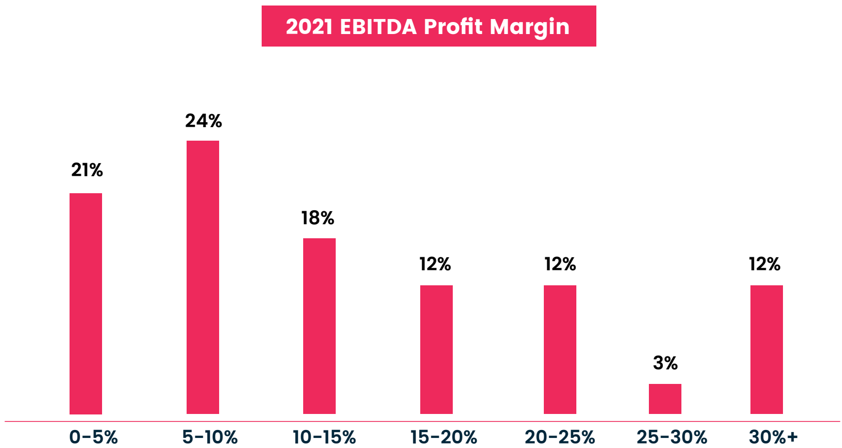
Smart businesses claim Microsoft rebates

As was the case last year, the most profitable Microsoft Partners were those that claimed rebates and incentives from Microsoft and other vendors, such as Claiming Partner of Record (CPoR), Partner Admin Link (PAL), and Cloud Solution Provider (CSP) licence fees. Many also received other funding from Microsoft to help deliver projects such as End Customer Investment Funding (ECIF).

These Microsoft Partners had ensured their contractual terms with their customers clearly outlined that they were entitled to the Microsoft rebates, which is not always the case – Many Microsoft Partners miss out on tens, or hundreds of thousands of pounds in rebates.



It was also interesting to see the results of EBITDA margin achieved in the group.



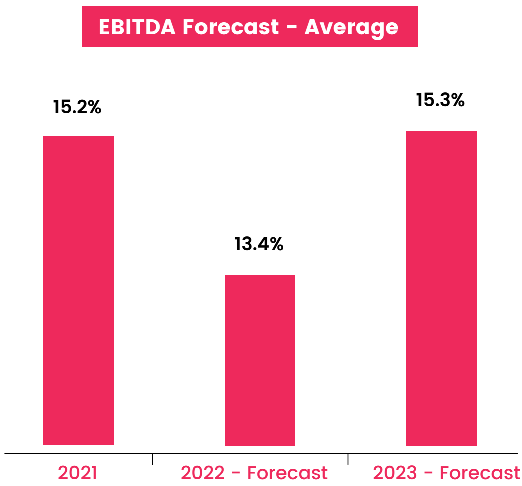
The average EBITDA profit margin reported was 15.2%, and while it can often be difficult to give a target benchmark for Microsoft Partners on this (as this can depend on what type of Microsoft Partner you are; MSP, CSP, ISV, SI or IP business) an EBITDA margin of 10% is generally considered good for most industries.

When looking particularly at the tech/software sector, research conducted by Service Leadership last year found that the average MSP EBITDA margin was approximately 8%, while best-in-class service providers were operating around 19%.

This year's cohort therefore compare very favourably with this average, as 75% of the group generated above average (i.e. greater than 8%) margins, whilst 32% of the group were operating in the best-in-class range of 19%+ EBITDA margin.

While many Microsoft Partners have traditionally focused on recurring revenue and reducing operational cost in order to move out of the 'average' bracket and towards the best-in-class range, more and more of them have recently shifted their attention to developing high margin products and services such as IP solutions that generate margins in excess of 50%, as an additional profitability driver.

> *"I see the demand continuing, Microsoft have done a great job at creating a bow wave of predictive AI."*



Looking past 2021, expectations within the group of sustaining these numbers did not quite match their revenue forecast assumptions. As we can see above, the average EBITDA margin forecast for 2022 drops slightly by -1.8% to 13.4%, with wage inflation clearly having an impact on this. With UK corporation tax set to increase to 25% from April 2023 it will be interesting to see how this affects forecasting in next year's research.

> *"Wage inflation is really impacting us. We are probably looking at around a double increase than what it previously was. The market for tech is very hot, especially in front-end developers."*

The chart (below) shows the dispersion of the participants revenue and EBITDA results around the group average of £5.19M revenue and £0.71M EBITDA.

2021 Revenue vs EBITDA

Revenue-per-employee is a key metric in understanding how leveraging your workforce can drive profitability. A **TruMethods** 2020 report explained (*converted to GBP):

> *"An average MSP might make £800,000 in services with ten staff, which is £80,000 annual service revenue per employee. A world-class MSP can, however, generate £400,000 more revenue with the same number of staff, which means that they have significantly more leverage."*

Their table below highlights how impactful this can be:

	Top Performing MSP	Average MSP
Number of employees	10	10
Annual service revenue	£1,200,000	£800,000
Revenue per employee	£120,000 per employee	£80,000 per employee

Additional profitability =	£400,000

The metric is a useful tool in assessing operational efficiency within a business and in formulating a plan to drive improvement. However, having full visibility on the revenue and cost drivers is the key here.

Using their benchmark of £120,000 revenue per employee when looking at this year's results we see that the group's average of £102,000 is midway between the 'top performing' and 'average' (£80,000) MSP brackets. This is a sizable drop from last year's results where the average for the whole group was slightly in excess of £120,000.

It is important to note however that almost one third (29%) of the participating Microsoft Partners we surveyed this year did achieve a revenue per employee greater than £120,000, with the best performer achieving £218,000.

2021 Revenue vs EBITDA Per Employee

Finally, we can see that the average EBITDA per employee was £14,500, almost -17% versus last year's reported number of £17,500.

Most Microsoft Partners are people businesses, so their biggest cost is salaries. Therefore, any increase in the cost of labour, or wage inflation has a detrimental effect on profits and the amount of EBITDA per employee. However, the fall in revenue-per-employee could also suggest less operational efficiency (potentially due to staffing issues, working from home etc.), or increased price competition.

> *"It has been good, we've grown by 12%. But we could have grown more but weren't in operational shape. We just couldn't hire fast enough."*

The future - Areas for concern

So the future looks bright for Microsoft Partners? For many yes, but for others, approaching the future with caution was their message. Several of the CEOs we interviewed said they had started to see clients slowing their spend and were feeling the early impact of inflation.

> *"We're seeing a slow down on spend where people are looking to release smaller buckets of cash. Cost of sales is going up."*
>
> *"It's challenging. Business growth has not been as impressive as we would like. We're shrinking to grow again."*
>
> *"I'm quite anxious given that lots of our customers are retail."*
>
> *"We got a glut of customers who just kept spending throughout lockdown. But then many of our top customers slowed down spend. We had scaled up resource to meet what we thought we would need. So, it really hit us hard."*
>
> *"I do see inflation as a massive problem which will get worse."*

For others the challenges brought by an increasingly competitive marketplace was a source of concern. Datto's Global State of the MSP Report highlighted that 34% of Microsoft Partner's polled said that increased competition was their biggest concern. This was the first time that competition had topped their list.

> *"We had a lot of competition with London-based IT companies. Geordie shoring! They can pay them less but have the kudos of a London base."*
>
> *"Increasingly other Partners are building data and AI capability. That's not a major risk, just something we need to be mindful of."*

Some of the Microsoft Partners were trying to stay ahead of the competition by supplementing their offering or changing their business model.

> *"It's been good, but it's been hard. We are trying to reinvent ourselves by moving to become a product company. Lots of change, lots of learning."*
>
> *"IP is now our primary focus. Everything else is just about keeping the lights on while we develop this."*
>
> *"We are trying to migrate to become a BI company."*
>
> *"IP is strategically something we want to look at it more. It is currently intentionally opportunistic.In the future we anticipate having a Head of Innovation."*

An area we will focus on in later blogs is recruitment, as the topics of resourcing, capacity, and the inability to hire people quickly enough was a constant talking point with those interviewed.

> *"We're on the journey but nowhere near where we want to be. Capacity is the barrier, we need to hire more people."*
>
> *"Resourcing is always the challenge."*
>
> *"We aren't constrained by the market. We're asking to grow another £5-10m, we will be constrained by our ability to deliver."*

This is understandable when put into context.

> 93% of employers are hiring in one form or another in 2022, compared with 82% in 2021 (Monster)
>
> IT/technical positions take the 6th longest time to fill behind engineering, research, project management, business development and finance (LinkedIn 2021).

3

Recruitment

Since working with Law 365 and their Performance Coach to implement HAPPY 365 at Silicon Reef, we have reaped the rewards in more ways than one! By focusing on the 5 building blocks of Health, Autonomy, Purpose, Progression and Your connections, we have developed both our business growth and our ethos of 'Work Happy'. Through team coaching, 1:1 coaching, support with KPI and objective setting and ensuring that our employment legalities are in order, Law 365 is really helping us.

Alex Graves

CEO and Founder at Silicon Reef

They say you can't have a world-class business without world-class employees, and the competition in the marketplace for the best employees has never been so fierce.

The global pandemic initially caused businesses to press pause on their recruitment plans in 2020, and since then new variants of COVID-19, and the inevitable restrictions that initially came with them, caused a swell of pent-up demand among companies looking to recruit. The financial services company, Prudential, conducted a study early in the pandemic that found, "one quarter of workers plan on looking for a new job when the threat of the pandemic decreases, signalling a looming 'war for talent.'"

They weren't wrong!

As we did last year, our Microsoft Partner research this time around has a significant qualitative element to it in the shape of a series of lengthy one-to-one interviews with all of the participating CEOs. It was in these discussions that the issue of recruitment and the 'war for talent' really came to the fore.

> *"We have struggled to hire as fast as we need to. It's been knackering. We have had to hire when we haven't met people. Five or six who joined, some left as they didn't make through probation. It's all part of the challenges of hiring under pressure."*
>
> *"We are all fighting for a few good people."*
>
> *"People supply is a problem, the availability of skills and resources. Brexit and pandemic have really hindered supply."*
>
> *"We have a plan of what's coming up and may hire on spec. We won't pass on good people."*

Tech Boom - A double-edged sword

As discussed in the previous chapter, Microsoft Partners, and the UK tech sector as whole, have not only shown incredible resilience to the pandemic and Brexit, but they've actually seen an incredible boom in recent years, with the sector growing at 2.6 times faster than the rate of the UK economy (TechNation). In fact, the UK tech sector is currently valued at over $1 trillion, a valuation that only China and the US have achieved. And with higher valuations and more investment come more jobs.

The Office for National Statistics (ONS) showed recently that job vacancies hit a new record of 1,318,000 in the period from December 2021 to February 2022, with half of all industry sectors showing record highs.

> *"We have a weekly meeting on hiring and last year I had 6-8 vacancies permanently. Now we have 11 open vacancies."*

A City A.M. report in December 2021 shone a light on the UK tech sector in particular with some very interesting findings:

Overall increase in jobs

> There has been a 50% rise in overall UK tech job vacancies advertised in 2021 compared to 2020's figures, with advertised tech vacancies reaching 160,887 in November.

Most tech jobs in London and South-East

Tech vacancies made up 12% of all available jobs in the UK, with just over 50% of these jobs available outside of London and the South East.

Everyone wants software developers

Software developers are still the most in-demand tech job across the UK. These positions make up 9% of all tech jobs with prospective developers being offered an average salary of £64,318, a 12% increase on 2020's figures.

Tech specialists come at a high price

Specialist staff such as java developers and IT systems architects continue to be able to command high salaries with the average advertised salary for these roles being £80,076 and £93,004 respectively.

Tech sets the standard for flexible working

The UK tech industry continues to lead the way when it comes to hiring practices since technical jobs are well positioned to be carried out remotely.

Remote working opens the recruitment playing field

21% of all job adverts in the IT sector are advertised as remote roles. This is also contributing to the spread of the UK tech ecosystem beyond London as businesses can hire across the country and find the staff that they need, regardless of location.

Top 5 recruitment challenges in 2022

1. Getting staff on board takes time

The lead times for finding candidates were really affecting many of the companies surveyed. But even if they could find suitable people willing to change jobs, their notice period often made a bad situation worse.

> *"In the UK everyone is on 3 months' notice. You have to wait a long time for talent to come on board, it is taking much longer than it used to."*
>
> *"Recruitment time really varies. We are seeing more of people on 3 month notice periods. Often 4-5 months on average. The longer notice periods that new hires have to work is the biggest factor."*
>
> *"We hired an internal recruiter to speed up the hiring process."*

With this in mind many of the CEOs we spoke had decided that, instead of hiring for specific vacancies or projects, speculative hiring was the way to go to lessen the pain.

> *"We are hiring speculatively. Partly as it takes so long to get someone in the business by the time, they have to work notice. Partly as there is so much going on with customers, we are likely to need the resource."*
>
> *"We used to recruit just when roles have become available i.e. as we've needed, but it is now speculative."*
>
> *"We are hiring 11 people this quarter; we are only 30 people so it's a lot. We might hire speculatively."*

2. The skills shortage is here to stay

The UK's tech economy currently employs around 3 million people and it's anticipated that the job surplus in the sector is set to continue for the foreseeable future. The Department for Culture Media and Sport published research last year that found "the UK tech sector is on track to add a further £190bn in value to the economy and create nearly 700,000 jobs over the next three years." Realising that this skills shortage could be here to stay, several Microsoft Partners in our cohort were looking to change the way they had traditionally recruited in the past.

> *"We are switching to an always-on recruiting strategy. I don't think any business can recruit on an as-needed basis. You have to be always recruiting."*
>
> *"We are headhunting. Sponsoring visas is something we have just started. We hired an internal recruiter earlier this year which has had a massive impact."*
>
> *"We have so much defined headcount, so we are always hiring. We have in-house recruitment now."*

3. Time to nurture existing staff

With top talent hard to find, employers are focused on keeping their existing team motivated and happy. Many had sought to bring the search in-house and develop talent internally.

> *"We have been good at attracting talent at graduate level."*
>
> *"We are trying to fill junior developer roles. We like to develop our people."*

> *"Recruitment has been really tough. We are employing different strategies like going to juniors and mids to get the talent in. Even developing our own staff.*
>
> *"Trying all kinds of recruitment - interns, juniors – even developing more of our own people. This is a longer-term strategy."*

Given the sizable recruitment costs associated with hiring in the marketplace today, not only does this strategy have direct and positive impact to profitability, it also shows employees that you champion talent mobility and are willing to invest in people and their careers. This has shown to be a key driver in employee retention and lower attrition rates.

4. Location, location, location

In the past, geography had been a sizable recruiting obstacle for many Microsoft Partners, with many opting to cast their net locally. However the events of the last two years have forced people to rethink this stance and in some cases scrap it all together.

> *"We hired a woman in Belfast and others in Preston, Leeds. We are now asking ourselves the question, 'If we can successfully onboard all over the UK, why not in Asia?'"*
>
> *"We hire where we need people and where the best people are. We've had difficulty managing people too far away but are working on that."*
>
> *"We are now looking at offshoring."*
>
> *"50% of our staff are now non-Northeast-based. So yes, we've changed our outlook on geography and hiring."*

> *"We look further afield geographically. Two full time contractors are based in Sri Lanka, and that works well. Another personworks from Spain and UK depending on what works for them."*
>
> *"Absolutely. We now hire across the UK."*
>
> *"We have felt quite limited being based where we are. We used lockdown to hire a bit further afield."*

With such a skill shortage affecting all tech companies, the competition for the best people was, and still is, huge. Although remote working has opened the talent market for many Microsoft Partners, a few of the leaders we interviewed felt that it wasn't a level playing field.

> *"It's difficult to compete when London firms are offering London salaries to a Norwich-based individual, for example."*
>
> *"We have had a lot of competition with London-based IT companies. Geordie shoring! They can pay them less but have the kudos of London-base."*

While Microsoft Partners outside of London struggled to match the renumeration of those based in the capital, it wasn't plain sailing either for London tech businesses. A CNBC article in August last year highlighted that "technology firms in London are finding it increasingly difficult to recruit tech workers as Silicon Valley tech giants scale up their operations in the U.K. capital."

The key players have all been actively increasing their footprint:

> **"Alphabet, Google's parent, in the process of building a vast complex in King's Cross with enough room for up to 7,000 Google employees and around 1,000 DeepMind staff.**

A few miles away, Apple is planning to move 1,400 staff into a new Apple Campus at Battersea Power Station. While the builds have been held up by coronavirus lockdowns, they're still going ahead. Elsewhere, Facebook and Amazon have recently opened big multi-story offices in London."

5. The battle for top tech talent

It was clear during our conversations with the senior leaders in the group that good tech people were the ones most in demand, but it was also interesting to hear about the other roles that people were urgently trying to fill.

"We are recruiting primarily tech and project consultancy roles. Level 3-4 tech. Someone with the breadth of experience, and more legacy tech like Citrix where clients in healthcare sector have a significant investment and requirement for it."

"High qualified financial people who can work with Private Equity. The reporting requirements are really complex."

"We had 2 developer roles. One client services director and one practice lead."

"We are mostly hiring for tech roles."

"Mostly in consulting, Azure. We are getting the people, but we are having to headhunt them."

"We are trying to build sales capability."

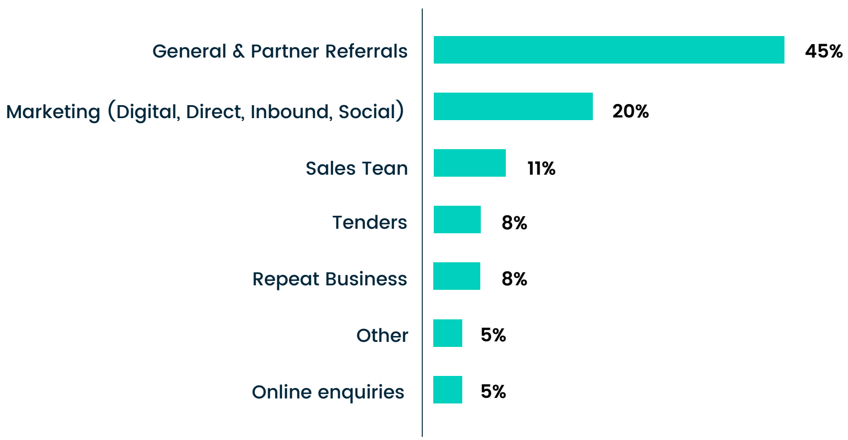
"We hired in sales and marketing, managed services, we also hired and strengthened leadership team."

Many in the group were keen to invest more in sales and marketing.

> *"Sales is the main place we are hiring at the moment. They all demand really high basic. Do you hire inside or outside the industry? In sales we have a really long sales cycle, so it's hard to then also map a new sales starter and how productive they are."*
>
> *"We are hiring across the board. We are investing in sales and marketing."*
>
> *"We're currently hiring field salespeople. Trying to build a toe hold."*

The comments focusing on hiring new sales and marketing staff were interesting when put next to the quantitative data on how Microsoft Partners win new business. Even though our results showed that 'sales team' and 'marketing' combined accounted for 31% of the responses (individually the second and third most popular in the survey) when we asked the group, 'What are your top ways to win new business?', the overwhelming winner was still 'general and partner referrals' which covered 45% of all responses. This was in line with last year's results where referrals came top again with 42% of the vote.

Top Ways to Win New Business



The recruitment landscape however wasn't as bleak for some. Several of the CEOs interviewed reported that their recruitment strategy had been very successful and they had managed to make some key hires.

> *"We are recruiting a lot. We have hired 30 people in last two years."*
>
> *"Where we have really wanted someone, we have got them."*

The outlook for how Microsoft Partners hire, retain and engage staff looks complex. However several key themes have emerged such as workplace flexibility, wage inflation, diversity, equality and inclusion, and culture are areas that can no longer be ignored.

Case Study

Infinity Group is a highly successful Dynamics and Managed Services Partner, serving small and mid-market clients. They already had a good culture but they wanted to be the best. They'd started working on their three year growth plan and knew that people were key to their success. Infinity really embraced the concept of **HAPPY 365** and asked us to help them to embed it into their culture. So we set to work!

What are your values?

Starting at the top is key to role modelling the change you want to see in your business. So we started with the senior leadership team, helping them to identify and define their set of core values. If you want to be a purpose-led organisation, you need to be clear why you do what you do and what drives you to do it in the way you do it.

How can you embed your values in your culture?

It's all very well having values but if you don't put them into action, they are meaningless. We asked the leaders to answer, "What would an ideal person living the company values be thinking and feeling and how would they behave?" Importantly, what behaviours would you not want to see? The senior leaders are now having these conversations with their individual teams – asking them to share their own stories around what the values mean to them and building a sense of excitement and ownership of their workplace culture.

Great leadership starts with self-awareness

Following the successful team session, all the senior leaders dedicated time in their diaries to invest in their personal development through one-to-one coaching. Taking time to grow into a more mindful and conscious leader can feel like a luxury for any busy person but the results show that it helps them to nurture happy teams and prepares them to move forward through the sticky times. We all know that ineffective leadership can be toxic, fortunately the long term benefits of great leadership also has a ripple effect on the overall culture and performance.

Our Employment team is now playing the vital role of capturing Infinity's values in all paperwork, so they become part of the fabric of the way they treat employees and work with others:

- We wanted to understand more about what was important to Infinity, so we started with some collaborative meetings to define the priorities for their people policies and the contract of employment. We listened, we clarified, and we joined forces to come up with a plan. We love it when a plan comes together!
- We also "ran a diagnostic" on their current set of policies, the handbook and contract of employment to resolve any gaps and issues.
- Next steps are likely to include working our magic with a brand new "easy-to-read" contract of employment (a visually fun design with graphics and photos) and helping to revamp their staff handbook. We want to introduce fresh and friendly new employment policies with a keen eye to embed Infinity's culture and values in each one.

Infinity Group is already impressed with the transformation it's seeing and the improvements it's making. Rob Young, Infinity CEO, is set on building a great place for people to work so the company can scale rapidly.

4

Employee Retention & Attrition

“We were looking for a modern and innovative legal firm with a deep understanding of the complexities of the technology world. The on-boarding process was very efficient and incredibly fast, with a series of agreed tasks and activities underway within a few days. Law 365’s commercial models were flexible and fitted our requirements perfectly.”

Scott Dodds,

CEO at Ultima Business Solutions

The global pandemic forced businesses to change in so many areas. But as we emerge from the other side of two of the most challenging years in recent memory, it is becoming evident that one key consequence of the pandemic is the shift in focus for many companies to think more about retaining talent, not just attracting it.

Why waste thousands on recruiting fees and lost productivity when you can keep your employees happy, productive, engaged and progressing in a job they love? It's good for both your employees and your business.

There is now more emphasis on employee retention and wellbeing than there ever has been. A recent Forbes article summed it up perfectly, "The companies that prioritize their employees and do everything in their power to make them happy and motivated will be the winners in this new upcoming era."

The Great Resignation of 2022

This lack of focus by most industries on their employees and how to retain them is partly responsible for the advent of what has been called 'The Great Resignation' and the 'War for Talent' that we're experiencing now. There has been much written about it in the last year, but what's clear is that a huge skills shortage across sectors has triggered a shift in power from employers over to employees, with staff much more confident in their job prospects. With this new-found confidence come demands for higher pay, flexible working and other benefits. Many of the Microsoft Partners we spoke to attribute this to the higher than normal attrition rate last year.

> *"The bit I am most concerned about is attrition. We've gone from 0% attrition to 10% in past 6 months. There is no one reason, it just feels like 2 years of attrition in one hit."*
>
> *"We found a few people came out of the pandemic who didn't want to work in the way we do. A few people were offered way more than we would, so they left."*
>
> *"We had a challenge last year not adjusting fast enough to the salary increase in technical roles. We didn't see a mass exodus but some attrition."*
>
> *"We have seen significant attrition. Some we have been happy to see go."*

Staff turnover rates in the tech sector are the highest across all industries (LinkedIn) at 13.2%, with, "frequent job changes now the norm within the tech industry." A survey by IT Pro Portal also found "32.5% of people have changed their job within less than a year, with only 18.3% of respondents being in the same position for more than four years. Staff retention is now becoming the tech industry's biggest issue."

No wonder then most Microsoft Partners in our research had made retaining their top talent a priority and had focused a significant amount of time in understanding their employees and their needs.

> *"We did a lot of benchmarking internally. People want to come in less, but they want it to be social time. Those who haven't come into the office at all have not been properly integrated in the culture, and that is where the churn has been. How to engage the difficult to engage people?"*
>
> *"We are being responsive to people's ideas and around flexibility about where they work."*
>
> *"We are investing in training and rewards linked to people achieving accreditation. With people getting to develop in the areas they want, not just what we need from them."*

Employers responsive to employee demands

According to LinkedIn, 'many studies show that the total cost of losing an employee can range from tens of thousands to 1.5-2X their annual salary," when you take into account the cost of hiring a replacement, lost productivity, training costs, errors by a new employee, loss of employee engagement. So the real world impact is substantial and immediate.

So how have companies tried to address the issue? Many tech firms have been at the forefront of experimenting with new types of employee benefits and addressing work-life balance. Netflix introduced their unlimited holiday allowance policy several years ago, while Facebook now offers "four months paid leave for parents, childcare and adoption fee reimbursement, plus $4,000 cash to help pay for new arrivals." Even traditionally 'old school' industries such as investment banking have started to usher in newer working practices aimed at giving employees a healthier work-life balance, with Citigroup CEO, Jane Fraser, banning internal video calls on Fridays for all 210,000 employees.

It was great to see some of the Microsoft Partners in the cohort following this lead and taking a creative approach to the problem.

> *"There are a lot of people who come to the office to just catch up with people. We are experimenting with a 9-day fortnight."*
>
> *"We are putting in place a profit-share. It may end up being an EMI scheme,giving people an advance on the expected dividends. We are reviewing our salary bands to give real clarity so that employees are clear what they need to do."*
>
> *"We cut to 4.5 days a week, then we cut to 4 days, with no impact on salaries for staff. Their mental wellbeing has been so positively impacted."*

> *"We improved our benefits, such as holiday allowance. Reviewed our parental leave policy. L&D policies. Need to leverage what is good about working in a company like ours – innovative tech, a smallish team --we have to play to our strengths, being fast growing creates career opportunities."*

Others in the group felt that when it came to retention, money talks!

> *"Has definitely been about money."*
>
> *"We have always had a utilisation bonus. OTE always aligned to achieving 14 days a month, and then every additional day, getting £X/day. That has caused problems where people don't have guaranteed top earning. We have reduced our incentive but increased the base pay, which people seem happier with."*
>
> *"We have been proactive and given cost of living increases to some staff."*
>
> *"We put out some polls on OfficeVibe and asked people what they valued and what they didn't. They mainly they just wanted the money!"*
>
> *"People just want more money not the benefits."*

Flexible working is a top requirement

A 2020 Achievers report found that the "top reasons employees are looking, or would consider leaving their company" were:

- To increase their compensation (52%)
- An opportunity for career advancement (43%)
- Lack of recognition in their current role (19%)

Flexibility around how employees work has been a key battle in the 'war on talent'. Whether that be flexibility around hours or in working location, if companies don't embrace flexibility today they stand very little chance of hiring the best people.

> *"Flexibility of work environment is key. People are happy to come back in, to a degree. Across tech teams, no-one wants to be back in on a 4/5 day a week basis. This is even more important to people with the fuel costs going through the roof."*
>
> *"Candidates are selecting businesses where they can work from home. It's an interesting paradox."*
>
> *"From November, we introduced a flexible working guiding principle (not a policy). Companies feel the need for a form of control, i.e. say 1 day a week. We stated what was important to us. And then left it for employees to determine how they work within that."*

It was inspiring to see that so many in the group we spoke to cared deeply about the culture they were creating and wanted to ensure their staff genuinely wanted to be part of that business culture.

> *"We have two main aims – 1. To be the employer we never had and 2. To have the client-side experience to empathise with clients. We wanted HR people who were interested in talent management. We talk about ourselves as a football team – enabling them to succeed and be rewarded. Everything is built around that."*
>
> *"We have two full time headcount on people and culture. We have done a lot of work on the people side of things."*
>
> *"It's a combination of lots of different things. There is no silver bullet. One of my first hires was a Head of People. Since then, we have made our culture more visible. We are deliberately paying attention to it."*

> *We have done a massive chunk of work internally around our employee value proposition. We have gone to town on the employee experience...Introduced 10% matched pension contribution, 10% innovation, 10% training budget (of their salaries). If we treat people well and show we want them and to invest in them, money is less of an issue."*
>
> *"We've done a lot on culture and making it a great place to work."*

It was also encouraging to hear that this proactive and considered approach to their people strategy had yielded positive results and enabled them to avoid the 'Great Resignation'.

> *"Our attrition rate is really low. Probably 5%. We have a bit of a revolutionary culture. I personally know the value of reducing stress, I have always had the desire to change the culture."*
>
> *"We have tried to head it off [attrition] by being really good to people during the pandemic. Officevibe scores have been really high. We offered everyone an electric car. Anything green, e.g., family train fees are reclaimable."*
>
> *"Attrition is not affecting us. We haven't lost anyone in last 12 months."*
>
> *"With our culture we have managed to retain and prevent people from going."*

There were also anecdotal examples of employees leaving but realising they liked what they had.

> *"One of the people who left, came back. The grass isn't always greener. With the big bucks comes the big expectations and he didn't like it. Everyone is after these amazing people who can do it all. We like to think we can offer a good supportive environment."*

Law 365 offers clients a new service to help them retain and attract staff

To improve employee retention within your company requires a shift in thinking. Businesses for too long have had an outdated view that employees are happy to work a Monday to Friday, 9 to 5 job that offers a reasonable salary. This may have been the case at some point but is no longer applicable for the new generation of employees coming through the ranks in 2022 and beyond.

We know from our research into the science of happiness that in order to build a thriving organisation with happy, motivated people you need to consider these five pillars to happiness:

HEALTH	Healthy organisations are built on resilient happy people and a culture that champions wellbeing and optimism.
AUTONOMY	People need to have control over their destiny which means they need to be clear on how, where and when they work and with what rewards.
PURPOSE	People who understand what their purpose is both at work and in life are more driven and motivated. Being part of something bigger than yourself is fundamental to creating a thriving workplace.
PROGRESS	People need to have clear career path ways and objectives in order to progress, learn and grow.
YOUR CONNECTIONS	Creating a culture of positive connections which encourages people to bring their whole selves to work, where trust is high and fun is had, is fundamental to a happy workplace.

Our new client offering, **HAPPY 365**, gives clients the best of our legal employment services and performance coaching. It provides a clear and practical framework to help you figure out which elements in your business need your attention, and in which order, whether this be developing your teams with performance coaching or embedding your work culture in all your employment contracts and policies.

5

Diversity & Inclusion

Law 365 are part of our growth success. Not only do they help us close deals, they also help to ensure our people policies and processes match with the employee experience we want.

Peter Sweetbaum,
Group CEO, Content+Cloud

In recent years the topics of Diversity & Inclusion (D&I) have moved higher and higher up the corporate agenda, but what businesses say and what they do have historically not always been aligned in this space. What is the state of D&I in 2022 within Microsoft Partners and the tech industry in general?

The Equality Act protects people against discrimination on the grounds of 9 protected characteristics.

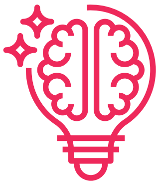
- Age
- Disability
- Gender reassignment
- Marriage and civil partnership
- Pregnancy and maternity
- Race
- Religion or belief
- Sex
- Sexual orientation

Though the law is clear in the case of discrimination, D&I is a much broader topic. Employers want their staff to feel welcomed and part of the team – so they need to go far beyond protecting them from discrimination to do that.

5 ways businesses benefit from diversity and inclusion

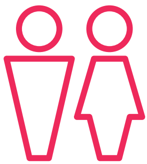
Improving diversity and inclusion in the workplace doesn't just benefit employees, often the multitude of benefits they bring to a business itself are overlooked.

This by itself would be worthy of a separate blog, however some of the key points include:



1. Greater creativity and innovation

Companies with more diverse leadership teams have 19% higher revenues due to innovation
(Boston Consulting Group)



2. Improves group performance and thinking

With regards to decision making processes, teams with greater gender diversity outperform individuals 73% of the time, compared to 58% for all-male teams
(University of North Carolina Pembroke).

3. Increased employee retention and engagement

Research from workplace culture experts, 'Great Place To Work' shows that when "employees trust that they and their colleagues will be treated fairly regardless of race, gender, sexual orientation or age" they are:

- 9.8 times more likely to look forward to going to work
- 6.3 times more likely to have pride in their work
- 5.4 times more likely to want to stay a long time at their company

4. Gives your business a better understanding of your customers

The annual disposable income of disabled people in the UK totals £249 billion (wearepurple.org.uk), this number tops £1 trillion globally across 1.3 billion people. Companies who have disabled employees are theoretically better placed to have an understanding of what products and services disabled people want.

5. Improves profitability

Management consultants McKinsey & Co published a six-year study in 2020 that showed "diverse companies are 36% more profitable than less diverse companies".

So we know that diversity in the workforce can generate huge benefits, and that making the workplace inclusive to all types of people leads to happy staff who feel safe, respected, listened to and ultimately leads to them being engaged and more productive. So why are many companies not doing more?

For smaller companies part of the issue can be in not knowing how or where to start. The most important thing is to understand the fundamental difference between 'diversity' and 'inclusion'. As Verna Myers, author and VP of Inclusion Strategy at Netflix, says:

> **"Diversity is being invited to the party; inclusion is being asked to dance," Verna Myers**

Is diversity success in the eye of the beholder?

Throughout conversations with the senior leaders, it became apparent that there was a distinct split into two groups.

Those that felt they had a relatively diverse workforce.

> ***"We are 34% female, with 20 nationalities across 120 staff."***
>
> ***"We did a survey recently – 41% are female. 26% BAME – which is way above the demographic for our region. We have a young workforce."***
>
> ***"3 of 7 leadership team of female. We are now 50/50 gender equal across the business."***

> *"We have diversity on the leadership team, 3 of us are immigrants."*
>
> *"Our service desk is very racially diverse."*

And those that felt they didn't.

> *"We aren't very diverse – only 2 of 22 are women."*
>
> *"Our gender profile = 25% female, 69% male, 6% non-specified."*
>
> *"Gender split is 85% male / 15% female."*
>
> *"We do struggle as we do have a lot of white middle-aged males. The finance and marketing departments are all women, which is fairly typical. No women in any of the tech roles though."*

So how are Microsoft Partners doing?

The range of characteristics protected by the Equality Act is broad and conversations with the Microsoft Partners interviewed did not include them all. These are the topics that came up repeatedly among the cohort.

- Gender
- Race
- LGBTQ+
- Age, Faith & Neurodiversity

Gender

For all genders - Diversity needs to start at school

It's no secret though that the tech industry has a problem with gender diversity and that women are still the minority by a wide margin. A 2018 **Tech Nation** article showed that only 19% of the UK tech industry workforce is female, and this was something that was apparent to almost every single Microsoft Partner CEO we spoke to:

> *"Diversity & Inclusion is definitely an important part of who we are. Certainly, for tech roles it is hard to fill them with women."*
>
> *"We are 80% technical, and so don't see a lot of women! I did hire 3 women who are in tech roles. They were the only 3 I've seen in a long time."*
>
> *"We are proactively trying to recruit more women."*
>
> *"We talk about it – I have an ambition to be as equal opportunity as possible. Finding female developers is hard. We have two."*

Why aren't more women applying for tech roles or choosing careers in tech?

For many the answer lies simply in the fact that far less women choose Science, Technology, Engineering and Mathematics (STEM) related courses at all educational levels. For example in 2020, "the number of girls choosing to study computer science GCSE was 16,919 – just over 21.4% of total entrants – compared with 61,540 boys" (The Guardian). In addition, research by the University of Roehampton and the Royal Society found that only 10% of A-Level Computer Science candidates were girls.

This gender imbalance continues in to higher education, with the percentage of female graduates in key technology related university courses continually low in recent years ("Women in STEM Jobs, Events & Hiring"| STEM Women)

UK Female University Graduates	
Engineering and technology	Computer science
2015/16 – 4,480 – 15%	2015/16 – 2,925 – 16%
2016/17 – 4,700 – 15%	2016/17 – 3,020 – 15%
2017/18 – 5,050 – 15%	2017/18 – 3,220 – 15%
2018/19 – 5,375 – 16%	2018/19 – 3,490 – 16%

All of this has in turn has lead to a much smaller pool of women (relative to men) starting a career in tech for employers to hire from. The shortage of female candidates is one of the biggest challenges for employers who are keen to promote gender diversity.

For all genders - Diversity needs to start at school

Facing this perpetual hurdle in attracting more women into the sector, the Microsoft Partners in our group had been forced to come up with new solutions to address the problem.

> *"We don't mandate a degree in computer science. We want people who love tech. We have quite a mix of people."*

> *"We are always trying to get more female technical staff. The recruitment engine has looked into specialist mechanisms. We are short of developers and half the population are female so how could we entice women into this? Maybe we should be less fanatical about people having computer science degrees in their background."*
>
> *"We are being more open when advertising roles, i.e., not mandating degrees."*

Whether companies are purposeful in thinking about and improving D&I in the workplace or not, it is clear that for today's existing employees and job candidates it's a factor that is at the front of their mind when thinking about their career. In a **Glassdoor** survey of job seekers, "76% report that a diverse workforce is an important factor when evaluating companies and job offers."

Trialling more inclusive practices

Microsoft Partners are actively working to remove bias from their recruitment processes by adopting more inclusive practices. Many are using skills-based assessments in place of face-to-face interviews to remove bias related to gender, age and race. In fact 57% of employers say they have updated their recruitment strategies to build a more diverse workforce (**"90 Key Recruiting Statistics for Hiring Managers in 2022" | Shortlister**).

> *"We try to write job descriptions that appeal more to women."*
>
> *"We had a people manager who was very keen on Diversity and Inclusion. We screen C.V.'s with no ID's on them."*

> *"We make job roles to be more inclusive."*
>
> *"We specifically say we want to have people approach us and not rule themselves out because they find something in a job description that puts them off."*
>
> *"Our recruiter is great – she creates a culture which promotes diversity."*

A few of the leaders commented that they often hire friends and close colleagues within their network which they felt did not help improve diversity within their workforce.

> *"We do hire a lot of people we know, i.e., friends of friends so that isn't helping drive diversity"*
>
> *"One issue is that when we use our 'little black book' of contacts when hiring, they tend to be middle age white guys, like us."*

Several of the members of the cohort had actively sought to hire people from disadvantaged backgrounds in an effort to increase diversity.

> *"We work with a recruitment agent for people from disadvantaged backgrounds, then train them up."*
>
> *"We do apprenticeships to get people in from less privileged backgrounds."*
>
> *"We have been using the government Kickstart programme. Candidates have to have been on benefits. Young people (under 25) who've been on universal credit for 6 months."*
>
> *"We are working with a charity to recruit people from disadvantaged backgrounds."*
>
> *"We took advantage of the government Kickstart scheme, which has been good."*

Using employee benefits to reach new candidates

When trying to address the gender imbalance, a **Women in Tech** survey showed that incorporating "specific benefits aimed at women are vital in making women to want to apply for a role...just under 50% of women said benefits such as flexibility, working from home, opportunities to grow, training and salary were most important to them when deciding whether to apply for a job." Several of the companies we spoke to had sought to increase parental leave..

> *"Increased parental leave is a key part of that conversation. With gender inequality, the main issue is around parental leave"*

LGBTQ+

Although there was significant attention around the lack of women in tech, it was a little surprising to find there wasn't more feedback regarding LGBTQ+ employees. Although the tech sector has in general continued to make strides in supporting the LGBTQ+ community, there is still plenty of work to do.

> *"Gender pronouns, some of our people wanted everyone to have this on emails – we said they need to think more creatively about how to address people not feeling comfortable."*

The Institute of Engineering and Technology **(www.theiet.org)** reported that 33% of LGBTQ+ people avoid careers in science, technology and engineering due to worries of discrimination and bullying.

Five steps Microsoft Partners can take to help LGBTQ+ employees and attract more candidates to open roles.

1. Update your staff handbook and add inclusive policies

Policies are the constitution of a company. They contain the core rules, values and rights of the team. It is a good idea to audit your policies to make sure they reflect your company's stance on D&I. This is an opportunity to set out your desire to make the LGBTQ+ feel welcome and included.

2. Training

Training can be the most effective way to promote and educate on LGBTQ+ issues. From educating new starters to teaching managers that they should encourage their teams to speak up about any problems that might be affecting LGBTQ+ staff.

3. Volunteering

Providing staff with time off to volunteer with LGBTQ+ charities has multiple benefits -- from giving them a greater understanding of LGBTQ+ issues to helping these charities benefit from the skill set your staff can offer them.

4. Fly the Rainbow Flag

Promoting LGBTQ+ initiatives through events, marketing and social media helps strengthen the message and your company's commitment to championing diversity, equality and inclusion.

5. Introduce new policies

An Equality, Diversity & Inclusion policy is not only fundamental for fighting prejudice towards LGBTQ+ in the workplace but fighting sexism and racism too. If you haven't got this policy already, it's a great place to start.

Race & ethnicity

There was also limited feedback on the topics of race and ethnic diversity during the interviews. Several leaders pointed out that they felt their business was already fairly diverse in this area, but that it had happened naturally rather than through a proactive change in policies and procedures.

> *"We are very diverse in ethnicity. That tends to happen in I.T."*
>
> *"We did a survey recently.... 26% [of staff are] BAME – which is way above the demographic for our region."*

And while the percentage of UK digital tech workers from Black, Asian, and minority ethnic (BAME) backgrounds slightly exceeds the national average (15% for UK tech versus 13% for UK workforce in general) there is still more that needs to be done to redress the imbalance.

Some of the biggest tech companies in the world have made great strides in addressing the issue, with many of them taking much more purposeful approaches such as setting up internal diversity task forces and setting hard targets to increase diversity within their businesses.

The website **Tech Monitor** analysed company filings for 30 of the biggest tech companies to understand how ethnically diverse the global sector currently is. As you can see from the table below, Qualcomm leads the way with 68% of all employees from minority ethnic backgrounds, with Microsoft at 48%.

Company	% of employees from minority ethinic groups
Qualcomm	68%
Verizon	60%
Meta	57%
Intel	54%
Equinix	53%
Nvidia	53%
Alphabet	52%
Apple	52%
Fortinet	52%
Microsoft	48%

Age, Faith & Neurodiversity

It was clear that for many of the CEO's we spoke to, addressing other areas such diversity in age, ensuring inclusive policies and practices for people of different faiths, and enabling neurodiversity were important to them.

> *"We are very mature when it comes to mental health and neurodiversity. We work very hard to be inclusive."*
>
> *"We have a lot of different faiths in the company. We did a multi-faith knowledge share. We recognised we would celebrate Christian holidays, so we now celebrate others too."*
>
> *"We think about age, neurodiversity, all of these things are very important for us to understand."*
>
> *"We don't think about neurodiversity, perhaps we should."*

According to **The Brain Charity**, "at least 20% of the adult population in the UK may be diagnosed with neurological conditions including autism spectrum disorders, dyslexia and attention deficit hyperactivity disorder (ADHD)."

Creating an inclusive workplace with a diverse workforce encourages greater creativity, innovation and fresh ideas.

Diversity is a high priority for some, but not all

It was also interesting to see a split amongst the group in terms of those who:

1. Described D&I as a significant focus
2. Those who said that were not doing anything proactively but it was very much on their agenda
3. And finally, those that were not doing anything deliberate and weren't looking to implement any changes at the moment.

Group 1 - Those who prioritised diversity saw positive change

For those who had D&I high on their agenda, it was impressive to hear some of the progress they'd made.

> *"It is big, we have a D&I group. We have done a lot about creating a menopause policy, an IVF policy, bereavement policy. Stuff which was previously done case by case."*
>
> *"We've done quite a lot around this, implemented a new system that will capture people's self-characterisation around how they define themselves. We have done a lot around inclusion. We also did a big event for everyone to try to understand how people feel about their experience."*
>
> *"We are doing a couple of events this year around women in tech and a broader Equality, Diversity and Inclusion theme."*

> *"I am a visa sponsor, and you can get some of the most talented students on work experience while they are studying at university and almost all will be BAME, so that's a great way of getting culturally diverse talent in."*
>
> *"We were painfully aware that we were very white and middle-aged. We want to address it but in the right way. Positive discrimination is not the answer. We now have a more ecologically sustainable, more appealing brand in terms of less masculine. We tackled it at a brand level."*

Microsoft sets a good example

Microsoft themselves have continued to lead from the front in addressing D&I issues in the workplace. As their 2020 Diversity and Inclusion report noted:

> "...all racial and ethnic minority employees in the U.S. combined earn $1.006 for every $1.000 earned by their white counterparts, that women in the U.S. earn $1.001 for every $1.000 earned by their counterparts in the U.S. who are men, and women in the U.S. plus our ten other largest employee geographies (Australia, Canada, China, France, Germany, India, Ireland, Israel, Japan, and United Kingdom) combined earn $1.000 for every $1.000 by men in these countries. Our intended result is a global performance and development approach that fosters our culture, and competitive compensation that ensures equitable pay by role while supporting pay for performance."

Promoting diversity in the Company Values

Within the group of Microsoft Partners that had sought to make D&I a priority, some had gone a step further and linked it to their own company values as a way to have it front of mind at all times.

> *"One of our 4 values is Embrace Diversity."*
>
> *"We talk about inclusivity a lot. One of our values is inclusivity. i.e., when organising social activities and asking ourselves is this inclusive? It comes from a belief in the whole leadership team."*
>
> *"D&I is now a big thing for our new Head of People. How much do we need to do? 3 of 7 leadership team of female. We are now 50/50 gender equal across the business. We do a gender pay audit every year. Have done for last 3 years. One of our values is open and honest."*

Group 2 - Still lots of scope for improvement

Several Microsoft Partners were clearly at the start of their journey in implementing change.

> *"We have a lot to do, but we are working on it."*
>
> *"It's something we look at as a leadership team. We look at what diversity we have. We don't have active policies in place but are looking at it."*
>
> *"No but we have started tracking diversity. We are measuring it which is new for us."*
>
> *"We don't do a lot deliberately. We encourage the reporting of any issues. We are working on coming up with a D&I policy."*

Some of the Microsoft Partners we interviewed had not done anything deliberate in this space but had developed diversity by virtue of being based in locations with diverse populations or were just content to let things happen organically.

> *"We are quite a diverse company being London based helps with this without any effort."*
>
> *"It's not something we discuss at leadership level. We have offices around the world and my leadership team is pretty diverse, so D&I is pretty organic. Doesn't feel useful to make it an agenda item."*
>
> *"Nothing deliberately. However, we have a remarkably diverse population. 80% of our developers are female. Ethnically diverse. It is a happy accident!"*

Group 3 – Diversity and Inclusion?

There was also a small group who did not feel compelled at this stage to make wholesale changes to their working practices.

> *"We don't really do anything deliberately on this. It hasn't become compelling enough."*
>
> *"We aren't looking to be diverse just for the sake of it. It won't add value."*
>
> *"We don't do anything deliberately. In the course of last few years, we have some diversity in sexuality, not in ethnicity. We aren't doing anything positive, but we don't do anything negative either."*

And they are not alone. A recent survey by Monster revealed that 30% of all UK companies don't have any form of D&I strategy in place.

Just having a group of different types of people is part of the journey, how you make that group work is the key. Jameel Rush, Vice President for Diversity, Equity, and Inclusion at The Philadelphia Inquirer and professor at Villanova University highlights why this is so important:

> **"Focus on first creating inclusion and THEN building diversity in the workplace. Many organizations' knee-jerk reaction to diversity and inclusion efforts is to hire for diversity. The problem is that you can hire for diversity, but it can still be a poor experience for the employee if they're entering a workplace that isn't inclusive. It isn't enough to set up occasional employee training and hire a few diverse employees as a way to check the box. So, before you hire, focus on creating an inclusive culture that's genuine and ongoing." Jameel Rush**

Diversity and Inclusion – Leading by example

For some of the Microsoft Partners we spoke to there was still a lack of diversity when it came to leadership roles.

> ***"A few people have commented that our leadership team is all white and all males. It has been easier lower down to recruit from a wider more diverse pool. We have a lot of women across the business, just not in leadership."***
>
> ***"The leadership team is all men."***

> *"1 out of the 4 on the leadership team is a woman."*
>
> *"We only have 1 woman out of 7 on the leadership team."*
>
> *"Our leadership team is all men."*

Real change starts at the top, and diversity in leadership roles will be the catalyst for a cascading effect across the rest of a company. It is key that leaders strive to create a workplace culture where employees believe they are respected and feel that they are being listened to.

It is also important to have a high performing and diverse leadership team to attract and retain the best talent in the market, as the next generation of leaders want to see people like themselves in these positions and relate to them.

Read Law 365's blogs for ways to make your workplace more inclusive:

5 ways companies can support the LGBTQ+ community

5 ways Microsoft Partners can support employees during the menopause

6

People & The Return to the Office

What a great company! I have worked with the team for 18 months now and their quality of work and "can do" attitude puts them right up there when it comes to partnerships in the IT industry.

Brian Dunleavy,
Commercial Director at Viadex

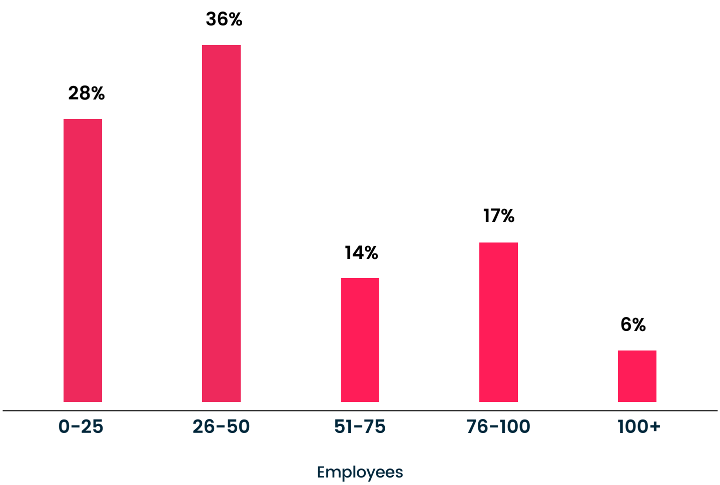
In this chapter we dig a little deeper into how Microsoft Partners and their employees have handled the much reported 'return to the office'.

People – Your greatest asset

But first, who makes up the workforce of the 50 companies we invited to take part?

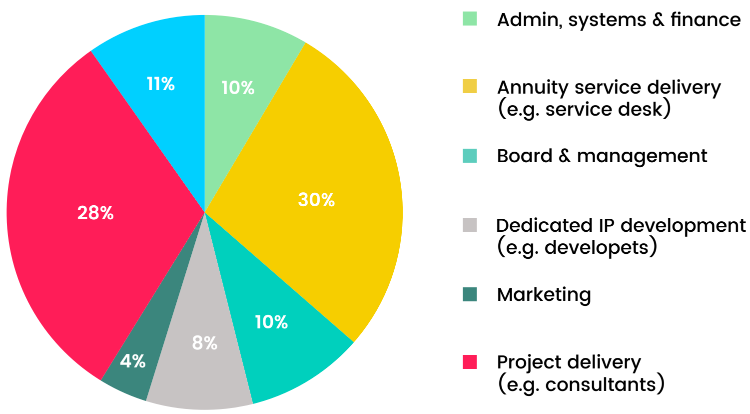
In line with last year's research, Microsoft Partners employing between 26-50 people were the most represented in this year, accounting for 36% of respondents, followed by 28% of the group who have a headcount of up to 25 employees. The largest companies in the survey with over 100 staff only accounted for only 6%.

Total Company Headcount



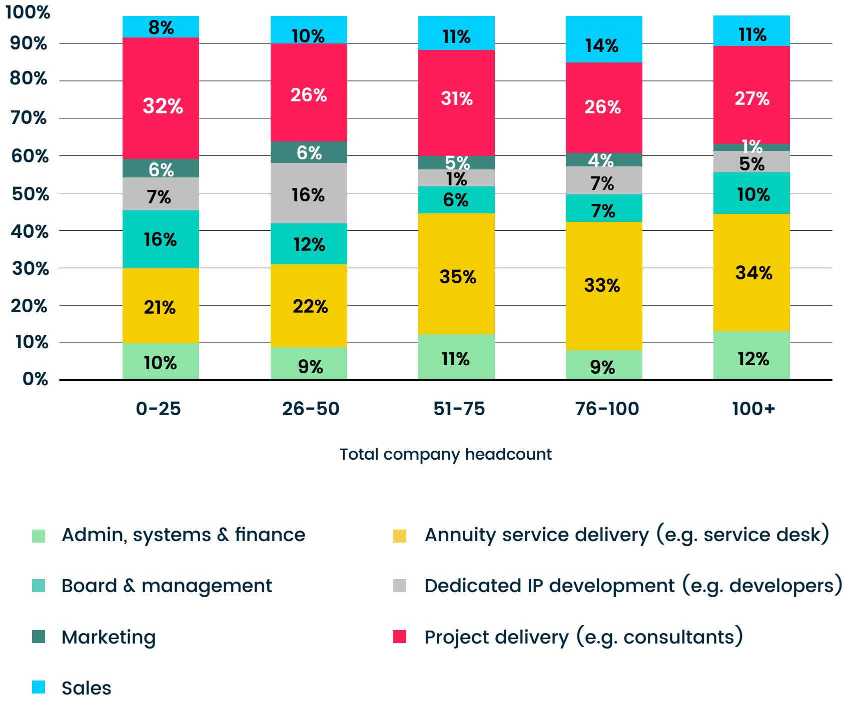
When looking at the average headcount split by department, there was once again little change from last years group. The biggest departments were 'annuity service delivery' with 30% (down from 35% last year) and 'project delivery' (e.g. consultants) who accounted for 28% on average (26% in 2021). This reflects the fact that a large proportion of the participating businesses were Managed Service Providers (MSP) or System Integrators (SI)/Professional Services Consultancies.

Average Headcount % Split by Department



When re-categorising these results based on the total company headcount buckets it was interesting to see how the different sized businesses weight their functions.

Average Headcount % Split by Department & Total Company Headcount



Sales, administration and project delivery departments were roughly in line with each other regardless of company size. There was a tilt towards a higher weighting in annuity service delivery teams for the larger organisations, with firms of 50+ employees allocating between 33-35% of their workforce here, this compares to just 21-22% for Microsoft Partner with less than 50 employees. It was expected that 'board & management' would account for a higher percentage of the workforce on average in the smaller participating companies versus the larger organisations.

The office: To return or not return… that is the question!

The pandemic forced a shift in working patterns that, for many Microsoft Partners and their employees, has continued long after government restrictions and guidelines ended. We were interested to hear the thoughts of the CEOs on how their businesses had handled the return to the office.

Due to the Government lockdown, **the number of people working from home rose dramatically during at the start of the pandemic, from 5.7% of workers in January 2020 to 43.1%** in April 2020). However it's the homeworking statistics and policies as we emerge from the other side of the pandemic that are really interesting as we consider whether office work will ever return to the way it was. Should you adopt a fully remote, hybrid working or fully back to the office approach? This was the question on everybody's mind.

Is fully remote the future?

Within our cohort there was a wide mix of responses when we discussed this topic in detail. A small percentage of the group either already had no physical office space or had fully adopted remote working practices prior to the pandemic. So for them it was almost 'business as usual'.

> *"We have been location agnostic for years, but everyone became this way during covid. We were never office grounded. We let people choose where they worked. We'll see more of people working out of client offices."*
>
> *"Nothing has changed. We have always been remote working."*

> *"In our staff survey some of our people are saying why do we have to come in at all."*
>
> *"We have actively decided we don't want people to return to the office."*

The percentage of U.K. workers who worked mainly from home in 2018 was 13.9% (**Statista**). However this number has shifted significantly since then. For workers earning £40,000 or more for example, 42% said they expect to work mainly from home going forward "with an additional 23% working exclusively from home" (FT/ONS).

Many employers are letting employees choose

Where we started to see a consensus amongst the Microsoft Partners we interviewed was around giving employees significant flexibility. Within this group some CEOs interviewed were happy to let employees decide where they would like to work:

> *"My approach has been activity-based,I've elected to empower people to choose on the most suitable location to do their work."*
>
> *"We haven't forced it on anyone. I don't see us coming back full-time. I think 2-3 days a week will be it."*
>
> *"2 to 3 days a week in the office is where we think we will get to. We will have a day as a Board where everyone is in the office. Think we will largely let people self-manage when they are in."*
>
> *"We have everyone in pretty much 5 days a week. We haven't said people have to be in. We have a lot of younger people and realised it was going to be really hard for them, so we've all come back in."*

> *"We did the whole 'work from home' thing. Our office is now open, and a number of people are going into the office on a voluntary basis."*
>
> *"I don't get the sense that people want to go back to commuting."*
>
> *"People are self-managing days in the office, however, we are extolling the virtues of coming in."*
>
> *"In our staff survey some of our people are saying, 'Why do we have to come in at all?'."*
>
> *"We anticipate 50/50. We like keeping an office. It's heaving at the moment."*

Others, on the other hand, had either rolled out an official hybrid working policy and mandated some level of attendance in the office, or were (at the very least) encouraging people to come in at some point during the week.

> *"Currently we are encouraging people to come in a couple of days a week. On certain days, the office is reserved for certain teams. We downsized the office so don't have a desk for everyone."*
>
> *"We have more people demanding hybrid working."*
>
> *"Mostly staff are still working from home, we have mandated a day a week in the office."*
>
> *"As soon as lockdown restrictions were limited, we encouraged people to come back. Mandated it. We've changed it since I arrived. From November, we introduced a flexible working guiding principle (not a policy). Companies feel the need for a form of control i.e. say 1 day a week. We stated what was important to us and then left it for employees to determine how they work within that."*
>
> *"We are asking senior team members to come in 2 days a week if they are local."*

> *"There have been very mixed reactions to us saying it will be hot desking. Having the choice is the key. We are lucky there are 3 or 4 people working in the office all the time, so that when a few people come in, there is already a core group."*
>
> *"Our new policy mandates a minimum of 2 days per month, plus other additional company or client days. We will revisit and possibly increase to 4 days a month. But it is very much about giving people the choice."*
>
> *We don't mandate office presence, but we have asked each team to nominate a day each week they will all be in the office*

There's still a need for face-to-face human connection

The Office for National Statistics (ONS) report, **"Business and individual attitudes towards the future of homeworking, UK"** reported that 85% of workers currently homeworking wanted to adopt a hybrid working pattern going forward. Several of the leaders we spoke to were keen to have people back in the office at least in part to enable face-to-face time between team members, to maintain office culture and to build rapport between colleagues.

> *"After a couple of years of working remotely, there is a drive from teams and managers that they want to work together in person more."*
>
> *"We are in two days each week so we can all see each other at the same time."*
>
> *"We surveyed people and it is down to personality. The I.T. sector seem to have more people who would rather have more time at home. We've adopted a 3-day hybrid approach. It is a short-term approach to the situation. I think overall, people are missing being with each other and are coming back to the office a few days a week."*
>
> *"Some people had a default position to work out of office, I think the default will now be people will work from home. People will come in for the social not the business reasons."*

> *"Currently we are actively encouraging people being back in the office and the gains of being face to face."*

Office culture remains a focus for employers

In fact maintaining a great company culture was an area that many were focused on.

> *"Our COO spent 15mins with every person in the business - over 50 meetings. One thing I primed him to feedback on was his sense of people's experience of the culture i.e. someone who joined pre- and post-pandemic. His perception is that the culture was the same. Which is amazing! We do think about it a lot."*
>
> *"It's hard to build culture without an office, especially with young people, but it's helped by the fact that this is how we started."*

While part of the formula for creating the right culture in a business today involves more flexibility for employees, for employers it's important to ensure that the increased homeworking flexibility does not lead to increased isolation of team members and reduced employee engagement.

Innovation stagnation - Are you running out of ideas?

One CEO highlighted the loss of innovation due to remote working as the catalyst for encouraging staff back to the office.

> *"It's been a very, very tough thing for us. We are really missing the innovation side of things. Being in the office is a great way to inspire and have the conversations you can't do as effectively remotely."*

Many companies fear that they will lose their competitive edge due to increased remote working leading to less collaboration and innovation. However some research has suggested an alternate viewpoint. The Oxford Handbook of Group Creativity and Innovation 2019 found that the larger the in-person group, the fewer new ideas each person has, and the opposite happens for remote/virtual brainstorming, with more new ideas being produced the more people there are, leading to greater levels of innovation. This is partly attributed to the "balancing the preferences of introverts and extroverts, optimists and pessimists, lower-status and higher-status members."

Productivity – Are you getting the most from your people?

Just as innovation is a focus for some, for others it was productivity.

> *"We do have a challenge with people on working from home days not being as productive."*
>
> *"We had a problem with a guy who worked remotely. He never answered the phone and it turned out he was working two jobs."*
>
> *"On working from home days with consultants, in particular, the work they have allocated for the day almost always runs into the next day."*
>
> *"When we call people they aren't on their phones, or they are out of breath because they haven't been at their desks. The quality isn't there and there are lots of mistakes."*
>
> *"With developers there seems to not be any change in output."*
>
> *"It can be hard to measure productivity. On projects it has gone up. Our billing utilisation is better now than it was. People are putting in more effort."*

The jury is still out on whether homeworking increases productivity or not. There is plenty of research to show that is it is beneficial due to the reduced amount of time employees spend commuting, a higher employee retention rate, plus other drivers such fewer interruptions and more focused work time.

However many experts and industry leaders, including Microsoft, have also been keen to point out that productivity can suffer due to the lack of collaboration, communication and mentorship.

A 2-year study by the global authority on workplace culture, **Great Place to Work**, summarised the link between productivity and remote working succinctly:

> *"Productivity of both in-person and remote work are influenced by the same key factors: leadership and healthy, supportive company culture. Workplaces that are strong in both can have high employee productivity no matter where their desks may be."*

Employee wellbeing and mental health under the microscope

The impact of hybrid and remote working on employee wellbeing has rightly been at the centre of many homeworking discussions since the start of the pandemic. And while remote working has definitely benefited many employees, others are now working more hours, spending more time in low-quality meetings, more time juggling home and work life requirements, and ultimately they find themselves more stressed. It was clear during our interviews that this was a big concern for several of the Microsoft Partners.

> *"I have been horrified at how many people have hit mental health issues during the pandemic. We have taken out insurance to the highest level, including in-patient care, which we feel is important given the strain on NHS."*

> *"We do all company meetings twice a month. And 30 minutes twice a day to do physical exercise."*
>
> *"We don't ask how people spend their time or what they are doing. It would be very rare for people not to go for a walk or run, people manage their own time."*

And they were right to be concerned, a March 2021 study by the Journal of Occupational Environmental Medicine **("Impacts of Working From Home During COVID-19 Pandemic on Physical and Mental Well-Being of Office Workstation Users" | NIH)** found that 66% of respondents reported new physical health symptoms since beginning to work from home, 75% reported new mental health issues, mainly depression and anxiety.

Back to the office – Risky business?

It was interesting to see a number of Microsoft Partners who had reverted to being either fully back in the office, or close to it.

> *"We are all back in the office. The sales team are in only Monday and Fridays, but they are out and about during the week."*
>
> *"Before COVID we were office-based, albeit customer-facing teams. Sales and pre-sales would be on or off-site as the work dictated. That hasn't change since COVID. The rest of the business went fully back, and we came back quite early."*
>
> *"We brought the service desk back, as we found a better service to the customer."*
>
> *"We haven't had issues with people not wanting to be in the office. People just haven't wanted to be at home. Everyone has been super keen to come back in."*

The challenge for Microsoft Partners pushing for a complete return to the office is in retaining and attracting staff. There is now fierce competition in the recruitment marketplace and many tech companies are willing to offer fully or partially remote working roles. With increased flexibility becoming the new 'normal', can businesses afford to break from the ranks and revert to pre-pandemic working practices? An article in the Harvard Business Review, **(Don't Force People to Come Back to the Office Full Time)** commented that "40% of U.S. employees would start looking for another job or quit immediately if ordered to return to the office full time."

Office Space

Cost vs Benefit

For most business owners the discussion around remote, hybrid, or office based working has to be considered against the backdrop of commercial property costs and sparsely used office space. Can you justify having the cost of having an office if it's only going to be 50% full?

Many had taken the decision some time ago to either downsize or get rid of the office all together when the numbers just didn't make sense.

> *"I have an office and only 5 seats are ever used. I don't think it will be there in a few months."*
>
> *"Our lease comes up next year and we will have to decide. My head says lose the office. My heart says don't do it."*

> *"We downsized from 70 to 12 desks in managed services."*
>
> *"We had offices but got rid of them during lockdown."*
>
> *"We are moving premises and downsizing from mid-50 headcount to 30 desks."*
>
> *"We gave up our London office in March 2021. People were radiating out around the globe – they emigrated while still working for us. We now don't have an office. We have been asking people,'Do you want to come back in?' and the overwhelming message is that people don't want an office again. A few people have just recently said it would be nice to have an office again. Maybe we will move back to a premises at some point – possibly a flexible space."*

Office shake-up

Some of the CEOs in the group had opted to reassess how they use the office and adjust the set-up accordingly.

> *"I'd like to see people want to come into the office. We are going to turn our spaces more into communal space. Not about socially distanced desks."*
>
> *"We have shrunk our space by a third and tried to make it a bit smarter."*

Some of the world's leading tech companies, such as Amazon, Google, Microsoft and Facebook, have been refitting their offices with more and more amenities such as additional collaborative working spaces, peloton studios, and music and games rooms in an effort to attract people back to the office.

Offices on-demand

For some of the other Microsoft Partner leaders in the group the answer lay in co-working or flexible work spaces/offices such as We Work or Bizspace.

> *"We have flexible offices in Manchester, London and Reading. Spaces for people to land in as needed. People can come in as much or as little as they need. We ask them to say what their plan is i.e. 3 days a week and we set up their membership accordingly. Used to use WeWork but found them not very friendly, a bit too corporate."*
>
> *"We had an office which had a capacity for 70 desks, but we were only getting 4 people a day coming in. We now have about 20 desks in a co-working space on a 12-month rolling contract."*

The rise in the number of global co-working spaces has been phenomenal in recent years. According to **MIT Sloan Management Review**, there were only 106 worldwide in 2008, where this number exploded to approximately 19,000 in 2018. And while the industry took a huge hit during the pandemic, analysts predict co-working spaces will become even more important and popular in future.

Moving forward – Things to consider

To mandate a return to the office, leadership teams need to be clear on why they want employees to return. The are many 'why' areas to consider such as:

Collaboration	Communication	Compliance
Innovation	Maintaining culture	Employee wellbeing
Social interaction	Mentorship	Engagement
Connectivity	Productivity	Employee retention/attrition

Without clarifying the 'why' it is very difficult to think about the next stage and 'how' do you do that.

7

Employee compensation & wage inflation

"We consider the Law 365 team to be our in-house counsel. We use their services for both commercial and HR legal support. They help us build credibility and trust with our prospects and turn them into clients quickly. They are always well-prepared and represent our brand well in front of our clients."

James Boother,

Sales and Marketing Director at Coeo

We've all read the headlines about the 'War for Talent' and 'The Great Resignation'. But how have these impacted Microsoft Partners with regard to employee salaries?

When we interviewed Microsoft Partners this year, one theme that came back loud and clear was 'wage inflation'.

> *"The issue we see is the demand for IT resource and the resultant salary inflation. Many people two years ago wouldn't ever be worth the salaries being offered today. I am seeing this all the time. People who have only been in IT for 2 years, being offered £40k in London."*
>
> *"The demand for higher wages has tended to be at the entry level, i.e. low £20k salaries can go to low £30k by moving in-house in IT roles. In senior roles we are seeing 50%+ increase on salary."*
>
> *"A 15% increase is what we are paying across the board, in pretty much all roles."*
>
> *"The cloud market has been tough for 5-6 years, and it is getting worse."*

The last few years have clearly highlighted a scarcity of talent to fill the open roles that UK Microsoft Partners need to fill. The numbers speak for themselves and are staggering. The UK job surplus stands at approximately 1.3m people (**"Vacancies and jobs in the UK" | Office for National Statistics**), and as demand for tech services reaches an all-time high, the UK alone saw 870,000 technology and digital job vacancies open in the first 5 months of 2022 ("Jobs in London, the UK & Beyond" | **Adzuna**)!

In fact tech roles now make up 14% of all job opportunities in the UK, compared to 11% in 2019.

It was therefore inevitable that employers would have to start offering higher salaries when faced with such a shortage of talent and fierce competition in the market.

> *"I feel that we have had a lot of wage inflation for the last 3-4 years. It's down to scarcity of talent."*
>
> *"We have seen significant wage inflation. This is a high inflation point. There has been a skills shortage for years, so we have always paid through the nose. Some of the salaries seem ridiculous. We have seen people with 12 month's experience earning £40k."*
>
> *"The demand for higher salaries is there for really good people."*
>
> *"We're definitely feeling wage inflation with new hires. It has not hit us hugely but we are finding there is a scarcity of people."*

Competition was particularly stiff in London as U.S. tech giants swallow up some of the top talent, significantly contributing to wage inflation in the capitol and making salaries unaffordable for some companies in sought-after roles such as developers.

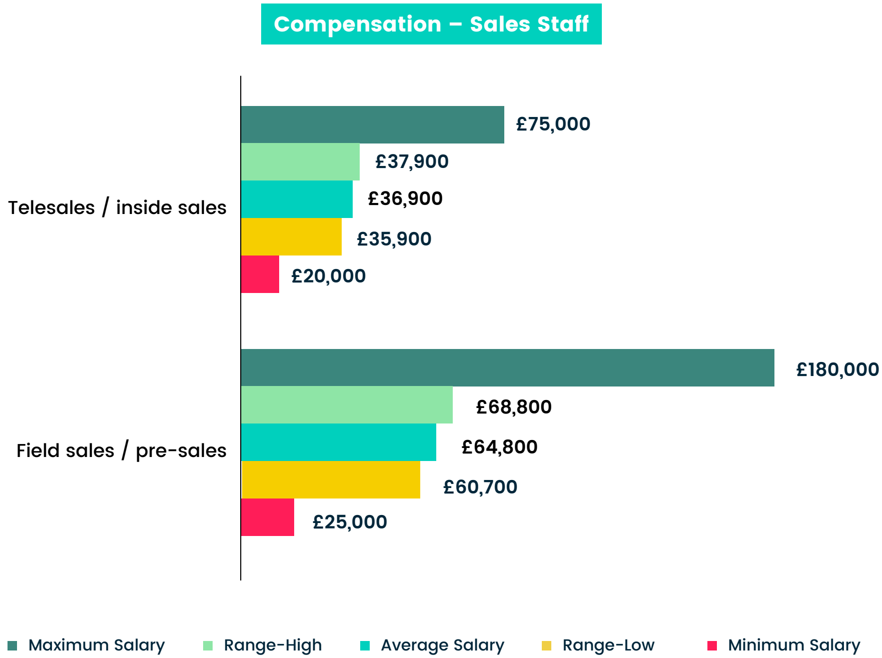
Firms such as Google, Amazon, Facebook, Apple and even Microsoft have been increasing their footprint in recent years making it even harder for smaller tech companies and start-ups to recruit during this time.

It was also interesting to hear which roles the CEOs felt were the beneficiaries of the biggest the salary hikes:

> *"Wage inflation is really impacting us. We are probably looking at around a double increase to what it previously was. The market for tech is very hot right now. Especially in front-end developers."*
>
> *"Across professional services the tech solutions engineers have seen increases of £5-15k. There is such a scarcity of supply."*
>
> *"We develop products in Microsoft Power Platform. It is this tech platform that is severely on the rise, so therefore people are in demand."*
>
> *"The biggest thing we have seen is the salary increase in top end analytics space. A 25% increase in these types of roles."*
>
> *"Developers salaries have gone up 30%-40% in last year – we can't pass that on to customers."*

The recruitment firm Robert Walters published research this year, (**Salary and Recruitment Guide 2022**), that showed salaries for new starters in professional services industries have grown by 6% to 8%, however, "those who moved into 'hero' industries such as technology or healthcare saw pay hikes as high as 15% to 20%".

We were interested to learn more about where current compensation was with respect to different technical and non-technical roles for the Microsoft Partners firms in our cohort. We asked each CEO to provide us with anonymised high/low compensation ranges for different roles in their organisation.

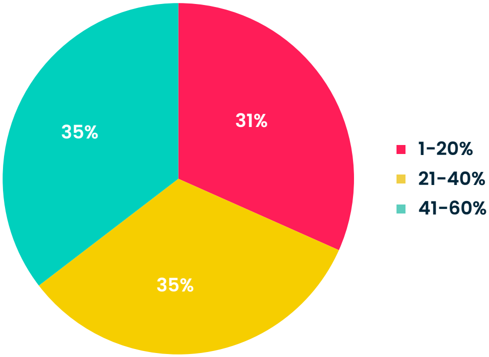


Although many Microsoft Partners generate new business through referrals, having a top sales team is often the key to hitting revenue targets, and as such these roles command a premium in the recruitment market. As we can see above, the average compensation for field sales staff was £64,800, with the average low range at £60,700 and the average of the high range £68,800.

It's worth noting that variable compensation/bonuses can also make up a sizable portion of the total compensation package for sales staff. We asked the senior leaders to give us some insight on what percentage of total compensation was tied to variable pay.

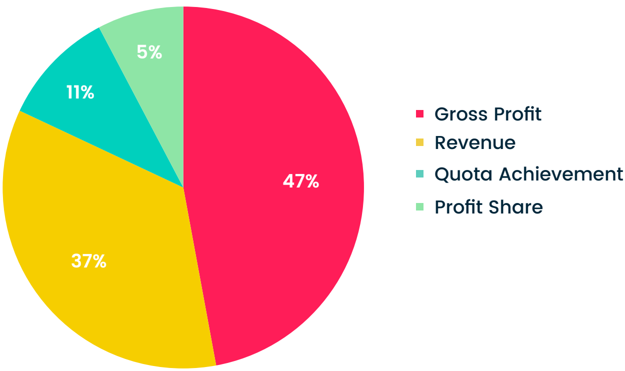
The feedback showed that there was an even distribution across what percentage of compensation was paid as part of bonus schemes to sales employees, with the most organisations paying between 21-40% or 41-60% in bonuses.

What % of total compensation is related variable pay?



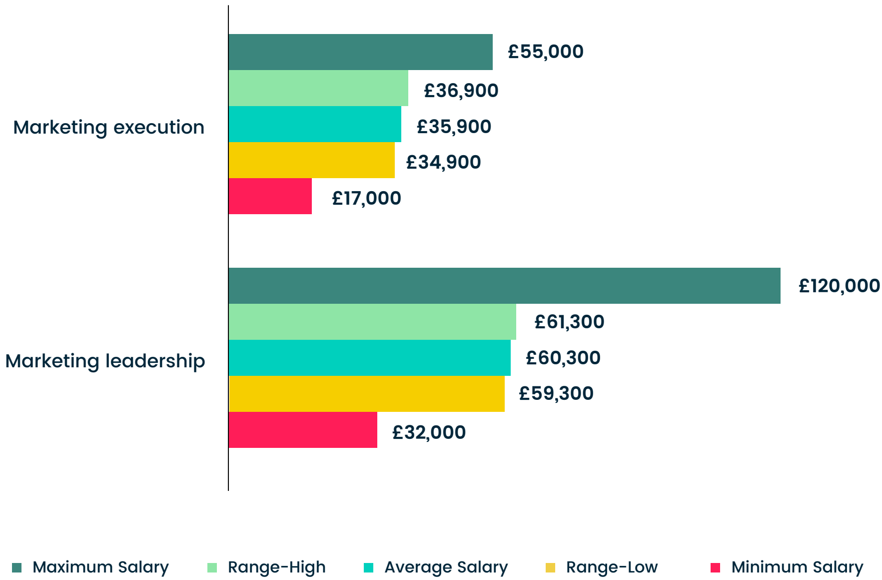
We also wanted to know what these bonus schemes were based on. The survey showed that almost half (47%) of all respondents said that variable compensation was tied to gross profit targets, with 37% linking it to revenue. Only 5% of organisations who participated said they were part of a profit share.

What is variable compensation based on?



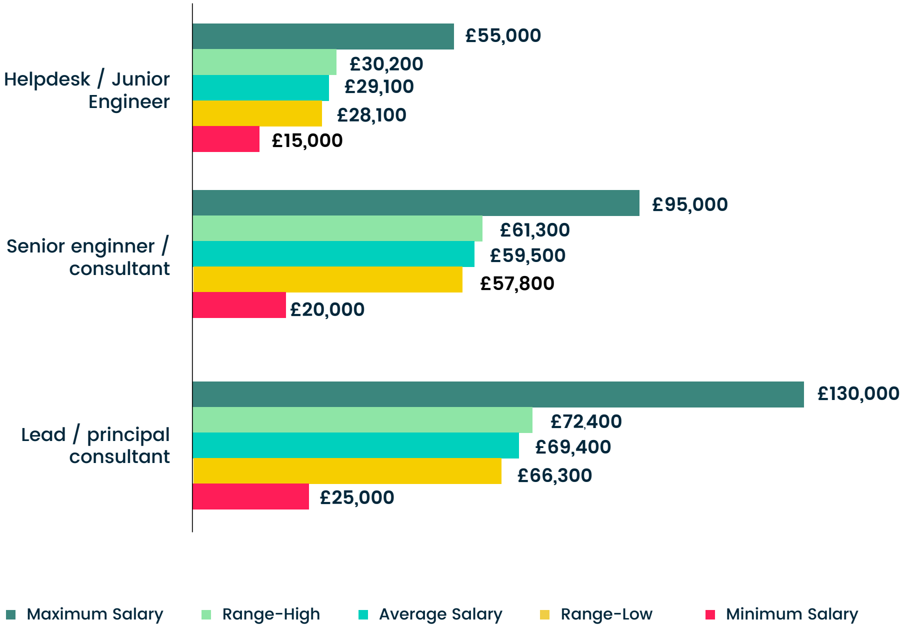
Digital marketing roles have also seen a jump in salary since the pandemic, within many companies having to invest heavily to take their marketing strategies completely online. Our survey showed that the average compensation for general marketing staff was £35,900, with marketing leadership roles paying £60,300 on average. The highest single salary in the survey for a leadership role in marketing was £120,000, a 99% increase over the average.

Compensation – Marketing Staff



Where survey respondents had really been feeling the pinch was in technical roles such as front-end developers. The survey results showed that high/low compensation ranges for both senior and lead consultants were relatively narrow and separated only by a few thousand pounds. The average compensation for a lead consultant was £69,400 and the maximum in our survey was £130,000.

Compensation – Consultants & Engineers



The higher salaries attached to the more senior technical roles in our survey reflect the steep learning curve associated with them, and the fact that Microsoft Partners need new developers that can hit the ground running and have an immediate impact when joining the company.

With salaries increasing above the standard market value for the most in-demand roles it often meant that new staff were joining on higher pay than existing staff. Bringing these two sets of salaries into line was obviously something that needed to be addressed to maintain harmony within many companies. Although guidance for employees at the start of the year from Andrew Bailey, Governor of the Bank of England, was to not ask for salary increases as this was contributing to inflation, it did not stop many Microsoft Partners from internally reviewing the situation.

> *"Wage inflation has impacted us massively. A significant percentage of our workforce have had a pay review."*
>
> *"We had to tweak some salaries. Most of the people we lost were techies. We partially took our eye of the global levelling up which was happening."*
>
> *"Some people are very aware that there is a salary spike. I do think it is a spike, and for example, when the need has gone, so will that money. We have responded and given people more money. We put salaries up by 7% on average, but in a very targeted way."*
>
> *"We have seen more people asking for salary raises. There has definitely been a higher level of requests. Much of it personal around cost of living."*

It was clear that salaries are increasing for new hires in addition to existing staff, but are Microsoft Partners able to absorb this? For some the CEO's in our group the response was a clear 'no', but for many there was acceptance that some, but not all of this cost, could be passed on the customers.

> *"It's very hard to pass on this cost to customers. For some clients we have inflation clauses."*
>
> *"One employee came in and said they had been offered £12k more a year elsewhere, and we ended up paying him £4k. We see it as a win but it's not ideal. We are being held hostage. We will have to pass the cost on to the customers."*
>
> *"Engineers usually on £40k are now coming in at £55k. You can pass some of this on to clients, but you can't pass all of that cost on."*
>
> *"We are in the middle of working out how to pass on our 15% cost increase to existing customers. It has annoyed them. We are going to enforce that 15% increase with all new clients."*

> *"We have managed to increase our rate card. We haven't seen how clients feel about this. It won't cover all of the additional cost of wage inflation."*
>
> *"We have put a price increase in on all professionals services day rates. However with most of our customers, we can mitigate some of those increases by looking for internal efficiencies."*
>
> *"We are passing on some of the cost to customers. It is hard with long-term managed services contracts where typically we work on 3-year contracts."*

Looking ahead it seems that the issue of wage inflation for Microsoft Partners could be here to stay for the foreseeable future,

> "the average tech salary is up to 50% higher than the average for all vacancies in the UK, and is increasing, whilst the average salary for all jobs in the UK has decreased in 2021" (Tech Nation).

This gap is forecast to widen, highlighting the continued premium that businesses are placing on tech roles.

8

The IP Staircase

> *The IT partner market is particularly difficult to understand and navigate, it also has a legacy of not always being as on top of contracts and contract negotiations between partners as it should have been. Kim just gets it, she immediately understands the risks, the gotchas, the things to consider and helps you navigate working with other organizations both large & small. Kim ensures you are equipped with the knowledge to push back & negotiate terms with businesses much larger than yourselves.*

Leah Stiff,
Strategic Alliance Manager, Inframon

Growing your business is always front of mind for every Microsoft Partner CEO. But while revenue tends to be the big day-to-day attention grabber for many, understanding your profit margins is a key step in building a successful Microsoft Partner business.

Profitability matters

The 2021 report produced by American cybersecurity and data backup company, Datto ('**Global State of the MSP'**) surveyed more than 1,800 Managed Service Providers (MSPs) and found that the biggest challenge that MSPs faced coming out of the pandemic was increased competition. This was the first time 'competition' had topped the list, and with Microsoft reporting that they are adding 7,500 new businesses to the Microsoft Partner Network globally every month, it's not hard to see why.

Also high on the list of things that were keeping MSPs up at night, in third place, was 'profitability'.

So how can Microsoft Partners differentiate themselves from the competition and increase profitability?

The answer... Intellectual Property (IP)!

Intellectual property… the key to higher margins

Profitability and growth don't solely have come from competing on labour costs and materials, increasing productivity or access to capital.

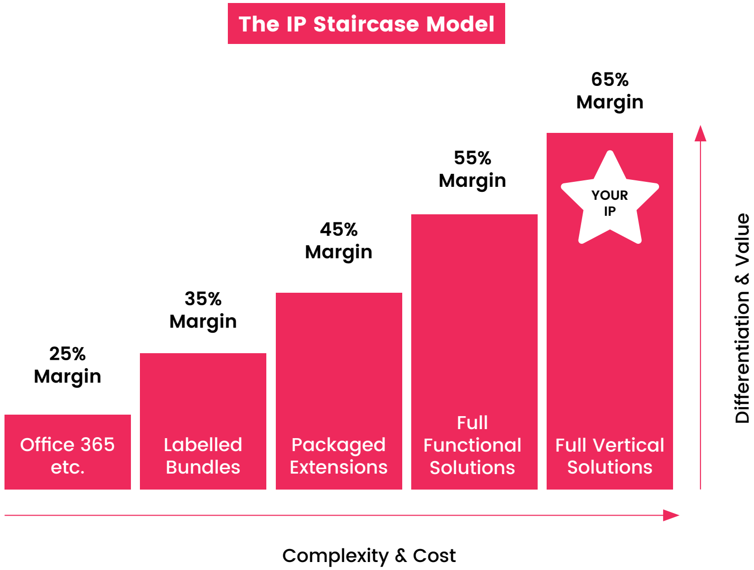
More often than not, a Microsoft Partner's competitive edge depends on their capacity to innovate, especially in the area of high margin services and products. And this is where IP comes in. Taking the time to understand the client pain points of a particular market segment or industry and then building IP into your offering enables you to generate the highest margins for your business.

Microsoft themselves have been promoting the benefits of developing IP for some time and encouraging Microsoft Partners to do more. In 2020 they sponsored an e-book by the market intelligence firm IDC, which highlighted the value that could be unlocked by investing in this area:

> "…there is no better way for partners to win business and build revenue than to lead with their own intellectual property (IP).In the IDC survey, Microsoft Partners expected average growth of 23% in resale revenue and 27% in IP revenue over the next two years.
>
> Hitting those high growth percentages with IP, however, takes investment. To gain the technology and skills required, 39% of Microsoft Partners invest at least 6% of their revenue in developing their own IP, while 29% spend more than 10% on IP."
>
> Source: Unlocking the opportunities of digital transformation - Microsoft Partner Network

Climbing the IP Staircase to add value

A great starting point for the journey of unlocking value via IP is understanding the 'IP Staircase'. This is in essence a roadmap for evolving from simply re-selling Microsoft products to developing and packaging your own bundled solutions that have your IP embedded within them.



You climb the staircase by offering targeted and bundled packaged solutions that meet, and resolve, the specific pain points of your clients. As you move up the levels, the cost and complexity of developing the packages increases, but more importantly the value you create and the differentiation in your offering versus your competitors also increases. This ultimately leads you to the top of the staircase where you are providing complete vertical solutions that incorporate your IP and provide your unique and innovative solutions for specific market segments and industries.

1. Re-selling (Step 1)

The first step on the staircase is the most basic and simply involves Partners re-selling Microsoft products and services to their end-customer. This is the entry point on the staircase for many Microsoft Partners.

2. Labelled Bundles (Step 2)

A significant number of Microsoft Partners find themselves organically migrating to the labelled bundle stage over time.

This is where you start to think about the core products and services you can sell to your clients and try to create packages that will meet a particular need for them. This could be something as simple as bundling together M365 E5/Business Premium with a defined set of tasks (call it a framework/methodology) to deploy the solution to be a 'Secure, Productive Desktop' that you could also support for a set monthly fee.

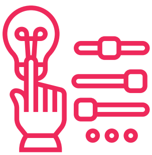
However, it is important to note that Microsoft Partners at this stage aren't dedicating significant time and resources to fully integrate the individual components. They are just taking the complexity out of all the options the buyer has and packaging it in a user-friendly way.

3. Packaged Extensions (Step 3)

A key step in the process occurs when you add a custom element to your solution that is unique. Most Microsoft Partners get to this step when they write custom code for applications like SharePoint, Teams or Dynamics.

The custom element normally 'extends' the functionality of the core Microsoft solution. Examples can vary from intranet type components for SharePoint, or extensions for Dynamics to integrate with a warehouse picking tool.

Many Microsoft Partners develop these for customers and once they have a component, or several, they can market them as solution add-ons that help differentiate their offering.



4. Full Functional Solutions (Step 4)

Full solutions are the next step and these are typically based upon an underlying Microsoft technology such as SharePoint – as is the case for many 'out-of-the-box' intranet solutions. However, these include many add-on components as well as configuration to deliver a complete solution. Microsoft Partners not only make money from the sale of the IP licence, but also from deployment services and ongoing support/maintenance of the solution.

Dynamics is also a great platform to build functional solutions on as so many 'niche' requirements exist. Membership organisations, for example, often require specific functionality that is repeatable to a range of customers.

5. Full Vertical Solutions (Level 5)

Congratulations, by providing full vertical solutions you have reached the top of the staircase. You've levelled up!

At this stage Microsoft Partners are providing highly specialised, industry-specific solutions that solve key pain points for their chosen target customer base. They are providing the most value to clients. While they are likely to be incurring the most cost and facing the highest level of complexity in developing these solutions, they are also being compensated with the biggest margins, often at 65% or more.

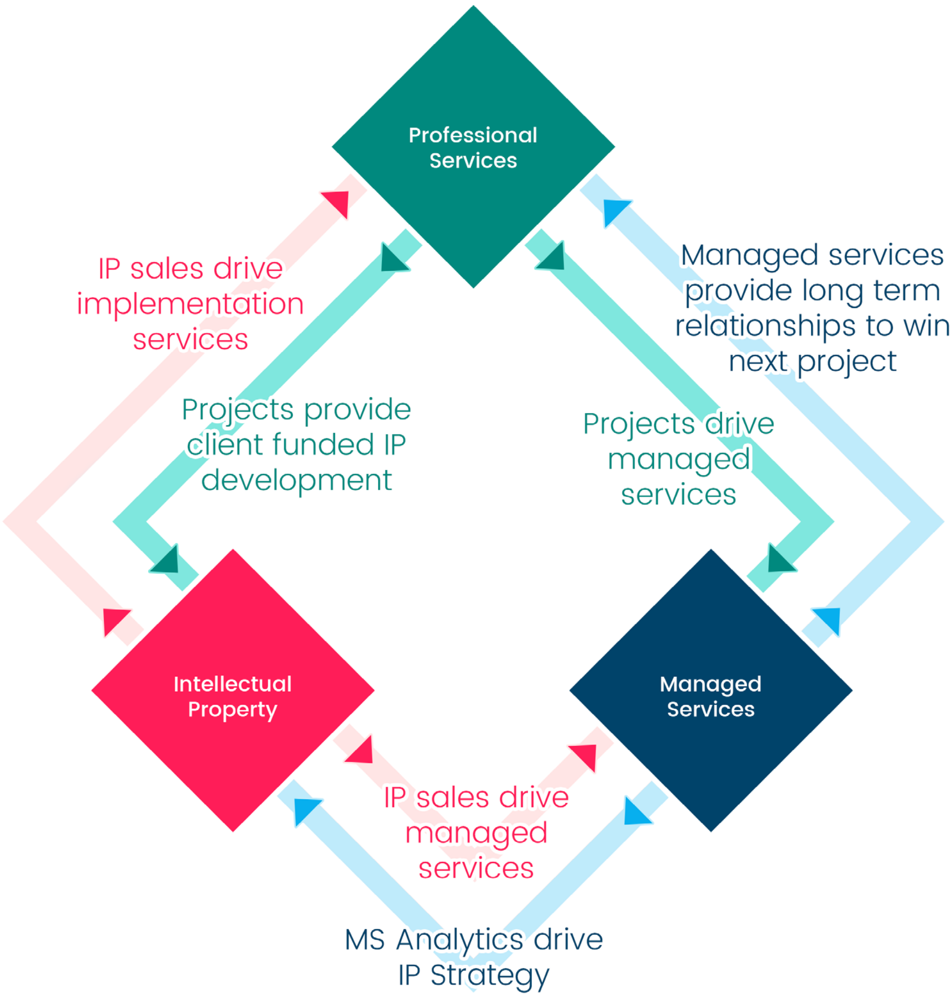
In many ways, Microsoft Partners can 'get away with' taking an existing horizontal solution and adding key vertical/ industry specific language and content to make it appeal to different industries. This is especially true for productivity and collaboration solutions, which almost every business needs.

IP Symbiosis

The benefits of developing your own IP don't end there. Embedding IP as a key part of your overall strategy can also create a symbiotic relationship with the more traditional parts of a Microsoft Partner business, namely the professional services and managed services business lines.

The diagram below shows how IP generates tangible benefits for Managed Services, which in turn provides real value for professional services, and vice versa.

IP Symbiosis



Let's look at some common examples:

IP & Professional Services relationship

IP is often generated from within individual client projects delivered by Microsoft Partners. A solution – e.g. a snippet of code or widget built for one client – that could be used again and again by embedding it within your own product. In addition, project and consultancy fees provide essential funds to develop IP further. Another benefit is that when a client buys your IP-based product from you it's highly likely they'll require your professional services team to assist with its implementation.

Managed Services & IP relationship

What happens when a client buys your IP-based product? Quite often they will need to buy some support for it, this is where your MSP business comes in. Your IP offering has automatically generated managed service leads.

Professional Services & Managed Services relationship

As can be seen in the diagram opposite, when considering the value of climbing the IP Staircase, you should consider the revenue that you can generate from IP sales and how these IP sales can generate more revenue for the other parts of your business.

Another perk is that you'll have more 'sticky' customers. If a customer buys multiple service lines or products from you, then they are more likely to have a longer, more strategic relationship with you, which minimises customer churn. This also reduces the reliance on sales and marketing to keep winning new customers.

How important was IP to our cohort?

During this year's Microsoft Partner Insights research we asked our group of senior leaders from some of the UK's most successful SME Microsoft Partners to give us their thoughts on developing IP. How important was it to them, and where are they on the staircase? The feedback was very enlightening. Direct quotes have been used where possible.

The cohort was effectively split in to three camps when we discussed the importance of IP to their business:

1. It's core to our business, or we aspire for it to be core.
2. It's important and something we are pursuing.
3. It's not a significant part of how we operate.

GROUP 1

Many of the CEOs in the group were quick to point out that IP is their number one priority at the moment. The majority were already developing their own software or focused on productising as much as possible.

> *"This is us all over, we are all about IP. We have packaged IP and services products. We always look to productise."*

> *"We are an IP business, everything we sell is our own product. We are a product-first business, and then it's about how we cookie cutter our products into market."*

> *"For us, we have a big focus on developing a service catalogue. There is some consultancy stuff, which is all outcomes-based work and repeatable, through to larger industry aligned accelerators. It's not cookie cutter but maybe 60% fixed. We will build a core product but tweak according to customer need."*

> *"It is what we do – we have our own software which we developed initially for one client and then developed it from there. We now have over 100 customers."*

> *"We own the IP for all the work we do; all the code, templates, we reuse all of it. We are also building products."*

> *"We tend to productise pretty much everything we do as we are about building our own brand rather than Microsoft. It is us. We register all our brands as trademarks. It is part and parcel of what we do. We have our own product catalogue."*

> *"IP is key to what we are. Managing transformation and innovation process."*

> *"IP is now our primary focus. Everything else I just about keeping the lights on. While we develop this."*

> *"IP as part of the client journey is really important. Our buyers are more sophisticated than ever. They want consultants with experience and a toolkit. You may have 3 or 4 consultants on your project, but the IP has 15 years' experience baked in."*

> *"We significantly invest in IP – mainly script and code."*

The quotes above demonstrate the commitment from these Microsoft Partners to using IP to drive their business strategy and growth. However, these Microsoft Partners are not the majority.

GROUP 2

The largest group were the Microsoft Partners who had not committed the same time and resources as the first group but were acutely aware of how important it could be and were looking to invest more in to their IP offering going forward.

> *"Strategically we want to look at it more – it is currently intentionally opportunistic; in the future we anticipate having a head of innovation."*

> *"Being a services company first, IP is something we want to pursue. We do develop applications and software. Developing IP is important for us, but it is still a small part of the business."*

> *"This has always been on our mind, and we have wanted to increase IP revenue."*

> *"We have a product we do sell which we started developing 3 years ago. It gives us a differentiator, however we aren't set up as a software company and it isn't currently core to what we do. We are a consultancy-led business. We haven't been very good at taking our software products to market."*

> *"We have a piece of IP which we are going hell for leather on marketing. My mission is to convert the old money which came from legacy recurring revenue to new subscription on IP offers."*

> *"We've started to do something on this. We've developed a productization process to help us architect, implement, sell, market and support in a standard way. More of the internal focus is on how we can standardise the way we do things."*

> *"We are trying to be become more product led. We build contracts up by putting many products together and laying a little personalisation on top."*

> *"We on the IP journey but nowhere near where we want to be."*

> *"Starting this year, we have a target for number of productised products to offer to clients. We will define and sell these. We see it has important as a way of being able to offer low-cost offers to new clients, but also to keep existing client solutions up to scratch."*
>
> *"We don't really have any IP right now. It is a desire to try and bring into the business in the 3-year plan."*
>
> *"Two things we are productising – both around consulting services. One is cloud and how a customer optimises their clouds usage. The second is around cybersecurity and is a solution we have written ourselves."*

The above quotes are typical from Microsoft Partners, who understand how IP can help their business, although also know that it's not that simple to quickly create IP. Creating basic bundles of licences and services can be accomplished relatively simply without too much business disruption. However, building full products requires dedicated resources, not only to create the IP, but also to market and to sell the IP. It is generally a multi-year commitment to develop IP and return good profitability from it.

It also requires a change of mindset and potentially different resources – often those people who are great at delivering customer projects, or support, do not understand product management and find it very difficult to bring IP to market.

GROUP 3

For the remaining Microsoft Partners interviewed, IP isn't on the horizon. IP development wasn't a major focus as they felt it either didn't fit or wasn't going to add value to their business.

> *"It's not really much of a thing for us. Most companies are not as blinkered as we are on our target market. We sit within our parameters. We will not go beyond our customer profile of a max number of seats, as it won't work for the products we have. All our managed services are tailored one to many."*
>
> *"We have a managed infrastructure business. Our only IP is around making how we work automated and frictionless. It isn't really something we have in our business."*

Summary – How does IP add value?

Successful Microsoft Partners are investing in IP and starting to climb the IP Staircase so they can:

- Differentiate their business
- Develop more sticky client relationships
- Realise higher margins
- Diversify their revenue streams

IP is a natural evolution for many Microsoft Partners and customers are looking for IP to speed up deployment of technology, reduce risk in the deployment, or to provide specific functionality for their business.

9

Legal Services

"The team at Law 365 have changed my opinion about the legal industry! They have covered a variety of contracts for me ranging from simple supplier agreements through to multi-million pound managed service and international trade agreements. The single, stand out benefit of using Law 365 is the desire to help you 'reach an agreement'... less digging heels in to prove a point, and more discussion around the real issue and the risks for both parties."

Richard Lockey,

Country Manager at Crayon UK

It was Benjamin Franklin, one of the Founding Fathers of the United States, who famously said, "An ounce of prevention is worth a pound of cure". This is especially true when it comes to addressing legal matters. Yet for many Microsoft Partners, retaining or even speaking with a lawyer is pretty far down on their 'to-do' list.

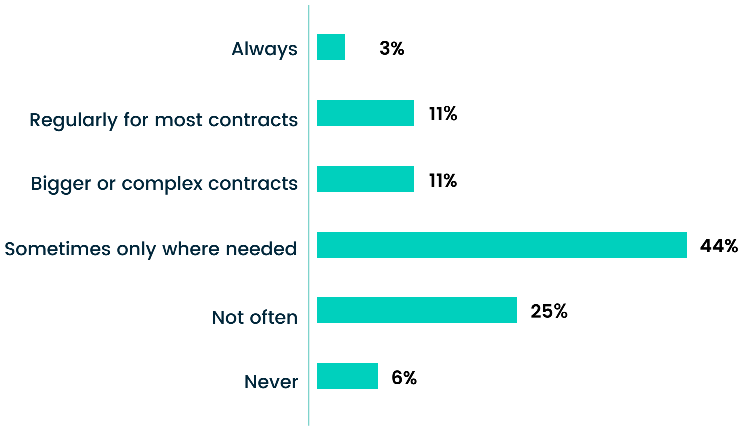
The facts speak for themselves – a 2016 report produced by **YouGov** in conjunction with LawBite and the Centre for Economics and Business Research, estimated that small and medium-sized enterprises (SMEs) lose more than £13.6 billion per year by failing to take care of their legal issues. With Microsoft Partners accounting for 1% of all UK VAT registered businesses, in excess of 30,000 Partners, their contribution to this number will be sizable.

As part of this year's research for our **Microsoft Partner Insights** series we invited the leaders of over 50 of the UK's most successful SME Microsoft Partners to take part in a survey covering, amongst other topics, legal services. The results paint an interesting picture.

How often do Microsoft Partners ask for legal advice?

We first wanted to get an understanding of how many Microsoft Partners in our cohort use a lawyer at all.

Does your organisation use commercial lawyers?



Almost half (44%) of the CEOs said that their companies sometimes used commercial lawyers. This was by far the most common response and had increased compared to the 2021 research where this accounted for 25%.

It was surprising to see that only 14% of the group either regularly, or always, used commercial lawyers, this was unchanged from the previous year.

More concerning though was the fact that almost a third of Microsoft Partners (31%) either never, or very rarely, used lawyers – a slight increase from 27% at the same point twelve months ago.

This raises alarm bells in light of the additional findings of the YouGov/LawBite report which surveyed in excess of 1,000 SME's and found that:

- The average SME is likely to encounter more than 8 legal issues a year
- Of the legal issues SMEs experienced, 43% resulted in costs of £5,000 or more

- More than half of all issues were found to be in five key areas:

Disputes 13.2%

Employees and Key Contractors 12.5%

Customers and Suppliers 11.4%

Terms and Conditions 9.2%

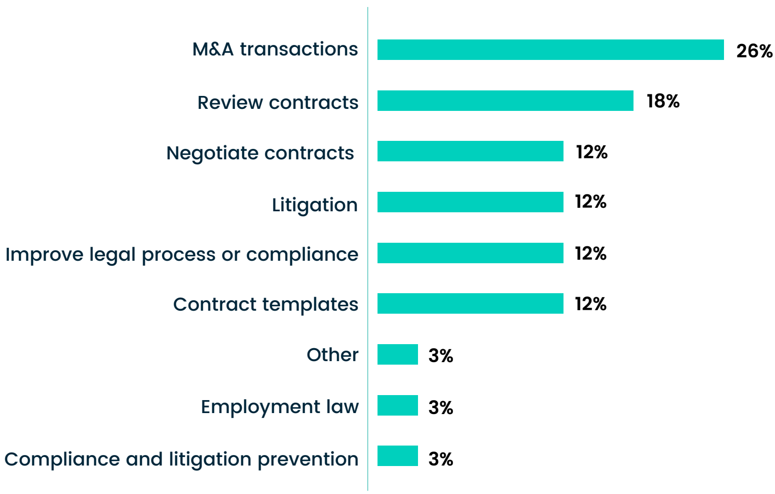
Software 9.1%

Other 44.6%

When do Microsoft Partners call a lawyer?

So, under what circumstances would the participants in our survey consider hiring a lawyer?

What would make you consider hiring professional legal services?



M&A transactions

The most popular reason, accounting for 26% of our cohort, was to assist with M&A transactions. This is a significant jump from our 2021 research when 'M&A transactions' only accounted for 5% of responses. This is potentially indicative of the boom in tech sector M&A activity over the last year. In fact, it was a record year for M&A activity globally with data analytics company **GlobalData** reporting that, "technology, media, and telecom (TMT) continued to be the biggest sector in terms of both M&A deal value and volume—with 12,585 deals worth $1.27tn recorded in 2021."

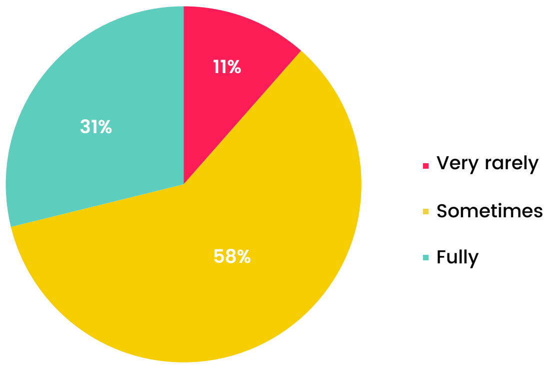
Contract review

The second most popular reason to hire a lawyer was for 'contract review'. This year there were 18% -- a small decrease compared to last year's result of 21%. There was a sharp decrease however in the combined results of contract related matters ('review contracts', 'negotiate contracts' and 'contract templates'), which accounted for 42% of responses this year compared to 54% in 2021.

Contract negotiations

With client and supplier contracts such a core part of a Microsoft Partner's business, how many Microsoft Partners in the group actually paused to negotiate their contracts with their counterparty?

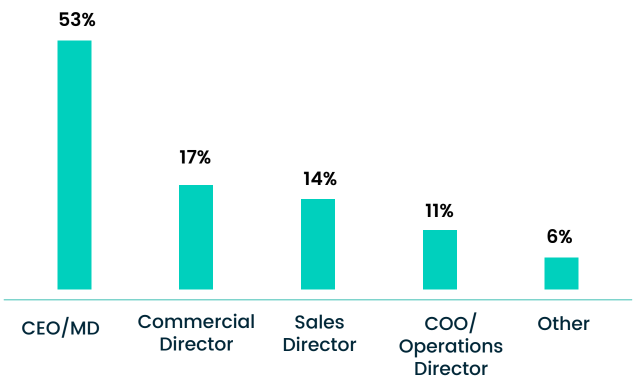
Does your organisation negotiate contracts?



Surprisingly, just under a third (31%) of the companies surveyed said they negotiate all their contracts, with 11% never taking this step. The majority of the group (58%) 'sometimes' negotiate their contracts.

Of those companies that do negotiate their contracts, we were keen to find out whose responsibility it was. Incredibly, in 96% of responses, it was NOT a lawyer! For the second year in a row, the clear runaway leader was the CEO who carried out most/all of the negotiations.

Who negotiates your contracts?



Negotiating their own contracts can create a huge amount of risk for these business owners. Our data collected from previous surveys showed that 74% of C-suite level leaders in Microsoft Partners described their knowledge of contracts as 'good' or 'excellent'. However delving deeper, of that 74%:

- **15%** didn't know what an indemnity was
- **24%** didn't know what the risks are in limitations of liabilities
- **35%** agree to or don't understand the implications of the 'time is of the essence' clause in their contracts

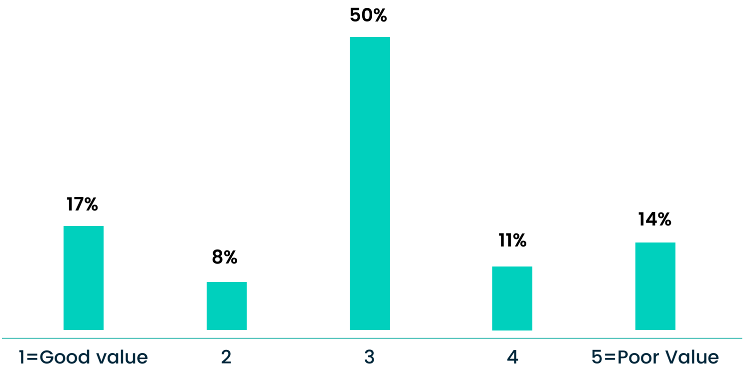
Value for money

The issue of 'value for money' when hiring a lawyer is one of the most common pain points for Microsoft Partners. Part of the reluctance to employ a lawyer often stems from the fact that there's a perception that a client is not getting value for money. Traditionally law firms bill clients for every six minutes of work, which quickly ends up as a hefty legal bill regardless of how complex the work undertaken was. Most lawyers' typical response is, "the more time I spend on this, the more thorough I am, therefore the more protected you are". While there may be some truth to this assertion, it's not good for most Microsoft Partners' bank accounts!

The traditional billing model forces clients to use lawyers selectively selectively, using on higher value contracts, with bigger customers or only when they feel it is absolutely necessary, which accounts for about 55% of the use of lawyers (see 'Does your organisation use commercial lawyers' chart above).

Although this helps Microsoft Partners to reduce their overall legal bill, it leaves them exposed to risk in the contracts and negotiations where they don't use lawyers. We asked our cohort to rate the value of using a law firm based on their experience.

How would you rate the value of hiring a lawyer?



Only 25% felt that hiring a lawyer was positive in terms of value, with 25% believing it didn't represent good value for money. The average score in the survey was 2.9 which a decline from 2.5 in last year's research.

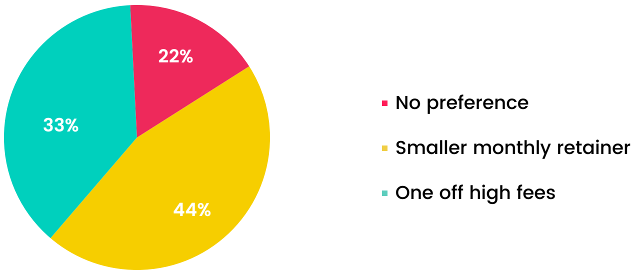
Legal Fees - Subscription vs Pay-As-You-Go

As discussed, much of the problem regarding value for money stems from the billing model of traditional law firms. However there is an alternative..... subscription pricing.

This new legal billing model charges a low fixed-cost monthly retainer which gives the client a pre-determined number of monthly credits/tokens which can then be used against any type of legal work, from a review of an Non-Disclosure Agreement (NDA) to the creation of a highly structured Master Services Agreement (MSA), or even the full services of a lawyer to get a complex deal over the line (i.e. multiple rounds of contract review and negotiation). The subscription model also enables companies to easily budget for legal costs in addition to reducing their overall annual legal bill when compared to ad hoc fees. It is effectively offering a Legal-as-a-Service (LaaS) approach to addressing the legal matters a business might face.

In spite of the dissatisfaction Microsoft Partners expressed about the value for money from their legal providers, many of the CEOs in our survey group still preferred to pay high one-off fees (e.g. £5k to £15k per single contract review and negotiation) rather than a monthly subscription.

How would you rate the value of hiring a lawyer?



Surprisingly a third (33%) still felt that this was the best option for them, however it was encouraging to see this drop from 51% in our research last year. Almost half of the cohort (44%) said they preferred to pay for legal support via smaller recurring monthly fees that gave them access to regular support whenever they needed it, this was an increase from 38% in the previous survey.

Legal Services Summary – a lawyer's perspective

Our research indicates that many Microsoft Partners are operating their businesses with excessive amounts of contractual risk, often without even realising it. So why aren't Microsoft Partners using legal services more often? At Law 365 we've asked that question for years and the answer is varied but usually falls into these key areas.

The leadership is focused on other core business activities

A Microsoft Partner leader's focus is rightly on the day-to-day running of the business – sales strategy and revenue, HR and operational issues, and of course, profitability. Quite often though this is at the expense of their company's legal matters. Legal issues are sometimes seen as a distraction from core functions and deemed to be a low priority. However, as we discovered earlier, £13.6 billion is estimated to be lost by SMEs every year through neglect of their legal matters.

"It won't happen to me!"

There is often a tendency to assume that legal problems and disputes are issues that happen to other people and businesses, and that the chances are slim of a financial loss occurring from a legal matter that affects you. The YouGov/LawBite survey found that only 12% of SMEs felt that legal issues would 'likely to pose a significant risk to their business"...Interestingly, this percentage more than doubles (25%) when they are asked to forecast whether these problems are likely to affect other businesses rather than their own.

Prohibitive costs & perceived poor value

As discussed earlier, the high cost of traditional legal services, and perceived lack of value when hiring lawyers is a well-established hurdle in the decision-making process for many Microsoft Partners. However, this is now changing with modern law firms (like Law 365!) adopting a Legal-as-a-Service model (LaaS) model which offers smaller monthly subscription fees that even a SME business can afford.

David vs Goliath

Often SME-sized Microsoft Partners are the smaller of the two negotiating parties in the traditional supplier and customer relationship, as many Microsoft Partners service large multi-national clients. This asymmetry of power often forces the Microsoft Partner to accept the customer's terms for fear of losing the deal. Law firms like Law 365 can level the playing field so everyone walks away happy.

For example, we recently helped a Microsoft Partner who were originally told by their customer that they had to accept 90-day payment terms and £5million liability. We managed to improve this to 30-day payment terms and 125% liability of the project value. Fair terms help both parties – 90-day payment terms can put a SME out of business and nobody wants that outcome.

When you are charging by the minute there is no incentive to move fast

Another regular criticism we hear about traditional law firms is that they are slow, cumbersome, unresponsive, and often create more issues during the contract review/drafting/negotiating phase. All of which is extremely frustrating and always leads to a slow and drawn-out sales process.

The right legal partner will move quickly to help you close deals with favourable commercial terms. They will provide expertise in your sector, responsiveness, value for money, a service that won't commandeer excessive amounts of your time, and most importantly, they will provide reassurance that all of your legal issues are being addressed. Even the ones you aren't aware of.

You're getting by just fine with the contracts you have

Finally, it's become obvious to us over the years that many Microsoft Partners are making do with a set of contract templates that they bought cheaply and have DIY adapted over the years. These are often not fit for purpose and on every review that Law 365 has conducted of a Microsoft Partners T&Cs, they have found glaring issues and large areas of risk for the Microsoft Partner.

Where can a Microsoft specialist lawyer add value?

There are several areas where an experienced commercial lawyer can greatly assist and add value for Microsoft Partners.

1. Lawyers protect your Intellectual Property

Embedding Intellectual Property (IP) within your products and services is a fundamental strategy to generate higher profit margins for your Microsoft Partner business. Therefore, understanding your IP rights is essential to ensure your business is protected.

Many standard contracts that you'll be asked to sign state that, "customers will own all intellectual property in the services" which might, by default, include pre-existing know-how. This is not an ideal position for any Microsoft Partner as most will have some pre-existing level of IP or knowledge. In fact, it's usually why your customer awarded you their business in the first place!

Agreeing to these terms means that the end-customer could end up owning all the IP imbedded within the project, even IP that you created and owned prior to the project.

Of course, that's a grim prospect. You don't want to give away all that 'know-how', the methodologies employed, or the template used for configuration. You don't want to give away your customised software, your code and the modules to speed up the development process. Standard terms could even potentially prohibit you from using your own IP again on future client projects. A good lawyer will make sure that the contract terms protect you from giving all this up to your customer.

The most profitable Microsoft Partners re-use templates, know-how, methodologies, code bases, configuration scripts and even build guides, to increase efficiency, improve their customer experience and generate better quality outputs.

Using the correct wording in IP clauses is vital to protect your business. At a minimum, you'll want to retain at least all pre-existing IP, any 'know-how' and general IP used in the creation of any bespoke IP, so you can re-use it for other clients.

2. A modern law firm can actually save you money long-term

a. A lawyer can play the ‘bad cop’ role during negotiations with the end-customer to ensure that you get a favourable commercial deal and fair contractual terms. Some CEOs feel that their sales teams could sometimes use some help in the contract discussion process. A salesperson, not wanting to upset the customer and lose the deal, can sometimes overlook contractual details and be too accommodating in the negotiations. Success to the sales manager is about winning new business and collecting a commission, this may not be the best thing for the business long term.

With a lawyer undertaking the actual negotiation with the client, this frees up the CEO from attending the meeting to work on more productive things, safe in the knowledge the deal will be closed properly and there will be no “giving in to last minute demands from the client”.

As part of our subscription service, Law 365 also provide training and workshops for salespeople to help them be better equipped to understand contract terms.

b. Are you the best person to be doing the legal work?

When contracts are negotiated in-house by the C-Suite team, it can costs thousands of their time (based on salary alone) or the opportunity cost could be way higher, if you consider how their time might have been better spent -- on client projects, strategy, etc.

Microsoft Partners are not legal specialists. Would you take on the role of your dentist as eagerly? Let yourself (and your team) play to their strengths. Leave contract review and negotiation to the technology lawyers and you will worry a lot less about contractual risk.

Law 365 will undertake a full contract review and negotiation on your behalf for only £1,600, or even less if you subscribe to the Legal-as-a-Service offering.

3. Microsoft specialist lawyers add contract terms to help you claim Microsoft rebates

By using a legal team who are experts in the Microsoft ecosystem you open the possibility of claiming thousands in financial rebates directly from Microsoft. You can do this by adding in clauses regarding CPOR/DPOR/PAL/TPOR and ensuring that Proof of Execution (PoE) and global admin access rights are inserted and defined against your data protection policies. Sounds complicated right? But it needn't be with the right legal team helping you navigate through it.

10

Business Applications & Systems

"We chose Law 365 to help us because they're specialists in Microsoft contracts, Microsoft Partners and the IT/ Software channel. It's been fantastic, they're always there when we need them."

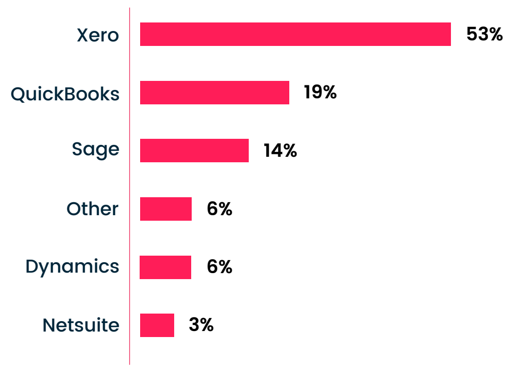
Nicole Hill,

Sales Operations Manager, Grey Matter

In this chapter we surveyed our group of Microsoft Partners to find out which business applications and systems they rely on to make their business tick.

Finance

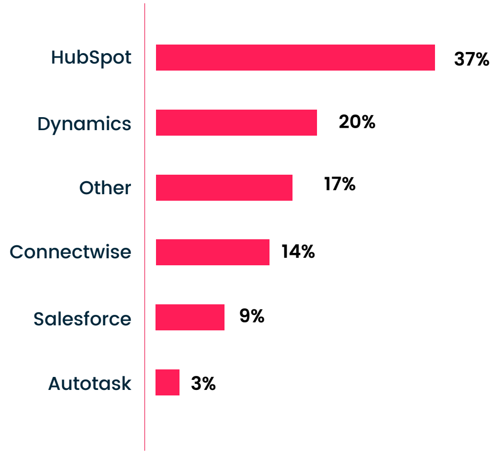
Undoubtedly one of the most import areas for any Microsoft Partner, the finance department is responsible for core activities such as payroll, accounting and taxation, budgeting and measuring performance, to name but a few. But which systems do the Microsoft Partners in our survey group trust with such important functions?



For the second year running Xero came out as the clear favourite with just over half of the votes (53%). QuickBooks was a distant second with 19%, but this was an improvement on last year where they were the third most popular accounting platform with 13%.

Sales

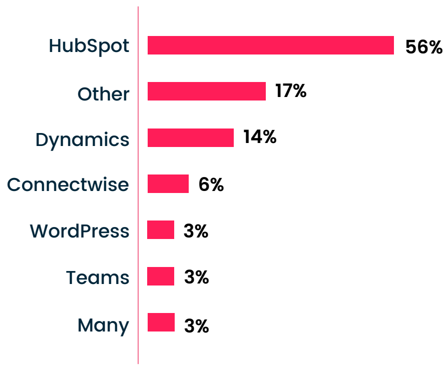
Many consider sales to be the engine room of a business, without sales there is no revenue, and no chance of success. Below are the sales management systems most widely used by the Microsoft Partners we interviewed.



Once again, HubSpot was the most popular sales management tool with 37%, even increasing its lead over Microsoft Dynamics (20%) compared to last year.

Marketing

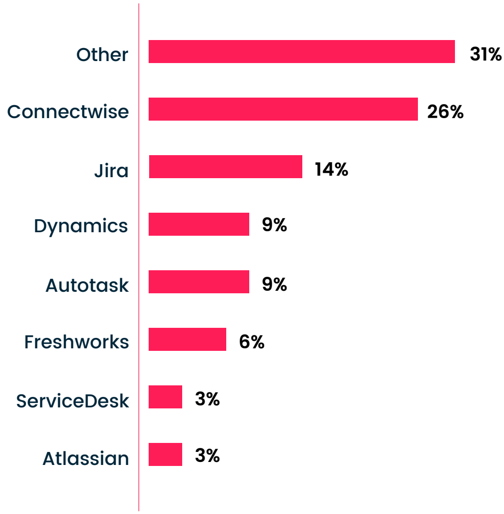
It was the same result when it came to marketing platforms, with HubSpot once again the overwhelming favourite amongst our cohort.



Globally, Salesforce occupies the #1 spot in the Customer Relationship Management (CRM) space with 35% market share. Various sources estimate HubSpot's market share to be considerably lower at 2-3%.

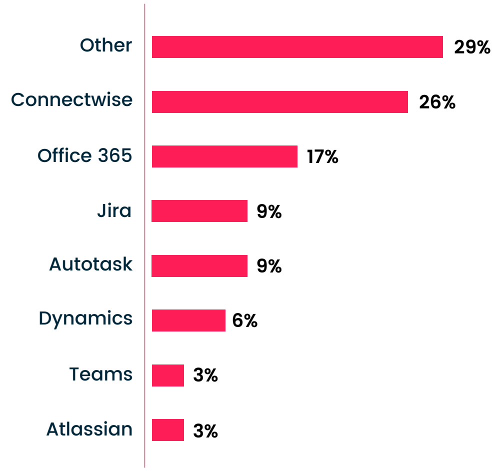
Support Desk

For many Microsoft Partners this is unsung hero behind the scenes, helping to power their service desk and is also the tool that can deliver operational reporting, billing, and customer self-service. Microsoft Partners are increasing their reliance on good systems integration to manage their business with the ability to procure Office 365 and other licences, virtual machines, hardware and provision Azure or other Microsoft services directly from the support system.



Operations

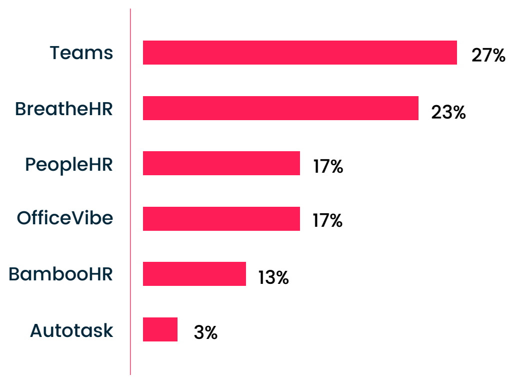
We wanted to know which operational applications Microsoft Partners relied on to handle areas such as professional services automation, customer service support and team collaboration tools. There is a broad mix of software in use as can been seen below.



Of the named applications, ConnectWise remained the top choice in line with the 2021 results.

Human Resources

A Microsoft Partner's greatest assets are the employees. HR applications provide support from tracking of staff key performance metrics and analysis of employee engagement to payroll management and holiday/sick leave logging.



It was surprising to see Microsoft Teams come out as the 'HR' application of choice. However, this may reflect that many Microsoft Partners are purely using it as a HR document repository (staff handbook, employee contracts etc.) rather than a full-service HR platform. Of the dedicated HR options, Breathe HR was the most popular choice (23%, unchanged from 2021), followed by People HR.

That's all folks!! We hoped you enjoyed this year's Microsoft Partner Insights research and found it useful as a benchmarking tool for your business.

Why choose Law 365?

A vision for a better future

This year has been really exciting for Law 365. With Kim at the helm, the firm has launched two new client services:

LawyerBot 365 uses machine learning and artificial intelligence to speed up the NDA process so that Microsoft Partners can get to work faster.

As Kim Simmonds, CEO and Founder of Law 365, says, "To service technology clients, it made sense to heavily invest in AI tools. LawyerBot 365 provides fast, cost-efficient, and accessible legal advice. It's confidential, secure and priced for start-ups (costing about 1/10th of a human lawyer) and available 24/7, 365 days a year. It's been a great success so far. We'll be developing it further to support larger contracts in the future."

HAPPY 365 is a marriage of the best employment policies and executive coaching to help our clients attract and retain the best staff. And let's face it, with more demand than ever and excellent people in short supply, who doesn't need that?

It takes a village

Clients love the Law 365 team because they are brilliant at what they do and passionate about delivering exceptional service! They are innovative and flexible and open-minded. Many of them have spent decades in traditional law firms – where expectations and values aren't the same as Law 365's. Every member of the team actively participates to make our culture a better one.

And, perhaps most important of all, Kim's employees love Law 365.

This year, as the company grew to 27 strong with over 50 clients, 100% of Law 365 employees voted the company a ***Great Place to Work***, placing us among the top in the country. This was the 2nd year in a row that we were awarded this accreditation.

Law 365 is also proud to have signed the *Better Workplace Mental Health Pledge* and the ***Mindful Business Charter***.

ABOUT

Kim Simmonds

CEO and founder,
Law365 Limited

Kim Simmonds founded Law 365 in 2014, knowing that the traditional legal system was broken. As CEO, she's disrupting the legal profession with a new business model, selling legal services on a monthly subscription, charging for outcomes rather than minutes.

As well as running the business, overseeing the legal services, nurturing members and winning new clients, Kim also feels personally responsible for maintaining the wellbeing of her staff.

Prior to Law 365, she was an M&A Associate at Shearman & Sterling LLP. She has an LLM in International Business and Trade Law, graduating cum laude from Fordham University School of Law, and an LLB (European) from University of Exeter.

A few of Law 365's 5-star reviews on Google my Business 2022

Thrilled to have received my first book club package from Law 365. I have benefited greatly from my time with Louise Otton. Through her coaching I've been able to look at my strengths and see how I can have the greatest impact to help my team. Looking forward to continuing the programme.

Amanda Harvey, Head of Marketing at Silicon Reef

Straight talking, commercial and super responsive, with a very clear and fair pricing structure.

David Pearce, CFO at LIMA

I have been working with Law365 since 2020 and have been extremely satisfied with the service. The service credit model works well for us, and the legal team are extremely knowledgeable and responsive. Kim runs a great team!

Ian Chicken, Chief Operating Officer at LedgerEdge

I work for a Tier 1 Microsoft SI and MSP, and I have been working with Law 365 for their legal expertise, on contracts and various legal documentation, since 2020. Law 365 give legal expertise specifically for Microsoft partners and it shows in their knowledge, advice and speed of response. Whoever I deal with, I trust completely to deliver a fantastic service. I highly recommend Law 365 without hesitation.

Nick Rosewall, Business Director at Content+Cloud

During my time at Kocho I have worked with the Law 365 many times and every time has been a great experience. Not only do they clearly know their stuff, but they make sure to clearly understand my requirements/needs and make sure we are progressing in a way that works best for my organisations. Would highly recommend them to anyone working in the tech space.

Connor Warner, Client Manager at Kocho

The coaching I have had with Louise has been impactful and has really supported me in addressing key hurdles and working through clear actions and commitments of what I needed to do to go forward. Louise has an empathetic style and I really felt she connected with my perspective and conversation flowed easily. I would highly recommend reaching out to Louise to support you on your journey. We are now investing in more of Law 365 coaching services to help develop our people further.

Tamsin Ashmore, Chief Financial Officer at Ultima Business Solutions

I'll set the tone early in my review of the team at Law 365, they are fantastic! The diligence, accuracy and care they afford every requirement, every meeting is quite simply exceptional. Their advice is honest, considered, delivered with a sense of humour and always in the best interests of our business.

I have no hesitation in recommending the whole organisation, but you may also be lucky enough to work with Juliet, Jon and Elyse. Thank you for being part of the team.

Matt Jarvis, Director at Atech

I had the pleasure of working with Juliet Nutland and the great team at Law 365. The speed of response required meant that we needed to instruct external legal counsel. I was most impressed with the way Juliet immediately grasped the complexity of the situation and explained things in a language I was able to understand, which in turn, enabled me to explain to my client. A great experience with a great organisation in Law 365. If you are a Microsoft Partner, selling Licence, Azure and Professional Services, I highly recommend the Law 365 team.

Iain Edgar, Senior Sales Manager, Centiq

In my opinion the best legal company to work with if you are a Microsoft Partner. I primarily work with the wonderful Julie but my interaction with all of the team has been great. All very knowledgeable and professional. I could not recommend more highly.

Anthony Sherry, Chief Commercial Officer and Founder at Chorus

2022 Awards and Accreditations 2022

Accreditations

- Great Places to Work, "UK's Best Workplaces in Tech 2022 - Small (20-50 employees)"
- Better Workplace Mental Health Pledge
- The Mindful Business Charter

Specialist Legal IT Awards

- Corporate Excellence Awards "Best Specialist IT Contract & Legal Services Firm 2022 – UK"
- GameChangers™ Magazine "UK - IT LAW FIRM OF THE YEAR, LAW 365"
- GameChangers™ Magazine "UK - MICROSOFT LEGAL TEAM OF THE YEAR, LAW 365"
- Corporate INTL Magazine 2022 Global Awards "Technology Law Firm of the Year in the United
- Kingdom – 2022"
- Lawyer International's – Legal 100 "Best IT Law Firm of the Year - South East England"

Innovation

- Legal Awards / SME News "Innovator of the Year 2021"
- GameChangers™ Magazine "UK - SUBSCRIPTION LAW FIRM OF THE YEAR, LAW 365"
- GameChangers™ Magazine "UK - GAMECHANGER OF THE YEAR, KIM SIMMONDS, LAW 365"

Kim Simmonds / Entrepreneur Awards

- Global 100 "Kim Simmonds - Best CEO & Founder of the Year – UK"
- Lawyer Monthly's Women in Law Awards "Commercial Law / IT - Lawyer of the Year"
- AI Publishing Global Excellence Awards "Most Influential Woman in Technology Law 2022 – Kent"
- GameChangers™ Magazine "UK - EMPLOYMENT LAW FIRM OF THE YEAR, LAW 365"

Employment Law and Performance Coaching / HAPPY 365

- London Prestige Awards for 2021/22 "Employment Law Firm of the year"
- Lawyer Monthly "Employment Law Firm of the Year"
- Lawyer Monthly "Performance Coach of the Year – Louise Otton"
- London Prestige Awards for 2021/22 "Performance Coach of the Year – Louise Otton"

Finalist / Shortlisted

- National Business Women's Awards NBWA "Business Owner/s of the Year"
- National Business Women's Awards NBWA "Business Woman of the Year – Small (£1 Million to £10 Million turnover)"
- National Business Women's Awards NBWA "Influential Business Woman of the Year"
- Legal Innovation Awards "Marketing Innovation"
- Access Legal's Modern Law Awards "Client Care"
- Access Legal's Modern Law Awards "Boutique Law Firm"
- Great British Entrepreneur Awards for the South East "Service Industries Entrepreneur of the Year"
- 2022 Global Law Experts Annual Awards "Technology Law Firm of the Year in the United Kingdom – 2022"
- The British LEGAL AWARDS "Boutique Law Firm"

Law 365 Ltd

The Lodge on the Common
London Road
Tunbridge Wells
Kent
TN2 5BF

01892 313 943

info@law365.co