Building Value in the Market for Managed Services

An Info-Tech Indaba White Paper

Prepared for N-able by Info-Tech Research Group, Indaba Division

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Introduction

The managed service provider (MSP) business model offers many advantages to solution and service providers looking to expand and evolve their businesses. This is especially true within the context of the growing cloud economy, and the opportunity to move beyond a reactive, break-fix model of traditional IT service and support.

In addition, there's the lure of stable, monthly recurring revenue that has attracted many partners to the MSP model, but also the potential of developing a tighter and deeper relationship with clients. Achieving this latter point helps drive greater insight into the client business, and the identification of additional opportunities that increase partner revenue.

However, as more and more solution providers assess, build, and launch MSP businesses, a number of key challenges are being uncovered. Many customers, as an example, are unfamiliar with the benefits of the MSP model for procuring IT services, and need to be educated. Equally daunting are cultural changes required in partner businesses, from sales and technical staff practices, to sales compensation and technical skills.

An MSP business also requires investment in areas such as systems and process management, and operational best practices and methodologies. Investment determines to a certain degree the level of MSP capability, in that budgets for infrastructure and software to support the business, or decisions to outsource to a third-party, will dictate the type and volume of business that can be sustained.

This Info-Tech Indaba white paper provides a research-backed perspective on the market dynamics driving the adoption of the MSP business model, the benefits and challenges that come with MSP capabilities, and how solutions from vendors such as N-able are being utilized by MSPs in the field.

MSP Business Model Benefits

Cash flow and financing are often key challenges for solution providers, so the opportunity to develop a stream of steady, recurring revenue is one of the more attractive value propositions of the MSP business model. A successful MSP, even if that business represents only a component of a larger portfolio of offerings, knows its guaranteed run-rate of revenue at the beginning of each month. This represents a crucial safety-net in a business that might otherwise experience financial peaks and valleys.

Predictable revenue in an MSP model can have positive outcomes for an organization, including improved cash flow. MSPs also benefit from operational predictability, or to put it differently, being less operationally reactive, i.e. no need to scramble to add staff or make adjustments to their approach when a major new contract is signed.

Benefits go beyond predictable revenue to driving greater transparency with clients. Utilizing the built-in reporting of third-party systems management solutions allows MSPs to make IT, and its services, less opaque by tangibly demonstrating exactly what it does for a client on a daily basis. This allows for an above-board review of what should be the indispensable value the MSP provides to the client (e.g. operational efficiencies, cost savings, etc.), which leads to greater "stickiness" in the relationship (see

Figure 1: Info-Tech Indaba survey results of North American partners on the value to their clients of cloud-based services).

Figure 1

Where are your customer seeing the most value?
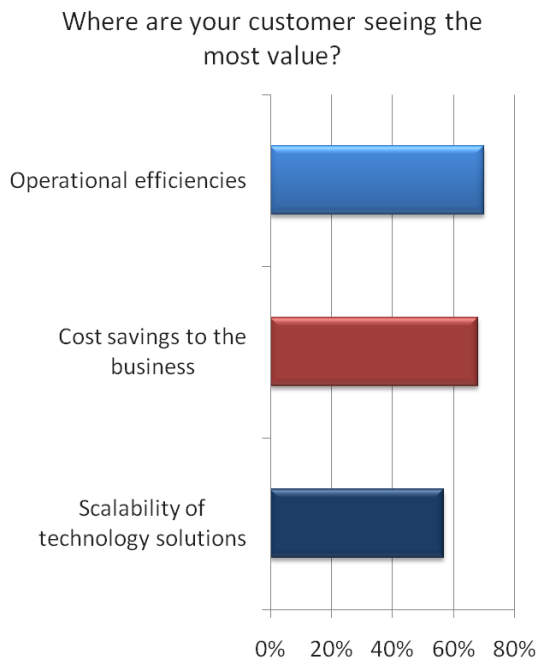
Source: Info-Tech Indaba

The stickiness developed in the MSP/client relationship can be a greater benefit than the higher margin sales MSPs can experience. An opportunity to develop a deeper, more trusted relationship with clients can define an MSP's ongoing success and growth. Clients of MSPs tend to stay on for the long-term, and once that relationship is established the opportunity for cross- and up-selling increases. An example is an MSP providing back-up services, but then winning the opportunity to add complementary services, such as security.

In this same vein, successful MSPs are able to leverage near-constant visibility into client business networks to predict failures before they happen. This allows for proactive recommendations for remedial action, which can often lead to further sales.

MSP Business Model Challenges

Building an MSP business can bring some initial challenges, especially internally. The trade-off for the recurring revenue model is that the revenue represents smaller increments over time, rather than in large up-front payments. For this reason, MSPs are required to manage their businesses carefully to ensure fiscal and technical resources are in place to support growth, and to ensure new customers can be on-boarded profitably.

The MSP model can also be a big change for both sales and technical staff used to working in a more traditional break-fix environment. From a sales perspective, compensation will tend to come in a different form. That is, where traditional compensation can be high based on a one-time sale and transaction, the MSP model can pay commission on incremental revenue.

Commission challenges can also be exacerbated by a need to attract motivated and skilled sales staff that can speak the right language to the right individual at the client. This usually involves being able to articulate a business need, as opposed to a specifically IT-related one, and convincing business leaders, as well as IT, of the value of the solution. An Info-Tech Indaba survey of North American partners revealed a host of skills to be developed for successful engagement with cloud-based services (see Figure 2).

Figure 2
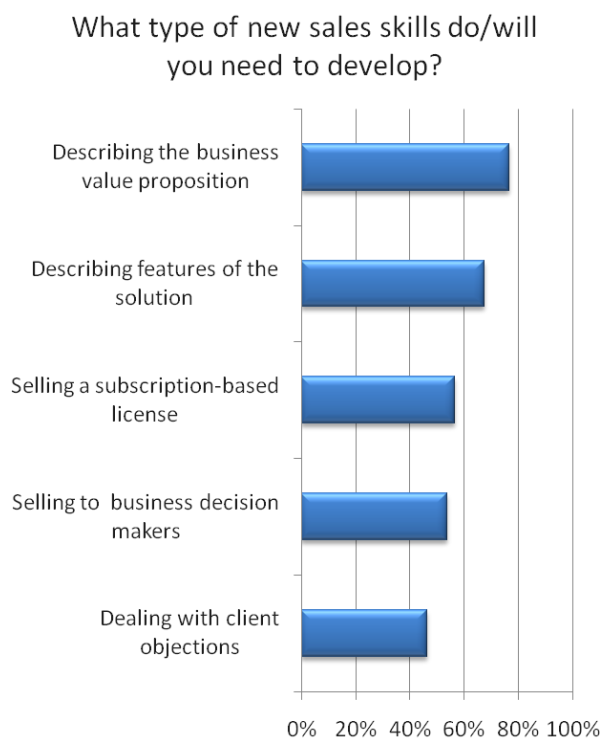
Source: Info-Tech Indaba

For technical staff, and according to one MSP, "the change from a slower-paced break-fix model can be jarring". This is partially the result of process automation and management tools, which make it possible for technical staff to be responsible for many more client seats than in the past. In addition, rather than waiting for something to break, technical staff can be tasked with proactively monitoring and identifying opportunities for action and mitigation. In essence, it's about developing a deeper understanding of the customer business than it is to be simply a repairman.

MSPs have, in fact, identified talent as one of their top business challenges and a key growth inhibitor. Growing MSPs are always on the hunt for talent, which is in short supply due to the newness of the MSP model, but also because seasoned IT staff aren't always the right choice. A case in point is one MSP that said it prefers to hire talent straight out of college because IT staff that have gained experience in the more "lackadaisical" world of corporate IT can't often adjust to the relatively fast pace of the MSP business.

Ideally, MSPs require technical staff that can deliver quality service to the client, but that can also continually look for ways to automate processes to deliver more value to the client at lower cost to the business – no small feat. Data integration skills are paramount too, especially with cloud augmenting or replacing some on-premise systems and applications.

Outside of being positioned to provide managed services, there remains the challenge of convincing clients that procuring IT services through a managed services model is the right approach. Even selling into an existing on-premise client base, where trust has already been established, is no guarantee of success. The value proposition of a relatively new, more proactive model of IT service delivery takes time to be established.

An interesting way that MSPs are overcoming these objections is in helping clients understand the functions and costs involved with internal or on-premise IT expenditures that they may only see as a budget line-item that obscures maintenance and management costs. The transparency of the MSP billing model can be a good way to overturn objections.

Evaluating Systems Management Solutions

In the process of building an MSP practice, consideration inevitably turns to required infrastructure hardware, software, and services, and third-party relationships. What's right for each organization will depend on their appetite for investment. However, MSPs and enterprise customers understand that managing increasingly complex heterogeneous IT environments requires solutions that can centralize and simplify systems management.

To this end vendors are responding with customizable and extendable solutions to meet these requirements. Even many large vendors are attempting to provide all-encompassing solutions with options to extend the product or integrate with other products in this space to meet demand for platform-agnostic solutions.

Info-Tech's Vendor Landscape research on systems management solutions provides a comprehensive list of criteria for evaluating competitive offerings. Systems management software should be viewed first from the perspective of "table stakes" features, or base requirements (see Figure 3). If these are the only requirements of a systems management solution, the only differentiator may be price.

Figure 3

The Table Stakes

Feature	Capabilities
Automated Discovery	Are devices on the network detected automatically?
Unified Monitoring	Is there single-pane-of-glass monitoring for servers, databases, networks, and storage?
Centralized Monitoring	Can you monitor multiple data centers from a single location?
At least basic Incident Management	Does the solution integrate with help desk systems and troubleshooting capability?
Reporting/Multiple Export Formats	Is there robust reporting and can you export it in a useful way?

Source: Info-Tech Indaba

All systems management vendors should offer strong capabilities across these five table stakes features. Differentiation in the market, however, is defined more by the advanced features (see Figure 4). These should be of high interest to MSPs, including the ability to monitor environmental metrics like server temperature and power usage, and SLA compliance. Advanced incident management tools such as automated root cause analysis and remediation/self-healing are also highly beneficial. This latter feature is very close to becoming a table stake since all vendors provide it to varying degrees. Info-Tech believes the key differentiators in the market going forward will be automated capacity management, the ability to customize or extend the product, and support for a wider range of platforms.

Figure 4

Advanced Features

Feature	Capabilities
Monitoring Environmental Metrics	Ability to monitor at least server temperature and power usage.
Monitoring Cloud-Based Services	Measure up/down status as well as metrics such as response time.
SLA Management and Business Views	Monitor SLA compliance and provide business services views of infrastructure.
Advanced Incident Management	Automated root cause analysis and remediation/self-healing.
Automated Provisioning/ Configuration	Server, network, database, and storage provisioning and patch management.
Automated Capacity Management	Dynamically re-provision/shift resources to meet ups and downs in demand.
Advanced Capacity Planning	Data center forecasting and scenario modeling.
Financial Management	Chargeback functionality plus asset management functionality/integration.

Source: Info-Tech Indaba

In addition to product features, Info-Tech recommends extending the evaluation process to other important areas, more specifically related to the three-year cost of the solution, its usability, and architecture (see Figure 5). Not to be overlooked is the vendor itself. It's important to take note of vendor commitment to the systems management market, and more specifically for MSPs, whether the vendor has a focus on the MSP market.

Figure 5

Product Evaluation

Features	The solution provides basic and advanced feature/functionality.
Affordability	The three year TCO of the solution is economical.
Usability	Topology diagrams, customizable dashboard, mobile-based administration.
Architecture	Multi-platform, multi-system support (servers, network, databases), and extendable.

Vendor Evaluation

Viability	Vendor is profitable, knowledgeable, and will be around for the long-term.
Strategy	Vendor is committed to the space and has a future product and portfolio roadmap.
Reach	Vendor offers global coverage and is able to sell and provide post-sales support.
Channel	Vendor channel strategy is appropriate and the channels themselves are strong.

Source: Info-Tech Indaba

N-able's N-Central 9.0

Some traditional systems management vendors have developed managed services offerings to complement end-customer businesses, while other vendors, including N-able, have developed solutions directly in response to the MSP opportunity. This company's flagship product, N-central, is a remote monitoring and management (RMM) and service automation platform.

Solutions such as N-central help to lower the barrier of entry to the MSP market for partners by allowing for white labeling. N-able's managed service offerings can be bundled with a partner's offerings and service capabilities. It also provides MSPs with a platform to automate routine IT processes for clients such as updating patches, resetting passwords, running defrags, deploying and updating applications, performing asset management, and maintaining antivirus applications.

An automation platform also helps MSPs better utilize their staff by enabling each one to manage more remote devices more effectively. In the case of N-central, multiple networks and sites can be managed from a single interface (including software and hardware in virtual environments), and devices can be remote controlled at any time. It also offers reporting capabilities to assist partners in demonstrating

the value of a broad range of managed IT services to clients. In addition, and more specific to helping MSP's establish profitable businesses, N-able provides access to best practices and standards for process automation with its Integrated MSP Technical Runbook.

MSPs also benefit from flexible billing and marketing, with the choice to either completely white label the N-able services or use N-able's brand to help give them credibility in the marketplace.

N-Central in the Field

MSP Case Study #1

Accel Computer Service, based in Belgium, has 32 employees at two offices, and annual revenue of 6.2 million Euros (48% of this is from managed services customers). The company had been wholly focused on break-fix services and resale prior to branching into the MSP market in 2006, and expects to grow its MSP revenue this year by 20% with a focus on SMB customers with little or no internal IT knowledge or staff.

The MSP portion of its business includes 120 fully managed clients with back-up, telephone support, servers, storage and their own cloud services, and more partially managed customers. Accel Service manager, Wim Lamot, is targeting revenue of € 180.000 per helpdesk technician with the help of N-cental's Automation Manager. This allows for shifting technicians from routine tasks that can be automated so they can focus on higher-value activities customers are willing to pay more for, such as specific instillations and training.

"We are mainly focusing on automation and self-healing. The more we automate the less we use a technician for that activity and can transition them to higher value activity," said Lamot. "This version of Automation Manger adds a visualized way of creating scripts – junior technicians can start using these scripts to fix problems. The less time taken by a technician to solve a case, the more revenue there is."

After transitioning from a competing vendor's system management solution, Lamot identified a key benefit of working with N-able as its flexibility as a business, and its solution's ability to integrate with other platforms, especially Autotask. "We can split up the NOC a little more where regular helpdesk calls go to another queue, you can better prioritize issues with clients, and connect to a particular device on the network," he said.

Equally important for Wim Lamot was the availability of technical and sales best practices, which act as a validation point for the company's MSP business. At the same time it provides a better understanding of how the product works and why things occur when they do. All this has led to the company's ability to actively sell solutions as they become available through N-central, including endpoint solutions and backup. "Each time N-able implements a new technology in their system we're going to sell it," said Lamot, adding that future focus areas include third-party patching and URL filtering.

Lamot also identified N-able's "freemium" program, Essentials, which provides partners with a supply of free licenses for different N-able offerings to help convert prospects and up-sell existing customers, as key to its growth by helping customers see the value first-hand. "When we have a break-fix customer we

use the Essential agent, which becomes the hook for us to get them used to this part of our business," he said.

MSP Case Study #2

With three locations in the U.S., Corsica Technologies of Maryland employs 36 on revenue of US$4M, 40% of which comes from managed services. The company grew its MSP business by 52% last year with a more proactive sales approach, focused predominantly on the SMB market. It currently manages 3,300 devices for 175 clients.

Corsica President, Dale Walls, says the company has been able to grow its MSP business in conjunction with N-able, building from a reactive approach without focused sales staff to having account managers dedicated to customers and retention. According to Walls, the N-able partnership with Corsica goes beyond the product in providing a framework for supporting the MSP's business, including template service agreements, commission charts, and calculators. "They provided a lot of the big answers we needed in evolving our business – they allowed us to get to market and get going," he said.

Corsica continues to build key relationships with IT departments that are proactively searching for ways to help supplement their operations specific to solutions such as helpdesk and Software-as-a-Service. In addition, Corsica's growth, according to Walls, is also supported by N-able's capacity to add new solutions that integrate well with its existing platform, which the MSP can add to its own offerings to maintain a steady pace of growth in recurring revenue.

"Having that measurable monthly recurring revenue is important," said Walls. "We've done a lot to improve cash flow, we don't carry a lot of receivables, and we're operationally less reactive in that we're able to see when we need to add staff or make adjustments to the business. We pretty much know what's coming at us each day."

It's also worth noting that Walls views the N-able relationship as more than just a case of pushing out new solutions. He emphasizes the value of N-able physically engaging with the partner to help them bring the new solutions to market and adopt them for their clients, but also in providing a "blueprint" for converting legacy clients based on proactive monitoring and reporting systems and processes. This "real-time" view into customer networks has allowed Corsica to convert at least 50% of its customers to an MSP solution.

Lastly, Walls equates his company's relationship with N-able since 2006 as "owning rental property without a mortgage – I just keep making money off of them." He expects this to continue with N-able's recent N-central upgrade to version 9 that provides the company with increased productivity through automation manager: "It allows us to take a deeper dive in automating routines for customers, like maintenance on servers and PCs – we can program the processes and requirements to be based on the push of a button, rather than using our technicians to follow those routines."

Floating Byte is a small European MSP with 22 employees and revenue of one million Euros, 35% of which is MSP-specific. The company began its MSP business three years ago with hosted Microsoft Exchange, evolving to more advanced technical managed services through its N-able relationship started two years ago. It currently manages 2,500 devices for 350 clients, and expects its MSP revenue to growth 150% this year.

This MSP developed a formalized go-to-market strategy around N-able's freemium Essential client to lower the risk and barrier to entry for new customers. As an example, Floating Byte installs the client on every non-managed service client workstation. According to the company CEO Sjoerd Slabbers, this provides vital information about the customer network that the sales team can then use to proactively bring the client in under a managed service offering. It also provides current customers with a taste of a new solution, such as anti-virus, with the hope that they'll find it indispensable. "It costs less remotely than on-site, so many switch," said Slabbers.

Because Floating Byte serves primarily the health care industry, regulations and compliance are very important. To this end it developed its own standards in combination with N-able's Run Book best practices that are particularly helpful in on-boarding clients.

"We used Run Book to build new standards, and there are various standards required for delivery and automation in this industry," said company Slabbers. "Procedures like on-boarding a client are very important. There are a lot of other inexperienced partners in our market, so we notice issues when we take over a client that needs to be corrected with appropriate rules and regulations."

N-able's reporting has also been an important differentiator for this MSP, giving them the capability to see what's going on in client networks and preventing issues and errors before they happen. More important is the fact that Floating Byte has been able to tangibly show the value of its service to clients by saving them money. One example provided by Slabbers was the monitoring of printers on a client's network that reporting revealed had high repair costs based on using sub-par consumables. Across 600 printers the savings in a year amounted to $250,000 Euros.

 "Our perspective is we can show our clients what we're doing, as opposed to what we did, because of N-able reporting – it's more open and transparent," said Slabbers, adding that acquiring and servicing customer is faster because employees can be better used in providing improved service delivery and quality.

Conclusion

Solution providers may not all be ready, willing or able to leave the traditional IT break-fix sale and support model behind, but evolving customer expectations are hastening this decision-making. This is especially pressing with the growing market adoption of cloud computing, and the need for solution providers to evolve business models to stay current and relevant. The development of MSP practices will be one area that solution providers will continue to make ongoing investments.

However, any one solution provider should carefully consider the pros and cons of building an MSP practice, and the tools available from third-party vendors that can make this transition possible, and potentially easier. Becoming an MSP offers access to consistent and relatively high-margin business. More important, however, is its ability to provide closer contact with clients for longer-term engagements.

Info-Tech Indaba believes that current trends such as virtualization and cloud-based computing are re-sharing the data-center, and raising the stakes in deployment and management for end-customers.

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Mailing Address:
Info-Tech Research Group
43 Front St. East, Suite 200
Toronto, Ontario
M5E 1B3
Toll-Free: **1-888-670-8889**
Website: **www.infotech.com**