Setting Your Company on the Path to Cloud-based Services

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As a business manager, you lead the fight every day for sustainable profitability. You spend much of your time devising ways to stay profitable on shrinking product margins and rising labor costs. You have one good project and then a bad one, and the cycle repeats. In the end, the blended gross margins on your installation work is likely to be somewhere between 20 and 30 percent. After making payroll, paying suppliers and normal business expenses your net profit can be 10 percent or less. Sound familiar?

Transitioning from Products to Services

Many integrators have concluded that product and installation revenues alone are not sufficient to support a healthy organization in the long term. Following the lead of the IT Integrators who made this transition in the 1990's, smart integrators are moving from an installation to a service focus. Services offer several distinct advantages over simple installation revenue. Services provide the opportunity for higher gross margins, less risk, higher customer perception of value, more impact on the valuation of your company and an increased opportunity for repeat business. These are all great reasons to be focused on building service revenue.

Setting your strategic direction towards building a stronger recurring monthly revenue (RMR) base is a great first step to achieving higher revenue and profitability goals. Now, you'll need to make a series of tactical decisions on which services to offer and how those services will be delivered and supported. For years, the primary security industry service has been alarm monitoring. It's the most basic type of service—simple to install, with a clear value proposition and well-defined service parameters. Some integrators chose to make the investment in their own central station and others created partnerships to outsource this function. Both models work. Individual businesses made the choice between in-sourced and outsourced generally based on a judgment of how their resources could be deployed to provide the best return on investment for the least risk.

The Next Generation of Services

Integrators looking for a next generation service to offer will likely hit upon access control and video as potential product lines. Here they are faced with the same choices as in the alarm business, build it yourself or outsource it. Again, both models work, but building it yourself still requires a significant commitment of time and resources. Another difference in hosted access control is that the business model is a bit less defined than alarm monitoring. Some companies offer self-service hosting where the customer makes use of a remote application, but essentially operates the system as if it were on site. Other companies offer "managed services," which rolls up the hosting of the software with other common access control functions such as cardholder administration and report generation. The services you choose to offer can be customized to fit the markets you are trying to address as well what your customers want to buy and the resources you have available to deliver those services.

Let's look at the basic options available to integrators today seeking to add next generation recurring revenue services to their product portfolio.

The Hosted Access Control Options

If you type hosted access control in your search engine, you'll see a number of results from a variety of companies. Many will be integrators who are reselling one of the two types of products we will outline below. The primary manufacturers that turned up in my search were Kantech with hattrix, AMT and Brivo. These are three interesting results since Kantech offers a solution that integrators host themselves; AMT offers both self-hosted and AMT hosted solutions; while Brivo is exclusively an outsourced services provider. These are just three of the companies that offer hosted access control platforms and many more are bound to enter this market. Next, let's turn to a deeper evaluation of the pros and cons of self-hosted versus outsourced hosting solutions.

Self-hosted: With a self-hosted solution, the access control manufacturer provides software that you install in your data center and establish as a shared hosting infrastructure among your clientele. Acquisition costs for the hosted access software can range from $5-$50K depending on the system. The integrator will then need to add the data center environment, broadband network, computers, UPS and, of course, the IT resources required to operate the system. Fortunately, several companies such as Rackspace, Amazon and Microsoft offer something known as Infrastructure as a Service (IaaS). As depicted in the graphic below from Rackspace[1], IaaS providers can handle many of the details of a hosted system for you.
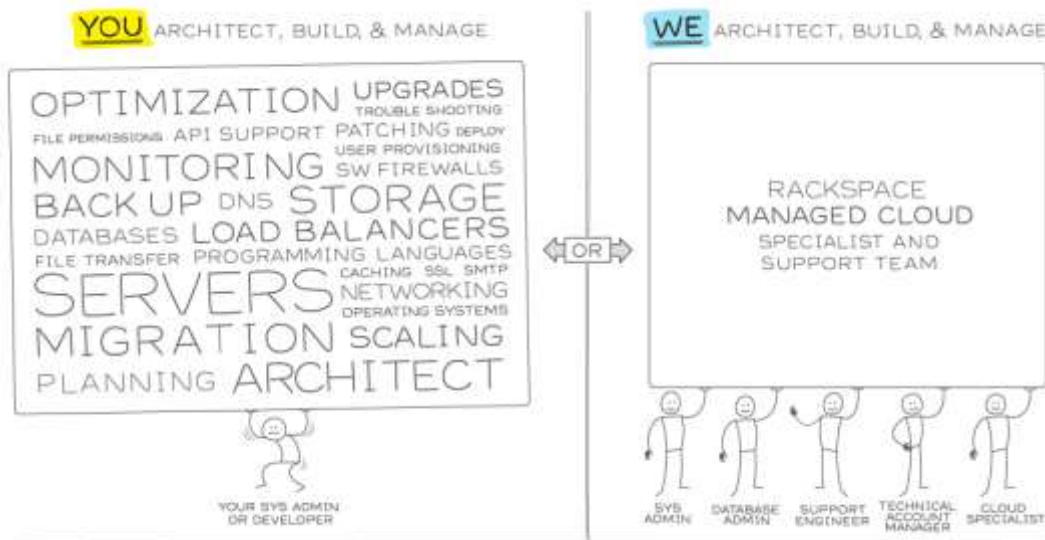
IaaS costs vary from a few hundred to several thousand dollars per month depending on a variety of factors such as computing resources, bandwidth consumption, fault-tolerance protections and

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[1] http://www.rackspace.com/cloud/managed_cloud/

professional services required. Using an IaaS provider will help cut down on the up-front expenses and on-going resource commitment, but the integrator will still generally be responsible for maintaining the application and for handling such issues such as up-time, data privacy audits and information security.

Outsourced hosting: Another option is to shift responsibility for the operation and management of the complete solution to a Software as a Service (SaaS) provider. SaaS providers take responsibility for all of the items mentioned above in the Rackspace example, along with providing the core software application, data privacy and data security.

Web-hosted products are centrally operated at a data center and shared amongst thousands of different companies. This model is called a *multi-tenant* SaaS application. Other examples of SaaS products for business are Salesforce.com, Workday and NetSuite. If you haven't heard of these companies you owe it to your business to check them out and see what they do. Forrester Research says the SaaS software market is growing at 25% per year.[2] Why such solid growth? Because SaaS customers choose to leverage the infrastructure and operational capability investments made by SaaS companies rather than making those investments themselves.
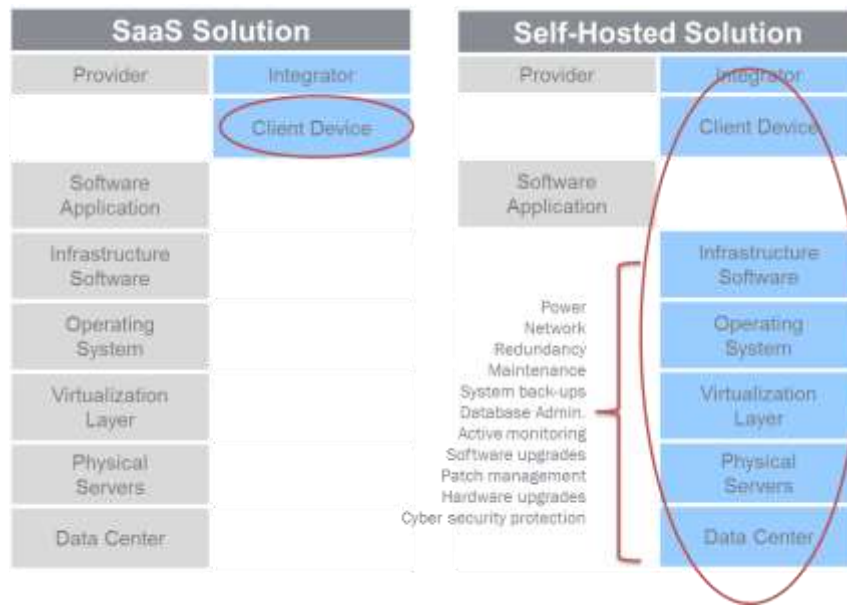
Since the infrastructure is shared among many users, SaaS applications are very robust and cost-effective. The entire application is accessible from a browser and can generally be used on any computer or mobile device. Web-hosted solutions are also self-provisioned, scalable on demand, and typically purchased on a "pay as you go" basis. It's not necessary for you to purchase any application software to operate a SaaS product. This has greatly lowered the barriers to entry in many industries and generated a wave of new growth in small business.

How Do Outsourced and Self-Hosted Compare?

The graphic below provides a summary of the main differences between an outsourced (SaaS) and a self-hosted application. In the SaaS solution, the integrator will need only a computer with a browser to set up and manage the SaaS application. The SaaS provider should handle everything from the software application to the computers and datacenter environment. SaaS companies will provide a Service Level Agreement (SLA), which guarantees the operation of the system at a particular availability level such as 99.999%. "Five 9s" as it's called, translates to less than six minutes of downtime per year.

In the case of a self-hosted solution, the software provider will supply the application and the integrator will be responsible for creating the self-hosted operating environment. As detailed earlier, the integrator can choose to provide the data center, servers, power, cyber security protection measures and IT resources themselves or outsource it to an IaaS provider. In the self-hosted case, it will be up to the integrator to decide if they are going to provide an SLA and what uptime their infrastructure will be designed to deliver.

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[2] http://techcrunch.com/2013/01/03/forrester-saas-and-data-driven-smart-apps-fueling-worldwide-software-growth/

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A New World of Standards

While central alarm monitoring was a unique security industry service with a limited amount of industry-wide operating standards such as the CSAA Five Diamond Certification Program[3], web-hosting is a global IT service with well-recognized operational standards. Integrators looking to provide self-hosted services meeting IT standards, should become familiar with the Cloud Security Controls Guidance published by the Cloud Security Alliance Organization. The mission of this organization is, "To promote the use of best practices for providing security assurance within Cloud Computing, and provide education on the uses of Cloud Computing to help secure all other forms of computing"[4].

Another useful tool is NIST Special Publication 800-53, Revision 3, titled, "Recommended Security Controls for Federal Information Systems and Organizations". While the NIST document is particular to the Federal government, the concepts and recommendations are directly applicable to an integrator looking to provide hosted IT services. Yes, that's right: when you choose to provide hosted or managed access control and/or video services, you are providing hosted IT services and will be expected to comply with these standards.

Regardless of the infrastructure choice made between self-hosted and outsourced (SaaS), using the baselines provided in these standards, integrators should be prepared to answer the following types of questions from prospective clients:

1. What is your track record of availability and SLA guarantee?
2. What are your data security controls and how are they audited?
3. Do you have multiple, secure, disaster-tolerant data centers?


[3] http://www.csaaintl.org/csaa-five-diamond-program/
[4] www.cloudsecurityalliance.org

4. Does this service require any inbound holes in my firewall?
5. How does this service perform device authentication?
6. How do you perform on-going vulnerability assessments?
7. Does this service provide two-factor administrative authentication?
8. How do I integrate this service with other business applications I have?

Once the decisions have been made on how to provide the services, we can now turn our attention to the fun part, choosing how and where to sell your services.

Ready to Sell?

Hosted and managed services require a professional, consultative sales approach. This is not bid work; projects are generally not advertised as RFPs. You have to go find the opportunities. The sales process for a service-based business typically follows the steps outlined in the image below. Note the high reliance on professional selling skills such as research, needs assessment and conveying the business value of your solution. Looking around for projects advertised for bid simply will not help you build a healthy recurring revenue stream.
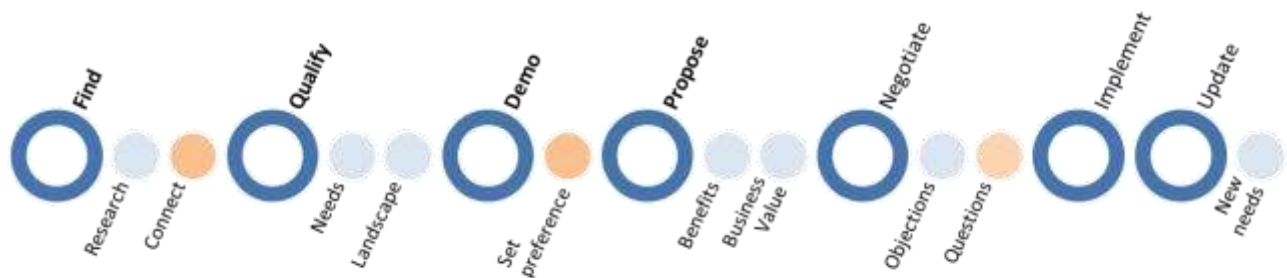
Now that you are ready to find customers, how should you do it? Here is a list of potential ways to generate leads for your business.

- Website and search engine optimization
- Direct mail and email campaigns
- Local associations (BOMA, IFMA, ASIS)

- Architects & Engineers
- Security consultants
- Telemarketing

- Referrals
- Leads from your SaaS partner
- Working the territory

Examples of business types that are good prospects for hosted and managed services include any of the following :

- Medical offices
- Fitness chains
- Housing authorities

- Child care locations
- Government
- Multi-tenant properties

- Law firms
- Manufacturers
- Multi-family properties

- HOAs
- Schools
- Utility companies

Prospect Case Study: Property Management

Taking a closer look at one particular prospect type, namely Property Managers, we can start to connect the service we want to offer to the needs they may have. The ideal profile for a property management prospect is a company that owns or manages higher-end buildings (class A or B). These firms generally must manage multiple properties in a competitive environment. They are highly concerned with tenant satisfaction and also reducing their own risks, workloads and ultimately their costs. A hosted access and video solution will assist in these objectives by providing high service levels with optimum scalability and flexibility at the lowest possible operational costs. In addition, since hosted services are generally billed on a monthly or quarterly basis this aligns well with the Property Management business model, where rents are collected on an incremental basis.

Ideal Profile	Key Contacts
Class A & B Properties	CFO/CIO
Multiple buildings and clients	Site Property Managers
Progressive, Retention oriented	VP Property Management
Competitive leasing environment	VP Property Development
Tenant satisfaction/retention	Anytime, Anywhere
Revenue Enhancement	Infinite Scalability
Risk/work-load shifting	Less Cost
Capital cost avoidance	Less IT
Main Interests	**Best Entry Points**

Once we have made it in front of the prospect we have to focus our sales approach on the benefits and business value of the hosted solution as opposed to touting technical capabilities. This can be a difficult transition for many security salespeople who invest a lot of time learning the "speeds and feeds" of various products. To get you started, below is a short list of the basic positioning statements that will appeal to our Property Management prospect:

- One "key" for multiple properties/doors
- Simple to activate and deactivate access rights
- Access rights granted by time and location
- Built-in audit trail and reporting
- System grows with their needs
- Eliminate re-keying expenses

Once we have our prospects attention, it's critical to be able to answer the simple IT-related questions that we covered earlier. If you don't have the answers then your sales process will stall. It's also important to demonstrate your solution. If you are claiming to have a simple, web-hosted application, then be prepared to log-on and show your prospect how simple it is. Let them have a demo account and play with the system themselves. This is what they have come to expect from other IT SaaS services, so just like the technical benchmarks established for cloud service providers, your salespeople will be facing sales benchmarks established by the wider SaaS provider community. Be prepared to give them the tools needed to compete and win.

Wanting to be in the RMR business is a great start. However, succeeding in building an RMR business will take continuous effort, focus and discipline. You should know that this effort will be worth it. There is a mountain of evidence that tells you that the old way of just selling hardware and installation is not sustainable. Start the renaissance of your business by getting out of that installation rut and forging a new future for your service-based business with hosted access and video.