The Managed Services Sales Imperative

How emphasizing sales and capacity utilization builds and sustains MSP profitability

continuum

MANAGED SERVICES TRANSFORMED

The Case for Increased Sales Focus

If cash is the lifeblood of every business, sales is the heart that keeps pumping cash through the system. The importance of sales cannot be overstated: A business is empty if no one consumes its products and services, and it takes sales organizations and people to bring products to market. It's that simple.

In managed services, a strong sales philosophy and organization aren't just important – they're imperative. Here's why:

- Compared to product-based businesses, managed services are even more dependent on cash flow for their profitability and, ultimately, long-term viability

- Without the continual influx of new accounts and recurring service fees, managed services businesses will become increasingly less profitable and less competitive

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Success in managed services isn't just the creation of recurring revenue through service payments, but the continual addition of new accounts and the utilization of service capacity that ultimately makes the investment worthwhile. Failure to concentrate on sales doesn't result in steady state – it results in stagnation that gives way to the erosion of competitiveness on the road to irrelevancy.

The marketplace has already proven that this notion of continual sales is more than just theory. Thriving MSPs are those that stress their sales infrastructure and practices more than any other facet of their organization. They will add more salespeople before they add more technology and service capacity because sales keeps the lights on and wheels turning.

The Real Managed Services Business Model

Managed services started with simple channel value propositions: sustained and predictable revenues and profits. If MSPs know how much revenue they will collect each month and what the fixed expenses are, they can more easily calculate their net revenue and gross profit. To a conventional VAR or integrator, managed services are an attractive replacement to rapidly commoditizing products that are increasingly challenged to make money.

Moreover, the managed services model solves other thorny problems in the conventional VAR model: the limited capacity and productivity of break/fix services. Prior to managed services:

- Computer and network repair work was performed by trained technicians deployed to customer sites

- The work was profitable, but capped by the number of hours in a day and having the qualified people on staff

- The amount of gross and net revenue ultimately hit a plateau and, in some cases, limited the number of clients a VAR could accept

Managed services, on the other hand, frees resources by automating many of the administrative processes, which then enables MSPs to support more customers in less time with fewer resources.

The real value of the managed services model, though, is more than just predictable revenue and automated, remotely delivered technology. The operative word in the MSP profit equation is "expenses." If you can control expenses and you have a known recurring revenue stream, you know your profitability with near certainty.

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What are expenses? They can be summed up as the cost of goods and services (COGS) plus the sales and general administration (SGA) plus taxes and other regulatory obligations.

While businesses will always have variable expenses, managed services' costs are far easier to predict because operations are based on fixed investments. And knowing these expenses will help MSPs set prices and identify their profitability tipping point. A tipping point isn't just when a service becomes profitable, but when every new dollar coming in the door adds to profitability.

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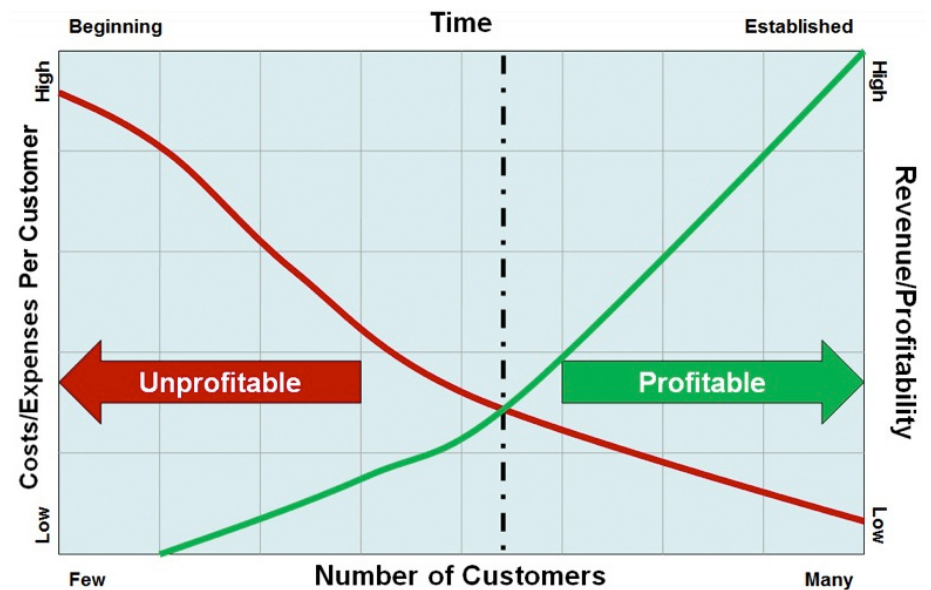
The typical managed services model starts with expenses high and profitability low; with no customers there's no revenue, but there are non-revenue producing capacity. Over time as more accounts are added and revenues climb, profitability climbs and expenses per account decline because more customers are being serviced with the same resources.

Managed services can produce increasing profits because the delivery infrastructure is paid for once, but utilized repeatedly. The greater the utilization of these fixed resources, more profitable an MSP will become without incurring additional costs. The mechanism for maintaining and increasing service capacity utilization is none other than sales.

3 Phases of MSP Sales Execution

In sales, "ABC" stands for "always be selling." For a managed service provider, sales isn't a choice; it's an absolute necessity. To achieve and accelerate profitability, MSPs must do three things constantly and in all their sales functions:

1. Engage with existing accounts to maintain a high retention rate

2. Acquire new accounts to increase service capacity utilization

3. Expand revenue from existing customers

MSPs must constantly engage with their existing customers to demonstrate the value of the services being delivered.

Finding and signing customers is hard enough. Bad news: There's no guarantee a customer will stay with a service provider even after they sign the initial contract. The managed services model creates a dependency relationship between the customer and the provider, and untangling that relationship isn't always easy – but it's not impossible. MSPs must constantly engage with their existing customers to demonstrate the value of the services being delivered. This will help keep accounts from defecting and ensure the foundational revenue stream remains near-constant.

Maintaining the core revenue is extremely important in the managed services model, as that's what provides predictability. If an MSP has a high customer attrition rate, revenue predictability is nearly impossible. It also means every new customer coming in the door is actually providing replacement revenue and not contributing to profitability expansion.

Positive Dynamics of Utilization Tipping Point

With a foundational account base secured, MSPs' next job is to continuously add accounts. The more companies, devices and applications under management, the more profitable an MSP becomes; the service delivery infrastructure and support staffs are fixed, upfront costs. With new accounts constantly streaming through the door, MSPs will eventually reach a utilization tipping point where they will need to add capacity to accommodate new business and service demands. This is good because:

- The cost of expanding infrastructure is often less than the initial cost of building it since the foundational services and processes are already established

- MSP models have shown profitability returns and accelerated growth after each service expansion

Tapping Existing Accounts to Increase Sales

It takes time and investment in marketing to find new clients, and that's an expense that is tough for MSPs to afford. MSPs should leverage membership groups and vendor relationship to gain how-to instruction and customizable marketing content that can help them conduct effective marketing campaigns with very little investment. In addition, the best place to look for new business is often within established accounts.

MSPs can expand their capacity utilization by appealing to their existing customers to add new services or bring more devices under MSP management. While the yield from expanding an existing account may not be as lucrative as a new account, the cost of sales is often lower because the customer is not alien to the service or the MSP.

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Familiarity benefits the MSP in the customer relationship. Studies show end users are more likely to buy additional services from an MSP after they've signed up for the initial management package. Although business owners are often skeptical of the value of service offerings, positive effects stem from:

- Managed services converts an MSP's IT consumption from a CapEx (one-time fixed cost) to an OpEx (recurring expense similar to a lease) model, making IT costs predictable and easier to manage

- Gaining customer buy-in often takes experience with managed services; after the first taste, end users often want to offload more administrative and maintenance responsibility

MSPs may feel the need to invest in service capacity over sales when utilization rates start to climb. This can be a mistake – service capacity is often easier to obtain than sales opportunities and new accounts. MSPs should seek to achieve the optimal capacity utilization to performance ratio (or close enough without jeopardizing quality of service). Placing priority on revenue creation and retention will ensure MSPs have the funds to deliver service whenever it's needed while maintaining financial viability.

Sales Imperative: What Makes MSPs Valuable

Descriptions of managed services are often couched in supported technologies – network management, security, backup and storage. Managed services, though, are first and foremost a business model dependent on attaining, maintaining and expanding customers that consume service capacity. Good sales organization and management are what find and keep customers.

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As technologists by nature, many MSPs are uncomfortable with sales. They would rather remote into a server than do a blind pitch call. And it's no wonder – sales are hard. Salespeople are told "No" more times than not. They're constantly under pressure from customers about pricing and packaging, and from their companies to meet quotas and maintain price integrity. It's not an easy job, for sure. MSPs that do not heed the sales imperative, though, run the risk of leaving their businesses vulnerable to market vagaries and competitive disruption.

The need to maintain the high sales activity described in this report isn't just about profitability; it's about maintaining the ability to invest in new technologies and services that meet current and future market demands. The lower the sales activity, the lower an MSP's ability to generate cash flow and profits to protect itself.

In the eyes of customers, financial viability – a reflection of long-term staying power and stability – is just as important as technical acumen. Maintaining strong fiscal health is tantamount to market relevancy. Profitability is the added bonus.

Architectural guru Frank Lloyd Wright said, "Business is like riding a bicycle. Either you keep moving or you fall down." MSPs that fail to heed the sales imperative run the risk of falling down in what is otherwise a lucrative model with boundless potential.

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About Continuum

Continuum provides a leading SaaS-based managed services platform that Managed Services Providers (MSPs) use to efficiently backup, monitor, troubleshoot, and maintain desktops, servers and other endpoints for small and medium-sized businesses. The comprehensive platform provides an intelligent Remote Monitoring and Management (RMM) solution and an advancedbackup and disaster recovery (BDR) offering branded Continuum Vault – all integrated with an industry-leading Network Operations Center (NOC), delivering a single, unified managed services experience. The company currently employs more than 650 employees worldwide, supports over 3,300 MSPs, and monitors nearly 500,000 endpoints. The principal owner of Continuum is Summit Partners (www.summitpartners. com), a Boston based growth equity firm that has raisedmore than $14 billion in assets. For more information, please visit www.continuum.net.