

# SELLING CLOUD SERVICES TO THE RIGHT CUSTOMERS

How to help more customers make the shift to a managed cloud offering and reach the maximum addressable market

According to Gartner, by 2016 cloud computing will become the bulk of new IT spending.<sup>1</sup> For Managed Service Providers (MSPs) this is a good news and bad news story.

Hardware and software sales have traditionally been an important revenue stream for MSPs. Revenue is generated from the margins on a capital expenditure (CAPEX) and the time and labor to install, configure, and service the hardware or hardware. With this familiar model, an MSP's value is tightly coupled to infrastructure with pricing based on each device managed.

With the adoption of cloud-based services, and a new virtualized world, CAPEX becomes far less relevant as a way for MSPs to generate revenue and create value. How do you move customers to a cloud-based service without losing revenue? What type of customers should you focus on? How do you price and show value when hardware is out of sight and out of mind?

This paper will address these types of questions and address the following:

- How to transition customers to a virtual environment and preserve revenue
- The way to minimize or eliminate the threat of competitive cloud offerings
- The best type of customers to focus on and why
- The key to selling managed cloud to reach the maximum addressable market

This paper will be invaluable if you are an MSP looking for insight to how cloud impacts the pricing and selling of managed services and you want straightforward considerations for ensuring you tailor your cloud offering to the right customers.



## ABOUT THE AUTHOR

David Weeks is a Channel Strategy Manager for SolarWinds N-able. He works closely with our Top Tier Partners and major accounts worldwide to understand their needs, current marketing conditions, and to provide strategic sales and marketing recommendations. A regular presenter at N-able's global and regional summits, David is passionate about ensuring the success of our partner base. Prior to N-able he enjoyed senior positions with CTV Globe Media, Canada's largest Media organization where he worked on the development of sales and marketing strategies nationwide.

<sup>1</sup>Gartner, October 24, 2013, <http://www.gartner.com/newsroom/id/2613015>

## THE MOVE FROM CAPEX TO AN OPEX MODEL

When moving to a cloud-based model, your client will be changing their IT expenditures from a CAPEX model to an operating expenditure (OPEX) model. CAPEX is defined as a business expense that is incurred to create a future benefit. This includes buildings, machinery, equipment, routers, servers and other assets.

Day-to-day expenditures that are required to run a business, such as maintenance, repairs, wages, and utilities are operating expenses. Bernard Golden of CIO Magazine illustrates the point by noting, if a company buys a group of computer servers and puts them in a building to house them; this data center would be a capital expenditure. The costs of *running* the center would be an operational expense.

### 37% OF SENIOR MANAGEMENT IS PUSHING IT TO MOVE SPENDING FROM CAPITAL INVESTMENT TO AN OPERATING EXPENSE MODEL.

2013 CDW, The Cloud Report

As you transition clients to an OPEX model, revenue from hardware and software sales may decrease; however, these are largely commoditized products with dwindling margins. Mission critical customer data must be moved precisely from a physical to a secure virtual environment. And this is where MSPs are picking up high value project work – they are engaging with their clients on a proactive basis, providing recommendations, creating server migration plans, copying all server and apps data, creating new permissions and security settings, and completing the migration with zero impact on the customer environment. This higher value migration work deepens the MSP's relationship with SMB customers while generating new revenue that exceeds the nearly zero-margin revenue from CAPEX.

### Why moving from CAPEX to OPEX changes the pricing model

The distinction between CAPEX and OPEX is important because the moment you offer a cloud-based service, your customer no longer owns the infrastructure. They are paying for a managed service on an operating expenditure level. In a virtualized world, it means pricing for managed services must shift from *per device* to *per user pricing*.

In a recent webinar delivered by SolarWinds by N-able and hosted by *MSP Mentor*, participants were polled (figure 1) to get a sense of what pricing strategies they were using. Responses were consistent with what SolarWinds by N-able hears from our global Partner base; and it further reinforces how cloud is **driving next-generation pricing**.

## HOW TO HELP CUSTOMERS MAKE THE SHIFT

If you have customers that haven't started to make the shift from a CAPEX to OPEX model, the good news is there's an easy way to do it. Reviewing the hardware that has either reached end-of-life, or is close to the end-of-life in your customer base, will enable you to identify your prime, **priority customers for a managed cloud service**. How do you get them started? You provide a proposal for upgrades based on a *virtual* and *physical* model.

### Present a CAPEX and OPEX priced solution

Presenting two proposals underscores the value of a cloud-based service. For example, your customer will get a traditional CAPEX based proposal. This might be to purchase a new server for approximately \$11,000 plus a project fee of \$5,000 for setting it up.<sup>2</sup>

At the same time you also provide them with an OPEX based proposal to virtualize and host the server for a relatively low monthly fee – perhaps \$200 or \$250 per month.<sup>3</sup>

In some respects, this is a lease vs. own proposition. With a CAPEX approach, the customer pays-off a significant capital investment, and you generate recurring revenue from services wrapped around physical hardware. With the OPEX proposal, an MSP builds services into the rental fee to generate consistent recurring revenue.

The fundamental difference created by cloud is that pricing must be based on the value created around the end-user experience rather than traditional device-based management.

Whether your customer is ready to make the move to a virtual, cloud-based solution doesn't matter. What matters is that you have helped educate your customer *and* mitigated the possibility of them talking directly to a competitor or trying to go it alone. You will be well positioned and top of mind when they are ready to move to the cloud.

## “ONE STOP SHOPS” LIKE MICROSOFT AND GOOGLE ARE THE GREATEST THREAT TO AN MSP LOSING CONTROL OF THEIR CUSTOMERS’ IT MANAGEMENT

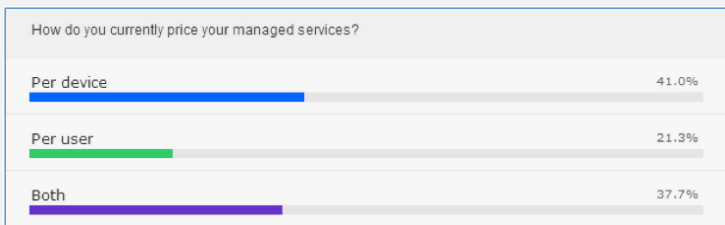


FIGURE 1:

MSPs are shifting from *per device* pricing to *per user pricing*, or a blended model where it's both per-user and per device.

This poll also shows how the managed services space is rapidly changing. Ultimately your customers dictate how quickly you can build out their cloud offerings. Some will not be ready or comfortable in

getting rid of all their physical hardware and moving to the cloud. As revealed by this poll, most MSPs need a *blended approach to pricing* – one based on *per user* and *per device*.

<sup>2</sup> Numbers are for illustrative purposes.

<sup>3</sup> The actual cost per month would vary depending on MSP and economies of scale. The more customers an MSP moves to the cloud, the cheaper the per customer costs become.

## STRATEGIES FOR SELLING TO DIFFERENT CUSTOMER TYPES

While all small and midsize (SMB) customers experience similar IT challenges, they're not all willing or ready to embrace proactive, planned services. This reality is illustrated by the **IT Maturity Model**. Based on Gartner analyst research and SolarWinds by N-able's direct experience with over 2,500 global MSP partners, the Maturity Model segments the SMB market into distinct customer types based on how they value and buy IT services:

### **Break-fix, responsive, proactive, managed, and utility.**

According to the IT Maturity Model, **break-fix** customers have the least amount of IT process and maturity. Their processes are ad-hoc and not documented. 100% of an MSP's technician time is dedicated to reacting to failures discovered by the customer. Break fix customers are generally low margin and costly to manage. The relationship is unpredictable and typically chaotic.

**Responsive customers** are very similar to break-fix except the MSP has documented some IT process and usually offers up/down monitoring. Although 100% of billable technical resource time is dedicated to correcting failures, these are often caught by the MSP using a remote monitoring and management tool.

**Proactive customers** mark a cross over point in the Maturity Model. Now preventative maintenance is at the heart of the MSP's service delivery. As a result, MSPs can minimize the threat of failure, capture performance and capacity utilization information and use service level objectives to set targets.

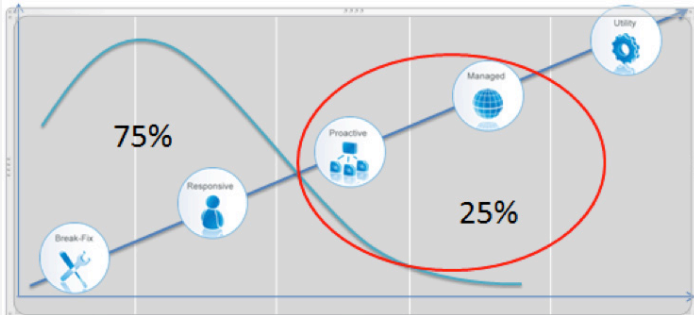
**Managed customers** understand there is a relationship between the effectiveness of their IT system and their bottom line. At this level the MSP manages the SMB's IT systems on the value of the IT components. SMBs want a fixed fee contract for the assurance that their IT needs are being managed month-to-month. They realize that investing in, improving, and maintaining the quality and optimization of their IT system will result in better employee productivity, higher billing, less overall impacts of downtime, etc.

**CUSTOMERS WHO OPERATE IN THE BREAK-FIX AND RESPONSIVE STAGE OF THE MATURITY MODEL SEE IT AS A COST. CUSTOMERS WHO OPERATE IN THE PROACTIVE, MANAGED, AND UTILITY STAGE SEE IT AS AN INVESTMENT AND ARE BETTER CANDIDATES FOR CLOUD-BASED SERVICES.**

**Utility customers** receive computing resources, such as computation, storage and services, as a metered service similar to a traditional public utility (such as electricity, water, natural gas, or telephone network). This model has the advantage of a low or no initial cost to acquire computer resources; instead, computational resources are essentially rented.

## A la carte is your lead-in

A la carte aligns a range of services with the specific needs of the end customer at each segment in the IT Maturity model. This includes managed anti-virus (AV), managed data back-up, managed mobile, patch management, data storage, Office 365, Hosted Exchange and other specific cloud based services. The concept of



**FIGURE 2:**

The IT Maturity Model identifies five levels or stages of IT adoption by SMB customers. Each level represents a market segment with different needs and perceptions about the value of their IT systems.

## Why the Maturity Model is important

Not surprisingly, most MSPs want to provide managed services to the most desirable segments of the IT market: proactive, managed, and utility customers. In reality these customers represent the smallest segments of the market. 75% of the addressable market for managed services actually falls into the *break-fix* and *responsive customer* type. This lopsided marketplace reality is illustrated in Figure 2. Here's the problem.

If you focus exclusively on proactive, managed and utility customers, you'll automatically limit your market coverage and penetration. The majority of customers do not want nor do they have a need for fixed-fee, managed services. They want a simpler, easier to understand solution that provides immediate value in response to a specific IT need. To acquire these types of customers, and sell to 100% of the addressable market, you need a **flexible marketing methodology**.

the a la carte methodology is to productize the service offering and make it extremely easy for the SMB customer to buy from you.

**A LA CARTE IS NOT ONLY A STRATEGY FOR SELLING WHAT ALL CUSTOMERS WANT NOW – AND ACHIEVING 100% MARKET COVERAGE – IT IS ALSO A STRATEGY FOR MOVING BREAK-FIX AND REACTIVE CUSTOMERS DOWN THE IT MATURITY CURVE.**

With managed AV as an example, you install the product, update it regularly, ensure the license does not expire, and provide your client with reporting on a monthly basis to show they are protected. This represents an attractive, single product managed service that will be very

appealing to a business owner. Now they don't have to worry about managing their AV, expiry dates, quarantining items or any other time consuming chores. As the MSP, you have a new customer on your dashboard generating new recurring revenue.

## Moves customers from Break-Fix and Reactive to Proactive

While a la carte is relevant to all segments in the IT Maturity Model, it is particularly valuable for selling to *break-fix* and *reactive* customers. These customers need to be educated, courted, and shown the value of a managed service; sometimes one service at a time.

With the flexibility to sell exactly what the customer wants, you are able to ease these customers into a simple, profitable managed services relationship. Once a customer sees the value, you will have a much easier time upgrading them to a more comprehensive *proactive* or *managed* service engagement.

Moving *break-fix* and *reactive* customers – which represent the majority of the SMB market – to a *proactive* type of customer relationship is a critical step in any successful cloud-based strategy. By in large, break-fix and reactive customers are heavily vested in a hardware-based CAPEX model. They are looking for an immediate solution to an IT problem, and are therefore less likely to transition to a cloud model today.

## Proactive customers are a key to selling cloud-based services

Proactive customers represent a critical cross-over point for selling a cloud-based service. These customers have seen the value of proactive managed services. They have engaged the MSP for regular proactive preventive maintenance. These customers can more easily see the value of *infrastructure as a service* and make the leap to a managed cloud offering. One window of opportunity occurs for MSP when their customer's hardware comes to end-of-life. This is where the MSP, a trusted advisor, leverages the customer relationship and provides an OPEX based proposal.

With this approach, on premise workstations, such as desktops and laptops may still need to be managed. However, if a customer is ready, a proposal could recommend the move of one or more servers to a *hosted Exchange solution* using an *a la carte cloud-based offering*. This strategy helps a customer begin the shift from a CAPEX to an OPEX model with you providing *infrastructure-as-a-service*.

## SHIFTING CUSTOMERS TO AN OPEX MODEL RESULTS IN A MOVE TO PER USER PRICING WITH A FOCUS ON THE END-USER EXPERIENCE.

### A la carte and a CAPEX model are a dual strategy

We can now see the important relationship between a la carte and the ability to sell cloud based services. To be a successful cloud provider, you must be able to shift your customer base in two ways:

- Using a la carte to move more customers from a chaotic, break fix relationship to a proactive or managed relationship – and ultimately a utility model
- Shifting proactive, managed and utility customers from a CAPEX to an OPEX model – and providing infrastructure-as-a-service with virtual cloud-based managed services

## CONCLUSION

All MSPs need a flexible strategy for selling to different customer segments, as identified by the IT Maturity Model. At the same time, they are looking for opportunities to present an OPEX based proposal to shift part or all of their customers to a hosted or virtual model.

A la carte is an important marketing methodology and strategy for moving your customers down the IT Maturity



curve towards a proactive and managed relationship. Generally proactive and managed customers represent the cross over point for a managed cloud offer. These customers have experienced the benefits of proactive managed services and are more likely to accept *infrastructure as a service*.

As well, not all customers will be ready to move full bore into a virtual, cloud based service. A la carte is critical for enabling these customers to transition at their own pace – one service at a time.

Once a customer makes the shift to *infrastructure as a service*, they are effectively moving from a CAPEX to an OPEX model. Traditional, CAPEX models focused on device value based pricing. For you, the MSP, this marks an important shift: value can no longer be based on devices and an infrastructure your customer no longer owns. With the shift to the cloud, the focus must be on the end user experience and therefore per user pricing.

## THE SOLARWINDS N-ABLE ADVANTAGE

- SolarWinds N-able offers the most comprehensive MSP transformation solution with a proven track record for helping service providers offer profitable managed and cloud based services. Key planks in the SolarWinds by N-able solution include:
- Managed Cloud – creating a virtual workplace available everywhere
- N-central™, the industry's number one rated Remote Monitoring and Management (RMM) Automation platform
- Unique Hybrid licensing model
- Standalone a-la-carte product offerings for maximum agility
- Blueprint services – architecting the right sales and marketing strategies

### Managed Cloud

The Managed Cloud solution from SolarWinds N-able provides a scalable IT solution designed to deliver 100 percent of your critical business services from our

secure data centers. This eliminates unnecessary spending on infrastructure, guarantees service levels for all services, and empowers your users with secure access from any device, anywhere.

### N-central

The technology foundation for SolarWinds N-able's solution is N-central, the industry's number one rated Remote Monitoring and Management Automation platform. N-central equips MSPs with *a single pane of glass* to provide managed services for every type of customer: from chaotic, break-fix to utility.

N-central includes **Automation Manager**, a fully integrated codeless scripting solution that is based on the industry's first and only standards based *MSP Technician Runbook*, and fully integrated Back-up and Recovery. Automation Manager is a proven solution for removing the inherent complexity of the cloud and automating over 95% of routine IT tasks, optimizing a networked environment, proactively protecting and managing networked IP-enabled devices with agility and delivering managed services to all customers with the lowest cost of service delivery.

### Hybrid licensing model

SolarWinds N-able offers a flexible, Hybrid (FREEMIUM) licensing model with *Professional licenses* for fully managed devices and *free Essential Licenses* for basic management of any other devices.

This unique Hybrid licensing model provides important financial and technology benefits. Immediate financial benefits are delivered through FREE Essential Licenses to target SMB customers who are not yet on a recurring monthly contract. You can use Essentials to deliver services to customers at no cost – or for a minimal fee – to demonstrate immediate value. Upgrade your customer to Professional Licenses once they are ready for a more comprehensive managed solution.



## A la carte products

SolarWinds N-able's a la carte product strategy goes hand-in-hand with our Hybrid Licensing model. Essential Licenses provide simple monitoring and management capabilities. A-la-carte provides SMB customers with individual, managed point solutions. Together these two unique options provide a potent strategy for delivering the specific services that SMB customers want at every stage of IT Maturity.

## Blueprint – a business model for selling profitable managed services

Blueprint provides a structured three phase process for helping MSPs transform their business or re-tool processes for optimal selling and delivery of managed services. This is the most comprehensive industry program of its kind with a proven track record for helping MSPs go to market in the fastest time possible with a suite of new revenue generating services tailored to their customer base.

For more information on SolarWinds N-able and the our managed cloud solution for MSPs

visit [www.n-able.com](http://www.n-able.com).

## ABOUT SOLARWINDS N-ABLE

SolarWinds N-able is the global leading provider of complete IT management, Automation, and MSP business transformation solutions. N-able's award-winning N-central® is the industry's #1 RMM and MSP Service Automation Platform. N-able has a proven track record of helping MSPs standardize and automate the setup and delivery of IT services in order to achieve true scalability. N-central is backed by the most comprehensive business

enablement support services available today and the industry's only Freemium licensing model. Thousands of MSPs use N-able solutions to deliver scalable, flexible, profitable managed services to over 100,000 SMBs worldwide. With offices in North America, the Netherlands and Australia, N-able is 100% channel-friendly and maintains strategic partnerships with Microsoft®, Intel®, IBM®, CA®, and Cisco® among others.

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