

**SO YOU WANT TO
BECOME A MANAGED
SERVICE PROVIDER?**



**FOUR ESSENTIAL REQUIREMENTS FOR BUILDING AND RUNNING
A PROFITABLE MANAGED SERVICES BUSINESS**

WHY VARS ARE MAKING THE TRANSITION TO MSP

Faced with increasing commoditization of their core services, fierce price competition and razor-thin margins, more and more telecom service providers and value-added resellers (VARs) are choosing to make the transition to the managed services business.

Becoming a managed service provider (MSP) offers an immediate path to a wide range of higher-value, higher-margin services that naturally complement the services already provided by VARs. The managed services model also offers a proven strategy for diversifying a VAR's core value proposition and service offerings – making it possible to generate new sources of recurring revenue and increase the overall value they can deliver to both new and existing customers.

This white paper provides several important insights into how you can make a successful transition to MSP. It looks specifically at the reasons why becoming an MSP makes sense in today's IT environment, the four essential elements required to become an MSP, and the proven business transformation tools offered by N-able Technologies to help you build and grow your managed services business.

MAKING THE CASE FOR MANAGED SERVICES

Telecommunications is an expensive, capital-intensive business. The networks needed to interconnect customers require constant upgrading, and price competition is intense. Despite strong growth fuelled by the exploding demand for wireless broadband services, 'margin squeeze' a top concern. While gross profit margins in the telecommunications industry average 86.51 percent, high overhead and capital expenses drive average net profit margin down to 10.99 percent¹. Telecom service providers face even lower profit margins, achieving a net margin of just 3.32 percent².

Managed services provide a way to overcome these challenges and deliver even greater value to your customers.

ABOUT MANAGED SERVICES

Managed services is a business model for generating recurring revenue from a profitable mix of IT services. As a MSP, you serve as your customers' trusted, outsourced IT department, either augmenting their internal resources or providing a comprehensive package of day-to-day management tasks related to the protection and optimization of their IT and network environment.

Adopting a managed services approach allows you to offer IT services that complement your core access business, evolving your value proposition from "providing fast and reliable connectivity" to also include "improving the performance and security of the network and all IP-enabled equipment." You assume responsibility for your customer's entire network rather than commoditized access services and hardware alone. In doing so, you can provide your customers with high-value, business-focused IT services that optimize their network operations and mitigate risk – and deliver new and measurable business value.

The specific services you'll provide to each customer will ultimately depend on their unique needs and circumstances. In fact, many small- and medium-sized businesses will not have a fixed budget for maintaining their IT infrastructure, choosing to hire a service provider only when something goes wrong rather than signing a fixed-fee, ongoing contract. With the right strategy, however, these kinds of customers can still provide important sources of revenue to a managed services business.

¹ Butler Consultants. (n.d.). Free industry statistics. Available from: <http://research.financial-projections.com/IndustryStats-GrossMargin>

² Damodaran, A. (2014). Margins by sector. Available from: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/margin.html

For this reason, most MSPs offer a broad range of value-added IT services to meet specific customer needs, including the monitoring of IP-enabled devices, data backup and disaster recovery, enterprise-class endpoint security, auditing and compliance, data storage, performance reporting and much more. Despite the extensive nature of the MSP service offering, cost and labor efficiencies can be realized by delivering all of these services remotely in an automated fashion using what's called remote monitoring and management (RMM) technology.

WHY DO BUSINESSES NEED A MANAGED SERVICE PROVIDER?

In an increasingly complex and fast-changing IT environment, business of all sizes are looking for service providers they trust to deliver an integrated suite of services to help them efficiently and cost-effectively manage the multitude of systems, networks and devices used across their organizations.

- **Skyrocketing mobile adoption:** Mobile devices and cloud computing have dramatically transformed the way business is conducted – and created unprecedented opportunities for MSPs. As their employees increasingly rely on mobile devices to access corporate assets, businesses now expect their IT service providers to support a variety of personal, non-corporate devices – and with the same level of security and regulatory compliance as traditional IT devices.
- **The rise of the networked office:** In today's knowledge-based economy, easy access to IT equipment is critical for productivity and day-to-day business functions. Even in the smallest businesses, a broad range of IP-enabled devices – from tablets and smartphones to traditional desktop computers – must be able to interface with mission-critical networks such as local area networks (LANs), wide area networks (WANs), virtual private networks (VPNs) and data centers.

- **Increasing reliance on complex systems:** IT systems have become increasingly complex and inextricably linked. Every organization, big or small, depends on mission-critical systems that, if they fail, will have a negative impact on the success of the business. Many companies have the increased burden of meeting stringent industry compliance requirements – and they all must keep up with constantly evolving security threats.

WHAT ARE THE BENEFITS OF BECOMING A MANAGED SERVICE PROVIDER?

Higher business valuation from new recurring revenue and the development of stronger relationships with your customers are two of the most compelling reasons to shift your business model and become a MSP. More specifically, adopting a managed services approach is a great strategy for:

- Generating profit margins of 70 percent or more
- Generating operating incomes of 20 percent or more
- Building new sources of recurring revenue that yield an average business valuation three times greater than the recurring revenue
- Leveraging the loyalty and equity in your existing customer relationships
- Increasing the value you deliver to existing and new customers
- Increasing your 'wallet share'
- Improving the return on your invested capital
- Differentiating your business in an increasingly commoditized marketplace

THE KEY ELEMENTS REQUIRED TO BECOME A MSP

While transitioning to the managed services business model will ultimately bring about many rewarding benefits, the actual transformation from access and hardware provider to MSP is not easy. Not all telecom service providers and VARs will be able to make the leap – and those that fail do so because they overstate the magnitude of the hurdles and challenges they will face. These challenges can include insufficient IT expertise, the upfront costs to hire a data technician, the risks associated with entering a new market, uncertainty about how to productize offerings to customers, a lack of experience selling high-value services, and the inability to provide 24/7 support.

At a high level, overcoming these challenges requires two things: a strong sales force and trusted relationships with your small- and medium-sized business customers. More specifically, these two overarching objectives are enabled by the following critical elements required to make a successful transition from VAR to MSP:

- An RMM automation platform
- A flexible licensing model with modular service offerings
- A strategy for business planning and transformation
- Effective back-end network operations center (NOC) and help desk support services

RMM AUTOMATION PLATFORM

Automation is the key to meeting the IT needs of your small- and medium-sized business customers in a time- and cost-optimized way. A full-featured, integrated RMM platform will enable:

- Automation of routine IT tasks and processes
- Advanced monitoring of IP-enabled devices
- Device-specific remote management and control sessions
- Detailed performance reporting
- Managed endpoint protection

Automation of routine IT tasks

Automation improves operational efficiency, systematization and technician productivity – for example, by reducing the need for on-site visits, accelerating response times and minimizing the number of non-urgent calls that need to be addressed. It also helps bring consistency to service delivery, which becomes especially important as your managed services business grows.

Any number of IT processes can be automated through an RMM platform, including updating patches, resetting passwords, running defrags, deploying applications, managing assets, updating client device software, self-healing (i.e., the automatic correction of common IT issues), and checking networks and devices for regulatory compliance.

The more tasks you can automate, the more efficient you'll become. For this reason, your RMM platform should provide a comprehensive set of ready-to-use, pre-tested automation scripts and self-healing features based on proven IT best practices. Ideally, these scripts should require minimal programming to configure and implement – and all of the scripts should centrally available through a library or technician runbook for easy access and re-use.

Advanced monitoring of IP-enabled devices

You can't manage what you can't monitor. However, many IT professionals still depend on several different monitoring tools to keep their clients' networks and devices in view – depriving them of a single, integrated, 'big picture' perspective that might reveal patterns and allow them to streamline management tasks. Your RMM solution should include a centralized, web-based console for all monitoring, management and reporting functions, providing you with customizable views of all clients and tools; auto-discovery of jobs and devices with specified IP ranges; and visibility into all IT-related activity, including proactive and reactive support tickets.

A complete monitoring solution will also issue alerts based on thresholds defined by you according to the needs of each customer, allowing you to proactively intervene before potential problems escalate into major failures with costly downtime. The most effective RMM solutions provide a view of the entire business network in a flexible and efficient way.

Device-specific remote management and control sessions

As a MSP, you'll need the ability to connect to and control client devices on distributed networks virtually anywhere in the world. Remote management in today's MSP reality includes not only a range of Windows® and non-Windows devices but also an increasing number of mobile devices – as well as any other device that is part of the network or workplace environment and used in the daily course of doing business.

With a web-based centralized management console, your technicians can remotely troubleshoot and fix issues, manage PC and device licenses, patch desktops and servers, gain control over servers and desktops, and automatically distribute software and scripts to PCs and servers.

Detailed performance reporting

Professional, standardized reports have become increasingly important for MSPs: as more and more functions are carried out remotely or proactively, they can go unnoticed and potentially undervalued by some customers. Detailed performance reports allow you to account for all interventions, not only those involving client-technician interactions. These may include backup reports, patch reports, closed ticket summaries, server status reports and disk usage reports – all of which help demonstrate to customers the value of services provided and the benefit you're bringing to their IT environments.

In addition, these kinds of reports are invaluable for jumpstarting conversations on a wide range of IT issues, including IT infrastructure upgrades and performance issues. By communicating your concerns and backing up your recommendations with easy-to-understand reports, you're providing crucial IT insights that will help their business – and cementing your status as a reliable and trusted advisor.

Managed endpoint security

Most small- and medium-sized businesses recognize the importance of antivirus protection, but many have come to regard it as a commodity – in part because of the sheer number of antivirus solutions on the market today, many of which are bundled for 'free' or at low cost into major vendors' security services.

To meet your customers' antivirus needs in an active, value-added way, you require an RMM solution whose centralized management capabilities are capable of delivering standardized endpoint security for all types of customers. When it is fully integrated into the RMM platform, antivirus becomes much easier to deploy for both managed and unmanaged customers alike; system and device security also becomes easier to actively manage because it is part of the continuous monitoring carried out by the RMM solution.

In addition to antivirus protection, your RMM solution should also defend against spyware and other malware, and provide firewalling, intrusion prevention, quarantine, content filtering and real-time alert functionality.

FLEXIBLE LICENSING MODEL WITH MODULAR SERVICE OFFERINGS

Not all customers require the same level of IT support or place the same value on outsourced IT services. To reach the broadest possible number of potential customers, you will need a flexible licensing model with the option to provide modular, 'à la carte' services to address specific IT needs.

Gartner's IT Managed Process Maturity Model¹ identifies five categories of small- and medium-sized business customers based on how each values and buys IT services:

- **Break-fix:** Customer pays an hourly rate as issues occur
- **Responsive:** Customer pre-purchases a block of support hours
- **Proactive:** Customer contracts out key preventative maintenance functions
- **Managed:** Customer outsources IT for a fixed fee
- **Utility:** Customer pays based on usage

1 Gartner Research. (2005). IT Management Process Maturity Model. <https://www.gartner.com/doc/486700/new-technologies-attempt-meet-itsm>

According to Gartner, some 80 percent of today's small- and medium-sized marketplace is dominated by the break-fix and responsive categories of engagement – they buy IT products and services only when they need them. Just 20 percent of the addressable market is interested in fixed-contract managed services. In this context, it is important for MSPs to be able to reach the majority share of the market – that is, those businesses that view IT as a cost and are not interested in fixed-fee contracts.

A flexible licensing model allows you offer not only comprehensive, fully managed professional services but also more limited, trial versions of your services. This approach can help get your foot in the door with customers not yet willing to pay for full-fledged managed services: using trial services to highlight how managed services can address their system vulnerabilities makes it easier to expand your offering when the time is right. Hand in hand with this is the need for a modular service offering, where you can sell single solutions, such as backup or antivirus, as managed services. With this approach, you can meet the needs of break-fix clients with a product that is sold as a managed service, getting customers onto your dashboard and further demonstrating your value.

BUSINESS PLANNING AND TRANSFORMATION STRATEGY

Making the transition from VAR to MSP introduces the need for brand new service agreements, sales scripts and marketing collateral in order to properly position, price and sell your managed services. While a good technology company can provide the 'nuts and bolts' infrastructure for managed services, a complete MSP transformation solution will provide both the technology and the business planning services required to integrate that technology into your practice and develop new sales and marketing programs so you can go to market in the shortest time possible.

To develop the right mix of services for each of your customer segments, you'll also need a solid business plan that addresses some very specific questions related to the business and sales strategy you'll need to employ as a new MSP. These include, for example:

- Do I have a clearly defined service model?
- How profitable are my current contracts?
- Do I know how to sell managed services to different types of customers?
- What is my success rate in converting existing ad hoc customers onto a fixed-fee contract?
- Do I have repeatable processes for ensuring optimum business, marketing and sales efficiency?
- Do I have the right capabilities and skills to achieve my growth goals?
- Do I have a structured approach to lead generation?
- Am I using best-practice selling techniques for managed services?

Answering questions like these will help you create a customized, go-to-market business model that addresses the IT requirements of customers along the entire IT continuum, from break-fix to utility.

BACK-END NOC AND HELP DESK SUPPORT

The final element in the transition from VAR to MSP is the ability to deliver back-end NOC and help desk support services that are specifically engineered for managed services. While you may already be providing activation and technical support services, managed services introduce a wide range of new customer-premise equipment and service-related issues you'll need to address. For example, MSPs typically assume responsibility for monitoring a customer's network for alarms or thresholds that may require immediate attention to avoid an adverse impact on network security or performance – meaning you'll need an NOC that can escalate problems and immediately engage technicians to resolve problems as they arise.

Whether you choose to outsource or internalize your NOC and help desk services, you'll need a plan for addressing the following critical requirements:

- **Space:** What sort of capacity planning, design, implementation and staffing considerations must be made to optimize your NOC and help desk for managed services?
- **Systems:** What are the minimum hardware, software and operating system configurations and versions required for proper application operation and service delivery?
- **Communications:** What are the network, bandwidth and protocol requirements necessary to receive and aggregate performance data and alerts from all of your managed locations?
- **Connectivity:** What kinds of services and processes will enable the seamless transfer of performance data and allow for remote access and control of customer devices?
- **Business continuity:** Do you have backup and recovery strategies in place for ensuring business continuity and service availability in the event of service interruption or natural disaster?

HOW N-ABLE CAN HELP YOU MAKE THE TRANSITION

A recognized market leader in MSP business transformation solutions, N-able Technologies offers a unique, multifaceted strategy for mitigating the challenges identified in this paper and seamlessly transitioning to the managed services model. The key components of N-able's MSP transformation solution include:

- N-central, the industry's top-rated RMM automation platform
- A flexible product offering for meeting specific customer needs – along with the sales support to help you define your service offering and price list
- A hybrid licensing model to market your services to both reactive and managed customers for 100 percent market coverage
- Comprehensive business support services, including dedicated partner development specialists, self-directed educational modules, customizable sales and marketing collateral, and step-by-step guidelines for running a managed services help desk

N-CENTRAL®

- N-central provides the critical technology foundation required to deliver effective and efficient remote monitoring and management. A state-of-the-art, centralized management console, N-central unifies and integrates all the tools used by an MSP under one easy-to-use platform – security, backup, antivirus, patching, reporting, automation, remote control and more – to make RMM faster, simpler and more cost-effective. In doing so, N-central drives up technician utilization while lowering service delivery costs.
- One of the key features of N-central is Automation Manager, a fully integrated codeless scripting solution that is based on the industry's first and only standards-based MSP technician runbook – and provides automation objects for more than 95 percent of your routine IT tasks.

A FLEXIBLE SUITE OF ADDITIONAL PRODUCTS

There's more to a managed services business than just remote monitoring, automation and control. To be successful, MSPs also need to deliver a wide range of value-added services such as security, backup and disaster recovery, mobile device management, and auditing and compliance. N-able's 'à la carte' product strategy offers you the flexibility you need to sell individual IT services that are delivered as a managed service – and in doing so, address the unique needs of all types of small- and medium-sized business customers.

Among the revenue-building add-ons that can be included and managed through N-central are:

- **Mobile Manager** – for tracking critical information about a company's smartphones and tablets, taking remote control when a crisis arises, and locking stolen devices to ensure security policies are enforced
- **Audit Manager** – for assessing a customer's environment to detect potential vulnerabilities and determine the degree to which its systems are compliant with specific industry regulations
- **Security Manager** – for delivering managed endpoint security, antivirus and malware protection
- **Report Manager** – for producing easy-to-understand IT performance reports, including scorecard-based executive summaries

HYBRID LICENSING MODEL

N-able also gives you unmatched flexibility by providing full-service professional licenses as well as free 'essential' licenses.

Professional licenses deliver the complete N-central remote monitoring, management and control feature set. Essential licenses, on the other hand, are purpose-built agents that provide lightweight diagnostics and simple monitoring information with one-click functionality for antivirus deployments, backups, policy management and other tasks. N-able's top-performing MSPs use essential licenses to get a customer on their dashboard with enough functionality to show quick value. Once a customer sees the value of the service being provided, they can be upgraded to professional licenses for a more comprehensive, fully managed solution when they're ready to take that next step.

This hybrid model gives you the option to use paid, professional agents for customers who are paying for recurring services or a more streamlined agent that can be offered at a lower cost – or for free – to demonstrate immediate value to customers who aren't ready to commit to a comprehensive managed service package. No other RMM platform offers a licensing model with this kind of flexibility to meet the needs of your customer and the marketplace.

GO-TO-MARKET BUSINESS SUPPORT SERVICES

With the most comprehensive support program of its kind in the managed services industry, N-able's MSP transformation solution can help you rapidly develop a custom managed services strategy or re-tool your existing processes to sell and deliver profitable new managed services. Our business support services include:

- A dedicated MSP partner development specialist to provide one-on-one help with assessing opportunities, identifying prospects, pricing services and crafting a competitive go-to-market strategy
- Personal sales and marketing training with self-guided web-based tutorials to help you acquire the skills needed to sell managed services and generate new sources of recurring revenue
- A digital binder that compiles numerous proven, pre-packaged, ready-to-use sales and marketing materials
- A knowledge management portal that offers 24/7 online access to a searchable, central repository of best practices, collateral and training courses

CONCLUSION

Many telecom service providers and VARs are turning to managed services as a way to deal with the many threats facing their business model, including increased commoditization and margin erosion. Managed services are a proven way to generate profit margins of 70 percent or higher and operating incomes of 20 percent or more by generating new streams of recurring revenue, deepening relationships with existing customers, attracting new customers and establishing competitive differentiation.

At the same time, transitioning to managed services is not without risks. Required is a comprehensive MSP transformation strategy that is based on proven industry best practices and can address all of the service, technical, sales and marketing requirements to be a successful MSP.

N-able Technologies offers the most comprehensive MSP transformation program in the industry – and is well positioned to help new MSPs achieve their business objectives. Its RMM automation platform, N-central, is supported by a range of business transformation services needed to align your sales strategies and products with the needs of all types of small- and medium-sized business customers. N-central includes a unique, hybrid licensing model and modular product offering for maximum upsell and cross-selling opportunities, and is backed by extensive, ongoing support through direct access to product management teams and a variety of online resources.

ABOUT N-ABLE TECHNOLOGIES®

N-able Technologies by SolarWinds 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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