channel executive magazine

JUL / AUG 2017

Winning Tier One

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was a two-man Midwest regional

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Twenty-five years ago, Direct Source was a two-man Midwest regional ADC VAR. It's quietly become an international heavyweight in retail IT systems deployment.
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BRAD FICK
President, Direct Source

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A Business Solutions PUBLICATION

Jon Taffer Approved

Jon Taffer, Executive Producer & Host of Spike TV's "Bar Rescue" and the foremost expert in the hospitality industry, has officially endorsed Harbortouch as the best POS solution on the market!

"In my extensive experience, I have found Harbortouch's POS solution to be the undisputed leader in the industry. Their POS system is truly unparalleled in terms of both price and capabilities. Despite the low cost, their solution delivers high-end equipment with cutting-edge software, and is backed by 24/7 support and a lifetime warranty. It's a no-brainer!"

— Jon Taffer

Harbortouch will be working closely with Jon Taffer to continue delivering the best POS solutions on the market, so be sure to get on board with this winning team!

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Channel Executive

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PAUL DIPPELL

At the risk of stereotyping, we think statisticians and intellectuals rarely come in colorful packages. Paul Dippell is that rarity. Dippell is president at Service Leadership Inc., a data-driven channel business management consultancy that has more intellectual property supporting what it takes to win in the IT service market than anyone else. In our Q&A, Dippell challenges the notion of channel commoditization in the sharp, wry style that only he can.

Can The Channel Beat Commoditization? . . . . p. 10

JEREMY KURTH

Think you'll be raking in the cabbage on network and storage solutions for the long haul? Jeremy Kurth isn't so sure. Kurth is CTO and partner at San Diego based IT provider K&R Network Solutions, Inc., which he co-founded in 2001. In "The Somewhat Scary Storage And Networking Outlook For MSPs," Kurth gives us the straight dope on why he sees Microsoft as a threat to storage- and networking-centric service providers.

The Somewhat Scary Storage
And Marketing Outlook For MSPs. . . . . p. 34

NICK RESETAR

We wanted a legal perspective, but we didn't want it to be a stodgy one. Thankfully, we found young upstart Nick Resetar, an attorney with the law firm Roetzel & Andress. He may be fresh-faced, but Resetar's work protecting giant commercial entities (pick a tier-one retailer, he's probably represented it) from the mishandling of data and video on IP networks gives him some serious street cred. Here, Resetar gives us the how-to of protecting your customers from liability. And he does it in plain English, no lawyer-speak here.

Meeting Client Video Surveillance Requirements:
Would A Court Agree? . . . . p. 40

MIKE WILLIAMS

We didn't ask Mike Williams to get all political on us for his column this month. If his polling place reluctance and regret are any indication, his choice to do so was grudging. Williams co-founded managed services and security provider Winxnet in 1999. In this piece, he gives leaders of IT service provision companies a compelling argument for President Trump's tax plan, regardless of which side of the aisle you fall on.

Why The President's Tax Plan Is Good For The Channel . . . p. 14

Voices Of The Channel

MATT PILLAR Chief Editor

By the government's estimation, the U.S. IT channel is comprised of 139,354 companies that call themselves one or more of the following: solutions providers, integrators, consultants, systems builders, MSPs, VARs, BC/DR solution providers, software installation service providers, and computer facilities management service providers.

That very precise-sounding statistic comes compliments of the Bureau of Labor Statistics' North American Industry Classification System (NAICS).

I think it's a relatively useless figure.

Just consider how many IT services providers might be lumped into NAICS Code 5614, the 12,343-strong "Business Support Services" population, which counts among its ranks a number of general titles ranging from "Administrative and Support" to "Waste Remediation" services. Or take Code 561499, the 4,220 companies in a bucket labeled simply "All Other Business Support Services." There's even a subset of computer and mathematical occupations listed under NAICS 561700, "Services to Buildings and Dwellings." We can't expect to draw any meaningful conclusions from this data. The federal government isn't exactly on the bleeding edge of IT. Nor statistics.

I'm making three points here:

- First, nobody really knows how many of you are out there.
- Second, there's good reason for that. You're an ill-defined lot. You all call yourselves something different, and everyone else calls you something different from what you call yourselves.
- Third, nobody really cares. Whether you call your company a systems integrator, a consultancy, a service provider, a managed services provider, a value-added reseller, or a value-added reseller of managed consulting, hardware, and integration services — for God's sake — it pretty much matters only to you.

That last point isn't lost on me. It does matter to you. You run a business, and I get that you want your business to identify with something. Maybe that's managed services, though managed services is just a piece of what you do. Maybe it's value-added resale, which may very well be taking a back seat to your foray into as-a-service software, hosting, or security offerings. Though your business is changing, I understand that it's comforting to be characterized in some way— to be connected with something— be it an association of VARs, a peer group of MSPs, or the trendy rise of any other acronym associated with a budding industry.

Still, Shakespeare had it right when he said "a rose by any other name would smell as sweet." To your customers, the acronyms aren't what matters. You and your team are what matters, because your customers need ever more help with ever more technology that's ever more critical to the integrity and sustainability of their businesses. That makes it a decidedly sweet time to be an executive in the technology sales and service business—an executive in the channel—regardless of the acronym you choose to associate with. For our part, that's what we're choosing to recognize you as—a channel executive—and that's why *Business Solutions* is so pleased to bring you your namesake, *Channel Executive Magazine*.

Read these pages and absorb the insights of your peers. Learn from those who are just like you. Learn even more from those who are a little *unlike* you. And if you're not satiated with knowledge and inspiration by the time you reach the back cover, visit us at www.channelexecutivemag.com for another helping.

➔ Have a response to our experts' answers?
Send us an email to atb@channelexecutivemag.com.

Q **MSPs are seeing increased competition from once unlikely places. What sort of companies are scrapping for managed services business (i.e., resellers, telcos, etc.), and what's your best strategy for winning that competition?**

A AT CONNECT COMPUTER, WE ARE SEEING ALL TYPES OF COMPANIES converting to MSPs. We see companies that were once solely programming or web development shops now calling themselves MSPs. We have gone up against printer/copier sales companies and telco/ISP VARs all trying to cash in on the managed services trend. Honestly, I can't blame them for trying to change their business model, but in doing so, they're creating at least two big problems in the MSP space.

1. They're delivering inferior support and services, which are turning companies that have used these "newborn" MSPs sour on the entire idea of managed services. When a company has spent years just doing project work (like all the aforementioned companies), they know nothing of how to run an efficient and successful help desk. Managing call queues, mitigating reactive tickets, and delivering superior support and managed services are all foreign to these companies, but they're essential to a professional MSP. Delivering successful, personalized support and managed services, day in and day out for a customer is nothing like going in and just banging out a project. When companies fail to deliver managed services to customers, it is not only detrimental to that customer, but it also makes them think managed services aren't a viable business model, and in turn, it hurts the credibility of all MSPs.

2. The MSP market has become saturated because of everyone trying to jump on the MSP bandwagon. I can throw a ball in any direction from my office and hit at least five other companies calling themselves an MSP. The entire industry is becoming commoditized due to the influx of these "newborn" MSPs, and prospects are now trying more than ever to turn the conversations into a price negotiation.

At Connect Computer we take a consultative approach with prospects. We (obviously) believe in the MSP model, and we know when it's delivered correctly it can be a huge game changer for companies that were previously struggling. Our sole purpose in the prospecting phase is to make sure that companies are choosing a professional MSP, one that has been delivering managed services since before the term MSP became mainstream. We advise them on questions to ask of all companies they're interviewing and point them to resources that will help them separate the wheat from the chaff in the MSP world. It's really important for prospects to understand not only the benefits of using an MSP but also the importance of choosing a well-seasoned one with many years of experience.

I have a select few competitors in my area, and if a prospect were to pick them over Connect, I would tell them they're in good hands and go on my way. There are many others, however, that I would advise a prospect not to go with. Case in point, I had a customer who left us to get a better price with another MSP (previously a programming/development company) and two months later they were asking us to take them back.

LYNN SOUZA
is owner, CEO, and president at Connect Computer, which specializes in small-medium business and enterprise network integration, managed services, SaaS, cloud services, and disaster recovery and business continuation solutions from its data center in Fairfield, CT.

Editorial Advisory Board

We're hiring! The pay isn't great, but the rewards are. The leading channel executives on our editorial advisory board have a vested interest in contributing their expertise and opinions to shaping *Channel Executive Magazine*.

Are you a progressive channel business leader who's interested in contributing to the effort?

Drop Chief Editor Matt Pillar a note at **matt.pillar@ChannelExecutiveMag.com**.

Sales, Support Top Vendor Requirements

We asked two readers, one VAR and one MSP, what support they value most from their primary vendor partners and how they measure the results of that support. One valued up-front sales, marketing, and training assistance, while the other listed back-end maintenance and support as most important.

JOE CREEGAN

is president and GM of CardPayment Services, a South Florida-based POS and payment systems reseller, focusing on offering integrated POS systems as-a-Service, combined with cost-effective payment and payroll-processing solutions, for on-site, online, and mobile merchants.

SHAUN SEXTON

is the president of Skynet Innovations, an MSP that has had sustained double-digit growth every year since its start in 2008. He loves the entrepreneurial life. When Shaun is not helping his clients leverage technology, he loves to spend time with his wife and two cats.

QUESTION 1: What's the most effective aspect of the support offered by your primary vendor partner?

CREEGAN: The most effective aspect of the support we receive is product sales and marketing training. We rely on our vendors to offer us products that are marketable and training that allows us to market and support those products. We look to our vendors to provide demonstration software, brochures, marketing materials, and sample proposals, so our sales staff can hit the ground running with promoting their products.

SEXTON: In today's on-demand business, all of our vendors must be capable, responsive, and efficient. What makes our primary vendor partner relationships effective is dependability. Having effective processes for training, product support, and ordering, as well as developing and maintaining relationships with the vendor's account reps, aid in the development of fruitful partnerships. Whether it's routine scheduled maintenance or an abrupt critical failure, a service call can quickly become a crisis without the dependable support, service, and products of our trusted vendor partners. When the need arises for expanded or improved products and services, we always turn to our primary vendor partners because they know we depend on them, and we know they won't let us down.

QUESTION 2: How do you measure that efficacy?

CREEGAN: We measure it by how fast we can go to market and start selling these products. If we have to provide our own marketing collateral, demonstration software, training, etc., it delays our sales and marketing effort. The more turnkey a solution is for our sales reps, the faster it gets to market.

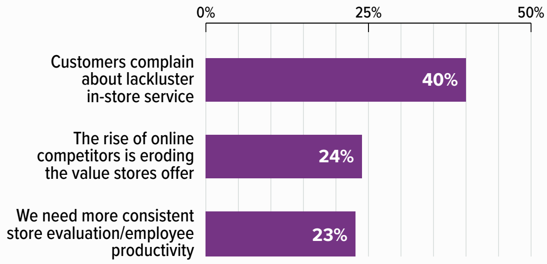
SEXTON: Although there are multiple criteria that go into assessing any vendor's effectiveness, the ultimate metric is value. Benefits such as products, services, support, performance, and capabilities are weighted against price in order to determine value. Our ability to reliably deliver services to our clients is directly linked to the dependability of our vendor partners. In a crowded, competitive field, we succeed by creating and maintaining happy clients. For this reason, the dependability of a vendor partner will have a greater influence on the value provided by that vendor than price alone. With a proven dependable vendor partner, we see growth in both the business we bring to the vendor and growth with our own client base, as we pass on the benefits of having dependable vendor partners.

What Retail Wants NOW

New data on U.S. retailers from Retail Systems Research sheds light on the channel's opportunity to aid stores in need.

WHAT'S WRONG IN STORES

A flurry of factors is contributing to the trouble with U.S. retail stores — from the consumer shift to online competition to poor service levels in stores. The problems merchants are facing — and the opportunities they're seeking — paint the picture of an appealing market for retail service and solutions providers willing to move beyond the POS.

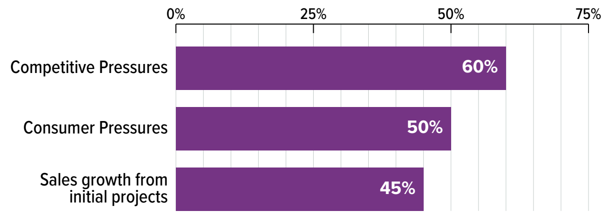


Retailers see the education and empowerment of employees as one of their greatest opportunities for improvement, and they're seeking new ways to make those employees more productive. That spells opportunity for providers of mobile devices, mobile sales and service software, and wireless networks.

THE OMNI-CHANNEL OPPORTUNITY

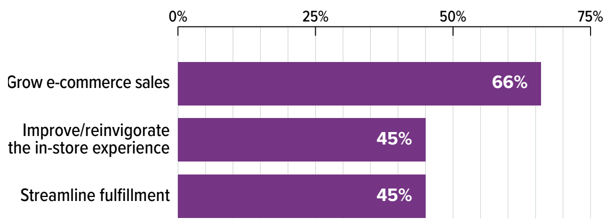
Channel players willing (and able) to look beyond bricks and mortar will see a target-rich landscape of merchants seeking help with omni-channel strategy and execution. Why are retailers taking all the help they can get? Because they're in a hurry to compete — and some like the taste of early omni-channel success.

TOP THREE FACTORS EXPEDITING OMNI-CHANNEL STRATEGY AND EXECUTION



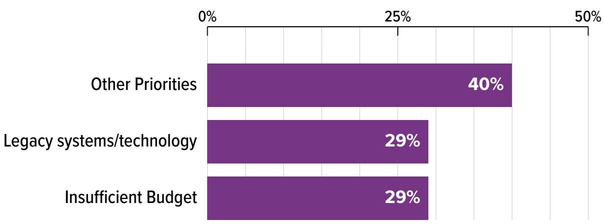
TOP THREE OMNI-CHANNEL PRIORITIES

How, specifically, are they expediting the strategy?



TOP THREE FACTORS HINDERING OMNI-CHANNEL STRATEGY AND EXECUTION

Among those who are behind the omni-channel curve, these are the top three factors hindering omni-channel strategy and execution.

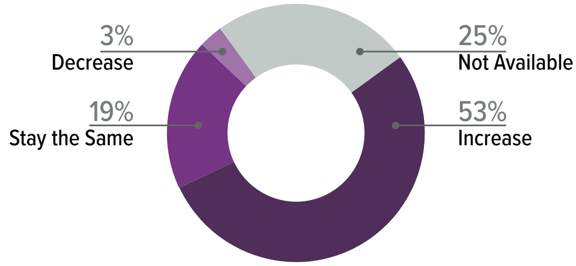


These inhibitors are a serious threat to omni-channel success right now, given this evidence of omni-channel growth.

The factors holding merchants back are the very same factors that inspired the conception of the VAR/MSP industry. Retailers are too busy for IT. They struggle to integrate legacy systems. They need new technology.

Retailers need the channel, and they need it now. Read more research on merchants' urgent needs for IT and managed services at www.rsrresearch.com.

HOW WILL THE NUMBER OF ONLINE ORDERS FULFILLED FROM STORES CHANGE IN 2017?



Can The Channel Beat Commoditization?

Cloud services and low-cost competition are keeping MSPs on edge, but are we really at risk of becoming a commodity?

MATT PILLAR Chief Editor

A few months back while visiting with a number of MSPs at HTG's quarterly peer group meetings in Dallas, I chatted with Paul Dippell, the sharp and colorful CEO of Service Leadership, Inc. (SLI). His company is a global consultancy to solutions providers, industry consultants, and IT vendors. It's also well-known for publishing the "Service Leadership Index," which has come to be recognized as perhaps the most respected channel partner benchmark in the industry.

Among many "Dippellisms" he shared during our time together was this: "IT is expensive people reacting in real time to people who have no idea what they're doing. It will always be a difficult business. And, if I'm really, really good at it, the best I get is no negative feedback." That's a pointed observation. But, with all due respect to Dippell, being an IT service provider isn't quite that thankless. There is the money. Some in the channel, however, see that reward at risk as a combination of cheap hardware, cloud services, and low-cost competition threatens to commoditize IT services.

Dippell says nonsense. I gave him a call recently to revisit the conversation we started in Dallas. Here's what he had to say.

Channel Executive: You contended that there's no evidence of managed services becoming a commodity or being cannibalized by cloud services. Where, then, does this perception of commoditization come from?

Paul Dippell: I think it comes from a couple of sources. You have to remember that MSP owners, by and large, are techies. They're very analytic personalities. They tend to have this point of view in life that there are lots of things working against them in the long run. It's their nature that everything is seen as a problem to be solved. On the far side of that spectrum, you have salespeople who see nothing but opportunities. Also, it's a hard business. Of all the solutions provider business models out there, MSPs face the highest degree of complexity. We benchmark 39 different things they have to execute on — across finance, sales and marketing, strategy, compensation, and so on — to reach operational maturity. Why are all those moving parts so important for MSPs, as compared to other service models? Because other models allow you to bill for more hours if you calculate incorrectly. In the MSP model, all the risk is on you, for a flat fee. It's a mechanical equation, and if you blow it, the risk is on you. That creates a lot of pressure.

Another cause of commoditization concern is that we're habitually aware of the fact that IT just radically gets cheaper over time. We live in this world where something we bought three years ago for $1,000 is now $99. Why think your service can't become a commodity if everything else can?

Finally, what good, successful MSPs do is get all their customers the same "stuff," so that they can automate a lot, script things a lot, write little scripts that do lots of work that humans would otherwise need to do. If you're successful at that, you can take material costs out and compete better on price. That's the theory, anyway. The problem is that in reality, many MSPs are stretched out at $65 per user per month because they can't figure out why anyone would pay for this. To sell it, they think they have to be under $50,000 per year—cheaper than the cost of hiring Johnny Ponytail—otherwise, why would the customer say yes? [Editor's note: "Johnny Ponytail" is Dippell's semi-affectionate term for your customers' stereotypical mid-level inhouse IT staffer].

"A quarter of the MSP market is losing its shirt. We know this because we benchmark it."

PAUL DIPPELL
CEO, Service Leadership, Inc.

Again, the people who run MSPs typically aren't salespeople. They can't pitch, and they can't handle objections. So, they sell their services cheaper than a hire. They don't see the costs very well, so from what costs they can see, $65 per user seems like a lot. Eventually, when they see that their costs are much higher than they anticipated, they get better and better at finding customers who will say yes. Three years down the road, they're at $135 per user, per month, and they're growing successfully. Then, inevitably, some ding-dong that's brand-new at managed services does the same thing they did three years prior and starts selling the same service at the $65 rate because he doesn't know any better. The guy who's $135 per user feeds into all these commoditization fears. He loses rationality. He doesn't get that the $65 guy is losing his shirt just as he was three years ago. A quarter of the MSP market is losing its shirt. We know this because we benchmark it.

ChEx: So three-quarters of the market is healthy. What data is your contention of a healthy, non-commoditized market based on?

Dippell: SLI operates the largest-scale financial benchmark in the business by an order of magnitude. On a quarterly or annual basis, thousands of MSPs enter their income statements, balance sheets, and headcounts in a particular format in our system. We give them an 87-metric benchmark that's private. Every year we publish this giant report that's available for $1,500. It's a 200-page report that analyzes eight different service business models, from project-centric approaches to full-on managed services. The report analyzes profit trends, growth, value creation, and so on. The most recent version was released in May. We also produce a companion compensation benchmark that breaks down 57 different positions within these service companies. These reports come out quarterly, and you can catch some of the data in our newsletters.

ChEx: On page 34 of this month's issue of *Channel Executive*, Jeremy Kurth from KRNS Inc., a pretty sizable MSP, contends that storage and networking are at risk of commoditization at the hands of Microsoft. Those are some pretty important business functions for MSPs. How much control do service providers have over protecting their offerings from becoming commodities?

Dippell: I'll tackle that from a couple of angles. First, in any circumstance, I think it's important to consider whether the service can even be commoditized. I think it's fair to say that only a small part of the managed services offering can. Second, what if the tech landscape changes such that the things I support today aren't in the market later? What if they become obsolete?

So let's talk about whether managed services are subject to commoditization. It's clear that portions of it are. There are large portions, however, that are not. Large portions of what high operational maturity model MSPs do simply aren't automatable in any sense. It's sort of like saying legal services, or certified public accounting services, or physicians' services can be commoditized. They can't. There's a large component of what mature MSPs do that requires expert analysis and skill. Consider when WebMD came out, and so many people thought we wouldn't need doctors any more. For three years, so many smart people thought WebMD would replace the need for doctors that the company had a $12 billion market cap despite having no ad revenue. A good MSP provides more than technology; it provides a lot of business advice about how its clients should be using technology to meet their business goals and minimize their business risk. There's a high level of that among mature MSPs. Lower operational maturity service providers think this is just about technology. The whole value is for the business customer to get out of IT, for the service provider to accept that risk and ensure the client's business goals are enabled. That's not compressible into a commodity.

Now, what happens when the business customer shifts technologies? What happens when the customer moves to the cloud, or to hyperconvergence, or to software defined networks, and the support and management of the MSP offering goes away because the technology they were selling and supporting is obsolete? To address that question, we need some historical context. Managed services were invented by IBM in the 1950s. By the 1970s, the Justice Department was trying to break up IBM as a monopoly. The attempt failed, but IBM broke itself up as a result. In the ensuing years, IBM, CA, Accenture, Dell Enterprise, HP Enterprise, and others have emerged and have been offering managed services in the enterprise space for the past 50 years. They all want to move toward zero support cost on their hardware and lower TCO for their customers, and after 50 years, all those enterprise outsourcers are all the same size, if not bigger. Think about that history for a moment. Has technology not changed dramatically since the 1950s?

Today, most MSPs are small business-focused, and most have only been offering managed services for maybe 10 years. The people who worry about commoditization in the channel haven't been in the business long enough to understand the value they provide. The value is not tied to the device; it's tied to the investment.

ChEx: With investment moving to the cloud, how does tying the MSP's value to the investment play out in practice?

Dippell: Let's consider the classic pricing model misperception of the SMB MSP. Let's say you charge $350 per server per month, $40 per PC per month, $250 per firewall per month, $250 per router and switch per month, and on and on it goes. Then your business customer moves to the cloud, and two servers disappear from your on-site revenue bucket. So $700 in server revenue just went away, and your impulse reaction is "Oh my God, I'm going out of business." Here's the problem with that mentality: when your customer goes to the cloud, their tech support needs don't end. Sure, the cloud vendors say so, but consider the customer's applications that used to live on the on-site server—which you designed, installed, and supported for the past three years. When it was on-site, it took you 7 minutes to solve a problem. Now two servers go away, you're charging them $700 less per month, and their data is 700 miles, several hops, and lots of routers away. Those carriers between your business customer and its data are not perfect, so now the users who couldn't get to their applications for a few minutes per year are unable to get to their data several times per year. The software hiccup that used to take you 7 minutes to solve now requires your tech support staff to sit on hold for 45 minutes with the cloud provider before you can even begin to address the problem, and you're no longer getting paid for it.

"People who worry about commoditization in the channel haven't been in the business long enough to understand the value they provide. The value is not tied to the device; it's tied to the investment."

PAUL DIPPELL
CEO, Service Leadership, Inc.

Your value is in supporting the business user's applications and data. If the customer fires you, they have Johnny Ponytail. There's also a fear among MSPs that the cloud is a gateway to software companies taking over managed services. They point to banking software provider Jack Henry as an example. Many MSPs that serve the banking industry supported Jack Henry on-premises, until Jack Henry took the application to the cloud. Smart MSPs were already charging for application support, so they simply supported the cloud application and lost no revenue when all those servers disappeared. But with all the customer data in the cloud, Jack Henry decided to make a foray into managed services. They bought an MSP and tried to steal the service business. They're finding out, however, that offering good support in the real world, a multivendor environment, is nothing like running good software. It's a recipe for failure on a couple of fronts. Stock evaluations on software are 18-24, but if you're a really good managed services provider, the best multiplier you can hope for is nine. Why would a software company invest in managed services, especially if suddenly it has to deal with every other hardware and software vendor in the customer's portfolio?

MSPs at the highest level of operational maturity are good at saying: "Dear customer, because of the low costs associated with running applications in the cloud, you're adding lots of applications faster than ever. Without us, you deal with all of that on your own. And, because we track all the problems caused by all these applications in your environment, we can monitor their performance, which is critical. You wouldn't have any way of doing this, short of setting up your own IT department, which you already know is a dumb thing to do." If I'm an MSP, I'm happy when my customers move to the cloud. It gives me more responsibility, and for my customer, it's better than managing — and less expensive than paying — 2.1 Johnny Ponytails.

Why The President's Tax Plan Is Good For The Channel

MIKE WILLIAMS

In political terms, I am one of those undecideds whom everyone tries to sway two weeks before an election. I do not subscribe to a political ideology, cringe at rhetoric from both parties, and am increasingly disillusioned by Washington gridlock. This disenchantment does not diminish my strong feeling of responsibility associated with my right to vote or that I am fortunate to live in the greatest nation on earth.

This past fall I stood in the voting booth for over 10 minutes agonizing over the decision before me. Several times my pen drifted toward an oval, but I was unable to drag the ink across surface of the ballot. I could not vote for one candidate, and would not vote for the other. My final decision left me with an empty feeling that I had let my country down.

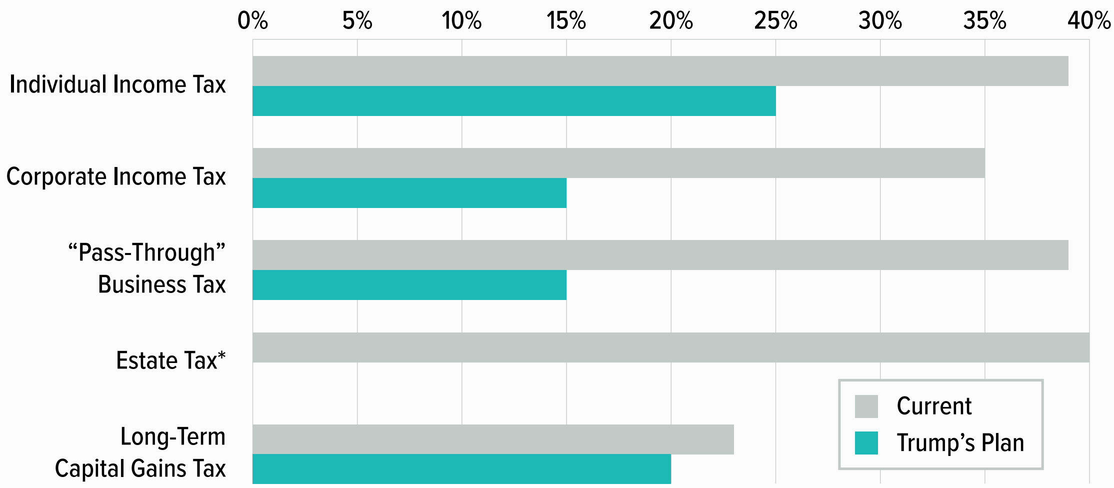
From the tweet-filled chaos that has followed the election, I am surprised to have found an area of enthusiasm — the president's tax plan. This plan is a game changer, not only for the MSP industry but also for all industries across the U.S. economy. Through a proposed reduction in corporate and pass-through taxes, the plan will turbo charge the economy by putting money directly into the hands of those who are responsible for driving job creation and innovation. It will also encourage corporations to bring offshore assets to the U.S., create an environment for investment, and make U.S. products more competitive globally.

I embrace good ideas regardless of the political party or the personal flaws of the source. There have been articles in the media demonizing the tax plan as motivated by Trump's greed because he would benefit from the proposed changes to taxation on pass-through income. What detractors fail to mention is that these changes to pass-through income will benefit all S-corporations, partnerships, and LLCs. Pass-through entities represent the overwhelming majority of small and midsize businesses across the country. This tax change would have a dramatic and immediate positive impact on my business, and I imagine on your business as well.

> **"We would create new high-paying jobs with rich benefits by expanding our sales and marketing budgets. We would invest in technology to improve our products and broaden our suite of services."**
>
> **MIKE WILLIAMS**

At my company, we would invest these additional funds in several ways. We would create new high-pay-

TOP TAX RATES: CURRENT VS. TRUMP'S PLAN



SOURCE: Urban-Brookings Tax Policy Center based on the Trump tax plan and IRS tax brackets.
*NOTES: There is no bar for President Trump's estate tax because he proposes to eliminate the tax.

ing jobs with rich benefits by expanding our sales and marketing budgets. We would invest in technology to improve our products and broaden our suite of services. Every single one of our employees would benefit through our yearly bonus plan which is based on company performance.

> "This plan is a game changer, not only for the MSP industry but also for all industries across the U.S. economy."
>
> **MIKE WILLIAMS**

Across the economy we would see growth in employment and wages. At companies with marginal performance, these additional funds would help protect existing jobs. At well-performing businesses we would see investment in accelerating growth and job creation. Workers who are currently underemployed would have new opportunities for full employment. These factors would lead to wage increases and in turn improve consumer spending.

I am not under the delusion that the president's tax plan will generate more tax revenue or that the offset to the reduced tax revenue will be found through efficiencies in other areas of government. Savings will need to be found elsewhere, and these reserves will likely come at the expense of government services. I believe businesses that benefit from this tax change would have a moral obligation to increase support to charities and nonprofits in their community as well as to make it a priority to purchase American-made products.

The president's tax plan is a bet on the American Dream — that hard work can lead to a better life. The plan is based on jobs, and it invests in businesses responsible for job creation. I believe that the American Dream is alive in people across this country, and I am confident that this tax plan will help this dream come to fruition for many people. I encourage you to join me in supporting the president's tax plan.

MIKE WILLIAMS co-founded Winxnet in 1999 and serves as integrator (EOS). Winxnet provides managed services and security across four east-coast locations. Outside work, you will likely find Mike with his family sea kayaking off the coast of Maine or on a cross-country travel-trailer adventure.

Winning Tier One

MATT PILLAR Chief Editor @MattPillar

Twenty-five years ago, Direct Source was a two-man Midwest regional ADC VAR. It's quietly become an international heavyweight in retail IT systems deployment.

There was no arguing that John Hillen had some retail tech chops when he founded Direct Source. He launched the company in 1992, fresh on the heels of a gig at then Spectra-Physics, the company we know today as the automated data collection powerhouse Datalogic. During his tenure there, Hillen worked on the team that created the first scanner/scale product for the retail grocery market. With a brain for bar codes and a retail market that was ripe for scanners, he rented a small office outside of Minneapolis and hung a shingle.

In those early days, the company's offering was as simple as the market it sold to. The POS was the sole enabler of retail transactions. Bar code scanners were hardwired to the POS. With the exception of some then-nascent peripheral integration projects for more progressive merchants in the Twin Cities region — such as the aforementioned marriage of scanners and scales in grocery — the Direct Source pitch, sale, implementation, and support offering was straightforward and formulaic.

Just as Direct Source was getting its legs, however, the winds of change began to rise out of the east, blowing in from Holtsville, NY and Akron, OH, to be precise. Symbol Technologies and Telxon Inc. were in a flat-out race to untether the bar code scanner, laying the groundwork for a burgeoning enterprise mobility market that held promise for the retail industry that's still being discovered today. Hillen and Direct Source, though new and young, were in a good position to exploit the demand for mobile bar code scanning brought about by the ratification of 802.11x WLAN technology standards.

Recruited by Hillen to lead an initiative to build business beyond the Twin Cities, Brad Fick joined the young company in 1997 as VP of sales. With a retail tech pedigree of his own that included retail-side work in the department store segment, sales experience with NCR, and retail-facing sales with a couple of sizable managed services providers, Fick was poised to help Direct Source expand not just the geographies it serves, but its line card as well. In short order, Fick bought a stake in the fledgling enterprise. Twenty years later, he's president of the company, which now occupies more than 100,000 square feet of office space, employs hundreds, and serves an international base of the nation's largest retailers.

I caught up with Fick for a conversation about how he and Hillen did it.

Run Point On The Future

I've known Fick since sometime around the turn of the century, which equates to decades in IT years. That's more than enough time to have determined his aptitude for picking the right horses in the retail tech race. Pick a winner is exactly what he did when tasked with the company's first significant venture outside the safety

BRAD FICK
President, Direct Source

of its ADC wheelhouse. Within a year of joining Direct Source, Fick led the company into the payments arena. While he admits the decision to sell payment technologies presented a challenging learning curve, he says it spurred the company's first big growth spurt. In 1998, Direct Source picked up signature capture technology from Pinware and got way out in front of mobile payments. "We hired development resources and started doing key injection and coding long before PCI standards," says Fick.

His gamble paid off. Rather than attempting to scale the Direct Source client base with a single ADC offering and through sheer will, Fick determined that if Direct Source offered the new solutions that big retail demanded — and notably, did so before the competition did — the name-brand clients the company wanted to win would come to him.

As planned, the company's position at the forefront of new payment technologies won the attention of larger merchants. Direct Source rode that tack upstream, engaging bigger fish all the way, until it came to another realization: Big fish like to swallow their meals in one big gulp. Selling best-of-breed elements of a larger system — be it payments or scanning — would take Direct Source only so far. "Bringing signature capture and mobile payments into the mix at their bleeding edge helped us grow by leaps and bounds," says Fick, but the company's clients wanted more of the puzzle to come from a single provider. As enterprise mobile devices began to morph from the bulky, ruggedized, purpose-built mobile computers of yesteryear to then-new form factors offered by Palm and supported by Windows CE, Direct Source latched on and went to work on their integration. "Back then, our strengths were picking up new technologies at a good time, learning them quickly, and helping clients learn them, too," says Fick. Signature capture and mobility enabled by the CE operating system were so new at the time that Direct Source clients put ever-increasing reliance on the company, which served as the foundation of what would become long-term relationships.

Mind you, risk was inherent in the Direct Source payment processing sales model. The company charged its

Beating Tech Commoditization In Retail

Brad Fick, president at mega retail solutions provider Direct Source, isn't wasting any time crying over the downward spiral of traditional POS technology sales. He's too busy paying attention to what the billion-dollar merchant executives his company sells to are clamoring for to keep their stores relevant. That's decidedly not the boxes they're plugging into the front end of stores. "The thing that's on the minds of most retail CIOs today is the empowerment of consumers brought about by their mobility," he says. Where the POS was once the epicenter of the merchant-consumer interaction, it's now the smartphone. Direct Source's progressive retail customers have moved beyond lamentation over that fact. The grieving period is over. Now, he says, retail technology executives are exploring the empowerment of consumers to not just research potential purchases on their phones, but to actually transact on them. Direct Source is working hand-in-hand with those executives to make that happen.

Fick cites a specific example at a to-remain-unnamed global casual fashion brand. "We've worked with this client on research that's defined how their digital, millennial customers want to interact with them," he says. "It was determined through this research that those shoppers don't want to be approached. They want to come in, try items on, finalize the transaction on their own, and get out without going to the POS station. We're working on the technology that will enable that now."

Fick says the retail companies Direct Source is most intrigued with are those spending less time talking about next-generation fixed POS and more time talking about where else in the store technology needs to be. "There remains a giant disconnect between powerful e-commerce platforms that allow consumers to shop before they're in the store and the experience consumers have when they're inside the four walls of the store," says Fick. Getting to that seamlessness, he says, requires merchants to ensure their e-commerce SKUs are in the store, allow consumers to use their own phones to scan their own items, have their cards on file, empower them to finalize their own transactions, and be on their way. He's also a proponent of store associate mobile empowerment, and he sees a strong opportunity for solutions providers to differentiate themselves on that front. "We've spent a considerable amount of time researching Asian hardware manufacturers that can help us customize new technologies around consumer-type devices to make associate-held technology more functional inside the store," says Fick. "This wasn't necessarily a part of our plan, but where we're seeing demand from our progressive customers, it's turning into a good niche."

Finally, Fick says the software development effort at Direct Source is central to its commodity-busting effort. "The ability to offer custom design and development, along with implementation, allows us to cut out one of the middle men, get a little more margin, and be more than just price competitive on our offerings. Our development skills allow us to sell some unique product sets, which makes it difficult for our competitors to show up with similar solutions."

clients for the development of code and then contracted the lifetime usage of the source code after it was deployed. "Merchants wanted to be in charge of their own destiny," says Fick. "They didn't want anyone having leverage over them, so you would think that giving them the financial model might have been the end of the engagement." In practice, the opposite happened. "We became the team they called on every time they needed something," says Fick. "They would call us, give us their plans, ask for the technology and consultation, and we'd move forward. We effectively embedded our hardware, staging, and deployment offerings throughout their lifetime usage of the code."

That hands-on, consultative approach quickly revealed installation and deployment services as new opportunities to bolster sales. Direct Source "1.0" was essentially a staging shop. The demand for on-site installation and service was an attractive opportunity to scale. "Retailers were trying to learn a host of new technologies at a rapid pace," Fick recalls. "IT staffs were so overwhelmed that they began requesting us as a complement to their IT teams. Our technicians and developers weren't just staging equipment; they were being called on for installation help, post-deployment consultation and coding on the back end to ensure the proper interaction between the new payment, mobile, and ADC solutions we were selling and our clients' legacy infrastructures." These services were added to the company's line card as billable. As rollout, installation, and deployment services moved from regional to national, and eventually international, more growth ensued. Soon, Direct Source was sending associates all over the U.S., Canada, Mexico, and Puerto Rico.

But it was all happening too fast. "We could barely hold on to the reins," says Fick.

'Until You Make It, Sell (And Scramble) With Confidence

When Direct Source leaders were wrestling with where to focus the company's growth initiatives, much of the discussion revolved around response time. One school of thought was to expand slowly beyond the Midwest to ensure the company's installation, support, and service teams could respond quickly when issues arose. That's a symptom of the small-town tech support mentality: Call us any time, day or night, and we'll have a tech at your door. Fick said nonsense. "I argued that global retailers are tolerant of more reasonable service levels," he says. That's especially true when the technology being serviced is hard to find anywhere else. Fick won, and when it came to hiring, his HR modus operandi fell in line with his "think big" philosophy. "If we wanted to serve global retailers with cutting-edge technology, we had to hire world-class technicians and developers," he says. Very few world-class developers and technicians are keen on taking late-night drives to reset modems.

> *I didn't take regional-caliber salespeople and try to grow them into major account representatives by sending them into a tier-one retailer. I hired people who had no issues traveling on planes and selling to national companies.*

The company's world-class employee philosophy carried over to sales, which only threw fuel on the fire started by the rapid addition of new technologies to the Direct Source line card. "I didn't take regional-caliber salespeople and try to grow them into major account representatives by sending them into a tier-one retailer," explains Fick. "I hired people who had no issues traveling on planes and selling to national companies. We sold confidently."

The rapid onboarding of new technology and service offerings, coupled with the company's new brand of confident sales savvy, equated to nearly unmanageable growth. As president, that challenge rolled up to Fick. He had the strong sales background. He knew technology. He had plenty of operations experience. It was his hand guiding the company's effort to scale on all three of those fronts.

"Our tech road map, sales and marketing, and operations initiatives all fell underneath me, and I could see all of our wins and all of our struggles in those areas from top to bottom," says Fick. He admits that the struggles were mighty. "We ran into some quality problems along the way. We didn't scale our internal systems at a pace that matched the maturation of our technologies and our aggressive sales effort." Fick offers the Excel-based customer management spreadsheet that had served Direct Source adequately when it was small as a case in point. It ballooned, stretched at the seams, and, as Fick puts it, took on a life of its own. "Five years into our expansion initiative, this tool became known around the office as BASS," recalls Fick. "In a meeting one day, I leaned over and asked one of our senior department heads why we called it BASS. Without hesitation, she whispered back to me 'big ass spreadsheet'."

Instead of investing in new back office systems to help manage its growth, Fick says the company made the common growth-stage mistake of throwing people at its problems. "Trying to solve growing pains by assigning more people to manage inadequate back office tools only exacerbated the quality issues we were experiencing. It wasn't long before our stopgap measures were costing us more money than buying or building a functional CRM would have."

Fast growth and inadequate tools to manage it caused collateral damage, too. Fick says maintaining morale was a constant struggle, especially when the company's underserving systems contributed to client dissatisfaction. "Most of our major clients understand that large-scale technology deployments aren't always hiccup-free. But when those hiccups came at the hands of the fast-paced and broken system we were working in during our growth initiative, it was demoralizing for our team," says Fick. "Successfully working through problems with clients hinges on how the solutions provider deals with it. You have to be honest about it; you have to own it, and you have to commit the resources, whether human or financial, to making it right." Still, without a back office systems remedy to its quality control issue, morale suffered. "Selling and closing is difficult work to begin with," says Fick. "It's made even more difficult when you're scaling right out of your own capacity. You have to then deliver, because you have very little chance to get it back."

To remedy the situation, Direct Source put its internal development resources to work. The company built a comprehensive CRM package that touches every aspect of the client relationship. "If it's not in our CRM, it didn't happen," says Fick. "And because we built it and we own it, we can quickly modify it when it needs to be enhanced." The tool went a long way toward improving the company's morale issues. Sales reps need no longer wrestle with the BASS, and they work even more confidently knowing that the CRM system is guiding their prospecting, sales, and service efforts. "Today, we're proud of our employee retention and morale," says Fick. Most of our department heads have 12-16 years with us, and we're very pleased with that longevity."

Picking Winners Pertains To Tech *And* Clients

The regional-to-international expansion at Direct Source is due, in part, to the company's tech-first sales philosophy. Fick confirms that comes with significant risks for solutions providers. "Being an evangelist about where tech is going and where investment should be made is risky. You don't want to look like you're full of yourself or like you have that type of clairvoyance, but a lot of it is just good common sense. When you're confident in the potential of a new technology, you move faster. When you're unsure, you move cautiously."

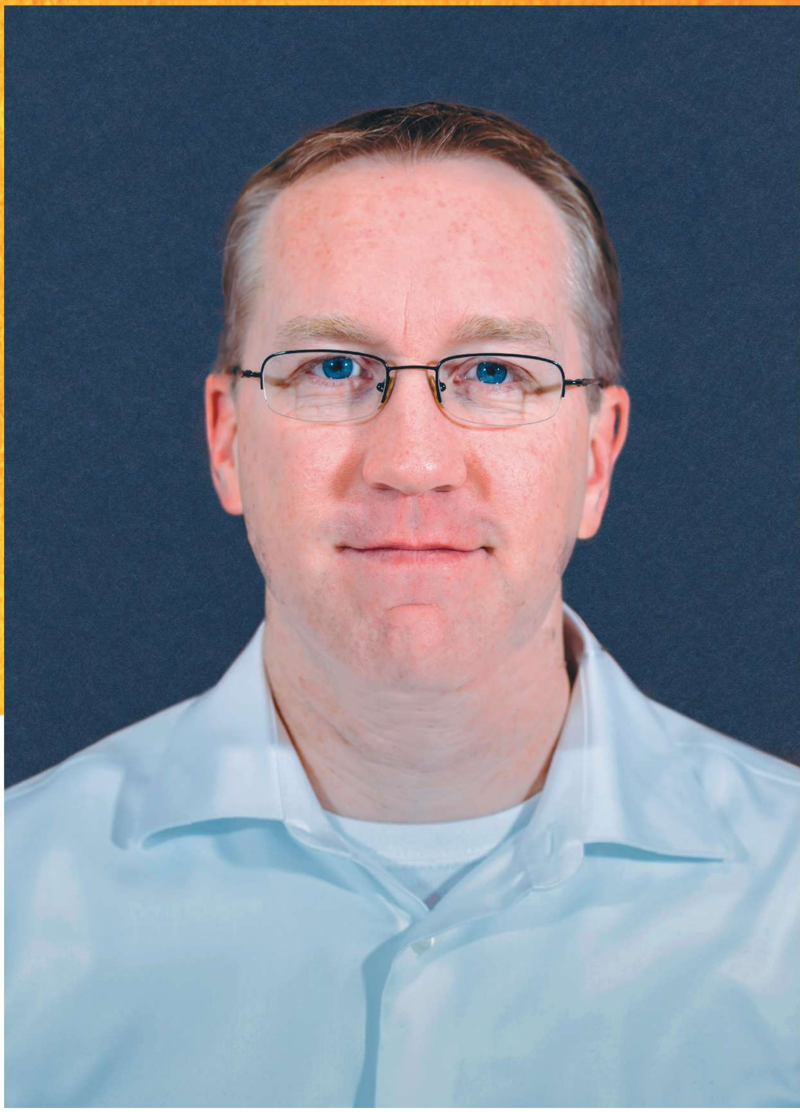
These risks are somewhat mitigated, says Fick, by creating tight bonds with tech vendors. "Solutions providers have a unique opportunity to become the customer voice that the vendors hear. The tighter we are with our vendors' engineering and development teams, the more influence that voice has," he says. Acting as a conduit that delivers its retail customers' needs to the vendors' R&D efforts gives Direct Source a seat at the development table, which instills further confidence in the technology the company chooses to sell.

But, in a retail market beleaguered by changing consumer shopping preferences brought about by progressive e-commerce enablers like Amazon, Fick says choosing clients is just as important as choosing the technology you sell them. Direct Source focuses on healthy retail segments, where it sees its best opportunities for growth and customer retention. During the recession, for instance, the company was able to hold the line by building its business in the resilient dollar store and discount categories. Fick is far less likely to stake a claim in the desperately suffering department store segment. "Retail executives move around a lot. If you've done well by one, they will likely take you with them when they go," says Fick. "We've won quite a bit of business when executives who relied on us in one capacity or another move on to new opportunities."

Tens of thousands of local and regional providers comprise the U.S. IT services market. Few will take the risks Direct Source did in its quest to serve world-class, tier-one companies. But Fick says those risks are necessary not just for growth but also for survival. "You need to let go of older technologies, even if they're your current bread and butter," he says. "Retail technology is so commoditized, on the POS side in particular, that if you don't take some risk, you will die on the vine." It took the right technologies, a world-class sales effort, and the perseverance to work through some growing pains to ensure that didn't happen at Direct Source.

ACCELERATING MSP OPERATIONS AND CULTURE FROM GOOD TO GREAT

By A. Sorensen



JMARK BUSINESS SOLUTIONS

VERTICALS:
Healthcare, Finance, Hospitality, Education

SERVICES PROVIDED:
Managed Services, Server Management/Support, Networking, Security, Help Desk, Cloud Computing, Mobile Device Management, Backup and Disaster Recovery, Data Analytics, Telecommunications, Policy and Compliance Management

◂ **TODD NIELSEN** Chief Strategy Officer

When Tom Douglas, president and CEO of JMARK Business Solutions, first reached out to Todd Nielsen in 2013, he thought he was hiring a business coach (not that he needed one – JMARK has been on the Inc. 5000 list since 2010, and Douglas was named the Missouri Small Business Person of the Year in 2013). One phone call and one flight later, he hired Nielsen as JMARK's chief strategy officer. Douglas had been doing his homework and was an avid reader of Nielsen's blog. To his credit, Nielsen had a solid record of helping managed services providers improve their businesses. In multiple engagements, he has helped clients grow from -5 percent to 15 percent profitability, some in just a 60-day window after changing their operations, structure, and mentality. Why did Nielsen make the unexpected shift from an MSP consultant to an executive at an already successful MSP? In short, it was JMARK's culture that impressed him the most.

You won't find an "about us" page on any MSP's website that claims to have a bad culture. Every business claims to have good people who differentiate them from their competitors' and good benefits for those people. JMARK, founded in 1988, has one of those well-designed "careers" web pages, too, and it lists company perks like casual Fridays, community volunteering, work from home opportunities, flexible hours, and pet insurance, among others. This MSP isn't focused only on generous employee benefits packages, though. Nielsen admits it's a challenge to work on building a cohesive culture across three offices (JMARK has locations in Fayetteville, AR and Tulsa, OK in addition to its headquarters in Springfield, MO). They have annual parties for the three offices, try to bring all employees together at least once a year, go to minor league baseball games as a company,

ACCELERATING MSP OPERATIONS AND CULTURE FROM GOOD TO GREAT

ABBY SORENSEN Editor @AbbySorensen_

How an MSP with $650K+ in monthly recurring revenue keeps improving.

and go out of their way to recognize good work. The culture at JMARK does not boil down to one specific action or one phrase on a website; rather, it's an ongoing effort. Or, as Nielsen describes it, JMARK views culture as an "offensive move" to continually cultivate its values of honesty, teamwork, accountability, passion, excellence, and fun.

When it comes to running a successful MSP, JMARK is always on offense. 2016 marked the seventh year in a row it earned a spot on the Inc. 5000 list of the country's fastest-growing privately held companies. According to JMARK's Inc. profile, the company earned $14.6 million in annual sales in 2015 along with a 75 percent three-year growth rate. In addition to climbing sales and a strong culture, other MSPs can take a page out of JMARK's $650,000 monthly recurring revenue playbook when it comes to vertical diversity, vendor selection, and marketing strategy.

VERTICAL GENERALIZATION OR SPECIALIZATION?

JMARK has customers from coast to coast in several primary verticals: financial services/banking, healthcare, hospitality (mostly hotels), education, and a few other sub-verticals. They dedicate a vertical team to each because these verticals have their own nuances and challenges. Each team is comprised of technicians from levels one through five, and there are two service managers who oversee two primary vertical teams. This vertical assortment was partly driven by geography. Since all three of JMARK's offices are in relatively rural areas, they had no choice but to diversify. "A lot of companies don't do well being generalists and working in a lot of industries," says Nielsen. "We've been good at taking what we do with our core industries and bringing those best practices to other areas." For example, JMARK does other work in manufacturing and professional services; they just don't have a team assigned to those verticals at the moment.

> **"One of the traps of an organization is having too many vendors and not being able to support all of the products and training."**
>
> **TODD NIELSEN**
> Chief Strategy Officer, JMARK Business Solutions

If you turn to page 6 of the *2017 Annual Guide To Retail & Hospitality Solutions* included with this month's issue, you can read about two MSPs in Manhattan who take a broader view of vertical expertise. In that article, I outlined how these MSPs started winning business in retail and hospitality without a deep level of expertise in those verticals. JMARK takes the opposite approach.

"The generalist mentality wasn't working, so we had to give customers a specific team who knew their market," says Nielsen.

JMARK didn't get to more than half a million dollars in recurring revenue just by focusing on vertical diversity. When Nielsen spoke at our 2016 Channel Transitions conference in Dallas, he gave the VARs in the audience aspiring to be MSPs advice about retaining clients. JMARK has standards written into all of the master service agreements, and they eventually added a clause to help them back out of a contract if a client refuses to follow their standards. Their account managers are also responsible for creating five-year technology plans for their clients, in addition to quarterly and annual reviews. These five-year plans look at things like the client's refresh cycle, growth rate, and applications in order to help JMARK solidify its place in the budget several years in advance.

VENDOR VETTING

JMARK's vertical alignment eventually led Nielsen to oversee the execution of their Service Organization Control (SOC) 2 audit. Despite the challenges of the audit requiring careful attention to detail, an annual renewal, and a considerable expense, JMARK realized it was a necessity in order for them to continue supporting financial services clients. In the process, it also made them reevaluate many of JMARK's vendor relationships. "We've known for a while that we've had too many vendors. One of the traps of an organization is having too many vendors and not being able to support all of the products and training," says Nielsen. He prefaced this part of our conversation by explaining that JMARK doesn't try to change vendors often or bog themselves down in more processes. They take a straightforward approach to vendors based on profitability, vendor stability, and customer outcomes.

True to the JMARK core value of teamwork, anyone within the organization can suggest a new vendor or product, even a brand-new level-one technician. There is an internal form for new vendor recommendations, which is the first step in JMARK's process. From there, JMARK's IT and Security Steering Committee, chaired by Nielsen, decides whether the product is worth testing. This committee includes representation from all aspects of the company, including sales, project management, the front line service department, and accounting. Nielsen said it's intentional for the committee to not be tech-driven and cited an example of a product getting approved through all appropriate channels before it was axed by accounting. Now, Nielsen says, "The process is pretty thorough. Before final approval we look at partnership level, the profitability, the pricing, and the procurement." JMARK has pushed through new products in as little as a few weeks, especially those that are vertical-specific, while others have taken upwards of nine months for final approval. Nielsen says the timeline varies, and it's not always clear at the beginning of the vetting process whether a new product can be rolled out to 75 percent of clients within 12 months and be profitable.

When it comes to new vendors, Nielsen admitted the testing is the easy part. JMARK prefers to test any new product internally without risking pushing it out to clients prematurely. They also consider online reviews and will rely on peers for feedback. "The review is the harder part," says Nielsen. "Are they a financially stable vendor who will be around in five years? We ask questions about their security. Do they have a SOC2 audit that they've passed? What is their financial situation? What is their partnership model? Do they provide training and market development funds? Some vendors will give you their financials. Not all will, but you can still ask the question."

> "Don't get caught up in the hype of conferences, vendors, goodies, and promotional items. Ask, 'What's easy to implement and support,' and 'What's going to drive profits?'"
>
> **TODD NIELSEN**
> Chief Strategy Officer, JMARK Business Solutions

JMARK tries to approach vendors and products with a data-driven mentality. Their culture not only lends itself to employees anywhere in the organization suggesting new products, but the company culture is also crucial to the team accepting decisions from the IT and Security Steering Committee. Nielsen gave an example of an internal debate about an antivirus vendor that involved "massive emotions" from several different team members. After a subcommittee was created to test the two antivirus finalists, Nielsen knew one team would leave the conversation frustrated. Fortunately, at JMARK, "We have enough maturity where if we make a decision, people can get behind it," says Nielsen. JMARK doesn't have to offer any kind of incentive program for employees to bring forth new product recommendations. The autonomy promoted within the company culture empowers employees to see something that is frustrating them or their clients and to suggest a change.

> **"It's more than the buzz; it was about creating a relationship and a shared experience. When those people think about the next *Star Wars*, they'll forever think of JMARK."**
>
> **TODD NIELSEN**
> Chief Strategy Officer, JMARK Business Solutions

What advice does Nielsen have for smaller MSPs who don't have the luxury of a chief strategy officer like himself to oversee the vendor and product testing and selection? "The process doesn't have to be as complicated as we make it. The smaller you are, the more agile you can be. The bigger you are, the more you have at stake. Take the emotion out of it. Don't get caught up in the hype of conferences, vendors, goodies, and promotional items. Ask, 'What's easy to implement and support,' and 'What's going to drive profits?'"

OUTSIDE-THE-BOX MARKETING MADE EASY

A strong culture is crucial to JMARK's success in vertical specialization and product evaluation, and their culture is also a key focus to their marketing strategy. For example, many of the employee bios on the JMARK website have an answer to the question, "What memory or lesson from grandma do you still live by today?" Nielsen retells the story of how one of the longest tenured employees, Darren Taff, was leading a customer service training session and mentioned treating our clients like our grandmothers. Taff, who started his career at JMARK 22 years ago as a network technician, explained the importance of being kind and patient and trying to alleviate stress for clients.

When Nielsen was on stage at the Channel Transitions conference, he explained how MSP commoditization is one of the biggest objections JMARK's marketing team comes across. JMARK believes so strongly in the quality of talent represented across their employee base that they focus their marketing on these employees and the culture they built. Explaining what "grandma service" means is just one part of their marketing strategy. Nielsen, who works alongside JMARK's director of marketing, says, "A lot of times it's about throwing a lot of darts and seeing where they land. We take the approach that more is better in marketing." This "more" includes radio ads, being active in vertically aligned trade associations by sponsoring and speaking at their conferences, leveraging vendor market development funds, and using holidays and seasons as a focal point of marketing campaigns. JMARK also improved marketing efficiency by merging their sales and marketing funnels to create a single funnel for both departments.

One marketing mistake JMARK has learned from was trying to apply the same marketing strategies to different regions. The old boys' network JMARK discovered when it acquired an MSP based in Fayetteville, for example, required a lot of volunteer and community service work to create a network that they are still developing. When JMARK made an acquisition in the Tulsa market, they had very little brand awareness and were forced to think outside of the box. They made a big splash in Tulsa when they rented a movie theater for the night before the *Star Wars* premier of *Rogue One* in December 2016. The result of that and other marketing investments has produced an increase of $22,000 in monthly recurring revenue in that market in a handful of months. At the event, they brought JMARK-branded light sabers for prospects to take home to their kids, distributed JMARK literature, and had a slide deck of client testimonials, services provided, and markets served scrolling as people were getting seated. Nielsen delivered brief opening remarks before the movie, but otherwise the JMARK team just let their prospects enjoy the show and focused on follow-up afterward. "It's more than the buzz; it was about creating a relationship and a shared experience. When those people think about the next *Star Wars*, they'll forever think of JMARK," says Nielsen.

When Nielsen agreed to schedule a call with JMARK's president and CEO in 2013, he probably didn't realize he would forever think of JMARK, too. "JMARK has a lot of talent. I know everyone can say that, but they have a lot of different skills. Everyone's focused on a bigger, better future. We try not to get bogged down in immediate problems. We try to treat each other like we treat our clients." Nielsen is right — any MSP can claim those words represent the culture at their company. At JMARK, culture is more than a web page or a bullet point list of core values. Culture is the backbone of their success in vertical specialization, vendor evaluation, and marketing strategy, and it was a point of emphasis for this MSP long before they cracked the Inc. 5000 list or made their first half a million in monthly recurring revenue. C

Rethinking The Popular "Grow Or Die" Business Mentality

This seasoned, 50-employee MSP believes that getting back to a more profitable 32-employee company is going to better serve its customers, employees, and its bottom line.

JAY MCCALL Contributing Writer

If you were to ask a group of David Pence's colleagues, friends, and business associates to describe him in just a few words, there's no doubt that responses would include *levelheaded* and *sound decision-making*. Pence has been CEO of Acumen IT for more than 18 years, and in recent years his company has been recognized on the "South Carolina Fastest Growing Companies" list and on the "Inc. 5000 Fastest Growing Companies in America." Pence regularly speaks at vendor conferences and peer group meetings, and it's common for other MSP entrepreneurs to seek his advice on how they can emulate his success. You can imagine how one advice seeker must have felt after Pence revealed to him last year that he was seriously thinking about downsizing his customer base and workforce. Before you dismiss this scenario as an example of a business owner just messing with a small competitor, I'd strongly encourage you to listen to his rationale and see how he's executing his plan.

"IF YOU'RE NOT GROWING, YOU'RE DYING" DEMYSTIFIED

Over the years, Acumen IT has received numerous accolades from vendor partners (e.g., President's Club award from Microsoft in 2010, Platinum Partner award from Fortinet in 2015, and Partner of the Year from Datto in 2016). If there's one theme all these organizations have in common, it's that they reward growth. "The phrase I've heard bandied about over the years is that, 'If you're not growing, you're dying,'" says Pence. "Seven years ago, however, I attended a presentation by Paul Dippell, CEO of Service Leadership, that challenged that philosophy. He had gathered lots of business data from about 5,000 IT organizations, and he categorized them into four groups — A to D — by size. The A group comprised companies with 15 or fewer employees, the B group included companies with 16 to 30 employees, and our company was at the beginning of the C group at the time, which comprised companies with 31 to 40 employees." The final group, D, included companies with more than 41 employees. Dippell revealed that the average profit margin of each group was about 30 percent for the A group, 20 percent for the B group, 15 percent for the C group, and only 4 percent for those in the D group. "I remember doing a double take and thinking that everyone's on a mission to grow their workforce and revenue as big as possible, but at some point it becomes a losing proposition."

Like so many other business owners hearing the message, Pence says he brushed off the information with self-reassurance that his company would beat the odds. "It's a typical mindset shared by teenagers and small to midsize business owners alike that they're immune to anything negative," quips Pence.

After the conference, nothing changed in Acumen IT's business strategy, but the seed Dippell planted that day would continue germinating in Pence's mind for years to come. In hindsight, it was the MSP's experience with customers that continually reinforced the message. "Over the years, we've seen a recurring pattern whereby a company reaches a milestone of 20 knowledge workers, and it triggers a number of major changes," he says. "It's at this point that business owners start losing control over their business. They no longer know every new customer personally, and they become isolated from many of the problems, decisions, and other day-to-day activities at their company. As the company continues to grow, the owner may become more enmeshed in human resources and operations tasks, too, leaving less time to focus on business strategy initiatives."

Shortly after Acumen IT reached the 50-employee mark in 2014, Pence had another aha moment as he reflected upon the following three scenarios:

1. WORK WAS BECOMING DRUDGERY. "I felt more like a squirrel herder than an entrepreneur on most days," says Pence. "Plus, we no longer were able to do a lot of fun activities we had done as a small-

er company, such as Friday Nerf wars, riding minibikes in the hallway, and sponsoring company outings to ball games and white water rafting adventures. The business had become so complex with various departments, layers of middle management, and outsourced help desk firms that much of the joy was sucked out of it."

2. REVENUE WAS CLIMBING, BUT PROFITS WERE DWINDLING. By all outward appearances, Acumen IT was killing it with year-over-year double-digit revenue growth and numerous accolades from vendors and media outlets, including three years on the Inc. 5000 list of the fastest growing companies. "The reality was that we lost more than half of our profit margins getting to this level of success," recalls Pence. "It amazes me that so many people look at revenue as the only measure of success, and they ignore profitability. I would way rather be part of a 30-employee company doing $5 million in revenue and earning 20 percent profit margin than a 50-employee company doing $15 million and earning only 4 percent margins. How happy do you think the employees and customers are at the first company compared with the larger, less profitable one? I can tell you from experience that the smaller, more profitable company has more energy, there are more available funds for training and fun activities, and the customers feel that positive energy, too."

3. HONEST ADVICE TO A GROWING ENTREPRENEUR. After speaking at a vendor conference last year, Pence was approached by a peer wanting to know how he could become a 50-employee MSP. "I remember telling this young entrepreneur to be careful what he wished for," recalls Pence. "I shared with him the research that I had been shown years earlier, and I confirmed that it had come true: My revenue was growing, but profits were down. I advised him to pay as much attention to profitability as revenue and to avoid becoming another 4 percent statistic on his journey to the D group. As we parted that day, I realized he probably wasn't going to take my advice because he believed he was going to be the exception to the rule. But, I was convinced that I needed to start acting upon my convictions."

DAVID PENCE
CEO
Acumen IT

VITAL STATISTICS

34
Employees

Founded
1999

Headquarters
Greer, SC

VERTICALS
Engineering,
Finance,
Healthcare,
Legal,
Professional Services

864-271-9000
www.acumenit.com

WHEN DOWNSIZING MAKES SENSE

Starting in mid-2015, Pence began enacting his plan to get back to the C group. "It started on the customer side by allowing natural attrition to take place," he says. "For instance, we intentionally did not renew any managed services contracts with companies that were consistently below a $100 effective bill rate [EBR] per month. We also became more vigilant about which new customers we onboarded, allowing only companies in our core competency verticals and having more than 20 knowledge workers to become clients."

Pence says he's been implementing the last phase of his plan, which is paring down his workforce. "We were at 48 employees at the beginning of 2014, and my goal is to be down to 32 employees by July 1 of this year," he says. "The majority of those who leave have easily been able to find other employment. This has given our company positive momentum as we've seen our A and B+ players become "all in" while the B- and C players have moved on."

Since implementing the new plan, Pence says he's received a lot of positive feedback. "We used to use a third-party contact center to handle incoming tech support calls," he says. "We brought all support back in-house and several of our customers told us how much better and more responsive our service has become. Plus, our top performing employees will have more opportunities to take training classes and earn higher wages and commissions than they could have in our previous, low-margin business model."

Pence jokes that he's been noticing that his smile is at a higher angle. "I keep an open-door policy with all my employees, and I'm transparent about what we're doing as a company," says Pence. "We're moving full force back to having fun and being more profitable. This year we're trending toward a 5 percent reduction in revenue over 2016, but our profits will be double, making it the most profitable year in the company's history. I'm projecting the following year will bring a 10 percent to 20 percent decrease in revenue, and our profits will increase once again. We might lose our spot on the fastest growing companies lists, but I'll take the higher profit margins and fun that comes with running a lean midsize company over a complex and management-heavy larger company any day." C

No Small Task: Securing The Internet Of Things

Over the past couple of years, one of this integrator's biggest challenges has become protecting its install base of thousands of IP video cameras and other endpoint devices from cybercriminal exploits.

JAY MCCALL Contributing Writer

People. Processes. Data. Things. Previously, they functioned independently. Today, however, the Internet of Things (IoT) is bringing them all together by combining machine-to-machine (M2M), person-to-machine (P2M), and person-to-person (P2P) connections. According to the Gartner "Digital Business Transformation: Disrupt to Win" report, in 2015 the vast majority of the physical world (99.4 percent) was unconnected. By 2020, however, 75 percent of businesses will become fully digital or preparing to be. In the race to internet-enable everything, however, security is often an afterthought, and cybercriminals are capitalizing on this new era of vulnerability.

According to a June 2015 Congressional Research Service (CRS) report, attacks on the U.S. power grid system are increasing, with hackers stepping up efforts to penetrate critical systems and implant malicious software that could compromise the power grid, resulting in a nationwide crisis. Hospitals are reporting cyberattacks on their drug pumps, and even the U.S. National Nuclear Security Administration experienced 19 successful cyberattacks between 2010 and 2014 via Stuxnet, a malicious computer worm designed to attack industrial programmable logic controllers (PLCs).

Physical security integrator Vector Security has been providing video surveillance and access control solutions for 47 years. For the majority of that time, cameras and locking systems weren't internet-connected, but over the past five years that's all changed, and the 1,234-employee company has made a foray into the IP world. Fortunately for Vector Security and its customers, it hasn't treated endpoint security as an afterthought. Additionally, over the past couple of years, it's taken three key steps to better protect its customers — and itself — from IoT security threats.

STEP 1: WALK AWAY FROM CUSTOMERS WHO DON'T TAKE SECURITY SERIOUSLY

In the past, it was common for some customers to want to reduce labor costs by taking on some of the implementation tasks themselves, such as connecting an IP camera to a corporate network. "The problem with this is that the integrator assumes the client understands how to configure and secure the device, and the integrator assumes the client accepts full responsibility for its actions," says Steven White, corporate VP of business development at Vector Security. "If a problem occurs, including a security breach, it almost always leads to the client placing blame on the integrator, which is a no-win situation."

To avoid these scenarios, White says his company is now much more careful how it handles these situations, starting with having extensive conversations about security threats to determine prospects' understanding and attitudes about what they're up against.

"If we're not convinced that a prospect is taking cybersecurity seriously, we won't take them on as a client," says White.

STEP 2: SPELL OUT AREAS OF RESPONSIBILITY IN YOUR SERVICE LEVEL AGREEMENT

For those that do pass Vector Security's initial screening, the integrator adds a written contract that clearly defines each party's responsibilities. "Adding these extra steps can drag out the negotiation process, but we feel it's too important to skip, and we can't leave any doubt as to who is responsible for what," says White.

> "If a problem occurs, including a security breach, it almost always leads to the client placing blame on the integrator, which is a no-win situation."

STEVEN WHITE
Corporate VP of business development
Vector Security

Without these guidelines, a common area that can become a dispute between integrators and their clients is patch updates, says White. "In many cases, the manufacturer will make patch updates on its website, but it will assume no responsibility for keeping its products updated. As the number of threats has increased in recent years, hardware manufacturers have increased the frequency with which they release updates. This is a huge burden for end users to keep up with, and integrators who think they can one-up their competitors by offering free patch updates won't stay in business very long. The massive WannaCry cyberattack that infected more than 300,000 computers worldwide in early May is a perfect example. Two months prior to the attack, Microsoft pushed out a patch to the vulnerability the WannaCry ransomware targeted. The problem was that many businesses and institutions — including many healthcare, government, and other highly regulated entities — were way behind in updating their systems. As the IoT trend progresses, the number of devices is growing exponentially, making patch management that much more challenging for companies. We're now addressing this issue up front with prospects so they're well aware of the responsibility, and they can see the importance and value of having our company manage it for them."

Another line item added to Vector Security's service level agreements (SLAs) deals with cybersecurity insurance, says White. "We require key partners to carry cybersecurity insurance to curb the costs associated with a breach. Although we're doing everything we can to minimize breaches, no security strategy is 100 percent effective."

STEP 3: STAY EDUCATED ON IOT BEST PRACTICES

Some aspects of IoT security are exactly the same as securing traditional endpoints on an IP network, says White, and that's a good place for physical security integrators to start. "A lot of today's cyberattacks are successful because the victims weren't following network security fundamentals," he says. "In addition to ensuring software patches are updated regularly, password management is another commonly neglected area. Default passwords have to be replaced with stronger passwords, and procedures must be put in place to manage them and prevent reuse across multiple systems."

Another area where Vector Security sees opportunities for IT solutions providers is network segmentation. "There are a number of ways this can be achieved, ranging from logically segmenting networks via virtual LAN technology to physically isolating networks by implementing separate cable or DSL circuits to ensure, for instance, that point of sale data and customer Wi-Fi traffic never cross the same LAN."

When moving beyond IoT security basics into topics such as IoT industry standards, White admits that can be a dicey topic right now. "It still feels like there are 100 companies trying to develop 100 different standards," he quips. "I'm not usually a big fan of having the government step in to legislate matters, but this is a situation where we may need that to happen because otherwise it could take 10 years for the industry to reach a consensus, and we don't have that kind of time."

White says he's seeing analysts' IoT predictions coming to fruition every day. "Similar to what we saw with the BYOD trend, where consumer products influenced the commercial world, IoT is following suit. On the residential side of our business, for instance, we've seen a growing interest in and adoption of connected locking systems, thermostats, and lighting control systems. And, now we're starting to see a growing interest in these solutions with our commercial customers. What's nice, too, is that access control systems like smart locks used to be cost-prohibitive for most companies. Because of the growing interest and adoption on the consumer side, however, it's driving down the price of connected locking systems on the commercial side, and we're seeing higher adoption rates."

White predicts there's going to be a lot more disruption over the next couple of years, not only because of the uptick in IoT adoption but also due to market consolidation. "The brands with the strongest commitment to security and ongoing management will have the best chances of survival," he says. "Those that continue operating on the old paradigm of releasing patches haphazardly and being unmanaged will disappear." C

Self-Fund Your As-A-Service Transition

The tactics used by this POS VAR to build recurring revenue can be used in any industry.

MIKE MONOCELLO Contributing Writer

Having cash-register dealer roots that extend back to the early 1900s means that Arthur Rosenbaum, president of New Haven Cash Register (NHCR), isn't just working for himself; he represents the legacy of his father and grandfather, both pioneers in what is now the POS industry.

Rosenbaum's grandfather was a mechanical cash register salesperson for NCR, which was just entering its heyday when he got started in 1909. His father was one of the earliest members of the ICRDA (Independent Cash Register Dealers Association, now the Retail Solution Providers Association, or RSPA) and was an early adopter of the electronic cash register. Rosenbaum himself grew up in the business, hanging around the office and scampering through the stockroom at a young age. Eventually, he took over the business when his father fell ill. Each generation has faced and overcome its own challenges, and adapted as necessary. Indeed, you can't have that long a legacy in the POS business without making major adjustments.

Approximately five years ago, against a competitive changing market and nearing retirement age, Rosenbaum faced a dilemma. He could sell his business — which he knew wasn't worth much due to a lack of recurring revenue — or adapt the company yet again to address the most recent shifts in the restaurant IT world. He chose the latter option. In the time since, he's made a number of changes that have turned NHCR into a recurring revenue machine and given him new energy, pushing his retirement out, not due to necessity but because Rosenbaum's enjoying business too much.

MAINTENANCE CONTRACTS, WITH A TWIST

Like most POS resellers, NHCR's past revenue streams consisted mostly of break-fix sales of POS systems, maintenance agreements, and credit card processing. Knowing that he wanted to earn more recurring revenue, Rosenbaum began identifying untapped or under-tapped opportunities.

One area of focus was maintenance. Historically, NHCR would cover new purchases with a one-year warranty that included parts and labor, telephone support, and on-site service. "We never signed customers up for a maintenance agreement until after their free one-year warranty ended," explains Rosenbaum. "In the 11th month, we'd have to follow up and ask them if they wanted to extend the maintenance and hope that they did. Now, we build and sell the maintenance agreement with the initial contract."

Today, NHCR provides six months of on-site service and telephone support with a new purchase. Customers can receive a discount up front if they agree to sign up for a maintenance contract that extends service another 30 months.

> "We never signed customers up for a maintenance agreement until after their free one-year warranty ended ... Now, we build and sell the maintenance agreement with the initial contract."
>
> **ARTHUR ROSENBAUM**
> President, New Haven Cash Register

"Customers today are knowledgeable about SaaS-based POS solutions that can be had for monthly payments," says Rosenbaum. "To ease the sticker shock of a purchased POS system, we are willing to give an up-front discount and eat into our margin by 5 to 7 percent, knowing that we'll more than make up the lost revenue with monthly maintenance payments that kick in after month six." By giving up a little margin, NHCR makes the price more enticing to customers and gives the company a recurring revenue stream for 30 months.

software, and credit card processing for a monthly fee over a set term (usually three years). Some sell direct while others involve reseller channels. These span from entry-level to full-blown POS systems.

The challenge Rosenbaum saw with any POS-as-a-Service solution is that if his team made a sale, his company would no longer get the nice lump sum that helped pay the bills. Like many other resellers discovered, despite the desire for recurring revenue, a cash flow roadblock sat in the way of NHCR getting into POS-as-a-Service.

"To ease the sticker shock of a purchased POS system, we are willing to give an up-front discount and eat into our margin by 5 to 7 percent."

ARTHUR ROSENBAUM
President, New Haven Cash Register

For instance, a $10,000 system could be discounted to $9,200. After six months, the maintenance and support kicks in and NHCR starts collecting $125 to $150 a month, which is auto-billed from the customer's credit card on file.

Rosenbaum continues by explaining how his company risks little in the deal. "The hardware we sell today is very reliable. The manufacturers we use have reduced the number of moving parts, and there are no fans. They are really solid-state devices. As such, they don't need much hardware support. Additionally, manufacturers have shown their faith in their products by offering three-year warranties." As such, Rosenbaum knows that his exposure during the first three years is very small. The majority of support is via the telephone for problems with software and settings.

In the end, Rosenbaum's new maintenance model generates recurring revenue for NHCR, and the customer receives a lower price for the solution up front as well as extended on-site maintenance.

A UNIQUE WAY TO START POS-AS-A-SERVICE

By now, everyone in the POS business is familiar with POS-as-a-Service bundles. These types of solutions come in many forms. In some cases, the POS software is the main component and is what customers are paying for each month. These entry-level systems typically run on tablets that the merchant purchases. They are often sold direct and, due to the low cost and proliferation of tablets, many merchants are familiar with the solutions and the monthly price point.

There are other cases where vendors have bundled together a complete solution that contains hardware,

While studying the market and trying to figure out how he could get involved in a way that wouldn't cripple his business, Rosenbaum had an idea. Being in business for years meant that NHCR had a lot of trade-ins and loaner inventory sitting on a shelf in his office. "We couldn't really sell this equipment since it was a few years old, but it all worked," he says. "We took this valueless equipment and used it to launch our own as-a-Service rental program."

NHCR offered customers who needed entry-level POS systems the chance to buy into three-year subscriptions that included POS hardware, software, peripherals, and credit card processing. Because most of the systems came from the shelves, NHCR's initial costs were minimal.

Having long-standing relationships with his few software partners, Rosenbaum approached them with an explanation of what he was trying to create along with a request to pay for the software on a monthly basis as opposed to their typical up-front licensing fee. They agreed and send NHCR a monthly bill.

Because the hardware was reliable to begin with, Rosenbaum says it very seldom breaks down. However, maintenance is included in the monthly fee. Additionally, customers on this POS-as-a-Service plan are locked into NHCR's preferred credit card processor, further increasing the VAR's credit card residuals.

Before long, NHCR had 30 customers subscribed to this new offering. While the recurring revenue was nice, it gave Rosenbaum enough of a predictable revenue stream to remove the cash flow roadblock preventing his company from moving even faster into POS-as-a-Service.

Supported by the recurring revenue of his spare inventory rental program, Rosenbaum now offers new system sales bundled together with his preferred hardware, software, and credit card processing partners. Rather than renting the solutions, this offering is a rent-to-own program which Rosenbaum says is very enticing to customers. It provides yet another monthly recurring revenue stream for NHCR.

After just three years after his original idea to self-start a POS-as-a-Service program, 80 percent of NHCR's customers are using a form of NHCR's POS-as-a-Service offering.

COVER YOUR EXPENSES, EARN PEACE OF MIND

Today, giant checks from a big sale aren't very common at NHCR. However, Rosenbaum knows that on a few days each month his bank account will surge with payments from credit card residuals, maintenance customers, and POS-as-a-Service subscriptions. "After only three years of doing this, our recurring revenue stream makes up more than 70 percent of our total gross income," he says. "A few months ago, we hit the point where we are covering all of our expenses with our recurring revenue services. Additional subscription sales and margin from any traditional sales flow directly to our bottom line."

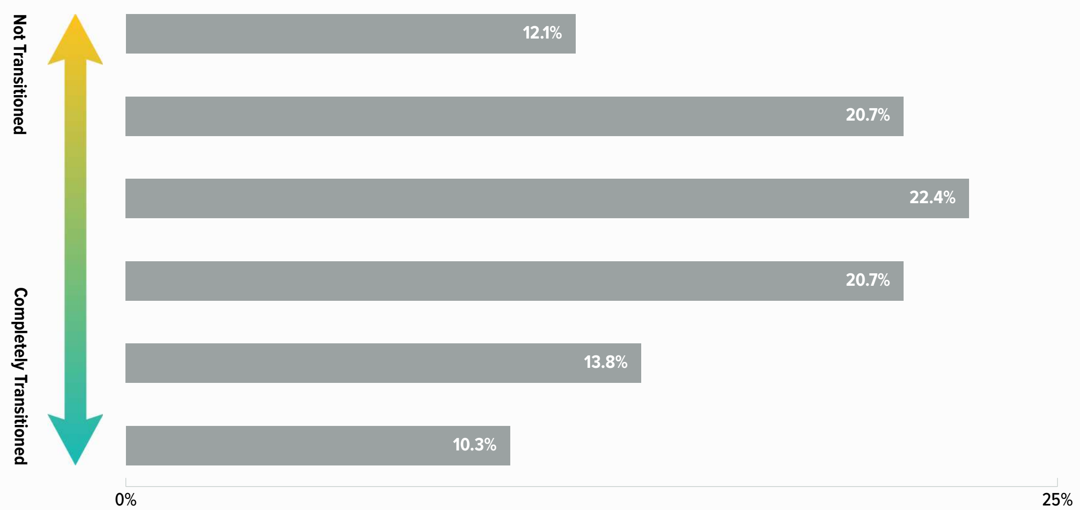
You can imagine the effect this has had on reducing Rosenbaum's stress. He's no longer worried about surviving in the market, making payroll, and dealing with other financial issues. "It's mind-blowing to me that this model isn't thought of highly by many other resellers," he says. "Not everyone has bought into the idea. I'm getting older. If I need to take a week off, I'm not worried about the day-to-day functioning of the business because I know where money is coming from every month." When Rosenbaum decides to retire, he knows now that his book of business will be worth quite a bit to potential buyers, which is its own peace of mind.

"It's mind-blowing to me that this model isn't thought of highly by many other resellers … I'm getting older. If I need to take a week off, I'm not worried about the day-to-day functioning of the business because I know where money is coming from every month."

ARTHUR ROSENBAUM
President, New Haven Cash Register

However, this new model has invigorated Rosenbaum and he's now thinking about where he wants to take his business next, rather than retiring. He's beginning the process of evaluating remote monitoring and management tools to further streamline his maintenance offering. He's also planning to offer additional recurring revenue generators such as online ordering. As polished EMV solutions are just coming to the restaurant market, he's working on a rollout strategy that will fit his new recurring revenue-focused business model. Finally, with predictable revenue streams for the foreseeable future, NHCR is well-positioned to make investments that will continue the momentum Rosenbaum has built. C

WHERE VARs STAND ON THE PATH TO POS-AS-A-SERVICE



SOURCE: Business Solutions/Vantiv POS Channel KPI Study

The Somewhat Scary Storage And Networking Outlook For MSPs

Reflections on Microsoft and the two big tech markets it's going to own next.

JEREMY KURTH

MSPs and IT decision makers need to be aware of two big shifts that are here, now, and not going away. Just as Microsoft proved its ability to shake up VMWare's stronghold on the hypervisor world, they now intend to use that same tactic in two additional high-margin and historically protected markets.

Microsoft's tactic is quite simple: surface area. Somewhere in your stack, you're probably running a Microsoft server operating system, which is how the company typically attacks its competition. By slowly dripping additional features into the base product, Microsoft makes it very difficult to argue a way out of its advances.

THE PRECEDENT IS SET

To recap Microsoft's success with this approach, consider how VMWare became a victim in a market it dominated merely 10 years ago. I'm a huge fan of VMWare, and all the diehards will argue that it still retains the enterprise space, but that reality is more likely a result of their glacier-like speed of change than good technical, and sound budgetary, decision making. Now, in the agile SMB space, Microsoft's Hyper-V is crushing market growth, mostly due to cost and the ever-closing gap of functionality between the Microsoft and VMWare products. It's hard to argue for purchasing another product when it works somewhat the same, has similar feature sets, and comes as part of something you already own (i.e., a Windows Server).

So, what's next on Microsoft's hot list? The big targets are the storage and networking markets. Both of these markets have historically been dominated by higher-margin product lines and vendors like Cisco, Brocade, HP, Juniper, EMC, NetApp, and EqualLogic. These companies have pretty much dominated the network and storage markets, and their competitors in the SMB space were typically smaller, newer versions of themselves. When companies such as Meraki, D-Link, and EqualLogic came to play, the simplest thing to do was to acquire them. Such was the case when Cisco acquired

> **"The vendors that can't pivot correctly need to prepare for a frustrating, slow-death experience."**
>
> **JEREMY KURTH**
> CTO & Partner, K&R Network Solutions

Meraki/Linksys on the networking side, and when Dell bought EMC and EqualLogic on the storage side.

Unfortunately for these guys, the acquisition approach won't work to combat the software giant that is Microsoft. And as usual, Microsoft's approach is to cause pain by edging out margins over time by including additional features in their out-of-the-box product. The vendors that can't pivot correctly need to prepare for a frustrating, slow-death experience.

> **"In a recent high-end compute solution, we calculated the cost savings between a hyper converged Hyper-V S2D/SOFS solution versus a conventional 3-2-1 architecture to be nearly 50 percent – or 6 figures."**
>
> **JEREMY KURTH**
> CTO & Partner, K&R Network Solutions

STORAGE SALES: WHERE THEY'VE BEEN, WHERE THEY'RE GOING

Let's take a quick look at storage solutions and then use a recent example of how this is going to play out long term for everyone not in Redmond.

Historically for high compute, reliability, performance, and/or scalability, the proven approach has been SAN (storage area network) storage solutions with products such as NetApp, EMC, or EqualLogic. SANs are a fantastic product, but they're typically reserved for companies with healthier budgets. Next came some cost-effective SMB product lines in the $15K-$75K range. These options allowed smaller companies to take advantage of technologies such as snapshots, site-to-site replication for disaster recovery, shared storage for high availability, scalability, and deduplication, all running on a healthy amount of IOPS (input/output operations per second).

So began the idea of a 3-2-1 stack. Consisting of three servers, two switches, and one shared storage unit, it became the norm for companies wanting a solid infrastructure to build their business on. The kicker comes when you break down the costs associated with this kind of solution. Even lower-end SAN storage with spinning disks, limited features, and low capacity is relatively expensive. Including licensing, support, and maintenance, one would expect to allocate more than 60 percent of the budget on the storage part alone.

This is where Microsoft is taking aim. While storage isn't new for Microsoft — we saw early releases of Windows Storage Server back in 2003 — it's the new rich feature set, capabilities, and convergence of less-expensive flash storage that are changing things drastically for pure SAN storage players.

Microsoft has seen some success with its Storage Server line, predominantly by pushing a specific product offering from the big box guys like Dell, HP, and IBM. However, it was the release of SMB 3.0 years ago when we first started to offer a "lower-cost," high-availability shared storage option in the market. It was a fraction of the cost to use a Windows Server versus a SAN storage device. But there remained a lack of comfort due to feature sets and redundancy with that approach. I'm not sure why, but a SAN has always put the mind at ease.

However, with 2016's Storage Spaces Direct [coined S2D most likely so as not to be confused with solid state drives (SSD)] and Scale-Our File Server (SOFS), the game changer has officially arrived. As usual, Microsoft wasn't exactly original here. In this case, VMWare's vSAN has been humming along for quite some time. However, what is original is that if you have enough servers to demand these types of technologies, then you most likely don't have to pay for it. You're probably running enough Windows Servers on that VMWare cluster to justify a Windows Datacenter licensing model. Once again, Microsoft is asking "Why not just enable it?" And just like that, there goes a VMWare license fee.

Compare the features of the Microsoft S2D and SOFS offerings in the storage arena with any high-end SAN these days. The differences are starting to diminish, if not dwindle to a net zero. The difference in cost, however, is far from net zero.

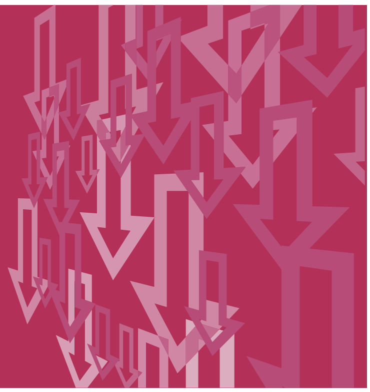
That's the current problem for the conventional SAN storage market. Microsoft's S2D and SOFS are compelling in so many different cases, but what makes them most attractive is the ability to take advantage of flash performance and technologies such as tiered storage without paying the big money required by the conventional SAN storage product lines. Often, a SAN storage vendor is required to warranty and service the full solution. On the positive side for the vendor, this led to high margins on storage that would otherwise be less expensive on the market. The vendor would serialize the disks to ensure that only those it provided would work in the systems. This was unfortunate for the consumer market, but options were limited. The drives were part of the solution. Microsoft is really changing that, and therefore changing costs considerably. All you need now is to meet the minimum requirements, and your high-end 1MM IOPS flash storage solution is subject to free market pricing. SAN vendors are going to lose margin in their efforts to keep up. It's shaping up to be a race to the bottom.

NETWORKING IS NEXT UNDER SIEGE

Similar to the storage conversation, Microsoft has the networking market in its line of sight. While Microsoft has provided network-centric solutions for years, some have been better than others. Some were great technologies that simply weren't adopted in the market. But with 2016's Software Defined Networking (SDN) feature, it's clear that Microsoft has no intention of turning back and is headed in the right direction to shake up the market.

The basics of layers 2 and 3 are already there, but there are a few additional highlights of SDN. The current build comes with a Network Controller component, Datacenter Firewall, software load balancing, and RAS Gateway to address all your secure VPN needs. SDN is fully manageable by PowerShell, involves little to no setup time, and can support most of the fancy features one would see in expensive networking hardware.

> "SAN vendors are going to lose margin in their efforts to keep up. It's shaping up to be a race to the bottom."
>
> **JEREMY KURTH**
> CTO and partner, K&R Network Solutions



In a recent high-end compute solution, we calculated the cost savings between a hyper converged Hyper-V S2D/SOFS solution versus a conventional 3-2-1 architecture to be nearly 50 percent. Microsoft's offering resulted in a savings of over six figures. In addition, the features the 3-2-1 solution couldn't tackle well—true parity and high availability across nodes (a single SAN can't do that!) and the ability to scale out, up, and across the wire seamlessly — sealed the deal at the unfortunate fate of our SAN vendor's quota. Even though these weren't requirements for the project, it answered the call for future proofing the solution for cloud migration, disaster recovery, and business continuity.

Ensure that your storage engineers are ahead of the game on this. In addition to your cloud offerings, you should ensure that your conventional infrastructure offerings include this as an option, or you may suddenly cost twice as much as your competitor. I'm betting on the free market, and I believe the change is well underway.

As the OpenFlow standard grows, it's only a matter of time before nearly all network components will be manageable in this fashion. Microsoft is looking to be the control plane for all of it. If successful, the requirements for a robust operating system — and learned skill within a switch, router, or firewall — evaporate. As features enhance and network equipment adoptability catches up, these options — available with the check of a box within the roles and features wizard of an already owned asset — are going to create some very difficult competition. C

JEREMY KURTH is CTO and partner of San Diego-based IT provider, K&R Network Solutions, Inc. Founded in late 2001 with business partner Dave Rodman, K&R has been in managed services since 2004 and an HTG member since 2006.

Life-Cycle Management: The Art Of The Curve Jump

Technology sales and service provision is a constantly changing business. The best companies know how to evaluate the life cycle of their offerings and act accordingly, no matter how uncomfortable the change might be.

PETE SORENSEN

Everything has a life cycle. Look out your window and focus on a tree. What do you know about the life cycle of that tree? You know there was a time when that tree was just a seed. That seed germinated and grew into the plant you see today. Eventually, the tree will lose some of its strength and start to perish. You observe these life cycles every day in the world around you.

Have you ever stopped to think about your products, services, and business, and how those things also have a life cycle? When we walk clients through the Paterson Center's StratOp process, the life-cycle management discussion almost always leads to some 'aha' moments. The life cycle can quickly be represented as a bell curve, moving from left to right as your product or business matures. The top of the curve represents the maximum potential that your product or business will ever achieve. As the life cycle progresses, the value potential of the product or business will decline, eventually reaching a point that requires you to make a tough management decision.

Look at the entertainment industry as an example. Take a minute to consider where movie theaters, DVDs, VHS, digital streaming, and cable television products are at in their respective life cycles and then plot them on the curve. You can quickly see that these items belong on different places on the life-cycle curve. Where is your business in its life cycle?

As a leader, you must master the art of life-cycle management if you are going to grow a sustainable business. The first step is leading your team to understand the truth of where things are in their life cycle. You may find that the discussion will be difficult, but energizing, as the team discusses something they are very close to.

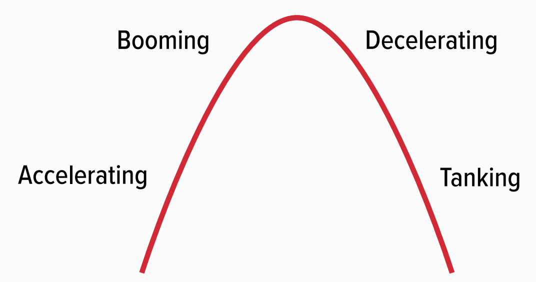


FIGURE 1: The classic business life-cycle bell curve.

If you have been around technology for any length of time, you know that things move along the life-cycle curve at different speeds. Consider two very similar products, Blu-ray and HD-DVD. One has been on the curve for many years, while the other ran its life cycle very quickly.

The question then becomes, what can or should you do once you have this information? Once you understand where something is in its life cycle, you have three options:

The first option is to leave it alone. You may choose to let things continue to happen naturally. That may mean that you continue with your current plan and enjoy the fact that your service is booming. Or it may mean that you "put it out to pasture" and capture any remaining value that is left as the service tanks.

The second option is to apply energy and effort to make a change. Work to improve the scalability of your service, allowing it to move up into the booming section of the curve. You may run a larger marketing campaign to try to move a service higher up the booming side of the curve. This may mean that you act to temporarily pull something back from the decelerating side to allow it to create a bit more value. No matter what energy you apply, it is important to remember that the effect will be temporary.

The third option is to reinvent a product, service, or even the business. While this may be the most difficult action to take, there are times where jumping curves may be the best long-term solution, and may provide the stability that we strive for as leaders.

THE ART OF THE CURVE JUMP

Jumping curves is not a decision to be made lightly. It takes more than the application of energy to a specific situation. The decision to jump curves must be strategic and a part of the long-term direction for your business. Curve jumping requires innovation and impeccable timing to be most successful. Here are several things that you should consider when making the decision to jump curves.

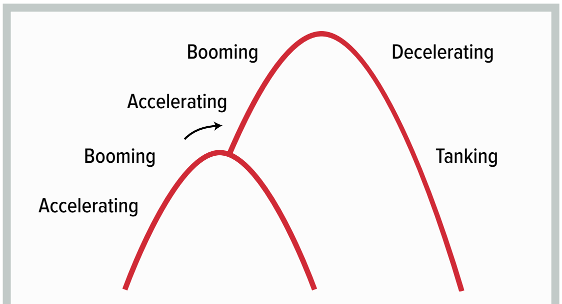


FIGURE 2: Knowing when to jump curves is an art.

- Understand that there are several reasons that might lead you to decide to jump curves. You may face a situation where your intellectual property is no longer protected as it once was. You may find that your competitors are closing the gap on the advantages that you have long enjoyed. Technology may continue to evolve and require a change to be made. Your customers and their preferences may change over time. If you are one who observes the differences in buying habits between generations, then you know that the millennial generation and their buying preferences are causing many businesses to jump curves.
- Consider timing when preparing to take the leap. Ideally, time the jump to correspond with the peak of the life-cycle curve. Jump from a position of strength, not from a position of weakness or feeling that you must jump or die. This may sound simple, but it is somewhat unnatural to consider jumping curves while things are booming and performing at their best. In times of economic pressure, you need even more preparation as the downward pressure of a recession is already limiting revenue growth.
- Know that innovation is required for success. In a curve jump, you are effectively reinventing a product, service, or even your business. Innovation is a requirement for this reinvention to take place and, as a leader, it is important to remember that everyone can innovate. Some people innovate strategically and with big ideas, while others innovate with processes. It is best to include a variety of different types of thinkers as you work through the requirements and ideas for the new state.
- Ensure that the curve jump is part of the long-term direction for your business. Consider what the future state looks like and review that in terms of the important boundaries for your company and team. Ask yourself and your team if there will be alignment between the future state and your mission, vision, or core values. Review the future state and understand the conflicts between where you are headed and other products and services that you offer. There is nothing worse than climbing the ladder and then finding out that it is leaning against the wrong wall.
- Perhaps most importantly, once you decide to jump, don't look back. Too often, leaders get 75 percent of the way to the new state and are feeling like it isn't working. They follow that feeling and retreat to where they are comfortable. If they were willing to stick it out, they would have landed comfortably on a new curve and been in a much better place. Expect to experience—and don't be afraid of—a little discomfort during this process.

Leading your team through a curve jump is not easy. Life-cycle management is an art, and using that information to make an informed decision is difficult. Surround yourself with a good team of people and work to uncover the truth of your current situation and the options that you have for action. You'll be amazed at where the team will take you, and you'll feel great once you land on that new curve.

PETE SORENSEN is a partner at HTG Peer Groups where he works with business leaders to ignite transformation for their personal and business success.

Meeting Client Video Surveillance Requirements: Would A Court Agree?

Networked video surveillance sales are hot for VARs and MSPs. Are all those camera installs mitigating risk for your customers or causing it? Why should you care?

NICHOLAS P. RESETAR

When supplying video surveillance monitoring systems, it is safe to assume that you are supplying your customers with a means to view, record, and preserve real-time footage of their business establishments or interested properties. However, the value of your product and its capabilities are not quite that simple, at least in the eyes of your customers and the various courts across the United States.

Is it enough just to provide equipment and software, or should there be a greater understanding of the precise reasons your customers require your product and how it will affect them in the legal arena? As an attorney who regularly encounters issues concerning video surveillance systems, I can tell you that your customers are constantly met with great risks, both legal and financial, relative to the capability, capacity, and efficacy of the product you supply.

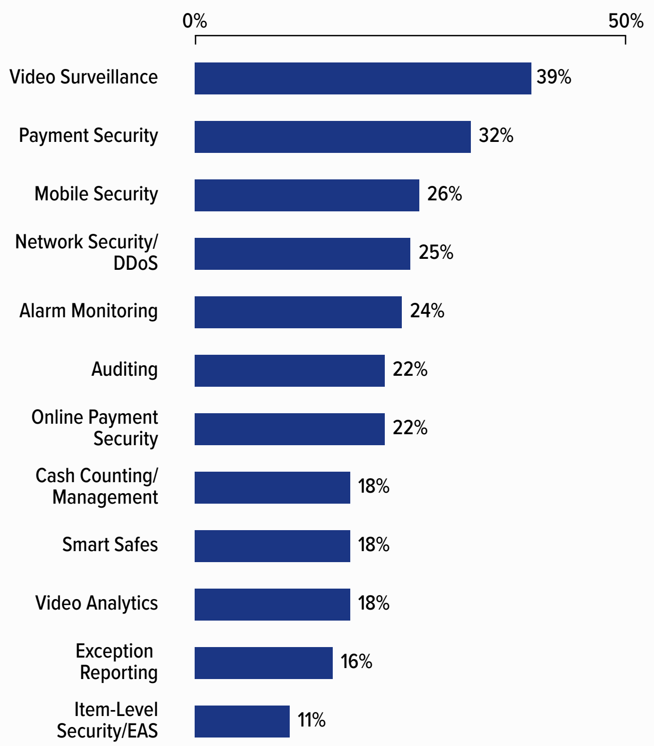
Providing your customers with the solution sets that best suit their ever-changing needs is about more than meeting just their known or immediate requirements. While those are important, as a security solutions provider, it's also imperative that you consider how your solutions might affect your customers in the courthouse. That's where the greatest value of your products and services might be revealed to your customers. An MBA is not a prerequisite to know that businesses make decisions for two reasons: (1) to make money; or (2) to save money. Surveillance systems do not create profit, but rather seek to prevent losses in the form of shrink and casualty.

How does your product assist in mitigating shrink and casualty losses? Is it enough that your product captures the loss incident in question? Surveying the landscape of the courtrooms in various states, the resounding answer to the latter question is "no," which really means that your product is not assisting in the first question, risk mitigation. In many cases, but not all, the problem does not arise from product failure, but rather user failure. You may be wondering why user failure is your problem, but, rest assured, a customer's problem becomes your problem. A few illustrations of user failure highlight the pitfalls:

> **"Your customers are constantly met with great risks, both legal and financial, relative to the capability, capacity, and efficacy of the [video surveillance] product you supply."**
>
> **NICHOLAS P. RESETAR**
> Attorney, Roetzel & Andress

- A retail customer sustains severe injuries after he/she slips and falls on colorful candy dropped by another customer's child just minutes before the fall. In this scenario, the surveillance system captures the child dropping the candy, the few minutes prior to the fall, and the fall itself. If you believe that it is enough that the fall itself was captured, you would be wrong, and your customer

IN 2017, WHAT LOSS PREVENTION/ASSET PROTECTION SOLUTIONS WILL YOUR COMPANY INVEST IN?



The retail market, in particular, presents a hotbed of opportunity for the sale of video surveillance systems. Trusted advisors will ensure their customers are aware of the risks associated with video surveillance deployment.

SOURCE: *Innovative Retail Technologies'* 2017 Retail Tech Spending Report

could be staring down the barrel of a million-dollar verdict. The supplier of the surveillance system should understand that the retailer not only requires the footage of the fall itself to be preserved, but that a court would also require the footage depicting the child dropping the candy and the time lapse prior to the fall. In this scenario, if the entire length of footage is captured and preserved, the retailer would likely avoid liability altogether. However, if only the fall itself is preserved, the retailer may be found liable, as there is no way to demonstrate how the candy came to be on the floor or how long it had been there. You can prevent this scenario from arising if you understand your customers' priorities and adjust accordingly.

- In another retail setting, a loss prevention associate viewing surveillance monitors observes an individual shoplifting merchandise. Per policy, the loss prevention associate walks onto the sales floor, visually confirms the act, notifies law enforcement to make an arrest and serve a summons to bring charges. In this scenario, the loss prevention department does not preserve the footage on the date in question, but only goes back to retrieve it after receiving a request from the prosecutor 31 days later. Unfortunately, the retailer's surveillance system only automatically preserves footage for 30 days, and now there is no evidence to provide to the prosecutor. Without this evidence, the individual will not face charges and could quite possibly bring a civil action against the retailer for monetary damages as a result of the arrest. Once again, without this footage, your customer will find itself outside of the court's good graces, and likely facing substantial civil penalties.

While these two examples provide clear user error, you as the supplier are in a unique position to get in front of these issues before they arise. When supplying a business with a surveillance monitoring system, ask them why they require the surveillance, what their retention policy is, what types of activities they're seeking to capture and preserve, etc. Tailor the system and its software toward their objective. Make it simple and as user-proof as possible. Understand how their preservation policy is written, at which points in time past footage will need to be recalled, and who will be using the equipment. By creating and customizing a system for each customer's specific needs, you will be assisting them in their business objectives, while at the same time helping to insulate them from the inevitable court appearance.

Your value as a supplier does not end at the time the surveillance system is installed but continues on through the risk process. By understanding and carefully crafting a product that meets your customers' business goals, and if you can save your customer from even only one loss or casualty event, you may have a customer for life.

NICHOLAS P. RESETAR is an attorney with Ohio-based law firm Roetzel & Andress. He focuses his practice on litigation with an emphasis on general liability defense, transportation litigation, and product liability, where he works closely with the retail and hospitality industries in addition to many national corporations.

Leaders Enable Leadership

Here's how to nurture innovation while preserving culture.

LUCA JACOBELLIS

LUCA JACOBELLIS is President at Cal Net Technology Group. Under Jacobellis' leadership, Cal Net has completed three acquisitions, diversified its solutions portfolio, and evolved its technology strategy while growing from three to more than 100 employees.

Ever play 20 questions? Sometimes that is what it feels like to be the owner of a small business. When everything revolves around you, that small business can grow only as big and heavy as your shoulders can bear.

To grow, one must find a way to get others to "follow your lead" or "do as you do" without having to ask a question about "how" every 5 minutes. So, the trick is figuring out how to get others to think for themselves and in the best interest of the company.

PLAY DEAD PRESIDENTS

A good first step is to stop answering everyone's questions. I don't mean start ignoring people; just stop giving them the answers. When I was starting out as a young leader, I would often ask my boss about what should be done in a situation. Not because I did not know — he had taught me well — but it was safe to get validation that my thinking was sound and actionable. One day I walked into his office, as I had many times before, and started to ask my question. He stopped, got out of his chair, and lay on the floor. From behind the desk he said, "I just died, now what do you think you should do?" Honestly, for a second I was silent and a bit uncomfortable. Then I answered his question, and he told me to go and do that.

This is easier said than done. Our natural reaction is to help people. Also, we often think no one can do things as well as we can. Here is the thing: If you can get people to make good decisions 80 percent of the time, your business will go farther and faster than if you are making 100 percent of the good decisions by yourself.

STAY ACCOUNTABLE TO THE CORE

Great, now you have other people making decisions and your business is getting bigger! This is exciting, but now your company looks and feels different. Leaders start to emerge, and employees who once came to you for everything begin to interact with you less often. The culture the company had — pre-development-of-leaders — has started to change. How do you make sure that all of these decisions are generally good ones? Also, how do you make sure that all your employees feel like the business is taking good care of them?

> **"He stopped, got out of his chair, and lay on the floor. From behind the desk he said, 'I just died, now what do you think you should do?'"**

One answer is to really lean into your company's core values. Yes, I am talking about those things you wrote down a few years back because someone said you had to have them. When embraced, core values become a guiding star for everyone. They make it very easy both to praise those who embody them and to hold accountable those who don't embody them. People will start to talk about how that action was a good example of teamwork or how someone's actions did not have integrity.

When core values are used as a common part of the conversation, another thing happens. People who do embody those values expect you to embody them as well. They also want those who don't embody them off the bus. Here is a hint: Listen to them. Often, that person who is your "best producer" is also a culture killer. They often don't live up to the company's core values.

We have all had the one person we felt like we could never live without. Even though they did not follow all of the rules, they got away with it because they were special. Guess what? Your team is watching. Two things have been universally true in my experience. First, everyone is replaceable. No matter what. Second, the rest of the team is wondering why Mr. or Mrs. Culture Killer is still employed. Once they are gone, you will see the rest of the team rise to fill the void.

Being a leader and building leaders is not easy, but with some focus on these areas, your business will go farther faster.