

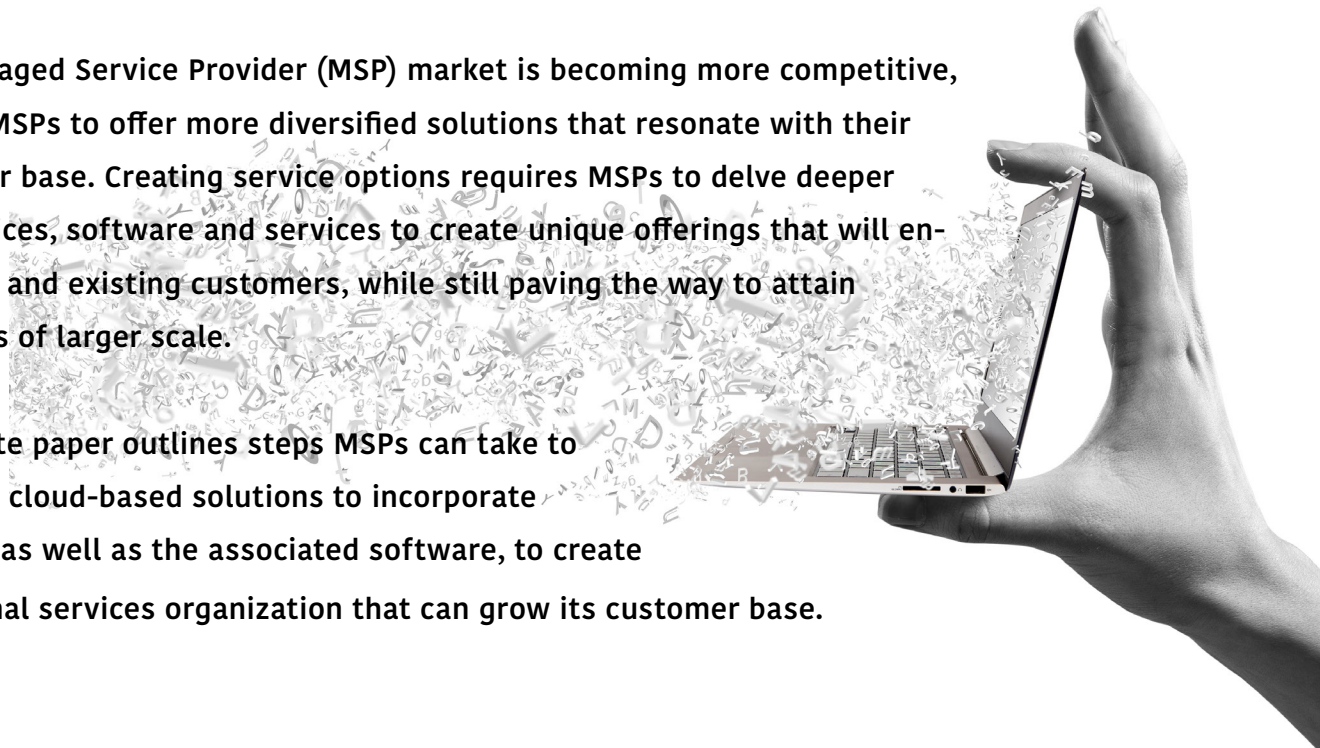
Managed Service Providers

By Frank Ohlhorst

Scaling for success

The Managed Service Provider (MSP) market is becoming more competitive, driving MSPs to offer more diversified solutions that resonate with their customer base. Creating service options requires MSPs to delve deeper into devices, software and services to create unique offerings that will entice new and existing customers, while still paving the way to attain solutions of larger scale.

This white paper outlines steps MSPs can take to leverage cloud-based solutions to incorporate devices, as well as the associated software, to create an optimal services organization that can grow its customer base.



EXECUTIVE SUMMARY

MSPs are at a crossroad in their business development practices and are actively charting how to increase business, while keeping overhead low and staying competitive in today's ever-evolving IT services world.

As more and more businesses move toward cloud-based solutions, there has been a strategic shift in the consumption of IT services: Some businesses are following the path of least resistance and are moving their infrastructure, applications and data onto platforms provided by industry giants. While tech giants vie to serve most cloud-based needs, the process of moving over to their platforms proves difficult at best, impossible at worst.

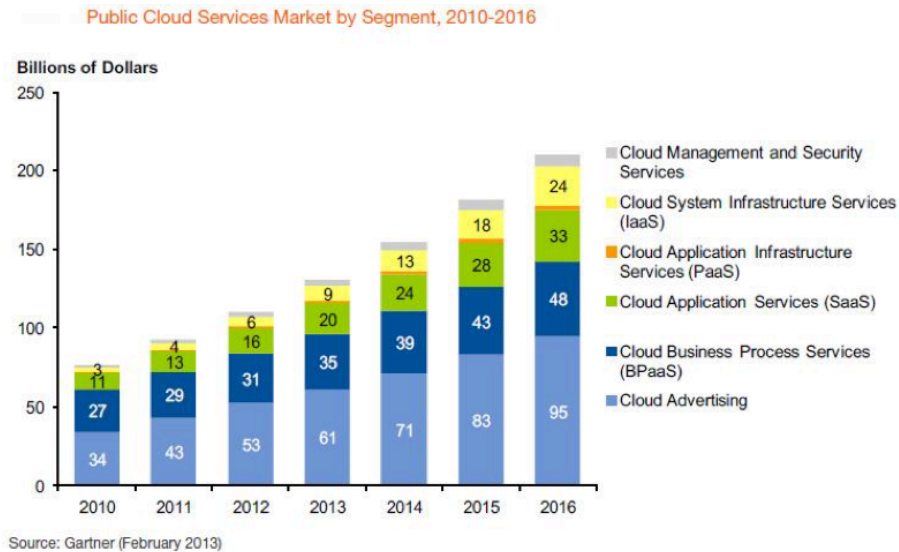


With that in mind, some organizations are taking a cautious approach. They are either implementing a hybrid cloud architecture or building private clouds in their own data centers. No matter the choice, one element remains consistent: Businesses moving to a cloud-centric model are often forsaking their MSPs.

That said, there is still massive growth potential for the MSP market. MSPs will have to be ready and able to adapt to the changing market dynamics. In other words, growth requires MSPs to evolve into more than just managed services. MSPs will have to evolve into entities

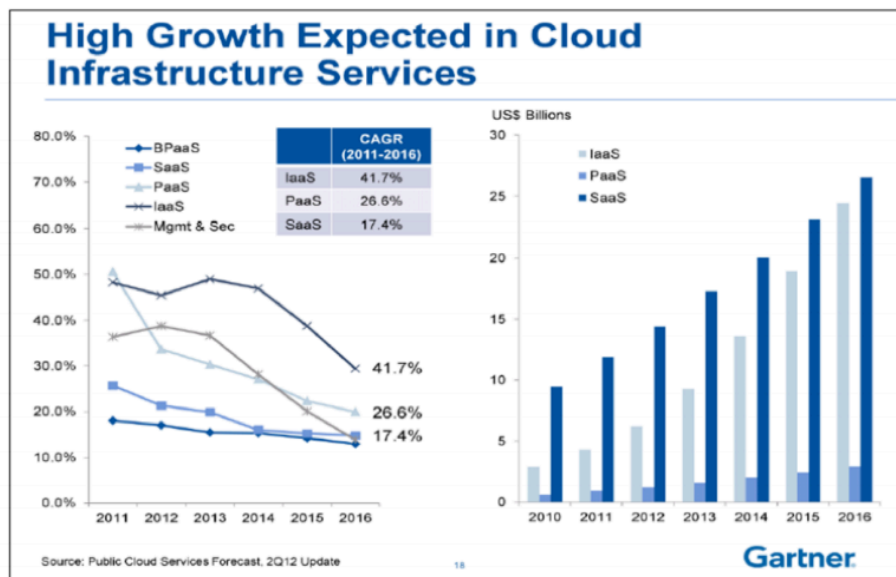
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that can provide scale, as well as elasticity, and even extend their services model into the devices market, where device management is becoming a critical element of mobile initiatives and Bring Your Own Device (BYOD) policies.



The market today

MSPs have garnered significant success by providing managed services to businesses small and large. In fact, market share for MSPs remains strong, and the market still boasts a positive compounded annual growth rate (CAGR) into the next decade.



However, assumptions can take a business only so far. The truth of the matter is that the MSP market is under attack, and new technologies are proving to be the primary threat. Those technologies, such as the movement toward software-defined networking, storage, data centers, security and other technologies, has changed the way enterprises interact with the cloud, allowing businesses to achieve elasticity and scale with vastly reduced effort. What's more, many of those technologies embrace the concept of agility, which further moves businesses away from the traditional methodology of consuming services.



Source: Cisco Global Cloud Index, 2013–2018

However, the very technologies that are starting to power the next generation of the cloud are not only a threat to MSPs: They are also their salvation. Simply put, MSPs adopting the idea of agility and leveraging software-defined solutions can transform themselves into services powerhouses that offer business services on demand.

Removing roadblocks

However, the ability to pivot their organization to achieve future success and growth is only one of the challenges facing MSPs today. They must also be able to identify the challenges and act accordingly, including:

Differentiate.

MSPs must offer services needed by existing and potential clients. This means investing in new technologies to help clients, as well as presenting those technologies as a solution to potential customers. In addition, the solutions need to be unique and easily tailored to fit the customer's needs.

Track metrics.

MSPs must have metrics in place to measure efficiency, availability and other business-critical processes. Those measurements are key to providing profitable services by helping fine-tune offerings and meet Service Level Agreement (SLA) requirements. Hunches and gut instincts are not appropriate for making business decisions and judging service levels.

Define SLAs.

Service Level Agreements have become the foundation of service expectations. Many MSPs struggle with the expectations as well as the language used to define an SLA. Here, MSPs need to put more effort into setting viable expectations in an SLA and using straightforward terminology to make sure nothing is left open for interpretation.

Plan for surprises.

Preparing for the unplanned is a difficult, if not impossible, task. Yet, in almost every project, surprises tend to rear their ugly heads. Although surprises come in many shapes and forms, it is still advisable for an MSP to either over budget, over provision or account for surprises in small quantities, leaving some leeway to deal with the unexpected. However, there are some surprises that should not be surprises. MSPs should always include contingencies for disaster recovery, system failures, business continuity capabilities and other technology failures.

Plan for growth.

In many cases, MSPs are caught off guard by the potential of new services. Growth expectations are often relegated to the back burner, and MSPs find themselves unprepared for a sudden surge in growth. The inability to meet rapid growth — and the need to scale for it — can prove devastating for MSPs striving to expand their businesses.

Prepare for new technologies.

As the services market evolves, new and more complex technologies are rapidly arriving on the scene. MSPs need to prepare themselves for sea-change-level events that can bring both threats and opportunities to their businesses.

While the above challenges may keep some MSPs awake at night, the simple fact of the matter is that those aware of challenges are better equipped to deal with them. Nowhere are those challenges more evident than with MSPs looking to take on the mobility market, as well as distributed device management, where complexity tends to reign supreme.

Identifying growth potential

It's clear that MSPs are seeking to grow their businesses. Identifying services that provide potential growth proves to be a conundrum, especially with a services market that is becoming more cloud-centric and defined by large vendors. Today, potential customers have many choices before

them when it comes to embracing new services. That means MSPs are competing with entities such as large hosts, internal IT departments, value-added resellers, vendors and other organizations. Nonetheless, MSPs can turn to tried-and-true practices to grow their businesses, including:

Move from commodity services to expert solutions.

Many MSPs frame themselves as providers of commodity services, such as networking, cloud, storage and other services that come across as generic in nature. This translates to a business model framed as a utility, with little difference between providers. MSPs need to transform from commodity service providers into experts offering specialized services.

Target the correct potential customer.

From a cold call perspective, it is difficult to generate leads and transform them into clients. However, there are tools available to help focus efforts. For example, two business databases – the ReferenceUSA Database (available for free at local libraries) and the InfoUSA.com database – offer information on roughly 14 million U.S. businesses and can help MSPs target the vertical markets for which they offer expert services.

Partner with vendors.

Several vendors are recruiting MSPs to help offer their products as services. MSPs can delve deeper into specialized services by partnering with the vendors that offer vertical market applications. These partnerships can lead to co-branding, as well as lead generation, targeting specialized services. In the mobile device market, there are countless vendors offering mobile device management platforms, which would lend well to integrating into a suite of MSP services.

Opportunities come in all shapes and sizes. Nonetheless, it is critical for MSPs to make sure they align with target markets and offer future growth potential.

The importance of ROI and TCO

Quantifying Return On Investment (ROI) and calculating Total Cost of Ownership (TCO) are two critical metrics MSPs need to understand. Traditionally, MSPs take over the roles of IT managed projects and turn them into services and solutions by acting as outsourcing agents. For a business to consider switching over to MSP-derived services, questions about costs become paramount. MSPs need to be able to demonstrate the value they offer to clients – and that value is measured using ROI and TCO.

To calculate ROI, MSPs have to know the factors that create opportunities in the first place. In late 2010, the Aberdeen Group reported the primary reasons organizations use MSPs, including:

- Inefficient and nonstandard indirect labor processes and procedures
- Lack of compliance or controls over contingent labor management (i.e., no auditing, rogue spend, usage of suppliers without adequate agreements)

- Management misunderstanding of who is onsite, what they are doing, for how long or the cost
- Missed savings opportunities through:

Lack of competition

Insufficient market research and benchmarking

Unknown industry best practices (inclusive of process, cost savings, risk mitigation, and business intelligence and analytics)

Invoice consolidation

- Supplier or labor performance and quality issues
- Co-employment and worker misclassification risk concerns

Each of the above factors spells an opportunity for an MSP. Those opportunities can be readily translated into savings, becoming the foundation of a ROI calculation. However, ROI calculations must include the benefits an MSP can offer an organization. According to the Aberdeen Group, a qualified MSP offers solutions that create efficiencies, provide pertinent business information to make the best possible decisions, identify significant hard and soft dollar cost savings, mitigate risks associated with contingent labor management, offer research substantiating the latest trends in this evolving space, and improve the overall quality and value of a contingent workforce through:

- Streamlining processes to create efficiencies, improving worker quality and reducing cycle time
- Best-in-class workflow automation tools
- Responsible supplier management services to improve vendor performance
- Cost management practices to drive down direct and indirect costs
- Implementation, training and change to management services
- Industry-leading, robust reporting capabilities enabling customers to track and monitor contingent staffing spend and to assist in the decision-making process
- Policy development and implementation to manage operational, financial and legal risks
- Oversight and auditing to ensure contract, policy and program compliance
- Dedicated, experienced management to drive program performance
- Supplier mentoring and development

Each of the above outlined benefits can be translated into savings, which can become part of the ROI equation. That said, it becomes evident ROI needs to be calculated on a case-by-case basis, offering potential clients insight into how much savings can be realized and how TCO can be reduced by transferring capex costs over to opex costs.

Lessons learned

MSP-based services have been around awhile, creating useful information based on the actions of others. Today's MSPs can look to the lessons learned in the past to better build their businesses for the future, including:

Communicate with clients.

Frequently discuss with clients their current and anticipated needs on a regular basis. Query clients on levels of satisfaction, and involve them in a question-and-answer methodology.

Communicate with vendors.

Schedule regular meetings with suppliers and vendors to identify potential changes that may reach an MSP's clients. It is critical to be aware of new capabilities and features that may translate into additional services for clients.

Monitor trends.

Watch for trends and disruptive technologies that could impact MSP services. Be aware of market dynamics that can spawn competition.

Research.

Be aware of new services, solutions or processes that can impact MSP operations, either by the creation of new offerings or the improvement of existing offerings.

Measure.

Continually measure critical elements, such as utilization, customer satisfaction, bandwidth, latency and any other factors that can impact the quality of services.

Report.

Regularly provide clients with reports that show all measurements, and use the numbers to consult with the client. This demonstrates a transparent partnership.

Planning for the future

Many of the lessons learned outlined above share a common theme: the need for an MSP to keep abreast of their client's needs. Understanding a client's current and future needs helps an MSP to defend against irrelevancy as the market changes.

The rapid changes in technology, regulations and the services market show it is more important than ever to listen closely to clients and other industry professionals. The data offered can prove invaluable, especially if an MSP can correlate the information and identify common trends to translate into new opportunities.

For example, if a large number of existing clients are concerned with new compliance rules, such as those impacting data retention, a savvy MSP can turn those concerns into a consulting opportunity that can lead to services and solutions – ultimately alleviating the client's anxiety. Much the same can be said about the mobile device market. Security trends, BYOD pilot projects, compliance issues and data protection fit well into the mobility realm of services that an MSP could manage and execute on.



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