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Getting the right mix



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Services – a balancing act

In this report, based on research carried out jointly by CRN and Ingram Micro, we ask established MSPs what their biggest challenges have been when building their services portfolio, to share some tips for those companies in the early stages of their services journey

There is no doubt that the world has changed significantly in 2020, with the Covid-19 pandemic forcing many businesses to examine their traditional office-centric working practices and look at a more remote and flexible strategies.

This in turn has created an increase in demand for digital transformation, which has meant an increase in demand for the skills brought to the table by MSPs, and a spike in the need for all their associated services.

Analyst firm MarketsandMarkets predicted that the managed services market would be worth \$329 billion by 2025¹ up from \$223 billion this year, but the figure could swell further as more people realise the value of working with IT services providers and outsourcing more of their infrastructure.

As the dust settles on the panic of the first and second quarter of the year, staying relevant to changing customer needs is going to be more important than ever for those service providers. We are in for a period

of re-evaluation on the part of customers as they look to refine the remote working strategies they put in place with a better balance of technology and services.

With this in mind, the role of the MSP is going to be even more crucial as customers rely even more on their trusted advisors, and it is imperative that those MSPs can provide all the support and services that those customers need. Many have been through the pain of services transition, but some are in the early stages of that journey and are looking for guidance.

CRN and Ingram Micro

questioned over 150 MSPs to find out what their experiences have been like and

the advice they would give to their peers that are just beginning to spread their services wings.

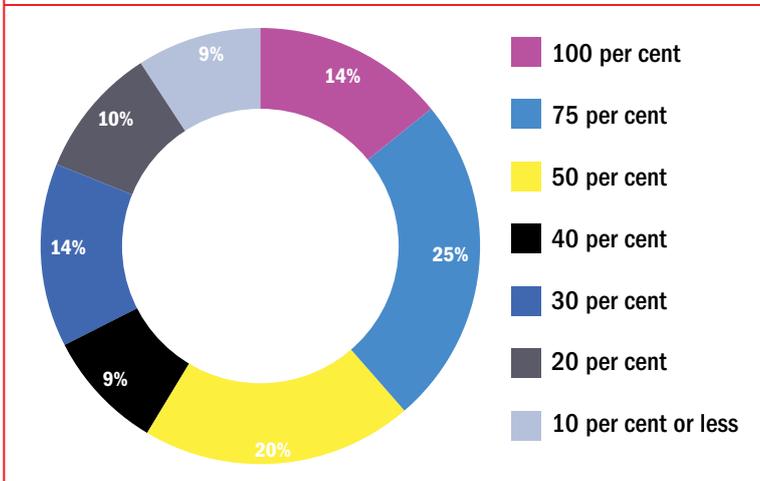
During this report, we will cover issues such as third-party services providers, how to get the balance of services right, what the most in demand services will be, and much more.

To set the



¹ www.marketsandmarkets.com/PressReleases/managed-services.asp

Fig. 1: What percentage of your business (roughly) is services based?



scene, we asked respondents to share their company structure and make up. Firstly, we asked how they would describe their company – the majority, 30 per cent, said they were a reseller with some services capability, while 27 per cent said they were an MSP. A further 23 per cent said they were a hybrid VAR/MSP and six per cent said they were ‘born in the cloud’. Twelve per cent opted for the ‘other’ description where they described themselves – dominating those descriptions were system integrator (SI) and SI/services mix.

Next, we asked them their approximate turnover. The highest percentage, 26 per cent said their turnover was between £0 and £2m, with the next highest, 17 per cent, revealing their turnover was £500m+. So quite a considerable difference between the most popular answers. Third most selected, with 14 per cent of votes, was turnover of between £25m and £50m. Eight per cent said between £2m and £5m, ten per cent said between five and ten million pounds, and just over 10 per cent combined said between £50m and £250m. Finally, three per cent said their turnover was between £250m and £500m.

Carrying on with the task of getting a flavour of the respondents’ businesses, we then asked what per centage of their business was based on services (Fig. 1). Interestingly,

the highest number – 24 per cent, said 75 per cent of their business was services based. Second, 20 per cent of respondents said that 50 per cent of their business was based on services. Thirdly, 14 per cent revealed that their business was 100 per cent services based. So, the top three answers, revealed that nearly 60 per cent (59 per cent) of respondents made at least 50 per cent of their revenue from services.

Striking a balance

Our next question (Fig. 2) looked to see what spread of customers the MSP respondents serviced. The mix was varied, ranging from public sector entities including local government, health and education establishments, to finance institutions, large enterprises, and other verticals such as legal, manufacturing, retail, leisure and SMB.

We also asked what the top three vendors were for respondents, and the consistent top three answers were Dell, Lenovo and HP, with VMware, Cisco, Oracle, Google and HPE all in the top ten (Fig. 3).

Respondents were next asked to list their top two services (Fig. 4). Topping the charts, with 57 per cent of votes was Software-as-a-Service (SaaS), with Networking-as-a-Service coming second with 28 per cent over votes. Hardware-as-a-Service scored 27 per cent of votes, as Platform-as-a-Service came fourth with 23 per cent. Rounding up the options was Desktop-as-a-Service with 12 per cent of votes. Of the 26 per cent that picked ‘other’ – general

Fig. 2: What is your main customer type/vertical?

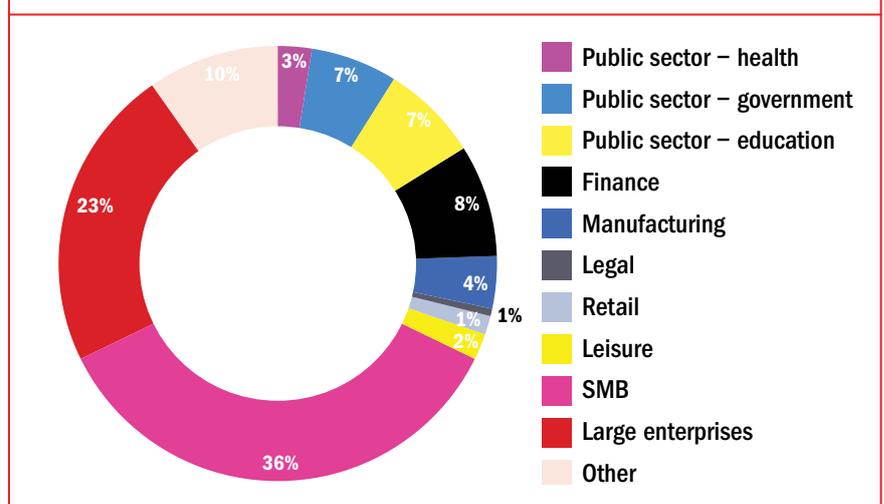


Fig. 3: Who are your top three vendors?



support, security, server and storage support and training were all popular answers.

Of course, for the more traditional resellers, making that move to services is the hardest part about becoming an MSP and can cause a lot of teething trouble as mindsets are forced to change along with billing/compensation models; so we asked respondents to tell us when they started making that foray into a services model (Fig. 5).

The largest percentage – 37 – said they had made the leap more than five years ago, while 20 per cent said they had done so more than 10 years ago. A further 12 per cent said three years ago, eight per cent said four years ago, and nine per cent said two years ago. Interestingly nine per cent said they were just starting their journey into services now, and five per cent said they have always been 100 per cent services based.

What is interesting about the above figures is the fact that just five per cent describe themselves as

pure-play service providers, meaning the remainder still offer ‘traditional’ reseller products such as hardware and break-fix for example, as well as expanding their services capabilities.

Vendor support

The next question required some open and honest answers, questioning our MSP respondents about what vendors should be doing to help their partners grow. All felt vendors had more they could offer.

“Provide leads to smaller players to grow,” said one. “Large players don’t really need leads. If you want to grow smaller partners, you need to help them, not keep giving bigger discounts and leads to the large partners. It is counter-productive.”

Another respondent agreed. “More protection for the smaller MSPs that offer loyalty,” they said.

Others wanted less direct competition, better financial support with simple billing, better incentives and more training to help with accreditation. More help and support in general including with marketing, and messaging to customers. More lead generation was also a wish. Several also wanted better collaboration and for vendors to listen to the customers more.

What should vendors be doing to help their MSP partners grow?

1. Less direct competition
2. More protection for smaller, more loyal MSPs
3. Better financial support and incentives
4. More training
5. Better margins
6. More lead generation

Fig. 4: What are the top two services you offer your customers?

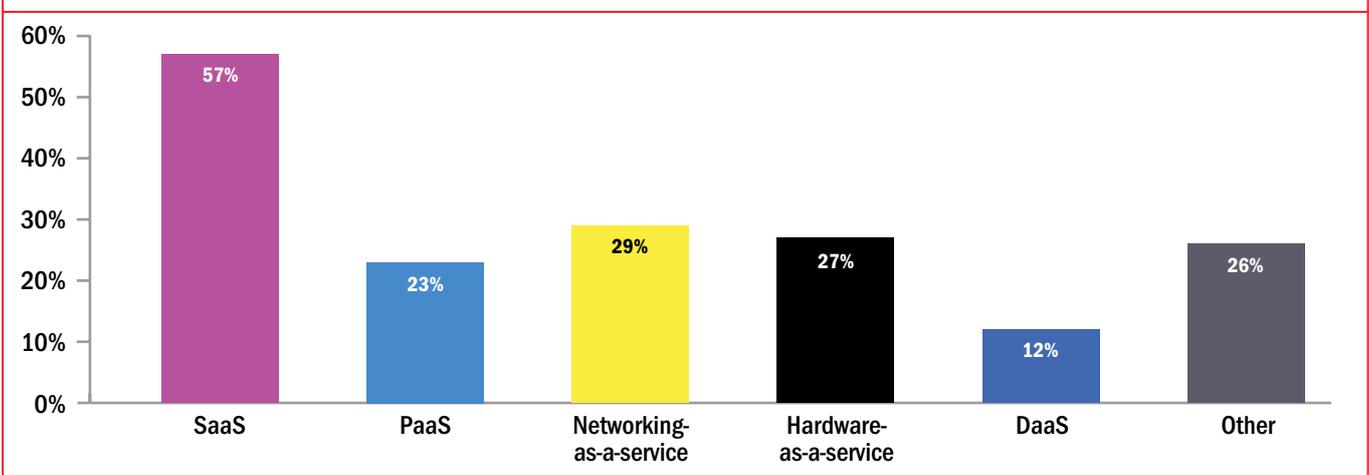
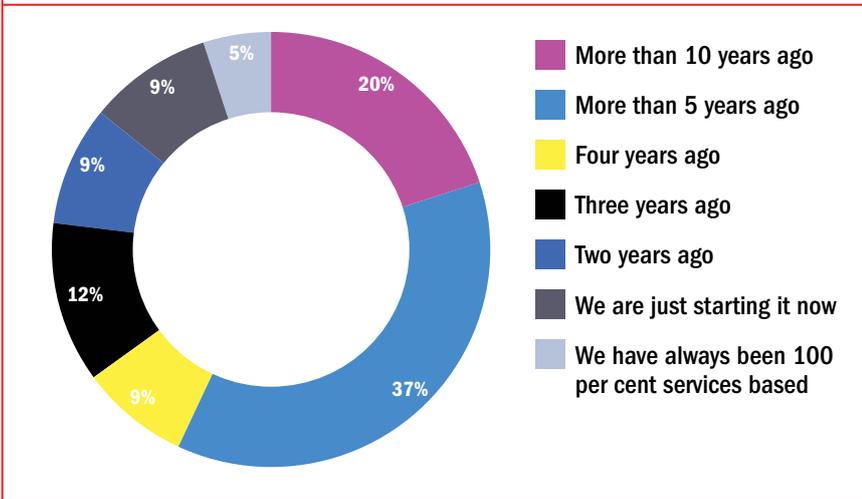


Fig. 5: When did you start adapting your business to an 'as-a-service' model?



the challenges they faced.

Topping the chart was the issue of knowing what services to focus on in a crowded market – with 43 per cent of respondents picking that as their top option.

All too often resellers can fall into the trap of trying to cover every avenue, but can end up being a jack-of-all-trades and master of none. That can often result in overstretched teams and risking a poor service record. By selecting one or two verticals to focus on, and really becoming a specialist in those areas, it not only saves money, but allows you to give clearer messaging to customers.

Returning to the survey results

– the next most popular answer was the issue of servicing existing customers while winning new ones with 41 per cent of votes, and 30 per cent said taking on new and disruptive technologies was a big challenge. A further 24 per cent said it was a challenge keeping employees on side during the transition, and rounding off the top five was the issue of changing compensation plans to fit a recurring revenue model with 22 per cent of votes. Finally, 16 per cent said developing their own IP was a significant challenge.

Given that trust is not an easy thing to win in the channel, it was surprising that in the next question

Another said vendors need to actually understand their partners better.

“Too many vendors still try to pigeonhole MSPs into a reseller ‘stack em high’ bracket. We sell the service not the shiny lights on a bit of tin, but I’m often asked to put marketing campaigns together with selling tin in mind,” they explained.

For those MSPs that answered the above question, many of them have been through the pain of transforming into a services player. With that in mind, *CRN* asked them what the biggest challenges were during their services transformation (Fig. 6). They were able to select any answers that matched

Fig. 6: What have been the biggest challenges during your services transformation journey?

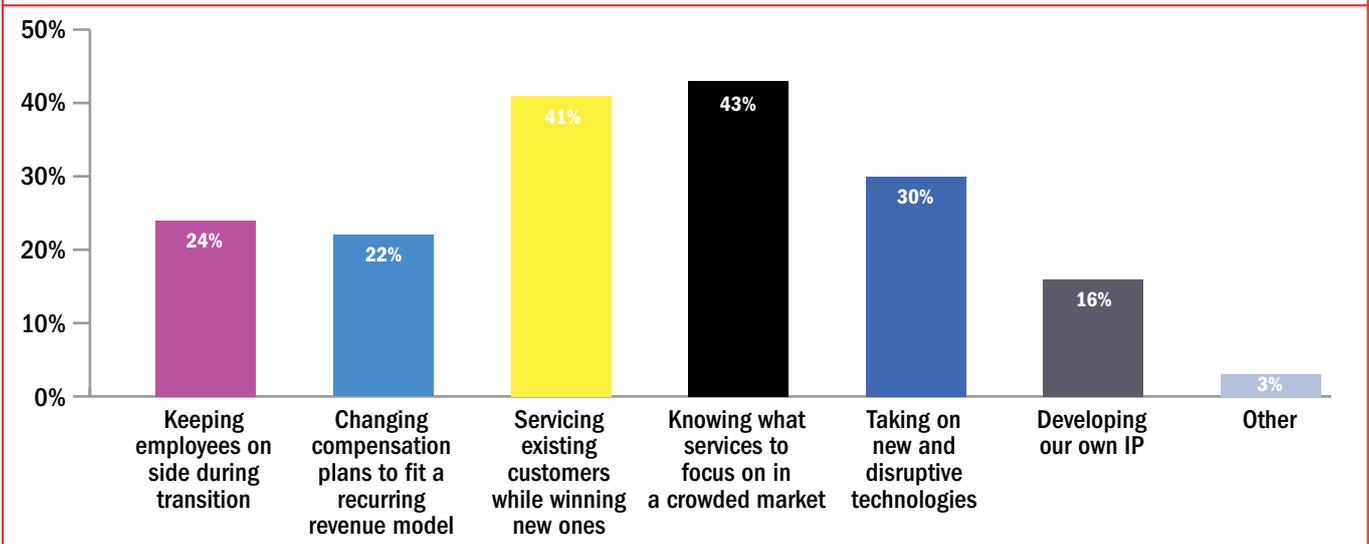
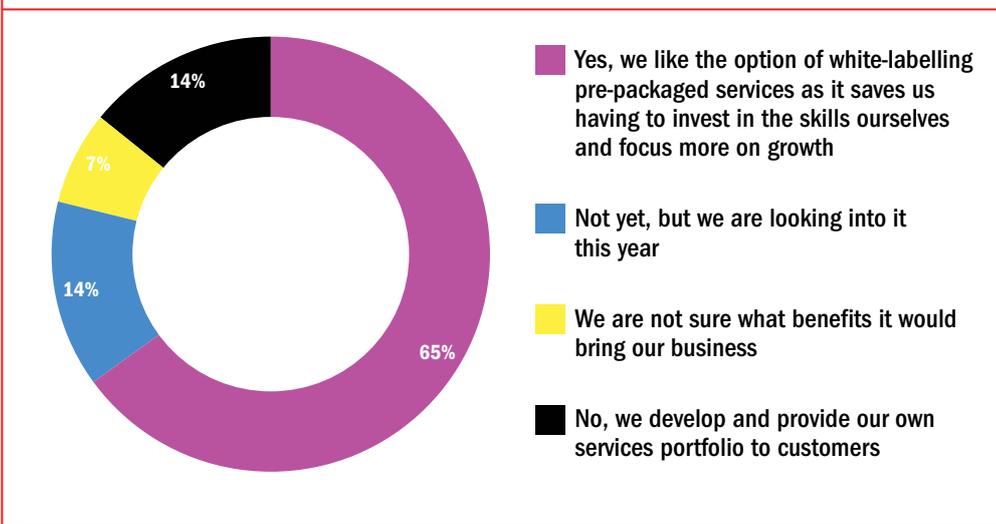


Fig. 7: Do you work with third-party service providers?



services. A further 25 per cent said services has helped on a business level by diversifying their skills base and enabling them to win new customers. The people element was also an important benefit side effect of services, with six per cent saying their existing staff had developed their own skills further and felt more fulfilled, and three per cent said services had helped them recruit new talent into the business.

(Fig. 7), 64 per cent of respondents said they had used a third-party service provider, and 14 per cent said they were looking into doing so this year. On the other hand, 14 per cent said they did not use third-party providers, and six per cent were unsure of what benefits it would bring their business.

Third-party service providers are the ideal way for resellers to plug any gaps in their services portfolio while still retaining full ownership of the customer, but some still fear they could lose control and potentially lose the customer to a rival MSP. This is where communication is crucial – both in terms of keeping customers informed as to who is carrying out a particular service, but also stressing that their trusted provider is ensuring they receive the best possible care and result.

Our penultimate question (Fig. 8) asked respondents what the biggest benefits have been of becoming a service player.

Unsurprisingly, the top answer was revenue based, with 34 per cent saying they now had a guaranteed recurring revenue stream.

Second, with 30 per cent of votes, was the fact that many felt they were stickier with their customers, who keep returning again and again to make use of their range of

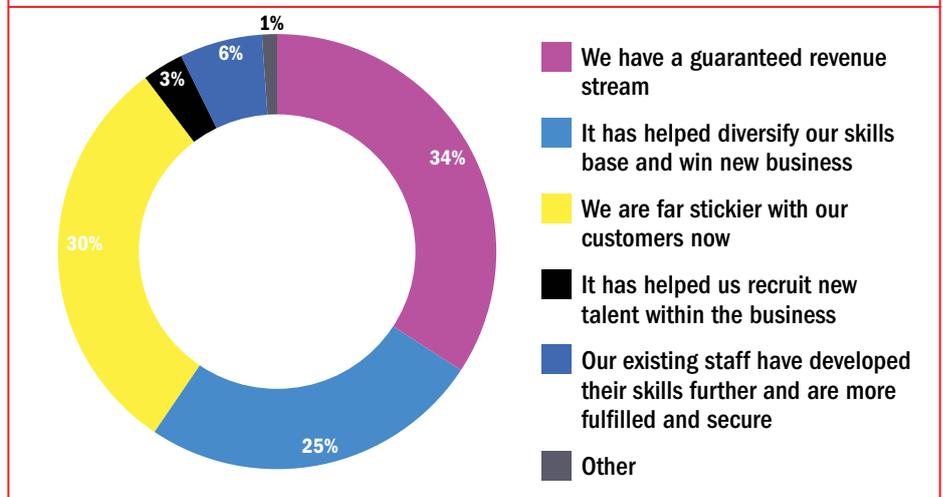
Sage advice

Finally, respondents were asked to share some advice for those that are still in the early stages of their services transformation journey.

The most popular answers were about listening to customers and identifying what their needs were, and picking the right partners to work with to ensure you stick with what you are good at.

“Have deeper conversations with existing customers,” said one. “Leverage third party services, at least to begin with, rather than waste money investing in areas until you know they are going to work. Bring something different, do something different.”

Fig. 8: What have been the biggest benefits you have seen from becoming a services player?



Top five pieces of advice



Listen to customers and understand their needs



Stick with what you are good at



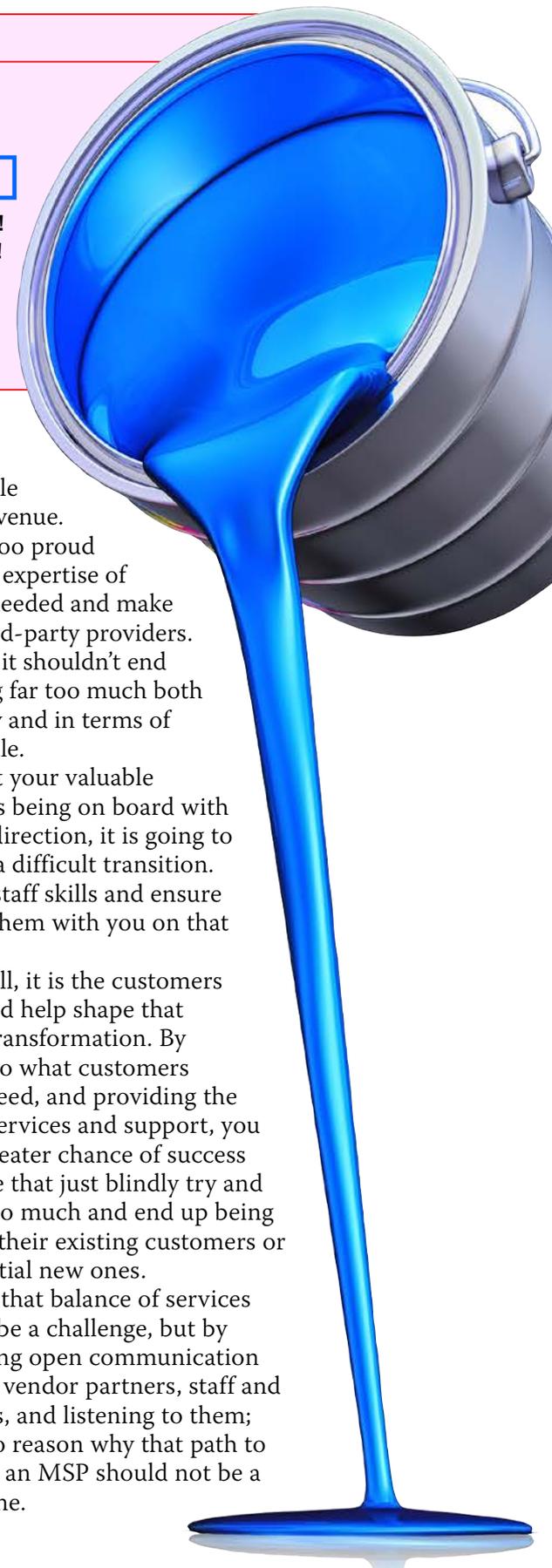
Use as many vendors as you can



Don't stretch yourself financially – use the resources available



Go for it! Be bold!



“Learn your customers’ requirements and appetite for a managed service firstly,” said another. “Work collaboratively with a partner to ensure you are offering a quality service to the customer.”

“Think Big, start small. Focus on one product at a time,” one said, while another said: “Don’t try to reinvent the wheel, add value and choose best of breed services.”

Another key theme in the responses was not to overstretch financially, or in terms of services, and to look after staff.

“Start small and don’t over commit before processes are ready,” one said, while another said: “Keep it simple and don’t overreach financially”.

“Ensure you are famous for one thing and do not try to major in multiple areas,” said another respondent.

“Keeping staff trained and dedicated staff to customers makes the customer feel his business is important,” one advised.

Another said: “Empower the technical teams alongside sales and marketing to make valued decisions, as opposed to making them ‘just do it because we have sold it’”.

Many just said ‘go for it’ and the ‘take the plunge’ and other warned of the virtue of planning ahead and sticking to that plan.

Conclusion

From the above survey results it is clear that those already well into, or who have completed their services journey have not regretted making that move, as it has meant a steady and reliable revenue stream and has helped them get even closer to both their customers and partners.

But there are also warnings to be heeded for those that are at the earlier stages of their journey – namely to plan every step, make use of the vendor support already on offer and not to take on too much at once

and try to cover every single possible avenue.

Don’t be too proud to use the expertise of others if needed and make use of third-party providers. That way, it shouldn’t end up costing far too much both financially and in terms of staff morale.

Without your valuable employees being on board with this new direction, it is going to make for a difficult transition. Invest in staff skills and ensure you take them with you on that journey.

Above all, it is the customers that should help shape that services transformation. By listening to what customers actually need, and providing the relevant services and support, you stand a greater chance of success over those that just blindly try and take on too much and end up being no use to their existing customers or any potential new ones.

Getting that balance of services right will be a challenge, but by maintaining open communication lines with vendor partners, staff and customers, and listening to them; there is no reason why that path to becoming an MSP should not be a smooth one.