

# Enterprises Seek New Choices In Managed Services

Jeffrey M. Kaplan

**Our survey finds that customers are moving away from traditional services and providers—and toward newer managed service options.**

**M**anaged services are getting increased attention as more focused offerings and flexible pricing arrangements become available. The “out-tasking” approach of offloading specific aspects of IT/communication management has taken hold over the past several years, displacing the former paradigm of outsourcing entire departments or service classes.

Today’s managed services aim to optimize the performance of IT/communications operations. Shorter and more flexible service contracts are also helping managed services to gain popularity.

Yet, despite their expanding array of service alternatives and pricing plans, many service providers admit that it is still a struggle to sell these services. The sales cycles tend to be longer and the size of the engagements smaller than the managed service providers (MSPs) would like.

To explore the degree to which customers are adopting or considering the various new types of managed services and why, BCR and THINKstrategies teamed up earlier this year, with the help of CMP’s research department, to conduct a Web-hosted survey. We emailed 3,000 randomly selected end-user subscribers of BCR, *InformationWeek* and *Network Computing* magazines, along with visitors to the THINKstrategies’ Managed Services Showplace online directory, inviting them to participate in our survey. We received 550 usable responses from small, medium and large companies across all industry segments, as well as non-profit organizations and governmental agencies.

This article highlights some of our findings and explores customer perceptions and behavior relative to two common assumptions about managed

services: That corporate and business unit managers are more receptive than IT staff to managed services, and that small and medium-sized businesses (SMBs) are more receptive than large enterprises.

## Which Services Are Most Popular?

Overall, we found the 2006 survey respondents almost as evenly divided in their adoption of managed services as were the respondents to a similar survey we conducted in 2003.

This year, 40 percent said they are using one or more managed services, compared to 35 percent in 2003. This year, 4 percent expect to contract for one or more managed services in the next 12–24 months, and another 13 percent are considering managed services, compared to 24 percent who said they were considering one or more managed services in 2003. And this year, 42 percent said they are neither using nor considering any managed services, compared to 40 percent in 2003.

This year, we asked specifically about more types of managed services than we did three years ago, producing the results shown in Figure 1. We weren’t too surprised that the highest percentage of survey respondents reported using traditional voice network services (56 percent), followed by managed Web hosting (52 percent) and traditional managed data services (such as managed frame relay and ATM networks, 47 percent). However, we also found that among the smallest respondent groups were those who expect to contract for traditional managed voice network services and traditional managed data services (3 percent, each) in the next two years. This may suggest the waning popularity of these traditional services as customers migrate to IP network and other newer managed services.

More surprising was the limited acceptance of highly visible managed services such as VOIP, call center services, desktop/LAN/help desk, storage and content delivery/Web optimization. Nearly half (49 percent) of the survey respondents are not using and will not consider using managed converged/IP voice services, and another 41 per-

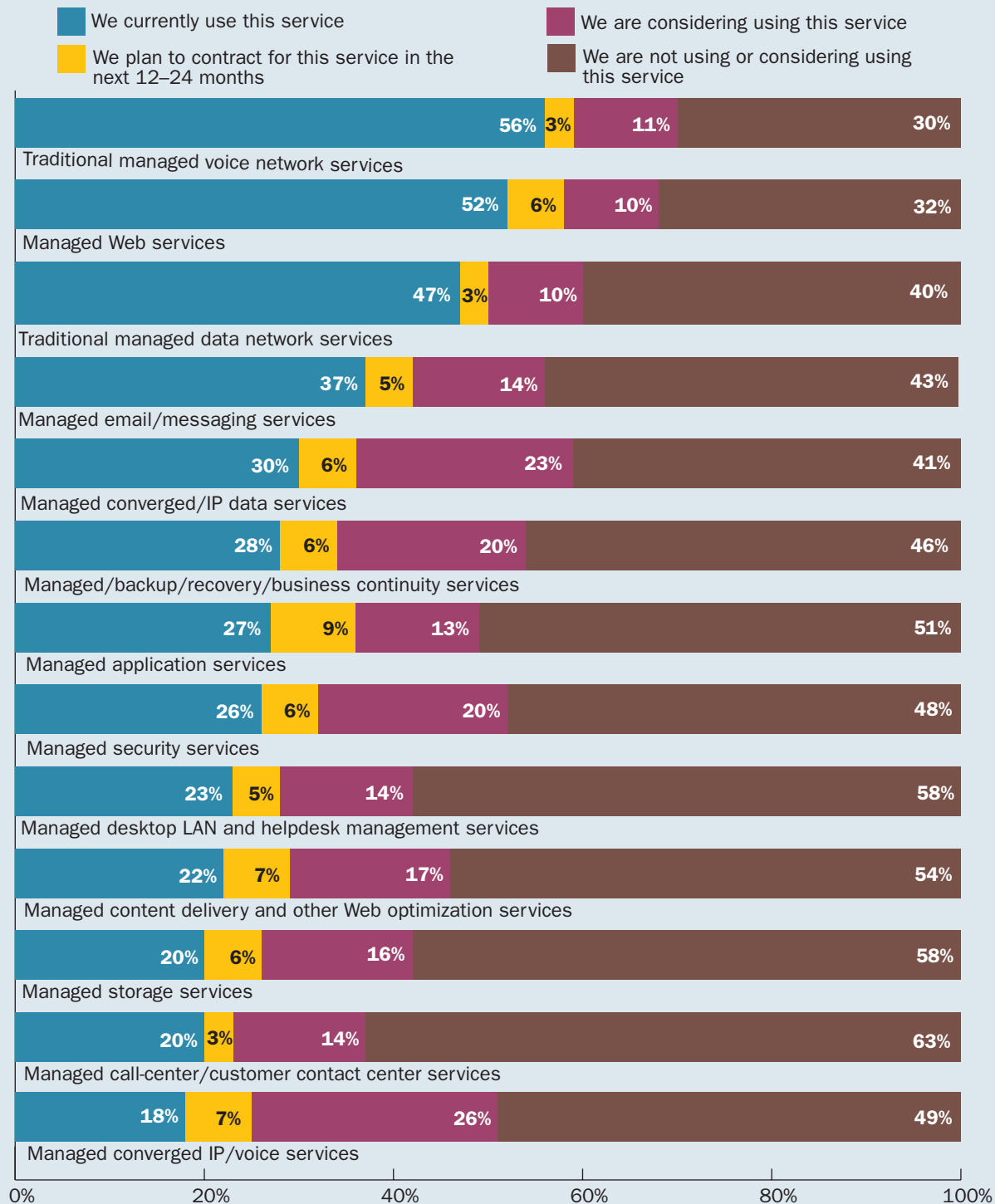
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cent have no plans to adopt managed converged/IP data services (such as VPNs). Almost two-thirds (63 percent) indicated they are not using and will not consider using managed call center/customer contact center services, while almost as many (58 percent) said they are not using and will not con-

sider using managed storage, desktop, LAN and help desk services. And 54 percent stated they have no plans to adopt managed content delivery and other Web optimization services.

Although this may simply indicate that trade press coverage does not equate with market

**FIGURE 1 Which Of The Following Best Describes Your Organization's Current Use of Managed IT/Network Services?**  
(N=320)



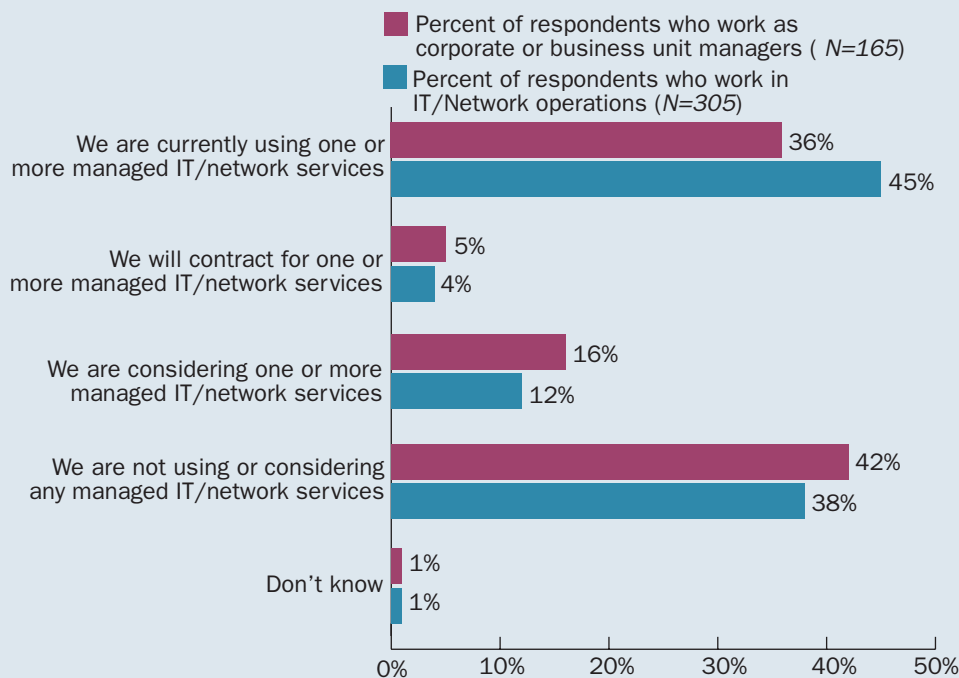
**FIGURE 2 Preferred Service Provider By Type Of Managed Service** (N=320)

Managed Service	Preferred Type Of Service Provider	Percentage Of Respondents Who Prefer This Type Of Provider For This Service
Traditional managed voice network services	Traditional ILEC/IXC	55%
Managed converged/IP voice services	IP network services provider	42%
Managed call-center or customer contact center services	Call-center services provider	39%
Traditional managed data network services	Traditional ILEC/IXC	38%
Managed converged/IP data services	IP network services provider	41%
Managed email/messaging services	IP network services provider	27%
Managed Web hosting	Independent specialty services provider	39%
Managed content delivery/Web optimization services	Independent specialty services provider	28%
Managed security services	Independent specialty services provider	30%
Managed storage services	Systems vendor	34%
Managed backup/recovery/business continuity services	Systems vendor	36%
Managed application services	Systems vendor	35%
Managed desktop, LAN and help-desk management services	Systems vendor	36%

**FIGURE 3 How Survey Respondents Describe Their Position Relative To Managed IT/Network Services** (N=550)

IT/network operations: I provide input into the managed services decision and, once decisions are made, I work with the managed services provider(s)	35%
IT/network operations: I make decisions about whether our company purchases managed services	20%
Corporate/business unit manager: I provide input into the managed services decision	11%
Corporate/business unit manager: I make decisions about whether our company purchases managed services	19%
Other	14%

**FIGURE 4 Different Respondents' Use Or Plans For Managed Services**



acceptance, it also shows that MSPs in these segments still have work to do when it comes to educating customers about the value of their services.

### Which Providers Are Preferred?

The diverse array of managed services being adopted is also reflected in the fragmented market of preferred service providers.

For each type of managed service, we asked respondents to indicate which type of provider they preferred. In only one case—traditional managed voice network services—did more than half the respondents agree on a preference for a given type of provider; for all other managed services, the leading preference was selected by considerably less than half the respondents (Figure 2).

While traditional carriers are preferred in traditional managed service areas, these areas are facing lower levels of customer interest, and the door appears to be open for greater competition from a new group of managed services providers (MSPs). In many of these newer managed service areas, IP network service providers, independent specialty service providers and systems vendors generated the highest preference levels.

In sum, our survey results suggest that shifting IT/networking concerns also may help create a shift in power among MSPs.

### Comparing The Views Of Business Managers And IT/Network Staff

Our survey results provide a rare opportunity to examine the longstanding assumption that corporate and business unit managers are more receptive than IT/network professionals to managed services, since more than half the respondents are IT/network operations staff (55 percent) and almost a third are corporate or business unit managers (30 percent). Accordingly, for this portion of the analysis, we removed the responses of the “Others” shown in Figure 3.

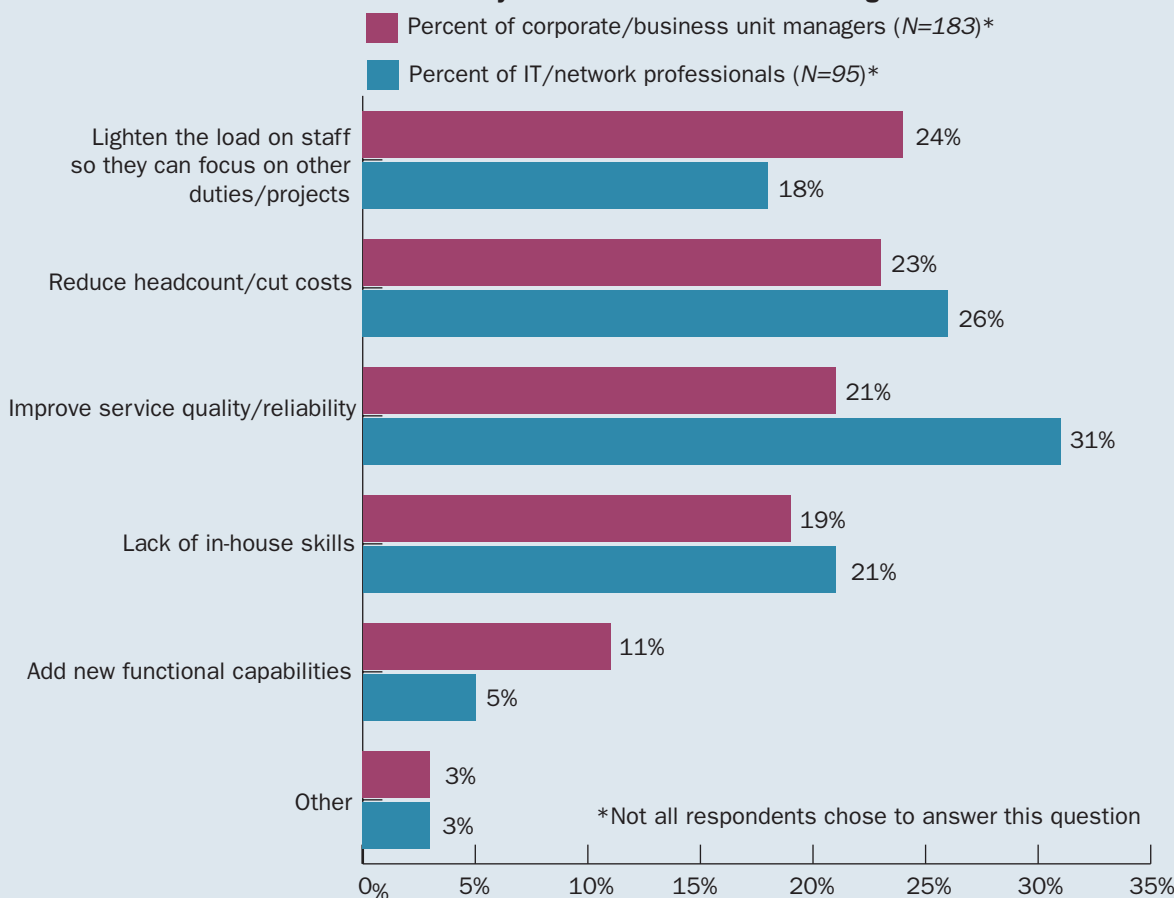
Are corporate and business unit managers really more receptive than IT/network staff to managed services? Our survey findings provide a mixed answer.

In Figure 4, for example, respondents who work in IT/network operations are more likely to already be using managed services than their colleagues who work in corporate management or in business units. Looking ahead, however, respondents from the business side are both more likely to be contracting for or considering managed services—and more likely not to be using or considering them.

In order for MSPs to gain greater market penetration, especially among business unit decision-makers, they need to better understand the issues that are driving adoption.

**For many newer managed services, respondents prefer newer types of service providers**

**FIGURE 5 What Is Your Primary Reason To Use Or Consider Managed Services?**



**Large enterprises are more likely than small ones to be using managed services**

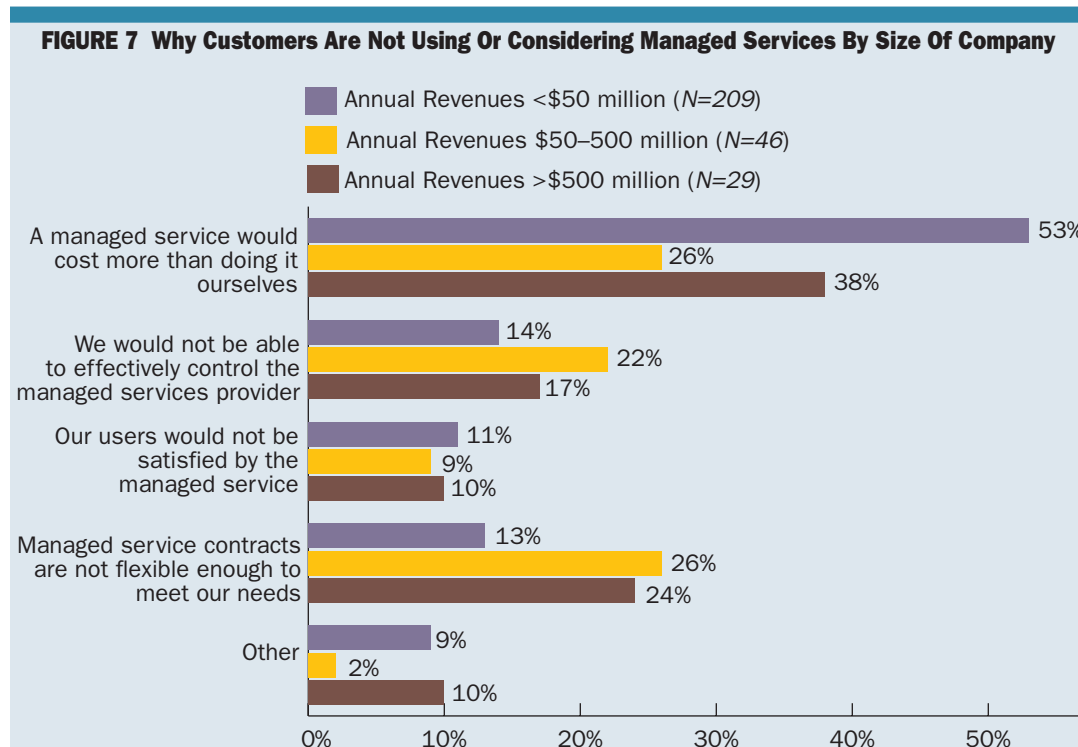
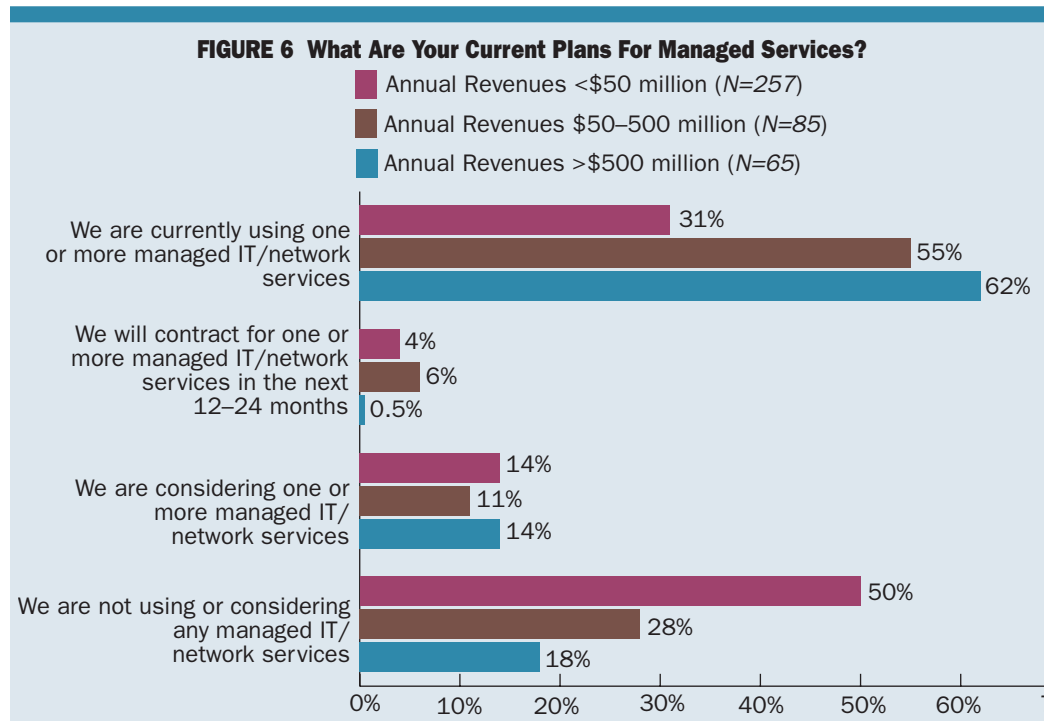
For instance, conventional wisdom holds that business-side managers are likely to be more receptive to managed services because they are seeking to reduce costs and increase performance, while IT/network staff are seeking to lighten their load and augment their skills.

Instead, as shown in Figure 5, we found that business unit respondents are almost equally driven by cost cutting (23 percent), service improvement (21 percent) and relieving staff to perform other tasks (24 percent). In contrast, nearly a third

of IT respondents are looking for service improvements (31 percent), ahead of cost cutting (26 percent) and replacing missing skills (21 percent).

**How Do Customer Perspectives Vary By Size Of Organization?**

Another common misconception on the part of some managed services providers is that their services appeal primarily to small- and mid-size businesses rather than larger enterprises. Our survey results clearly show that large enterprises are



actually twice as likely as small organizations to already be using managed services, and equally likely to be considering them (Figure 6).

Figure 7 shows that more than half (53 percent) of the small organizations surveyed are not using or considering managed services because they believe these services will cost more than performing the same functions in-house. Larger enterprises are most likely to be avoiding managed services for cost reasons also, but they are also more concerned than the small organizations about managed service contract flexibility.

To see if these worries are well-founded, we examined the 197 responses of IT/network and corporate/business unit managers who are currently using one or more managed services, and checked their responses to three of our survey questions:

- How satisfied are you with your managed services provider?
- How likely are you to renew or extend your current managed services agreement(s)?
- Would you recommend any of your managed services providers to another customer?

Overall, we found 44 percent of these respondents to be very satisfied, 51 percent somewhat satisfied and only 5 percent not satisfied. We also found more than half (55 percent) are very likely to renew their contracts and more than half (55 percent) would recommend one of their MSPs to another customer. In fact, 62 different MSPs were recommended, with only a handful receiving more than one mention, giving further credence to the significant vendor fragmentation noted above.

That's the good news for providers. On the down side, the most commonly mentioned reason (4 out of the 10 not satisfied responses) why respondents are not satisfied is that the MSP failed to meet SLA or other contract terms. Among the 100 somewhat satisfied respondents, 20 found the

actual costs exceeded their expectations, 17 had trouble with SLAs or contracts and 11 had personnel issues.

MSPs should also feel uncomfortable with 45 percent of their current customers uncertain whether they will renew their services or recommend them to others.


### Conclusion

Our survey findings clearly indicate that while managed services have gained solid market acceptance and generated reasonable customer satisfaction, MSPs have significant work to do to build greater momentum, market penetration and customer loyalty.

We have also found that as customer IT/network management challenges evolve, newer managed services and specialized providers are finding greater success in the marketplace. This is disrupting the competitive landscape and offering customers more managed services choices.

However, in order to capitalize on new market opportunities, the emerging and established MSPs must put aside their preconceptions about the issues which are driving customer adoption. They must also take a closer look at the difference in attitudes and preferences between corporate/business unit managers and IT/network professionals. And they should reexamine their market segmentation strategies to leverage growing acceptance of managed services among large-scale enterprises, and confront lingering resistance among SMBs.

Most importantly, MSPs must do a better job of delivering higher-quality services which generate stronger customer satisfaction and loyalty. As the managed services market becomes more competitive, MSPs will need to offer services which encourage their customers to renew and expand their subscriptions, and serve as referral agents for their providers □



**Only 5 percent of respondents said they were not satisfied with the managed services that they use**