

THINKstrategies



# *A Whitepaper for Channel Organization Decision-Makers*

## **Steps to Success for Making the Switch to Managed Services**

Published On Behalf of Kaseya



## Executive Overview

A recent article in VAR Business, entitled “98 Percent of Managed Services Is Chaotic”, painted a bleak picture of the common pitfalls which various IT solution providers including value-added resellers (VARs), integrators and other traditional information technology (IT) support companies face as they attempt to transition to a managed services business model.

VARBusiness' 2006 State of the Market Midyear Report found that nearly one-third of the companies surveyed felt that their managed service efforts have fallen short of their expectations and only 11 percent said that managed services exceeded their expectations.

Why are many companies entering the managed services market experiencing such disappointing results?

While some of the disappointment associated with managed services may be due to companies approaching this business with unrealistic expectations, THINKstrategies believes many of the challenges of the managed services business can be overcome by clearly understanding the full responsibilities of a managed service provider (MSP) and putting the right pieces in place to meet these requirements.

Many aspiring MSPs make the mistake of equating remote monitoring with managed services. Having the ability to remotely monitor customers' IT systems is just the first step toward providing managed services. This whitepaper will define the real meaning of managed services.

This whitepaper will also examine how three key ingredients—*executive leadership*, *staff skills* and *innovative tools*—can enable traditional IT solution providers to cross the managed services chasm and reap the rewards of the managed services business model. These rewards include,

- more predictable and profitable revenues
- lower cost service delivery mechanisms
- greater customer satisfaction and loyalty

In order to illustrate how aspiring MSPs can achieve these business benefits, this whitepaper will profile four companies that have combined executive vision and commitment, business-oriented sales and proactive support skills, and the automated management solutions from companies such as Kaseya to achieve their managed service objectives.

As these case studies show, the transition process doesn't happen overnight. Instead, it takes time to transform a traditional IT solutions business that is product-centric and “break/fix” oriented into a proactive, management-oriented business. But, it can be a positive and profitable transformation process if the IT solution provider takes the right steps to achieve success. And, with cost-effective management platforms, like Kaseya's IT Services Automation Platform, it doesn't require significant upfront technology investments in order to deliver quality managed services.

## Market Trends Driving Managed Services

The business benefits of managed services have been promoted for nearly a decade. For user organizations—both large enterprises and small/mid-size business (SMBs)—frustrated with the hassles and costs associated with managing their own IT operations, the attraction of managed services is the ability to selectively outsource, or ‘out-task’, specific IT management responsibilities to a service provider on a ‘subscription’ fee basis rather than outsource their entire IT operation to a vendor in an inflexible, long-term arrangement. Some SMBs may turn to a MSP to assume full responsibility for managing their IT operations as their ‘virtual’ IT department. The managed services model enables them to mitigate the risks of full-scale outsourcing by acquiring a provider’s services incrementally after testing their effectiveness in targeted areas.

Even with these attractions, nearly every SMB and large-scale organization surveyed or interviewed by THINKstrategies has admitted they will not acquire managed services from a provider they haven’t already done business with. In other words, their established VARs, integrators or other traditional IT solution providers are in the best position to win managed services business from their existing customers.

The benefit of the managed services model for IT solution providers is that it gives them a more cost-effective and profitable method of optimizing their customers IT reliability and performance than traditional on-site support. With the right remote management platform that can automate preventative tasks, MSPs can circumvent problems before they disrupt customers’ business operations. This can result in greater customer productivity, satisfaction and loyalty. Managed services establish an ongoing support arrangement which can generate more predictable and profitable revenues.

Given these benefits, THINKstrategies has found increasing interest and receptivity to managed services among user organizations and IT solution providers of all sizes. Yet, a significant number of IT solution providers who are aspiring to become MSPs are still having trouble delivering managed services which meet their customers’ expectations and create significant new revenue opportunities.

THINKstrategies has found that MSPs who are unable to deliver high-quality, profitable managed services generally don’t understand what it takes to achieve these objectives.

## Common Pitfalls of New MSPs

IT solution providers who encounter problems moving their businesses to a managed services model tend to misinterpret the meaning of managed services and underestimate the level of commitment this transition requires and the impact it can have on the way they operate.

Managed services are not just the simple act of monitoring customers’ IT systems remotely and reacting to problems when they occur. Truly successful managed services entail a series of proactive tasks which are performed on an ongoing basis to prevent many problems from ever materializing. These tasks range from systematic patch management updates to specific virus and other forms of security scans. They also include system reconfigurations based on utilization levels to avoid potential failures.

To be done cost-effectively, these tasks cannot be done manually. Instead, an MSP must implement software which enables them to perform these tasks in an automated fashion every day to keep customers’ systems up and running.

Managed services represent a fundamental change in the way IT solution providers approach the market and interact with their customers. Rather than depend on traditional, product-centric, project-oriented planning, installation or 'break-fix' work, managed services require IT solution providers to take a more holistic view. They must be willing to assume an ongoing, proactive management role that ensures the continuous availability and optimal performance of their customers' IT operations. This demands that IT solution providers have the right management tools and skills to continuously monitor and quickly resolve issues before they impact the customers' business. It also requires that the MSP have planning and design skills to help customers make more significant modifications to their IT operations when necessary.

While customers have some interest in how a MSP delivers its services from a technical standpoint, they are far more interested in how the managed services will increase IT availability and performance, reduce their total cost of ownership (TCO), and improve their productivity and IT return on investment (ROI). This means that IT solution provider sales and marketing teams must focus more on the business value of their services to customers than on their technical features.

Compounding these operational and staffing challenges is the impact which managed services has on an IT solution provider's financial structure. While managed services offers the long-term benefits of more predictable, annuity revenue streams it also reduces the upfront, lump-sum payments which many IT solution providers have depended upon. Therefore, aspiring MSPs must be cautious about the initial investments they make in their service delivery platform.

The differing requirements of the managed service model are summarized in Table 1.

Table 1  
Comparing Traditional IT Support and Managed Services Models

<b><i>Traditional IT Support</i></b>	<b><i>Managed Services</i></b>
Product Centric	IT Operations Oriented
Technology Oriented	Business Oriented
Time-Limited Projects	Ongoing Management
Manual/People Intensive	Automated/Software Enabled
Reactive/Time-Consuming	Proactive/Efficient
Onsite Service Required	Remote Management Provided
Mitigates Downtime/Disruption	Maximizes Availability/Productivity
Commodity/Transaction Pricing	Subscription/Long-Term Agreements
Variable Revenue Streams	Predictable Revenue Streams

Making these changes requires a level of executive commitment which is often missing. Instead, corporate executives tend to hedge their bets when it comes to pursuing a managed services model. Concerned about failing to attract enough customer adoption to support their managed service efforts, executives sometimes fail to invest in the right tools and staff skills to make their managed service offerings successful. Ironically, fear of failure often becomes a self-fulfilling prophesy that helps to cause the problems that get in the way of managed services success.

This doesn't mean that aspiring MSPs should make exorbitant investments to build elaborate network operations centers (NOCs) or helpdesk facilities. This mistake doomed the first generation of MSPs during the dot.com era.

As the following case studies illustrate, success in the managed services business requires a long-term view requiring a systematic transition process built upon the right combination of executive leadership, staff skills and management tools.

## Case Studies in Managed Services Best Practices

*inhouseIT* was founded in 1998, with the goal of offering IT support services to organizations throughout the Orange County, California area. Right from the start, the company's founders had to contend with the added costs and operating inefficiencies associated with delivering on-site support in the traffic-plagued Southern California region. Having its technical support staff trapped in traffic as they tried to respond to customer problems was obviously not a formula for success. So, the *inhouseIT* executives began to build a remote support capability that would enable the company to diagnose and resolve some of its customers' problems from a central location. However, the company quickly discovered that simply monitoring its clients' systems and reacting to their problems remotely wasn't enough to satisfy their needs or build a scalable and profitable business. There were still too many instances in which the *inhouseIT* staff had to perform on-site support in order to fully resolve customer problems.

*inhouseIT*'s executives made a strategic decision and decided to upgrade their remote monitoring capabilities to focus their business on providing continuous, proactive management services that could reduce the risks of customer problems and eliminate the costs of on-site support. However, the executives also wanted to leverage best-in-class technology that its staff could easily administer rather than invest in the added development costs of trying to build its own management system or additional training costs associated with adopting complex management solutions.

After considering all the available options, *inhouseIT* selected Kaseya's IT Services Automation Platform which includes a powerful and customizable IT Business Procedure engine which enables *inhouseIT* staff to establish the functional parameters and automated routines for managing its customers' IT operations. Specifically, the IT Business Procedure engine allowed *inhouseIT* to perform patch management tasks, spyware scans, software deployment, desktop management, computer inventory, audits and reporting activities in an automated, systematic and consistent fashion remotely. The engine also allowed *inhouseIT* to automate these tasks into an array of remote management services. Kaseya's platform also permitted *inhouseIT* to 'private label' its portfolio of remote services and make its logo appear on every end-user's computer screen when it notifies them of daily updates, software enhancements or other activities performed to protect their equipment.

This feature has helped to make inhouseIT's remote services more tangible, an important attribute given that preventing problems can often make a MSP's work less obvious to the customer. Kaseya's platform also enabled inhouseIT to produce one-page 'health reports' which inform customers of the status of their systems based on five key criteria. This capability not only enables inhouseIT to work with its customers to proactively address issues which could cause problems in the future, but it also allows inhouseIT to win opportunities to perform larger projects to upgrade the customer's systems without having to go through costly competitive bids.

Over the past two years, Kaseya's platform has enabled inhouseIT to improve the quality of its services, expand its service capabilities, reduce the cost of service delivery, and increase its market reach. Today, inhouseIT serves customers from San Jose, California to Colorado Springs, Colorado, and is experiencing growth of 50% a year. In fact, the company's success has given it the confidence to 'fire' customers who insist on per-instance, on-site support rather than ongoing, managed services.

Another rapidly growing regional player is *mindSHIFT*. Based in Fairfax, VA, mindSHIFT has grown via a combination of organic expansion and a series of acquisitions to cover much of the northeastern region of the U.S. While the company has always relied on remote services as the centerpiece of its solutions, it was as a result of its acquisition of *Dynamic Digital Services* of Pennsylvania that it added Kaseya's IT Services Automation Platform to its service delivery capabilities in order to provide a wider array of proactive services.

Unlike most acquisitions in the IT industry which fail to accelerate business success, mindSHIFT's market penetration in the Philadelphia area where Dynamic Digital Services was based has grown from fifty to 120 customers and over 4000 endpoints under management since the acquisition. Company executives attribute much of the success to the Kaseya platform which has enabled mindSHIFT to develop a scalable managed services portfolio that is easy to sell and deliver.

From a delivery perspective, the Kaseya platform enables mindSHIFT to offer a broader set of services without requiring customers to rely on costly and cumbersome virtual private networks (VPNs). On the sales side, mindSHIFT can now assume fuller responsibility for its customers' IT operations for a fixed fee which makes its story simpler to convey and its value proposition more compelling.

The net result is that mindSHIFT's determination to deliver a fuller set of managed services has resulted in a significant growth in customers, revenues and profits. It has also enabled the company to successfully integrate a series of acquired companies into its operations and more effectively leverage their resources while capitalizing on their installed base of customers and goodwill.

**IT Solutions** of Jenkintown, Pennsylvania, was founded in 1994 as an Apple Macintosh support company that has evolved to be a Windows consulting and application development firm who's small and mid-size business (SMB) customers rely heavily on the strength of its managed service capabilities.

The company made the decision to transition to a managed services model as it faced greater competition and needed to tighten its bond with its customers. IT Solutions started down the path toward managed services by performing remote monitoring of its customers' networks and systems, but quickly found that this passive approach was not meeting its customers' needs and still required IT Solutions to dispatch its technical staff to the customers' sites to resolve issues.

The company executives decided it was time to offer a set of proactive management services which would enable it to reduce the risk of system failures and the cost of on-site visits. Using Kaseya's automated, management platform, IT Solutions has been able to shift a significant proportion of its customers to a managed services subscription approach over the past 2-3 years.

The Kaseya platform is the foundation of IT Solutions' SharedVision managed service. The key value proposition underlying SharedVision is that IT Solutions' services are now properly aligned with its customers. Rather than being paid on a per incident basis whenever a customer's suffers IT problems, IT Solutions charges a flat monthly fee to ensure maximum IT availability and optimal performance. Its SharedVision service continuously checks customer networks to be sure they are properly patched and updated. It also provides backup and recovery services. In addition, customers get access to IT Solutions' live service desk by phone and via the Internet to give them added confidence that their systems are being fully supported.

In addition to the functional capabilities of Kaseya's IT Services Automation Platform, the Kaseya 'pay-as-you-go' pricing model also appealed to IT Solutions. Rather than have to make a significant upfront investment in complex management software to support its managed services efforts, IT Solutions could assess Kaseya's proven capabilities based on the estimated number of user devices it expected to manage. This meant that IT Solutions could match its investment costs to its forecasted managed services business growth.

And, because Kaseya's platform reduces the need for IT Solutions' staff to make on-site calls, the company has been able to generate greater margins on a more stable revenue stream of managed service subscriptions. But most importantly, IT Solutions has been able to increase customer satisfaction and loyalty via its proactive managed services even as it has raised its rates to reflect their greater business value.

Managed services also make sense for IT solution providers, like **Jenaly Technology Group**, which have carved out a modest geographic footprint but still want to provide a profitable and valuable solution for their customers. New Hampshire-based Jenaly Technology Group has been in business for nearly ten years. It has evolved from a "break/fix" oriented reseller of desktop systems to a supplier of "virtual IT" services for an assortment of small businesses, including law and accounting firms as well as doctor and dentist offices, across the tri-state area of New Hampshire, northern Massachusetts and southern Maine.

While Jenaly Technology Group's customers don't necessarily have complex IT requirements, they are just as reliant on their IT systems as much larger organizations. And, as a relatively small IT solution provider, Jenaly Technology Group couldn't afford to disappoint its customers. But, it also wasn't able to make a significant investment in managed services unless it could increase its revenue opportunities and enhance its profitability.

Over a two-year period, Kaseya's IT Services Automation Platform has enabled Jenaly Technology Group to achieve these business objectives. The IT solution provider adopted Kaseya's platform because it gave the company an opportunity to transition from a reactive, on-site, 'break/fix' oriented vendor to a proactive, "virtual IT" management provider. Jenaly Technology Group's Founder/ President/Virtual Chief Technology Officer was particularly attracted to Kaseya's IT Business Procedure engine which have allowed the company to private-label its services, automate routine management tasks, and create pop-up notifications on customer desktop systems whenever an update and upgrade is performed so customers can fully appreciate the otherwise unobtrusive services.

Although Jenaly Technology Group hasn't exploited its managed services to significantly expand its geographic coverage, the company has effectively leveraged its Kaseya platform to provide a more effective and profitable IT management solution to its customers. Like IT Solutions, Jenaly Technology Group was also attracted to Kaseya's pricing model which enabled Jenaly to make the decision to enter the managed services business based on a simple "cashflow analysis". Even with a modest staff, Jenaly Technology Group has been able to deliver a suite of services that it could not have built on its own and charge a premium price that it could not have demanded for its "break/fix" services.

While assuming fuller responsibility for its customers' IT operations has placed a higher burden on Jenaly Technology Group's support staff, the Kaseya platform has enabled the IT solution provider to automate many of the routine tasks so it can focus on its customers' more strategic business concerns. The company continues to encourage its sales and support teams to make regular visits to its customer sites. But, these visits are scheduled in advance to discuss the customers' future requirements rather than at the last minute to respond to unanticipated problems.

## Summary

As each of these case studies has illustrated, building a successful managed services business requires executive-level determination, proactive support skills and business-oriented sales skills, and automated management tools.

The success stories also show that successful MSPs don't emerge overnight, but evolve over a 2-3 year period. Therefore, company executives and their sales/support staff must have the patience to transform their business operations, corporate cultures and customer expectations to effectively adopt the managed services model.

Every executive interviewed by THINKstrategies for this whitepaper repeated the same important steps to success,

- Because delivering effective and profitable managed services is a fundamentally different way of doing business and relating to customers, managed services should not be viewed as another 'product add-on' but must be recognized as a strategic change in a company's business.
- A managed service is more than just monitoring a customer's operations remotely and reacting to problems as they arise.
- Managed services require support staff to assume greater responsibility for the universal availability and optimal performance of their customers' IT operations.

- Support staff must be proactive and focus on preventing problems rather than measuring their effectiveness by how quickly they respond and resolve problems after they occur.
- The more management responsibility a provider is willing to assume, the easier it is to sell their managed services because a full suite of services eliminates any ambiguity about the customer and provider's mutual roles.
- Rather than build their own or acquire a costly platform which requires substantial upfront investment, providers should leverage tools that automate as many of the management tasks as possible and are scalable to expand with the growth in the customer base.
- Remote managed services should not entirely replace face-to-face interaction with customers.
- Customers may not fully appreciate the benefits they gain from managed services unless the provider systematically measures and regularly reports operational improvements.
- Managed services should enable providers to change the nature of the sales 'conversation' with customers from tactical, technical or billing issues to bigger, business and strategic topics.
- The support and sales staff must be trained to become customer 'relationship' managers rather than technology or transaction-oriented.
- Managed services provide a competitive advantage by giving the provider the first opportunity to uncover additional customer needs.

IT solution providers that understand and appreciate these realities, and properly leverage powerful and flexible management tools such as Kaseya's IT Services Automation Platform, are in the best position to find the right path to success in the managed services business.

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### **About Kaseya**

Kaseya is a privately held software firm specializing in information technology software to support the rapidly emerging IT Managed Services providers and, especially, to support organizations that provide IT Outsourcing services on a local and/or global scale. Kaseya has customers in the IT Services sector offering outsourced and IT managed services business to small and medium-sized businesses in most areas of the world. Kaseya brings a whole new set of revenue generating opportunities to the IT Managed Service Provider and IT Outsourcer.

For additional information, please visit [www.kaseya.com](http://www.kaseya.com) or contact Kaseya at [sales@kaseya.com](mailto:sales@kaseya.com) or 415-694-5700.

### **About THINKstrategies, Inc.**

*THINKstrategies is a strategic consulting services company formed specifically to address the unprecedented business challenges facing IT managers, solutions providers, and investors today as the technology industry shifts toward a services orientation. The company's mission is to help our clients re-THINK their corporate strategies, and refocus their limited resources to achieve their business objectives. For more information regarding our unique services, visit [www.thinkstrategies.com](http://www.thinkstrategies.com), or contact us at [info@thinkstrategies.com](mailto:info@thinkstrategies.com).*