

THINKstrategies



A Whitepaper for Channel Organization Decision-Makers

Getting SMBs to Say Yes to Managed Services

Published On Behalf of Kaseya



Executive Overview

Managed services is generating more 'buzz' than ever before, yet many aspiring managed service providers (MSPs) are continuing to face challenges convincing companies, especially small- and mid-size businesses (SMBs), to adopt this new approach to support.

Ironically, SMBs often face even greater challenges keeping their IT systems and software applications up and running because they are under-staffed. Although SMBs are often not as technology-driven, they are no less dependent on technology to operate successfully. They also recognize that they must refocus their limited resources on their core business because of escalating competitive pressures and customer demands.

Then, why are MSPs experiencing resistance among SMBs despite growing evidence that managed services can significantly improve system and application availability, and generate measurable cost-savings?

A recent online survey of 365 MSPs conducted by InsightExpress, LLC and Ziff Davis found a third of the survey respondents view migrating existing customers to the new managed services model is their biggest challenge. THINKstrategies' research, as well as studies from other prominent analyst firms, clearly shows that customer interest and adoption of managed services is rising. Yet, there is still a vast majority of SMB business and information technology (IT) decision-makers who are either unaware or uncomfortable with the managed services concept.

THINKstrategies believes that many aspiring MSPs are improperly packaging and positioning their managed service offerings, and communicating their value to the wrong audience. For instance, MSPs may use the term "outsourcing" when talking to IT managers within a SMB. This terminology may be interpreted as a threat to the livelihood of this important decision-maker.

Many successful MSPs find that it is better to understanding the operational and business needs of prospective customers, and develop a compelling set of services and value proposition to satisfy the primary concerns of SMBs, such as, mean time between failures, systems uptime, quality of network, aligning IT goals with business goals, and controlling PC maintenance expense. In addition, it is critical to have the right service delivery infrastructure in place to fully meet their expectations in a profitable fashion.

For example, MSPs cannot limit their services to a simple set of remote monitoring capabilities alone. These capabilities tend to be reactive in nature and often fail to eliminate costly events. They are costly because the customer can still experience detrimental system downtime or application performance issues. And, they are costly because the MSP may still need to provide on-site support in order to rectify the problem.

This whitepaper will examine why some SMBs are willing to adopt managed services, while others are not. It will identify how successful MSPs convince IT/business decision-makers in SMBs to leverage managed services to achieve their business objectives. It will also show how successful MSPs leverage increasingly powerful service delivery platforms, like that created by Kaseya, to provide efficient and effective remote management solutions that meet SMBs' needs and earn their *trust*.

Market Trends Driving SMBs to Adopt Managed Services

Despite rising concerns regarding a potential recession, *73% of SMB leaders who participated in the end-of-year SMB State of the Union Study conducted by AllBusiness.com, are optimistic about 2008. And, 60% of the SMB decision-makers plan to increase their technology investments. AMI-Partners predicts SMBs will spend about \$240 billion in 2008 on strengthening their IT and telecom infrastructure and applications.*

SMBs are making these investments in order to better meet the needs of their customers in an increasingly competitive environment. They must also accommodate an increasingly mobile and dispersed workforce, just like larger enterprises. These requirements are making their IT investment decisions and management challenges more complex.

Given the economic uncertainty caused by rising oil prices and the mortgage crisis, many business executives are becoming more hesitant to make major capital investments in technology and are equally uncomfortable increasing their inhouse staff to support their technology needs. In fact, the most recent Conference Board Measure of CEO Confidence fell to 39 in the final quarter of 2007 after declining to 44 in the third quarter of 2007. (A reading of more than 50 points reflects more positive than negative responses).

Many SMB executives and end-users, like those in larger enterprise organizations, are becoming increasingly frustrated with the escalating hassles and costs associated with managing their own IT operations. As they become more reliant on systems and software to run their businesses, SMBs are feeling even greater stress because they depend on limited inhouse staff to keep these business critical technologies and applications up and running.

Various industry studies estimate that *inhouse IT departments spend approximately 80% of their time and budgets keeping their operations up and running. Yet, up to 40% of today's outages result from human errors and the inhouse staff can spend 25-50 % of their time identifying and resolving problems.*

In response, there are many market forecasts from leading analyst firms predicting significant growth in managed services over the next 3-5 years. According to AMI Partners, *a quarter of SMBs' IT expenditures will be for IT services such as consulting, software support, and network management.*

A growing number of companies of all sizes are being attracted to managed services because it allows them to selectively outsource, or 'out-task', specific IT management responsibilities to a service provider in a manner that mitigates the risks of relying on a third-party.

An increasing number of business executives are recognizing that managed services providers (MSPs) can automate routine IT management tasks and perform these functions remotely, saving customers money by increasing system reliability, eliminating unnecessary on-site visits and reducing overall service fees. In these ways, managed services can even be considered "green."

A 2006 THINKstrategies survey of 550 IT/business decision-makers, conducted in conjunction with Business Communications Review, found that 40% are leveraging various forms of managed services to help them administer their IT and network

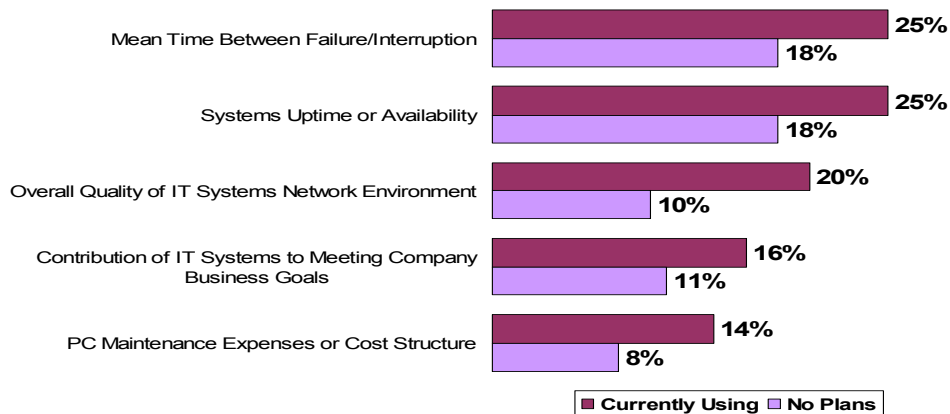
operations. These range from traditional voice communications services, such as Centrex, to managed desktop and server services.

These companies have been able to test the MSP's service delivery capabilities and management skills by contracting for a specific service for a limited time. If the MSP fulfills their promises, the customer can then authorize the MSP to manage more assets or the customer can subscribe to more services.

This is a more flexible approach than traditional outsourcing arrangements in which customer relinquish their entire IT operations to a vendor in an inflexible, long-term arrangement. Eventually, many SMBs allow their MSPs to assume full responsibility for their IT operations and operate as their 'virtual' IT department, but they may still be uncomfortable calling this an outsourcing arrangement.

A recent Ziff-Davis Enterprise Research survey found that SMBs are often more satisfied with the quality of their IT operations when they are managed by an MSP than with their inhouse staff. Figure 1 shows that the customers using MSPs felt their computer systems environment exceeded their expectations more often than when they relied on their inhouse staff alone.

Figure 1
Ability of MSPs to Exceed Customer Expectations



Source: Ziff-Davis Enterprise Research

Why SMBs Are Still Hesitant to Buy Managed Services

Although THINKstrategies' research has found substantial interest and adoption of managed services, *only 30% of the companies with revenues of \$50 million or less surveyed were using managed services, compared with 55% of the larger enterprises. In fact, over half (52%) of the SMBs stated that they were not considering managed services.*

There are numerous reasons for this reluctance.

Many SMB decision-makers are uneducated about the business benefits of managed services. Instead, of promoting the value of these services in business terms, many MSPs make the mistake of selling the technical features of their services. They boast about the 'speeds and feeds' rather than quantifying the return

on investment (ROI) or lower total cost of ownership (TCO) which managed services can achieve.

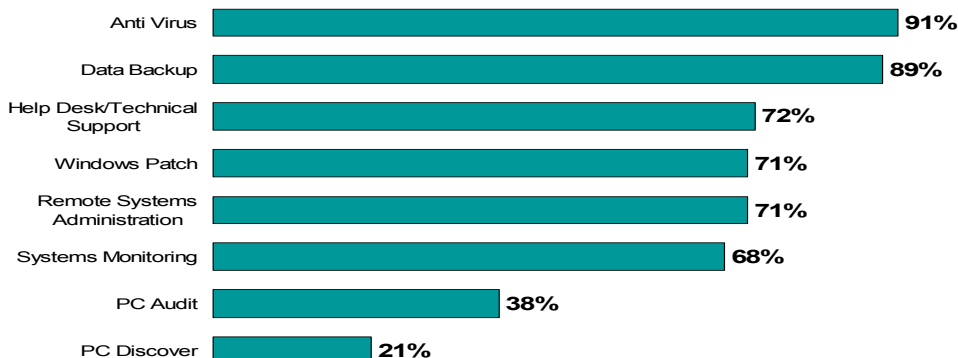
Many SMB decision-makers are uncomfortable purchasing managed services from a provider they don't know or haven't already done business with before. They are reluctant to entrust their IT operations, and in turn their business, to an untested or unfamiliar service provider. Yet, many MSPs try to sell remote management services to new customers without demonstrating their skills and capabilities in a face-to-face manner. Many SMB decision-makers simply believe that it is more cost-effective to pay for on-site support on a case-by-case basis rather than recognize the operational and financial benefits of a managed service arrangement. MSPs often fail to show how their services can serve as more than just an insurance policy that protects them from occasional problems. As a result, these SMBs don't appreciate how managed services can reduce system downtime, improve application performance and strengthen their competitiveness.

Probably the biggest reason why many SMBs don't buy managed services is because the MSPs try to sell the wrong value proposition to the wrong decision-maker with these companies. Rather than sell the business benefits of managed services to company executives, many MSPs try to sell outsourcing services to the IT manager. This approach inevitably fails because the IT manager perceives the MSP as a threat to their job, rather than an ally in their effort to better manage their IT operations.

In those cases when MSPs properly position their services as a method of helping IT managers do their jobs, many MSPs still fail to properly design and package their services to meet their customers' expectations. They often offer remote monitoring services which simply notify the IT manager of an event and force the inhouse staff to rectify the problem. Many remote monitoring services are poorly configured and issue false alerts which aggravate rather than alleviate the IT department's situation.

Ziff-Davis Enterprise Research's recent survey found that many MSPs are offering a broad range of services to more fully serve their customers. Figure 2 shows the proportion of MSPs offering various types of management services.

Figure 2
Most Common MSP Management Tasks Performed



Source: Ziff-Davis Enterprise Research

Even MSPs which perform a fuller set of managed services, including proactive or preventive services which eliminate many threats before they evolve to become real problems, often fail to properly document their activity and are unable to demonstrate their value.

These problems arise for many reasons, but they tend to fall into three primary areas,

- Skills Issues
- Process Issues
- Technology Issues

The skills issues start at the top. MSP executives have to recognize that selling and delivering managed services is different than selling and delivering traditional on-site services. They must be willing to make technology investments to deliver proactive management services rather than rely on the technical skills of their traditional on-site engineers. They must understand the value of an annuity revenue stream from subscription services rather than continue to depend on larger but less reliable product sales.

Managed service engineers are also a different breed than traditional on-site technicians. Traditional on-site technicians are like firemen. They like to react to an alarm, go to the customer's site and rescue the company when a technology emergency arises. They are gratified when they help a customer recover from an event. Managed service engineers are successful by proactively managing the customer's operations from a remote location to prevent problems from arising. This type of work doesn't generate the same attention or gratification.

By the same token, a managed services salesperson has to convince the customer of the value of preventative services in the same way an insurance agent convinces a customer of the value of an insurance policy.

In order to make this case and demonstrate value, the MSP's technicians and salespeople must have the right skills and business processes in place to produce and provide activity reports which clearly show the level and volume of threats which were mitigated by their services. Many aspiring MSPs mistakenly believe customer portals which provide activity data are a sufficient reporting mechanism to satisfy customer needs.

THINKstrategies has found that most customers need their MSPs to review the activity data with them so they can appreciate the MSP's work. This requires a more methodical reporting process and proper technical and sales skills to clearly communicate the potential downtime, productivity problems and economic costs which the MSP prevented.

Many MSPs fail to meet these expectations because they don't have the right service delivery technology in place. In many cases, the aspiring MSPs have cobbled together a variety of point-products to perform specific management tasks which aren't fully integrated and require significant manual effort. Because many managed services are sold at a modest monthly fee, making an investment in more robust management solutions is difficult for most MSPs.

But, performing managed services in a reliable and cost-efficient manner requires a highly automated and powerful management platform. This platform should permit

the MSP to provide a flexible suite of services to meet its customers' evolving needs. The platform should also be easy to administer and generate meaningful activity reports which clearly show customers the value of the MSP's services.

Properly Selling and Delivering Managed Services to SMBs

For most aspiring MSPs, their target customers fall into two categories,

- Existing customers who must be transitioned from on-site support contracts
- New customers who must be convinced that the MSP can be trusted

Although these two categories pose their own challenges, they both will only adopt a MSP's services if they trust that the provider can deliver on its promises. Existing customers may trust that the provider can perform the management tasks of a MSP, but may not trust the economic value of a managed services arrangement. New customers may understand the economic value of this arrangement but not have enough experience with the provider to trust that they can perform the necessary management tasks.

Therefore, the MSP must have the right platform in place to perform the management tasks in a reliable fashion. This means performing a long list of proactive management tasks in a highly automated manner to minimize the risk of human error and gain the cost-efficiencies which are essential to creating a profitable managed services business. These tasks include,

- Computer/Network/Software Inventory and Audits
- Remote Desktop Management and Support
- Patch Management and Software Updates
- Network/Operating System Monitoring and Alerts
- Help Desk / Trouble Ticketing
- Network/Security Policy Enforcement
- Backup and Disaster Recovery
- Anti-Virus and Spyware Detection
- User State Management

The MSP should be able to deploy and administer these tasks with an easy-to-use web-based interface that is scalable to meet the needs of a growing customer base. The MSP should capture and easily generate activity reports that the technician and sales account representative can discuss with a customer, or the customer can easily obtain and understand themselves.

A critical element in a successful managed services business is the service level agreement (SLA). The SLA is the MSP's guarantee that they will perform their management responsibilities and meet their service level objectives (SLOs) on an ongoing basis. The MSP must have the right management skills, processes and technology in place to confidently provide a customer a SLA and effectively report their SLA compliance.

Finally, MSPs should network with their peers in order to gain their insights regarding industry best practices and best-of-breed service delivery platforms. Participating in industry associations and technology user groups are essential for

staying informed and learning how to fully leverage the latest innovations to meet customers continuously changing needs and expectations.

Summary and Recommendations

A combination of internal and external forces is driving SMBs to consider and adopt managed services. These include escalating competitive and customer pressures, an increasingly dispersed workforce and a growing reliance on more complex and costly computing systems and software applications.

While managed services are becoming more acceptable among organizations of all sizes, many SMBs are still hesitant to relinquish their IT operations to a MSP. The SMB IT manager often feels threatened by the MSP, fearing the MSP could usurp their position within the SMB. The SMB executive is often uncomfortable with the economics and practical deployment of a remote management service.

Aspiring MSPs must package and promote their services in a way that alleviates these fears and uncertainties. They must convince the IT manager that managed services can make their jobs easier by eliminating the amount of time they spend reacting to problems so they can dedicate more time to support their companies' business needs. They must show the IT manager how they can be an ally that helps them do their jobs, rather than a competitor for their jobs.

The MSP must be able to clearly show the SMB executive how its services work and articulate the value of their services in business terms. This means quantifying the economic value from a ROI and TCO perspective.

The MSP should be able to leverage their automated management systems and flexible reporting capabilities to package and price managed service programs which meet SMBs' needs and fit within their limited budgets.

Ultimately, the MSP must craft its people, processes and service delivery platform so it is seen as a 'trusted advisor' to the SMB rather than simply a technology supplier.

This whitepaper was sponsored by Kaseya.

About Kaseya

Kaseya is a global provider of IT automation software for IT solution providers and corporate IT organizations that benefit from deploying Kaseya's systems management capabilities. Kaseya allows businesses to proactively manage distributed IT infrastructure easily and efficiently with one integrated Web-based platform. Kaseya's technology has been deployed on over 1 million machines in more than 25 countries around the world. For more information regarding Kaseya, visit www.kaseya.com.

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, or contact us at info@thinkstrategies.com.