The MSP Guide to Higher Growth

Part I: Market Evolution and What It Means for MSPs

A successful managed services business is reliant on a solid business strategy and service delivery model, as well as finding the right technology for its needs.

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Part I:
Market Evolution and What It Means for MSPs

This is the first part of a three part series of white papers collectively titled **The MSP Guide to Higher Growth**.
The other parts of the guide are:

Part II: Pricing for Profitability

Part III: Efficiency, Tools and Best Practices

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Introduction: Why Should I Read This Guide?

For MSP CEOs, COOs, and Staff with Responsibility for Services Design

The market for managed services is growing at double digit rates and the nature of the services demanded by client organizations is evolving rapidly. Creating new and profitable managed services has always been challenging, but as customer needs evolve, developing profitable services that have strong customer appeal and that can be delivered efficiently without significant additional investment, is getting harder to do. In addition, trends such as value-based pricing and service bundling, are increasing the need for service providers to differentiate their offerings. The purpose of this guide is to provide market insight from Kaseya's large customer base of MSPs to help owners and their staff step through the service development process to create winning and successful managed service solutions that will drive profitable growth.

One of the biggest disrupters of the managed services market is the availability of cloud services. "Cloud" represents opportunity, competition, changing customer expectations, service migration and management challenges all at once. Cloud drives service commoditization at one end of the spectrum and the opportunity for MSPs to deliver advanced or specialized services without significantly increasing investment or risk, at the other. When creating new service components, MSPs must take into account client expectations for cost-effective standardized services raised by cloud service providers.

Kaseya works with a wide range of MSPs, from those who have transformed one-man shops into successful managed services businesses, to others who were already large providers and have extended their services, grown faster and become more profitable. By leveraging the breadth of capabilities available to them through Kaseya's IT management solutions, these MSP customers have formulated and executed on a managed services strategy that allows them to manage a large number of client IT systems reliably and securely, while continuously improving the productivity and cost effectiveness of their technical staffs.

Wherever you are in the spectrum of business maturity we hope you will find useful information in this guide.

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This guide will help you:

- Develop and execute on a solid business strategy for running a managed services company.

- Price your managed services attractively, competitively, and profitably.

- Understand MSP pricing and profit scenarios.

- Avoid some common pitfalls.

- Understand the benefits that come with implementing advanced managed services.

- Choose the right IT systems management solution to help enable your vision.

- Understand how an IT service provider successfully rolled out managed services for its customers and transformed into one of the most successful MSPs in the industry.

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The Evolving Role of the MSP

The number of MSPs keeps growing as more and more IT services businesses adopt a managed services model. Many start out as value-added resellers (VARs) providing break/fix services to support customers who purchase their hardware and software solutions. Now many hardware and software vendors, systems integrators, communications services providers, hosters and others have joined the fray and are competing to offer a wide range of managed (and cloud) services to client companies of all sizes. For example, cable companies and telcos are now offering managed services, MSPs and vendors now offer managed telephony services, and systems integrators are providing hosting and other cloud and managed service solutions. Consequently, the competition is heating up and all participants are realizing that success requires strong differentiation.

Customer demands are evolving too. The acceptance of cloud-based services is impacting both market prices and MSP strategies. The willingness of the market to accept standardized solutions in order to achieve business agility, signals an opportunity for MSPs to streamline their offerings too. Cloud services offer the promise of rapid time-to-market for new digital innovations such as mobile software apps. Customers benefit from the immediate availability provided by such services and from the pay-as-you-go pricing. MSPs can capitalize on these sentiments to reduce customization, introduce "our way" approaches, and offer support services for new and emerging technologies. In doing so, they can maximize their own efficiency and enable faster growth.

Developing trust in service providers takes time, but as
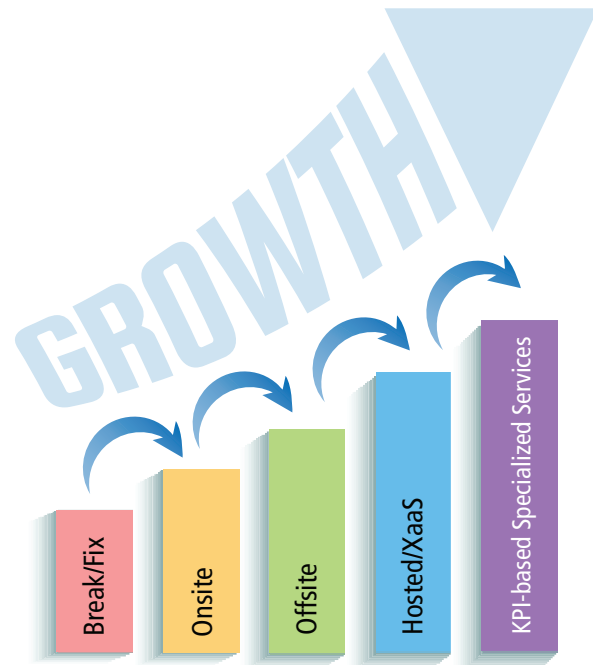
Growth of Customer Demand and Evolution of Managed Services

MSP Profitability

- The managed services segment is the most profitable part of the professional services market. MSPs are approximately 200-400% more profitable than non-MSPs.

- Pure play MSPs are approximately 25-50% more profitable than hybrid model MSPs.

- MSP businesses are 3X to 10X more valuable than traditional VAR businesses.

*Source: Kaseya Worldwide MSP Surveys, 2012-14*

customers become more familiar and confident in these outsourced approaches, they also become more interested in purchasing additional levels of service from their trusted providers. This has resulted in MSPs offering a growing range of services to both existing and new customers and in bundling their services into a small number of service tiers to make sales and customer selection far easier. In fact, some now turn away clients whom they perceive as having unique and more demanding requirements because they don't fit their standardized approach and hence, are too expensive to support.

Leading MSPs are evolving to assume core responsibility for "keeping the IT lights on" for their best customers (i.e., assuming the role of IT Operations) and becoming virtual CIOs so that their more business-focused clients can spend time on their business's needs for innovation and improving customer experience. Those who are willing to take on, and manage, the additional risks in providing their clients with guaranteed outcomes appear to be growing the fastest and becoming the most profitable.

Percentage of Respondents by Monthly Recurring Revenue (MRR) 3 Year Average Growth Rates

Kaseya MSP customers experience rapid business growth. 96% achieved positive growth in the past three years.

Source: Kaseya 2014 Global MSP Pricing Survey

23% **4%** **19%** **14%** **16%** **24%**

- >20%
- 16% – 20%
- 11% – 15%
- <0%
- 0% – 5%
- 6% – 10%
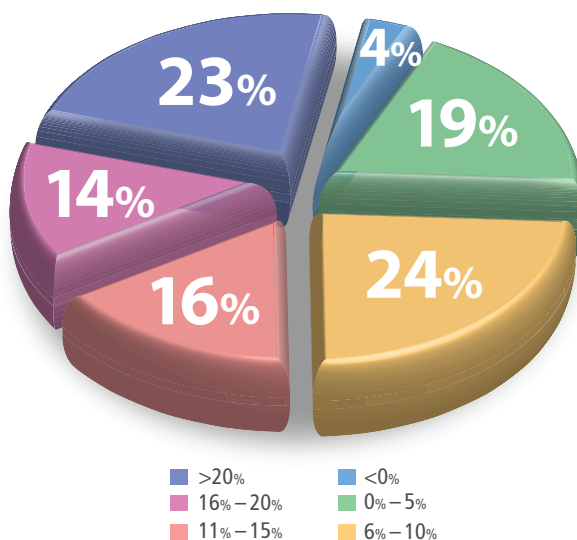
6 Key Success Factors for MSPs

1. Determine the client value of the services you provide and price according to that value – not to cost or competitive services.

2. Build a strong managed services sales and marketing capability. Don't rely simply on good (product) sales skills.

3. Create a small number of bundled services, with increasing service capabilities. Sell only the bundled services and only to customers prepared to buy the service.

4. Build trust. Managed services customers, whether small and medium-sized firms (SMBs) or large enterprises, will spend more for the services of a trusted business partner.

5. Increase prices for larger customers! Larger customers are more demanding, more costly, and derive greater value from having their own IT staff freed from unplanned/reactive work.

6. Partner closely with your clients, giving them advance warning when vital improvements must be funded.

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Formulating the Right Strategy

The essential challenge for MSPs is to grow their businesses while becoming ever more efficient. Practicing and improving on the processes that increase efficiency provides the knowledge and confidence to discuss the delivery of outcomes or results with potential customers. At the end of the day, that's what most managed services customers require.

Efficiency of service delivery and in service sales and marketing also reduces MSPs' cost per seat, (or whatever metric you use to ensure that pricing exceeds cost with a sufficient gross margin). The more efficient you are, in terms of cost per seat or managed devices per technician, the greater your opportunity to grow profitably.

Small and medium-sized enterprises (SMEs) look to buy managed services primarily for two reasons:

1. They do not have sufficient resources or skills in-house.
2. To save money.

The more cost-effective your managed services, the bigger the pool of prospects who can save money using your services and who will find them attractive. Yet creating an efficient managed services operation is no easy task as the increase in service delivery efficiency must also correspond to an increase in customers served or devices managed. Smaller MSPs just aren't as efficient as their larger counterparts simply because they have fewer seats (or devices) to spread their costs over. Therefore, improved efficiency and growth go hand-in-hand.

What strategies can those who wish to boot strap their growth adopt? Here is a list of six factors to consider when determining your growth strategy.

1. Bundled Services

The message is clear, small and medium businesses are very interested in bundled services. A recent newsletter from AMI-Partners, I-Signal[1], which reports findings from their research programs, indicates that SMBs are three to four times more interested in bundled services than in single services. This result echoes the experience of communications service providers (CSPs) in the consumer market. CSPs find that bundled services such as internet access, mobile phone service,

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email and other online services, when bundled, are far more "sticky" than individual services, allowing them to retain their bundled service customers far longer and to increase the average customer lifetime value (CLV). Customers gain more value from bundled services and are loath to switch service providers unless they can do so without disrupting their existing business. And the interest in bundled services supports the notion that SMBs are indeed more interested in value than price, despite their insistence to the contrary.

The 2014 Kaseya MSP Pricing Survey[2] results clearly show that faster growing MSPs are both bundling their services and limiting their bundles to a small number of tiers. The ideal scenario is to interest prospects in a basic level of service and then upsell them to a comprehensive service bundle. The rationale is simple. To be most effective, MSPs need to be able to monitor and manage as many aspects of a customer's IT infrastructure as possible. When there are large gaps in coverage or when there are several service providers involved, finger pointing becomes inevitable and diagnosing who did what and when they did it becomes a major portion of the support work. When an MSP can take primary responsibility for the production infrastructure and is able to monitor from a single IT management solution, cause and effect are much easier to identify, and process improvements can more easily be put in place to reduce the volume of disruptions and the subsequent unplanned remediation work.

By offering a comprehensive service bundle and discussing the value of having a single service provider, MSPs also avoid the challenge of being "nickeled and dimed" by customers trying to get a better deal by taking a "Chinese menu" approach. That is by picking apart the bundle and trying to get a lower price for several bundle components. Higher growth MSPs will even turn prospects away if they are not willing to buy a complete service or if they are not willing to accept the MSPs standardized approaches. The cost of supporting one-offs is simply too high.

2. Value-based Pricing

The 2014 Kaseya MSP Pricing Survey results clearly show that successful MSPs, those growing at double digit annual growth rates, predominantly adopt value-based pricing strategies. In contrast, MSPs experiencing lower rates of growth are more likely to adopt cost-based or market-match pricing strategies.

The plain fact is, while every purchaser wants to make sure they pay the lowest price for a commodity, most business decision makers elevate value over price when purchasing products or services for their (particularly their own) business. In particular, small and medium size businesses are much more concerned about buying from a trustworthy service provider with skills and expertise beyond what they have in house. Only if they perceive they are buying a commodity, will they assign a low value and be more concerned about its price.

Value-based pricing allows MSPs to compete on the basis of their skill as an MSP (e.g., the ability to provide

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guaranteed business outcomes and to demonstrate how the contracted results will be delivered). For example, consider the pricing of a remote monitoring service. A cost-based pricing approach might result in a per-device price of $X, where X is some multiple of the cost of providing the service. Without any additional information, a client might see no difference between MSP A's managed monitoring service and MSP B's service. Both MSPs will talk about the number of prestigious clients they have, the number of devices they monitor successfully, and their ability to respond and deal with issues. If there's no real differentiation, the likely outcome is that the client will chose the cheapest option.

A value-based pricing approach is designed to provide higher gross margins and prices services based on their value to the client. In the case of a remote monitoring service, what does the client hope to achieve by outsourcing monitoring? Perhaps the client wants to free-up internal resources, gain 24 x 7 coverage without having to resort to shift work or overtime pay, or benefit from fewer employee disruptions and help desk requests created when users download untested patches or inadvertently introduce malware. Their people (both employee and technician) productivity savings can be huge, and the positive financial and business impact even greater. Showing clients how the services will reduce disruptions and how they can be reliably delivered, enables the price of the monitoring service to be positioned against the business cost of doing nothing or of using in-house staff. Correctly done, the value delivered will be an order of magnitude more than the price of the service.

Describing the processes used, the details of prior experience, and how the MSP's unique approach will ensure that benefits are achieved, generates trust, demonstrates differentiation and provides value even during
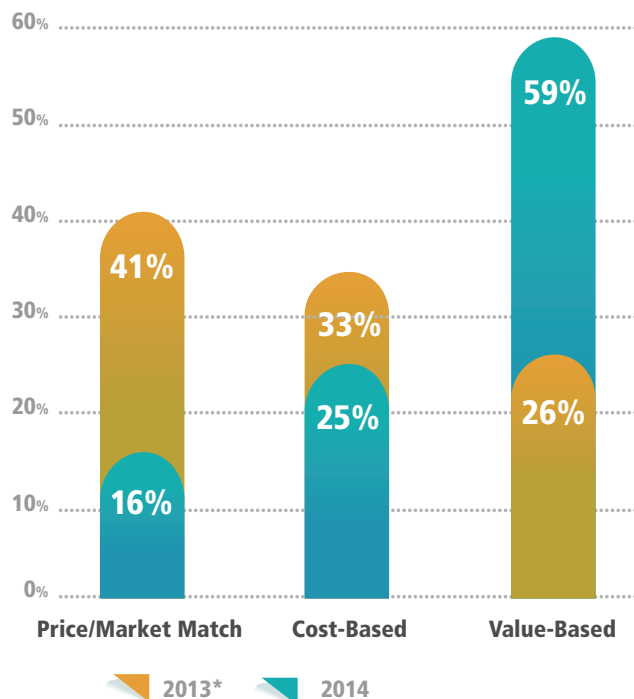
Pricing Strategy by Year (weighted by response)

Kaseya 2013 and 2014 MSP Pricing Survey Results Show a Strong Trend towards Value-based Pricing

Top Needs of IT Users

- Guaranteed services levels – availability and performance
- Data security, back-up and restoration
- Support for business processes and user productivity

Top Needs of MSPs

- Profitable growth
- High customer and employee satisfaction rates
- Excellent staff productivity
- Industry recognition and credibility helping to attract new customers and well qualified employees

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the sales process. Seeing that value, clients are more likely to compare capabilities and service attributes to those of competitors, rather than to directly compare prices. If the comparison is favorable, they will happily pay a higher price for the additional, but very real, value delivered.

3. Managed Services Sales and Marketing Skills

Marketing and selling subscription-based managed services is different than selling technology projects. The above discussion regarding value-based pricing is illustrative. Sales needs to be able to articulate the ongoing value of your services and to be able to relate the benefits of your skills and service capabilities to the business challenges and goals of each specific prospective customer. Most customers will have common challenges, but each will view them in the light of their own unique circumstances. Selling services is about relating to those circumstances, not about describing the technical capabilities of a particular hardware/software solution.

Understanding customer needs is a normal step for sales, but conveying how a set of ongoing services supports those needs requires a different script and approach. Service delivery must start during the sales process. That is, every interaction with a potential customer should add value. Service prospects will ask about SLA guarantees, service pricing, and the penalties you will pay for missed service levels, but in reality they are less interested in coming up with a rock solid legal contract than they are with finding a trusted partner with whom they can share a portion of their critical infrastructure management. Your customers don't want to have to wave a contract at you to get your attention; they'd prefer not to have any issues at all because you have dealt with them. Developing the trust that you will deliver what they need begins by demonstrating the kind of services and support that your managed services will deliver, through your marketing and sales efforts.

In today's Internet-world your marketing efforts play as important a role as your sales efforts. No really! Prospects more frequently find you via your web presence than any other way, normally via paid-search (PPC – pay-per-click) or search engine optimization (SEO). Even if you are spending a significant amount on advertising, chances are you're directing interested prospects back to your website – home page, services descriptions, premium content, etc. Your message must clearly describe the benefits of your services and why you can be trusted to deliver. Contractual service details and, in particular, how your services are implemented should be secondary items. Yes, you'll need to describe the services themselves but prospects will want to know "how does this help my business."

And, if instead of SEO and PPC, you are relying on events, word-of-mouth or social media to spread the word, most prospects will go to your website to get contact or service details. Therefore, your digital marketing efforts will play a significant role in your success. Make sure you have the appropriate skills and resources to market your business effectively, however you decide to do it, as well as your sales support and messaging needs.

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4. Building Trust

The key to winning, retaining and growing the revenue from managed services clients is building trust. Getting prospects to contract for vital IT service support requires that they trust you to deliver that support. Trust starts with your marketing message – the skills you offer, the value of your managed services, the extent of your customer base and their satisfaction, the partners that you use – and grows as you reliably and consistently deliver your services. The higher the level of trust you can earn over time, the more likely clients will be to contract for additional services, until they are reliant on you to support and maintain their entire IT infrastructure. The highest margin services, e.g., virtual CIO, will only be accepted from truly trusted advisors.

Trust of course, works both ways. You'll need to trust that clients will implement your policies for security and patch management, for example, and that they will listen when you advise that additional investments are required to maintain the integrity of their infrastructure. You'll need to organize to support both planned upgrades and unplanned events. Your biggest issue will be those unplanned circumstances that impact the systems you support at the most awkward of times. Proactively addressing as many potential issues as possible through policy, automation and planning is critical to your success.

Make it a standard business practice to identify and resolve issues before users are aware of them. Set thresholds— capacity and disk space ceilings— and policies that your customers' systems need to meet to be in compliance, including those needed to enhance security and prevent cyber-attacks. If they fall out of compliance, have automatic and manual processes in place to fix them quickly.

Being proactive reduces downtime and speeds time to resolution, ensuring your customers' users have access to the tools and information they need. At the same time, preventing problems helps avoid fire drills where your team is unproductive and your customers are upset. Automation reduces mistakes, improves your productivity and builds trust among your clients that you will meet your SLAs.

5. Bidding on Larger Deals

Profitable growth means gaining more customers and upselling existing ones. MSPs that focus primarily on selling to smaller firms (and thus obtaining lower monthly fees) often have a hard time growing their businesses quickly and meeting profitability goals. By carefully standardizing offerings and pricing inexpensively, but profitably, to attract smaller businesses it is, of course, possible to maintain a viable business. But with smaller deals, the cost of customer acquisition can be more than the revenue to be earned in a single year and small customers are less able to afford, and have less need for, additional services. Plus smaller businesses have limited budgets. This means their primary focus

when procuring products or services is price. Because of this they are also harder to retain as customers over time.

Customer retention generally improves as the number of services provided increases due to the "stickiness" of bundled services and the increasing level of interaction between client and service provider. When only a single commodity service is provided there is little to prevent clients from shopping for cheaper alternatives during their budget cycles. In consequence, it's beneficial for MSPs to increase the average size of their customers together with their average deal size over time, consistently improving both their technical and sales and marketing efficiencies as they grow.

The recommended strategy for MSPs of all sizes is to sell to fewer larger customers rather than a greater number of smaller ones. This is easier said than done, but it provides a much stronger underpinning for growth. Mid-sized companies are better references than smaller ones, they are easier to upsell and, as bundled services customers they are easier to retain – assuming that SLAs are met. Focusing on the value of your services also becomes easier.

Mid-sized companies have a few more IT resources than their smaller company counterparts but they have many more tasks they'd like them to do. They also tend to employ a few good generalists rather than the suite of specialists that a large company might be able to attract. As such, they are in the market for expert help. To provide a challenging environment for their IT staff, they may be interested in outsourcing more routine tasks such as patching, backup, scanning for malware, etc., as long as they trust the service provider to undertake the work. Alternatively, they may need specialist help in key areas such as supporting an advanced application, security or a complex networking environment. Outsourcing these tasks frees up time for their IT Ops technicians to work with Development or with business partners on the innovations needed to keep the company competitive.

One mistake that smaller MSPs often make when bidding for larger contracts is to underprice. Their justification is that the larger number of devices to be managed creates an expectation that the unit price should be lower. In reality, the larger the infrastructure, the more challenging it is to manage. So rather than charging a lower price, MSPs should work on delivering greater value by bundling several service components and taking into account the increased complexity they will be handling; the more complex the infrastructure, the greater value in having a managed service provider take responsibility.

Typical Customer Size Range by Employee Size of MSP Firm

Percentage Distribution within each MSP Size Category

MSP Size (Employees)	Customer Size by Number of Employees		
	Less than 25	26 to 100	More than 100
Less than 25	48%	36%	16%
Between 10 and 25	26%	58%	16%
Between 26 and 50	9%	73%	18%
Between 51 and 100	0%	57%	43%
More than 100	5%	30%	65%

Source: Kaseya 2014 Global MSP Pricing Survey

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The 2014 Kaseya MSP Pricing Survey results clearly indicate that faster growing MSPs are able to achieve higher prices. They also offer more services via comprehensive service bundling and focus their sales efforts on attractively sized deals (e.g., those between $1000 and $5000 per month). They may turn away more price sensitive customers and those who need customized services that are more costly to support.

6. Partner With Your Clients

Whether you are new to managed services or an old hand at it, the key to success is to understand your customers' needs and to work to help them achieve their goals. When contracting for managed services, most clients are seeking outcomes, not technology services. They are planning to outsource part of their IT management responsibility to someone else and they need to be able to trust their service provider(s) to deliver. Reducing capital or operating expenses or gaining expert help is obviously beneficial, but the ultimate goal is to have IT support the business to the maximum possible.

This is only achievable when there is a strong sense of partnership between service provider and client. The client holds the purse strings and makes the decisions about which IT investments to make. Service providers rely on having robust infrastructure elements to monitor and manage in order to minimize trouble tickets and technician costs. Close partnership ensures that each side is aware of their dependency on the other and allows for the sharing of information so that appropriate and timely steps can be taken when needed, to maintain service levels and IT service reliability.

Your partnering plan should involve client personnel at all levels: IT and business management, IT Ops and the technicians you will need to interact with on a daily basis, and also IT users. Properly engaged, users can be a significant asset, ensuring that security and compliance rules are observed and even helping to conduct basic maintenance. Policies can be set up to allow authorized configuration changes, downloads, patches and other application updates, as well as to block unauthorized changes. User self-service saves users time, as well as reduces calls to support. It also gives users a stake in the health of their own systems and ensures consistent IT service across the organization.

References: 1. AMI-Partners I-Signal   2. Kaseya 2014 Global MSP Pricing Survey

About Kaseya

Kaseya is the leading provider of cloud-based IT management software. Kaseya solutions allow Managed Service Providers (MSPs) and IT organizations to efficiently manage IT in order to drive IT service and business success. Offered as both an industry-leading cloud solution and on-premise software, Kaseya solutions empower MSPs and mid-sized enterprises to command all of IT centrally, manage remote and distributed environments with ease, and automate across IT management functions. Kaseya solutions are in use by more than 10,000 customers worldwide in a wide variety of industries, including retail, manufacturing, healthcare, education, government, media, technology, finance, and more. Kaseya is privately held with a presence in over 20 countries. To learn more, please visit **www.kaseya.com**

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