Winners and Losers in Managed Services

Contents

Introduction

The days where an organisation is totally responsible for managing all areas and aspects of their business are gone. In today's world, it is common for certain services, be they telecoms, cloud, networking, or security services, to be managed externally.

Whether companies are outsourcing to reduce or control operating costs, free up internal resources for other purposes, or streamline time-consuming functions, it is clear to see that the potential benefits for businesses are varied and plentiful.

These types of benefits are especially pertinent when considering the speed at which the world is changing using new, innovative, and sometimes utterly mind-blowing technology – why risk managing these changes internally when an expert can take care of them for you? The last thing that companies need is to implement an organisation-wide change, only to find that the changes are obsolete in six months' time and all they have done is waste a lot of time and money. However, it is not just when implementing wholesale changes where an external expert might be beneficial – some organisations need support just to keep the lights on.

As more and more companies look to offload tasks they can no longer take care of themselves, the demand for managed service providers is going to sky-rocket – and with more businesses offloading more tasks, the pressure on MSPs is two-fold. Furthermore, 2018 is set to be the year of the digital customer experience. And it is not just retailers and the hospitality industry that must consider the customer experience, but all businesses. The more that the MSP industry grows, the more that it becomes a buyers' market, which places even greater importance on the ability to provide an excellent customer experience - something that customers in 2018 have come to expect.

During 2018 and beyond, there will be plenty of challenges for MSPs, including but not limited to: emerging technology, evolving security threats and changes in customer demands. For MSPs to be successful, all of these challenges will need to be successfully navigated, as it is going to be a case of keep up, or get left behind. And falling behind could mean missing out on their seat at a billion-dollar table.

Methodology

ConnectWise commissioned independent market research specialist Vanson Bourne to undertake the research upon which this whitepaper is based. As a global leader empowering technology teams to deliver their services more efficiently, ConnectWise felt it important to help their partners explore and identify trends in technology, the increasing impact of customer demand, the changing landscape of MSPs, and most importantly, how to overcome challenges that arise on this journey.

A total of 150 decision makers at managed service providers (MSPs), with a focus on IT-MSPs, were interviewed during January and February 2018. All respondents came from organisations in the UK and Australia, with no restrictions on the number of employees that they had. These respondents will be referred to as *non-peer-group respondents*.

Concurrently, ConnectWise collected 31 interviews from respondents working at managed service providers that are members of an industry peer group designed to improve business practices for MSPs. These respondents will be referred to as *peer-group respondents*.

Distribution between peer-group and non-peer-group
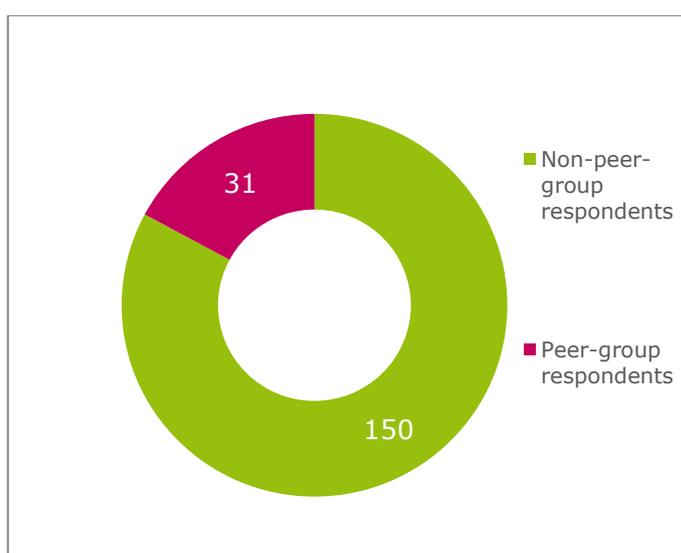
Figure 1: *Analysis showing the distribution between peer-group and non-peer-group respondents*

The research aimed to identify, assess, and investigate the following:

- The *current* landscape of the managed service industry in the UK and Australia – pricing structures, what services are being offered, which services are the most profitable

- Challenges of offering managed services, including the balancing act between a technology and/or customer focus

- Customer demand for managed services and how this is impacting the industry

- The *changing* landscape of managed services and how organisations are moving with the times

- Comparing peer-group and non-peer-group responses to identify how organisations can improve and position themselves among the market leaders

About Peer Groups

Peer groups in the MSP space tend to specialise in helping small businesses who are committed to building up their MSP practice. Group members will receive formal insight and business frameworks from the peer-group organiser as well as obtain counsel and advice from each other. Members also tend to hold each other accountable to their commitments and goals from one peer-group meeting to the next.

The track record is positive for peer groups. As this report will show, these MSPs are proving more successful throughout the process of offering managed services, which is ultimately having a positive impact on the bottom line.

Top Findings

Non-peer-group MSPs are offering an average of **5 different services to customers** – compared to the **14** offered, on average, by peer-group MSPs.

The majority of peer and non-peer MSPs are planning on rolling out new services in the next 12 months.

The service alone is no longer enough – most now offer 'support services' although peer-group MSPs lead the way here.

Demand is rising – over half (53%) of non-peer-group MSPs have seen it increase over the past 12 months.

This increase in demand is proving too much for some, and **corners are being cut** in order to keep up.

The majority of peer-group (58%) and non-peer-group (57%) MSPs now **find it harder to meet customer needs.**

The threat landscape, competitive pricing, finding new customers, and innovating are all challenges suffered by non-peer-group MSPs.

Peer-group MSPs aren't immune to the challenges – perhaps just better at overcoming them.

Most (87%) of these non-peer-group respondents worry that their organisation **will miss out** on the emerging billion-dollar industry of managed services.

Customer experience is being overlooked by non-peer-group MSPs. Only half (50%) measure their success by it and only 53% are prioritising its improvement over the next 3 years.

The Rise of Managed Services

Managed services as an industry is undeniably going through a period of exponential growth, and this is showing no signs of slowing down in the coming months and years. Only a few years ago, a business would look after all aspects of their operations internally, whereas nowadays they can outsource almost any service that they want or need to, including cloud, security, and networking services.

To demonstrate this, two thirds (67%) of surveyed decision makers at non-peer-group managed service providers (MSPs) in the UK and Australia report that their organisation offers managed cloud services such as SaaS, IaaS, and PaaS. Furthermore, more than half of respondents' organisations offer server support (56%) and/or security services (53%), while around four in ten offer network connectivity (41%) and/or data storage, back-up, and recovery (38%).

Managed services provided to business customers

Non-peer-group respondents
Peer-group respondents

Figure 2: "Which of the following managed services does your organisation provide to business customers?" *asked to all non-peer-group respondents (150) and all peer-group respondents (31), only showing selected services*

A wide range of services are clearly available to any organisation wishing to use them, with surveyed non-peer-group MSPs offering five different managed services to their business customers, on average.

However, this level of managed service offering pales in comparison to peer-group respondents, who report their organisation offers 14 different managed services, on average. Services like server support/management, remote monitoring, endpoint support/troubleshooting, and updating/patching are offered by all peer-group MSPs.

Furthermore, nearly a third of peer-group MSPs are not planning to roll out any additional new services over the next 12 months, indicating that these MSPs are happy with their current service portfolio and do not feel the need to expand their offering.

But it does not stop there. More than nine in ten (92%) non-peer-group respondents indicate that their organisation is planning to introduce additional services over the next 12 months, with each organisation planning to add two new services, on average. But what new services are of interest to respondents' organisations?

The desire to expand the services offered could be internally driven; non-peer-group organisations know they need to do more. But there are also pressures from external sources, such as from customers, with over half (53%) of non-peer-group respondents asserting that customer demand for managed services has risen over the past 12 months. Specifically, approaching half cite security services (46%), cloud services (45%), and/or cloud service monitoring (45%) as being among the top three services most in demand by their organisation's customers. While cloud services and security services are already widely offered by non-peer-group MSPs, fewer than one in five (18%) currently offer cloud service monitoring.

Whether driven by increased competition, customer demand, or the potential for profit, the race to the top of the MSP sector is underway. MSPs will have to develop, innovate, and adapt to ever-changing technological and business conditions as fast as they can if they want to keep up.
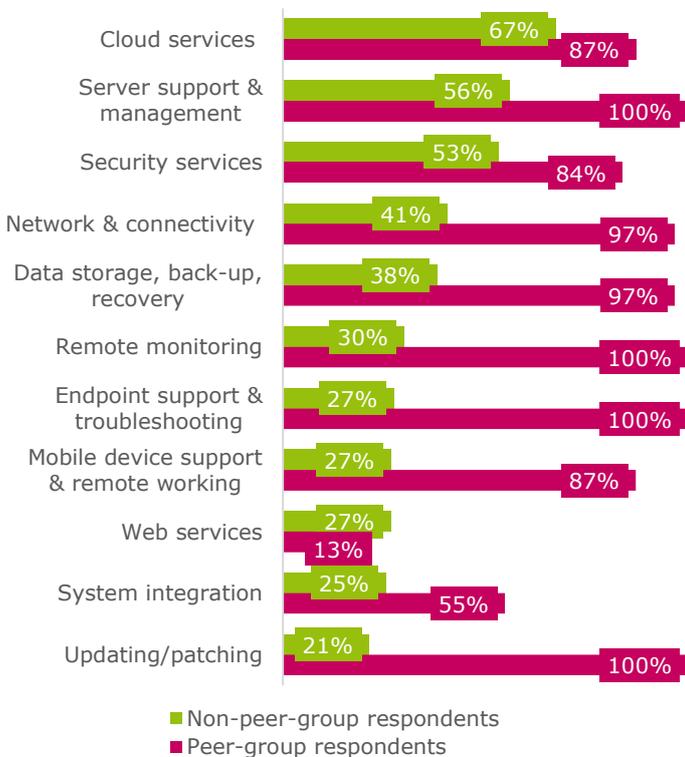
The Challenges Holding Back MSPs Today

While the race to the top is becoming more intense, it is worth mentioning that where there are winners, inevitably there will be losers – and some non-peer-group MSPs will likely fall by the wayside if they cannot overcome the multitude of challenges that they are facing and will continue to face in future. Managed services is a billion dollar industry, and the majority (87%) of non-peer-group respondents feel that their organisation is at risk of missing out.

This risk is well founded, given the clear difference in services offered between the market leaders (peer-group members) and the rest. Maybe these non-peer-group organisations are unable to keep up with the market leaders.

In fact, more than four in ten (43%) non-peer-group respondents concede that their organisation is taking shortcuts to keep up with customer demand. These organisations will need to be incredibly careful. Many non-peer-group MSPs are being forced to adopt a very short-term mentality, which seemingly allows them to keep up with customer demand and their competitors, but in reality, they might just be papering over the cracks. These respondents are admitting that their organisations are effectively houses built on sand – and how many more are doing the same without even realising?
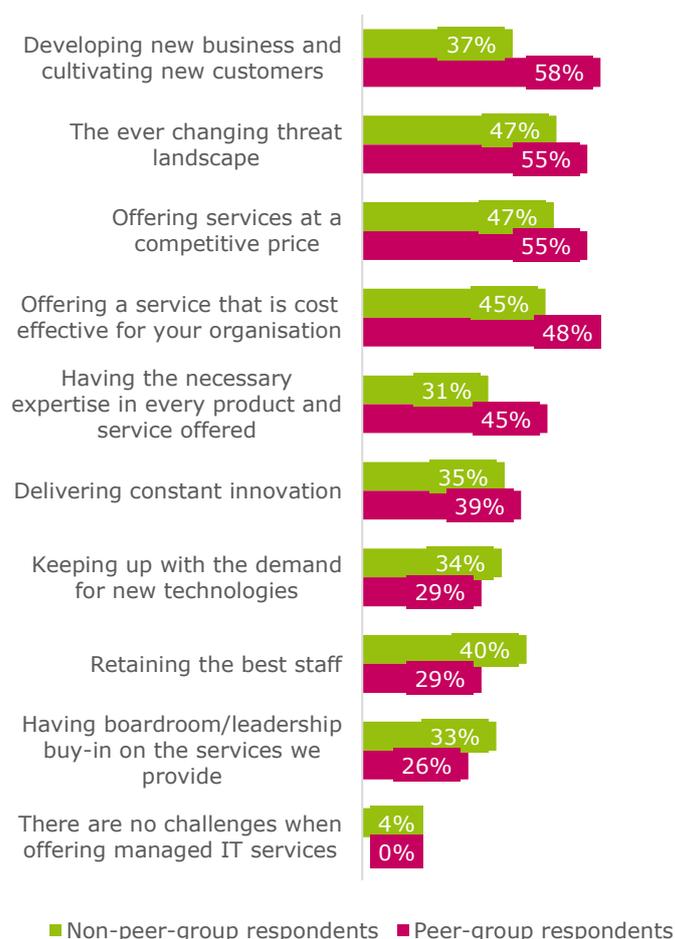
The challenges do not stop with increases in customer demand though – that would be too simple. The majority (96%) of non-peer-group respondents admit that their organisation is encountering challenges on a regular basis when offering managed services. Among these challenges are the ever-changing threat landscape (47%), offering services at a competitive price (47%), and/or offering a service that is cost effective for their organisation (45%).

Being a member of a peer group doesn't make an organisation impervious to challenges. Many are encountering these daily when offering managed services for business customers, in fact all peer-group respondents report that this is the case. Developing new business and cultivating new customers (58%), the ever-changing threat landscape (55%), and/or offering services at a competitive price (55%) are challenges encountered by over half of peer-group respondents' organisations.

So not only do the themes of competition and profitability come up again, this time as challenges, non-peer-group MSPs are also trying combat a threat landscape which is highly versatile and extremely dangerous. All very familiar to anyone operating in the technology industry.

And as if that is not enough, 37% of non-peer-group respondents cite developing new business and cultivating new customers as a challenge, while slightly fewer (35%) are challenged by delivering constant innovation.

Regularly occurring challenges when offering managed services

Challenge	Non-peer-group	Peer-group
Developing new business and cultivating new customers	37%	58%
The ever changing threat landscape	47%	55%
Offering services at a competitive price	47%	55%
Offering a service that is cost effective for your organisation	45%	48%
Having the necessary expertise in every product and service offered	31%	45%
Delivering constant innovation	35%	39%
Keeping up with the demand for new technologies	34%	29%
Retaining the best staff	40%	29%
Having boardroom/leadership buy-in on the services we provide	33%	26%
There are no challenges when offering managed IT services	4%	0%

■ Non-peer-group respondents ■ Peer-group respondents

Figure 3: "What challenges does your organisation encounter on a regular basis when offering managed services?" *asked to all non-peer-group respondents (150) and all peer-group respondents (31)*

While the variety of challenges does not paint an overly pretty picture for non-peer-group MSPs, the situation has the potential to get far worse as new services are rolled out to expand their offering. If this was not obvious already, making well-informed, long-term decisions becomes even more paramount in an MSP's quest to remain not only competitive, but afloat.

To emphasise this, nearly all (95%) non-peer-group respondents' organisations are attempting to expand the services that they currently offer, but most (83%) are finding roadblocks impeding their progress. As a result, all non-peer-group respondents feel their organisation will have to act in order to successfully expand the services they offer, but will investing in tools, automation, or talent, be enough?

Challenges when trying to expand services offered to customers

■ Non-peer-group respondents ■ Peer-group respondents

Figure 4: "What challenges has your organisation seen when trying to expand the services that it offers to customers?" *asked to all non-peer-group respondents (150) and peer-group respondents (31)*

While over four in ten (42%) non-peer-group respondents' organisations find it difficult to offer the right solutions to clients, only a third (33%) feel that they need to strengthen client relationships. This implies that there is a lack of understanding among non-peer-group MSPs over what clients require from their IT services. The genesis of this understanding gap may come from how MSPs interact with their customers.

Despite peer-group respondents displaying a better understanding of their organisation's interaction with customers, over half (55%) of these respondents still feel that offering the right solutions to customers is difficult. However, this challenge may be less impactful when your organisation is offering 14 different services – chances are that customers can find what they are looking for among the other services and solutions. Therefore, the MSPs offering a very niche/focused service offering of one or two services could be particularly impacted by this challenge.

All organisations that work with technology face challenges, that is to be expected in such a fast-moving environment. But it seems that many non-peer-group MSPs also struggle with more traditional business challenges like communicating with and understanding customers. For decades, businesses have endeavoured to surmount these difficulties, but are they now throwing away all that has been learned in these areas for the sake of keeping up with technology?

It is smaller non-peer-group MSPs (fewer than 50 employees) who are more likely (51%) to be struggling to offer the right solutions to customers, compared to only 21% of non-peer-group MSPs with 250 or more employees. If there is a balance to be struck between assigning resources to new challenges (the pace of technological change) verses old challenges (customer relationships), those with the least resources are going to struggle the most.

A practical and sustainable solution is needed to the challenges involved in providing managed services. Thinking of an MSP that you work with/for – could the answer to some of the challenges that it faces be found by changing the company culture and adopting a more customer focused approach? Is your MSP listening to its customers enough?

Ignoring Customer Focus at Your Peril

One thing that has been witnessed so far is just how hard MSPs are working to keep afloat. Understandably, given the nature of the industry, this can also lead to these organisations having a very heavy technology focus. Many build their entire business model around tech in the desire to enable themselves to offer customers more/faster/better.

But non-peer-group MSPs are in danger of falling down a technology rabbit hole; becoming too wrapped up in the service itself and ignoring how their services interact with customers. For instance, non-peer-group respondents tell us that, on average, seven out of ten employees in their organisation work in an IT/technology role, compared to only one in ten in sales, and one in ten in marketing - two functions with traditionally more of a customer focus. Perhaps, for some non-peer-group MSPs this customer focus is lost as they engage in a technology arms race.

The lack of customer focus could run deeper than simply the make-up of the workforce. Only 7% of non-peer-group respondents' organisations see customer experience as the most important measure of the success of a managed service. In fact, half (50%) don't measure success by it, with a quarter (25%) not even measuring it at all. The question remains, how can a business truly know if a service that they offer is successful or not if they don't know what customers think of it? Non-peer-group MSPs are still measuring success, but by profitability (89%) or service reliability (86%).

Half (50%) of non-peer-group MSPs do not measure the success of a service by customer experience, in fact, a quarter (25%) don't measure customer experience at all

Respondents from peer-group MSPs indicate that their organisation is taking another approach to measuring success. Nearly all (96%) peer-group respondents' organisations measure success via customer experience, with over a third (35%) viewing it as the most important measure. However, more (42%) peer-group respondents still see profitability as the most important measure. Peer-group MSPs are better at using customer experience as a measure of success, but there is still a desire to fall back on profitability.

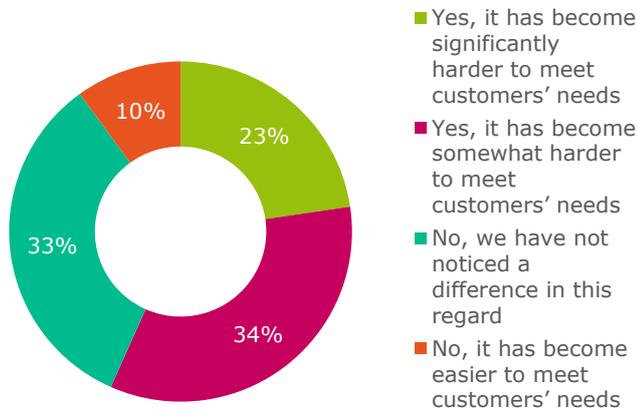## Measuring success by profitability and/or customer experience
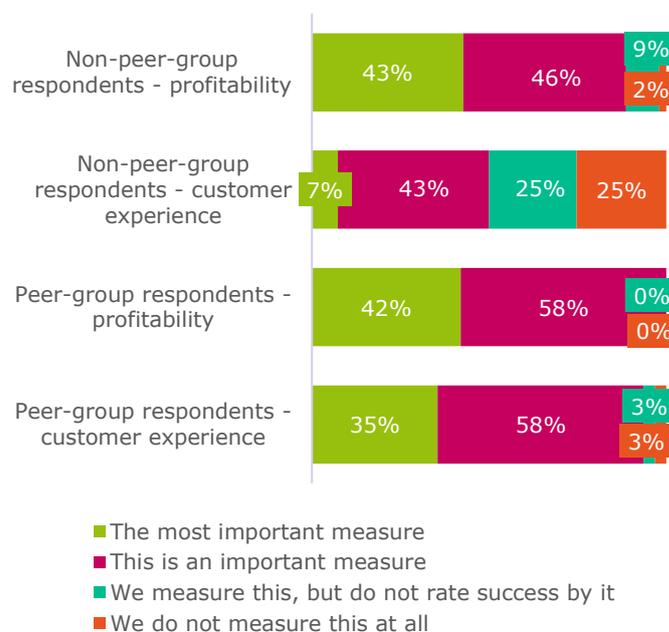
Figure 5: *Analysis showing the attitudes of peer-group and non-peer-group respondents when it comes to using profitability and customer experience as measures of the success of managed services in their organisation. Asked to all non-peer-group (150) and all peer-group (31) respondents*

Clearly, the focus is on the end result but, for some, it comes at the expense of the customer journey. In 2018, just reaching your destination no longer means that the journey was successful – people expect frictionless transfers between the different aspects of the journey and are not afraid to complain when this expectation is not met.

This lack of customer focus is having a direct impact on customer satisfaction. Over half (57%) of non-peer-group respondents report that it has become harder for their organisation to meet the needs of their customers over the last 12 months, compared to only one in ten (10%) who feel that it has become easier. It is unlikely that customer will be satisfied if their needs are not being met. Furthermore, it is unlikely that they will remain a customer at all.

If this is the case, smaller non-peer-group MSPs (fewer than 50 employees), of whom 82% are finding it harder to meet customer needs, face the sternest challenge to retain customers moving forward.

Meeting customer needs overs the past 12 months

Legend:
- Yes, it has become significantly harder to meet customers' needs
- Yes, it has become somewhat harder to meet customers' needs
- No, we have not noticed a difference in this regard
- No, it has become easier to meet customers' needs

Figure 6: "Has it become harder for your organisation to meet the needs of its customers when providing managed services over the past 12 months?" *asked to all non-peer-group respondents (150)*

Interestingly 58% of peer-group respondents are finding it harder to meet customer needs over the past 12 months, a very similar percentage to the non-peer-group responses. Despite being ahead when it comes to the size and variety of the services that they offer, there can still be a struggle to meet customers' needs.

But that is if they are customers in the first place, as over eight in ten (84%) peer-group respondents' organisations struggle to market and sell to new customers when trying to expand the services that they offer, indicating a breakdown at the very beginning of the customer journey. These peer-group MSPs are offering a lot more services to customers than non-peer-group MSPs, but if they cannot communicate that to potential customers then it will all be for nothing.

Improving customer experience should be a priority for all organisations, but this is the case for only just over half (53%) of non-peer-group MSPs

So, we must assume that MSPs are doing everything that they can to rectify this oversight. But it seems that we would be wrong – only around half (53%) of non-peer-group respondents report that improving customer experience is a priority for their organisation over the next three years. Organisations need to wake up. Customer experience is still taking a backseat to increasing

revenue growth (79% of non-peer-group respondents report this as a priority), but there will be no revenue growth if customer experience remains a problem.

Priorities over the next three years
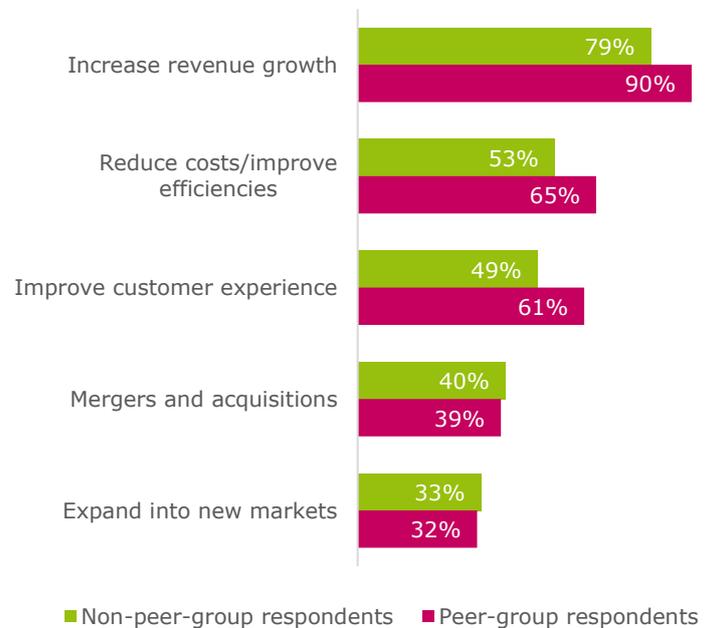
Figure 7: "Which of the following are priorities for your organisation over the next three years?" *asked to non-peer-group respondents (150) and peer-group respondents (31)*

It is the smaller non-peer-group MSPs (fewer than 50 employees) who are least likely (35%) to prioritise customer experience. These organisations are more likely to be looking at increasing revenue growth (80%) and reducing costs (49%) – they are simply trying to survive. Similarly, these smaller non-peer-group MSPs are also the least likely to measure success via customer experience, a staggering 67% do not do this, compared to 24% of the larger (250 or more employees) non-peer-group MSPs. But can any MSP afford to ignore customer experience in 2018?

Peer-group MSPs are more likely to prioritise increasing revenue growth (90% vs. 79%), reducing costs/improving efficiencies (65% vs. 49%), and improving customer experience (61% vs. 53%). Peer-group MSPs appear to have set themselves a higher bar for achievement over the next three years – perhaps this is driving their success?

Conclusion – Where Does This Leave MSPs as They Look Ahead into 2018 and Beyond?

The managed services marketplace is a competitive arena, with MSPs competing to offer the most/best services, attract and retain customers, and offer the next big technology before anyone else. But this is leading to a one-track approach. MSPs are becoming fixated on the bottom line of revenue and profitability at the expense of customer experience and journey.

However, in any buyers' market, if you ignore customer experience, customers will ignore you in return. And improving customer experience is easier said than done, with customers demanding more (technology, security, speed, reliability, contact) for less. Therefore, if MSPs can mitigate some of the day-to-day challenges they are encountering and take some of the pressure off of the service delivery process, then perhaps they can start to think about customer experience.

Customer experience cannot be ignored in a buyers' market – and managed service provision is very much a buyers' market

It certainly appears that one trend among MSPs today is to offer more services; more cloud, security, networking, and support. While this all sounds good in theory, in practice it might be leaving some MSPs spread too thin. It would take a brave business to go against the overall flow of their industry, but perhaps there is scope for an MSP to trim down the number of services that they offer but offer them at a much higher level. It could be a case of 'less is more', with MSPs specialising in cloud or security services.

With the evolution of advanced technology, and the subsequent arms race to offer solutions and support for them from MSPs, one thing becomes clear. Regardless of whether MSPs choose to provide a wide variety of services, a more specialised offering, a more customer focused approach, or something entirely different, it is the support of technology partnerships that can make or break their success.

ConnectWise believe that technology is at the heart of every organisation, and are driven to make it simple for partners to build resilient businesses by providing the right tools and resources for technology teams to deliver consistently positive services to their clients. They operate an award-winning business automation platform which stands at the centre a comprehensive ecosystem of integrated solutions, best practices, and a community dedicated to everyone's success. By using the ConnectWise business automation platform, businesses have been able to achieve higher levels of scalability, profitability, and simplicity – ultimately allowing them to be agile in an ever-changing technology and business landscape.

Collaboration with the right partner can empower and encourage MSPs make the most of a billion-dollar industry in a state of high growth.