

From Break/Fix to Recurring Revenue: The New MSP Landscape



INDUSTRY BRIEF

Introduction

In many ways, managed service providers (MSPs) have always been at the forefront of changing technology.

They've needed to quickly adapt to the changing needs of their clients, suggesting and implementing a steady stream of new solutions. Now, the rise of cloud technology is bringing a new type of change, one that places unprecedented demands on the systems, processes, and expertise of MSPs around the globe.

Today managed services with recurring revenue are the coveted income source for modern MSPs. Break/fix services are yesterday's business model, but how can your MSP business successfully grow its managed services revenue in the face of massive technology shifts, increasing competition, and changing customer expectations and needs?

This industry brief highlights the industry and technology trends impacting MSPs now and in the future. It highlights ways for MSPs to take advantage of the cloud to create new revenue streams, address customer needs, and grow recurring revenue for greater profitability and less volatility.

WHAT MATTERS MOST TO CLIENTS

MSPs say that it's not price that matters to their clients. Instead, respondents in a survey said customers value quality above all. In the second spot was the personal touch and working relationship the MSP provides. The MSP's role as a trusted adviser was third most important.

Source: Autotask, "2015 Managed Services Market Study," 2015.



That was then, this is now

Many MSPs launched their business during the on-premise hardware era, offering break/fix services for equipment and software at the customer's location. When colocation became the next big thing, MSPs shifted to supporting the customer's infrastructure offsite. Large MSPs entered into major contracts with their customers to manage all or part of the IT infrastructure, both onsite at the customer and offsite.

Then along came cloud computing, which brought on-demand resources (with no capital expenditures) to the world, spawning a plethora of "as-a-service" acronyms such as software-as-a-service, infrastructure-as-a-service, platform-as-a-service, security-as-a-service, and more. The cloud and all the technology advances it's enabled has made it easier for businesses to take advantage of computing power and storage while someone else manages the infrastructure.



Breaking away from the break/fix

While traditional MSP offerings are becoming obsolete, more than three-quarters of MSPs still offer break/fix services—even though only 16 percent of their revenue comes from this category¹. Declining profits from product and service revenues add to the challenge of how to grow the MSP business.

That's why the modern MSP is shifting from a reactive and unpredictable break/fix service model to a proactive, fixed-rate subscription model. Compared to break/fix services, managed services with recurring revenue give MSPs more control over workloads and staff scheduling as well as more predictable income. Yet despite being the largest revenue category, only 35 percent of MSP revenue comes from managed services.²

Cloud computing levels the playing field

IDC reports that almost 80 percent of businesses are deploying or have embraced the cloud.³ It turns out that cloud computing has become the great enabler for both businesses and MSPs. While businesses benefit from the scalability, agility, productivity, and cost benefits of cloud services, the cloud also enables smaller MSPs to now compete with larger, traditional IT outsourcing companies such as IBM and Accenture.

Yet, not all MSPs have embraced cloud services. CompTIA's *Fifth Annual Trends in Managed Services* report shows that only 54 percent of MSPs offer cloud-based solutions and services as a strategic part of their business. Another 44 percent only support cloud services when requested by a customer.

DOUBLE-DIGIT GROWTH PROJECTED

The managed services market is estimated to grow from \$145.33 billion in 2016 to \$242.45 billion by 2021 at a compound annual growth rate of 10.8 percent.

Source: MarketsandMarkets, "Managed Services Market by Data Center (Hosting, Colocation, and Storage), Infrastructure (Print Services, Desktop, Inventory), Networking (Remote Monitoring, MPLS, VPNS), Information, Mobility, Communications, and Security - Global Forecast to 2021," September 2016.



Carolyn April, senior director of industry analysis at CompTIA, believes that many companies are missing out on big opportunities to be “cloud orchestrators” for their customers. “Just as they remotely managed on-premise devices and applications, they can manage what a customer has in the cloud,” says April. “It’s a natural spot for an MSP.”⁴

Go where the demand is

With thousands of cloud services and applications on the market, which categories should an MSP be considering? A study by IT management software firm Autotask shows that the top revenue drivers for MSPs when it comes to cloud services are: backup and recovery, security, and office productivity.⁵



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- › **Backup and recovery:** Cloud-based backup and recovery provide an agile, secure, cost-effective, and reliable solution for protecting business information. And with every business today needing to protect data and maintain business continuity, cloud backup and recovery services offer MSPs significant revenue and profitability opportunities. In fact, according to a survey by cloud backup and recovery provider Asigra, 67 percent of profitable MSPs offer cloud backup as a bundled, leading or trailing complementary service, boosting monthly recurring revenue and increasing customer retention and wallet share.⁶
- › **Security:** Cybercrime is pervasive, with a potentially devastating impact on any business. Protecting businesses, their intellectual property, customer information, and more has become an incredibly complex task. With security budgets for all sizes of businesses increasing according to information security company SANS Institute, managed security services are a growing and lucrative opportunity for MSPs.
- › **Office productivity:** Both users and IT staff understand the benefits of office productivity apps in the cloud—including greater mobility and ease of collaboration as well as eliminating the IT burden of upgrading and maintaining software on individual user devices. The two leading cloud productivity suites—Google G Suite (formerly Google Apps for Work) and Microsoft Office 365—are relied on by 5 million and 60 million customers, respectively. In turn, Microsoft and Google both rely on partners such as MSPs to help continue growing their user base.

CLOUD ADOPTION SOARS

According to industry research firm IDC, worldwide spending on public cloud services will grow at a 19.4 percent compound annual growth rate (CAGR)—almost six times the rate of overall IT spending growth—from nearly \$70 billion in 2015 to more than \$141 billion in 2019.

Software-as-a-service will remain the dominant cloud computing type, capturing more than two thirds of all public cloud spending through most of the forecast period.

Source: “Worldwide Semiannual Public Cloud Services Spending Guide,” IDC, January 2016.

¹ Kaseya, “2016 Global MSP Pricing Survey,” January 2016.

² Ibid.

³ IDC CloudView 2016 Survey, 2016, n=11083.

⁴ CompTIA, “New CompTIA study of managed IT services market reveals contradictions,” June 29, 2016.



The right cloud services platform

If offering managed cloud services are a no-brainer for today's MSPs, why don't more of them do so? For many, it's the hurdles of how to automate the onboarding, marketing, selling, and supporting of cloud services.

Turning to a proven platform for cloud services commerce and delivery lets MSPs go to market with new services in a matter of weeks. The right platform should power every aspect of cloud service commerce, from sales and management, to billing and distribution.

AppDirect's advanced platform can help MSPs add cloud services to their portfolios quickly and cost-effectively. The AppDirect platform automates critical backend functions—such as billing, provisioning, and activation—saving time and money while improving the customer experience. With AppDirect, MSPs can select and sell from a leading catalog of more than 270 pre-integrated business solutions including Microsoft Office 365, Symantec, Box, Google G Suite, and many more.



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⁵ Autotask, "2015 Managed Services Market Study," 2015.

⁶ Asigra, "Cloud Backup Market Landscape Survey," June 2016.

ABOUT APPDIRECT

AppDirect is the cloud service commerce leader, making software and products accessible globally. The AppDirect cloud service commerce platform unites providers, developers, and consumers of cloud services into a single ecosystem. This makes it easy for businesses to find, buy, manage, and monitor cloud services from a central location and delivers new opportunities to distribute, sell, and market cloud services. AppDirect-powered marketplaces, billing and distribution, and reselling services help providers connect millions of businesses to solutions from Microsoft, Google, Box and more.

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