



WHITE PAPER

# The Future of the MSP Market: Can Existing MSPs Make Money in the Cloud?



# The Future of the MSP Market: Can Existing MSPs Make Money in the Cloud?

## Introduction

In general, the news is good for managed service providers (MSPs). MSPs are capturing an increasing share of global IT spend according to consulting and market research firm AMI-Partners.

By 2021, the firm forecasts that MSPs will represent 24 percent of the \$4 trillion that companies worldwide will spend on IT products and services. At the same time, the research firm expects the number of MSPs worldwide to grow by more than 42 percent—from 52,000 to 74,000.<sup>1</sup> That's a formidable increase in both market size and competition.

It should come as no surprise that a major driver for this growth is the explosion in cloud offerings. Research firm Research and Markets states that cloud-based technology is the fastest-growing deployment type in the managed services market and is expected to grow at the highest compound annual growth rate (CAGR) between 2017 and 2022.<sup>2</sup>

However, many MSPs are not yet in a position to reap the rewards of the growing market. As the number of new, born-in-the-cloud MSPs continues to expand, existing MSPs with traditional business models must ask themselves two questions: How can we make the leap to the cloud and more important, how can we profit from the cloud to sustain and grow our business?

Given the right strategy, MSPs coming from a traditional, on-premises model can indeed make the shift and make money in the cloud. These companies can not only transform their business model to quickly catch up to the MSPs on the leading edge, but seize the opportunity to expand the business with new revenue streams.

## DISCUSSION AREAS

- › Moving Away from the Traditional Fee-for-Service Model
- › Becoming the Cloud Advisor for Your Customers
- › Making a Bundle with Bundles
- › Completing Your Cloud Transformation
- › Jump Starting the Cloud Journey

<sup>1</sup> "WW Managed Service Providers: Market Opportunity and Landscape," AMI-Partners, 2017.

<sup>2</sup> "Managed Services Market by Service Type (Managed Security Services, Managed Network Services, Managed Data Center Services), Deployment Type, Organization Size, Vertical, and Region — Global Forecast to 2022," Research and Markets, August 2017.



Read on for insights into the trends impacting the MSP industry and the go-to-market cloud strategy used by successful MSPs to grow both margin and revenue.

## Moving Away from the Traditional Fee-for-Service Model

On the cusp of the 20-year mark for the MSP industry, the traditional, fee-for-service business model is undergoing dramatic changes. 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 at offsite locations.

Now, with the widespread availability and adoption of cloud-based services, the break/fix and fee-for-service model for on-premise or collocated software and hardware will no longer be a viable option as a primary source for revenue. Collecting significant fees and margins for setting up and maintaining servers, such as ones running local Microsoft Exchange instances, is a rapidly dwindling proposition.

Instead, recurring revenue from software and service subscriptions is now a coveted income source for today's MSPs. 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 over time.

Even though software-as-a-service (SaaS) eliminates the need for hardware and server maintenance, MSPs can provide the value-add of expertise, planning, setup, configuration, migration, and management to customers utilizing SaaS applications. In fact, new cloud-based business models are helping the MSP industry grow at a CAGR of 11.1 percent to \$257.84 billion by 2022, according to a Research and Markets forecast.<sup>3</sup> These new services and business models are squarely aimed at small and medium-sized businesses (SMBs), with more than 75 percent of an MSP's revenue coming from the SMB space.<sup>4</sup>

*"A successful MSP should have the following: \$5 million in recurring revenue, double-digit growth (ideally at 20 percent, net of churn) and the capacity to grow and expand outside of traditional markets and personal networks."*

MICHAEL GEORGE, "CEO FORUM: 2017 IS THE YEAR OF THE ACQUISITION IN THE MANAGED SERVICES MARKET," CHANNELFUTURES, APRIL 18, 2017



<sup>3</sup> "Managed Services Market by Service Type (Managed Security Services, Managed Network Services, Managed Data Center Services), Deployment Type, Organization Size, Vertical, and Region — Global Forecast to 2022," Research and Markets, August 2017.

<sup>4</sup> "WW Managed Service Providers: Market Opportunity and Landscape," AMI-Partners, 2017.



## Becoming the Cloud Advisor for Your Customers

Simply hanging out a cloud-business sign doesn't guarantee success for any MSP. It requires a commitment to transforming the business, and above all, the right go-to-market strategy and execution.

In today's cloud landscape, MSPs essentially have two ways to succeed in creating sustainable, recurring revenue streams: Either sell very high volumes of SaaS subscriptions, or create and sell business bundles that include SaaS subscriptions complemented by high-value, high-margin services.

While a limited number of large MSPs are focused on volume subscription sales, many more are taking the value-added-bundle approach to reach the magic number of 20 percent margin, according to Van Murray, chief executive officer at NeoCloud, a services provider in Raleigh, North Carolina. An industry survey confirms this trend: of those MSPs that don't currently offer software-and-service bundles, 63 percent plan to launch such an offering within 12 months.<sup>5</sup>

Serial entrepreneur Crisantos Hajibrahim, currently product evangelist at Vonage and previously founder of gUnify (acquired by Vonage) and founder of ViWo (acquired by New Media Investment Group), explains that bundles help small businesses solve their biggest challenges in a more turnkey, business-friendly way. "You have to think like a business owner. They are overwhelmed and confused with all the decisions about network, phone system, productivity software, customer relationship management, and more. They need the right MSP to guide them in selecting, deploying, and using the right applications for their business."

## Making a Bundle with Bundles

Why should your customers buy cloud-based applications and services from you? It's because of the value-add your business provides in the form of managed services and bundled solutions that make it easier for customers to achieve their goals.

*"MSPs need to become the general practitioner (GP) of technology for their business customer. As the GP, the MSP is responsible for everything concerning the health and well-being of the customer's technology, and calls in specialists when needed to provide additional expertise. Like a GP, the MSP forms the close relationship with the client and is the overall advisor on technology."*

CRISANTOS HAJIBRAHIM, PRODUCT EVANGELIST AT VONAGE



WHITE PAPER

<sup>5</sup> "A New World Order: How MSPs are Trying to Survive and Thrive in a Cloud-First World," Sonian, February 2017.



When you bundle software and services, you create a turnkey solution that solves problems customers either can't or don't want to handle on their own. And for this convenience and lower risk and effort, they are willing to pay higher prices to get what their businesses need without the hassle of doing it themselves. In a Microsoft-commissioned study, 451 Research reports that 89 percent of organizations are willing to pay a premium for cloud implementation and management services.<sup>6</sup>

Plus offering support services such as technical support, onboarding, and migration makes the customer “stickier” as solution adoption and customer satisfaction increases. AppDirect research shows that partners that deliver a streamlined onboarding experience within four business days after purchase see up to four times greater adoption of services than those who do not, along with a 50 percent drop in future support calls.

Choosing the right bundles of software and services is critical. Your offers are what will attract and retain customers, and demonstrate your understanding of your customers' pain points and objectives. Your bundles should be designed to address customer needs in your company's areas of expertise (security or compliance, or horizontal business applications such as enterprise resource planning systems (ERP), for example) and industry focus (manufacturing, healthcare specialties, and so on).

While creating the right bundles requires in-depth research and analysis of your target market, here are some examples of core business services to keep in mind when defining your offering:

- > Internet services and web hosting
- > Hosted voice communications/business phone services
- > Productivity/collaboration solutions such as Microsoft Office 365 and Google G Suite
- > File storage and sharing
- > Business solutions such as QuickBooks, ERP systems, and customer relationship management (CRM) solutions
- > Security assessments and solutions
- > Disaster recovery/business continuity
- > Services such as deployment, 24/7 support, onboarding, migration, and integrations

### CUSTOMERS WANT BUNDLES

IT and cloud decision makers in North America and Europe state that their companies will purchase more managed/bundled services in the future for operational management, security, disaster recovery, back up, and more:

- > 64 percent managed/bundled
- > 36 percent unmanaged

**SOURCE:** “ORGANIZATIONAL DYNAMICS: HOSTING & CLOUD MANAGED SERVICES,” 451 RESEARCH, 2017.



<sup>6</sup> “Digital Transformation Opportunity for Service Providers: Beyond Infrastructure,” 451 Research, 2017.



## Completing Your Cloud Transformation

Obviously creating and offering bundles is only one, albeit extremely important, component of shifting your business model to the cloud. As you transform your business, your company will likely face other daunting challenges, including everything from lack of cloud skills to consolidated billing for your customers.

That's why your go-to-market strategy also needs to address areas such as the following:

- > **Cloud expertise:** Getting your staff trained and certified on multiple clouds such as Amazon, Google, and Microsoft will help build credibility and trust with your customers and enable you to offer expert services in the cloud.
- > **Support for SaaS apps:** Helping your customers get the most out of their business applications is the value-add that will set your business apart. However, supporting all of the various SaaS apps that you offer can be overwhelming for your current operations. Consider white-label options for delivering 24/7 technical support as well as services such as deployment, migration, and training.
- > **Online marketing:** The advent of cloud and SaaS solutions has also shifted much of the buyer's journey from face-to-face to online. A digital marketplace helps you not only attract new customers, but sell additional products and services to your existing customer base, lowering the cost of sales and increasing your margins.
- > **Solution selling:** Selling cloud and service subscriptions requires different sales skills and knowledge. Invest in training for your sales teams to help them understand how to position and sell your bundled offerings.
- > **Billing:** Offering cloud services and applications to your customer base means partnering with various cloud providers as well as potentially dozens of independent software vendors. Assess the impact on your backend systems that support customer billing and automate/integrate as much of the provisioning and billing processes as possible to provide a streamlined and efficient experience for your customers.

Transforming your business to take advantage of the cloud market will touch nearly every aspect of your company. But it doesn't have to be a sink-or-swim ordeal, not when you work with a partner who has solved many of the challenges already.

### THINK MULTI-CLOUD

62 percent of organizations will use more than a single cloud solution.

**SOURCE:** "ORGANIZATIONAL DYNAMICS: HOSTING & CLOUD MANAGED SERVICES," 451 RESEARCH, 2017.





### MICROSOFT'S PRODUCTIVITY SUITE IS A SWEET SPOT FOR MSPS

In a 2017 survey, Microsoft Office 365 was cited as a substantial driver of business for MSPs. Of the respondents who offer Office 365 (nearly 68 percent), 61 percent are currently seeing moderate sales growth in the service, with 28 percent seeing substantial growth.

**SOURCE:** "A NEW WORLD ORDER: HOW MSPS ARE TRYING TO SURVIVE AND THRIVE IN A CLOUD-FIRST WORLD," SONIAN, FEBRUARY 2017



WHITE PAPER

## Jump Starting the Cloud Journey

Turning to an experienced partner in cloud services commerce and delivery helps MSPs go to market with new solutions and services in a matter of weeks. First, the right platform can power every aspect of your cloud service business, from sales and management, to billing and distribution. Second, white-label support and enablement services allow you to deliver customer service excellence without the time, cost, and effort to plan and implement your own in-house customer support for cloud applications.

The AppDirect platform automates critical backend functions—such as billing, provisioning, and activation—saving time and money while improving the customer experience. You can offer the one-stop shopping your customers are seeking without developing expensive, in-house solutions on your own or undertaking time-consuming, one-off integrations with each SaaS offering you choose to resell. Instead, you can select and sell from AppDirect's leading catalog of more than 250 apps including: Microsoft Office 365, Symantec, Box, Google G Suite, and many more.

AppDirect's end-to-end, white-label enablement services let you focus on your company's core strengths while quickly and effectively delivering the support your customer base seeks. Our services include: migrations, onboarding, training, and 24/7 technical support for cloud-based applications.



## Getting Started: It's Not Too Late

The future certainly looks bright for MSPs—if they can make the shift to cloud now before new competitors establish more of a foothold. AppDirect can help you create and execute your cloud services strategy and make the shift in record time from break-fix to recurring revenue for products and services.

To learn more about how AppDirect can help your business, visit:

**[www.appdirect.com/solutions/var-msp](http://www.appdirect.com/solutions/var-msp)**



WHITE PAPER

## ABOUT APPDIRECT

AppDirect is the leader in cloud service commerce making software 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, and manage 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—including Telstra, ADP, Vodafone, Deutsche Telekom, Cloud Foundry, Rackspace, and others—connect millions of businesses to solutions from Google, Box, DocuSign, Intel Security, and more.

For more information contact **[info@appdirect.com](mailto:info@appdirect.com)** or visit **[www.appdirect.com](http://www.appdirect.com)**.

650 California Street, 25th Floor  
San Francisco, CA 94108  
(877) 404-2777

Copyright © 2018 AppDirect Inc.