



WHITE PAPER

The Health of Managed Services

An Analysis of the 2018 Trends in Managed Services Report

Over the past several decades, businesses have grown increasingly reliant on information technology as a strategic part of their business. While some businesses rely on IT providers to offer service only when something breaks, many have recognized the importance of taking a more proactive approach with managed services.

The managed services model can benefit both the IT provider and their clients. IT providers get recurring revenue, predictability, and increased efficiency. Customers get proactive service, greater uptime, and longer shelf life from their systems and equipment.

However, this raises some questions. How is this managed services model performing in the market? If you're an IT provider, what do you compare to the industry at large? And what strategic changes should you consider making?

To answer this question, SolarWinds MSP partnered with the 2112 Group to collect data. We surveyed IT providers in both North America and Europe over the course of a year. The result was our *2018 Trends in Managed Services* reports. This eBook highlights some key takeaways from the study—and some strategic areas to focus on.

1. MANAGED SERVICES IS ALIVE AND KICKING

Let's answer the first question in unambiguous terms: The managed services model is strong. Businesses on both sides of the pond reported healthy margins for managed services. Businesses primarily identifying as MSPs (rather than being IT consultants or value-added resellers), saw even healthier numbers:

31.6%

Managed Services Margins for All Respondents (North America)

22.5%

Managed Services Margins for All Respondents (Europe)

43%

Managed Services Margins for MSPs (North America)

38%

Managed Services Margins for MSPs (Europe)

Additionally, only 25% of respondents in North America identified as “bona fide experts” at managed services, while only 41% claimed expertise in Europe.

Analysis: This is an excellent time to offer managed services.

Businesses see large margins from managed services. Yet these margins occur even when the businesses aren’t “experts” at managed services. Businesses can be successful without being advanced, meaning the barrier to entry isn’t too daunting.

However, IT providers should still look to specialize and improve their managed services practice. Self-identified MSPs earn higher margins. This could occur for two reasons. First, the recurring revenue model allows them to plan, use resources effectively, and systematize their sales process. Second, managed services can be more predictable than other models. This improves efficiency, allowing businesses to keep more revenue. Rather than spending time solving complicated, reactive break/fix issues, MSPs can automate routine services like patching or running daily backups using their RMM tool.

Bottom Line: Strike while the iron is hot. Whenever possible, try to move customers to a recurring managed services contract.

2. HOUSTON, WE HAVE A RETENTION PROBLEM

As mentioned before, few IT service providers consider themselves “bona fide experts.” While this means the barrier to entry is low, businesses take a hit on customer churn. Our data shows that IT businesses onboard new customers each month but lose almost as many.

4 New Customers Gained, 3 Lost Monthly (North America)

5 New Customers Gained, 4 Lost Monthly (Europe)



Analysis: This sounds like bad news, but it's an opportunity in disguise. If businesses reduce customer churn even slightly, it can make a major difference.

IT providers should consider doing the following:

- » **Focus on service quality.** This may mean automating basic services to reduce errors, hiring senior-level technicians to help newer techs, or buying technology to help you accomplish more and offer more services. If using multiple solutions to serve clients, consider consolidating onto one platform like SolarWinds® RMM or SolarWinds N-central®. These tools let you serve clients from a single pane of glass, which can help you reduce errors and provide more consistent service.
- » **Push for managed services contracts.** Beyond the income and margin benefits, managed services contracts can potentially help reduce churn. They give you time to build a relationship and demonstrate your value. If you do things right, this keeps customers loyal.
- » **Don't neglect the soft skills.** Customers expect a high level of service. Make sure you communicate regularly with customers and instill a culture of professionalism among your technicians.

Bottom Line: Acquiring customers costs time and money. It's frustrating to lose customers as fast as you bring them on board. IT providers should focus on keeping existing customers happy—even a small improvement could make a world of difference to the bottom line.

3. SALES, MARKETING, AND LEAD GENERATION

Retention is one side of the coin. Customer acquisition is the other. You can't neglect your sales and marketing efforts. Companies with specialized sales staff tend to perform better.

Smaller IT service providers (with less than \$500,000 USD in revenue) tend to not employ dedicated salespeople. (North America and Europe)

Providers with 3x the average number of salespeople—2 in North America and 4 in Europe on average—tend to see 25% growth per year. (North America and Europe)

Analysis:

IT service providers often hire technical staff early. However, those that hire dedicated sales and marketing staff tend to outperform those that don't.

When you hire more salespeople, you can focus on running your business or exploring new strategic initiatives. They can handle bringing in new business. If you're looking to hire, don't focus only on technical staff—sales staff are crucial for growth.

Additionally, you can't ignore marketing. Respondents had even fewer dedicated marketing people on staff. These employees get the word out about your business and bring in leads that salespeople can close. Every business needs marketing—you may want to have a specialist on staff who can handle it for your business.

Bottom Line: Hire more salespeople, and don't neglect marketing. If you're not sure where to start, SolarWinds MSP offers in-depth walkthroughs on sales and marketing at the MSP Institute. There's even a video dedicated to hiring, managing, and compensating salespeople.

4. LEAVING THE COMFORT ZONE

Many of our respondents have stayed in their comfort zone. Coming from pure IT management backgrounds, this isn't surprising. However, these businesses may miss out if they don't evolve. Here are some highlights:

For North America:

The top services offered were endpoint management (82%), network management (79%), and server management (76%).

57% offer managed security services.

Among security services and products, respondents offer:

- » Network security (79%)
- » Endpoint security (79%)
- » Application security (30%)
- » Security assessments (23%)
- » Security information and event management (23%)
- » Security operations center services (12%)

For Europe:

The top services offered were endpoint management (76%), network management (72%), and complete managed services (70%).

46% offer managed security services.

Among security services and products, respondents offer:

- » Network security (81%)
- » Endpoint security (78%)
- » Application security (19%)
- » Security information and event management (16%)
- » Security assessments (11%)
- » Security operations center services (5%)

Analysis: IT businesses seem to stick to their IT and network management roots. This domain is comfortable for many. However, these services could become commoditized, potentially leading to a downward price pressure.

Instead, IT service providers should look to expand into higher-value services. Many providers are already moving in this direction, particularly around managed security (46% in Europe, 57% in the US). However, few specialize in offering advanced security like security information and event management (SIEM), security assessments, or security operations center (SOC) services. As cyberthreats grow more numerous (and deadlier), IT providers should consider moving toward more advanced offerings like these.

If you're an IT provider and aren't ready to offer specialized services, you can partner with a trusted security provider via the Threat Monitoring Service Program from SolarWinds MSP. This program allows you to partner with a security firm who will run the back-end of SolarWinds Threat Monitor, a cloud-based SIEM tool, on your behalf.

Security doesn't represent the only area of expansion. Simply monitoring more of the technology stack may pay dividends, particularly with the expansion of Internet of Things (IoT) devices.

Bottom Line: Businesses will always need the basics. However, IT providers should look to expand into offering more specialized services, especially advanced security. More than 60% of respondents plan to expand their portfolio in the coming year—you don't want to be left behind.

5. REINVESTING

Businesses need to reinvest their revenue into the business. It's one of the only ways to grow. But how much is enough? Here's what the data shows:

12.35% Net Revenue Reinvested (North America)

11.9% Net Revenue Reinvested (Europe)

Analysis: If IT businesses want to grow, they must reinvest in their business.

We've already mentioned the importance of investing in sales and marketing staff. According to our data, most respondents consider RMM and PSA tools extremely important. On a scale of 10, North American respondents rated them 8.9 and European respondents rated them 8.7 in importance.

This is great news. If IT businesses want to keep more of their revenue and adequately support managed services clients, they will need strong tools to do so.



IT providers should invest more in their own business:
12.35% net revenue reinvested



IT providers should invest more in their own business:
11.9% net revenue reinvested

An RMM platform like SolarWinds RMM or SolarWinds N-central can help IT service providers automate a lot of their maintenance. This can help them boost efficiency, take on more customers without drastically increasing staff, and improve the quality and consistency of their services.

It doesn't stop there either. Businesses should make sure they have a strong professional services automation (PSA) tool like SolarWinds MSP Manager. A strong PSA solution goes beyond ticketing—it helps IT providers with billing, scheduling, and reporting. For example, you may want to check the number of times tickets get reopened (which can indicate customer frustration that the issue wasn't fixed the first time), or even the amount of tickets submitted per customer (which can indicate a breakdown in maintenance).

Bottom Line: IT service providers should look to reinvest their revenue into their own business. In particular, RMM and PSA tools are essential for efficiently providing managed services to clients.

THE STATE OF MANAGED SERVICES IS STRONG

Odds are good most IT service businesses will still contain some mixture of managed services and break/fix clients. Many will still sell software and hardware. But the data in our findings show that increasing your managed services portfolio can potentially help you grow faster and keep more of what you earn.

However, successful businesses won't just focus on getting managed services clients—they'll focus on getting better at serving the managed services clients they do have. With so few claiming to be "bona fide experts" at managed services, there's certainly room for IT providers to enhance their expertise.

Managed services allow businesses to not only improve their standing with customers over time, but also allow them to boost efficiency in service delivery. With RMM platforms like SolarWinds RMM or SolarWinds N-central, IT service providers can automate much of the maintenance, allowing them to take on more clients and keep those clients loyal with better, proactive service.

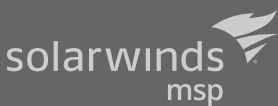


The state of managed services is strong. Those that capitalize now will be the long-term winners.

Curious about SolarWinds RMM? Try it free for 30 days to see how it can help you automate a lot of the work for your managed services clients. Visit solarwindsmsp.com/products/remote-management/trial.

Sources

"2018 Trends in Managed Services Report," 2112 Group, SolarWinds MSP. (Accessed January 2019).



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