

**Managed Services**

# What's the SP on MSP?

*With demand for Managed Service Provision now not just gathering, but maintaining pace, what are the major issues for channel players looking to move into the sector, asks Gareth Kershaw, and how can they overcome them?*

Let's kick off with a tenuous analogy. According to one of my sources, the managed services marketplace is a lot like Elton John. Why pray? Because it has the mildly disturbing habit of appearing to reinvent itself without really looking any different afterwards. Sure, the spiel and the personnel alter slightly with each incarnation, but everything else looks pretty much the same.

Ipsa facto, what's now called a Managed Service Provider was just five or six years ago loosely termed an Applications Service Provider. Ten years before that, such companies went under the suitably vague pseudonym of 'bureau providers'. And so it goes on.

Why the constant redefinition of terms? Perhaps the market has needed time to mature. Maybe it's down to the steep evolutionary curve of the services themselves. It could be – and many seem to think so – that the sector's providers

have taken time to fully acclimatise. Perhaps it's all of the above. In any event, it's fair to say that the dust has never quite settled.

Until now possibly.

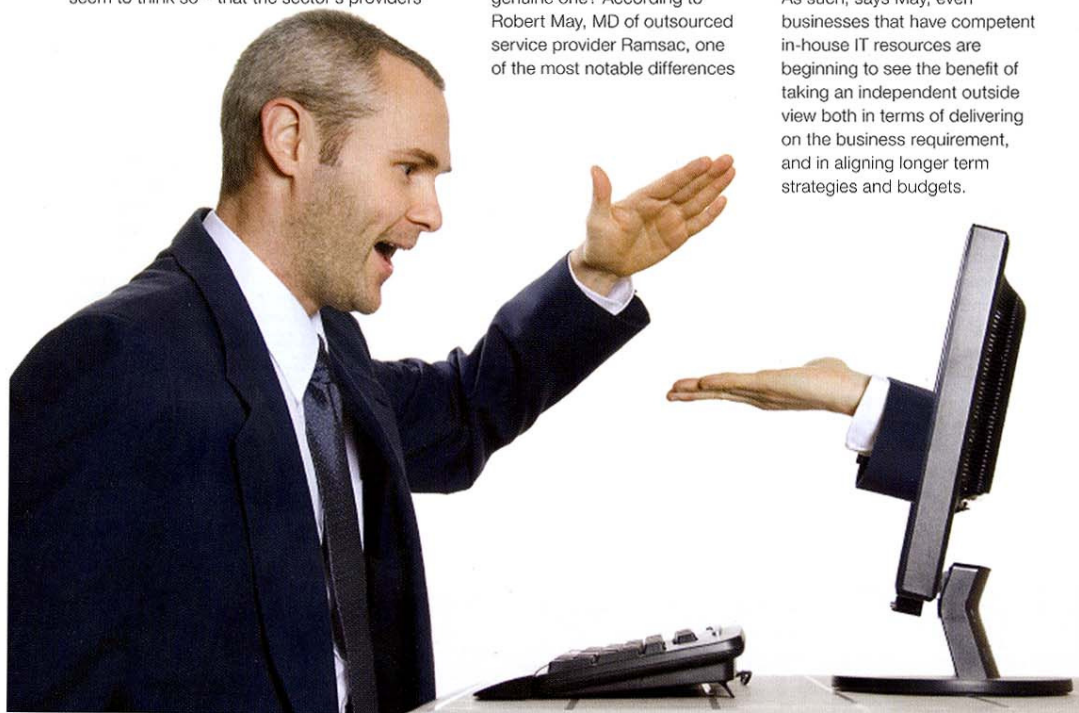
Because not only is demand for managed services on the increase, this time there's a definite air of permanence, or at the very least longevity, about it. As a consequence, more and more resellers, integrators, VARS, and service providers are weighing up potential moves into the sector.

But what's the difference this time round, and how can we be sure the opportunity is a genuine one? According to Robert May, MD of outsourced service provider Ramsac, one of the most notable differences

is in the level of interest from lower down the customer food chain; from SMEs looking for the benefits of IT, but without the attendant hassles.

"SMEs now know that they need to stay at the leading edge of technology to remain competitive. The ever-reducing costs of technology and, in particular, communication infrastructures, mean that even the smallest SMEs now expect 24X7 availability, remote access, and system integrity and continuity. Even one man bands now demand email on their mobile phones and the ability to access their files from their hotel rooms."

As such, says May, even businesses that have competent in-house IT resources are beginning to see the benefit of taking an independent outside view both in terms of delivering on the business requirement, and in aligning longer term strategies and budgets.



"As technology has enhanced, so have expectations", he explains. "Flaky systems, frequent downtime, lack of flexibility and no remote access are no longer tolerated by even the most junior end-users. These enhanced expectations have put lots of pressure on SME business owners, who have realised that outsourcing to professionals is often the only way they can concentrate on running and growing their businesses without constantly having to focus on their back office operations."

Mark Sumner, CTO of MessageLabs, sees this time and resource sensitivity as a key issue in both the uptake of managed services among SMEs, and in the evolution of the wider market – especially where resellers are concerned.

He comments: "Traditional IT services are like having to filter your own water, it is something that should be done by an expert that will provide you with a clean, safe water supply. With recent market consolidation – Symantec's acquisition of Veritas for example – the market is moving to more end-to-end managed services."

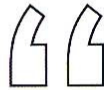
This, says Sumner, makes the channel an ideal fit for selling managed services – particularly through white labelling or as part of value-added reseller strategies. "The recent consolidation of the security market (for instance) is making resellers re-evaluate how they see, price and manage security as both a product and a service, rather than just traditional box shifting."

Further encouragement is that, for arguably the first time, there are also signs that Managed Service Provision could be becoming more of a pull market. This is according to Adrian Young, UK country manager of Integralis, which has seen a pronounced upturn in market need from companies of every size as reliance on IT infrastructure has continued to grow.

Here too, more and more businesses seem to be cottoning on to the idea of developing more flexible workforces to allow themselves to manoeuvre more quickly, and it seems they're turning to managed services to facilitate such.

Ironically, argues May, this is impacting the IT department perhaps more than any other.

"Turn-key packaged systems combined with rapidly increasing IT literacy among workforces means that many businesses no longer need, and can no longer justify, the investment in IT staff they once required. At the same time, while



*They (the resellers) either want to host everything, or hand all responsibilities over to the customer.*

problems occur less often in properly scoped installations, those that do occur tend to be more complex and demand a more highly skilled level of 'fix'.

The same is true when scoping new systems and implementations, he says. "At the front end you need best practice (and) advice to determine policy and budgets. Once the implementation is complete however, most businesses enjoy a prolonged period during which they require little more than maintenance and the occasional fix that can often be done over the phone."

This combination of greater scalability and access to an extended skill range is making outsourcing a far more attractive proposition for many organisations, he argues.

Predictably, given this re-awakened predilection for service-based IT delivery, the providers are doing some re-invention of their own. Having spent years trying to market products as services, for instance, one company has started marketing services as products. Who? IBM no less.

The move is, by Big Blue's own admission, one of the biggest and most important in its history; the goal being "to take people-based processes and turn them into standardised, asset-based technology and consulting products. Then, replicate them around the globe,

so that the same product can be purchased in Paris, Shanghai, Bombay or Chicago".

So should resellers be following suit and at least considering a shift into MSP? Absolutely, says May. But they need exercise a degree of caution, warns Peter Tebbutt, UK marketing director at Alcatel. He says that while the move into managed services is being fuelled by a need for greater flexibility, too many resellers are doing almost the opposite and approaching end-users with an 'all or nothing' message.

"They (the resellers) either want to host everything, or hand all responsibilities over to the customer. But this attitude fails to take into account the fact that with some services – perhaps the most obvious being voice – the customer may not want to cede control of maintenance and management, whereas with others, they will have no objections to adopting a hosted solution."

Managed Communications Services (MCS) are a natural solution to this dilemma, says Tebbutt, allowing resellers to tailor solutions to meet specific end-user requirements. While resellers may not make as much immediate profit as they would managing all services, they will ensure that customers don't take their business elsewhere, and can use the flexibility of MCS as a platform on which to add value and increase revenues by bundling other services/applications."

As ever, hints May, the key lies in delivering genuine value add.

"Few businesses can afford to employ all the technical skills they require on a permanent basis, so value added solutions are an attractive option. We

## Managed Services

John Severs, chief technology officer, 7global, sketches the major challenges of moving into managed services.

### The nature of the beast

Financially, the hosting business is based upon long-term recurring revenue with, hopefully, incremental additional business during a contracted hosting term. This can be a major issue to any organisation with a sales organisation focused on large capital sales. Also because of the length of commitments normally associated with hosting, there tends to be a long lead time to the sale and potentially a higher cost of the selling itself.

### The model

Account managers have a constant job on their hands and are judged not only by the last sale but also by the continuing level of quality perceived in the service delivery. This means that the provider needs to focus a constant and typically very centralised amount of effort on the service delivery (on a 24/7/365 basis) and this may not blend well necessarily if the current model has a high degree of point-of-sales effort (installations, configurations, field service engineering etc).

### Location

Location may also be very important. And for two reasons. The obvious one is real-estate prices. London is more expensive than say, Cumbria, but equally vital is the choice of network provider. UK network providers physically trunk the country between major towns and cities and these are the obvious choices for data centre locations – so a rural location may cost £100K to physically connect to the network. The larger the network provider the more major locations they'll be present at.

### Competition

Managed services is now a very competitive market with providers trying to move up or down their chains from their current positions, with rack space providers looking to offer managed services and application hosting specialists attempting to 'unbundle' fully managed services into specific service offerings. Network service providers meanwhile, are looking to add value with hosting and managed services, the major advantage that they probably have great network coverage, peering with other providers and technology oriented real-estate.

have continued to sell equipment, but by not seeking to make our profit by selling kit we have been able to remain impartial. As a result, customers know they're getting honest advice."

"I'd suggest resellers looking to move into managed services should focus on where they can deliver added value by including services with the products they're selling. (And) once focused on services they should avoid becoming too focused on the equipment – it compromises your impartiality and customers will not feel so confident in your advice."

This is a view echoed by Tebbutt, who adds that rather than going for the all-out hosted approach, it's important that resellers work with vendors to provide a model that incorporates an end-to-end offering. "MCS (for example) can either be hosted or remotely managed, depending on end user and service provider requirements and optimum business model. The strategy depends upon the reseller identifying the end-user profile in terms of issues such as size, vertical market, mobility, and front office or back office functions."

Breadth too is an important consideration says Martin Walker, channel director of managed service provider, 7global: "... it's all about offering more services to your existing customer base.

"If I were a reseller offering a variety of services delivered 'on-premise' only, I would be nervous, as I'm potentially opening the door for a competitor to come in and have a nibble at my account. Let me explain: businesses of all sizes are now more than ever looking at ways of containing and reducing costs, and are ever more aware of the threats to their critical IT systems and data assets.

"There is a great opportunity for the reseller channel to engage with their customers... and if they don't do it others will."

Walker believes that there are a number of options open to resellers in this regard, but suggests that one key to making money is to first leverage the enormous infrastructure investment that's been made by the 'pure-play' hosting providers. "The reseller," he says, "can then dip a toe in the water through the hosting provider's affiliate program (which would provide a referral fee), by acquiring rack space, or by renting a serviced suite from a co-location provider.

"They can also carry out the initial build of the servers rather than pay for 'remote-hands' from the hosting provider. And this is important; as the last thing a reseller wants to do is buy some cheap hosting space, hours away, and not have the option of paying for remote hands."

Some species of customer will of course be a better fit than others.

"The first customers I'd approach are those with multiple locations for whom providing access to systems and data is always a pain. It's much smarter to centralise critical business applications and, in the process, also provide a business continuity plan!"

The other potential challenge for most resellers is the (dreaded) Service Level Agreement, cautions Walker. As every provider knows, the quality, flexibility and integrity of the SLA, and your adherence to it, can often be the making (or the breaking) of a successful, profitable long-term relationship – which of course is the ultimate distillation of why you'd move into managed services in the first place.

As such, it's of critical importance that the SLA sets out clear responsibility of exactly who owns what, where, and when, as well as factors such as speed and nature of response. This in turn means being extremely savvy not only about the services you decide to offer, but where you decide to buy them.