WHITEPAPER

MSP 2.0

3 trends turning your MSP business on its head



HARMONY PSA

Table of contents

1 THE WORLD IS CHANGING 3

The MSP landscape is different 3

Technology is also changng 3

The cloud impact 4

2 CHANGES IN BILLING MODELS 5

Supporting a move to incident-based billing 5

The billing change for the PSA tool 6

3 A MOVE TOWARDS SPECIALIZATION 7

Specialization means an end to localization 7

The specialization challenge for the PSA tool 8

4 GROWTH TRENDS 9

Full service model 9

Increasing coverage hours 9

Working for larger organizations 10

Pricing based on value proposition 10

Fully integrated CRM capabilities 11

The right tools for the job 12

5 HOW HARMONY CAN HELP 13

The world is changing

The MSP landscape is different

The roots of the MSP business go back to the early days of local computing and IT service providers. As companies increasingly adopted PCs, business software, and local servers an entire industry grew up around them to support their computing needs, update software, and repair hardware problems.

This operating model – known as break/fix – spawned tens of thousands of IT services companies worldwide. They were characteristically small, local shops – and they needed to be local to get round to the businesses they supported and fix things quickly. In the US where distances between towns are so great, local competition would create two or three providers in each location. So, the software tools that sprang up to help them do this became very good at handling standard rate, incident-based billing supported by parts price-feeds to ensure they got the best margin. Characteristically, this generated lots of small invoices in a single currency with simple service desk modelling and a simple counterparty model.

For around 30 years little really changed until the internet, cloud computing, remote working, and self-updating PCs came along. Since then, the impact on the industry has been nothing short of immense.



Technology is also changing

Today, customers no longer buy all their equipment through their IT service provider as the advent of global online retailers has given everyone access to the same low prices. On top of this, PCs update themselves, and printers are easier to fix and often cheaper to replace than repair. But perhaps the biggest change is in software, where data storage has moved to the cloud, remote control software has enabled techs to fix issues without visiting the site, and instant messaging has - to a large extent - replaced phone calls and site visits.

This has led to a dramatic drop in the supply of break/fix services to end customers, and as a result we have seen a corresponding decline in the type of businesses that have optimised their delivery model to service that sector of the market. On the positive side, this shift is fuelling the continued rise of the managed services model, which in turn is driving the growth of the MSP.

The cloud impact

And things don't stop there. The emergence of affordable cloud provision means that MSPs will see fewer local hardware needs from their customers, and instead need to focus on greater pro-active contract management. As a result, they are having to up their game, becoming virtual CIOs, trusted advisors, project managers, as well as delivering remote support.

One of the key challenges of this shift is that being remote lessens their personal interactions with their customers and so successful retention of these customers relies heavily on flexibility, differentiation by service offering, and a move away from incident-based billing to AYCE (All You Can Eat) agreements. Even outsourced help-desks for overnight support have become a feature of this rapidly changing landscape.

Over the next few years we're likely to see the combination of price pressures and the decline of localization start to drive consolidation in the MSP market. Put simply, local small businesses will become larger and more remote – even international over time. In many ways, the landscape of the future could not look more different for MSPs.

1. Changes in billing models

As MSPs move from break/fix to service contracts (whether pre-pay or not), they have a clear decision to make regarding their billing models. Do they stay with incident-based billing or move up to the newer all-inclusive device-based All You Can Eat (AYCE) billing model. Increasing automation in remote monitoring and management (RMM) tooling is driving more advanced MSPs towards the latter.

Supporting a move to incident-based billing

Incident-based billing is not quite the same as break/fix. The latter relies on a reaction to a failure somewhere in order to request an intervention – basically someone working a ticket and booking their time.

RMM tools, which have been designed specifically to help avoid such failures, can present a problem for IT service providers. The better they get at proactive avoidance, the less revenue opportunity there is for them if they still bill using the break/fix model. In fact, as systems become increasingly reliable – in part due to a natural trend in technology, but also due to increasingly sophisticated RMM tools preventing the break in the first place – customers are likely to "see" less value in their services. This means that if break/fix is to demonstrate its value to customers, it has to move to true incident-based support where an RMM alert auto-closure can trigger a billing event directly before the failure and without a tech touching anything.

The problem is that most professional services automation (PSA) tools don't yet support direct auto-closure as a billing event as they were built in a time when ticket-time bookings drove support billing. In many cases this limitation can be solved by using fake time slot bookings, but this isn't a great way to run your MSP business.

This automation trend means it's a logical shift to device-based AYCE billing. As the RMMs are typically licensed by device, this model makes perfect sense because it enables revenue to scale directly with direct cost, not via a tech's timesheet.

The billing challenge for the PSA tool

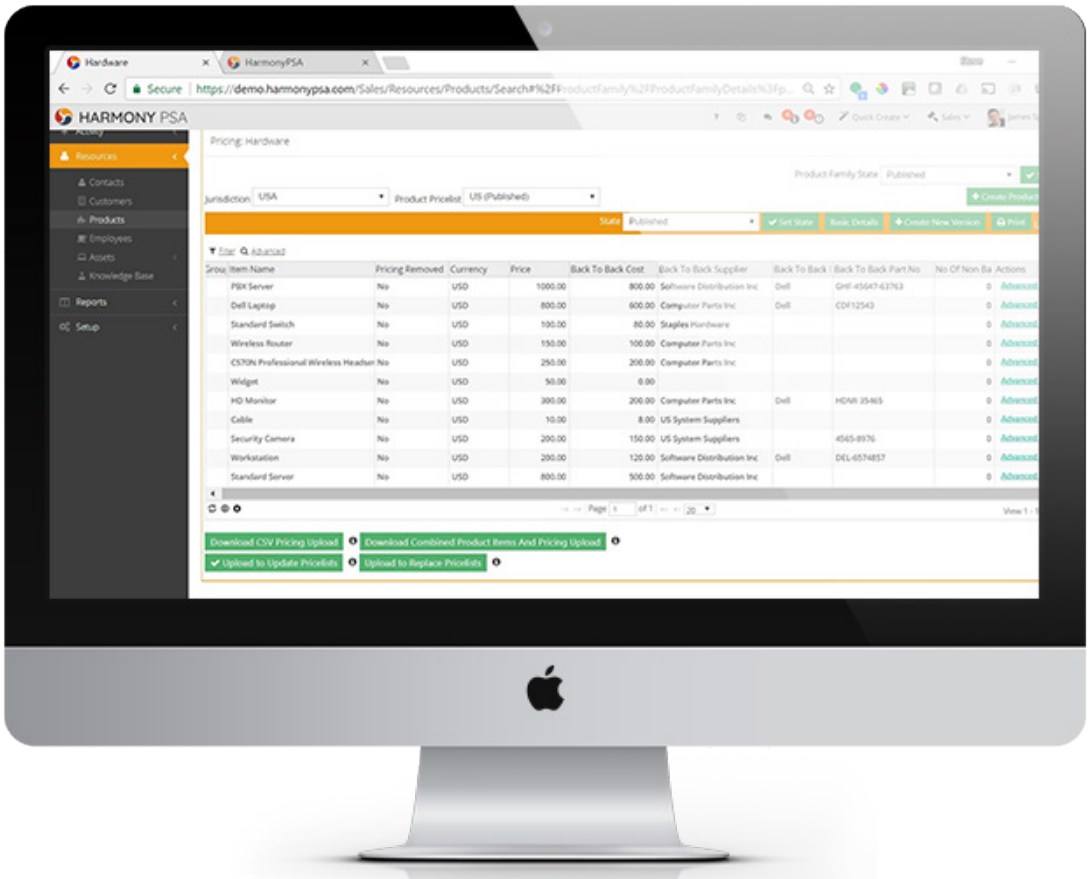
However, this shift to AYCE billing presents a three-fold challenge for PSA tools:

1. To be able to automatically generate a periodic invoice broken down by device, price group, and customer, and to have this either debit a prepayment fund or raise an invoice line automatically, together with full device listing back-up sheets.

2. To understand the cost of goods per device by modelling the volume contract on the buy-side simultaneously.

3. To understand whether the model, for different asset mixes, is returning the right margin. For this last point, all tech time on that fund and the device monitoring costs need to be bootstrapped in real-time, once again automatically.

4. Fortunately, PSA tools are now emerging that can handle these scenarios without manual intervention. So the time is coming when – through more advanced integrations – RMM tools will become a direct money earner, allowing MSPs to scale their profitability without increasing staff.



2. A move toward specialization

It used to be that MSPs were technology and business generalists. The local nature of their service required them to take on any business they could, and to deal with them all in much the same way.

Now, we are increasingly seeing the emergence of MSPs that not only specialize in a particular kind of business, but that have also widened their offering to include business software serving that vertical.

These MSPs are really leveraging the "virtual CIO" model. They are experienced and knowledgeable in their chosen sector, they know the hardware set-up that makes sense, they understand the cloud standards that need to be met, and they also know the best software to meet the needs of their customer's business. Many of these MSPs are also emerging as value added resellers (VARs) of specialized software, as well as becoming implementation partners for software providers. Their businesses are geared towards understanding the nature of the change management approach needed to make the most effective use of their customer's budget and available timeframe.

Specialization means an end to localization

These specialized MSPs are also, by nature, not as local as in the past. This is due to the fact that their local area is unlikely to have sufficient numbers of the specific type of businesses they need to support them. Often these MSPs are also made up of groups of small service providers that have got together in partnership under a brand to build and share knowledge, while at the same time leveraging their greater size to buy more effectively and so deliver improved margins. They may also employ some development staff and be able to offer integration work and limited customisations.

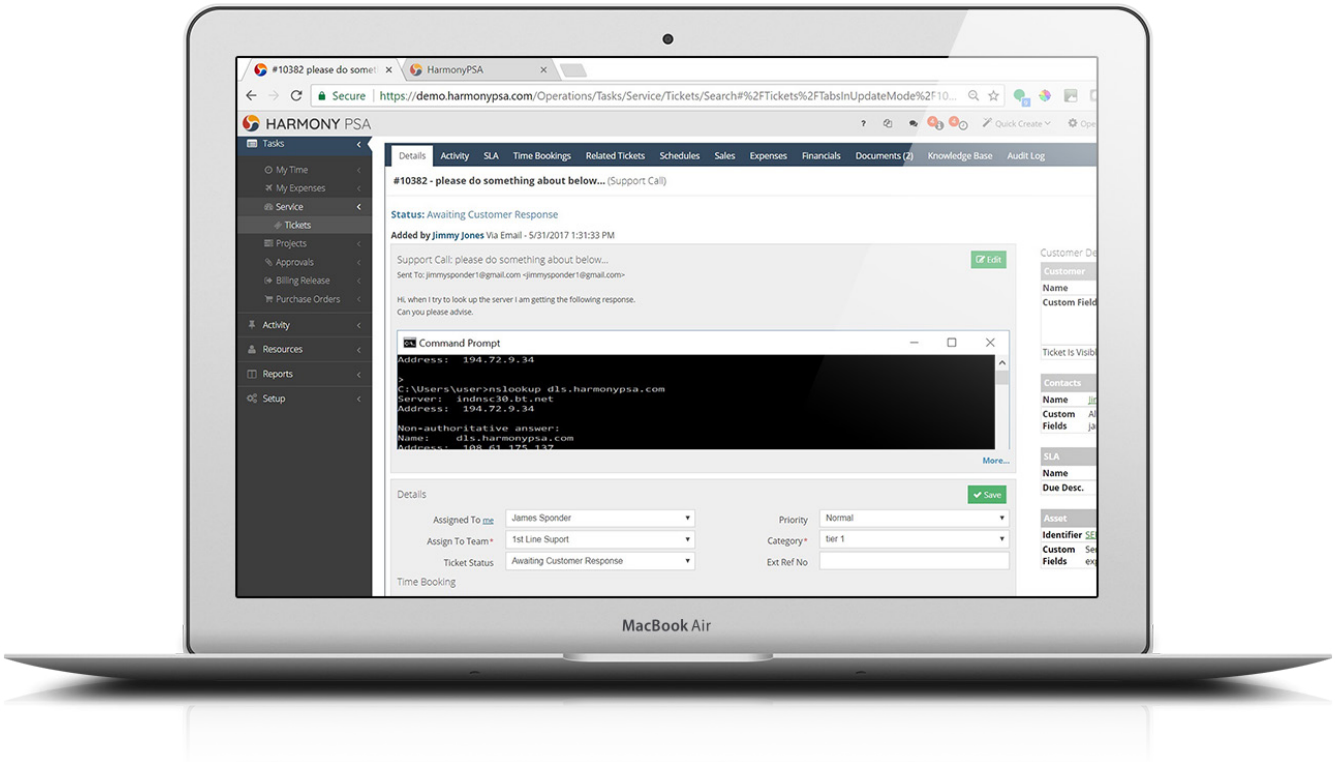
Examples of the verticals (and sub-verticals) we are seeing MSP growth in, include:

- Medical (doctors, hospitals, dental practices etc.)
- Education (schools, colleges etc.)
- Legal Practices
- Retail & hospitality

The specialization challenge for the PSA tool

Interestingly, their PSA needs are wider than the more traditional MSPs, including:

- Rich support for software contracts (buy and sell side)
- Strong project management, possible equipment site relocations (asset reuse without loss of history)
- Multi-legal entities (to support simple regional entity networks)
- Seamless agile development process



3. Growth trends

Every business is constantly looking for ways to improve and expand. So what does it take to become successful and to take your MSP business to the next level in today's complex world? Taking a look at how the larger MSPs are managing the changing market place can give you insight into how to grow your own business.

Full service model

If you haven't already, then make the shift to offering a full-service model with complete coverage of your customers' technical landscape – made up of multiple differentiated offerings. And within that wide-ranging list of services, offer greater choice on how they are applied (a la carte service models). Customers are becoming more knowledgeable and refusing to fit into standard one-size-fits-all service and price structures. They want differentiated service – in particular where it concerns security – plus they want graduated cloud-adoption offerings that allow them to build confidence over time.

PSA requirements:

- Clear fully configurable service product modelling with quotes that describe the offering fully but without jargon.
- The flexibility to design, adopt, and financially manage new service offerings easily and accurately, plus the ability to analyse profitability by contract to further refine pricing.
- Simple contract change management that eases increasing adoption without requiring high-touch finance actions.

Increasing coverage hours

Another growing trend is for MSPs to rely on outsourcing to increase their coverage hours, enabling network operations to be delivered 24×7. The increase in mobile and home-working means office hours are less and less relevant these days, so monitoring and resolution services need to be available anytime and not be limited to working hours only.

PSA requirements:

- Multi-culture, multi-time-zone, and even multi-legal entity support to enable tickets to be passed round the world and to outsourced providers without confusing or corrupting SLAs.

Working for larger organizations

Another area that larger MSPs are seeing success is in working for larger organisations. In this role they are able to work alongside the IT departments inside those organisations, offering specialized services in conjunction with their internal delivery model and not always as an outsourced replacement for it.

PSA requirements:

- Ticket action sharing with customers, workflows that incorporate customer actions.

Pricing based on value proposition

Another big step is having the confidence to price your offer based on your value proposition and not by simply applying mark-up or competition-based pricing models. In other words, having the process and delivery ability to sell at a quality margin. Growing MSPs are able to charge more because they are better at what they do – not because their growth is fuelled by price discounts.

PSA requirements:

- Cohesive integration between process workflows and contract-level profitability analysis, ticket to tick interactions, and ticket to project task linking.

Fully integrated CRM capabilities

Finally, employing fully integrated CRM capabilities can help MSPs drive growth through both upselling and new customer acquisition.

PSA requirements:

- Getting the data right here is key. The CRM platform needs clean, up-to-date, and above all comprehensive information about existing customers combined with fully integrated campaign management capability – from original contact through to sale – that demonstrates value without external manual analysis.

As the larger and more agile MSPs grow, economies of scale drive a beneficial cycle. This allows them to both improve their offerings and use buyer power to return higher margins. Many MSPs who have failed to adopt these models are seeing their business stagnate or decline. With M&A activity increasing in this sector – partly fuelled by MSP generation one (baby boomers) retiring – these trends will increasingly deliver clear winners (acquirers) and losers (acquired).

The right tools for the job

What all this means is that the tools needed to support MSPs' businesses need to be very flexible, supporting service and rate based differentiation. They also need to be contract-driven (both sales and purchase), mobile, and offer strong project management functionality. Also, as remote working emerges as a strong trend, the need to be local diminishes and this will inevitably lead to price pressures and consolidation – particularly as the generation that started these businesses comes to retirement age. So, MSPs will get larger, their offerings will get cheaper, and it will become increasingly important for them to be able to handle multi-legal entities and multiple currencies. *This means that the PSA software they need for the future is very different from the first generation offerings out there. The following functionality is becoming essential:*

PSA requirements:

- Very strong and configurable contract, prepayment, and rate models as MSPs seek to differentiate their offering from larger, cheaper but more commoditized offerings.
- Support for good project management, and clear profitability reporting
- at the customer and contract level, so pricing can be optimized by customer with ease.
- Support for larger businesses and outsourcing models, with multiple time-zone management, multiple legal entities, and multiple currencies.
- Close and powerful links to all RMM platforms, fully supporting their automation agenda with billing models that can deliver revenue without time bookings.

HARMONY PSA

How Harmony can help

HarmonyPSA is the next generation PSA platform designed for where the industry is going, not optimized for where it has been.

More specifically:

- Its contract engine and flexible billing model allow you to build offerings that directly address your customer's differing needs. You no longer need to make them fit your standard terms and conditions, instead you can effortlessly design terms that suit them.
- Its real-time profitability analysis, always available at customer and contract level, allows you to drill into your business with ease. Just three clicks will get you to a 12-month profit trend on a contract, with no manual analysis or external data manipulation.
- Its multidimensional support will facilitate overnight outsourcing, expansion through acquisition or organic growth, overseas operations and cross-currency sourcing.
- Its powerful prepayment fund functionality offers full automation of both event and device-based billing, you decide how to operate; Harmony is there with the functionality to empower those decisions.

If you would like to keep pace with the strong growth trends in the industry, call us and we will explain why HarmonyPSA is the right solution for your business – or visit www.harmonypsa.com

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