

eBook

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# Selling Networking as a Managed Service

## Introduction

A recent [study](#) commissioned by the World Bank Group estimates there are between 365-445 million small-to-medium-sized businesses (SMBs) in emerging markets around the world, employing up to 60 percent of the total workforce. As these businesses grow, they increasingly (up to 30 percent, according to a recent study commissioned by Datto\*) seek managed service providers (MSPs) for outsourced IT services. This trend has grown considerably in the past few years as small businesses recognize the importance of focusing on their core business, rather than their IT infrastructure. IT services from MSPs range from computer help desk to business continuity and disaster recovery (BCDR), to networking.

Increasingly, reliable networking has become more important for SMBs. According to the same study, in the next three years, SMBs expect up to 75 percent of their IT infrastructure to live in the cloud.\* This reliance on the cloud puts increased pressure on the network infrastructure needed to run the business. Mix in bring your own device (BYOD), Internet of Things (IoT), and other connected technologies, and it's clear: the network is essential to running the business.

Even so, many MSPs still struggle to position and sell networking as a managed service. In this eBook, we highlight the experiences of 10 MSPs from around the globe who have successfully transitioned to delivering networking as a service. We review go-to-market strategies, business models and sales tactics, and explain, in their words, how to build a profitable and successful practice around networking as a managed service.

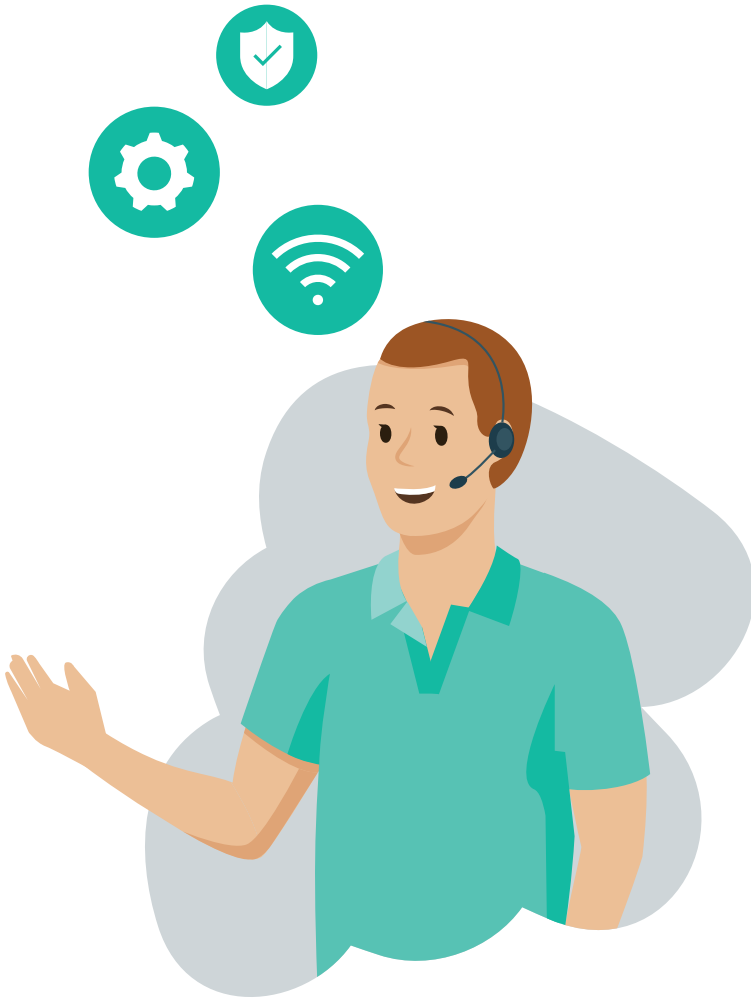
*\*Source: Strategy Analytics' proprietary research of the North American SMB market.*

## Value-Added Services

For years, networking technologies have been a constant for IT service providers, resellers, value-added resellers (VARs), and MSPs. Edge routers, firewalls, switches, and, more recently, wireless access points, are in use in virtually every business. However, they have typically been deployed and repaired on a project-basis. The idea of proactively managing networks as a service has not been commonplace until recently. Today, more and more MSPs recognize the tremendous opportunity that reliance on connectivity presents and have begun to deliver managed services focused on networking.

Remote management should be considered essential for networking as a service because it gives you the ability to add value by responding to customer needs and resolving problems quickly. Allan Jocson, CEO of Agilitec IT, a Las Vegas-based MSP, explains how his retail food establishment clients view the value he brings to them.

"If something goes wrong, the hostess has no idea where the networking gear is. If we get a call at midnight because their network went down, they don't want to wait over an hour for us to dispatch someone," he said. "If we need to reboot something, we can do that right away with Datto Managed Power. We're not just selling clients hardware, there's support behind it—that's why they're paying a monthly cost."





It's not the product that matters. It's the MSP delivering the service that makes the difference.

- Alain Lefebvre, COO,  
Great White North

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The graphic features a blue thought bubble shape. Inside the bubble, the text 'datto Retail Sales Made MSPeasy' is displayed in white. Below the text is a green button with the text 'Download Now'. To the right of the text and button is a green shopping cart icon with three black money bags inside it, each with a white symbol (a pound sign, a dollar sign, and another dollar sign).

As an MSP, it is essential for you to communicate that value. "The end result is a working network, but you need to communicate what your team is doing and the value you are bringing to the process," said Alain Lefebvre, COO of Timmins, Ontario's Great White North.

Eric Peterson, President of Simple Communications, an Illinois-based MSP, agreed, "Clients just care that it works and that I'm going to support it," he said.

"Our business is a service business. It's not built around the product," said Paul Zimmerman, CTO of Fidelis, Inc., a Seattle-based MSP. "Clients don't care what label or brand name is on the equipment in the rack. They just want to know that we can manage it and that it's reliable."

In fact, every MSP interviewed agreed that the key to success is to forget about selling products and to focus on selling your value. Clients seek you out because they want to spend more of their time concentrating on their core business. They seek you out because *your* core business is IT. You can keep them online, and deliver and manage a network infrastructure that keeps them running. So sell that expertise, and don't be afraid to charge for it.

"When we started communicating our value to clients that way, their perception changed from buying a widget to paying for an end result," said Lefebvre.

## Go-To-Market Strategies

There are numerous strategies that can lead to a successful networking as a service practice. The strategy you choose will be based on a number of factors including how you deliver other managed services, your market, and financial concerns such as cash flow, margin targets, etc. The classic managed services strategy is to sell networking hardware along with an ongoing monthly service fee.

Zimmerman takes this approach. "Managed networking was pretty straightforward to implement with our customers," he said. "We were already charging a monthly fee for network monitoring—adding an additional fee for cloud management made sense."

When Bluegrass Group, an Exeter, England-based MSP began selling networking, they struggled with the idea of a monthly fee and consequently had difficulty getting their clients to sign on. According to David Thomas, Group Managing Director, "The first obstacle to overcome was actually us." They were attempting to sell the product, not the value of their service.

So, David and his sales team regrouped and decided to bundle in a managed switch with Bluegrass' standard managed services agreement. "When we realized that [a monthly fee for a switch] was going to be a challenge, it became obvious we needed to remove it and include it as a service."

That took the objection right off of the table. Since then, they have had no pushback from their clients, and have been able to grow their networking as a managed service offering, adding value to their clients in the process.



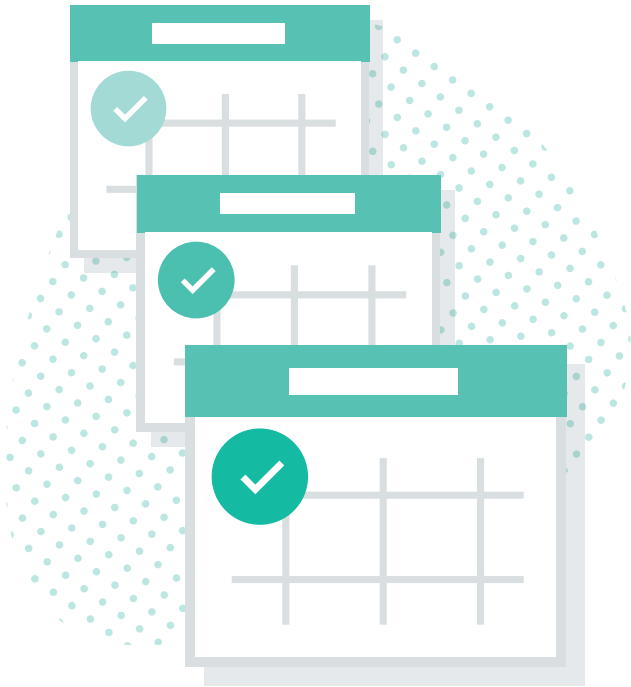
## Hardware as a Service

Hardware as a Service, or HaaS, is another option worth considering. In this model, the customer pays a single monthly fee for service and hardware. It's a one price, all-inclusive networking service. It's simple, and for the right client, a great solution for their networking needs.

"We're not actually selling the product," said Milan Rajkovic, Managing Director of Milan Industries, a Melbourne, Australia-based MSP. "We provide the client the networking gear on a monthly rental type agreement. It gives us a recurring monthly revenue, and it allows us to upgrade the equipment anytime if we see that they've outgrown something."

HaaS agreements include an option for replacing hardware after a designated period of time. Joe Wright, Jr., President of Pennsylvania-based MSP Central PA Technologies determined that every 36 to 48 months is ideal, both for his clients and for his team. "We come back in and replace the hardware within 36 to 48 months so it's always new, and it's always working."

This is good for the customer, but it has important benefits for you as well. Sandy McGrath, Operations Manager for Calgary-based Final Frontiers, says maintaining control of the hardware is good for the bottom line. "We have control over what goes into the environment," he said. "For example, Datto Networking really helped us because the APs require little to no maintenance. Over the course of a year, we almost never touch these devices. They're configured, they're put in place. They just run."





Since we switched to the Hardware as a Service model nearly two years ago, it's helped us grow 40 to 45 percent per year.

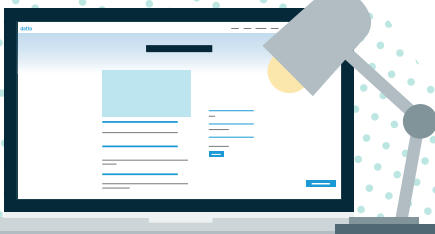
- Joe Wright, Jr., President,  
Central PA Technologies.

The HaaS model with the automatic hardware refresh also saves you the effort and hassle of going through another sales process with your client. As every MSP knows, when you invite a new negotiation, you invite your competition to the table. The automatic hardware refresh and HaaS option removes that challenge, and that's definitely good for business.

Even though the HaaS model is preferred by Wright, Jr. and Central PA Technologies, they're flexible in servicing their clients and their needs. "We do whatever the client wants. We have some clients that love to buy everything outright. And then we have our local governments that want to do Hardware as a Service."

While HaaS offers appealing benefits to both MSPs and customers, it does come along with some financial considerations. So, if you are thinking of selling managed networking using the HaaS model, it is essential to consider how long it will take to recoup hardware costs, how you plan to structure customer agreements around that time frame, and how you will finance your hardware purchases. Most of the MSPs in this group self-finance using their standard cash flow.

"We almost always want to have ROI within the first year, and our target is eight months," said Lefebvre. "Every once in a while if we want to get the price a bit lower, we'll push the ROI to 10 months. Never more than 12."



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The clients don't care about the technology. They just care that it works.

- Eric Peterson, President, Simple Communications

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## Standardize Your Tech Stack

Whether you opt to sell hardware or offer HaaS, networking technology that enables you to deliver effective services should be a top priority. Toby Stephenson, Sr. Systems Consultant at Neustro Consulting Ltd., a Derby, England-based MSP, claims they deliver better service because they have standardized their tech stack on Datto Networking. "It makes it easier for us to support, so that means the client gets a better response."

According to Stephenson, "The launch of the Datto Networking line gave us the ability to standardize on a single platform and offered us something easier to train our staff on. Something that was simple to manage. It offers us one cloud console, that all staff know how to access and work with. It streamlines our service delivery."

Kevin Damghani, CEO of Michigan-based IT Partners bundles in networking with every managed services agreement he signs. "Whenever we take on a customer, we require Datto Networking and Datto BCDR. We include it in their cost per seat."

Damghani's tech stack includes switches, access points, and a managed router, all from Datto Networking. "When we are more efficient and able to fix issues faster, the end customer is up and running without as much downtime," he shared.

Damghani knows they can't be efficient servicing every technology that is out there. As he explains, "With Datto Networking, we can fix clients faster, service clients faster, get insights faster. If we do unlimited labor, we need to be really efficient in how we approach things so we're profitable, and we're profitable when the customer is up and running."





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## Pricing

MSPs use a variety of pricing strategies today, and yours will ultimately be dictated by your business' specific needs and market demands in your region. Per-user or per-device pricing is the most common, while others opt for a fixed-price model or a hybrid of the two. Customer agreements may have a finite term or be month-to-month.

When setting your price, start with your costs. "Assuming that the lifespan of the AP is three years, you're on a three-year term," said McGrath. "So, we look at our capital costs and break it out over three years. After that, we figure out our cost to support it and to finance it. Then, we break that out into a month by month cost."

From there you can add your margin. Margins, of course, vary among MSPs, but targets of 50 percent to 60 percent are common. When determining markup, it is important to look at costs associated with particular clients. But, support costs can vary widely depending on a client's specific needs. In other words, clients with complex networking needs are more difficult, and therefore more expensive, to support. So, think of per-user/device as a starting point and adjust the pricing accordingly.

"We have a set per-person price that we'll use for most clients," said Lefebvre.

"But, it fluctuates slightly depending on the deal."



Remember, you are selling your expertise and value. That's why your clients hire you. So don't be afraid to charge accordingly. As Lefebvre says "Selling the cheapest price is not a good business practice generally. Those who are doing that are just trying to take the price and convert it to a monthly. They're not injecting their service or showing what value they bring to the table."

## Choosing the Right Client

It's never easy saying no to a potential client. However, when you are selling managed services, being selective about your clients can have a positive impact on your bottom line. For example, Wright, Jr. won't even meet with a client if they don't have a defined budget.

"Anyone who meets with us has to give us a budget. If they don't, anything that we propose is going to be way more expensive than what they're currently paying, and it just becomes a nightmare to try to get them to understand."

Central PA Technologies' goal is to minimize their expenses while delivering great service. "When evaluating potential customers, I try to determine if they are going to be a customer that calls all of the time or if we will only need to meet quarterly," said Wright, Jr.

Again it comes back to aligning business value with what the potential client needs or wants. For Central PA, the client has to have given some thoughtful analysis to how they value that service. "Price will go out the window very quickly when the client understands and sees the value," said Wright, Jr.

## Conclusion

We live in an increasingly connected world. Businesses of all shapes and sizes are dependent on the network and are looking to managed service providers to deliver fast, reliable connectivity. This has created tremendous opportunities for MSPs to sell networking as a managed service. While there are many ways you can build a successful networking as a service practice, there are some commonalities successful MSPs agree on:

1. Sell your value, not the product.
2. Charge for your expertise. That's what your clients are buying. Don't be afraid to charge them appropriately.
3. Standardize your tech stack so you can more efficiently service your clients.
4. Don't be afraid to say no to a potential client, if they will be pricey to support.
5. Embrace the monthly service fee. It's how you make money, and it's how you charge for managed services. Networking isn't any different.

As in any selling activity, you need to be confident in your service and what you offer to your clients. You also need to be confident in how you price your service. Premium service comes at a premium price. There are competitive scenarios you will face, so your confidence is crucial to signing business. So, go forth and network as a service.