

Recurring Revenue Made MSPeasy

7 Best Practices for Success



Introduction

Despite the 1970s No. 1 single, video did not kill the radio star – radio evolved.

Thanks to the rapidly changing technology landscape and the continuously rising importance of data to all businesses, the role of the managed service provider (MSP) continues to evolve in every single way. Today's MSPs are continuously reinventing their business models, customer relationships, operational efficiency, and partnering practices.

But while new technology stunted the growth of the radio in 1970, data's rising star positions MSPs for skyrocketing sales and provides the tools for stellar profitability – facts confirmed by research and by the MSPs interviewed for this eBook.

Data is not just important to businesses today, it's critical. Which is why today's leading MSPs have made total data protection the cornerstone of their evolving business model. This eBook explores the growth of the monthly recurring revenue (MRR) model and the benefits of providing total data protection solutions in the age of total data dependency.

Business continuity and disaster recovery is a cornerstone of a managed services provider, from the dual perspectives of recurring revenue and manageability of your customers and of your own organization.

Data Protection is the MSP Cornerstone

Given data's critical role in businesses of all sizes, you can't really be an MSP anymore without a way to protect data. MSPs say an inability to protect a customer's data means they cannot fully service that customer. A rock-solid total data protection solution must be an integral part of your offering – even if it still takes extra work for certain customers to “get it.”

“Business continuity and disaster recovery is a cornerstone of a managed service provider, from the dual perspectives of recurring revenue and manageability of your customers and of your own organization,” said John Manley, Virtual CTO at New York MSP Atlantic, Tomorrow's Office.

“If the customer goes down, do you really want to fight that fire with no solution in place? When clients suffer a loss, we're on the hook to recover it. So we need a solution in place that's going to allow us to do that with as little overhead as possible,” Manley added.

Importantly, as more customers get “the growing value of data to their businesses, total data protection is also evolving into an entry point to new client relationships,” Manley noted. “We get calls from companies in pain, often referred to us from current customers,” he said.

But while MSP interviewees agree (as CompTIA's research suggests) that more businesses grasp data's value than ever before, there still are holdouts. Every MSP tells a story about at least one client who refused a total data protection solution, had data loss and demanded, “Why didn't you sell me harder?”



"And they make it our fault they didn't buy it from us," Manley lamented. At Augusta-based EDTS, the MSP's CIO, Delano Collins, successfully conveys data criticality by focusing on businesses processes. "Subconsciously, they know. So if you ask them pointed questions about how data loss would effect their business, how it effects their bottom line, how it effects their cash flow, then you see people get uneasy. Their eyes bulge and the veins on their forehead come to the surface," Collins said.

Manley's trick is to make it personal: he talks about losing personal data, such as family photos or videos; or relates data protection to home or car insurance.

Our MSP interviews not only revealed how total data protection is an essential part of their evolving business models, but also how their own data is playing a larger role in their success. Because recurring revenue models depend more on fixed pricing than hourly rates, analyzing internal data to streamline business processes is becoming paramount to profitability.

MSPs Build Deeper, Stickier Customer Relationships

John Manley's title at Atlantic, Tomorrow's Office captures the essence of MSPs' new focus toward customer relationships: Virtual CTO.

"We act as an extension of customers' executive management teams," said Manley, who also leads a group of other Virtual CTOs. "We're focused on aligning their business objectives with their technology objectives. We're their guides to navigating the technology world," he said.

If that sounds like enterprise-class IT thinking, it is. All the MSPs described how cloud computing empowers them to bring enterprise-class technologies and



Key to understanding new
MSP-customer relationships
is the word “service”.

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techniques to the SMB. In fact, at London-based Foration Limited, “Our founding principle is to take big-business IT and make it available for small businesses,” said Managing Director Paul Weeden, who started the company in 2007.

“The cloud has enabled our organization to exist,” explained Weeden. Here's how: when multiple small businesses elect to buy IT “as a service” from an MSP, that MSP gets to solve IT challenges once, sell the solution to many clients, and amortize the initial development cost across them all, rather than having to design, buy and deploy individual (but similar) solutions for every customer. The return on that customer service investment, however, falls directly to the MSP bottom line in terms of stronger, stickier customer relationships that highlight the MSP's value and enable it to charge higher rates. Such customer relationships last longer, and require greater trust. But violate that trust and you'll face dire consequences.

“If a customer goes down and we can't get them back up, we lose all of our revenue with that customer. Their managed service contract – pfsst! Goes away! We will never have another opportunity with that client again. What's worse? People love to tell those stories. 'Guess what? I was doing business with EDTs and my server failed. I was paying \$500 a month in backups and they couldn't get my data back.' That's a story you don't want people to hear,” said Collins.

That's why total data protection solutions that safeguard client data on-premises, in virtualized environments, in the cloud, or even in third-party SaaS applications are critical to the trust and confidence MSPs need to maintain these true-partnering customer ties.

Clients are more willing and able to buy into the HaaS model because it aligns well with how most businesses typically structure spending.

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"The most convincing salesperson in the world is an engineer who really loves and believes in a product. It just comes out. You can see it in their eyes," said Collins. "We have that kind of relationship with our total data protection vendor, Datto, Inc. There's a confidence we have in their solutions that no amount of training or online videos will ever give you. It makes it so easy to sell the product."

The Rise of Recurring Revenue MSP Business Models

MSPs are pushing the edge of the envelope to develop monthly recurring revenue models (MRR) and customers are embracing them with little or no hesitation. It makes for a fast-changing market.

"Our CEO has pushed the recurring revenue model for the past 10 years because it drives up the value of our company," said Collins. He explained that businesses are more willing and able to buy into the hardware as a service (HaaS) model because it aligns with how they typically structure spending. "The points of contact we work with have freedom to incur additional monthly expenses. If they need to fork over a significant capital expenditure however, they have to go to a board and get approval. We can go to a single person, have them make the decision and immediately initiate a service by offering it without a large upfront capital buy-in. We've had a lot of success with that model."

In London, MSP Foration does things a bit differently. "Our goal is zero capex for our clients and zero consulting fees. It's a platform. There might be some migration costs, but they'll be rolled into the overall subscription cost," explained Weeden. More than half of the company's annual revenue is from MRR, but plans to increase this percentage significantly. The MSP is testing a new technology services platform that raises the bar from individual hardware or software services to a broad-based "IT in a box" infrastructure approach.

The MSPs all agreed on one thing: total data protection is a linchpin for recurring revenue. Today's businesses must operate with the confidence that their data is always available no matter what the day may bring.

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Weeden believes most companies' core IT needs are essentially similar. "It's rare we come across a client with such unique requirements that we can't work with them. Most companies need an office suite, email, file sharing, and one or two specialized business applications." Setting that up once for many customers eliminates a lot of effort duplication and a huge amount of capital and infrastructure, according to Weeden.

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"Backup and recovery services really helped us gain additional recurring revenue, and bring new clients on board," said Manley. For Collins, the HaaS pricing model lowers price barriers to entry for clients' backup and recovery (BDR) solutions, broadening the potential market. He lauded Datto for supporting this model by selling certain on-premise elements of their total solution in a HaaS model, without up-front capital expenditure.

How MSPs Can Be More Profitable

"The best way to be more profitable is to do less. The best way to do less is to be more reliable," said Weeden on the topic of operational efficiency and profitability. How do you become more reliable? By selecting the right technology partner that makes things simple and life easier. From technical staff performing rapid restores to a sales rep's ease in articulating the value of a BCDR package, MSPs insisted that a great tech partner equals less work and greater profit.

The power of simplicity lies in the clear understanding and confidence it instills throughout the MSP organization. Simplicity equals less work and greater profit.



"The level of automation and integration we get from Datto means we do less, which enables us to punch above our weight," said Weeden. For example, API-based integration allows his firm to trigger alerts in Salesforce in a surgically precise way – only if the issue in question requires human action. Otherwise, it auto closes.

The reciprocal is also true: MSP profitability will take a hit from vendor complexity. "Having a high quality product can be completely offset by having a complex pricing model," explained Atlantic's Manley.

At EDTS, Collins is nearing the end of a "fork-lift" upgrade of nearly 50 clients BCDR solutions over to Datto's total data protection solution as a result of his findings from an analysis he performed on 18 months worth of data from his support engineers. He concluded that the complexity and lack of automation, integration and self-service of the previous BDR solutions cost his company the equivalent of a full-time engineer in extra effort. Migrating over to Datto, combined with lower purchase prices, saved EDTS more than \$210,000 per year on the bottom line.

Since Foration generally charges recurring prices, Weeden emphasized the need for ongoing analysis of customer engagement using Salesforce.com data to continuously improve his firm's profitability. "We analyze data to understand which clients we're underserving or over serving," he explained.

That fixed-price model also caused EDTS to re-invent its total data protection deployment process for greater efficiency. "Because we aim for a low barrier to adoption, we charge a flat installation fee and sometimes we waive it," said Collins. "That means we have to get in there with surgical precision, get it installed, get it going, and get out of there."



A high-quality BCDR product will be completely offset by a complex pricing model.

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Collins has his technology provider ship the on-premise backup appliance and a “seed” device to the company's network operations center (NOC). There, engineers configure the appliance and box it back up. Next, they remotely set up the necessary scripts on the customer's onsite servers. A low-level technician can bring the device to the customer site, plug it in and call the NOC. Once the NOC confirms the appliance is visible, the onsite tech sets up a seed device to replicate the initial backup. A day or two later, a customer service employee usually boxes up the seed device and calls EDTS to ship it to the provider to “seed” the initial backup in their cloud infrastructure.

“From product design to product packaging, Datto makes everything so simple and easy. This allows us to make just one visit to all of our clients to get these things set up,” said Collins.

Managing for a Service-Oriented MSP

Wanted: well-rounded hardware and software engineers who can diagnose and troubleshoot network issues in an instant, architecting pinpoint solutions that are informed by understanding of a client's end-to-end IT environment and its business requirements. Oh, and they have to be customer-service oriented and brilliant communicators.

Many MSPs say the business model transition to monthly recurring revenue and the concurrent need to optimize operational efficiency and customer service comes with very real hiring and training challenges. To wit: not a lot of job candidates hit it out of the park on all the criteria listed above. The best advice from the leading MSPs interviewed for this eBook is: when in doubt, focus on communications skills.

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"Most people tend to be narrowly focused on what they're good at, and leading them out of what they're comfortable with can be challenging," said Manley. "We're looking for someone who has core competencies that span multiple dimensions of the business; who is customer service oriented, but also is tech savvy, understands our business and can see the client's big picture."

Manley explained that someone designing a backup and recovery solution must understand the full range of the client's business needs before envisioning the size and scope of the virtual environment – including number of virtual (and physical) machines, network connectivity, bandwidth, security, etc. – that would be required if a true disaster forced failover to the cloud.

At Foration, candidates must pass an assessment of their tech skills – but that's just table stakes. "Yes, they have to understand the technology, but what we do is provide a service. We always focus on a person's ability to communicate," said Weeden.

Training also focuses on developing better communication skills. For example, Weeden is proud of Foration's service desk record: 73% of the thousands of calls received monthly are resolved in an hour and 84% in 24 hours. But the 16% that are not resolved carry with them a requirement to provide the original caller with daily updates. That's just one example of a culture of regular, consistent communication necessary to keep up the customer satisfaction in a service-oriented business. Weeden said Foration management is on the hook to communicate these and similar expectations to employees throughout its organization.



Such communication requirements tend to support a good work ethic and greater operational efficiency because staffers would prefer their customer communications to carry good news.

MSPs agreed it's critically important to partner with a total data protection vendor that understands and supports the need for managed service providers to resolve their customer support issues clearly and quickly. To do so, a vendor must have stellar support of its own, along with world-class trainings, a deep knowledge base and committed to engineering. The depth of investment that goes into such MSP-vendor relationships is a key reason many MSPs focus on having as few vendors as possible.

Streamlining Vendor Partnerships

Today's MSPs want fewer channel vendor relationships. They want transparency from their channel partners and they want simplicity from the structure of a vendor's partner program and pricing model. What MSPs ask of their vendors is a clear reflection of their need for operational simplicity and clear-eyed confidence in selling and supporting their own customers.

Most MSPs prefer two vendors for a critical technology: a primary and a backup. But at EDTS, Collins would like to have just one total data protection vendor. He's supported as many as 19 backup vendors in the past, having inherited many already installed at new customers. "Having multiple vendors is a multiplier of training time for all my engineers," says Collins. "Our NOC has four full-time engineers. If I've got eight products, I've got to arrange 32 training sessions for those guys and make sure they're all knowledgeable about all of those backup solutions. Meanwhile, if I've got one solution, I've got four training sessions."



There's nothing to be gained from partnering with a company that's going to try to beat you to the punch and sell direct to your customer.

Delano Collins, CIO, EDTS, LLC

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Too many vendors today create sales confusion. "Our sales staff has been confused in the past about the capabilities of one technology versus another. We've had cases where a sales guy sells a feature that a particular product doesn't have, and that sets up unrealistic expectations for the client," explains Collins.

For the few vendors with whom they're looking to build long-term relationships, MSPs demand channel centricity, depth, and transparency. Explains Manley: "For companies with a strong partner program, the channel is their outside sales force. They don't compete with you. Channel-centric companies align themselves with VARs who do well for them and create a win-win situation. There's nothing to be gained from partnering with a company that's going to try to beat you to the punch and sell direct to your customer."

In terms of relationship depth and transparency, Collins described how Datto's solutions met his extensive technical requirements. Before partnering with the Channel vendor, Collins submitted a long list of questions for his Datto rep to address. But when he got on the subsequent conference call, it was Datto CEO Austin McChord who greeted him and responded to each of his concerns.

"It means a lot to have people, including the CEO, who are that passionate and invested in their product and care enough to say 'hey, this is my handshake, this is my name. I put my name behind it.' And everyone at Datto reflects that sensibility. I conveyed that conversation to our CEO, and it was a stark contrast to our relationship with our soon-to-be ex-backup vendor. That has set the tone for the type of relationship we have developed with Datto."



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With Datto, as with any of their channel partners, Collins wants a transparent relationship. "We want to be on your beta program, on your roadmap committee, and we want to give you honest feedback. We have some really smart guys and gals who work here, and if they say the product's good but it could be better, I want to tell that to somebody who really, really wants to listen."

What Being an MSP Means Today

MSP interviews leave no doubt that cloud computing, mobility and data's rising star are causing wholesale rethinking in every aspect of their organizations, from how they go to market to how they install systems, to who they hire and what vendors they choose to do business with.

But none are unhappy about all this change. Instead, today's MSPs communicate passion and excitement at the potential these technologies offer their customers and their own opportunity to make more revenue.

Equally clear is the way in which total data protection solutions, which safeguard data everywhere it lives - whether on-premises, in virtualized environments, or in the cloud - are now a cornerstone for these "rethought" MSPs. As Collins said, if you lose a customer's data you'll lose their business forever, and they'll badmouth you to their peers. "That's why I live by the old networking adage that the two most important things in networking are backups ... and backups," said Collins.