Evolution of the Managed Service Provider Business Model

Moving to Hybrid Cloud & Operational Scale

Continuing Education for IPED Channel Masters

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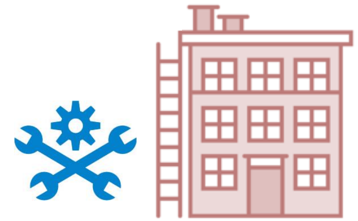
"Software-defined data center. Hyper-converged infrastructure. Remaining component infrastructure. Private and public clouds. Traditional, cloud-native and SaaS applications, plus desktops, mobile and wearables. All that needs to be stitched together and managed."

There is a **huge** opportunity.

SP500 CEO

Respondent Profiles: MSP Segmentation



	Small Business Generalists *“Virtual CIOs”*	**Mid-Market w/Emerging MSP business** *“Mid Market Hybrids”*	**Enterprise Integrators w/MSP Practice** *“Enterprise Enablers”*
Sample Size (this study’s respondents)	**139**	**56**	**43**
Annual revenues	**<$10m**	**$11-50m**	**$100-500m**
% of business from Managed Services	**>50%**	**31-40%**	**21-30%**
Current Business Model	Primary business model	Primary or secondary business model	Secondary business model or growing practice area
Legacy Business Model	Break-fix hardware or VAR	Systems Integrator or VAR	Systems Integrator or Hoster
Primary Customer	85%—Small business	65%—mid-market	>70%—enterprise
Location of Managed Assets	#1—On Premise #2—Public Cloud	#1—On Premise #2—Own datacenter	#1—On Premise #2—Public Cloud & Own datacenter (tied)

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MSPs in Transition: The Evolving MSP Business Model

FUTURE

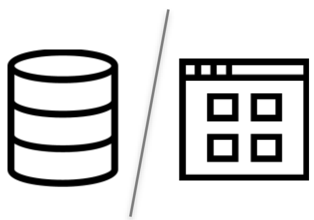
- Mixed gear location(s); inherently cloud inclusive
- Infrastructure and application focused
- Focus is better customer experience; innovation
- Datacenter-to-device architecture
- Often supported by Professional Services / design; often verticalized
- Agile structure – design, build, migrate, run (repeat)
- Holistic customer lifecycle (LEAR) support motion

TODAY

- Majority of gear on-premise; limited cloud footprint
- Infrastructure focused
- Focus is cost savings & IT efficiency
- Datacenter OR device focused
- Consulting/design Prof. Svs. minimal; mostly horizontally focused
- Minimal structural change; relatively static
- Separate upsell & renewal sales motions

Four Biggest Takeaways

- HYBRID ENVIRONMENTS & DELIVERY MODELS



- APPLICATION VS. INFRASTRUCTURE: PROFITS & DIFFERENTIATION

- AUTOMATION: ROLE IN EFFICIENCY & TECHNOLOGY SELECTION

- SALES AND MARKETING INVESTMENTS: BRIDGING THE GAPS

Four Biggest Takeaways

- **HYBRID ENVIRONMENTS & DELIVERY MODELS**
- APPLICATION VS. INFRASTRUCTURE: PROFITS & DIFFERENTIATION
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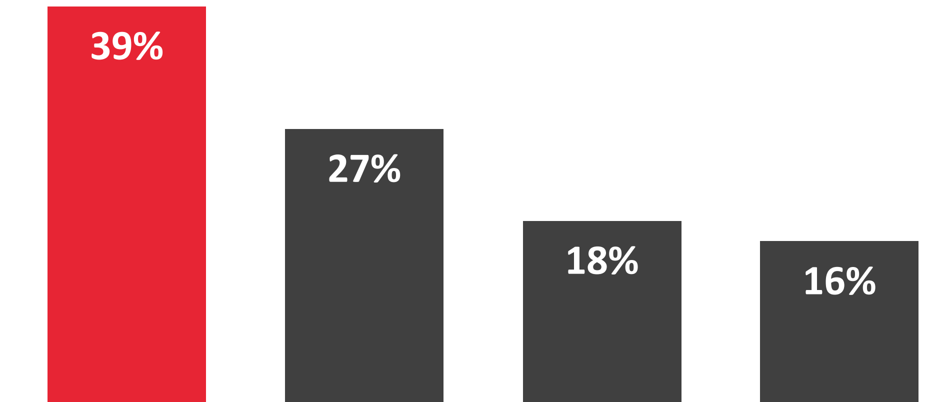
Delivery Model Diversity:
Managed-only dominates but owned-and-managed selectively on the rise

Today's MSP Delivery Model Revenue

(% of respondents ranking as 1st)

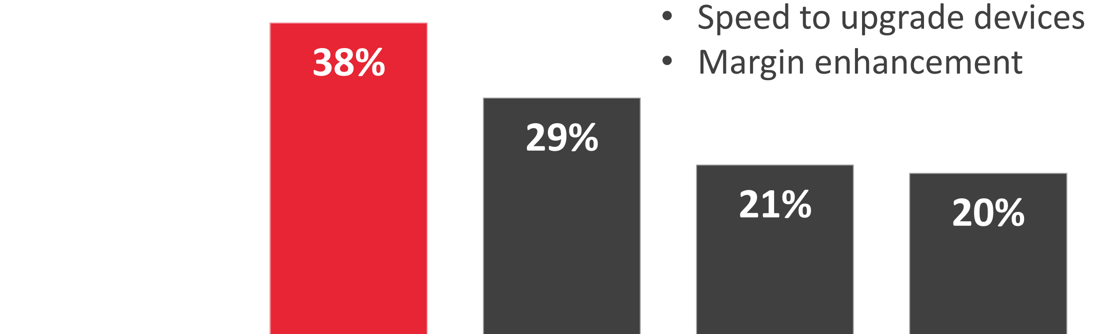


	Managed Only	Owned and Managed	Resale	White Label
Small Business	**42%**	24%	17%	17%
Mid-Market	**47%**	26%	16%	11%
Enterprise	30%	**38%**	18%	13%

Fastest Growing Delivery Model

(% of respondents ranking as 1st)

Owned & Managed Drivers:
- MSP brand preferences
- Build Security Ops. Center
- Speed to upgrade devices
- Margin enhancement

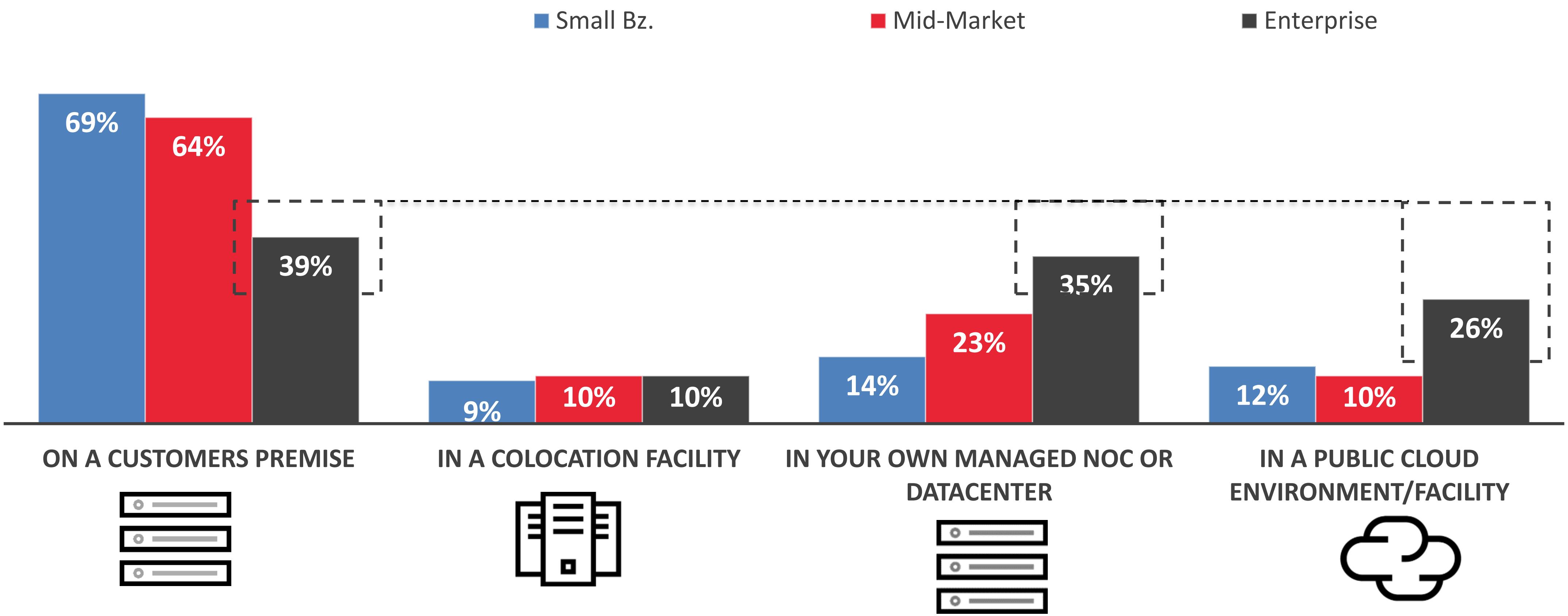


	Owned and Managed	Managed Only	Resale	White Label
Small Business	33%	**34%**	20%	20%
Mid-Market	**40%**	34%	14%	18%
Enterprise	**54%**	20%	26%	11%

Q: For each of these delivery models, what percentage of your managed services revenues has each of these represented in the last 12 months? (n=279)
Q: Which of these delivery models do you expect will be the fastest growing in the coming 12-18 months?

Today's customer managed assets are still largely on-premise; Managing hybrid on prem./cloud environments is core requirement

Most Frequent Location for IT Assets Today (ranked 1st)



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Q: What are the most frequent locations for the IT assets you manage on behalf of your customers?
Q: Rank your managed services expected growth rates for the coming 12-18 months, based on the location of the customers' IT assets.

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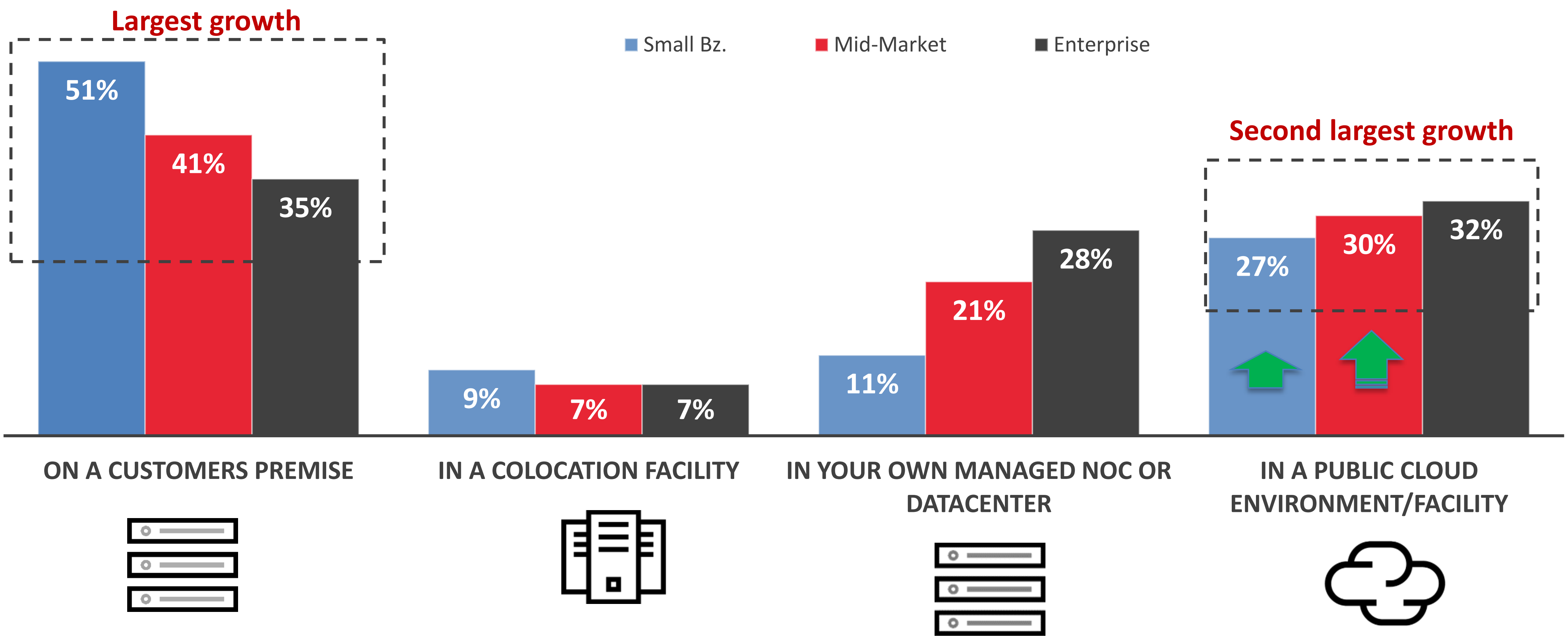
Largest expected growth for managed IT assets is on-premise, followed by public cloud; Selected enterprise MSPs also expect growth in their own NOC or DC

Highest Expected Growth – Location for IT Assets (ranked 1st)



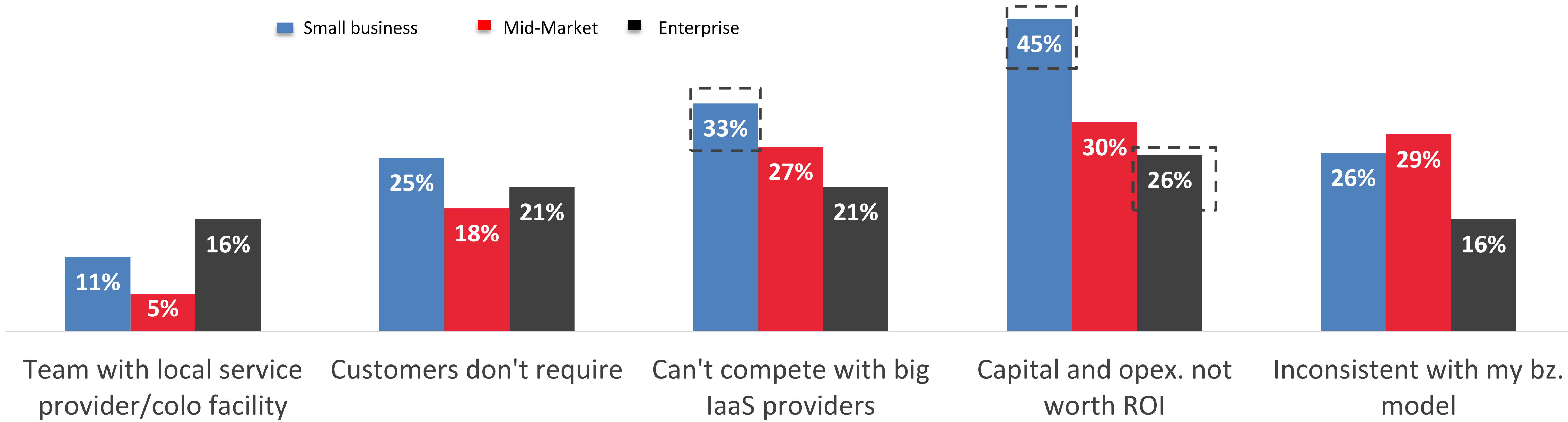
Q: What are the most frequent locations for the IT assets you manage on behalf of your customers?
Q: Rank your managed services expected growth rates for the coming 12-18 months, based on the location of the customers' IT assets.

2/3 of MSPs **not** building their own infrastructure due to high capital costs, lack of perceived ROI and inability to compete with large IaaS providers

NO – I'm not (66%) because:

(from research)

1. Capital & operating expense not worth the ROI
2. Can't compete with large scale IaaS providers
3. My customers do not require this



Q: If you have chosen to not invest in your own data center, network operations center or security operations center, why not? (n=279)

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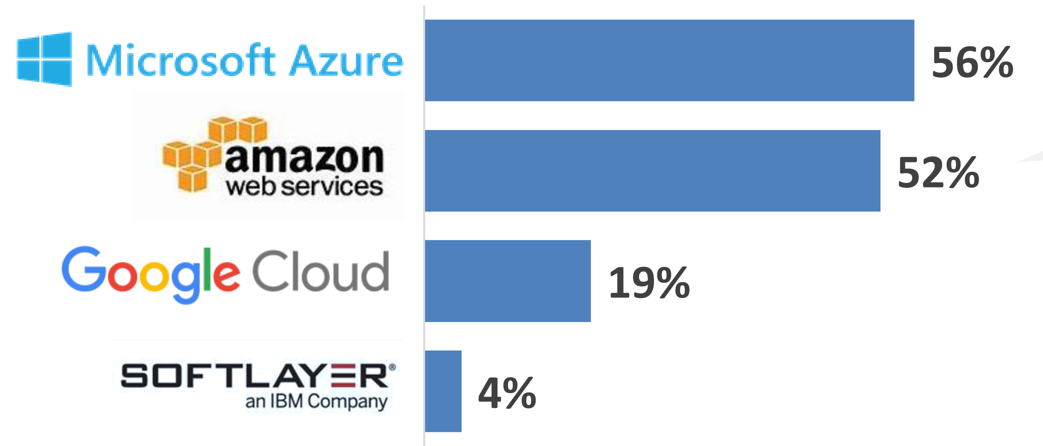
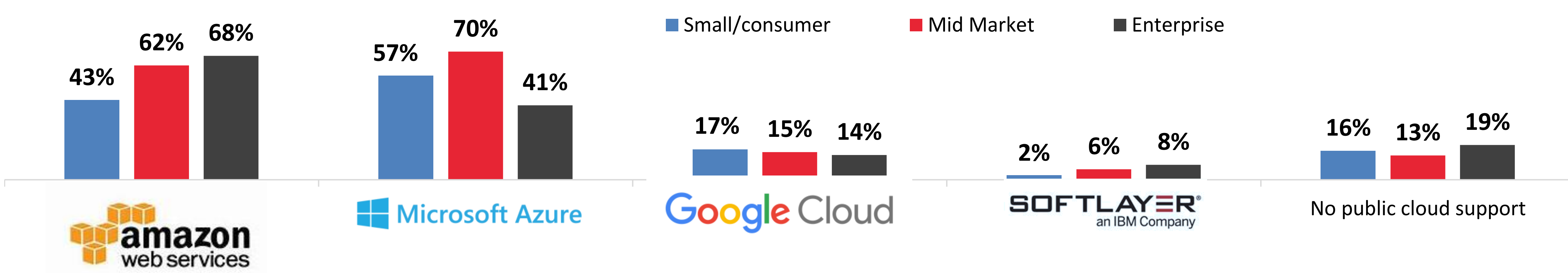
MSPs Preference for Public Cloud Support

Preferred Public Cloud Provider (All)



*"We strongly believe in a hybrid cloud model. We are predisposed to Microsoft but forced to do some AWS. **With AWS if the client ever wants to move the data, it becomes very expensive."***



Q: For the customer assets you manage in a public cloud environment, for which IaaS provider's offerings are you most interested supporting your customers? (n=258)

Four Biggest Takeaways

- HYBRID ENVIRONMENTs & DELIVERY MODELS

- **APPLICATION VS. INFRASTRUCTURE: PROFITS & DIFFERENTIATION**

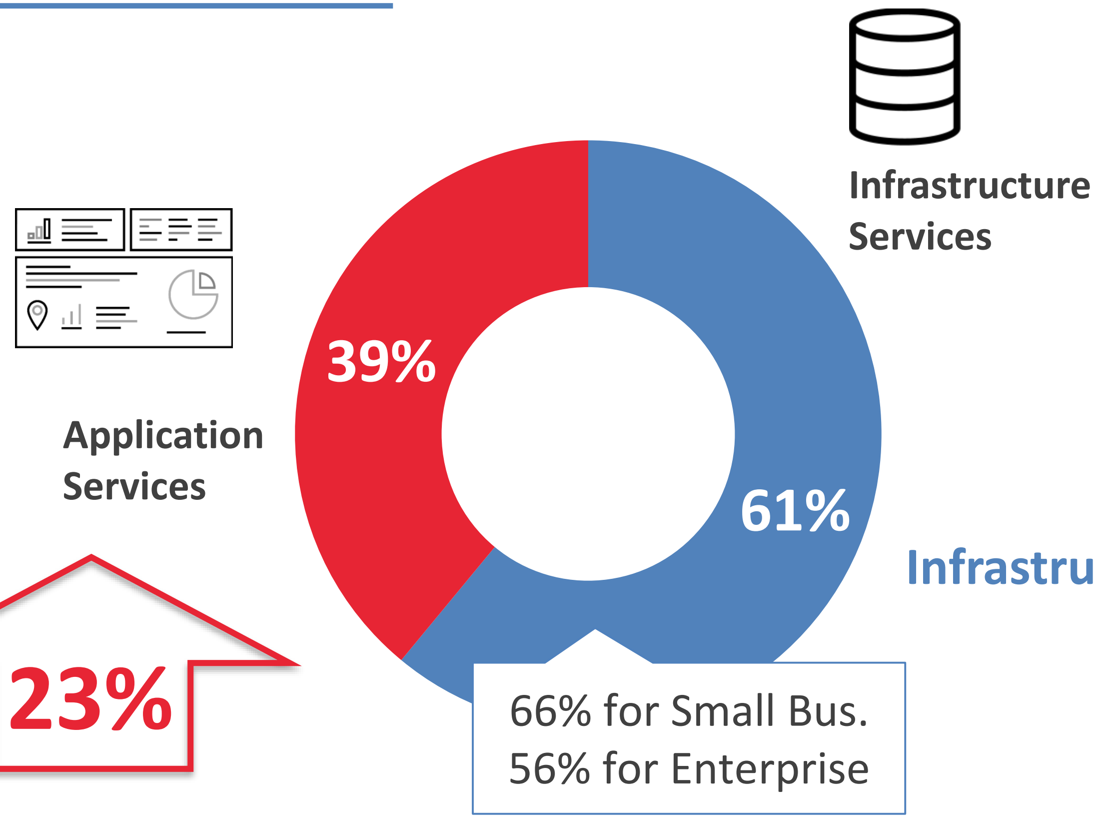
  Infrastructure services still dominate for all MSP types, but on prem. core management services are becoming highly commoditized; application skills still highly specialized & requiring significant investment

- AUTOMATION: ROLE IN EFFICIENCY & TECHNOLOGY SELECTION

- SALES AND MARKETING INVESTMENTS: BRIDGING THE GAPS

About 60% of existing revenues come from infrastructure services; comparable growth rates for infrastructure vs. applications expected over next 12-18 months

Today's Managed Services Revenue Mix



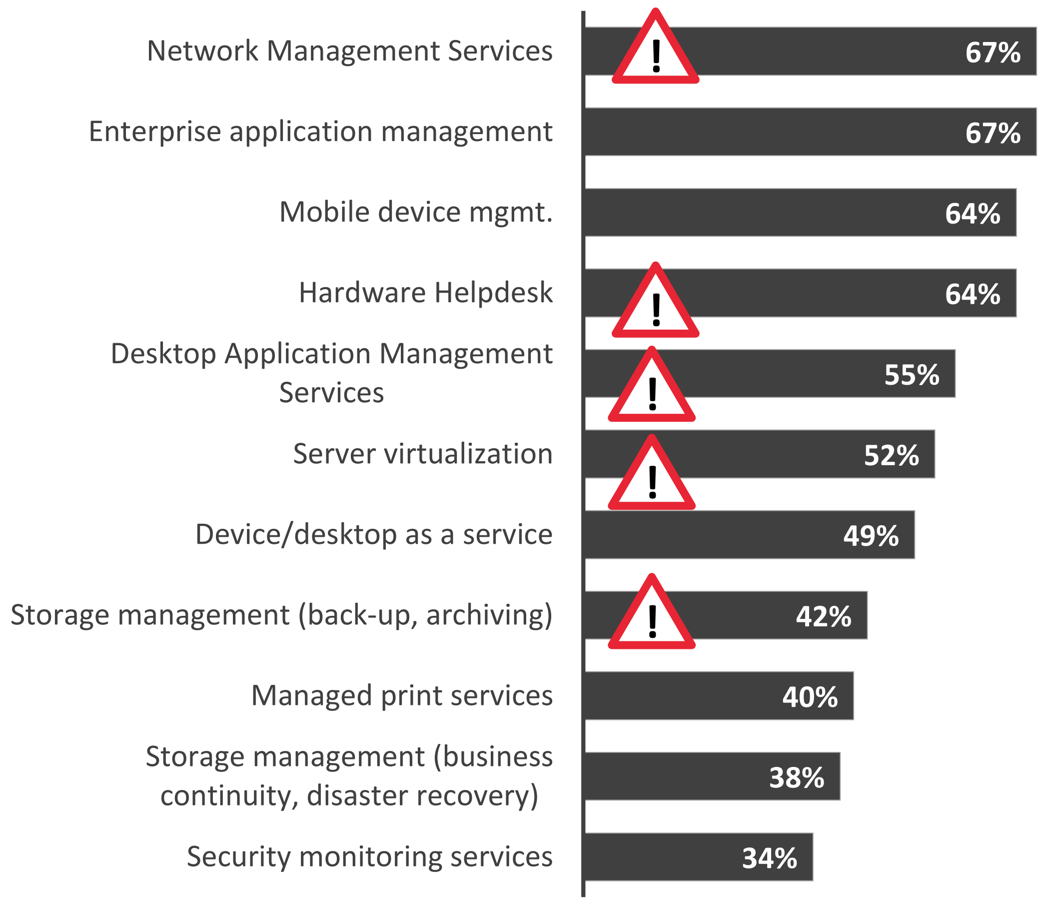
Infrastructure Svs. Growth ~ 24%

Application Svs. Growth ~ 23%

Q: What percentage of your managed services over the past 12 months have come from infrastructure vs application focused services? (n=279)
Q: What growth projections does your company project for each of these two categories of managed services offerings in the next 12-18 months? (n=279)

Today's most profitable services: primarily infrastructure focused with half of top 10 also under the most gross margin pressure

Most Profitable Managed Services Offerings (ranked 1 or 2)



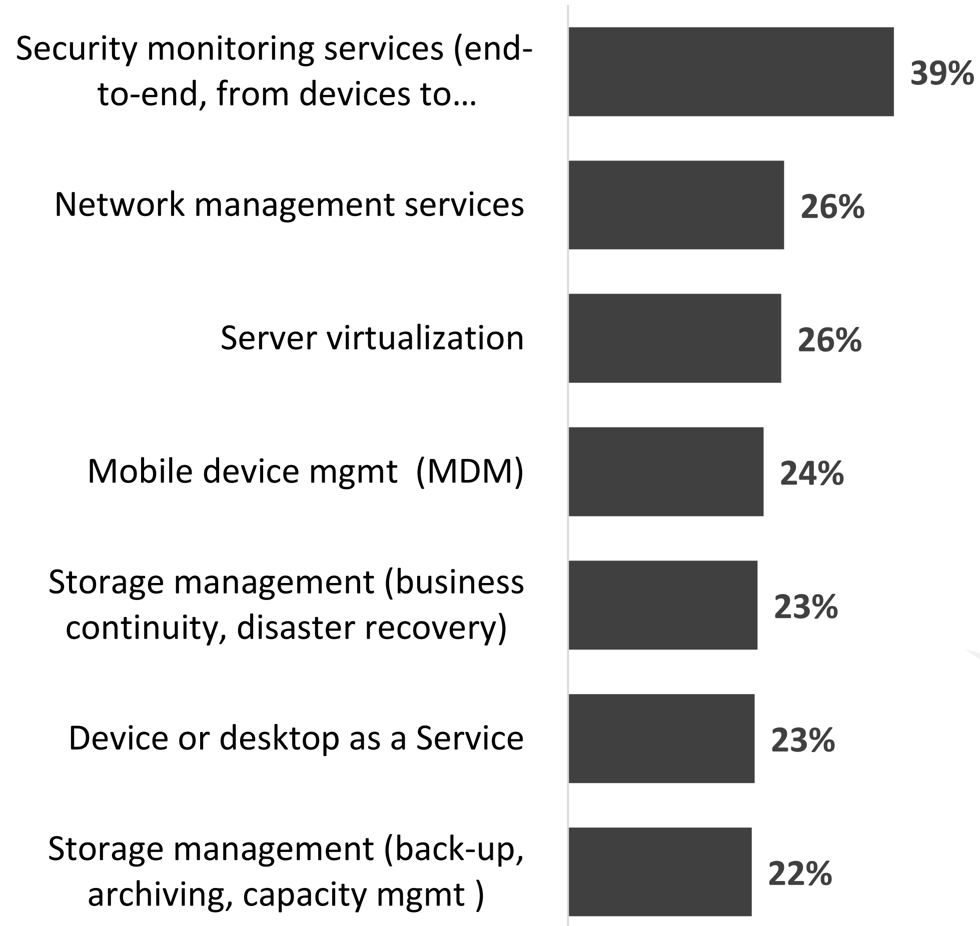
Most Profitable Managed Services: By Customer Focus

Rank	Small Business	Mid-Market	Enterprise
1	Network Mgmt. services	Network Mgmt. services	Enterprise Application Mgmt. (custom apps, ERP)
2	Mobile Device Mgmt.	Desktop/ Device as a Service	Network Mgmt. services
3	Hardware Help Desk	Enterprise Application Mgmt.	Hardware helpdesk
4	Unified Commun.	Storage Mgmt. (DR/BC)	Security monitoring services

Q: Please rank your company's top 4 most profitable managed services offerings over the last 12 months.

Also ranked in top 10 Services under Margin Pressure

Future services investment: security and network mgmt. top the list across MSP profiles; Mobile device mgmt. a priority for all MSP profiles, providing edge insights



Rank	Small Business	Mid-Market	Enterprise
1	Security monitoring svs.	Security monitoring	Server virtualization
2	Network mgmt. services	Server virtualization	Mobile device mgmt.
3	Mobile device mgmt.	Storage mgmt. (back-up, archiving)	Desktop/device as a service
4	Unified Communications	Mobile device mgmt.	Security monitoring svs.

"Security has not made us rich, yet. My customers have a hard time trusting "the phone guy" to be their security specialist. We're still trying though – we're white-labeling Sophos now and looking at others."

Q: Which are the new managed offerings your company is planning to focus on (build, resell) in the coming 12-18 months? (n=279)

Four Biggest Takeaways

- HYBRID ENVIRONMENTS & DELIVERY MODELS
- APPLICATION VS. INFRASTRUCTURE: PROFITS & DIFFERENTIATION

- **AUTOMATION: ROLE IN EFFICIENCY & TECHNOLOGY SELECTION**

  Service management automation platforms are now mainstay requirements to a successful MSP business; MSPs increasingly choosing technology or managed offerings based on their pre-existing integration to these MSP toolsets

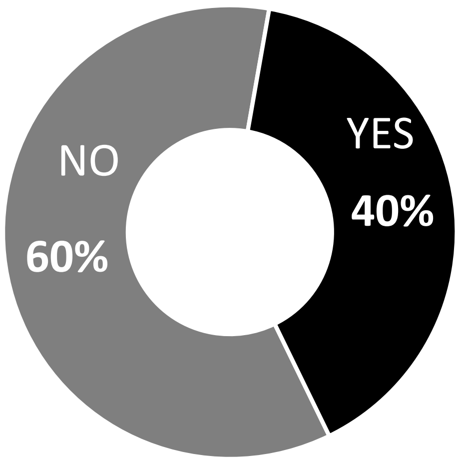
- SALES AND MARKETING INVESTMENTS: BRIDGING THE GAPS

"You don't want to deliver a managed service with a bunch of humans. Ideally, your managed service is code, so that whether it's 1 client or 100 clients, you just click a button."

Enterprise focused SI with fast-growing MSP practice and AWS relationship

Greater than 50% of respondents have no RMM/PSA automation tool; Small business-focused MSPs have the highest rate of services automation

Currently Using RMM + PSA Automation Platform?



If Yes

74%

feel their automation platform will scale well to support their Managed Services growth over the next 18-24 months

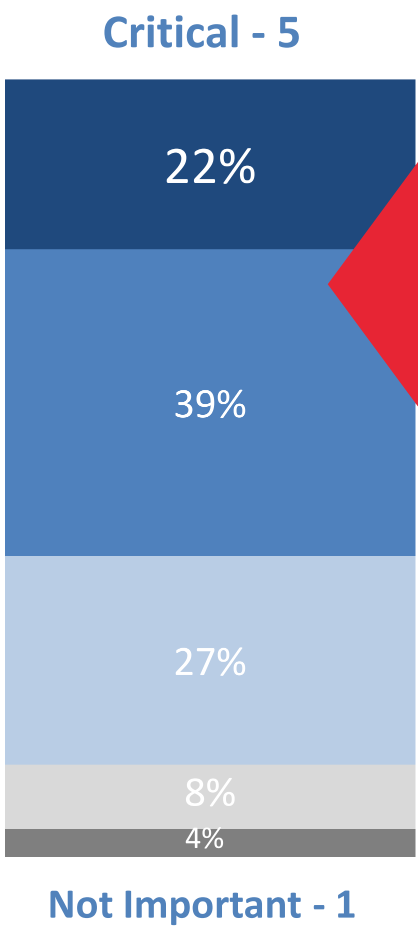
	Enterprise MSP	Mid-Market MSP	Small Bz. MSP
YES	16%	41%	**56%**
NO	**84%**	59%	44%

Most Highly Valued Automation Functions:
(from interviews)

1. Orchestration
2. Network management
3. Centralized billing
4. License management
5. Patch & update mgmt.
6. Helpdesk/support ticket mgmt.

Q: Are you currently using a services automation platform (RMM + PSA) to run your managed services business today? (n=279)

Although almost 2/3 of MSPs highly value a single mgmt. platform to manage across technologies, customer demand and robust feature set are equally or more important

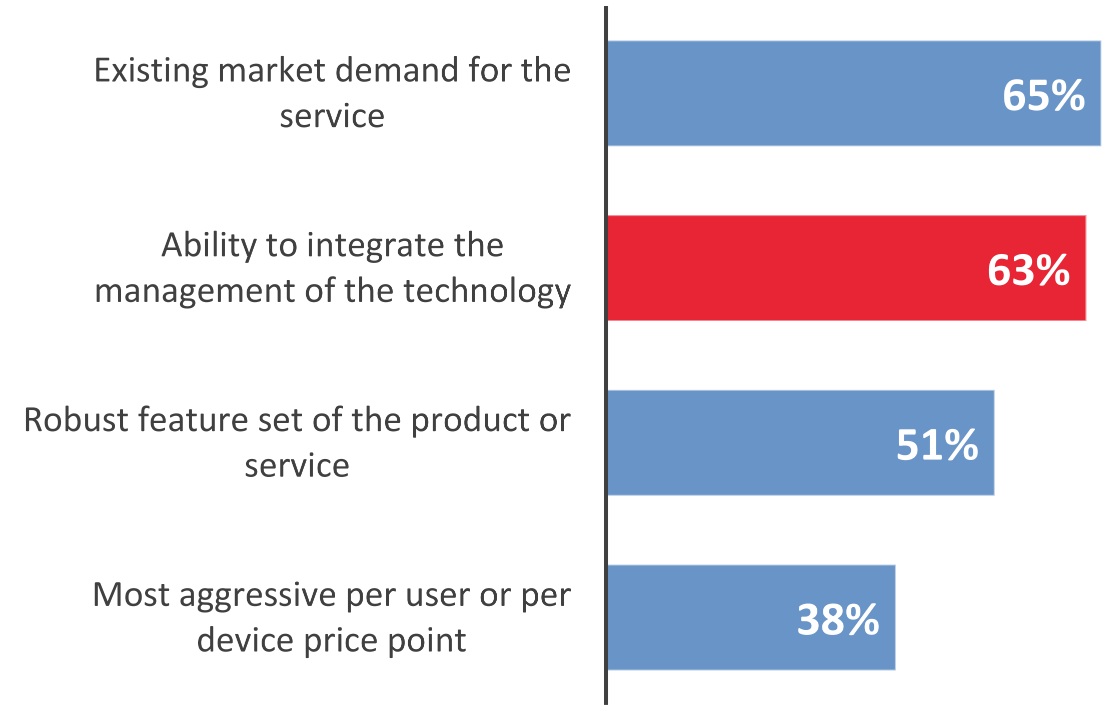


61% - say a single automation view is important or critical

(rated 4/5)

"We absolutely choose vendors who have integration via APIs to ConnectWise. There are very few and far between now who don't integrate."

Most Important Attributes When Evaluating a New Technology/Service *(ranked 1 or 2)*

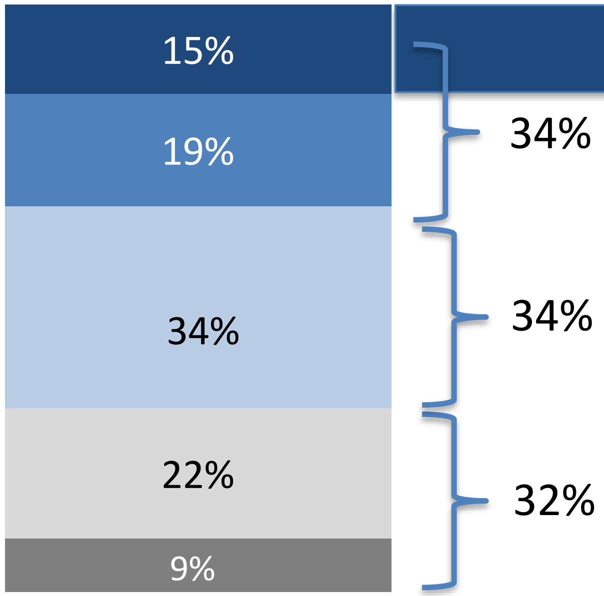


Q: How important is it to have a single pane of glass management tool for your managed services business across all the major technologies you're supporting? (n=279)

There is no definitive attitudes toward adopting best-of-breed services vs. integrated platform managed offerings; Enterprise MSPs prefer best of breed more frequently

Attitude toward adopting individual services vs. integrated MS offering (All)

Prefer best of breed - 1



Prefer integrated platform - 5

Small Business Generalists	Mid-Market w/Emerging MSP	Enterprise Integrators w/MSP Practice
17%	16%	23%

"We differentiate around breadth of services. All the apps. we manage have future pointers to Azure so we're predisposed to Microsoft. Their tools supports a very secure hybrid cloud environment."

"We have no hard line here. We try to accommodate each customer's preference. We do, however, aggressively seek alignment with our RMM system."

Q: What is your company's attitude toward adopting best of breed individual products vs supporting an entire IT vendor's platform of integrated offerings, relative to the growth of your managed services? (n=279)

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- APPLICATION VS. INFRASTRUCTURE: PROFITS & DIFFERENTIATION
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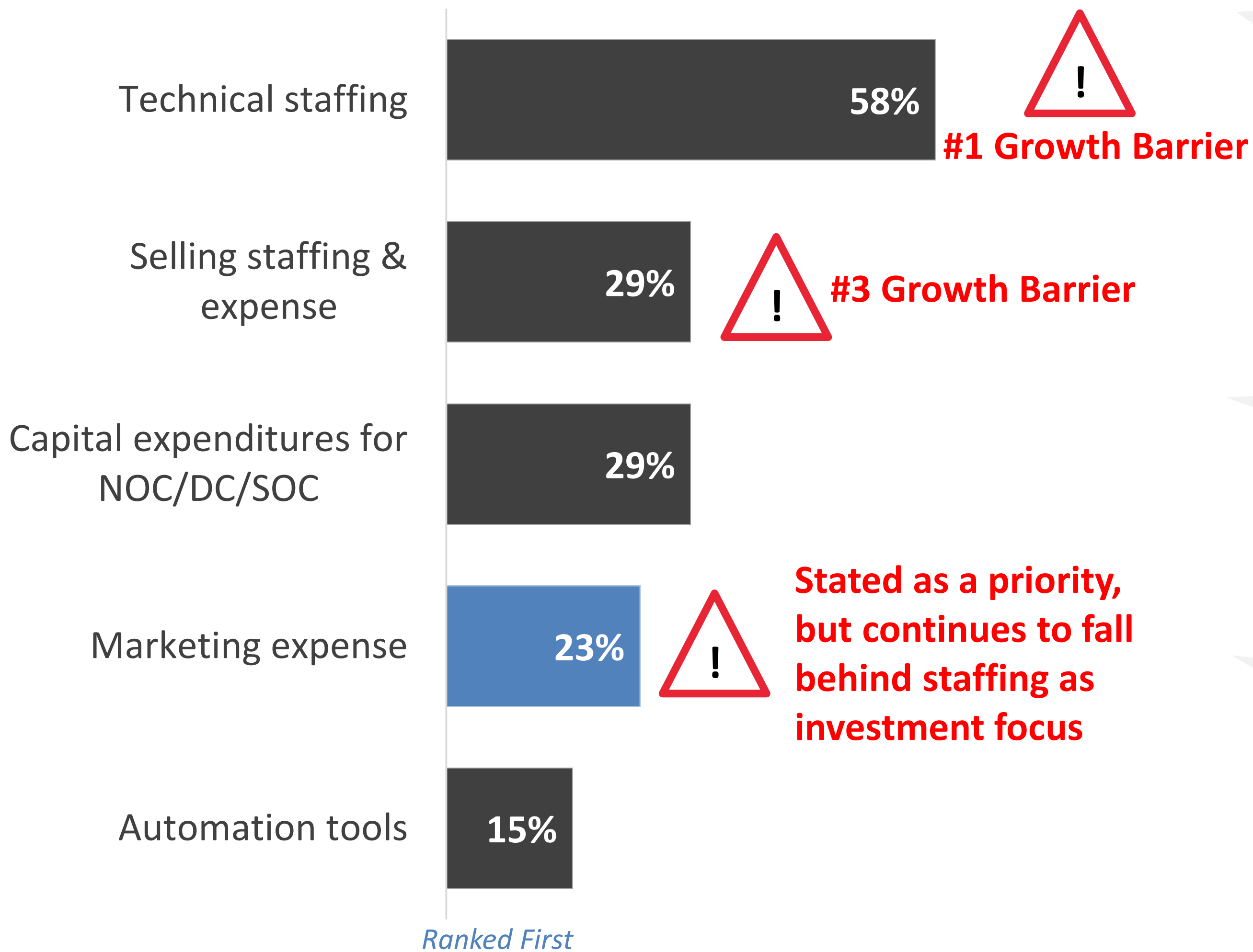
- **SALES AND MARKETING INVESTMENTS: BRIDGING THE GAPS**

  Sales and technical staffing plus marketing resources remain large gaps for many MSPs. MSPs require support for staff recruitment and training assistance to build a hybrid –savvy technical team plus a different model for rewarding and managing MDF

Across MSP profiles, staffing and marketing are the two biggest investments in the coming 12-18 months



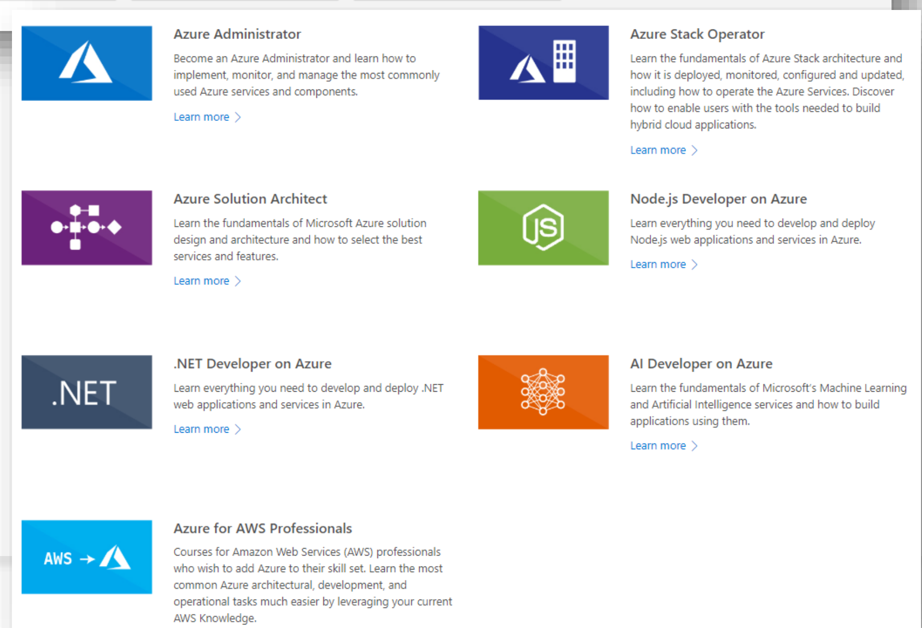
"A lot of my technical people sadly are not going to make the transition to the environment I want to manage. Even some of the existing Microsoft administrators struggle with the new cloud solutions.

"I don't want anyone working in our managed services practice that isn't already AWS certified!"

"Vendors have to figure out how to change the MDF model for MSPs. It still favors the big VARs."

Q: What do you expect to be your company's most critical opex/capex investments for your managed services business in the coming 12-18 months?

Technical Skills & Certification Investments: Cloud Related Jobs Growing >10% per Year



1. MCSE – Cloud Platform and Infrastructure
2. Azure Solution Architect

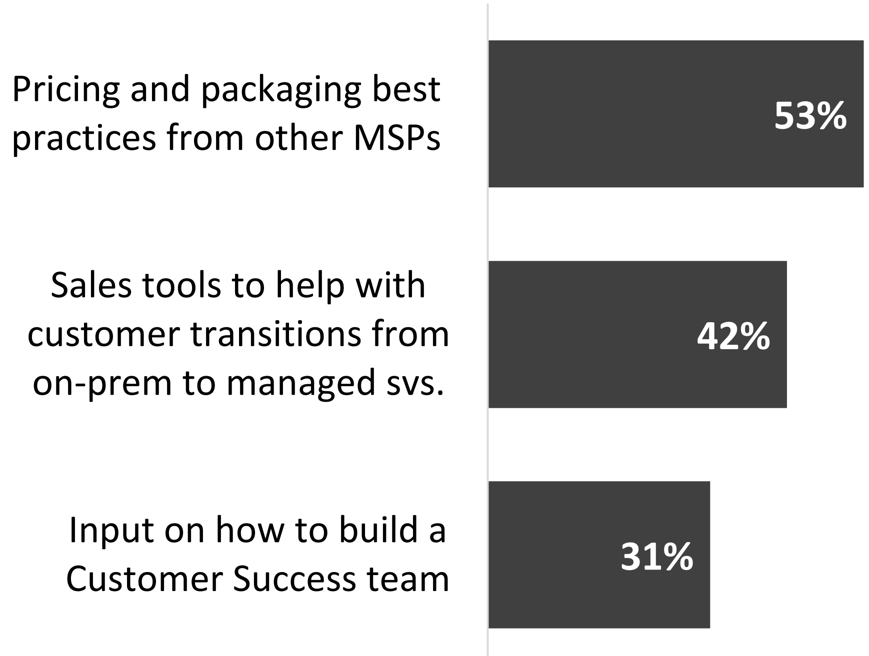
Highest Paying IT Certifications

(Salary Data from Global Knowledge – April 2018)

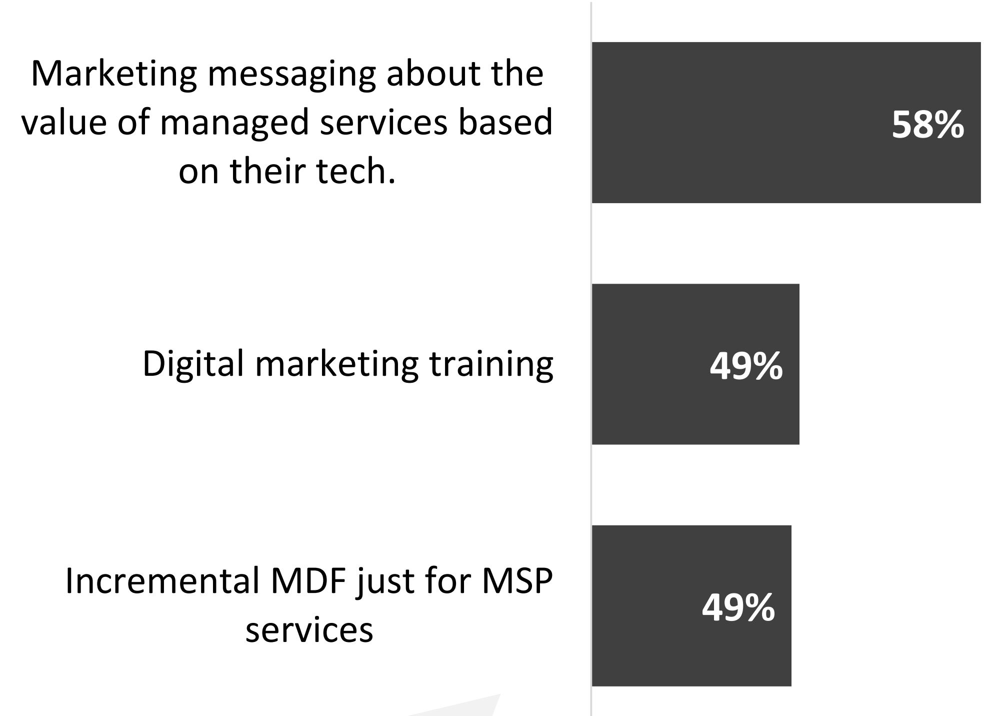
Rank	Certification	Annual $
1	**CGEIT** – Certified in the Governance of Enterprise IT	$122k
2	**AWS** Certified Solutions Architect – Associate level	$121k
3	**PMP** - Project Mgmt. Profession	$115k
4	**AWS** Certified Developer	$115k
5	**CISSP** – Certified Info. Systems Security Prof.	$112k
6	**CRISC** – Certified in Risk & Info. Systems Control	$111k
7	**CISM** – Certified Information Security Mgr.	$108k
8	**MCSD** – Microsoft Azure Solutions Architect	$107k
9	**Certified ScrumMaster** (project management)	$107k
10	**CEH** -Certified Ethical Hacker	$106k

MSPs want sales support in the areas of peer benchmarking on pricing, packaging of services and cloud/managed migration sales strategies

Sales Support Requirements



Marketing Support Requirements



"Change the MDF model. It doesn't support MSPs. It favors the big on-prem. guys."

Q: What kind of help do you need most from your IT vendors in the area of sales support for your managed services business? (n=279)

Relevance of Traditional Channel Program Support to MSPs

HIGH RELEVANCE (rated 4 or 5 of 5)

1. Sales training & certification
2. Demo units or NFR products
3. Technical training & certification

LOW RELEVANCE (rated 1 or 2 of 5)

1. Financing or leasing
2. Deal registration
3. Performance rebates

Q: Please rate the level of relevance of these traditional channel program elements to the success of your managed services business. (n=279)

Vendor Imperatives

1. Continue to **educate & raise awareness internally** around the unique business model & drivers of MSPs

2. Ensure your partner program has the key **MSP support table-stakes:**
   - Utility based pricing
   - Priority access to technical support
   - MDF allocations & branding rules
   - Affordable, accessible training
   - Access to trial and eval/demo gear

3. Help MSPs continue to **build their practice and differentiate:**
   - Services & cloud-savvy talent recruitment
   - Cloud migration services
   - Marketing staff & skills

Thank You

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