About this Research

CompTIA’s 3rd Annual Trends in Managed Services study explores the experiences, decision factors and usage trends among end user organizations that have worked with a managed services provider for their business’ IT needs. The objectives of this research include:

Research Objectives:
• Quantify and track current managed services practices
• Identify managed services technology drivers and inhibitors
• Identify what managed services are most popular today and in the future
• Identify vetting process for finding an MSP, including pricing thresholds

Methodology:
Part I: Online survey fielded to end users of technology/managed services
Part II: Qualitative component consisting of 1:1 interviews

This study consists of four sections, which can be viewed independently or together as sections of a comprehensive report. The individual sections and full report can be viewed at the research page on the CompTIA website.

Section 1: Market Overview/Business Priorities
Section 2: Managed Services Familiarity/Decision to Use
Section 3: Managed Services Experience/Satisfaction Level
Section 4: Qualitative Interviews

Part I: Quantitative End User Survey
Quantitative online survey of 400 IT and business professionals in the United States involved in IT decision-making (aka end users). Data collection occurred during November 2013. The margin of sampling error at the 95% confidence level for the U.S. results is +/- 5.0 percentage points. Sampling error is larger for subgroups of the data.

Part II: Qualitative Interviews
As a complement to the quantitative research, CompTIA worked with the research firm Cascade Insights, who conducted a series of in-depth interviews with 17 management-level professionals with titles such as CIO, Director of IT, and VP. The interview participants include one independent consultant with management experience in the outsourcing industry. Interviewees were selected to represent a variety of industry verticals. Each has experience either hiring or managing MSPs. Interviews were conducted on a one-on-one basis during October 2013, with an average length of approximately 30 minutes.

As with any survey, sampling error is only one source of possible error. While non-sampling error cannot be accurately calculated, precautionary steps were taken in all phases of the survey design, collection and processing of the data to minimize its influence.

CompTIA is responsible for all content contained in this series. Any questions regarding the study should be directed to CompTIA Research and Marketing Intelligence staff at research@comptia.org. CompTIA is a member of the Marketing Research Association (MRA) and adheres to the MRA’s Code of Market Research Ethics and Standards.
TRENDS IN MANAGED SERVICES

SECTION 1: MARKET OVERVIEW & BUSINESS PRIORITIES

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Key Points

• 92% of end user organizations said that technology is strategically important (NET) to the company today compared with how it was two years ago. Looking ahead, 88% (NET) predicted that technology would be strategically important to their organizations two years from now. When you break down their answers a bit between those that identified technology as “important” vs. those that described it as “very important,” 49% of respondents today believe technology is very important to their strategic mission compared with two years ago. That level of affirmation jumps to 65% that expect technology to be very important to their outfits two year’s hence.

• Of end user organization’s top business priorities for the coming year: Reducing costs/overhead, improving staff productivity and capabilities, reaching new customer segments and improving data analytics for better decisionmaking.

• Most MSPs are quite small in nature, often less than a $1M in revenue annually. As such, they typically serve SMB-sized customers. In 2012, 4 in 10 channel firms reported offering some degree of managed services. This could be a single hosted email solution or a more comprehensive offering of full-scale IT monitoring and management. Of that 40%, only half described themselves as pure-play or dedicated MSPs, with two thirds of that small percentage deriving more than half of their annual revenue from managed services contracts.
Managed Services: Market Overview

That the customer is king isn’t a new adage, but it is quickly taking on fresh meaning for those in the business of selling, buying and managing information technology. A spate of market and technological shifts in the IT industry have given corporate end users of technology, whether CIOs, IT managers, line of business executives or CEOs, greater purchasing leverage and choice than ever before. This increased clout lends itself to what they buy, whom they buy it from, how it will be delivered and consumed, and finally, which entity they select to manage it all.

What’s fueling this dynamic? For one, cloud computing’s ascension is shaking up the routes to market between vendors and customers and changing how technology is consumed and purchased. Likewise, the unrelenting desire for organizations to trim costs while also driving strategic initiatives is prompting new thinking about technology’s role in general, as is an increasingly youthful workforce brimming with different expectations and habits for IT usage and procurement.

One of the more significant choices customers have today is whether or not to contract with an outside party to handle day-to-day oversight, repair and implementation of some or all of the IT functions needed to run their organization. IT outsourcing, it should be noted, takes many forms. Traditional outsourcing projects of the kind engaged in by large enterprise firms, governments or other institutional bodies have long been mainstays of the business process outsourcing and consulting world inhabited by such firms as IBM Global Services, HP and CSC. These arrangements tend to involve either a finite long-term project or a recurring engagement to manage some function of the customer’s business – not necessarily an IT activity, but, for example, operating the accounting or payroll system for a firm. Often this involves much on-site activity with outsourcing consultants and software developers that create custom applications.

Managed services represents another essential piece of the outsourcing story. Further down the food chain in terms of scale, the managed services model nonetheless is a hot spot for a large percentage of today’s IT channel firms and will be the focus point for this research report.

The central tenet to the MSP model is a provider-customer relationship based on a contract backed by a service level agreement. Much as they do for other utilities, customers pay on a recurring basis for remote IT services such as desktop and network management, applications management, remote help desk, etc. This model manifests as an operational expense for organizations rather than a tap into capital budget to buy on-premises infrastructure and devices that are managed by an internal IT department. The typical managed services provider (MSP for the purpose of this report) serves small to medium-sized customers.
and/or individual departments within larger organizations using either their own data center or via outside hosting.

CompTIA’s 3rd Annual Trends in Managed Services study explores in depth the current state of managed services from the perspective of end user organizations that have adopted the model for remote monitoring and management of IT functions such as device and network management, security, help desk, and applications. The findings reflect current attitudes, usage trends and demand drivers around managed services as well as some of the challenges specific to the transition.

First a few market statistics on managed services:

- An August 2013 report by Research and Markets identifies the high growth segments for managed services to include managed infrastructure, managed mobility, and managed data center, which captured the highest market share as of 2013 and will continue steady growth through 2018. Other services expected to gain significant market traction in the coming years under managed data center include managed colocation and managed hosting. In managed infrastructure, the major service segment is the managed print services (MPS) segment. Also looking ahead, managed mobility services is expected to be the most sought-after service in the managed services market due in large part to the BYOD trend.

- Research firm MarketsandMarkets predicts that the global managed-services market will grow from $143 billion in 2013 to $256 billion in 2018.

- Gartner forecasted a global IT outsourcing market of $288 billion for 2013. This includes managed services along other types of IT outsourcing, such as business process outsourcing (BPO) and the IaaS component of cloud computing. For the BPO component, IDC predicts the U.S. market will approach $100 billion by 2017.
  
  - It should be noted, estimates of the total size of the managed services market vary due to differing definitions and methodologies. The addressable market for small and midsize MSPs in the U.S. is typically viewed as a small subset of the broader IT outsourcing market.

- Most MSPs are quite small in nature, often less than a $1M in revenue annually. As such, they typically serve SMB-sized customers. In 2012, 4 in 10 channel firms reported offering some degree of managed services. This could be a single hosted email solution or a more comprehensive offering of full-scale IT monitoring and management. Of that 40%, only half described themselves as pure-play or dedicated MSPs, with two thirds of that small percentage deriving more than half of their annual revenue from managed services contracts.

- MSPmentor 100 research showed an increase in total annual recurring revenues for the top 100 MSPs by revenue of 28 percent from 2011 to 2012.

- The industry is experiencing some flux in terms of mergers and acquisitions. In January, electronics retailer and Geek Squad owner Best Buy sold off its MindSHIFT MSP business to printer and copier firm Ricoh. Best Buy had envisioned MindSHIFT, which it acquired in 2011, to be the business complement to its Geek Squad IT services arm that focused on retail consumer
needs at home. Selling the MSP might signal the difficulty in convincing business customers to contract for IT services from a retailer.

Before diving into managed services specific data, which comprises in entirety of Sections 2-4 of this report, the remainder of this section will provide foundational information about end users, including their attitudes about the use of technology in general and business priorities for the upcoming year.

Much of what is addressed related to managed services concerns the smaller MSP that often deals with SMB customers, companies in the channel that have or are evolving from a transactional reseller business based on IT products to one that offers managed services by contract for a recurring fee. Section 4 of this report contains qualitative insights from end user organizations that are working with MSPs that have moved up the ladder to approach some of the outsourced consulting type work that is the domain of the very largest providers. Their tips on what they look for in a provider are instructive to any small MSP looking to scale their business.
Business Priorities

Ultimately when making technology buying decisions, the general business priorities of an organization play an enormous factor in determining what is adopted and how it is purchased and managed. Not surprisingly, the majority of respondents peg cost reduction as their chief strategic priority in the coming year, a goal that is nearly matched by the desire to improve staff productivity and capabilities.

The argument is often made that turning to managed services as a way to handle some or all of your basic, day-to-day IT operations reins in costs, or at the very minimum renders them more predictable due to the way they are priced on a recurring basis. At the same time, moving more IT into the hands of an outside provider also clears the way for internal IT staff – or whomever handles IT for a particular organization – to work on initiatives that hew more to core mission and may drive revenue. Likewise, as will be shown in Section 2 of this report, a high percentage of companies using managed services today identify the MSP engagement as one where you are working with “experts” that provide “peace of mind” and “security.” That validation suggests that IT is run more smoothly, with fewer problems and more effective resolution when they do come up, in the hands of an MSP. With employees experiencing less downtime as a result of IT glitches in the corporate network or with their devices, productivity within their core work responsibilities is likely to increase.

End User Strategic Business Priorities for Next 12 Months

<table>
<thead>
<tr>
<th>Priority</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Reducing costs/overhead</td>
<td>56%</td>
</tr>
<tr>
<td>Improving staff productivity/capabilities</td>
<td>52%</td>
</tr>
<tr>
<td>Reaching new customer segments</td>
<td>50%</td>
</tr>
<tr>
<td>Improving data analytics for better/faster decisions</td>
<td>42%</td>
</tr>
<tr>
<td>Innovating more effectively</td>
<td>37%</td>
</tr>
<tr>
<td>Improving operational efficiency</td>
<td>34%</td>
</tr>
<tr>
<td>Managing competitive threats</td>
<td>16%</td>
</tr>
</tbody>
</table>

Source: CompTIA’s 3rd Annual Trends in Managed Services study
Base: 400 businesses (end user)

Advancing the Global IT Industry
Other priorities for the year ahead also tie into the use of technology and possibly managed services as well. The desire to improve data analytics capabilities is something company executives expound upon all the time as a way to gain actionable insights into business performance and potential for improvement. Likewise, innovating more effectively and improving operational efficiency are both goals that many turn to automation and better technology tools to help achieve.

So just how critical is technology to today’s end user organizations? Very — and only growing to be more so. A whopping 92% of all respondents said that technology is strategically important (NET) to the company today compared with how it was two years ago. Looking ahead, 88% (NET) predicted that technology would be strategically important to their organizations two years from now. What’s most striking though is when you break down their answers a bit between those that identified technology as “important” vs. those that described it as “very important.” Presently, 49% of respondents believe technology is very important to their strategic mission compared with two years ago. That level of affirmation jumps to 65% that expect technology to be very important to their outfits two-year’s hence.

The accelerating high marks for technology’s role in the future cuts across all sizes of companies too. Small, medium and large firms each expect technology to become more strategic in the immediate years head. Based on that expectation, it can be assumed that many new decisions around what kinds of IT to deploy and who will be responsible for operating and managing it are going to be percolating within the walls at many organizations in the next 12 months.

### Technology’s Stature Growing for All Size Companies

<table>
<thead>
<tr>
<th>Rating of Overall Importance of Technology to Business Success</th>
<th>Trending of VERY IMPORTANT Rating of Technology by Firm Size</th>
</tr>
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<tbody>
<tr>
<td>NET importance = 92%</td>
<td>2014</td>
</tr>
<tr>
<td>Very important</td>
<td>49%</td>
</tr>
<tr>
<td>Important</td>
<td>43%</td>
</tr>
<tr>
<td>NET somewhat important / not that important</td>
<td>9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>&lt;50 employees</th>
<th>50-99 employees</th>
<th>100+ employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>48%</td>
<td>36%</td>
<td>59%</td>
</tr>
</tbody>
</table>

Source: CompTIA’s 3rd Annual Trends in Managed Services study
Base: 400 businesses (end user)

_A dvancing the Global IT Industry_
Those decisions are going to hinge on both the strategic goals an organization is looking to achieve as well as on its current assessment of its technology set up today. How they are using IT. Is their system working out to their standards? Are they happy with current IT management strategies – either internal or with an outside provider? What are their options for change?

**IT Management and Outsourcing Behaviors**

How IT is managed within an organization is quite often a mix of different models. Nearly two-thirds (63%) of organizations have a formal IT department in-house, while another 43% said that IT is handled by in-house staff that do not classify as an actual IT department. The latter case is more likely to occur in smaller companies that cannot afford to staff for IT specifically but have a employee or employees that are well-versed in technology and can handle the day-to-day troubleshooting and help desk concerns when needed.

In the last year, 75% of organizations -- whether they have internal IT departments or not -- avail themselves of the services of an outside IT firm to manage one or more of their IT functions or to provide implementation, integration or other IT project work.

![Management of IT Presents a Litany of Choices](image)

With respect to satisfaction levels, organizations have been generally upbeat about how their IT is being handled in the last year. One of the more interesting findings, however, concerns companies that underwent a reduction or elimination of in-house IT staff due to contracting with an MSP recorded the highest percentage of “very satisfied” responses.
of “very satisfied” responses in rating the handling and management of their IT functionality in the past year. This could represent a validation of the managed services experience as an improvement of the IT process for this set of end users. In Section 3 of this report, companies that are using managed services today provide an assessment of the overall experience, including giving their thumb’s up or down in terms of satisfaction.

For those that did work with an outside provider this past year, the list of activities was also diverse from one-off repairs and troubleshooting to Web design and the deployment and installation of new hardware and/or software. Nearly half outsourced the management of an IT function, including the use of an MSP, which was consistent across organizations of all sizes, small to large.

With respect to cloud computing initiatives, half of organizations decided to use outside help. Between medium and large companies the incidence was much higher, however. Six in 10 respondents from organizations of this size said they outsourced the management of an IT function in the last year. Among the largest of these firms – which reach enterprise size – this outsourcing is likely to be of the traditional variety mentioned in the very top portion of the section. But some of the activity is also likely to have involved MSP contracts. Of the third of the smallest firms that said they outsourced an IT function last year, the vast majority of those engagements are likely to have been in a managed services capacity.

Of those companies that did not use a third party for IT in the past year, 26% said they are currently evaluating such firms for future use, including 3 in 10 medium and large organizations respectively. Not surprisingly, nearly two-thirds said they would consider using an outside firm if the need arises and just 7% nixed the possibility altogether.
Key Points

• Roughly 3 in 10 end user organizations have adopted managed services in some form, according to CompTIA research. However, it must be noted that many end users have different interpretations of what managed services means. For example, some consider the use of a Software as a Service (SaaS) application such as Salesforce or Google Apps via the Internet as managed services, and yet this use is not governed by an actual contractual arrangement with an MSP. Technically not managed services. Given confusion such as this, the incidence of true managed services use may indeed fall below the 29% cited here.

• Many reasons exist for adopting managed services, among them improving security, cost savings, proactive management of IT problems and opportunities and the ability to access new technologies. Of the 58% of organizations that consider cost savings a premium driver to managed services, slightly more than a third, on average, said they expect significant savings over time. This includes actual dollars, but also other soft resources such as employee time.

• IT executives are the main decision-makers behind a managed services move, but other constituents have their say as well. For example, nearly 3 in 10 organizations cited the offices of non-IT executives such as CFOs, GMs and procurement officers as ground zero for an MSP decision. This development underscores the more general shift in IT purchasing trends over the past several years.

• The majority of organizations (58%) using managed services today have been doing so for between two and five years now. That’s a slight uptick from 2011, when 52% of companies had been using managed services for that amount of time. This increase mirrors those seen across other duration spans; for example, 29% of 2013’s respondents report using managed services for more than five years now, compared with 26% that had reached that point in 2011. Likewise, nascent users with less than a year of managed services experience climbed from 8% in 2011 to 11% in 2013.
Why Managed Services?

As discussed in Section 1 of CompTIA’s 3rd Annual Trends in Managed Services Study, the managed services model represents another important facet within the broader IT outsourcing story and remains a solid option for end user organization’s that are looking to put some or all of their IT functions into the hands of a third-part expert or MSP.

Much as they do for other utilities they consume, managed services customers pay on a recurring basis for remotely managed IT services such as desktop and network management, applications management, remote help desk, etc. These services are provided under contract and backed by a service level agreement that contains a number of accountability and performance provisions. Why is this model compelling to some organizations? Predictable costs are a chief reason. Managed services manifests as an operational expense for organizations rather than the hit to capital budget required to buy on-premises infrastructure and devices. Not all MSP pricing models are the same (Pricing types are detailed below), but regardless of whether they are per-user, per-device or flat-rate, pricing schemes enable customers to forecast their IT costs with a fair amount of accuracy – if not near exact in some cases.

Additionally, the typical MSP serves small to medium-sized customers and/or individual departments within larger organizations using either their own data center or via outside hosting parties or the cloud. These groups often are not targeted by or do not need the much more expensive services of a large-scale IT outsourcing firm, but nonetheless lack sufficient internal IT to handle some or all of their needs or wish to outsource functions to free up staff to work on core initiatives. An MSP contract can be just the trick. (See Section 1 of this report for more on general outsourcing)

But while managed services has gained steady traction among end users in recent years, the model is not predominant. Consider these numbers from the provider side: In 2012, 4 in 10 channel firms reported offering some degree of managed services. This could be a single hosted email solution or a more comprehensive offering of full-scale IT monitoring and management. Of that 40%, only half described themselves as pure-play or dedicated MSPs, with two thirds of that small percentage deriving more than half of their annual revenue from managed services contracts. And while many end user organizations have been using managed services over the years, the percentage that are turning over their entire IT environment remain scant. Most will contract with an MSP for a single function such as

Managed Services Evokes a Variety of Attributes

Of the many words that can apply to managed services...

Three most associated:
- Efficiency
- Security
- Expertise

Three least associated:
- Confusing
- Unreliable
- Risky

Source: CompTIA’s 3rd Annual Trends in Managed Services study
Based: 600 businesses using managed services in some way
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outsourced email, Web site hosting or help desk duties.

For a model that has been trumpeted loudly by the indirect channel for close to a decade now, what accounts for seemingly slow growth in adoption? Consider a few facts in play.

-- Roughly 3 in 10 end user organizations have adopted managed services in some form, according to CompTIA research. However, it must be noted that many end users have different interpretations of what managed services means. For example, some consider the use of a Software as a Service application such as Salesforce or Google Apps via the Internet as managed services, but it is not an actual contractual arrangement with an MSP. The incidence of true managed services use may indeed fall below the 29% cited here.

-- Most true MSPs are quite small in nature, often less than a $1M in revenue annually. As such, they typically serve SMB-sized customers. Small MSPs are not necessarily high growth firms and may serve a set population of clients. To scale up, they need to address a number of areas, including cash flow, sales and marketing and level of commitment to the model. This is not an easy task for many small providers. As mentioned, most MSPs today are hybrid in nature, dividing their business between transactional product sales, project work and managed services. See Section 4 of this report for insights from end user organizations that work with MSPs that have ramped their managed services business to be the majority of their revenue.

From an end user perspective, what is happening in this space? Managed services is typically used alongside internal IT departments, in a hybrid approach. Choosing managed services is a major organizational decision, one weighed against handling IT internally and necessitating – or should -- a critical vetting process to make sure that the best MSP for your organization is found. This section of the report will document current attitudes toward managed services and detail the decision-making process companies go through in finding and selecting a provider. Section 3 of the report concerns the aftermath of the MSP decision by end user organizations; in particular assessing the transition and onboarding process and identifying current areas of satisfaction and dissatisfaction.

On a subjective level, end users that profess familiarity with the concept of managed services also largely ascribe positive attributes to the business model. Respondents were far more likely to associate terms such as “efficiency” and “expertise” with managed services than they were “risky” or “unreliable.” These attributes appealed in varying degrees depending on company size and presumably organizational need. For example, two thirds of the largest organizations (100+...
employees) surveyed linked the word “efficiency” tightly to how they view managed services compared with half of small firms (1-49 employees) that did so. This is perhaps indicative of a greater complexity (e.g., a host of legacy applications along with siloes of software and infrastructure at varying lifecycle stages) that often exists in large IT environments – complexity that many organizations eventually seek the help of an outside party to tame and manage.

Not surprisingly, IT-oriented managers had a slightly higher degree of familiarity with managed services than their business-side colleagues. Internal IT departments, typically at the CIO level, are either the primary driver behind the decision to work with an MSP or the group most affected by an adoption of this model. They not only vet and select an MSP in most cases, but also serve as a key part of the transition role that involves onboarding, integration and handoff. Their stake in the game is understood.

And yet while IT executives are the main decision-makers behind a managed services move, other constituents have their say as well. For example, nearly 3 in 10 organizations cited the offices of non-IT executives such as CFOs, GMs and procurement officers as ground zero for an MSP decision. This development underscores the more general shift in IT purchasing trends over the past several years, in which a wide range of parties outside the IT department are involved directly or indirectly in the technology decisions and purchasing for their companies. (See Section 6 of CompTIA’s 4th Annual Trends in Cloud Computing study for more detail on some of the trends in IT procurement)

One interesting data point to note: Smaller firms were far more likely than either medium or large organizations to see a non-IT executive such as the CFO making the call on managed services. This likely results from the fact that many small firms do not have a formal internal IT staff – let alone a CIO title – and so technology decisions, including outsourcing, fall to other senior staff. Four in 10 small companies said a non-IT executive initiated the managed services choice compared with 21% of medium and just 16% of large organizations that did the same. Additionally, 7 in 10 small companies cited the lack of an internal IT staff as either a major or minor factor in their decision to contract with an MSP. Conversely, in more than half of medium and large organizations, the managed services decision took root at the CIO or other IT executive level (a third of small firms reported this to be the case), which suggests that firms of a certain revenue or employee count are more likely to have in place formal policies that funnel technology decisions through internal IT, though that, as hinted above, is changing.

Decision Factors Behind Adoption

A measure of longevity is starting to reveal itself in the managed services space. The majority of organizations (58%) using managed services today for some or all of their IT needs have been doing so for between two and five years now. That’s a slight uptick from 2011, when 52% of companies had been using managed services for that amount of time. This increase mirrors those seen across other duration spans; for example, 29% of 2013’s respondents report using managed services for more than five years now, compared with 26% that had reached that point in 2011. Likewise, nascent users with less than a year of managed services experience climbed from 8% in 2011 to 11% in 2013.

The slight increases suggest that the needle is moving ahead, albeit slowly, in terms of managed services adoption rates among new users, but also that there is some stability among existing users that continue to trust in the model and presumably renew contracts with their current MSPs or jump aboard with a new provider. For MSPs themselves, one of the biggest hurdles in selling managed services has

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3rd Annual Trends in Managed Services Study: Section 2
been eliciting a comfort level of trust with potential customers, so any increase in net new and retention of existing clients suggests progress.

A wide array of reasons prompts the exploration of and eventual decision to engage with an MSP. Some are tactical and pragmatic: Organizations are looking for better network uptime than currently achieving, for example, or they view a third party monitoring and managing their IT as a more assured path to improving their IT security. Cost savings, which will be discussed below, rings in as a perennial factor driving an organization to take a look at managed services as a conduit for IT management.

Other reasons are more strategic in nature, such as a company’s desire to take a more proactive approach to IT. Consider today’s in-house IT staffs: Unfortunately, many of them are forced to work daily in reactive mode, troubleshooting problems after they arise. This is not a competency issue, but usually result of staffing shortages and resource constraints. Proponents of managed services believe the “expert” and focused nature of an MSP provides the resources needed to get out ahead of potential IT problems, as well as to make recommendations for a technology roadmap aimed at future needs and growth goals. Nearly 7 in 10 medium and large-sized organizations said they sought the services of an MSP to become more proactive about technology in their organization – either troubleshooting or finding new opportunities. Most of these companies also maintain their own IT staff, further evidence that managed services is a choice that is often made as an adjunct or complement to resources already in play. (See Section 3 for data on what organizations have done with internal IT staffs as a result of engaging with an MSP)
Also on the strategic end of things, some organizations view alignment with an MSP as an avenue to new technologies that will be made available to them as a more affordable and scalable service vs. an additional capital expense for a particular product or solution. This ranked as a major factor for going with an MSP among roughly two-thirds of respondents across all segments: small to large companies, IT and business stakeholders and veterans vs. newbies to the managed services world.

A high percentage of medium and large-sized organization (roughly 6 in 10) said a major factor in their managed services adoption was the ability to then free up existing IT staff to work on strategic initiatives that, conceivably, drive revenue or other core goals. This again underscores the complementary nature of having internal and external stewards of an organization’s technology.

One of the newer drivers directing business to MSPs is the perceived assistance they can provide a company looking to tap into cloud-based solutions. While MSP fundamentals typically involve monitoring and managing a customer’s in-house infrastructure and applications remotely, they also host solutions in their own data centers as well as provision those that reside in the cloud. To an end user organization just orienting to cloud, MSPs could play a critical role in helping navigate the various cloud offerings on the market today, vetting and aggregating solutions and establishing long-term management in the form of a managed services contract. (Please see CompTIA’s 4th Annual Trends in Cloud Computing for more on the different cloud business models in the channel today)

Now a word about security. The data reveal a paradox of sorts on the topic. While respondents in this study rank improving security as the No. 1 factor leading them down the path of managed services, past findings have shown adverse security concerns – particularly those around allowing a third party to have
access and control over critical data – to be the main reason others have eschewed managed services altogether. Where an organization falls on the security spectrum with managed services simply might be a matter of individual risk tolerance, a positive or negative past experience or any number of other subjective factors that fuel such decisions. And as with any other area of IT, security is a thread that runs throughout and will continue to direct customer choice for various solutions and/or business models.

**Managed Services and Cost Savings**

No discussion of managed services would be complete without mentioning cost savings. As a demand driver for managed services, the desire to reduce costs over in-house management of IT always ranks high on the list. In 2011, saving money was the No. 1 reason to adopt managed services, cited by 6 in 10 end user organizations. In 2013, cost savings took a back seat to some of the initiatives listed above, but remained a major decision factor for 57% of respondents.

Among those that consider cost savings a premium driver, slightly more than a third, on average, across all organizational sizes said they expect significant savings over time. This includes actual dollars, but also other soft resources such as employee time. Interestingly among the smallest firms, 17% said they expected to see IT costs remain the same as prior to using managed services, but expect benefits to come from elsewhere. Since many of these firms lack an IT department, contracting the services of an MSP may free up that tech-savvy sales rep that doubles up as the de facto IT guy to work 100% of his or her time driving new business.

Long-term total cost of ownership and ROI of managed services can be difficult to track mainly because there are so many variables within an organization with the types of technology and services they are outsourcing, whether they have complementary in-house IT staff, SLA terms and the MSP’s performance and efficiency. In Section 3 of this report will present findings on the experience of hiring, onboarding and transitioning to managed services, as well as general satisfaction with the experience. Respondents that reported being at least somewhat dissatisfied with their managed services experience in the last 12 months attributed the displeasure to the fact that cost savings were not in line with expectations.

<table>
<thead>
<tr>
<th>Cost-Savings Expectations Vary by Firm Size/Need</th>
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<tbody>
<tr>
<td>By adopting managed services...</td>
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<tr>
<td></td>
</tr>
<tr>
<td>Expect significant savings (time, internal salaries, resources, etc.)</td>
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<tr>
<td></td>
</tr>
<tr>
<td>Expect modest savings</td>
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<tr>
<td>Expect cost-neutral, but benefits to come elsewhere</td>
</tr>
<tr>
<td>Expect to cost more than internal IT</td>
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</table>

Source: CompTIA’s 3rd Annual Trends in Managed Services study

Advancing the Global IT Industry
Key Points

• End user organizations report relative satisfaction with the managed services transition process. The vast majority (77%) across all company types said the transition went according to expectations, while 16% said the process exceeded their expectations by moving more easily or efficiently. Seven percent were less than satisfied with the process, citing either difficulty in finding the right provider or delays in onboarding and time to ROI.

• Adopting managed services rendered some impact on internal IT departments, but nothing drastic. Just 6% of organizations eliminated their in-house IT staff after contracting with an MSP, while 26% reduced headcount and another 53% made no changes whatsoever. An additional 15%, mostly SMB businesses, had no internal IT staff to begin with.

• End user training is becoming more endemic to the MSP transition experience. 4 in 10 organizations report that their MSP provided on-site training to staff as part of the adoption process. The trend is increasing; consider that more than half of organizations with less than five years invested in managed services received user training from their MSP compared with 37% of those that have used managed services for more than five years.
Managed Services Transition Experience

Making the decision to use a managed services provider for IT needs marks just the first step in a more involved transition process for many organizations. The road ahead includes finding and vetting a provider, negotiating terms of a contract, facilitating a handoff between internal IT and the MSP, as well as a number of other actions.

In this section of the report, the transition experience of end user organizations that are currently involved with managed services will be explored. It’s a critical process for both the end user and the MSP to get right at the outset. Organizations that choose managed services typically are looking to solve an existing problem, drive new initiatives and/or save money. For example, the current IT environment may have spiraled out of control or managing it has become too expensive. Or consider that some IT departments seek help after their organization acquires another company or companies and the resulting integration issues around the disparate IT creates an unmanageable headache.

And because a managed services contract effectively means handing control and oversight of data, systems and other IT to a third party, the selection process and upfront negotiations often set the tone for what can be a successful experience or one that is less-than-stellar.

Dissecting the Managed Services Adoption Process

<table>
<thead>
<tr>
<th>Length of time after found an MSP to get company systems fully on-boarded</th>
<th>How companies rate the transition to managed services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 2 months</td>
<td>24%</td>
</tr>
<tr>
<td>2 to 5 months</td>
<td>36%</td>
</tr>
<tr>
<td>5 to 7 months</td>
<td>31%</td>
</tr>
<tr>
<td>8 months or more</td>
<td>10%</td>
</tr>
</tbody>
</table>

Above expectations (easier/more expected) | 16% |
About what we expected | 77% |
Below expectations (difficult selection/delays) | 7%

Source: CompTIA’s 3rd Annual Trends in Managed Services study
Base: 400 businesses using managed services in some way
Advancing the Global IT Industry
When asked about their general satisfaction with using managed services (not just the transition process), roughly a third of organizations of all types reporting to be “very satisfied” with the MSP adoption process, while another 6 in 10 said they were “mostly satisfied.” Those approval ratings are fairly consistent with the assessments provided by managed services users in 2011, but with a slight dip in the number that fell into the superlative satisfaction bucket.

How did organizations view the transition process specifically? The vast majority (77%) across all company types reported that the transition went according to expectations, while 16% said the process exceeded their expectation by either proceeding more easily or with more efficiency. Seven percent were less than satisfied with the moving process, citing either difficulty in finding the right provider or delays in onboarding and time to ROI.

By way of definition, completing the managed services transition process means reaching the point when the MSP has begun operating under the provisions of the service level agreement (SLA) and the contract is now active. The starting point is the initial search for a provider. Roughly 8 in 10 organizations reached this point somewhere between two and seven months, with the smallest firms experiencing the fastest transitions (often due to simpler environments, fewer moving parts) than the largest entities.

One trend to note with respect to the overall impression of the transition process: Companies that did not reduce their internal IT staff as a result of contracting with an MSP were more likely to describe the transition favorably or as having met expectations. Just 3% of organizations in that category reported a negative experience, compared with 13% of those organizations that either eliminated or reduced their in-house IT staff as a direct result of signing up with an MSP. Takeaway? The process of moving what can be a complicated set of IT functions, applications, devices and processes to an outside party is facilitated by having in-house IT on staff to help with the hand off, pass along crucial institutional knowledge and otherwise smooth the steps along the way. It’s also highly likely that the IT staff in question had a strategic role in deciding to adopt managed services in the first place, as well as select the provider. (See Section 2 of this report for more on decisionmakers)

Further evidence of the benefits of collaboration can be found when you look at managed services transition time. Eighteen percent of organizations with in-house IT said the transition process from red to green light wrapped up in a speedy two months or less, compared with 8% that experienced that level of onboarding efficiency with a reduced or eliminated IT staff. Even more disparity is revealed between the two groups when you look at those that completed their transition in a more average 5 to
7 months’ timeframe. Nearly twice as many in the group with reduced or eliminated IT needed this much time to complete the move to an MSP as their counterparts with intact internal IT staff.

But while having an internal IT staff appears to have some correlation to an easier managed services adoption process, the findings also reveal that among organizations with a longer track record using an MSP (greater than 5 years), they had eliminated their internal IT staff at 3x the rate (12% vs. 4%) of those newer to using the model. This could be a simple anomaly or it could indicate that over time the level of comfort and proven results of the MSP experience lead organizations to be exclusive. But given the small percentages in play here, it’s clear that the vast majority (79%) maintain an internal IT staff.

**Managed Services Checklist**

The dance that takes place between the time an organization finds an MSP to work with and when all systems are a go is replete with a number of tactical steps. Not all MSPs follow the full list; nor does every end user organization need that to be the case. Of the list in the figure below, the largest organizations using managed services had the highest incidence of experiencing each of these actions. This likely speaks to the greater complexity in their current IT environments – more applications in play, more integrations and customizations of systems and basically just more users to support.

The most common transition step, an onsite visit by the MSP to assess a customer’s current IT environment, would seem a no-brainer for both parties. And while nearly two-thirds of organizations joined with MSPs that conducted such an in-person inspection, the fact that another third did not is somewhat puzzling. So much of how an MSP decides to structure and price a contract has to do with the initial glimpse into the state of the environment they are going to be taking over and managing. Even more perplexing, of those organizations that worked with an MSP that conducted an in-person review, just 19% of them were charged a fee. Perhaps the unfounded notion that such an assessment must be done for free explains why some MSPs don’t bother in the first place. But frankly, that just money left on the table for them.

The initial assessment step also allows the MSP to determine if any infrastructure upgrades need to take place before the managed services contract can be executed efficiently. For example, it is commonplace for organizations to need to refresh or standardize parts of their IT environment such as servers, operating systems and networking equipment in advance of a managed services engagement. In fact, 8 in 10 respondents last year required such a capital investment, which typically falls as a separate
expense prior to contract pricing kicking in. A full 73% of large organizations reported having to make upgrades or other capital changes to servers, routers and other networking equipment, for example (see Appendix).

Training for end users is a transition step that has not been as commonly applied in the early years of managed services. But today, more than 4 in 10 organizations report that their MSP held training sessions for employees, which is an important step as it is often the case that users far removed from the IT department have no idea their devices, software and other daily productivity tools are being managed by an outside firm – or that that party often serves as their help desk. More transparency via upfront training should provide users with more efficient resolution to problems. One proof point that training is becoming more endemic to the MSP experience can be found by looking at the incidence of it among organizations newer to managed services vs. those in the game longer. Just more than half of organizations with less than five years invested in managed services received user training from their MSP compared with 37% of those that have used managed services for more than five years. Today’s end users, especially younger generations that are flooding the workforce, are particularly keen on being involved in the technology they use each day; research also finds they desire insight into “back office” functions that have previously been considered an IT-only domain.

In general, larger organizations were more likely than smaller to have long testing periods by the MSP before the SLA was activated and typically saw more on-site visits for assessments, again owing the fact that the environments are more intricate in most cases than small entities.

### Pricing Models and the SLA

All of the steps taken to ready an organization’s environment for managed services lead to discussions over pricing and terms of a service level agreement, which is the linchpin to any MSP engagement.

Pricing models can vary for managed services, but one type stands out as most desired by respondents, regardless of their current pricing structure. A third, if given the choice, would like to be charged a recurring flat-rate (per month/per quarter etc.) based on an overall assessment of their network environment. In fact, this is how a large portion of MSPs adhering to best practices today are pricing their services. It makes sense. Consider that network environments, as mentioned above, are wildly different depending on the type of company, number of employees, number of devices and level of sophistication at play with applications, cloud solutions and other tools. Both consumer and provider potentially benefit when agreeing on a price that reflects customized needs.

Because the rates fall under a contract, changes to an organization’s IT environment – e.g. a reduction or expansion in complexity – become negotiating points when renewal is up and pricing terms reset as part of a new contract. Elasticity and scale are two of the bigger selling points to managed services, so it’s understandable to see that organizations would like their pricing in effect customized to their environment and not vanilla across all an MSP’s various clients.
That said, some MSPs today have moved to a packaged pricing model in which there is a set fee based on the customer’s chosen tier of service, similar to cable television pricing that features “basic” to “premium” packages for programming. But even in this scenario, MSP customers have the ability to map their needs to the various steps in the pricing ladder – and to scale up or down in successive contracts.

Coming in a distant second in the desired pricing arena is the per-device scenario, which 16% of organizations said they’d prefer if given the choice. That’s nearly triple the number of respondents that cited a per-user model (6%) as their top pick. This could very well change dramatically as more and more companies institute BYOD policies that allow their employees to use multiple devices for work purposes. In that scenario, it behooves the MSP to push for a per-device model compared with a per-user, for obvious financial reasons. Conversely, end user preference would lean toward being charged for a single employee headcount as opposed to that single employee’s three different devices.

In addition to and perhaps paramount to pricing choices is the crafting of a service level agreement to cover the rules of engagement, accountability, performance and other terms of the managed services contract.

The majority of the SLA components most prized by organizations are pretty standard and a reflection of the terms of operability they would expect from their own internal IT departments for the most part. 24/7 support, backup and business continuity, data security/privacy and response times are items that perennially make the list of must-haves for the standard SLA.

### SLA Elements Deemed Most Important by Users

<table>
<thead>
<tr>
<th>SLA Component</th>
<th>% Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>24/7 support</td>
<td>63%</td>
</tr>
<tr>
<td>Data security/privacy</td>
<td>61%</td>
</tr>
<tr>
<td>Response times</td>
<td>55%</td>
</tr>
<tr>
<td>Business continuity/operational backups</td>
<td>32%</td>
</tr>
<tr>
<td>Base fee with optional services available to add/remove at anytime</td>
<td>20%</td>
</tr>
<tr>
<td>Time and material model</td>
<td>14%</td>
</tr>
<tr>
<td>Performance targets</td>
<td>14%</td>
</tr>
<tr>
<td>Service cessation provisions</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: CompTIA’s 3rd Annual Trends in Managed Services study
Base: 400 businesses using managed services in some way
*Advancing the Global IT Industry*
But not every constituent values each SLA element in the same way. The line tends to break between IT-oriented respondents and those focused on the business activities around finance, sales, marketing etc. For example, making sure that specific performance targets for the MSP are baked into an SLA is roughly more than twice as top of mind for those in an IT role or within an organization that kept its internal IT intact post-MSP engagement compared with their non-IT counterparts or companies where in-house IT has been eliminated or reduced. Performance targets are direct measures for internal IT to use to gauge MSP efficiency – and they typically focus on technical benchmarks, as opposed to financial measures.

One of the ways in which an MSP can both prove its worth related to performance targets and other measures – and the end user organization remains connected to what the MSP is doing – is to issue routine reporting on activities. These reports can come in two forms, one that is a detailed activity log of all technical interference or other work done over the course of a month or a quarter, and one top-level summary that is intended for quick digestion by non-IT executives.

When choosing an MSP to work with, whether or not they issue such reports is a key indicator of their following of best practices and a backstop to potential adherence issues to the SLA. On a positive note, 76% of respondents said they work with an MSP that offers regular reporting. Nearly 9 in 10 large companies compared with two thirds of small companies received routine activity reports from their MSPs. This is most likely due to the fact that larger firms have formalized policies in place from IT for data integrity procedures, compliance issues and other regulatory matters.

Finally, transition processes, no matter how smooth they may run, always sport room for improvement. While most respondents said their MSP transition met expectations and their general ongoing experience has been positive, they nonetheless point to some spots that could be bolstered, not the least of which is creating an easier to understand, simpler to negotiate SLA. Some MSPs provide boilerplate SLA terms to all customers, but increasingly the demand is for customization to reflect different end user organization needs. Being able to sit down and negotiate specific terms should be a selling point when vetting potential providers.
Appendix

Segmentation of Perspectives on Ways to Speed Up Managed Services Adoption

<table>
<thead>
<tr>
<th>Aspect</th>
<th>100+ employees</th>
<th>50-99 employees</th>
<th>&lt;50 employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easier to understand SLA terms</td>
<td>45%</td>
<td>44%</td>
<td>41%</td>
</tr>
<tr>
<td>Better insights into transition process</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>from internal IT staff to the MSP</td>
<td>44%</td>
<td>41%</td>
<td>34%</td>
</tr>
<tr>
<td>Proof of experience among MSPs being vetted</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proof of MSP expertise</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>More quantifiable ROI data</td>
<td>24%</td>
<td>33%</td>
<td>48%</td>
</tr>
</tbody>
</table>

Source: CompTIA’s 3rd Annual Trends in Managed Services study
Base: 400 businesses using managed services in some way
Advancing the Global IT Industry

Incidence of Upgrading and/or Standardizing Equipment with Managed Services Engagement

<table>
<thead>
<tr>
<th>Equipment</th>
<th>100+ employees</th>
<th>50-99 employees</th>
<th>&lt;50 employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Servers, routers or other networking equipment</td>
<td>73%</td>
<td>66%</td>
<td>53%</td>
</tr>
<tr>
<td>Desktop or laptop PCs</td>
<td></td>
<td>55%</td>
<td>55%</td>
</tr>
<tr>
<td>Software</td>
<td></td>
<td>43%</td>
<td>45%</td>
</tr>
<tr>
<td>Printers</td>
<td></td>
<td>38%</td>
<td>41%</td>
</tr>
<tr>
<td>No, did not upgrade/standardize any IT equipment</td>
<td>17%</td>
<td>14%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Source: CompTIA’s 3rd Annual Trends in Managed Services study
Base: 400 businesses using managed services in some way
Advancing the Global IT Industry

3rd Annual Trends in Managed Services Study: Section 3
Key Findings
Following is an abbreviated summary of the study’s key findings. Each finding is explored in more detail within its own main section of this report, including subordinate findings and supporting quotes from interviewees.

- **Finding #1: Ascendency of MSPs in mid-size companies.** MSPs have grown in terms of their importance to mid-sized companies in the past 10 years or so.

- **Finding #2: Value-added potential to provide strategic guidance.** Playing the role of trusted advisers, MSPs have an emerging opportunity to contribute to their customers’ overall strategic planning.

- **Finding #3: Opportunity to provide both commodity services and specialized expertise.** Customer demand for MSPs includes both specialized expertise and more generalized commodity services.

- **Finding #4: Core operational roles for MSPs.** The roles of MSPs are evolving toward becoming long-term, deeply embedded parts of their customers’ organizations—not just temporary augmentations.

- **Finding #5: Range and importance of contractual relationships.** The contract between an MSP and customer is instrumental to the ongoing health of the relationship.

- **Finding #6: Value placed on industry-specific expertise.** Many—though not all—customers place significant value on industry-specific expertise when choosing an MSP.

- **Finding #7: Non-technical requirements for personnel.** Expectations and value placed on MSP technical personnel increasingly extend beyond their technical capabilities alone.

- **Finding #8: Control over operations, assets, and infrastructure.** Customers often wish for MSPs to take responsibility for capital infrastructure, although some may be concerned about releasing control.
Scaling up – Moving Beyond Basic Managed Services

The next section of the report contains qualitative interviews with end user executives that are or have worked with MSPs that have scaled their business beyond the basics of remote monitoring and management to the next level of complexity in outsourced IT. Intended as a primer for MSPs looking to scale, the following insights should provide additional context for channel firms looking to put best practices in place for growth.

Finding #1: Ascendency of MSPs in Mid-Size Companies

MSPs have grown in terms of their importance to mid-sized companies in the past 10 years or so. A portion of that growth is in areas that are separate from (but possibly complementary to) the sphere of technology. As the development of technology accelerates, companies must sift through trends and offerings more quickly.

Finding #1a: Challenges at Mid-Size Companies

Even determining that a particular new approach or technology does not warrant a further look consumes resources. And some changes—such as the rise of employee-owned devices on the corporate network or emerging security threats—do not permit that option. Operations-focused IT departments are ill-suited to fielding the type of ongoing research and investigation called for in this area; after all, they must keep the business running first and foremost.

“There is a commodity level of, ‘I can do it cheaper than you can do it and frankly I can do it better because, I have more and I can go faster, you don’t have to deal with all of that.’ But there’s also a place for the newer technologies where people want to go or experiment with, but they don’t have the ability to have an internal staffing to go play and do this research.” – Outsourcing Consultant

Finding #1b: Opportunity for MSPs

That reality has created an opportunity for MSPs to fill the unmet need for their clients of handling new technologies. Previously, the customer base for MSPs was dominated by small businesses that may have outsourced their entire IT function, as well as by enterprises that looked to MSPs for discrete functions such as hosting email or providing data-backup services. Today, mid-sized companies are embracing the MSP model to investigate and address an evolving set of considerations that MSPs could support, ranging from bring-your-own-device models to social media.

“Technology in itself is becoming more pervasive, with tablets, and lighter notebooks, and smart phones, and people wanting to integrate all of those devices into the network, and their email and all that kind of stuff. Then I think the other thing I would say is it’s become a lot harder over the last couple of years to find really good people, because there’s so much demand. A lot of our clients tried to do it themselves, and they got frustrated after a few months, and eventually they turned to us because they don’t have the network of staff, and agencies, and resources that we’ve developed over the last 30 years to go to.” – Director of Outsourcing, Computer Consulting Firm
Finding #1c: Value for IT

In many cases, IT complexity is increasing. Whereas in the past, IT generalists could be counted on to shoulder much of the load, organizations are increasingly finding they need experts in areas of storage, virtualization, cloud, SaaS integration, mobile device management, disaster recovery, and many other technologies. It’s much more efficient to use an MSP to get an expert when needed, than to hire a dozen high-priced experts who will be lightly utilized.

“It’s been a slow penetration, but I do think [using MSPs has] grown. There’s a couple of factors. One, obviously cost is always a factor no matter what you are. You’ve got to worry about cost. Two, technology continues to be more and more complex, and you don’t always want to necessarily build or hire to do that. Three, some things are only being offered in that model. So I’ll go back to mobile device management, which has only been around for a couple years now. The majority of the people who offered that service offer it as a managed service only. So that’s one way of getting you to do it even if you don’t want to do it because if all the vendors are offering it that way, what choice do you have?” – CIO, Accounting Firm

Finding #1d: Implications Elsewhere Within Organizations

Companies are increasingly looking to outsource not just technologies, but the business processes underpinned by technology. For example MSPs can provide call centers, event management, and payroll processing, as both business processes and technological solutions. Outsourcing the whole business process, rather than just the technical components, allows companies to focus on their core competencies rather than trying to be the best or most efficient at commodity activities.

Q: “Do you see managed service providers getting also more into the business process outsourcing, or adding on certain functions like, in addition to IT desk, to outsource your HR, outsource other things?”

A: “Yes, I do. In the higher ed space, I can tell you that in addition to your help desk for your IT needs, it’s your help desk for financial aid, so areas that have a high call volume, that may not be technology. Yes, I see that in the future.” – CIO, IT Managed Services Provider

Finding #1e: Counterpoint: High Regard for Proven Internal Teams

On the other hand, organizations also place significant value on the coherence of proven internal teams. And risk-averseness can be expected to continue providing some resistance to the overall trend of broader mid-market adoption of the MSP model. For example, a known set of internal, on-site personnel may be preferable in the eyes of some management teams, relative to an MSP team. Cost incentives and other advantages may be insufficient to alter that perception.

“Obviously, if you get the same people working together, day in and day out, they’re direct employees, that runs a certain familiarity, etc. It makes a difference.” – Senior Project Manager, State/Local Government

“Having an expert in everything doesn’t make sense to us… But then we have to balance that with security implications, and every time we give something to a managed security services firm or a cloud provider, we have to have additional vendor management hooks into that and be able to know exactly what they’re doing, where our data is at any point in time, how is it secured.” – CIO, Banking Firm
Finding #2: Value-Added Potential to Provide Strategic Guidance

Playing the role of trusted advisers, MSPs have an emerging nexus of opportunity in contributing to their customers’ overall strategic planning. This trend has the opportunity to strengthen an MSP’s overall relationship with its customers.

Finding #2a: Building Client Relationships

Proper handling can contribute to long-term “stickiness” of client relationships for an MSP, while also driving the sale of value-added services for higher revenue and margin. For example, a number of interviewees suggested that MSP skill sets that can help clients set long-term vision will be increasingly important in the coming years.

“The most successful long term transaction in this type of business or in this industry is based on strategic value. If I go about pursuing sales opportunities tactically, and just thinking about short-term gains, chances are, it’s going to be more commodity-driven, lower-margin revenue for the company, which becomes more of a headache for me as a sales guy.” – Sales Professional, IT Outsourcing Firm

“That’s really the opportunity for service providers like us, not only to be that trusted adviser and service provider for the cloud but to be able to come back to them and help them drive innovation in other areas.”

– Director of Technology, Energy Consulting Firm

Finding #2b: Reservations Among Client Organizations

At the same time, many client organizations are hesitant to share responsibility for strategic expertise with an external party. A common perception exists among IT organizations that doing so would sacrifice a measure of internal IT’s perceived value within the company as a whole. Therefore, some resistance typically exists to a strategic role by an MSP or other external party. For example, some interviewees expressed the wish for clients to act as “the brains of the planning,” directing the actions of MSPs.

“If I have to do just the road work, the standard thing every day that anybody else can do, I’m not adding value that the company needs to get done from me. I have to manage that team and just be worried about that part of it. It’s not worth it, unless we come up with innovative ideas and come up with new stuff.”

– CIO, Private Equity Firm

“Anything strategic, we develop, we own it with our own people internally. Anything nonstrategic, we outsource it in some form or another, and manage it.” – CIO, Private Equity Firm

Finding #2c: Overcoming Obstacles

Driving value from this sphere of opportunity therefore requires MSPs to be sensitive to the client’s point of view. Careful handling of an individual engagement’s subtleties can help set the stage for an expanded strategic role by the MSP. Central to this effort is partnering with the IT organization to enhance its perception by the company as a whole.
One aspect of that role is for MSPs to let client IT organizations know of skill sets the MSP has on-call if needed, without pressing to expand the relationship into those areas of expertise. Doing so positions the MSP to be called on to respond to a crisis situation, and that engagement could lead to an expanded MSP role for the long term. MSPs also need to offer a deep tiering of service levels and avoid a one size fits all approach to engagement.

“One of the other aspects of successful relationship is ... if the client is willing to be educated. Obviously, you have to do it very diplomatically. Quite often, we start off talking to clients, and they say, ‘I just need two developers or three developers.’ We talk to them about QA. They say, ‘No, my other developers are doing testing.’ When we help them dig into their problem stack, if you will, they find out how much better they would have been doing if they had a formal quality assurance.” – President, Technology Service and Staffing Firm

“The general idea is that you want to outsource, but you want to keep not necessarily the majority, but a significant portion. That’s what I’m trying to get. 40 percent is the number that says, ‘OK. We don’t have the majority. But we have enough control on stuff that we’ve done here.’ There are also different ways to do it. You want to break down the tasks for them as small as possible and you want to keep as much of the intelligence as close to home as you can.” – CIO, eCommerce Firm

Finding #3: Opportunity to Provide Both Commodity Services and Specialized Expertise

Customer demand for MSPs includes service areas characterized by both specialized expertise and more generalized commodity services. While those categories may not be absolute, both MSPs and their customers often use those (or similar) designations to characterize their preferences in the MSP relationship.

Finding #3a: Choosing Between MSPs and In-House Resources

Customer requirements to temporarily add staff capacity, provide services on a 24/7 basis, or support multiple geographic areas may play a role in a client’s choice of when to use an MSP versus internal resources. For example, a company migrating to voice over IP (VoIP) may choose to engage an MSP to assist with the migration, support VoIP after hours, or to support remote offices on-site. Any combination of these roles may be appropriate, depending on specific circumstances.

“I don’t know that there’s really an overall strategy or plan as to when I do something in house versus managed. It’s really a very organic type of thing. Obviously, I’ve got some staff here. We’ve been doing this for a long time. I’ve been in the firm 12 years. A good chunk of my staff has been here for a long time, as well. We know what we’re good at, and we know what we’re not good at.” – CIO, Accounting Firm

“We absolutely could have built it ourselves. We have the talent. We have the knowledge. We don’t have the time. We don’t have the budget, OK? Then, plus, I don’t want to reinvent the wheel.” – CIO, Accounting Firm

Finding #3b: Offloading Low-Value IT Tasks

Many organizations first engage with an MSP to handle resource-consuming, low-value tasks. Such responsibilities can tend to occupy in-house staff and distract from more strategic and future-oriented IT
initiatives. An IT organization that outsources configuration and deployment of PCs, for example, may free up internal resources to plan and execute a major network upgrade.

“I basically have hired somebody to take care of all my phones so that I don’t have to worry about it. They handle my moves, ads, and changes. All we have to do is pick up the phone, unplug it from jack A, and plug it back into jack B. Everything else somebody else takes care of. I pay a flat fee per phone per month, and that’s worked out very well.” – CIO, Accounting Firm

“We’re talking to somebody right now about handling all our copiers and printers, and we’ll never touch them again. Not to put toner in them, not to un-stick a jam. Other than plugging it into our network, we shouldn’t have to do a darn thing. Tech support, customer service, help desk, that could be a consideration. I don’t necessarily need one of my staff to answer a telephone. They’re going to have to have some knowledge of my environment, but we could probably outsource the help desk.” – CIO, Accounting Firm

“I would love to outsource email. That’s a huge hassle that we have to deal with.” – CIO, Community Bank

Finding #3c: Expanding the Scope of Client Engagements

Once an MSP has the opportunity to establish a relationship with a client, there is some potential to expand that role into higher-value tasks, in addition to the ongoing provision of commodity services. For example, a savvy MSP representative may build on a role re-imaging PCs to include maintaining and documenting the desktop image, as well as evaluating new software to be included in that image.

“By being a member of an outsourced organization, as opposed to a direct employee of the same kind, to me that affords us many more resources, much more in the way of depth of bench, you might say, to support our customers. I can bring in people from elsewhere, if necessary, for given projects.” – Senior Project Manager, State/Local Government

“If we are talking about something that is a pure commodity, then I’ve got to expect that the vendor is going to, and have to try to get to the lowest price possible on those things. I have a Telecom bid out right now for all of our mobile phones as well as management of those. I know that that’s going to be something that’s going to be just I need to make sure that the phones will work and make sure the coverage areas are there.” – CTO/CIO/Product Manager, Fleet Support Services Firm

“If I’m speaking with a mid- or senior-level manager, but not somebody who is in an executive role, and they’re asking me technical questions, I can tell typically within the first couple minutes of a conversation to say, ‘These guys are really kicking tires, price shopping, they’re more of a commodity-type customer.’ I certainly won’t spend the time in pitching them trying to add strategic value.” – Sales Professional, IT Outsourcing Firm

Finding #3d: Starting with Specialized Roles

While it may be more difficult for an MSP to establish a relationship from the start that focuses on high-value tasks, clients also may seek those skill sets (such as security, specialized programming, or other niche roles) as a primary goal. Discrete, specific capabilities are consistently in demand from MSPs, whether to fill gaps in the capabilities of regular IT staff or to add needed resource capacity.
“We have, probably, in excess of 150 applications that we support on a regular basis, not to mention the infrastructure itself. Service providers really help out, because I can’t afford to have an expert in everything. Nice concept to have it all under my control, but the reality is, I just don’t—even with a good-sized staff—I just don’t have enough people. I can’t have a dedicated Cisco engineer on call, as an example.” – CIO, Accounting Firm

“For us, sometimes, it’s high-level skills that come in and perform certain functions for us. It may be some high-level security skills. It may be even 24 hour for answering phones and those kinds of things, a 24 hour service for fraud or lost or stolen credit cards, for example. There are certain things we would outsource and say, ‘OK, we can outsource this and have somebody 24x7.’” – VP of IT, Credit Union

“If I was shopping [for an MSP], then I would want callable references that I can speak with, examples of work to the tune of what I’m looking to get done, and interviews with potential candidates. Of course, they carry some weight if they’re certified in what I’m looking to get done [but] it’s not an outstanding requirement. I’m more interested in what they can do versus what they’re certified in.”

– Director of IT, Education Service Provider

Finding #4: Core Operational Roles for MSPs
The roles of MSPs are evolving toward becoming long-term, deeply embedded parts of their customers’ organizations—not just temporary augmentations.

Finding #4a: Allied Goals of MSPs and Clients
The relationship between an MSP and its clients is often characterized unofficially as a “partnership.” Many interviewees indicated that the role of an MSP is as an extension of the client’s internal team.

“I don’t even call them outsourced vendors. I call them partners. I expect them to operate that way. Meaning, even within our own company, we have customers, and if we see something that would save our customers’ money, even though it may not give me all the revenue that I would need, we would still do it, because it’s in the best interest and the customer loves us for that.” – CIO, Private Equity Firm

“Look, at the end of the day, it’s our job to make them successful and not have to worry about IT at all, at least the support piece. Ideally for us, we want a client that’ll be willing to work with us. I try to meet with all my clients at least once a month, if not twice a month, to understand what their future holds and get feedback on our teams. Obviously, we try to look at them as strategic partners.” – Director of Outsourcing, Computer Consulting Firm

Finding #4b: Long-Term Cooperative Relationships
A strong relationship can easily outweigh other important considerations, including cost. In fact, some clients report that the financial relationship is largely a gauge of the ability to place their trust in the hands of an MSP, rather than a goal in itself. Establishing that level of trust positions the MSP to create a long-term, successful relationship. This approach is regarded by many MSPs and their clients alike as fundamental to the future of the industry.
“I have to feel like they’re coming across as genuine. They care. Price is not a big issue, but you can tell a lot about a company based on the price that they’re trying to push on you. Is it exorbitant? Is it reasonable? I think you can tell certain things about a company just based on that.” – CIO, Accounting Firm

“To me, when you bring a new employee in, it doesn’t matter how many years of experience they have. You sit down with them and you tell them what they do. They’re going to stumble. You can’t expect a vendor to be any different than that. They’re a new employee, and there are things that are going to happen, and they’re going to stumble.” – CTO/CIO/Product Manager, Fleet Support Services Firm

“Traditional outsourcing is going to evolve and go away. I will tell you frankly we have several clients where we have rebranded their people... We’re managing them on premise. But even in those scenarios, the conversations with the decision makers, their C-level management, are, ‘How do we get this infrastructure out of here, get rid of these people that are here managing it and focus on more business driving and innovative things?’” – Director of Technology, Energy Consulting Firm

**Finding #4c: Transforming the C-Level Executive Suite**

As an MSP-client relationship continues to develop, it is increasingly common for the external vendor to actually transform the role of the C-level executive suite within the client company. Growing influence by the MSP can particularly come to the client’s aid when a deficit exists in executive management.

The CIO function may transform itself to manage external providers as much as (or more than) it manages internal resources. In other cases, MSP relationships may free CIOs to focus on innovation rather than day-to-day operations.

“I wonder if I’ll have a job anymore. I guess my job would morph into more of a vendor-management person, keeping up with the due diligence as well as supporting the different ones. But I don’t know. If you’re outsourcing everything else, can you just have sort of an IT liaison and not even have a chief information officer anymore?” – CIO, Community Bank

“You’re actually seeing IT reporting to the CFO in a lot of different instances... The CFO, obviously, his expertise and area is finance, not technology, so maybe the person feels that they don’t have a good CIO in place, and therefore they can’t have confidence in what the organization is doing. That might actually be one of the drivers for outsourcing as well.” – CIO, IT Managed Services Provider

“If you have a weak CIO, somebody may want to just outsource the CIO and get a CIO in charge that can run things properly.” – CIO, IT Managed Services Provider

“I definitely can see some trends where we may be their virtual CIO. We will report up into their CFO or their COO. We’ll maintain a relationship there, and we’ll handle the IT functions for them. On the larger company side, on the other side of that bubble, I think you’ll see more of an evolution in what they want the CIO to do, whether it’s focusing more on innovation or marketing on top of managing the technology portfolio supporting kind of business objectives and relying on someone like us to get their strategy implemented.” – Director of Technology, Energy Consulting Firm
Finding #5: Range and Importance of Contractual Relationships

The contract between an MSP and customer is instrumental to the ongoing health of the relationship, in terms of goodwill as well as financial and legal considerations. Preferences with regard to duration, payment terms, and other factors vary widely.

Finding #5a: Preference for Long-Term, Fixed-Rate Contracts

Respondents generally reported that they prefer MSP agreements to be based on long-term contracts, at a fixed fee for services. Key to the value of such arrangements is that all parties know in advance what the budgetary impact of the relationship will be within each budget cycle.

“It’s either we outsource the project and it’s a fixed time or a fixed ‘get this deliverable done.’ That can be short-term or long-term. That’s fine. But if we’re going to do management of something, management of devices, management of services, we’re going to try our best to get a long-term contract, two, three, four, five-year type of situation. Because I don’t want to be revisiting that annually or frequently.” – CIO, Accounting Firm

“The most optimum model for us [is] ... a co-monthly, monthly fixed cost... Because we build this at the beginning of the month, we get paid at the end of the month. The client knows exactly how much they’re spending. We know exactly how much we’re getting, so everyone is happy.” – President, Technology Service and Staffing Firm

“We prefer to have the long-term contracts ... we set specific time tables for them to hit their project needs, and we can stick to the time table almost to the dot if we have long-term projects in place.” – CIO, Healthcare IT Service Provider

Finding #5b: Delivering Predictability While Allowing Flexibility

Notwithstanding the fact that most respondents (though not all) prefer long-term, fixed rate contracts, many also emphasized that agreements must allow for changes in scope to handle unforeseen circumstances. For example, an outsourced help desk may need more resources if a virus infects the network or a major new piece of software is deployed.

“I’m a firm believer in the old adage that good contracts make good friends... If you’ve got a contract that has, ‘not to exceed’ a number of hours or a number of dollars, then you’re locked into that and you do your best, and you go from there... But obviously projects you’ve got things called change orders, which are used if necessary and you make sure everybody knows that up front. Regardless of whether you’re on the giving or the receiving end, however you want to put that, I think people can live with that.” – Senior Project Manager, State/Local Government

“If you go to contracts under the mindset that everything’s going to be great and rosy, and there aren’t going to be any problems, then typically you’re going to have more of a negative human interaction when you stumble into your first issue, delivering services.” – Sales Professional, IT Outsourcing Firm

Finding #5c: Evolving Contractual Framework

As the broader roles of MSPs within their clients’ organizations evolve, so are the models for contractual engagements evolving. A certain level of flux exists around this point, which can complicate negotiations between vendors and clients. MSPs are well advised—more than ever—to remain flexible, protecting
their own interests while giving their clients leeway to structure contracts according to their individual needs.

The ability to select services on an “a la carte” basis, for example, is viewed as very valuable by many MSP customers. That type of arrangement may allow a customer to save money, for example, by eliminating computer operator positions while retaining established internal expertise for report writing.

“From a managed-services standpoint, we have a couple of different models. We have some engagements where we’re kind of on a retainer, what I would classify more as a retainer-based engagement all the way to element-based engagements where we have a cost per element per month that we’re managing.”

– Director of Technology, Energy Consulting Firm

“We’re still trying to figure out what pricing is fair, what pricing makes sense. It seems like everything is changing so rapidly. In fact, for this core outsourcing engagement we have a third-party consultant working with us to make sure that we’re getting quoted fairly on the service.”

– CIO, Community Bank

Finding #6: Value Placed on Industry-Specific Expertise

Many—though not all—customers place significant value on industry-specific expertise and familiarity (as well as “knowing the business”) when choosing an MSP. Many interviewees indicate that understanding how a technology should be used in a specific industry vertical has value that is distinct from expertise with the technology itself.

Finding #6a: Significance of Regulation

The perceived importance of industry-specific expertise tends to increase when regulatory issues play a role in the customer’s business environment. Customers faced with imperatives to comply with regulations such as PCI or HIPAA may insist on MSPs that are familiar with these specific requirements. And an MSP that develops deep expertise in these areas can position itself as trusted compliance advisor and consultant, rather than simply an IT vendor who won’t run afoul of regulations.

“We do have issues around some things being off-prem, particularly ... customer data. We have a lot of customer PII (personally identifiable information), and we get a little sensitive or conservative in that area.” – CIO, Accounting Firm

“I certainly think that the biggest part of outsourcing the development is having them understand your business. They’re very smart people. They’re very well educated, but getting them to understand a specific niche market player, which we are, to understand the intricacies of what we do, how we do it, and all the financial implications including tax implications on something like fuel delivery, is complicated.”

– CTO/CIO/Product Manager, Fleet Support Services Firm

“I think it’s important for somebody to know how heavily we’re regulated and the challenges we’re up against in terms of security.” – CIO, Community Bank
Finding #6b: Industry-Specific MSP Niches

Some MSPs identify niches within specific verticals, which enables them to differentiate themselves among their peers. For example, an RFP or RFQ may require assurances that an MSP has specific expertise or credentials in a given vertical. The opportunities in this area are in the process of solidifying in many areas of the industry.

“At the end of the day, I’m going to look for a good coder, whether it’s SQL or Visual Basic or .NET or HTML. I can always teach you the accounting part, but I can’t teach you to be a good developer if I’m looking to hire a developer. As I say, if you’ve been a developer who has done some work in there, great. Nice to have. But it’s not a have to have.” – CIO, Accounting Firm

“I think you’re going to see providers like us evolve over the next five years and become players in verticals. All of the verticals are very different.” – Director of Technology, Energy Consulting Firm

Finding #6c: Subordinating Industry Experience to Technical Expertise

However, if the jobs being outsourced are not particularly industry specific, then organizations tend to consider the technical knowledge available from an MSP over industry knowledge. They may regard the specific implementation of the technology being called for to be essentially a generic payload. In fact, some clients see value to MSPs not having a specific industry-vertical focus.

“Just standard stuff, like email, or office support, and stuff like that, it really doesn’t matter whether they know my industry or not. That’s the same feeling across the board from other peers that I have spoken with.” – CIO, Private Equity Firm

“Actually, for me and for the team, it was better that [an MSP consultant] was somewhat of a generalist, as well as had the technical knowledge in the particular area so that they could communicate well with the rest of the team as part of the integration effort.” – Outsourcing Consultant

“There was an interview very recently [with] the inventor, and probably the owner of the company Dyson, [which] wants to hire only new engineers, because they don’t have any preconceived notions as to how something has got to be built... Somebody new can think about it in a different way, and come up with a solution that hasn’t been thought of.” – CIO, Private Equity Firm

Finding #7: Non-Technical Requirements for Personnel

Expectations and value placed on MSP technical personnel increasingly extend beyond their technical capabilities alone. A premium is often placed on interpersonal and communication skills, as well as the ability to see the goals as paramount and technology as a supporter of those goals.

Finding #7a: Premium Placed on Interpersonal Skills

Accordingly, both MSPs and their clients now tend to seek technical staff members who have strong communication and other interpersonal skills, as well as business backgrounds. The ability to represent those priorities accurately to potential clients—including qualifications such as MBAs—is increasingly
valuable in establishing relationships. Moreover, by helping meet customer expectations more completely, those skills can contribute substantially to the ongoing success of client engagements.

“I think the market’s changed a lot over the last five or 10 years, too. Where you might have traditionally had people running your shop that came up in a very technical route—maybe on the network side of the house. IT people aren’t necessarily known for being great communicators. If you have somebody in that area, in this day and age, you’ve got to have somebody who has an MBA, who knows how to manage projects and knows how to manage people, and who knows how to do all the information technology.” – CIO, IT Managed Services Provider

“At the end of the day, technology is technology. It’s either going to work or it’s not. That’s really the black and white of it. It all comes down to the ability to add strategic value, the human interaction piece, and building relationships. Much of technology drives everything we do today that it, quite frankly and simply, comes down to basically, still, the human factor, assuming that the technology stuff is going to work.”
– Sales Professional, IT Outsourcing Firm

“If I was somebody who had blinders on, and a very much a [narrow] specialist in IT... I’d be really nervous, because those jobs are going away, or you have to move to a provider that has a server farm and you work for that company. Those jobs in the traditional workplace environment are going to be fewer and far between, in my opinion... So as an IT professional, we really have to be able to leverage big picture, strategic, business operational, financial, marketing, what other things there might be that have heavy technology pieces, and I think that’s the new trend to survive in IT.” – Director of IT, Business Services Provider

**Finding #7b: Enhanced Communication in MSP Engagements**

The broader relationships between MSPs and their clients tend to benefit from interpersonal skills. Enhancing the communication within an engagement is regarded as a valuable undertaking, both for purposes of problem resolution and of everyday operations. For example, direct communication between executives at the client organization and the MSP is regarded in many cases as equal in importance to technically oriented communication.

“I think it’s willingness, on their part, to listen and to be responsive to concerns and problems [that characterizes a good relationship with an outsourced workforce]. I think that’s the most important thing, if you have a good line of communication with top level management there, so that, when there is a problem or a change needs to be made or issues arise that work together to be able to quickly and efficiently resolve those problems.” – CIO, eCommerce Firm

“I think if you come down and look at any place where somebody had a problem and possibly called a manager because a service desk analyst didn’t treat them as they think they should have been treated, I think nine times out of 10 what you’re going to find out is [that] they don’t care if their problem was actually able to be solved, because maybe it was terribly complex and had to go to level two, level three, the network engineers, what have you. They don’t necessarily care about that, but if the analyst didn’t treat them the way that they feel they needed to be treated ... that’s where you’re going to find the most problem.”
– Senior Project Manager, State/Local Government
**Finding #7c: Increased Value of Roles, Responsibilities, and Processes**

The foundation for rich communication between MSPs and clients must include well-established roles, responsibilities, and processes. The combination of those components is widely regarded as being instrumental to the overall success of an engagement between MSP and client. When a specific type of task arises, or even a problem in areas such as security or the need for after-hours resources, having clear responsibilities established beforehand helps avoid missteps and conflict. In short, it must be very clear where the client responsibilities end and the MSP responsibilities begin.

> “What makes [a relationship between a service provider and a client company] successful is to have negotiated roles and responsibilities that everybody understands and agrees with. The biggest deterrent to a successful project is miscommunication ... on roles and responsibilities, on requirements, on skill sets and so on and so forth.” – President, Technology Service and Staffing Firm

> “Sometimes there might be tension, so we have weekly meetings with them, teleconference. We hear their side of the story. We present our side of the story about what has been done since the previous meeting, and as per-project basis, our roles for the consultants are defined beforehand, so we make sure that we don’t overlap with anything that they have.” – CIO, Healthcare IT Service Provider

**Finding #8: Control over Operations, Assets, and Infrastructure**

Customers often wish to have MSPs take on responsibility for capital assets and infrastructure, although some may be concerned about releasing control as a result. Some customers report similar concerns over release of control over the company as a whole as MSPs play an increasingly significant role in day-to-day operations.

More broadly, the option to pass responsibility for physical infrastructure to an MSP may be a strategic requirement for some clients. Some organizations may simply lack the capital to purchase infrastructure such as a cluster of servers, while others may have strategic goals in place to shift from capital expenses to operational expenses.

> “[An MSP] should be able to do it better than us, which they can. Have to be willing to take that risk assessment and get rid of some of the control you think you need. That’s always the hard part. It’s like, ‘Well, I don’t have as much control on this now, but I’ve got to realize that when I outsource it. I can’t dispatch that employee in 30 minutes to get this fixed.’” – CIO, Banking Firm

> “My strategy and approach is for us to be asset-light. If we have a customer who has on-premise equipment, we do manage that. We do that today. We will probably continue to do that in some form or fashion. However, if they want to get out of that business, we don’t really want to lease hardware or lease our own space in a data center necessarily and build an infrastructure. In that sense we’re going to work with them to develop a strategy to move them to the cloud or at least minimize whatever on-premise infrastructure that they have.” – Director of Technology, Energy Consulting Firm

> Q: “Who owns the equipment? Are you guys buying the equipment and then the monthly fee to the MSP is for their administration and management? Or do they buy the equipment as a capital expense and turn it into an operating expense?”
A: “It depends. For example, the data-center stuff, if it’s in our data centers, we’re typically buying it and then paying for a maintenance service on top of that that would be supporting our equipment. For our printers and our multifunction devices, that are going to be a leased arrangement where it’s really, ‘OK, well we’re paying you monthly.’ If it’s managed services for security, well our expectations may be that you already have the devices in your NOC ... and we’re not buying any of that stuff.” – CIO, Banking Firm
Conclusions and Trends

By embracing engagements with MSPs over the last decade, mid-sized companies have increased their ability to keep up with rapid changes to technology, without conflict to ongoing IT operations. The significant opportunity to MSPs from this transition may be expanding further to include functions outside IT, although the fact that we are still in the early stages of that shift make it more a potential trend to watch than a well-established development.

In the IT sphere, MSPs presently have the potential to fill a broad range of goals at client organizations. Those relationships might range from commodity-oriented services such as email hosting and data backup to providing specialized, high-value technical and strategic expertise.

The roles of MSPs in client organizations have emerged as long-term, deeply embedded relationships for those providers that can successfully ally their goals with those of their clients. The strategic nature of those engagements appears to be in transition toward increased MSP influence within the client organizations as a whole. That influence can reach as high as altering the function of the C-Level executive suite. Many observers anticipate that MSPs will increasingly fill “virtual CIO” roles in the medium-term future.

Additional transitions include a reshuffling of common guidelines for contractual relationships, focus on particular client industry verticals, and increased value of business and interpersonal skills by technical personnel. MSPs should consider strategic and tactical implications of these shifts to optimize their competitive value in the near term. Likewise, flexibly supporting client preferences for capital infrastructure assets may yield a competitive advantage.

Looking ahead, MSPs are expected to play an unprecedented variety of roles in client organizations. Those MSPs that position themselves to be extremely closely coupled with their clients operationally have the potential to realize extraordinary value and profitability from their new and ongoing client engagements.

Guidance for MSPs

*Mid-sized companies represent a substantial opportunity for MSPs. Relationships with these customers will often include a more strategic role than many traditional MSP engagements, with a broader and deeper variety of services. The opportunity at mid-sized companies goes far beyond selling existing MSP offerings at scale.*

*Raise Value and Margins with Specialized Expertise*

In addition to relatively commodity-level services such as remote server management, *MSPs can also offer their mid-sized customers more specialized, higher-value services.* For example, many mid-sized companies can’t bring in experts in areas of SaaS integration, mobile devices, disaster recovery, hybrid cloud, and other recent technologies. The MSP that can retain and pool experts across customers has the potential for *deeper customer relationships delivering higher-margin services.*

*Become a Strategic Partner with Clients*

While everyone says, “*become a trusted advisor*” it is literally something customers are asking for, and this provides the opportunity for MSPs to becoming more deeply embedded in their customers’ decisions. Increasingly, MSPs will *take a role in setting their customers’ overall technical strategies,* even affecting the operation of the C-level executive suite.
Extend Perspectives Beyond Technical Excellence

While cost savings is a driving force for mid-sized customers—just as with other companies—the success of the relationship demands that MSP personnel must have strong business, industry, interpersonal, and communication skills. Companies increasingly see technology as something that should merely support business goals, and they expect MSPs to be keeping business goals front and center.

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1 This study characterizes MSPs broadly, using the following working definition: The practice of outsourcing the IT function or parts of the IT function whereby the managed IT service provider manages and assumes responsibility for providing a defined set of services for a defined monthly fee or other periodic fee. For example if a PC malfunctions, the manager servicer is responsible for fixing it. With this model, the managed service provider is incentivized to ensure maximum IT “up time,” which means they typically take a proactive approach to heading off issues.
Appendix: Characteristics of Study Participants

The participants chosen for this study work in mid-size organizations (defined as having approximately 100-500 employees), with the exception of one independent consultant. All have experience with managed services, outsourcing, or an associated field.

The roles that the 17 study participants occupy in their respective organizations are summarized in Figure 1. To clarify the distribution of roles, similar titles are aggregated within the categories. Specifically, additional titles held by CIOs are disregarded, and the “Director of IT” category also includes the titles “VP of IT” and “Director of Technology.”

The industries that the study subjects work in are summarized in Figure 2. Analogous to the treatment in Figure 1, similar industry segments are aggregated into categories, to better characterize the distribution. For example, the “Financial Services” category includes banking, accounting, and private equity firms.

A detailed listing of participant job titles and industry segments is given in Table 1.

Table 1. Study-participant details.

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<th>Job Title</th>
<th>Industry Segment</th>
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<td>VP of IT</td>
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<td>CIO</td>
<td>Accounting</td>
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<tr>
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<td>Consulting - Energy</td>
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