



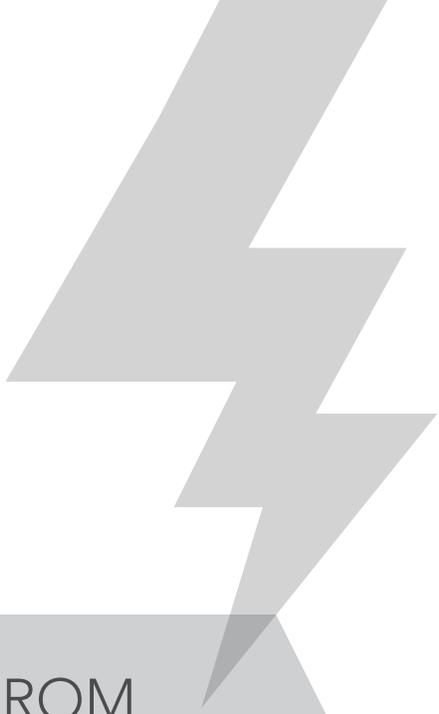
How to Avoid the 5 Most Common Mistakes Made in Managed Services

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Introduction



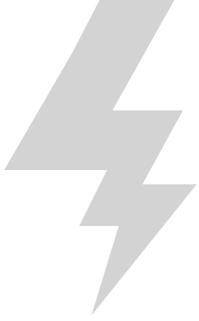
“THOSE WHO FAIL TO LEARN FROM
HISTORY ARE DOOMED TO REPEAT IT.”

— WINSTON CHURCHILL

Managed services (MS) is rapidly becoming the number one source of revenue growth within the technology industry, and companies that don't already have a managed services strategy are already behind the curve. This urgency is causing many businesses to rush to market with managed services offers, sometimes a little too quickly.

So what happens when a company enters into uncharted territory without a clear plan of action? They make mistakes: some big, some small, some benign, and some terminal.

Any one of these mistakes—let alone a combination of them—can be severely detrimental to the success of an MS business, and even have a dramatic impact on a company's willingness to invest in and grow MS revenues. This ebook discusses the most common mistakes companies make when starting a managed services business, and how you can avoid making them yourself.



Mistake #1

Lack of Understanding

“THE NOBLEST PLEASURE IS
THE JOY OF UNDERSTANDING.”

– LEONARDO DA VINCI

It might seem simple enough, but time and again TSIA has observed an industry-wide misunderstanding of what managed services is. Even with companies that appear to be on track with grasping the concept, the minute they see a leadership change, they end up having to start over and reeducate everyone on the charter of their business and why managed services is so different.

For a clear definition of managed services, we don't have to look any further than Wikipedia: **Managed services is the practice of outsourcing day-to-day management responsibilities as a strategic method for improving operations.**

Managed services not only oversees the operation of IT infrastructure and application, but also the consumption of the technology. In other words, there's a dual focus on both the purpose of the technology as well as the business problems it solves.

There are many reasons a company might choose to outsource day-to-day infrastructure and application management, including cost reduction, risk aversion, and accelerated ROI, just to name a few. However, there's another key element that keeps getting lost in translation when it comes to implementing a managed services strategy: Managed services is the only service line not directly linked to, or “attached,” to a product sale.

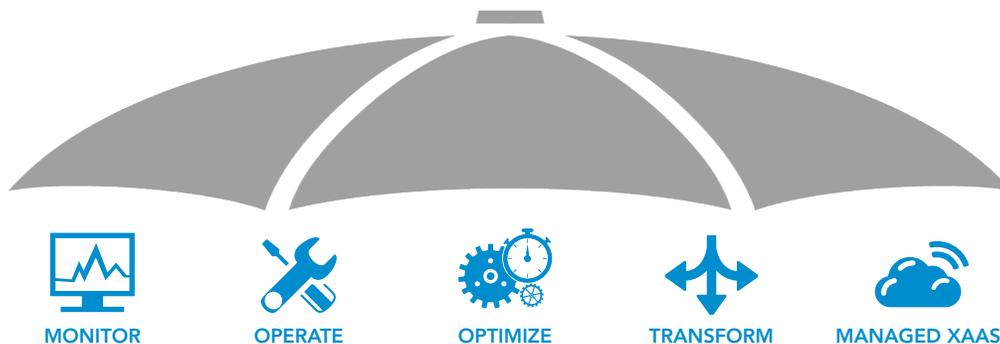
Sure, a managed services contract could be sold at the same time as a product sale, but it does not follow the product sale. In fact, it usually precedes it.

This separation between managed services and product transaction means that managed services is indeed very different from other service lines embedded within product companies. Not appreciating this difference can lead to making this first mistake.

How to Avoid Mistake #1

Since managed services doesn't tend to follow a product transaction, its development and sale must always start with a deep understanding of the customer's environment and top business challenges. To do this, your company must have service development processes that thoroughly explore the customer's perspective, which, if you're the type who tends to think in pings and packets, zeroes and ones, APIs and instrumentation, can be a difficult bridge to cross.

Here's a look at the different types of offerings that can fall under the umbrella of managed services:



MONITOR: Performing technology monitoring services and assisting customers as questions crop up.



OPERATE: After monitoring and notification services, a customer might wish to transfer the actual operation of a solution over to a third party. The customer still owns the technology, but would rather someone else run it for them.



OPTIMIZE: Once a solution is up and running, a managed service provider can help improve overall performance of solutions through optimization.

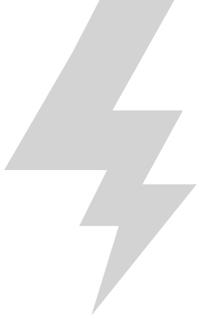


TRANSFORM: Helping a customer make the transition from legacy platforms, or older solutions, to next generation solutions, as well as operating them on their behalf.



MANAGED XAAS: Quickly becoming the most popular solution, this function is where a managed service provider does everything for the customer, even offering networking infrastructure and collaboration-as-a-service. The customer doesn't have to buy the hardware, just tell their MS provider the services they need and pay on a per-user or per-month basis.

Once you've identified and defined customer challenges, then you can tailor your managed services business around removing those pain points one by one.



Mistake #2

Portfolio Confusion

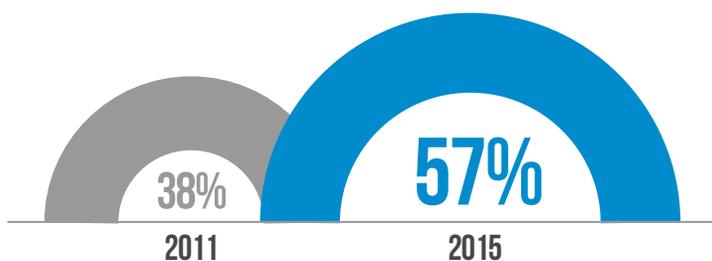
“ALL MEN MAKE MISTAKES, BUT ONLY WISE MEN LEARN FROM THEIR MISTAKES.”

– WINSTON CHURCHILL

Though managed services has been around for a while in some form or another, the concept of outsourcing in the context of IT operations is still relatively new. As an industry, we’re seeing a dramatic shift as services are becoming more important than products, and support services are steadily increasing in value. Companies with an already established support services business are beginning to include additional VAS (value-added services) on top of their basic maintenance offers, and as a result, we’re seeing some overlap between advanced support services and managed services.

Services are quickly becoming more important than products.

SERVICES AS A % OF TOTAL REVENUE



These companies might even continue to build up their value stack through offers like remote monitoring, MACD (moves/adds/changes/deletes) packages, remote backups, and dedicated technicians. When combined, these offers can look a lot like managed services to a customer, but fall just short of meeting some key service-level objectives.

By purchasing a managed services agreement, a customer is not looking for assistance, but rather, a co-ownership of a complex IT operation that shares the risk of operations and to help solve problems—and ideally prevent them from happening in the first place.

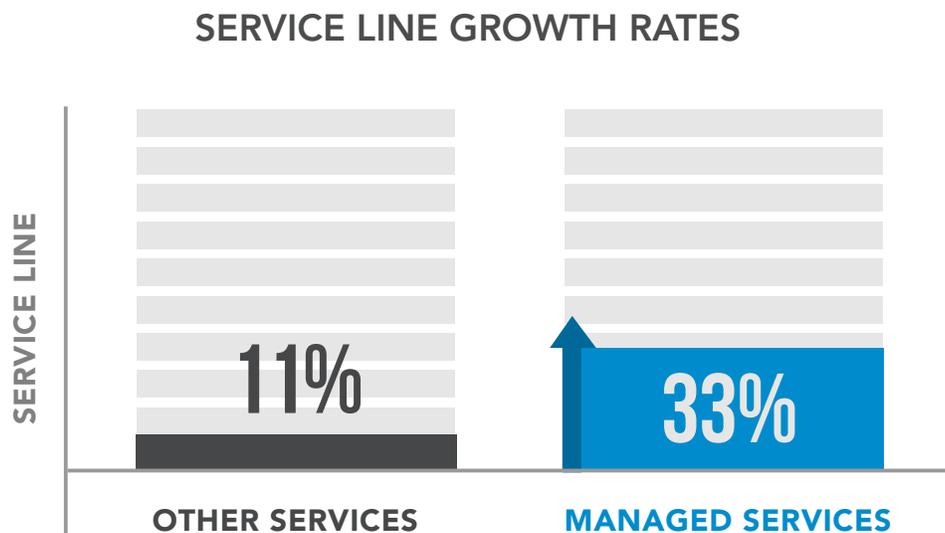
They don’t, however, want a piecemeal approach to a managed services engagement. In short, customers are ideally looking for a single agreement to support an entire solution end-to-end, and want their managed services provider to enable innovation while providing peace of mind.

How to Avoid Mistake #2

It helps to have strong service portfolio management and leaders with a clear understanding of traditional service lines, market evolution, and managed services. Remember that a managed services offer is a complete solution to a customer's problem, and they expect it to come as a package that includes product support. In addition, there is a growing desire, and even an expectation, that professional services will also be included.

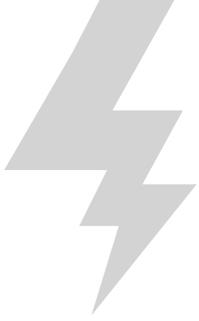
It's time to review your offer strategy: is there clear delineation between your managed services offers and your support/advanced services offers, and can the difference in value propositions be clearly articulated?

While service line revenues are definitely on the rise, managed services is growing even faster.



ANALOGY

If a support offer were ice cream, your customers wouldn't think of managed services as the sprinkles on top, they'd expect it to be the whole sundae.



Mistake #3

Same Old Sales

“I SUPPOSE IT IS TEMPTING, IF THE ONLY TOOL YOU HAVE IS A HAMMER, TO TREAT EVERYTHING AS IF IT WERE A NAIL.”

– ABRAHAM H. MASLOW

While it's tempting to leverage your existing technology sales team to sell managed services, the reality is that they require two entirely different sales methods and skill sets.

In fact, some companies even go so far as creating a separate “services sales” team to sell professional services, support services, and managed services.

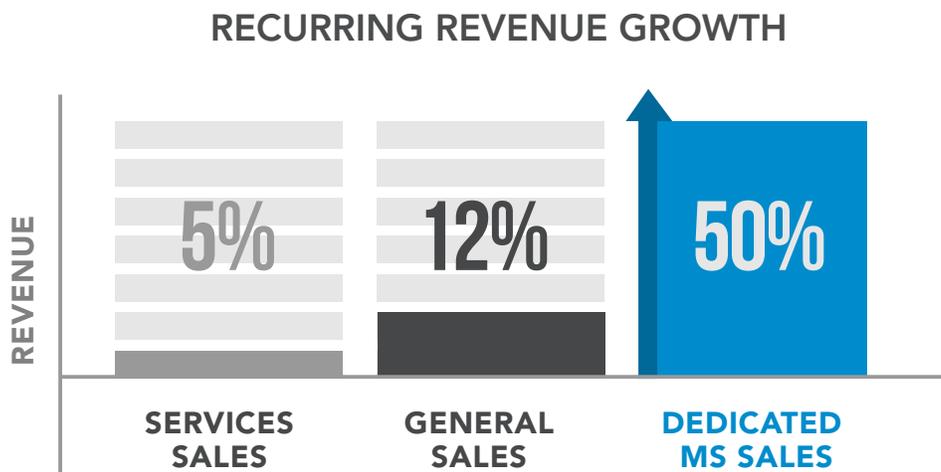
Even then, support and professional services is still an “attach” approach that focuses on the sale of technology, and unlike managed services, is not typically about the customer's operational environment. Selling managed services requires a “superset” of skills to sell the combined value of technology, professional, support, and operational functions, as well as a deep understanding of the relationship between business problems and technology.

These decisions also tend to be made at the highest levels of the company—not the procurement organization, the IT director, or even the vice president of IT operations, but at the CXO level. Therefore, selling managed services requires skills that take years to hone and must include the ability to have candid, relationship-based conversations with the CXO level of a company, and unfortunately those salespeople are not easy to find.

How to Avoid Mistake #3

Managed services is not an attach approach like other service lines. In fact, the most successful managed services deals are started before the client is even approached about what type of technology they will be adopting. By recognizing that selling managed services is not a skill that most general sales organizations possess, you can then properly assess and scrutinize your sales talent pool.

One proven tactic is to implement a managed services sales overlay, which can be achieved by simply developing a small managed services sales team.

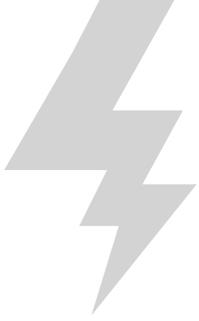


By leveraging your general, services, or annuity sales teams to assist in initial qualification, you can have them filter out the glaringly obvious unqualified opportunities and work with your managed services sales experts to build the relationships, consult with the client, and close the deal.

For many technology companies, growing product top-line revenue is both their number one priority and their number one challenge.

ANALOGY

A table needs at least three legs properly placed in order to stand, and the three crucial legs of managed services are: offers, sales, and delivery.



Mistake #4

Underinvestment

“YOU MUST SPEND MONEY
TO MAKE MONEY.”

– TITUS MACCIUS PLAUTUS, ANCIENT ROMAN PLAYWRIGHT

As product revenues in the technology industry continue to decline, it can be hard to justify spending money, even for a good investment opportunity.

Services businesses that are experiencing top-line revenue growth in managed services can also find themselves struggling to justify the continued investment. When the CEO looks to grow top-line revenue, they might expect managed services to be the new revenue growth engine for the company. However, this puts an incredible amount of pressure to get fast results, which doesn't always happen.

To achieve the desired results, managed services providers need to continually invest in a scalable platform that can support the end-to-end IT service management of today's

constantly evolving and increasingly complex solutions. In addition, there's the added cost of hiring a skilled team of engineers to help run it, and relating back to mistake #3, the possible need to invest in additional sales resources.

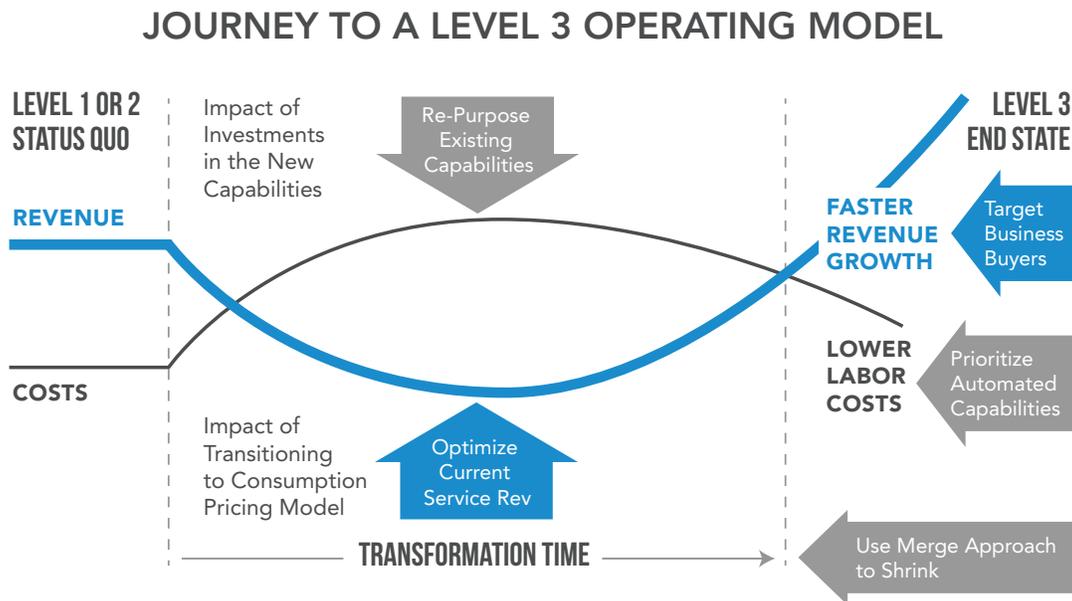
That said, it's one thing to consider the investment required to perform all of these functions on behalf of a customer, but what about when it comes to building that operation so that it can scale for hundreds, if not thousands of customers? Now we're talking about serious investment.

How to Avoid Mistake #4

Managed services businesses require heavy investment with clearly identified up-front costs that will go a long way in preventing a failed P&L. Have you taken the time to thoroughly quantify these costs?

To aid in the process, TSIA's managed services benchmarking helps establish the baseline financial model of this service line. How much investment is typically required in year one? How many years does it take to reach best-in-class financial performance? These are the types of questions benchmarking can help answer.

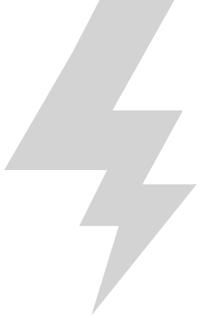
It's also important to keep in mind that a successful and sustainable managed services business doesn't happen overnight, but is the result of deliberate and painstakingly detailed investment and development with just the right portfolio definition tailored specifically to your targeted market. The reality is, managed services businesses can be very slow to ramp, and a company must be fully dedicated to their strategy and be willing to wait to reap the rewards.



To better communicate this message with stakeholders, it helps to place a well-seasoned managed services executive at the helm of your MS business. They can aid in steering conversations with the CEO and CFO, as well as set the expectation for how much investment is required up-front, and how long it will take to see the ROI.

ANALOGY

Managed services is like a steam engine locomotive. Once it gains momentum, it is difficult to stop.



Mistake #5

Poor Organizational Structure

“COMING TOGETHER IS A BEGINNING.
KEEPING TOGETHER IS PROGRESS.
WORKING TOGETHER IS SUCCESS.”

– HENRY FORD

One of the top challenges facing today’s managed services providers is how to shape and structure their organization. The knowledge and expertise of the individuals involved directly influences the success of the group, so gathering an all-star team is crucial to the growth of a managed services business and the delight of the customer.

For those just starting out, this is a perfect opportunity to set up an ideal organizational structure. If you’re already established, there’s still a chance to refine your people and processes and search your existing talent pools to fill any gaps.



How to Avoid Mistake #5

There are many ways to structure an MS organization, but here's an example model that has been proven to have positive impact on KPIs and core business results:

PRODUCT MANAGEMENT: At the center of the MS organization, product management is responsible for working with all other departments to define an organization's business strategy and manage its execution, as well as define and build a business plan for service offers. They must have, at a minimum, basic knowledge of all facets of the MS business, from planning stages to market.

MARKETING: Marketing managed services is closely tied to customer outcomes such as risk aversion, reduced total cost of ownership, improved uptime, accelerated return on investment, financial predictability of operating expenses, etc. Your marketing team should be able to adequately communicate the difference between a product P&L and a managed services P&L to other departments and ensure that customer outcomes are at the forefront of all marketing efforts.

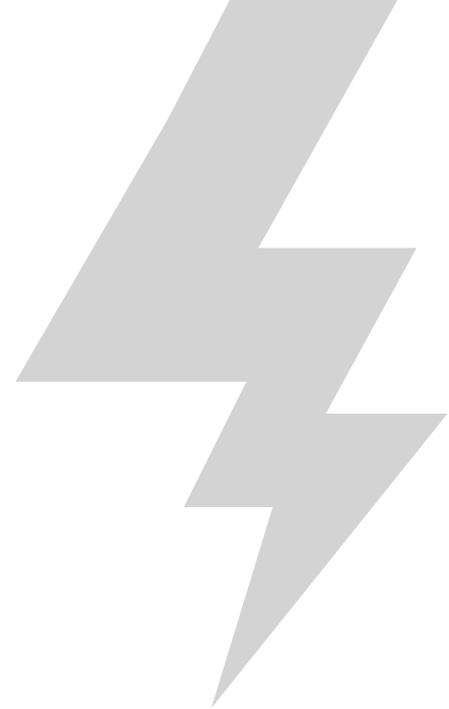
SALES: Unlike a technology sale, the CIO of a company is usually not the key decision maker, but a key influencer, with the managed services purchasing decisions made by the COO, CFO, and even the CEO. Your managed services sales team needs to be able to establish C-level relationships, demonstrate financial acuity, and understand the long-term business goals of their customer, as well as how technology and operational outsourcing will impact business strategy and goals.

SERVICE DELIVERY: Once the deal is closed and the customer is on-boarded, the delivery team takes over. Since the success of a deal is often determined within the first 90 days of activation, a strong, process-oriented, scalable operation dedicated to outcomes, made up of a skilled team of engineers, is a huge plus.

BUSINESS OPERATIONS: This department handles the non-technical aspects of a managed services organization, such as P&L governance, budget planning, resource management, client management (if not part of delivery), contracting (renewals, upselling), vendor and supplier management, and forecasting. Since most MS organizations work within companies that focus on product revenue, understanding how different the financial governance of MS is compared to products and other service lines is key.

Some managed services providers also develop internal teams responsible for the caring and feeding of clients. Business operations should know that how a customer feels about the performance of their MS provider is just as important as the data behind the actual technical performance, which will allow them to make informed decisions based on overall satisfaction.

Conclusion



Managed services can drive the transformation of a company and help close the consumption gap facing many technology corporations. It can increase revenues with the added benefit of predictable margin contribution, which helps keep the lights on when product sales are down, and propel customer transformations when new technologies are introduced.

The path to a successful managed services business requires commitment to a cultural transformation. You will have to get to know your customers more deeply, which means your sales team will have to take a very different approach. You will also need to make investments in tools, technologies, processes, and people that you may not already have in place. This will take time, patience, and perseverance.

Though making any of the aforementioned mistakes can cause irreparable damage to the long-term health and sustainability of your managed services business, there is hope. More and more businesses are experiencing tremendous growth from properly investing in and developing managed services.

Once your managed services business is thriving, the rewards will be well worth the dollars and the patience invested. If properly executed, managed services is “the gift that keeps on giving,” resulting in higher customer retention rates and client satisfaction.

TSIA's Managed Services Benchmark Study is just one of the many ways in which we bring our experience and deep knowledge of industry best practices to our members. By becoming a TSIA member, you have the opportunity to learn from the mistakes and successes of your peer community, your partners, your customers, and competitors.

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