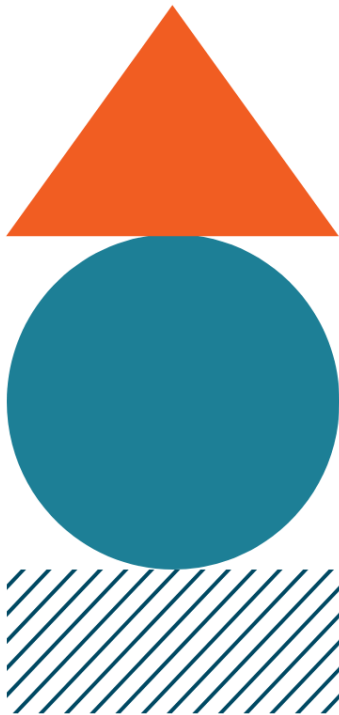# ANATOMY OF A SUCCESSFUL MSP

An NSCA and PSA focus group survey of successful managed services providers (MSPs) reframes the integration industry conversation about recurring revenue – and provides a blueprint for becoming a successful MSP.

It's time to change the conversation around recurring revenue and selling services in the integration industry.

No longer should the discussion be about the impact on cash flow and the importance of migrating from project- and product-based revenue to a more locked-in and consistent service-oriented business model. Integration companies already understand that.

If they haven't already embraced managed services, service contracts or as-a-service offerings, it's not due to lack of education on the business case. It would be difficult to attend an integration industry conference, listen to a webinar or read a trade publication without being confronted with the topic. Some companies *choose* not to pursue a more service-oriented business model. Others would like to make the transition — but find it difficult to get out of the gate or run into obstacles in their first couple of years.

NSCA and PSA set out to reframe the conversation. The trade association for the integration market and the systems integrator consortium, respectively, both comprised of forward-thinking security and AV integration companies in North America, identified a qualified group of integration companies with successful service businesses. (See "Our Focus Group: Who Are These Successful MSPs?") We sought to understand what makes them tick and how they overcame obstacles and got to the point where service had a positive impact on their companies – both from revenue and customer stickiness standpoints.

The resulting research will help integrators set better expectations and create a more strategic plan to either add service revenue to their business or optimize a managed services, service contract or as-a-service model. Use this research to identify pain points and recognize due diligence steps that shouldn't be overlooked. Get a better understanding of the financial strain that rolling out service has on your company – and compare it to the resultant financial benefits of a successful program.

Meanwhile, this research isn't just about data. Several MSPs discuss firsthand the challenges and successes they've experienced along the way. That includes, in some cases, frank commentary on the relevance of an integration company that offers service-based solutions versus those that don't. "The knowledge transfer of what our systems do is not as interesting as it used to be," says Kim Lehrman, CEO of Cedar Rapids, IA-based CEC. Customers are less interested in the specifics of the technology and less willing to "put capital expenditures into things that don't really move their strategy along." However, with the move to managed services, Lehrman contents, "we can really partner with them to show them how to use this technology."

For CEC and many successful MSPs, the conversation has already changed. This research and analysis, however, isn't aimed at convincing integrators to embrace recurring revenue – this is an opportunity to learn from the experiences of the companies that make up this focus group.

Our Focus Group:
Who Are These Successful MSPs?

Over 25 Integration Companies Surveyed

They service customers all around the globe including the US, Latin America, Asia-Pacific, Europe & the Middle East.

They offer service contract and as-a-service models in the AV, life safety, IT or security industries.

67% of those surveyed have a projected revenue up to $50 million and **33%** project $50-$100+ million.

10+
YEARS

60% surveyed have 10+ years experience earning revenue linked to service-related contracts.

Length of Managed Service or As-A-Service Offering

Percent of Respondents

| Less than a Year | 1 to 2 Years | 2 to 5 Years | More than 5 Years |
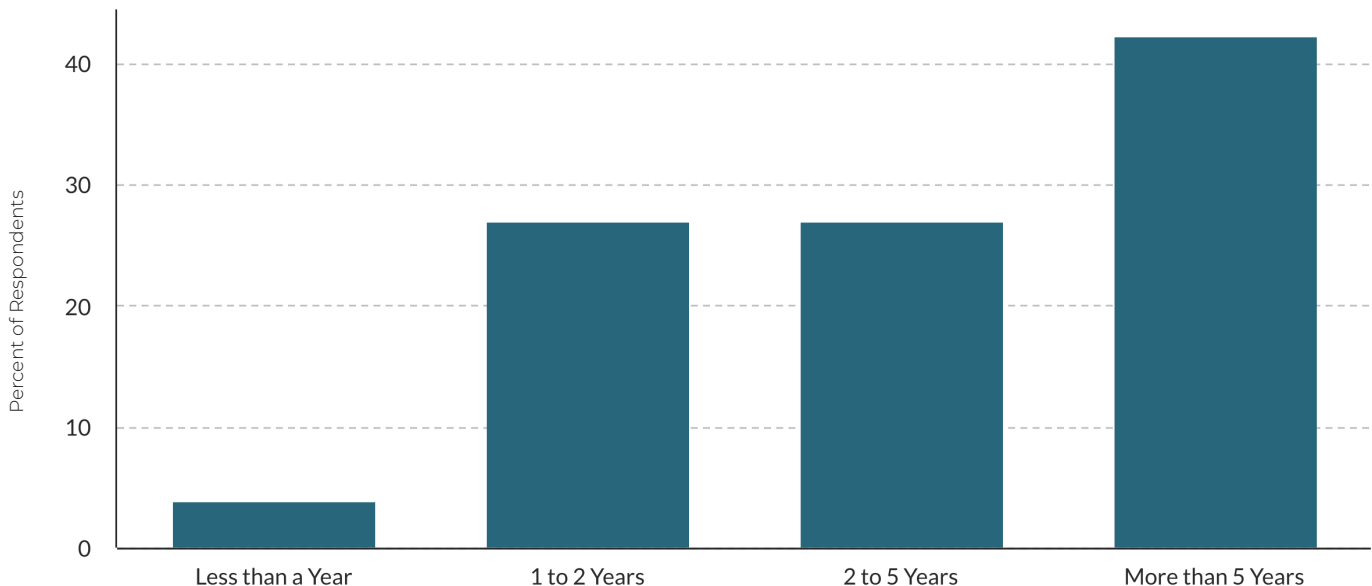
# What Steps Successful MSPs Took to Build Their Programs

"

In order to really get started with hosted access control and video managed services, we had to make at least a two-year commitment to change the path of what we were going to do. And a lot of that was just learning how it was going to fit into our current portfolio, realizing that it was going to be educating our customers as well as ourselves. We started actually selling hosted access control and hosted video to all of our customers. When I say selling it to all of our customers, it was – whether it was going to be an actual sale or not, no matter how big or how small they were, the first question we would always ask is, do you have any plans to move into the cloud? If no, why? If yes, what is your timeframe to do that? So just having that conversation with our customers gave us a path to get to where we wanted to be."

– Trevor Stewart, president of Security Control Integrators

For successful MSPs to build their recurring revenue businesses, time, research, money and resources were necessary from the outset. Almost all (96.15%) of survey respondents conducted research on pricing, managed services structures and offerings. Likewise, 84.62% of the MSPs interviewed had specific training for employees.

96%
RESEARCHED
Pricing, Structure & Offerings
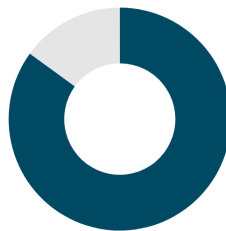
## 85%
TRAINING
Applied to Employees

38%
CONSULTING
Received from Lawyers

Training

Successful MSPs have trained employees in multiple areas of the business to adapt to this model. The majority (84.62%) trained their sales teams on how to sell managed services or as-a-service offerings and 60.71% required the sales team to be trained on selling service; 76.92% had new product or technology training and 53.85% offered training for their accounting teams to learn how to handle financing and billing.

Training is a key piece of success to building a managed services practice. One respondent even commented that his organization did not offer as much training as it should have from the outset and that caused lost opportunities. Similarly, it is of value to help employees understand why the move to a managed services model is prudent. Culture change can be hard; therefore time, energy and good communication is necessary to explain the importance of adopting a managed services model.

Training Needed for Employees
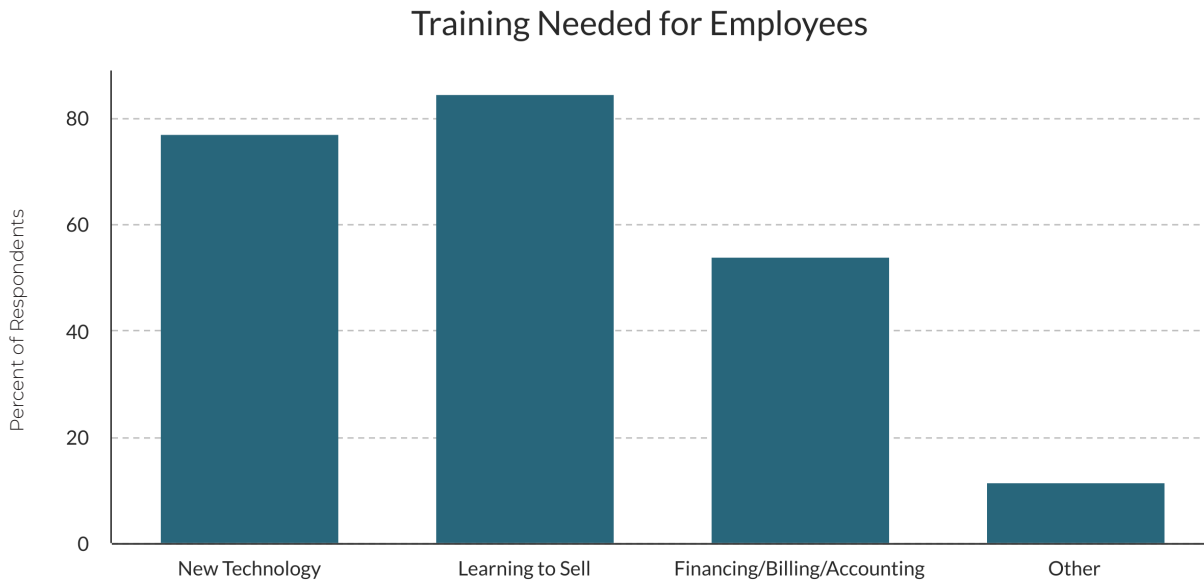
Over half did not hire any new employees to implement their program. Of those who did, **20%** hired technicians.

Upfront Investment

There are many reasons systems integrators have hesitated to adopt managed services, but frequently mentioned among those is cost. From billing to training and staff, the perception has been that a large upfront investment is necessary to get an as-a-service program started. Survey results say different, however: 61.54% of respondents invested less than $50,000 at the beginning and 19.23% spent between $50,000 and $100,000. Similarly, 53.85% of survey respondents did not hire new employees to roll out a managed services offering. Of those who did hire new employees, 34.62% hired in sales and 19.23% hired technicians.

Sales Structure

The sales team is an important piece of the process when building a managed services offering. Structuring incentive programs is a necessary component in due diligence: 67.86% of survey respondents created different sales incentive programs for service-based sales as compared to project-based sales. A separate sales team isn't necessarily needed either, only 25% of respondents have different sales professionals selling service programs versus projects.

Some of the obstacles that companies can face is really a reluctance of their sales teams to embrace the managed services product line and the recurring monthly revenue that you can get out of that, as well as being able to embrace how we talk to our customers and how we go to market. We've been fortunate that most of our employees and most of our salespeople have embraced managed services and it's really starting to take hold within the organization. It has become just another service that we provide, which has really set us aside from a lot of our competition."

– Jim DeStefano, senior vice president at Unlimited Technology

Backend Processes

Aside from sales, there are other operational considerations such as legal contracts with clients, accounting systems, billing, etc. Respondents were mostly split in regard to enlisting an attorney with specific experience to build and review service-related contracts (48.15%) and not hiring an attorney with specific experience for these purposes (51.85%).

Third-Party Help

Conversely, 67.86% of successful MSPs surveyed work with a third-party company to create and/or deliver monthly financing options. Billing systems and processes can differ greatly depending on internal technology already in place. While some respondents are using existing ERP or CRM systems such as Q360 by Solutions 360, Dynamics 365, others have MSP-specific software like ConnectWise. A large portion of MSPs who responded have built customized programs and systems. Many commented on a need for improvement, while others felt their set up is effective. Ultimately, the systems, software and processes seem to vary and are more dependent on institutional culture than as-a-service best practices.
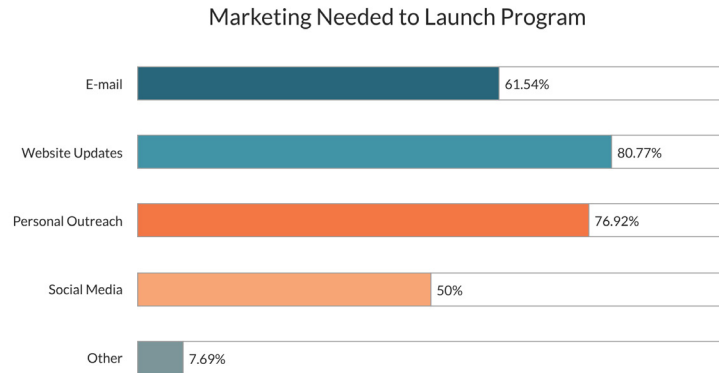
2/3 work with a third-party company to create/deliver monthly financing options.
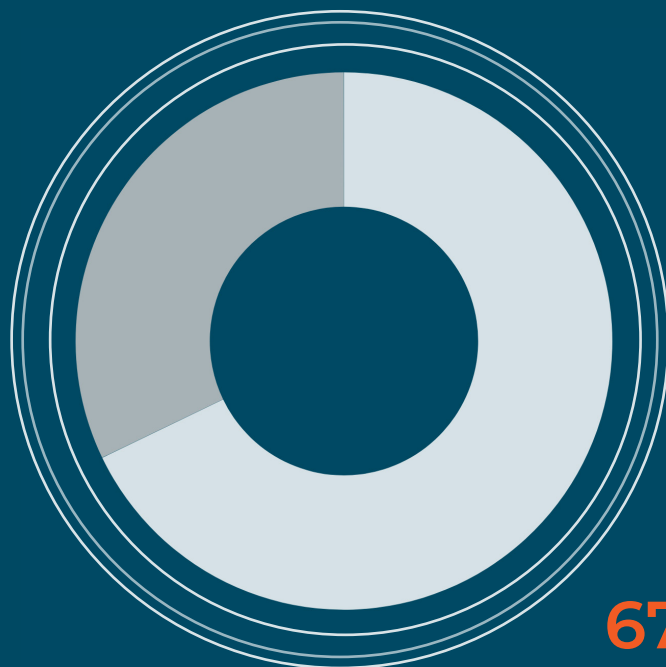
67.86%

Marketing

The last steps for an integrator to launch managed services is to bring awareness to the new offering. The takeaway is clear – communication is key on a variety of platforms and several times. 80.77% of respondents updated their websites, 76.92% made personal calls or held meetings, 61.54% utilized e-mail marketing campaigns to spread the word and 50% used social media.

Marketing Needed to Launch Program

Platform	Percentage
E-mail	61.54%
Website Updates	80.77%
Personal Outreach	76.92%
Social Media	50%
Other	7.69%

Some of the successful MSPs interviewed emphasized the importance of keeping eyes open for other recurring revenue opportunities that can grow out of existing relationships as well. For example, Unlimited Technologies found that end users' IT departments ended up slowing down installations in some instances when integrating access control or video systems.

> "We've approached them, and they've accepted where now we take over that piece of it. We actually manage all of the pieces for the system. So we're managing their updates, their patches and everything else that goes along with that. So that becomes another piece of the RMR for the master support agreement. And it's really been a win-win for both us and the customer."
>
> – Jim DeStefano, senior vice president at Unlimited Technology

Growing the Program

Many MSPs discussed scaling over time. Launching an as-a-service business is not "set it and forget it." As technology and demands change, so should a managed services practice.

> We feel like we're in version two now of our managed services offerings. And so, we've identified that a certain category of customer, primarily the ones that are utilizing our subscription-based offerings, if they're charged for a service call, they get a separate invoice for a service call. A lot of them don't understand why. Why is that? I'm already paying a subscription. Well, they don't remember that their subscription is for their cloud-based offering and it does not include the on-the-ground services. So we're beginning to relook at our packages there so that they include the on the ground services, on-site services as needed. And that's a change really driven by customer reactions."
>
> – John Maffey, president at MT3 Corporation

Successful MSPs: Realized Results

Through its research, NSCA and PSA sought to understand the impact that shifting to a more service-oriented business model has on integration firms. Obviously, given the nature of this survey of successful MSPs, it's not surprising that the results are overwhelmingly positive. It's a reflection of integration firms that have weathered the steps outlined in the previous section. Meanwhile, it serves to provide reasonable expectations for integration companies that commit to the transition.

61%

Say the fiscal impact of recurring revenue from managed service or as-a-service offerings significantly improved their financial bottom line.

Asked how they'd describe the overall fiscal impact of recurring revenue from managed services or as-a-service offering contracts, 61% of respondents say it has significantly improved their bottom line. Plus, 36% cite marginal improvement. Assuming that even a marginal improvement combined with inherent customer stickiness make it a worthwhile transition, which means that a remarkable 97% of surveyed companies are happy with their pivot.

Overall Fiscal Impact of Recurring Revenue from Managed Services or as-a-Service Offering Contracts
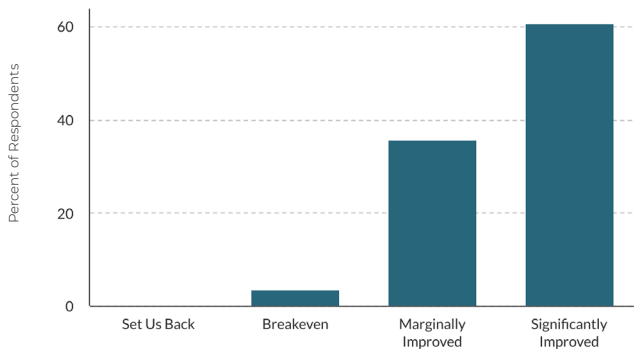
Not one company reports a setback.

The prevailing wisdom is that transitioning to service- versus project-based revenue will improve cashflow, consistency and lead to a more stable company. As such, the higher the percentages of revenue and profit stemming from services, the better. The surveyed successful MSPs are benefiting from that stability. Nearly one-third, 32%, of surveyed companies report that between 51% and 74% of their companies' gross profits stem from services. The largest group, 43%, say that between 26% and 50% of gross profit comes from service.

While the profit numbers are important, they don't tell the whole story when it comes to realized results from transitioning to a service model. Integration companies can also measure success through consistently solving customers' needs. Increasingly, according to Alan Rosenkoff, director of business development & corporate marketing for Corbett Technology Solutions, Inc. (CTSI), customers need "budget linearity."

It's difficult to budget for large capital expenditures or technology projects. It's more predictable to budget for a consistent service-based model of technology implementation, upkeep and upgrades. Through, for instance, an as-a-service model, Rosenkoff says, "customers have a consistent monthly expense associated with the infrastructure. They don't have to worry about surprises. That budget linearity, the consistency of the monthly payment and being able to budget for it long term makes it easier."

It's not just about cash flow, it's also about allowing customers to be nimble and invest in technology that will make a business impact quickly—a need that has been amplified during the pandemic. "One of the biggest drivers of CTSI Subscription Services has been accelerating technology into a space so they get immediate use of it," he adds. "We've seen customers say they can accelerate technology that gives them real business outcomes, such as improved collaboration or security, and doing it while spending on a monthly subscription."

Perhaps the most telling takeaways for CTSI is Rosenkoff's estimation that the integration company has never lost an as-a-service bid to another integrator offering an as-a-service bid. In other words, when a customer wants a monthly payment approach to their technology investment, CTSI is usually the only integrator that can deliver what they need.

That is a nice market position and an important realized result of shifting to a service-based model. It's also a reflection of the competitive advantage that these successful MPSs have earned.

21.43% of integration companies' expected gross profit falls below

25%

42.86% of integration companies' falls between

26%-50%

32.14% of integration companies' falls between

51%-74%

3.57% of integration companies' falls over

75%

Next Steps

NSCA

☑ About 2/3 of surveyed successful MSPs leaned on a third-party to create and roll out financing options to support their service program. Learn about financing programs by connecting with NSCA Business Accelerator Great America: nsca.org/greatamerica

☑ Selling service is a different animal than traditional project-based integration. That puts traditional integration sales professionals at a disadvantage. Employers should support their existing sales staff by giving them the right tools. Get trained on selling service-based solutions by connecting with NSCA Member Advisory Council provider Corporate Sales Coaches: nsca.org/shape-better-sales-corporate-sales-coaches

☑ It's important to understand how a recurring revenue program fits within your overall business strategy. Consider a business consultation with your trade association NSCA by contacting Mike Abernathy at mabernathy@nsca.org.

PSA

☑ A key factor to success in selling managed services is complete buy-in from leadership, including a playbook full of the fundamental resources needed to grow managed services. Developed and lead by Chris Peterson of Vector Firm, PSA now offers its members and owners a six-month workshop covering compensation plans, attracting the right customers, training, etc. To learn more about the program, visit: psasecurity.com/business-solutions/vector-firm

☑ PSA Education offers a variety of instruction on managed services basics as well as manufacturer-specific training on a variety of products. Likewise, PSA's managed services committee releases regular content on monetizing RMR, identifying products and services, sales and customer communication strategies and more. To learn more, visit: psasecurity.com/education

☑ PSA TEC takes place live May 16 – 19, 2022, and virtually May 24 – 26, 2022, and will feature a wide variety of managed services content and certifications: psatec.com/tec2022

Key Takeaways

Training is necessary in many areas of the organization, especially sales.

A large financial investment isn't needed, rather a strategic one based on training, process and systems needed.

An organization can use existing software and programs or create something proprietary. The most important piece is to align with organization best practices.

Culture change is needed for success - selling services starts by convincing all internal stakeholders of its necessity

Communication is key - communicate often on a variety of different channels with customers about subscription opportunities.