Selecting the Right Service Delivery Model for MSP Services
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About
An attractive service for MSPs to add to their portfolio is data protection. The most critical decision for the MSP is which software solution it will use as the engine for the new service. For MSPs already offering a data protection service, it may be time to rethink their current supplier and solution. Unlike an end-user data center, the MSP has more vectors to consider as it decides on a solution. This eBook covers each of these vectors to assist MSPs in the selection process.
Managed Service Providers (MSP) often become MSPs by evolving from a traditional IT reseller to the more services oriented approach. Other organizations specifically choose to start as MSPs after watching the challenges that traditional IT resellers face. The products that an MSP chooses to be the foundation of their services are critical to the organization in maintaining its value as more than just a reseller. The problem is that many vendors that aim to sell to MSPs essentially force the MSP to become an agent instead of maintaining its provider status.

**Don’t Let History Repeat Itself**

The reason that many IT reseller organizations became MSPs was because traditional product vendors diluted the market by signing too many IT resellers in a given geographic area. The high number of IT resellers lead to a reduction of margins on products and services being delivered, which subsequently made it hard for those IT resellers to continue to invest in professional services skill sets necessary to implement, support and operate the solutions delivered.

The IT resellers’ inability to deliver quality services then lead to IT vendors deciding it was in their best interests to take projects with end-users direct because the IT reseller channel “added no real value.” However, some IT vendors have changed their approach to the channel over the last few
years and have put steps in place to make sure certain types of business is “channel-only.” Typically, the business that the vendors feel the channel is qualified for is small to medium sized organizations. Many vendors do business directly with the larger enterprises.

The combination of decreasing margins and vendor attitudes toward IT resellers is what drove many traditional resellers to focus solely on services. As these organizations mature they provide products to bundle with their services in monthly/quarterly subscription models. The result is the service provider is renting their infrastructure and expertise in order to help end-customers lower their capital expenditures and reduce operational costs.

The service provider model has proven to be very successful both for the organizations that become one, and for their customers. The problem is that many of the IT vendors that sell to the MSP community also provide infrastructure. If the MSP engages in these type of relationships their role with their customers is reduced to one of an agent instead of a providers of services. They become the IT equivalent to an insurance broker and place self-imposed limits on their value to the customer.

**Agent or Provider**

MSPs need to decide if they want to be known as an agent or a provider. In an agent business model the MSP is not building out a rentable infrastructure. Instead they are leveraging the infrastructure of the underlying cloud service vendor (i.e. the real service provider). The marketed advantage of the agent business model is that the MSP does not need to invest the resources required to deliver the service. “Just go sell our stuff!” is the mantra of the service provider.

The downsides for MSPs can be serious and deep. They include low margins, no differentiation, no intellectual property, loss of customer control, and a much lower value of the overall MSP business. An agent faces diluted differentiation, diluted margins and diluted shareholder value. In addition the agent model requires the relinquishing of customer control and no motivation to create their own intellectual property.

An MSP on the other hand maintains the infrastructure for their clients and that infrastructure becomes a key differentiator for them enabling to maintain, if not increase margins and shareholder value. Owning the infrastructure also encourages creation of intellectual property as each step toward greater efficiency enables greater profitability and increased differentiation.
Agency for MSP Startups?

A provider may think that going the agent route is an ideal way to get started. They can focus on finding clients and not have to outlay a lot of capital on the infrastructure. Their theory might be that once the startup provider achieves critical mass then the provider can cut over to providing a more complete and turnkey offering that includes a rentable infrastructure. However, the problem is, how does the provider ever actually make the switch? They may have hundreds of customers set up with a vendor, so to suddenly change course is a difficult and risky strategy.

Leveraging a vendor relationship to help a provider get started also assumes that the cost of starting as a full service provider is substantially higher. Some providers’ vendors offer low starting price points and affordable hardware configurations while using the existing employees to operate the service. If the organization can make the initial first step, they put themselves in a far better position to remain profitable and be sustainable for the client.

The next chapter in this blog will dive deep on the comparison between agents and providers. It will answer the question is the inherent upfront risks of being an MSP be outweighed by increase differentiation, margins and shareholder value. It will also explore options to mitigate the upfront risks.
Managed Service Providers (MSP) have a decision to make, should they be an agent or a provider? Both choices have ramifications on the business both short term and long term. Understanding the pros and cons of each model is critical in making that choice and/or shift from one to the other.

An MSP Agent is an organization that re-sells another provider’s service. In many cases the “other provider” is a software or hardware vendor. The MSP Agent business model is, in many ways, similar to the traditional manufacturer & reseller model. The reseller buys product from the manufacturer, sells it, potentially installs and supports it, and is there when it is time to upgrade. In the case of a cloud services resell model the agent sells the solution, installs and configures any on-premises components and is there for basic level 1 support and monthly billing.

The seemingly obvious advantage for the MSP Agent is they can quickly start selling a new service without much investment in training and infrastructure. The disadvantages are less obvious but more dangerous to the long term health of the partner.

A cloud service provider controls the infrastructure. They’ve invested in servers, storage, networking and software that they own/lease/rent, typically in their data center or a colo facility.

In this chapter we will compare the cloud service agent business model to the cloud service provider model. There may be times where an organization wants to do both and there may be times were it makes sense to make the full investment to have control and be the service provider.

**Differentiation**

The first challenge that any business needs to overcome is how to differentiate themselves from the competition. The challenge with being an agent is that almost any organization in the IT channel space can pick up the service provider and start offering it to its clients and prospects, or to a competitor’s clients. Agency is a “me too” offering with low/no differentiation. An agency approach might be a good solution for IT channel companies looking to expand the core services they provide, but it is difficult to justify the agency model for an IT channel’s core business.

It is also more likely that a vendor who provides their solutions via an agency option will over-distribute the service. There is nothing limiting how many agents they have since customer satisfaction eventually falls solely at the feet of the vendor. A vendor offering a provider model must be careful how many providers it authorizes since those providers actually deliver a significant part of the solution (hardware, infrastructure, data center, L1 and L2 support), so they are directly involved in keeping customers satisfied.
Margins

At some point every business needs to make money. When an MSP is an agent it is hard to control margins since the entire solution comes from the vendor. They are also susceptible to continually raising revenue commitments in order to maintain discount levels. MSP Agents may have seen this before in their past lives. As a provider, because the organization controls the infrastructure they have much more control over margins. They also have more flexibility since they own half of the solution and can re-direct a customer to a new software solution if need be.

Intellectual Property

MSP Providers are encouraged to create various levels of automation and customization to make their solutions easier to manage and to interact with. The result is a definable set of intellectual property that adds further value to their service, and to their overall business. They essentially make the software they provide better. MSP Agents have no motivation to create these unique automation steps and as a result are seen by the vendor as low cost outsourced sales agents.

Customer Control

Maintaining customer relationships is critical for any organization to survive. The primary value of an MSP to a vendor, with which they have an agent relationship, is to be a list holder. The problem is those customers, once sold, also become the property of the cloud vendor. Once the vendor has the relationship there is nothing to prevent them from marketing to and engaging directly with the customer. MSP providers on the other hand, assuming they provide not only infrastructure but also support, can keep their customer list proprietary.
Also in most cases the customer understands the relationship and it is relatively easy for them to shop between agents, further driving down costs. There is no gravity in the agent model. If the customer switches agents nothing has to move on the backside since it is all consolidated at the vendor’s location.

**Enterprise Shareholder Value**

At some point an MSP business owner wants to retire or sell the business, even if it is back to the company’s employees. The problem is how does an organization, which is built from agency relationships demonstrate value. They have little, to no infrastructure and they don’t even have an exclusive list of customers. An MSP Provider is just the opposite. They have an investment in infrastructure. If the MSP is successful, that investment is quite large. They also have a protected customer list that is proprietary to the organization. Finally, those customers are “sticky” as it is difficult for them to switch services, and the future recurring revenue is valuable.

**Conclusion**

There are times where selecting the agent business model may make sense. Typically, when the organization wants to provide a service that is outside of its core capabilities. Even using an agent model to start-up a new service is risky because at some inflection point the provider will want to bring the service in-house.

The provider route is a more viable long-term strategy. The upfront costs are higher, but the long term value of retaining customers, developing unique intellectual property, maintaining margins, and longer term recurring revenue all outweigh that initial investment.
The business side of being a managed service provider is at least as important as the technology. MSPs need to be careful in who they do business with. They need to take a long term view of their relationships and understand the impact of ending those relationships if necessary.

**Whose Customer is it?**

One of the most important aspects of any MSP to Supplier relationship is who owns the customer. In our last blog we compared the type of relationship the MSP might have with their supplier, agency or provider. One of the challenges with the agency relationship is the customer relationship is a bit murky.

Under the agency model, the cloud service supplier more than likely has direct access to the end customer’s contact information as they are the one actually providing the service. If the relationship ends, it’s hard to see how the agent will have any recourse in obtaining sole ownership of the customer. The cloud service supplier isn’t going to let the agent delete all of the shared customer’s data from the supplier’s infrastructure and it makes sense that the cloud service supplier would continue to pursue that customer’s business or transfer it to another agent.
In the provider relationship, who owns the customer should be easier to delineate, although some technology suppliers may still try to have at least joint custody. In the provider business model though, the customer’s data is held exclusively by the provider. The technology supplier may have very limited, if any, access to that data. The provider needs to make sure though that any data that is shared with the technology supplier is either very limited in scope, is protected by a contract or is masked or encrypted if shared with the technology supplier.

**Whose Prospect is it?**

Beyond protecting their customers, the MSP will also want to protect the prospects it is trying to convert to customers. The MSP needs to carefully examine the go-to market practices of the supplier. The safest strategy is to work with a supplier that has no direct business relationships and pushes any potential business through one of its partners.

Short of a no-direct business capability the MSP should make sure that the lines of delineation are clearly defined and make sure they are comfortable with those definitions. For example, many suppliers will only engage in direct relationships with a large enterprise. The MSP needs to decide if they are willing to give up that enterprise business. MSPs, especially those that have chosen a non-agent business model, are in a much better position to engage directly with large enterprises as compared to the traditional reseller. Walking away from the enterprise business opportunity is more frustrating for the MSP.

**Whose Data Center is it?**

A final area to consider, data center location, is driven to some extent by technology but the technology reflects the business’s attitudes towards the supplier. The technology supplier’s solution should allow the MSP to host the software and store the data related to that software in a location of the MSP’s choosing. The MSP, especially a non-agent, will more than likely want to host the data in their data center or a location that they rent. They may also want to partner with another MSP in another region as a replication target in case of a disaster. Other MSPs may want to replicate data to a public cloud provider for disaster recovery and service uptime/availability reasons. The choice should be the MSP’s; it should not be forced on them.

**Supplier Longevity**

While nothing lasts forever it is important that the MSP looks for suppliers that have a multi-year, even multi-decade track record of not only being in business but being consistent with their business model. A risk for the MSP is if the supplier goes out of business then they need to move quickly to get their customer’s data onto another platform plus deal with the embarrassment of explaining the situation.
The MSP should also place the same scrutiny on the supplier’s business practices. Many suppliers change their stance toward MSPs seemingly on a quarterly basis. They can go from channel-only to MSP-only to direct mostly, in a matter of a few quarters. In some cases, the new ownership of a technology supplier, may pivot or augment the business practices than the original founders. Many private equity groups now own technology suppliers, and they may be dispassionate about the channel. Having paid large sums of money to acquire ownership, they serve their investors who expect a return on capital however it comes.

MSPs should look for a supplier with a long and consistent track record of being engaged with the MSP community.

**Conclusion**

MSPs have a tendency to stay too focused on the technological capabilities of a prospective supplier’s solutions. Certainly, technical capabilities are important, and in our next blog will examine what MSPs should look for in the backup and recovery use case, but MSPs need to also understand who they are doing business with from a business perspective. The way their supplier implements their go-to market strategy tells the MSP executive a lot about what it will be like to do business with that supplier.
As we covered in the last chapter, Managed Service Providers (MSPs) need to choose between being an agent and investing in infrastructure. The agency path may seem tempting at first, but MSPs that want to own the customer relationship and increase the company's value know that the clear choice, at least for most services, is investing in infrastructure. Even using the agency route to “ramp up” is a risky proposition especially considering that investing in infrastructure is not the risk it was in the past. Most suppliers enable an MSP to start small and scale, keeping upfront costs to a minimum.

**Infrastructure Changes the Conversation**

Once the MSP decides to invest in infrastructure, the conversation between the MSP and the potential supplier changes. The MSP wants to look for a supplier that enables them to make an extremely long-term decision. Most services that the MSP may provide, like data protection for example, have inordinate switching costs and in some cases require the MSP to continue running the old solution so that data compatibility and availability can be delivered until retention requirements are met.

The MSP also needs to ensure that the solution covers the customer’s entire environment. In the case of data protection this means making sure that all of the customer’s operating systems, hypervisors and databases are protected.

In the case of networking, it means making sure that all the customer’s switches are manageable. If the solution can’t provide blanket coverage then the MSP is forced to support multiple solutions which raises their costs and makes them less competitive.

The MSP also needs to make sure that the supplier’s consumption model fits with the MSP’s business model. Consumption is all about choice. Some MSPs will want to buy an annual “all-you-can-eat” type of license and others will want a predictable by the seat license strategy. Obviously the MSP needs to select a server offering that gives them plenty of opportunity to provide services beyond just installation, like ongoing configuration testing, temporary administration support and regular health checks.

The supplier’s solution also needs to be MSP-ready. An increasing number of vendors see the MSP marketplace as a burgeoning source of opportunities but does the supplier have a product tailored to the MSP market or did they take their existing solution and simply modify their pricing model? MSPs need to look for solutions that are truly multi-tenant, and have a central dashboard for monitoring operations and managing clients. MSPs may even want the ability to brand the solution under their logo so white-label options are critical.
Does the Agency Method Have a Role?

While investing in their own infrastructure is the right path for most MSPs, they still may want to leverage an agency model in certain situations. MSPs just need to make sure that their core offerings are owned by them and not outsourced. An example of where an agency might make sense is when a handful of customers want to have the MSP provide a specific solution for them. Providing this solution via the agency route keeps another MSP from being introduced into the account.

Conclusion

MSPs need to be careful not to be tempted by the allure of the agency model. While it may seem easy to start and maintain, it severely limits the MSP’s value both to its customers and to itself. Investing in infrastructure is not much harder than becoming an agent, certainly there are some upfront costs but those costs are truly an investment which should pay dividends many times over through decrease risk, increased customer retention and increased value.

“MSPs need to look for solutions that are truly multi-tenant, and have a central dashboard for monitoring operations and managing clients.”
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