

# BUILDING AN MSP'S REVENUE & PROFIT ENGINE

How MSPs Leverage Businesses' Data  
Dependency for Recurring Revenue and Profit



**datto**



## Table of Contents

Introduction: Clouds and Data's Rising Star Drive Reinvention of MSPs .....	3
Data Protection Becomes MSP Cornerstone.....	4
MSPs Build Deeper, Stickier Customer Relationships .....	6
The Rise of Recurring Revenue MSP Business Models.....	8
How MSPs Can Be More Profitable .....	10
Managing for a Service-Oriented MSP .....	12
Streamlining Vendor Partnerships .....	14
Conclusion: What Being an MSP Means Today.....	16
About Datto.....	17

# Introduction

## Clouds and Data's Rising Star Drive Reinvention of MSPs

Despite the 1970s No. 1 single, video *didn't* kill the radio star – radio evolved.

Today, managed services providers are evolving thanks to cloud technology, mobile devices and the way these information technology tools have put the spotlight on data's rising importance to businesses of all sizes. MSPs are rapidly reinventing their business models, customer relationships, operational efficiency, hiring/training approaches and partnering practices.

But while new technology stunted radio's growth, data's rising star positions MSPs for skyrocketing sales and provides the tools for stellar profitability – facts confirmed by research and by the MSPs interviewed for this eBook.

As they reinvent, many leading MSPs are making Total Data Protection platforms the cornerstones of their evolving business models. It makes perfect sense in light of the realization by even small- and medium-sized businesses that data *is* their business. As CompTIA reported in its 2015 Outlook research, *"Data is not just an important part of business—many firms consider it to be their most critical asset."*

This eBook explores the growth of MSP recurring revenue models, ripple effects that impact customer and supplier relationships, profitability and hiring/training – and the role Total Data Protection platforms play in all of these. Through Total Data Protection solutions (which safeguard data everywhere it lives – on-premise, in virtualized environments, in the cloud, and even in third-party SaaS applications) MSPs have an opportunity to help customers navigate and succeed in the age of total data dependency.

And as this eBook shows, Total Data Protection solutions are the key to MSPs' opportunity for rapid growth and increased profitability.

# Data Protection Becomes MSP Cornerstone

Given data's critical role in businesses of all sizes, you can't really be an MSP anymore without a way to protect data. MSPs say an inability to protect a customer's data means they cannot fully service that customer. A rock-solid Total Data Protection solution must be an integral part of your offering – even if it still takes extra work for certain customers to “get it.”

---

“Backup and disaster recovery is a cornerstone of a managed services provider, from the dual perspectives of recurring revenue and manageability of your customers and of your own organization.”

- John Manley, Virtual CTO, Atlantic, Tomorrow's Office

---

“Backup and disaster recovery is a cornerstone of a managed services provider, from the dual perspectives of recurring revenue and manageability of your customers and of your own organization,” says John Manley, Virtual CTO at New York MSP Atlantic, Tomorrow's Office. “If you become an MSP and leave out the backup and disaster recovery, then what are you managing? If the customer goes down, do you really want to fight that fire with no solution in place?

“When customers suffer a loss, we're on the hook to recover it. So we need a solution in place that's going to allow us to do that with as little overhead as possible,” Manley adds.

Importantly, as more customers “get” the growing value of data to their businesses, Total Data Protection is also evolving into an “entry point” to new customer relationships, Manley notes. “We get calls from companies in pain, often referred from customers,” he says.



But while MSP interviewees agree (as CompTIA's research suggests) that more businesses grasp data's value than ever before, there still are holdouts and customers whose understanding is "subconscious" at best. Every MSP tells a story about at least one client who refused a Total Data Protection solution, had a data loss and demanded, "Why didn't you sell me harder?" "And they make it our fault they didn't buy it from us," Manley laments.

At Augusta-based MSP EDTS, LLC, CIO Delano Collins has had success conveying data's criticality by focusing on business processes. "Subconsciously, they know. So if you ask them pointed questions about how a data loss would effect their business, how it effects their bottom line, how it effects their cash flow, then you see people kind of get uneasy and scoot up to the edge of their seat. Their eyes bulge and the veins on their forehead kind of come to the surface," Collins chuckles.

Manley's trick is to make it personal: he talks about losing personal data, such as family photos; or relates data protection to home and car insurance.

Interestingly, MSP interviews not only revealed how Total Data Protection is becoming a cornerstone of their evolving business models, but also how their own data is playing a larger role in their success. Because recurring revenue models depend more on fixed pricing than hourly rates, analyzing internal data to streamline business processes is becoming paramount to profitability – as discussed in the "**How MSPs Can Be More Profitable**" section.

# MSPs Build Deeper, Stickier Customer Relationships

John Manley's title at Atlantic, Tomorrow's Office captures the essence of MSPs' new customer relationships: Virtual CTO.

"We act as an extension of customers' executive management teams," says Manley, who actually leads a group of Virtual CTOs at Atlantic. "We're focused on aligning their business objectives with technology objectives. We're their guides to navigating the technology world."

If that sounds like enterprise-class IT thinking, it is. All the MSPs described how cloud computing empowers them to bring enterprise-class technologies and techniques to SMB customers. In fact, at London-based Foration Limited, "Our founding principle was to take big-business IT and make it available for small businesses," says Managing Director Paul Weeden (who started the company in 2007).

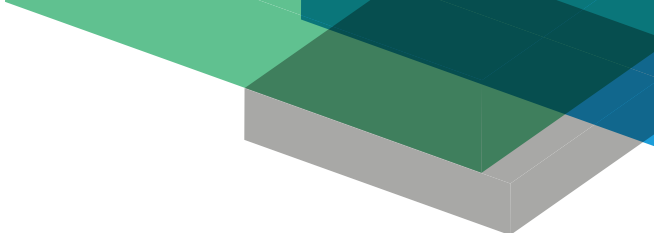
"The cloud has enabled our organization to exist," explains Weeden. Here's how: when multiple small businesses elect to buy IT "as a service" from an MSP, that MSP gets to solve IT challenges once, sell the solution to many clients and amortize the initial development cost across them all, rather than having to design, buy and deploy individual (but similar) solutions for every customer.

---

Key to understanding new MSP-customer relationships is the word "service."

---

Key to understanding new MSP-customer relationships is the word "service. It doesn't just mean the abstraction of hardware and software into utility-like services an MSP brings to market; it also refers to the extreme customer-service orientation necessary to MSP success. That service orientation demands more frequent and better customer communications – an organization-wide challenge for MSPs, as discussed in the "Managing for a Service-Oriented MSP" section.



The return on that customer service investment, however, falls directly to the MSP bottom line in terms of stronger, stickier customer relationships that highlight the MSP's value – and enable it to charge higher rates. Such customer relationships last longer, and require greater trust.

But violate that trust and you'll face dire consequences. Explains EDTS' Collins: "If a customer goes down and we can't get them back up, we lose all of our revenue with that customer. Their managed services contract – pfsst! Goes away! We will never have another opportunity with that client again. And what's worse, people love to tell those stories. 'Hey, guess what, I was doing business with blah-blah-blah, my server fails and I was paying \$500 a month in backups, and they couldn't get my data back.' That's a story you don't want people to hear about your company."

That's why Total Data Protection solutions that safeguard client data whether it's stored on-premise, in virtualized environments, in the cloud, or even in third-party SaaS applications are critical to the trust and confidence MSPs need to maintain these true-partnering customer ties.

"The most convincing salesperson in the world is an engineer who really loves and believes in a product. It just comes out. You can see it in their eyes, you can hear it in the things they say," says Collins. "We have that kind of relationship with our Total Data Protection provider. There's a confidence we have in their solutions that no amount of training or books or online videos will ever give you. It makes it so easy to sell the product." Datto Inc. is EDTS' Total Data Protection provider.

# The Rise of Recurring Revenue MSP Business Models

MSPs are pushing the edge of the envelope to develop recurring-revenue models – and customers are embracing them with little or no hesitation. It makes for a fast-changing market.

“Our CEO has pushed the recurring revenue model since I got here 10 years ago because he believes recurring revenue drives up the value of your company,” says EDTS’ Collins.

---

Customers are more willing and able to buy in what he calls the “HaaS model” – for hardware as a service – because it matches better with how most businesses structure spending.

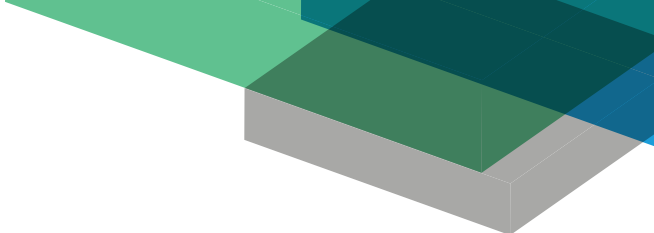
---

Collins also explains that customers are more willing and able to buy in what he calls the “HaaS model” – for hardware as a service – because it matches better with how most businesses structure spending. “The points of contact we work with have freedom to incur additional monthly expenses. But if they need to fork over a significant capital expenditure, they have to go to a board and get approval. We can go to a single person, have them make the decision and immediately initiate a service by offering it without a large up-front capital buy-in. We’ve had a lot of success with that model.”

In London, Foration’s Weeden agrees: “Our goal is zero capex for our clients and zero consulting fees. It’s a platform. There might be some migration costs, but they’ll be rolled in to the overall subscription cost.” Weeden emphasizes the vision he describes is a goal, and that Foration is not there yet; today, about half its revenue is recurring.

But Foration plans to go much further. It is beta testing a new technology services platform that raises the bar from individual hardware or software services to a broad-based “IT in a box” infrastructure approach. Weeden believes most companies’ core IT infrastructure requirements are essentially similar. “It’s rare we come across someone with such weird and wonderfully unique requirements that we can’t work with them. Most companies need an office suite, email, file sharing and one or two specialized business applications.”





Setting that up once for many customers eliminates a lot of duplication of effort and “a huge amount of capital and infrastructure,” Weeden explains – thus creating the power of Foration’s “IT in a box” model.

The MSPs all agree Total Data Protection is a linchpin for recurring-revenue models; MSP customers must have the confidence that their data and infrastructure are always available.

In fact, Atlantic’s Manley believes Total Data Protection solutions are absolutely key to an MSP’s ability to grow its recurring revenue. “Backup and recovery services really helped us gain additional recurring revenue and bring new clients on board. It would be key to the growth of any company’s reoccurring revenue,” Manley says.

Importantly, Collins says the HaaS model lowers price barriers to entry for clients’ backup, recovery and business continuity (BR/BC) solutions, broadening the potential market. And he lauds his Total Data Protection provider (Datto) for supporting the model by selling certain on-premise elements of their total solution in a HaaS model, without up-front capital expenditure.

## HaaS Support With Free On-Premise Appliances

As EDTS CIO Delano Collins asserted, Datto Inc. supports MSPs’ rapid adoption of the hardware-as-a-service (HaaS) business model by offering certain entry-point Total Data Protection products under the HaaS model.

MSPs can acquire the entry-level ALTO 2 or GENESIS 2 solutions free with a one-year service commitment to the Datto cloud. It’s one more way Datto simplifies MSPs’ business lives.

# How MSPs Can Be More Profitable

“The best way to be more profitable is to do less. The best way to do less is to be more reliable.”

In that simple statement, Foration Managing Director Paul Weeden encompasses hours of MSP interviews on the topic of operational efficiency/profitability. Just as with the iPhone, however, an enormous amount of hard work goes into achieving that simplicity. And much depends upon selecting the right technology providers.

---

The power of simplicity lies in the clear understanding and confidence it instills throughout the MSP organization. Simplicity equals less work and greater profit.

---

The power of simplicity lies in the clear understanding and confidence it instills throughout the MSP organization. From technical staff performing rapid restores to a salesperson’s ease in articulating a simple pricing model, MSPs provide example after example in which simplicity equals less work and greater profit.

For example: “The level of automation and integration we get from our Total Data Protection provider means we do less and enables us to punch above our weight,” says Weeden. He explains how API-based integration allows Foration to trigger alerts in Salesforce.com in a surgically precise way – only if the issue in question requires human action. Otherwise, it auto closes.

The reciprocal is also true: MSP profitability can take a hit from vendor complexity. “Having a high-quality product can be completely offset by having a complex pricing model. You’re never going to sell it because it requires so much additional resources to articulate it and make sure it’s appropriately positioned,” explains Atlantic’s Manley.

At EDTs, Collins is nearing the end of a “fork-lift” upgrade of Total Data Protection solutions for nearly 50 clients. It was the result of analysis he did on 18 months worth of data and anecdotal experience from support engineers. His analysis revealed that the complexity and lack of automation, integration and self-service of the previous backup and recovery solution cost



EDTS the equivalent of a full-time engineer in extra effort. That, combined with lower purchase prices, saves EDTS more than \$210,000 per year on the bottom line compared with the earlier solution.

Because Foration generally charges recurring fixed prices, Weeden emphasizes the need for ongoing analysis of his customer interaction data from Salesforce.com as key to continuously improving profitability. “We analyze data to understand which clients we’re underserving or over serving, and then whether they’re just being greedy, or if they or we are doing something wrong,” he explains.

That fixed-price model also caused EDTS to re-invent its Total Data Protection deployment process for greater efficiency. “Because we aim for a low barrier to adoption, we charge a flat installation fee – and sometimes we waive it,” says Collins. “That means we have to get in there with surgical precision, get it installed, get it going, and get out of there.”

---

**EDTS saved more than \$210,000 per year, based on a ease of use, ease of management, and lower purchase price, when they moved to Datto from another solution.**

---

Collins has his Total Data Protection provider ship the on-premise backup appliance and a “seed” device to EDTS’ network operations center (NOC). There, engineers configure the appliance and box it back up, then remotely set up the necessary scripts on the customer’s on-site servers. A low-level technician can bring the device to the customer site, plug it into power and the network and call the NOC. Once the NOC confirms it sees the appliance, the on-site tech sets up a seed device to replicate the initial backup. A day or two later, a customer employee usually boxes up the seed device and calls EDTS. EDTS sends UPS to ship it to the provider to “seed” the initial backup in their cloud infrastructure.

“From the way they designed the products to the way they pack them in their boxes, Datto made everything so simple and easy it allows us to make just one visit to all of our clients to get these things set up,” says Collins.

# Managing for a Service-Oriented MSP

Wanted: well-rounded hardware and software engineers who can diagnose and troubleshoot network issues in an instant, architecting pinpoint solutions that are informed by understanding of a client's end-to-end IT environment *and* its business requirements. Oh, and they have to be customer-service oriented. And brilliant communicators.

---

The best advice from the leading MSPs: when in doubt, focus on communications skills.

---

MSPs say the business model transition to fixed-price recurring revenue and the concurrent need to optimize operational efficiency and customer service comes with very real hiring and training challenges. To wit: not a lot of job candidates hit it out of the park on all the criteria listed above. The best advice from the leading MSPs interviewed for this eBook is: when in doubt, focus on communications skills.

"Most people tend to be narrowly focused on what they're good at, and leading them out of what they're comfortable with can be challenging," says Atlantic's Manley. "We're looking for someone who has core competencies that span multiple dimensions of the business; who is customer service oriented, but also is tech savvy, understands our business and can see the client's big picture."

Manley explained that someone designing a backup and recovery system must understand the full range of the client's business needs before envisioning the size and scope of the virtual environment – including number of virtual (and physical) machines, network connectivity, bandwidth, security, etc. – that would be required if a true disaster forced failover to the cloud.

At Foration, candidates must pass an assessment of their tech skills – but that's just table stakes. "Yes, they have to understand the technology, but what we do is provide a service. We always focus on a person's ability to communicate," says Weeden.



Training also focuses on communication. For example, Weeden is proud of Foration's service desk record: 73% of the thousands of calls received monthly are resolved in an hour and 84% in 24 hours. But the 16% that are not carry with them a requirement to provide the original caller with daily updates. That's just one example of a culture of regular, consistent communication necessary to customer satisfaction in a service-oriented business. Weeden says Foration management is on the hook to communicate these and similar expectations to employees throughout its organization.

Such communication requirements tend to support a good work ethic and greater operational efficiency, because staffers would prefer their customer communications to carry good news.

---

The depth of investment that goes into such MSP-vendor relationships is a key reason many MSPs focus on having as few vendors as possible.

---

MSPs agreed it's critically important to partner with a Total Data Protection vendor that understands and supports your ability to resolve customer issues clearly and quickly. To do so, your vendor must have stellar support of its own, along with world-class training offerings, a deep knowledgebase and committed engineering team. The depth of investment that goes into such MSP-vendor relationships is a key reason many MSPs focus on having as few vendors as possible, as discussed in the next section.

# Streamlining Vendor Partnerships

Given the rising bar for customer service that MSPs have set themselves, it's no surprise that they're raising the bar for their technology providers, too.

---

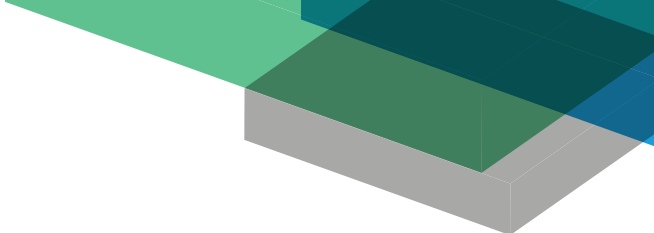
MSPs want transparency from their channel partners and they want simplicity, from the structure of a vendor's partner program to the details of its pricing model.

---

MSPs want fewer channel partner relationships but those they do have must go deeper. MSPs want transparency from their channel partners and they want simplicity, from the structure of a vendor's partner program to the details of its pricing model. What MSPs ask of their channel vendors is a clear reflection of their need for operational simplicity and clear-eyed confidence in selling and supporting their own customers.

Most MSPs prefer two vendors for a critical technology – a primary and a backup. But at EDTS, Collins would like to have just one Total Data Protection vendor. He's supported as many as 19 backup vendors in the past, having inherited many already installed at new customers. "Having multiple vendors is a multiplier of training time for all my engineers," says Collins. "Our NOC has four full-time engineers. If I've got eight products, I've got to arrange 32 training sessions for those guys and make sure they're all knowledgeable about all of those backup solutions versus if I've got one solution, I've got four training sessions."

Too many vendors also create sales confusion. "Our sales staff has been confused in the past about the capabilities of one versus another. We've had cases where a sales guy sells a feature that that particular product doesn't have, and that sets up unrealistic expectations for the client," explains Collins.



---

“There’s nothing to be gained from partnering with a company that’s going to try to beat you to the punch and sell direct to your customer.”

*-Delano Collins, CIO, EDTS, LLC*

---

For the few vendors they’re looking to build long-term relationships with, MSPs demand channel centricity, depth and transparency. Explains Manley: “For companies with a really strong partner program, the channel *is* their outside sales force. They don’t compete with you. Channel-centric companies align themselves with VARs who do well for them and create a win-win situation. There’s nothing to be gained from partnering with a company that’s going to try to beat you to the punch and sell direct to your customer.”

In terms of relationship depth and transparency, Collins likes to tell the story of his original choice to partner with Datto for Total Data Protection solutions. He describes how the company’s solutions met his extensive technical requirements, but based on his research with other customers he submitted a long list of questions for his sales rep to address. But when he got on the subsequent conference call, it was Datto CEO Austin McChord who greeted him and responded to each of his concerns.

“It means a lot to have people, from the CEO on down, who are that passionate and invested in their product and care enough to say hey, this is my handshake, this is my name. I put my name behind it. And everyone at Datto reflects that sensibility. I conveyed that conversation to our CEO, and it was a stark contrast to our relationship with our soon-to-be ex-backup vendor. And that has set the tone for the type of relationship we have developed with Datto.”

With Datto – as with any of their channel partners – Collins wants a transparent relationship. “We want to be on your beta program, on your roadmap committee, and we want to give you honest feedback. We have some really smart guys and gals who work here, and if they say the product’s good but it could be better, I want to tell that to somebody who really, really wants to listen.”



# Conclusion

## What Being an MSP Means Today

MSP interviews leave no doubt that cloud computing, mobility and data's rising star are causing wholesale rethinking in every aspect of their organizations, from how they go to market to how they install systems to who they hire and what vendors they choose to do business with.

But none are unhappy about all this change. Instead, their voices communicate passion and excitement at the potential these technologies offer their customers, and the size and scope of their own opportunity to help customers realize that potential.

Equally clear is the way in which Total Data Protection solutions – which safeguard data everywhere it lives, whether on-premise, in virtualized environments, in the cloud, and even in third-party SaaS applications – are now a cornerstone for these “rethought” MSPs. As EDTs' Collins says in the “Rethinking Customer Relationships” section, if you lose a customer's data you'll lose all their business, forever – and they'll badmouth you to their peers.

“That's why I live by the old networking adage that the two most important things in networking are backups ... and backups,” says Collins.





# About Datto

Datto is an innovative provider of comprehensive backup, recovery and business continuity solutions used by thousands of managed service providers worldwide. Datto's 140+ PB purpose-built cloud and family of software and hardware devices provide Total Data Protection everywhere business data lives. Whether your data is on-prem in a physical or virtual server, or in the cloud via SaaS applications, only Datto offers end-to-end recoverability and single-vendor accountability.

Datto's innovative technologies include [Instant Virtualization](#), [Screenshot Backup Verification™](#), [Inverse Chain Technology™](#), [Backup Insights™](#), and end-to-end encryption. All Datto solutions are supported by 24/7/365 in-house technical support and selected products offer time-based cloud data retention, for predictable billing and budget management. The Datto product line consists of the [Datto SIRIS Family](#), [Datto ALTO Family](#), [Datto Backupify Family](#), Datto DNA Router, and [Datto NAS](#). Founded in 2007 by Austin McChord, Datto is privately held and profitable. In 2013, General Catalyst Partners invested \$25M in growth capital, and in 2015 McChord was named to the Forbes "30 under 30" ranking of top young entrepreneurs. To learn more, visit [www.datto.com](http://www.datto.com).