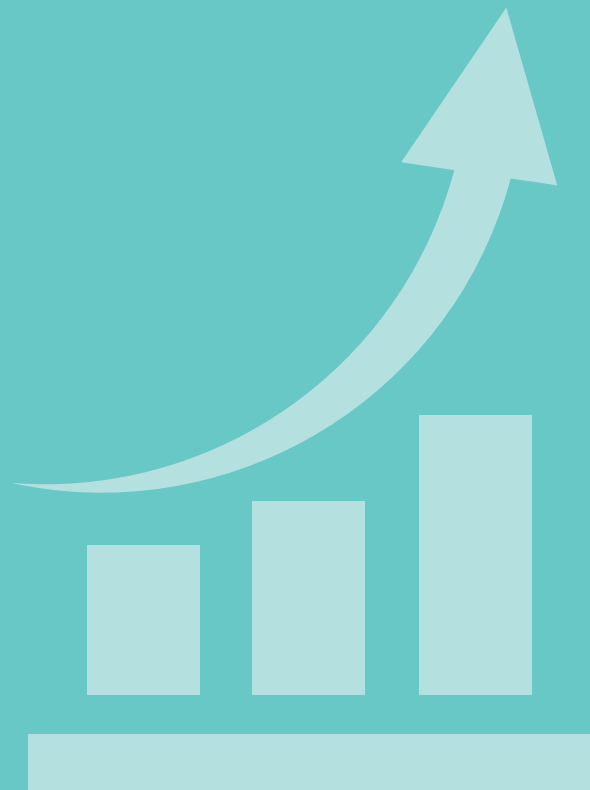


SEVEN HABITS OF HIGHLY EFFECTIVE MSPS

FIELD-PROVEN BUSINESS STRATEGIES FOR
OPTIMIZING GROWTH AND MARGIN





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Introduction

The managed services provider (MSP) market is growing. Revenues have been estimated to exceed \$193 billion in 2019—a CAGR of 12.5%.¹ The percentage of companies making use of MSPs has also been estimated as having grown from around 30% to 50% in the last year alone.²

But these are just the macro numbers. Growth for individual MSPs varies considerably. A significant portion of MSPs have seen their businesses grow by 20% or more annually. About half, however, are only growing at about 10% or less.³


Just as importantly, operating margins also vary considerably among MSPs. High-growth MSPs often find that their profits don't keep pace with their revenue, because they are not achieving adequate efficiencies of scale. Others are growing their top lines more slowly, but are achieving much better bottom-line results.

This ebook offers seven strategic tips for MSPs looking to optimize growth and profits in the coming years. It is based on research culled from multiple sources including analysts, trade associations, and Datto's first-hand experience with our own highly diverse MSP community. By adopting these strategies, MSP leaders can make the most of current macro market growth—and out-perform the numerous competitors this growing market continues to attract.

¹ MarketandMarkets, Managed Service Global Forecast, January 2015

² CompTIA, Annual Trends in Managed Services, May 2015

³ Kaseya, MSP Pricing Survey, October 2014



When it comes to an MSPs desire to grow, establishing habitual processes and procedures is crucial. Neglecting this first step makes the following habits difficult to achieve and maintain.

EFFECTIVE MSP HABIT #1:

Define and document repeatable processes

Technical competency is necessary for MSP success, but it's not sufficient. To profitably deliver economically valuable technical services at scale, MSPs must also make that delivery consistently repeatable.

This repeatability can present a challenge to MSP leaders, who are often hands-on technical practitioners themselves—and who have thus developed their own processes and methods that are as idiosyncratic as they are effective. These leaders thus tend to expect their staff to apply similar competency and creativity to their jobs, in the hope that this competency and creativity will make the business a success.

Unfortunately, if everybody does everything differently, some of them will do it wrong. Some of them will also take more time to do it, which invalidates pricing. And some of them will do it right—and quickly—but will do it in a way that confuses the customer.

Inadequately defined and documented processes also make MSPs vulnerable to staff turnover, since a new hire can't quickly replicate the behavior of someone who just left.

MSP leaders therefore need to build repeatability into all aspects of the business, including both technical operations and customer engagement. More specifically MSPs must:

- Rigorously document all repeated business processes with flowcharts that include actions, decision-points, scripts, etc.
- Build a work culture that promotes and rewards process discipline, while also empowering people to deviate from process when circumstances make it appropriate to do so.
- Implement metrics (task time, response time, number of customer contacts, etc.) to monitor process performance and consistency.
- Institutionalize process improvements by capturing, codifying, and rewarding them.

The third bullet above—process measurement—can be particularly problematic for MSP leaders who like to get things done without spending too much time considering *how* they get done. But investment in process metrics is essential to scale MSP operations while maintaining quality and profitability, even as different people perform different tasks.

MSP leaders should also consider process outcomes above and beyond efficiency and immediate process outcomes. ITIL processes, for example, may add steps to problem resolution in the short term—but they have a broader impact on quality and customer satisfaction in the long term. So process discipline isn't just about getting things done quickly and effectively. It's also about aligning actions with an MSP's "Big Picture" business strategy.

When it comes to an MSPs desire to grow, establishing habitual processes and procedures is crucial. Neglecting this first step makes the following habits difficult to achieve and maintain.

Key takeaways:

- Investments in process capture and codification pay multiple dividends.
- It's hard to continuously improve a business you're not continuously measuring.
- Well-defined processes mitigate the downside of staff turnover.

However they define it, high-performance MSPs almost universally connect their business model to a mission or vision.

EFFECTIVE MSP HABIT #2:

Be missional

It takes a lot of work to be a successful MSP. You have to put together great technology solutions, win over customers who can easily spend their money elsewhere, diligently deliver the responsive service it takes to keep those customers once you get them, continuously coach a growing team of diverse personalities, and rigorously control costs.


All that daily “blocking and tackling” can get to you, even if you’re making money—because, face it, there’s lots of ways to make money in IT. So you may need more than just a profit motive to lead your company to MSP excellence.

You also need a mission.

Market-leading MSPs define their mission in various ways. Some define it as bringing technology excellence to their local market. Others define their mission as empowering a particular vertical to reap the benefits of a particular set of technologies.

However they define it, high-performance MSPs almost universally connect their business model to a mission or vision. By doing so, they reap a variety of benefits:

- **Mission elevates brand.** Any MSP can walk into a customer’s office and offer to do a decent job at a reasonable price. Not every MSP can offer partnership with a technology service provider on a mission—especially if that mission aligns well with the prospect’s own business objectives.
- **Mission energizes culture.** People perform better when they’re working for more than just a paycheck. This is especially true of technically skilled Millennials, who have lots of employment options. Mission can contribute significantly to the kind of workplace culture required to attract, motivate, and retain these vital team members.

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- **Mission drives direction.** Without mission, MSP leaders can struggle to decide where to expand their business next. Do you try to guess what the Next Big Thing will be? Do you just passively allow each successive customer to randomly lead the business this way and that? Mission helps MSPs avoid these common pitfalls so they stay on a clear growth track.

The bottom line: If you haven't yet articulated a clear mission for your MSP practice, do so. And if you think you kinda sorta know what it is, clarify it and make it more central to everything you do and communicate. That's what makes leaders leaders—and it's one of the most important ingredients in their recipe for business success.

Key takeaways:

- To be a leader, you have to know where you're going.
- Passion and purpose have a positive impact on customers and employees.
- Having a mission isn't enough. You also have to communicate it—clearly and often.

An MSP's focus should be on making their offerings the best of the best.

EFFECTIVE MSP HABIT #3:

Choose and maintain a technical offering focus

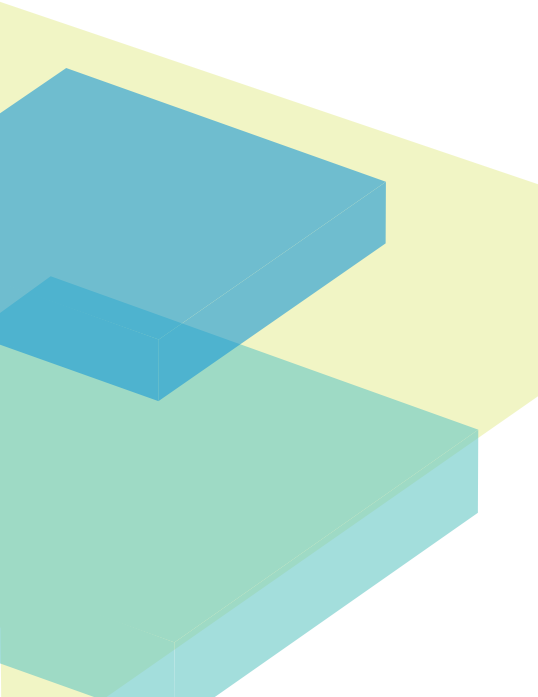
Many MSP leaders are pretty sure just about any business could benefit from their skills and knowledge. And they may be right. Servers, after all, are servers. And it's a rare SaaS implementation that poses any especially difficult technical challenge to a skilled MSP.

But trying to be all things to all people is a recipe for disaster. When it comes to choosing which verticals to cater to, that tends to be geographically decided upon (an MSP in Washington D.C. will most likely have a government client or two). An MSP's focus should be on making their offerings the best of the best. For example, some MSPs may work at offering the strongest network maintenance to the various industries surrounding them.

Once MSPs have become masters of their technology they can apply it to many verticals. Truly understanding the technology they are selling is key. Being a master of products will help to answer those tough questions customers might have about functionality, support, and IT management as a whole.

That's why successful MSPs tend to zero in on one or more very specific technical niches. These niches will help them become go-to MSP in their area.

Regardless of which particular niches an MSP targets, the resulting upsides can be significant. A clear focus:



Being a master of products will help to answer those tough questions customers might have about functionality, support, and IT management as a whole.

- Supports creation of a competitively differentiated brand identity.
- Enables efficient, effective marketing activities such as participation in trade associations with highly qualified membership.
- Increases credibility with prospects based on referenceable successes from companies with similar needs.
- Facilitates accurate pricing and service-level guarantees based on previous engagements.
- Increases operating margins through implementation of replicable solutions.
- Turns every engagement into a high-value learning experience that can enhance the value provided to every other customer.

For these reasons and others, MSPs should be wary of offering a broad menu of products and services and instead develop strong technical offerings in certain areas.

Key takeaways:

- Jacks of all trades are masters of none.
- A clear focus increases marketing efficiency and effectiveness.
- Doing similar things for similar customers leads to higher quality and bigger margins.

EFFECTIVE MSP HABIT #4:


Build recurring revenue

MSP leaders often spent a good part of their careers working as a VAR and/or in the systems integration business, where revenue often comes in large but sporadic doses. Transitioning to a recurring-revenue MSP model can be tough for these people, since monthly services income can feel more like a trickle than a fire hose—and it can create pretty painful cash-flow challenges.

But the market is changing. SaaS and other cloud services offer customers a low-capex approach to technology implementation. In fact, the sharing economy more generally is enabling companies to reduce capital investments in everything from office space to delivery vehicles. So it's important for MSPs to capitalize on this trend, rather than fighting it.

Here are some tips for making the recurring-revenue model work:

- **Re-think all IT as a service.** Customers don't want to get bogged down in the ownership of servers, networks, disk arrays, databases, software, websites, authentication systems, or even end-user



Perhaps the most important principle to bear in mind is that a recurring-revenue model forces an MSP to focus more rigorously on customer satisfaction, since revenue and profits ultimately depend on retention and renewals.

devices. Instead, they want to gain specific business capabilities that incidentally require these underlying components. So figure out ways you can provide customers with capabilities on a pay-to-play basis. Data, application logic, and actionable analytics are ultimately what make the world go around—not ownership of CPUs or flash drives.

- **Price for fully bundled value.** Previous business models split pricing into two silos: marked-up capital goods (typically low-margin) and hourly itemized services (typically high-margin). A recurring revenue model requires eliminating the traditional notions of both markup and itemized services. Instead, equipment and labor costs are opaque to the customer—while pricing is based on total value to the customer, rather than a markup on total cost. Profitability thus depends on maximizing value to the customer while controlling costs. Undifferentiated services simply won't support a profitable price-point.
- **Re-structure you own cash flow.** Because MSPs tend not to receive large infusions of capital, they have to be increasingly creative about their own cash flow. This is why successful MSPs often turn to cloud services themselves to support their business. It's also why they often take advantage of the sharing economy for capabilities that they once might have built in-house—including financials, marketing, and QA.

Perhaps the most important principle to bear in mind is that a recurring-revenue model forces an MSP to focus more rigorously on customer satisfaction, since revenue and profits ultimately depend on retention and renewals. MSPs that don't structure their services and staff incentives to support customer satisfaction will thus wind up having to constantly chase new customers—which is not nearly as lucrative as keeping existing ones.

Key takeaways:

- Differentiated convenience and ease support premium price-points.
- Reliable, long-term income requires a rigorous focus on customer satisfaction.
- Rigorous cash-flow management is essential to stay in the game.

EFFECTIVE MSP HABIT #5:

Cultivate high-percentage entry points

MSP success is contingent upon building stable recurring revenue over time. Top MSPs place a lot of emphasis on the concept of “building.” That's because few customers are inclined to jump into a large, all-inclusive contract with a new IT partner right away. MSPs therefore need a strategy that enables them

An expansion plan for existing accounts can contribute at least as much to business growth as prospecting for new ones.

to first establish trust—and then incrementally expand account penetration over time.

Some MSPs take what they consider to be an opportunistic approach to account entry by simply trying to land whatever initial engagement a new customer will accept. This approach, however, can turn out to be more random than opportunistic, since not all of these engagements lend themselves to incremental expansion.

A more intentional—and more effective—strategy for account entry differs from this kind of opportunistic/random approach in two ways:

- **It intentionally limits scope and/or scale.** Successful MSPs have discovered that it often doesn't pay to grab too much of a customer's business on the first pass. For one thing, an over-sized initial engagement can lead to big, early mistakes that undermine trust. A more limited scope enables both the MSP and the customer to work out any kinks in the engagement—whether those kinks involve process, pricing, or politics—without a lot of downside risk. For another, MSPs gain credibility with customers by not appearing too greedy at the outset.
- **It intentionally maps out phased account penetration.** Smart MSPs are not only intentional about where they start with accounts. They are also intentional about how they expand account penetration. For example, a data protection/business continuity engagement may start with just a few core applications plus email and then expand over time to include unstructured data and personal workspaces. Or a mobility engagement may start with mobile device management (MDM) and then expand to include mobile help desk and wireless expense management (WEM). Moreover, many MSPs explicitly map out this kind of phased expansion in advance with the customer. This planned expansion helps drive sales growth while adding value by guiding customers' IT environments to a target/desired state in a disciplined, phased manner.

In other words, starting small tends to be better for the long-term relationship. And an expansion plan for existing accounts can contribute at least as much to business growth as prospecting for new ones.

Key takeaways:

- Avoid short-term greed.
- Talk openly with customers about possible growth scenarios for the engagement.
- Leverage account intelligence to drive incremental sales.



EFFECTIVE MSP HABIT #6:

Build a better talent pipeline

Every service business is a people business. So when MSPs stop growing, it is more often than not because they don't have enough of the right people to deliver more services to more customers.

Most MSP leaders recognize this intuitively. But they nonetheless struggle to develop the kind of talent pipeline necessary to keep expanding their business. Many go as far as to blame the labor market, rather than any shortcomings in their own talent management strategy.

Successful MSPs, in stark contrast, take responsibility for building the kind of team it takes to keep getting better *and* bigger. These MSPs focus on the three fundamentals of HR:

Recruit for potential

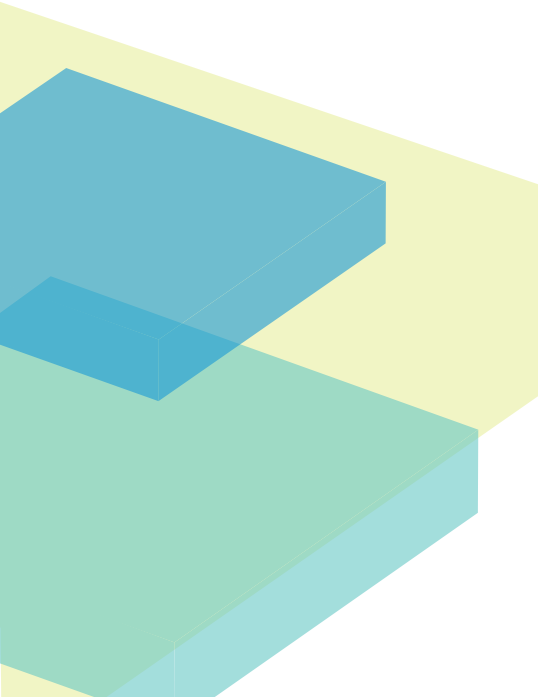
Immediate pressures often drive MSP leaders to make hiring decisions based almost exclusively on present technical skills. This is a mistake. Skills can be learned. So while new hires should be able to demonstrate proficiency in their current areas of interest, their long-term value to the business has more to do with their ability to grow professionally over time. New hires should therefore also be selected based on their ability to learn new skills as required and—perhaps even more importantly—understand the MSP business model and the customer demands that drive it.

MSPs must also recognize that they are competing for talent—and that attracting talent requires more than just competitive compensation. High-potential recruits also need to be offered an opportunity to grow and be part of an attractive workplace. So MSP leaders need to think about what they can do to make it more exciting for an IT professional to become part of the team.

Nurture and motivate

Building a great team requires more than just hiring great people. In fact, hiring is just the start. Talent has to be developed and nurtured over time, too. And that takes more than just a pat on the back and the occasional performance bonus. That's why MSP leaders need to craft a complete strategy for talent development that includes continuing education and incentives for taking on additional responsibilities. MSP leaders may also want to consider job rotations that expose staff to alternative career paths in technical operations, sales, marketing, and business operations.

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MSPs need to keep service delivery as simple as possible. To do that, it helps to limit the number of “moving parts” that need to be integrated.

Long-term retention

MSP leaders that invest in the education and development of their staff often bemoan the fact that other companies can wind up benefitting from those investments. But people will inevitably leave a company if they don't feel valued and aren't incentivized to stay. Customers notice this turnover—and are usually not that happy about it. MSPs should therefore take reasonable steps to keep their best people on board.

MSP leaders should also recognize that when they hire someone new, they're probably benefitting from the investment that person's previous employer made in someone who ultimately left their company. In a free labor market, no MSP's talent pipeline is an entirely closed system—so everyone benefits when employers invest in their people.

Key takeaways:

- Businesses can only grow if their people do too.
- Technical competency alone is not sufficient for competitive differentiation.
- Talent development requires intentional, systematic efforts.

EFFECTIVE MSP HABIT #7:

Pick the right partners

Channel players have always had to choose their partners wisely. But the criteria MSPs apply to their technology partners differ from that of VARs and SIs in some significant ways.

Resellers, for example, are typically focused on attributes such as technical specs, brand power, and discount structure. That's because they had to close purchase deals with customers who knew what kind of hardware and software they were getting.

MSPs are in a much different position. They are delivering services and trying to optimize customer satisfaction over time. So customers have less visibility into how MSPs deliver value—while MSPs have to be more concerned with the quality and efficiency of an ongoing engagement.

Key criteria for MSP partners therefore include:

- **Solid technology.** Technical excellence is still important to MSPs. But reliability and simplicity can be more important than traditional “speeds and feeds.” That's because MSPs need to avoid downtime and glitches that undermine customer satisfaction. They also need to avoid

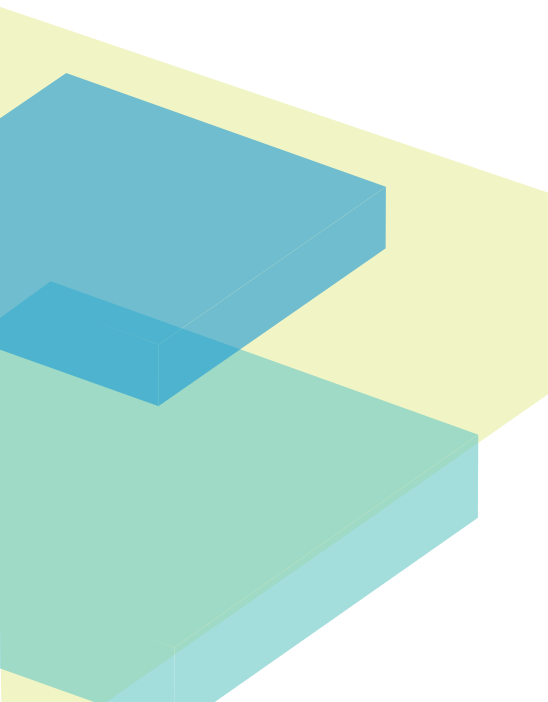


implementation and integration snafus that can eat into profit margins.

- **Ease of use.** Ease of use has always been a desirable product attribute, but it has become much more so now that MSP operating margins depend on it. MSPs should therefore look for partners providing solutions that are clearly designed to be as intuitive and self-configuring as possible.
- **Responsive support.** Responsive technical support has also always been important to channel players. But the customer satisfaction imperatives MSPs face make it especially important that they can get fast answers on a 24x7x365 basis. The typical outsourced/offshored support model rarely cuts it when service to a customer is actively compromised. In fact, it may even make sense to work with a partner who can support the customer directly where appropriate.
- **Service-aligned cost structures.** MSPs have to be very careful about the cost structure they build into their service offerings. Cloud-based service providers that charge for every unit of utilization, for example, can put MSPs in the uncomfortable position of having to ask customers for too much extra money following an unanticipated spike in business activity. A better approach is one that accommodates such spikes in the interest of long-term account retention.
- **Reporting and metrics.** Because MSPs take full responsibility for service outcomes, they often require substantial insight into availability, utilization, and other aspects of the technical environment. They may also have to provide a variety of reports and dashboards to their customers. The right vendor partner should be able to provide this kind of reporting.
- **Solution completeness.** MSPs need to keep service delivery as simple as possible. To do that, it helps to limit the number of “moving parts” that need to be integrated. It also helps to not have to manage an excessive number of vendor relationships or create excessively complex cost structures. Partners that deliver complete solutions can help MSPs achieve all of these objectives.

Key takeaways:

- MSPs need cost models that support their business model.
- Convenience and support can be as important to MSPs as they are to MSP customers.
- The MSP model makes the MSP’s brand more important than the partner’s.



About Datto

Datto uniquely empowers MSPs to provide their customers with complete, reliable turnkey business continuity across on-premise and cloud-based IT environments. Datto's broad product portfolio, ready-to-run VM backup, retention-based cloud pricing, responsive support, and simple account management tools make us the ideal choice for any MSP seeking to capitalize on the growing market demand for IT outage protection as a service.

For more information, visit www.datto.com.

Corporate Headquarters

Datto, Inc.
101 Merritt 7, Norwalk, CT 06851
United States
partners@datto.com • www.datto.com
888.294.6312

Regional Offices

Norwalk, CT	888.294.6312
Boston, MA	800.571.4984
Toronto, CAN	877.811.0577
Reading, UK	+44 (0) 118 402 9606

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6/12/15