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Is the market for online managed technology services growing? Or going?

By Karen D. Schwartz
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By all accounts, SLPowers has been a highly successful reseller and IT services company since its inception in 1995, though its offerings are far from unusual. About 80% of the West Palm Beach, Fla. solution provider's revenue comes from the sale of hardware and software and 20% from services.

But like many in similar situations, SL Powers President Rory Sanchez was eventually persuaded to change the company's business model after a long series of articles and advice, all touting the advantage of services to resellers who had traditionally focused on products.

More on managed services:

[Managed services tactics change depending on specialty: see how](#)
[How to develop managed backup services](#)

Seven years after taking the plunge and reorienting the whole company, Sanches considers SLPowers a managed services provider first and a reseller second. With a mix of about 55% services and 45% hardware/software sales, SLPowers leads all sales by explaining to customers the value of having experts maintain their

networks rather than continuing to handle it themselves.

Its lead service is Guaranteed Networks package, a network management and maintenance package aimed at small- and medium-sized businesses in southern Florida. The service includes network system evaluation, along with management, monitoring and maintenance, all for a flat monthly fee.

SLPowers may have been an early convert to the managed-services approach, but the decision to reduce or shed a low-margin product-pushing business in favor of a services focus that comes with both higher margins and recurring revenues is almost the norm.

But the dirty little secret of managed services is becoming more and more apparent—not every VAR is suited to it, and not every suitable VAR is able to handle the conversion. They have to be able to manage changes to corporate culture, sales strategy, picking the right service to provide and building the infrastructure to provide it.

Managed Services By Any Other Name....

Loosely defined, managed services are technical functions provided to a customer on a subscription basis by a reseller that owns and maintains the technology for storage, networking, hardware maintenance or other services provided.

Managed services companies operate most often as outsourcing providers, effectively relieving the customer of any and all headaches related to that area of the business.

The most cautious migrants into managed services remain essentially resellers, continuing to sell hardware and software but compensating for thin margins by adding integration services and basic customization.

Option 1:

These VARs generally specialize in a specific technology area, and many do not consider themselves to be true managed services providers at all.

- [Click here](#) to read how these tactics change, depending on your technical specialty.

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"There is a big difference between a VAR and being a managed services provider," notes Charles Weaver, president of The MSPAlliance, an association for the managed services industry based in Chico, Calif. "VARs take someone else's product and resell it, maybe adding some integration, configuration or services. Those VARs would be better off remaining VARs. A managed services provider takes tools developed by someone else and through internal engineering, create their own service to deliver to a client."

Option 2:

A second option changes the VAR's business model much more dramatically.

Instead of focusing first on hardware/software sales and integration, the solution provider reverses the aftermarket-service model by adding security, customization, technical support or proprietary features to existing products. Then they lead their sales approach with the integration and/or proprietary add-ons, deemphasizing the product itself and focusing on the value-added rather than the reselling.

Option 3:

An offshoot of this category is solution providers packaging several products together into a solution and adding their own customization or engineering on top. This general category of managed services is by far the most popular, and the most lucrative; if done right, pre-configured solutions can deliver margins of 50 percent or more.

CompuCom Systems Inc., a mammoth solution provider with 7,500 employees and about \$1.6 billion in revenue, has made a major push into the managed services arena, driven in large part by customer requests, says Todd Pekats, director of strategic alliances for the Dallas, Tex.-based company.

Its managed services business makes up \$386 million of its revenue, compared to about \$1 billion for software and hardware resales, but is growing at 15% per year.

CompuCom's managed services range much more widely than most VARs, even large regional or national players. It offers several productized managed services offerings in the help desk, enterprise management and network monitoring arenas, but also customizes managed services offerings to meet its customers' needs.

Altoria Solutions LLC, a Cincinnati, Ohio-based managed services provider, uses much the same model but focuses solely on network management. In addition to offering a total package including installation, full management and monitoring for a monthly fee, the company also offers a menu of services, including assessment, design, procurement, implementation, monitoring, management and response, and can customize a package based on the customer's requirements, explains CEO Michael Backers.

Option 4:

Another model of managed services—one some managed services providers insist is the only way to go—involves partnering with one or more providers that can augment your service, enabling you to provide a full-service offering with less staff and monetary outlay.

"It's a situation where VARs are outsourcing part of it and doing part themselves," according to Jeff Kaplan, managing director of THINKstrategies Inc., a consulting firm based in Wellesley, Mass. "It's a good model for VARs that have carefully evaluated how much of the responsibility for delivering a full set of services they feel comfortable handling themselves, and have come to the conclusion that partnering is the best answer."

Partnering with an offshore company was the key to success for Larry Shulman, president of L.M.S. Technical Services in Farmingdale, NY.

After more than two decades of focusing on computer and networking break/fix services, Shulman decided to focus more on network monitoring. The mostly Linux-based monitoring service had done well, but when Shulman received a mailing from Zenith Infotech Ltd., a Bangalore, India-based company that provides

network management and monitoring, he decided to give it a try.

After testing the concept, Shulman signed on and now co-manages 150 customer site with Zenith Infotech. Today, L.M.S. Technical Services offers a managed services product called SMC, consisting of patch management, antivirus and spyware control, and remote access. Zenith Infotech provides the software and email-based technical support, while Shulman's company offers break/fix, consulting, integration and vendor management.

The partnership with Zenith Infotech has been incredibly profitable. Shulman's company currently makes about \$50,000 yearly through managed services and pays Zenith Infotech about \$8,000 of that, creating profits of about 80 percent on a \$150,000 investment.

Largely as a result of this successful partnership, Shulman expects the amount of managed services his company provides, as opposed to other services and product sales, to rise from one-third to about half by the end of 2007.

The lure of partnering with other VARs is so great that even successful managed services providers see the value.

SLPowers, however, has chosen a different partnering model—one it believes will increase its profitability while expanding the reach of its signature Guaranteed Networks offering. Under its plan, SLPowers will sell the core GN Central Management piece of its offering, which includes 24x7 monitoring, alerting, remote remediation and automated patch management, to other VARs and managed services providers. Those companies would provide the rest of the services, including hardware warranty, onsite servicing, and warranty management, Sanchez explains.

Succeeding in the VAR-to-Managed-Services Transition

With margins so much higher than that of product resale alone—not to mention recurring revenues and intense customer loyalty—moving into managed services is a no-brainer, right?

Maybe, expert say. But only if you've got a long-term vision and the right mindset, meaning that you've thought through your business model carefully and have the patience the patience to create a system that's profitable for you and beneficial to your customers.

"If your company is set up where everyone has gotten used to the immediate gratification of product sales and installation, and prefers to react to customer problems rather than proactively managing them, you're probably not a good candidate," Kaplan says.

Being a good salesperson is perhaps even more critical for a managed services provider than for a VAR, and failure to explain how you are saving the customer money and pain can lead to your downfall, Backers warns.

"With managed services, it's more complicated to show your customers their savings, because there aren't a lot of transactions," he says. "You have to have a very skilled account and service system so your customer recognize the value, and that might mean explaining that they have had five attacks this month that we squashed, we handled seven tickets opened by their end-users in less than ten minutes each, etc. It's a very different model from selling products."

Making sure that your customer's requirements are within the scope of what you can comfortably and profitably provide also is important, and it can be easy to over-promise to keep customers happy. Being smart about the scope of what you can provide—and where you have to draw the line—is critical.

"Sometimes you have to look at your business model and tell them it's not practical," Pekats says.

Perhaps most interestingly, Sanchez advises VARs adopting the managed services model to retain their reseller arm.

"When all of the industry publications said you have to become a 100% services company to survive, we never really stopped selling hardware and software," he

says. "It's interesting, because a lot of the companies that allowed their customers to buy their hardware anywhere while providing the services aren't around anymore. So lead with services, but don't give up your hardware and software sales."

In the end, it comes down to this:

"Go into it with your eyes open," Weaver says. "It's a radical change from the way you have done business in the past, and it can't be done overnight. If you do it right, it's a great model but it's also easy to do it wrong."

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