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WHAT BUSINESS MODEL
WILL TAKE YOU INTO THE FUTURE?

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Cloud and subscription services have changed the way technology is being delivered today. The days of receiving a single large payment for your work are all but gone and customers have evolved; so have their expectations. You must adapt your business model or run the risk of placing your business in a dangerous position. In this white paper we've laid out a path that can lead you to profitability and sustainability.

WHAT BUSINESS MODEL WILL TAKE YOU INTO THE FUTURE?

There's an important shift taking place that will affect your business forever. If you're a Unified Communications provider or IT VAR and you built your business on selling product-based solutions, you probably already feel this shift. Cloud and subscription service models have fundamentally changed the way technology is being delivered today. With those delivery model changes comes a change in compensation for those services. The days of receiving a single large payment for your work are going away. Customers have evolved and so have their expectations. As a result, you must adapt your business model or run the risk of putting your business in a dangerous position concerning its sustainability. Thankfully, there is a clear path that can lead you and your company to unimagined levels of prosperity and profitability.

In this paper, we'll discuss the changes taking place in the IT industry and how you can adjust your business to deliver a hybrid of products and services. It is critical to balance one time sales and recurring revenue — without crippling your cash flow. We'll detail the services and solutions you can deliver to customers, highlight common mistakes to avoid and discuss the changes you'll have to make to your business. In the end, you'll have a playbook to help you transition to a powerful new business model.

THE HYBRID BUSINESS MODEL

The hybrid business model is a mix of traditional product sales with the addition of hardware, software, cloud offerings, and other services via subscription. Customers are contracted to pay you a monthly fee for the delivery of these ongoing services. This results in a steady, recurring revenue stream for your business on top of any project-based work you perform under the old model.

WHY ADOPT THE HYBRID BUSINESS MODEL?

Thanks to overall commoditization, increased competition, and the industry pricing itself to the bottom, product margins have evaporated. In many places, new powerful cloud solutions have replaced the need for on-premises infrastructure. What will things look like five years from now? We won't see a shift back to product sales. Rather, the cloud will grow in power and popularity, and remain a relevant option.

> "GET COMFORTABLE BEING UNCOMFORTABLE. IF YOU DO NOT CHANGE, SOMEONE ELSE WILL EVENTUALLY CONSUME YOUR CLIENT BASE."
>
> -Matt Kanaskie, Product Manager, Marco Technologies

In addition, many VARs have tied their fates to one or two vendors. They are essentially acting as sales agents for that vendor. What happens when that vendor goes out of business and your line card disappears? It's time to build or strengthen your book of business with monthly recurring revenue (MRR).

However, although there are plenty of MSPs (managed services providers) and born-in-the-cloud solutions providers who relentlessly pursue nothing but monthly recurring services revenue, it's unrealistic to expect traditional Solution Providers to make such a drastic change to their organization.

As we'll discuss, the changes are complex and require quite a bit of work. Additionally, unless you are flush with cash reserves, making such a dramatic change would create significant cash flow challenges for you. The most prudent approach for established VARs is to adopt a hybrid model to ease into offering recurring revenue-based solutions alongside traditional sales.

"RECURRING REVENUE BUSINESS MODELS ARE NOT **A LITTLE** BIT BETTER THAN NON-RECURRING MODELS. THEY ARE **10 TIMES** BETTER."

-Jeff Bussgang,
Flybridge Capital Partners

4 BENEFITS OF A HYBRID APPROACH

Once you begin adding solutions that provide MRR, you'll begin to experience some or all of the following benefits:

1 CUSTOMERS SEE THE VALUE IN MONTHLY SERVICES

The buying patterns of your customers have changed; in particular, as younger generations get more involved in running businesses, they want to consume technology differently. Today, we live in a subscription economy where many decision makers are used to paying monthly fees for services. As all industries look to control their costs, shifting traditional costly IT expenses to monthly payments is more manageable and appealing. Additionally, as we'll detail in a later section, many of the services you can provide under this model give your customers a higher-quality level of service and solution reliability than they currently experience. There is a peace of mind provided to customers under this model.

2 LEVEL REVENUE PEAKS AND VALLEYS

If you feel the recurring stress of making enough sales to cover payroll every month, this business model is ideal for you. As you build MRR under a hybrid model, you'll

notice the peaks and valleys of your traditional sales model levelling off and you'll see a more stable, predictable cash flow. Not only does MRR allow you to rest easy knowing that expenses are covered, long contracts ensure you don't have to worry for months or even years.

3 AN IMPROVED LIFESTYLE FOR YOURSELF

Many business owners wear multiple hats, including that of lead salesperson. Working 70+ hours a week to keep the lights on is tiring. With steady MRR, business owners can free up their time for family or to re-dedicate themselves to other aspects of the business.

4 INCREASED BUSINESS VALUE

Many traditional VARs are shocked and disappointed to learn their business isn't worth what they think it should be after dedicating years, even decades, of blood, sweat, and tears into them. If, or when, you attempt to sell your business or merge with another organization, there are a number of factors that will dictate the value of your company.

Perhaps the most heavily weighted factor is the MRR you've earned by providing subscription services. Merger and acquisition specialists will talk about multipliers. The multiplier used to value your company will differ depending on the types of revenue you have. Product sales have a much lower multiplier than recurring services. This makes sense when you consider that a product sale-based technology company really doesn't have much to offer a prospective buyer. Sales come and go, and there is no predictable way for a buyer to estimate what they can get from the company. Traditional Solution Providers with mostly product sales will find their business isn't very valuable at all.

However, having a book of recurring revenue contracts is predictable and, therefore, more valuable. The multiplier for these companies is much higher. That said, the details of MRR contracts can greatly affect the multiplier. For example, having a book of business made of three-year contracts is more valuable than month-to-month contracts. If those three-year contracts have easy outs for customers to cancel for any reason, they might as well not exist.

Overall, buyers want predictability. Adding service revenue is the best way to get a better return for your business.

"WE'VE BEEN ABLE TO INCREASE MARGINS, MONTHLY RECURRING REVENUE, AND COMMISSIONS PAID TO OUR TEAM."

-Travis Phillips, CEO, NAC Technology Group

ADDING SERVICES TO YOUR OFFERINGS

Assuming you're ready to add MRR to your business, you have some decisions to make concerning which services to offer. Here are just a few of the services you can begin to phase into your solution offerings:

REMOTE MONITORING AND MANAGEMENT

A staple of every MSP, Remote Monitoring and Management (RMM) takes your current reactive support offering and makes it proactive. Rather than waiting for problems to occur, you use an RMM tool to keep 24/7/365 vigil over your customers' IT. Monitoring can include servers, desktops, mobile devices, printers, and more. The system can alert you to things such as hard drive failures, low disk space, failing memory, and even low toner. The idea is that problems are found and fixed (using remote tools) often before the customer is aware. Customers pay for the monthly service because it gives them peace of mind that things will work as they should. A benefit to you is that RMM tools can do the work of many people, allowing you to be more efficient and profitable with fewer people. RMM providers have different cost structures, but, generally speaking, expect to pay per device being monitored or per user.

BUSINESS CONTINUITY (BACKUP AND DISASTER RECOVERY [BDR])

Typically the first service offered outside of RMM, BDR or business continuity solutions ensure that any sensitive or important customer data is backed up. However, BDR isn't simply about storage of data. A key component of BDR is the ability to restore data as quickly as possible to minimize downtime. Additionally, today's modern tools include validations to ensure the data is backed up. Today, it's common to see data backed up to local storage and mirrored to cloud storage as an additional precaution. Some BDR providers also offer appliances that slip into the server rack and provide additional levels of redundancy. Costs will vary by BDR vendor.

CYBERSECURITY

One of the most significant IT trends today is centered on the security of customer data. If you operate in heavily regulated verticals such as healthcare, banking, or even retail, you understand the importance of data security. Regardless of the industries in which your customers operate, the proliferation of ransomware means no company is safe. Criminals have learned that every business has valuable data, and many are willing to pay the ransom to decrypt. Today, you can provide security services that include constant monitoring of customer endpoints to protect against such threats.

HOSTED EMAIL

As businesses look to save money, shifting email from local servers to the cloud is appealing. Offering Hosted Exchange is a great way to get started with recurring revenue.

X-AS-A-SERVICE

Today, everything can be offered as a service — infrastructure, solutions, security, hardware, software, communications, and more. Take a solution and sell it for a monthly fee. There are many ways to do this without breaking the bank.

In all of these cases, it's important that you ease into this model and figure out how to get involved strategically. For example, rather than attempting to establish your own private cloud service, you might be better off reselling someone else's established white label service. There is a variety of cloud providers that allow you to own the customer relationship and bill the customer under your name. Additionally, rather

than build your own NOC (network operations center), you can use the NOC of a master MSP or take advantage of an RMM tool that includes NOC services.

For telecom-focused VARs, it's possible to sell a cloud solution with an up-front equipment sale (endpoints), plus monthly recurring for the associated network and dial tone. With the right financing arrangment, you can offer your customers a monthly payment plan for endpoints while you get paid up front.

As you pursue adding services, the final bit of advice is to try to marry your core competency to a recurring revenue approach. Most likely everything you offer can be offered as a service today. What makes sense for you and your customers will depend on your capabilities and desires, as well as your customers' needs.

HAAS ALTERNATIVES

Traditional Hardware as a Service or HaaS calls for the Solution Provider to purchase the necessary hardware, software and licenses up front and then recoup the cost over the course of the HaaS agreement. Many times, this ends with the Solution Provider running out of cash to keep buying equipment. However, Solution Providers have found creative alternatives to get around this issue.

1. HaaS backed by a Bank or Credit Card

Some Solution Providers partner with a bank to enable them to purchase the inventory needed to rent to customers. However, they can run into issues with scaling if the bank places a cap and they still bear all the financial risk.

2. Manufacturer-Based HaaS

The Managed Service Provider pays the manufacturer directly on a monthly basis and then marks up the cost to rent it to customers. However, there are often other hardware and software elements left out of the monthly payment.

3. Lease the Hardware

Leasing lowers the Solution Providers up-front costs and the finance company takes on any risk if your customer stops paying. There are some trade-offs, like the customer pays two separate invoices and there isn't as much control on what happens at the end of the lease.

4. Hardware as a Rental® (HaaR®)

HaaR is similar to a traditional lease, where the Solution Provider is paid for the hardware, software and installation up front. They do not assume any of the financial risk. All payments the customer owes are rolled into one invoice and there is full control when the lease ends. Generally, the customer upgrades without significantly changing their monthly IT spending.

TOOLS NEEDED

Adding services to your line card will require you to use some additional tools. Consider these tools as must-haves and as critical to your business as email or Microsoft Excel®.

PROFESSIONAL SERVICES AUTOMATION

Professional Services Automation (PSA) tools typically include ticketing, reporting, timekeeping, billing, project management, CRM, and more. Many traditional Solution Providers interested in the hybrid model or who have transition fully to Managed Services will try to convince themselves the various disparate tools they currently use are the same as a PSA tool. The reality is that by having a unified PSA tool, you will achieve greater efficiencies and accountability. One of the most powerful uses of a PSA tool is business intelligence analytics. You'll best understand the drivers of your profitability, not only overall, but by customer. Such a tool can help ensure you're charging enough and allow you to identify problem accounts that either need to be charged more or dropped due to the negative impact on your bottom line. Most MSPs will tell you PSA tools pay for themselves, so don't try to shortcut this expense.

> The PSA sector should **double** in size from 2014 through 2022 according to Grand View Research. From **$6.26 billion** in 2014 to **$12.88 billion** by 2022.

PRICING AND QUOTING

If you have your own Excel or Microsoft Word® templates for pricing and proposals and think you're set, you're wrong. Such systems are inefficient and difficult to scale. Today's pricing and quoting tools provide a single platform to ensure every quote and contract that goes out of your company meets the standards you set. Additionally, integration with most distributors provides you the ability to pull in real-time pricing and create your own custom configurations. Once customers accept the quote, work orders can be automatically generated. These tools have value to the most successful MSPs, but they can be particularly useful to someone new to selling services. Used as a supporting tool, you can ensure you and your team are asking the right questions and including the right pieces in any services quote.

OTHER TOOLS

When it comes to the services business, there is a variety of ancillary tools available to help you run your business more effectively. Some of the most prevalent tools include add-ons for your PSA that can help analyze customer data, generate reports, and more. You might consider adding a network assessment tool. Many of these tools produce binders full of information on the customer, essentially creating a blueprint for what you can offer them. Some MSPs charge for the assessment or discovery, while others offer it free as a way to start a conversation about issues within the customer's organization. For Solution Providers new to services, a network assessment tool can be another great support element.

HERE ARE A FEW SPECIAL CONSIDERATIONS WHEN EVALUATING POTENTIAL PARTNERS OF SERVICES.

1. **IDENTIFY -** Identify how well the manufacturer's model fits your ideal service model. For example, do they offer a consumption model for monthly subscriptions? Do they ask partners to take a cash flow hit, or do they have programs that ease your burden?

2. **TRAINING** - Since many of the services you'll offer might be new to you, or at least new in the type of delivery model, you might seek partners that provide extensive training, education, and assistance. Some manufacturers require certifications. In this case, be sure to understand the costs and expectations. For instance, check if certifications are required for just one of your technicians or all of them.

3. **SERVICE** - Note how the service is provided — either directly by the manufacturer, through a distributor, or both. You might have a preference depending on the service and your needs. For example, many distributors now have cloud marketplaces that provide one-stop shopping for cloud services offerings for your customers.

4. **BRANDING** - Does the vendor allow you to build your own brand or theirs? While leading with a strong vendor card used to be the preferred way to win sales, today it's all about building your own brand by combining services into a bundle. Some vendors allow you to white label their solutions and put your name on them. By doing so, it's much more difficult for customers to shop you on the Internet and all your marketing will build your brand.

5. **INTEGRATIONS** - With any product/service you're considering, take note of integrations with other products and tools you currently use or might use in the future. Your RMM and BDR must work together for maximum efficiency gains. If you make the wrong choice by selecting some new-to-market cheaper solutions, you might find the key integrations you require aren't yet available.

SALES COMPENSATION

Books have been dedicated to this topic, and there are many opinions on which compensation models are the most and least effective. The way you compensate salespeople under the traditional model won't work when it comes to services.

With services, it's a balancing act. You want the sales rep to be satisfied with their compensation, but not content to the point they won't sell the new thing (your services) because they've already made money selling the old thing (traditional hardware). Everything must be done to ensure you hit your profitability goals.

> "If given the opportunity, most humans will continue to behave as they have before – if that behavior earns them the income they have customarily made."
>
> -Paul Dippell, CEO, Service Leadership

Most successful MSPs will pay their salespeople one time at the close of a deal (some percent of the total value of the contract). This can generate nice earnings for the salesperson, while still keeping them hungry to produce on a monthly basis.

Finally, you should consider separating your sales team into traditional sales reps and those who are selling the new solution. This is especially true if the products and services are not related. For example, if you traditionally sell business phones and you are implementing a Managed IT Service, you should keep them separate. People tend to fall back to what they are most comfortable with. In cases where you have a salesperson offering both traditional product resale and MRR services, you'll find your salespeople not pushing services as much as you'd like.

COMMON MISTAKES

As you can imagine, adding services to your business and using a host of new tools can be daunting and mistakes are likely to be made. Following are some of the common mistakes Solution Providers make as they adopt a product/services hybrid model.

YOUR VENDOR PARTNERS AREN'T ON BOARD

Solution Providers can get locked out of charging a monthly recurring fee if the manufacturer requires maintenance as part of its agreement. As you alter your business, make sure your vendor partner has a model that allows for your desired change to provide MRR services.

> "Make sure you don't have all of your eggs in one basket."
>
> -Craig Marowitz, President,
> Expert Technology Associates

YOU MAKE TOO MANY CHANGES TOO FAST

The transition to the hybrid model should be made gradually and with purpose. If you move too quickly or change too much, it could be overwhelming to you and/or your employees.

YOU'RE NOT COMMITTED TO THE MODEL

If leadership within your organization isn't fully invested in adopting services, the rest of the organization will not support the endeavor.

Additionally, since the change will be challenging, leadership must have the stomach to ride out the hard times.

YOU DON'T HAVE THE RIGHT PEOPLE

Selling services is different from selling products. It's possible your team doesn't have the right skills necessary to sell services today. If you are selling products and services that work together as one solution, make sure the sales person has the training and tools to sell the total solution. If your services and products aren't related, you need resources that are 100 percent dedicated to each and compensate them differently.

> "Customers are looking for ongoing guidance in this more short term, subscription-based world and you better have your people there to drive those conversations or suffer from your competition stepping in and having those conversations before you have the chance."
>
> -Craig Marowitz, President,
> Expert Technology Associates

YOU'RE TARGETING THE WRONG CUSTOMERS

Not all of your current customers will be ideal for services. You'll have to perform some analysis to see which services your customers need and potentially find some new customers.

YOU LACK A STRATEGY

This model will only work if someone works at it. You can't just try various things and hope something works. You must have a thoughtful plan and strategy. Get methodical about the services you'll offer, know who in your organization is selling them, and know your potential market.

YOU CREATE INTERNAL STRIFE

Having some employees focused on the old part of the business and some focused on the new can create issues. Sales compensation can become one bone of contention. More importantly, you don't want those working on the old part of the business wondering how they fit into your plans for the future. We have seen successful partners who have transitioned to a hybrid model build compensation programs to address this issue and make sales more cooperative and not contentious.

YOU IGNORE WHAT MADE YOU SUCCESSFUL TO BEGIN WITH

Don't forget the cash cow that got you to this point. There's no sense in tossing out a great solution you offer to move to this new model. The hybrid approach means keeping what works in your old model so you can ease in.

CONCLUSION: TAKE YOUR FIRST STEPS TODAY

How quickly you act on this opportunity - and to what degree - are up to you and based entirely on your capabilities, customer base, and desire to move forward. There's no right or wrong way to adopt Managed Services and move towards a hybrid model. However, the single biggest mistake you could make is not beginning your transition today. The longer you wait, the further behind you fall. Start now and move with purpose before it's too late.

If you're scratching your head trying to figure out how to turn some of your offerings into subscription offerings without destroying your cash flow, know there are potential partners who can help. GreatAmerica can help you down the path of providing a subscription model to your customers. The first and least risky step you should take is to get your product sales on a recurring monthly payment cycle. This requires little operational or technology investments, but does require the sales team to adopt some new tactics.

Once you are ready to begin offering some of your services as a monthly fee, we can equip your company to provide a single monthly payment to the customer for the total solution. From technology integrations to training to billing and collecting, we have built the systems and process to help Solution Providers go to market with a low-risk As-A-Service model.

Finally, we have developed relationships with leading industry experts who can help you evaluate and execute on new initiatives that will get you closer to the true hybrid model that will allow you to thrive in the evolving world of technology.

ABOUT GREATAMERICA

Founded in 1992, GreatAmerica is a national lessor that helps their customers be more successful. The Unified Communications & IT Group at GreatAmerica is dedicated to understanding the IT, Managed Services and Telecommunications industries, working with thousands of telecom providers, MSPs and independent VARs to help them evolve their business.

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