

POSITION PAPER | JANUARY 2015

MSPs and the Application Economy: The Need for Differentiation, Acceleration and Quality

Table of Contents

Executive Summary	3
New Era, New Opportunities	3
No Room for Complacency	5
Differentiate, Accelerate and Focus on Quality	6
1. Specialising to Differentiate	
2. The Need for Speed	
3. No Compromise on Quality	
Leveraging the Right Technologies for Growth	9
Summary: The Need for Action	10
How CA Can Help	11

Executive Summary

The rise of the application economy offers significant growth opportunities—and threats—for managed service providers (MSPs). Deliver services that help your customers thrive in the application economy, and your business will thrive. Fail to adapt, and you'll stand to lose business, market share and relevance.

More than ever, the success of your clients is tied to applications. The faster they can innovate their applications, the faster they can respond to changing customer demands, emerging opportunities and competitive threats. When you deliver the services that speed clients' application innovation, your organisation can address an urgent requirement—and capitalise on a rapidly expanding market.

To keep pace in an always connected, increasingly mobile and application-driven world, companies will grow increasingly reliant upon MSPs—specifically those MSPs that can provide specialised, high-value and application-centric services.

To capitalise on their market opportunities, MSPs will need to offer the optimum combination of service differentiation, speed and quality.

As core services become commoditised, those MSPs who fail to both innovate and differentiate are likely to find it increasingly difficult to remain profitable. For too many MSPs, fragmented management tools and processes are significantly impeding efforts to enhance innovation and differentiation.

By taking advantage of the new generation of unified infrastructure management tools, MSPs can deliver new services quickly, efficiently and reliably.

New Era, New Opportunities

The convergence of burgeoning cloud services, social channels, the Internet of Things and mobile innovation has led to the emergence of the application economy.

Today, a business' fortunes are inextricably entwined with its applications. Virtually every business is fuelled by technological innovation.

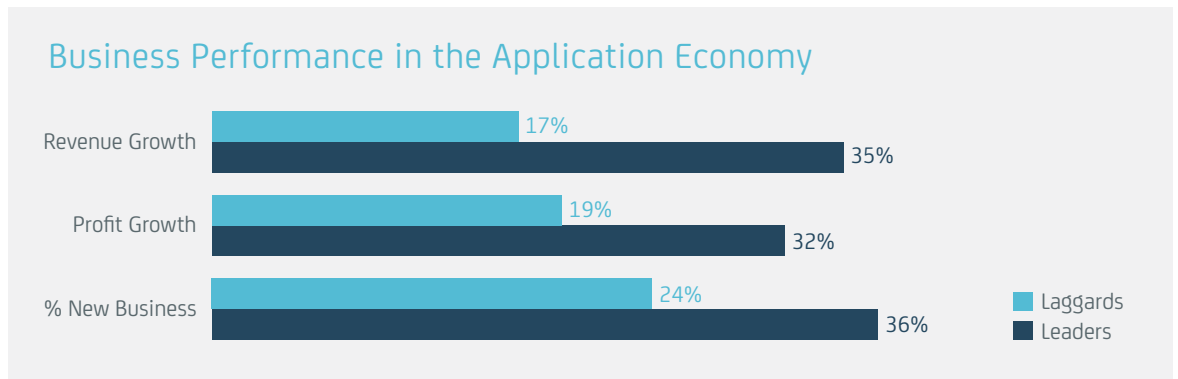
By developing the applications and experiences that engage customers—customers who now conduct almost every aspect of their lives through mobile devices—businesses can tap into a multi-billion pound market opportunity.

Indeed, the impacts of the application economy are already being felt by organisations around the world. A recent global survey of 1,450 senior business executives commissioned by CA1 found that half of all companies surveyed say that their industry is being very or highly disrupted by the application economy, and 44% are already experiencing this impact in their own organisation.

Figure 1.

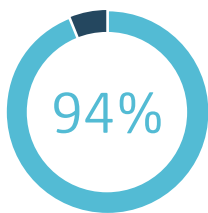
Comparison of self-reported business performance of the leaders and laggards in the application economy.

Total: Leaders: 342;
Laggards: 228



The survey also revealed a strong link between how quickly firms adapt to the application economy and their business performance. Those judged to be application economy leaders significantly outperformed “laggards”. The leaders achieved more than double the revenue growth, 68% higher profit growth and 50% more business through new products and services.

Not surprisingly, as IT becomes an increasingly critical and strategic business driver, enterprises are responding with increased investment in IT.



94% of firms said they anticipated increasing IT investment over the next five years in order to respond to the challenges of the application economy

A staggering 94% of firms said they anticipated increasing IT investment over the next five years in order to respond to the challenges of the application economy. The average increase in investment is expected to be 25%.¹

At the same time, many businesses are finding that traditional IT delivery models cannot deliver the application innovation they need, at the pace they want.

Our research found that 50% of businesses surveyed felt that they are only moderately, slightly or even not at all effective in responding to the application economy today.¹

When asked about perceived obstacles to success in the application economy, our respondents repeatedly placed lack of budget, lack of resources and lack of skills and knowledge high up the list. These shortcomings are creating a significant innovation gap in many organisations.

It has become clear that the rise of the application economy is helping to fuel rapidly growing demand for managed and outsourced IT services. Businesses are increasingly looking to service providers to help address their innovation gap.

Research by CompTIA has revealed that, in the last year, 75% of organisations used the services of an outside firm to manage one or more of their IT functions, or to provide implementation, integration or other IT project work.²

The same survey found that companies that had reduced the size of their in-house IT operations—as a result of working with an MSP—were more likely to be “highly satisfied” when rating their current IT management approaches.



The global managed services market will grow from \$143 billion in 2013 to \$256 billion in 2018⁴

Clearly this market shift is resulting in significant growth in the MSP sector. According to MSPmentor, the world's 501 largest MSPs saw average revenue growth of 28% from 2012 to 2013. The numbers of PCs managed by these organisations increased by 33% over the same period, while the number of servers and network devices managed increased by 32%.³

Further, research firm MarketsandMarkets predicts that the global managed services market will grow from \$143 billion in 2013 to \$256 billion in 2018.⁴

No Room for Complacency

It is no wonder that MSPs themselves are optimistic: 91% expect to grow at >5% this year and 39% expect growth of >15%.³

But there is no room for complacency. Although the rise of the application economy represents a huge opportunity for MSPs, it also poses a threat for those organisations that don't evolve to adapt to this new reality.

As applications become ever more critical to business success, businesses will place increasing demands on their MSP partners. Keeping pace with more exacting customer needs means keeping a constant focus on innovation and service improvements.

At the same time, MSPs' long-term profitability is threatened by the fact that the MSP market is becoming increasingly crowded, with new entrants—including ISPs, VARs, telcos and systems integrators—all seeking to grab a share.

The result is that many core MSP services are becoming commoditised. Managed services are no different from any other technology solution: yesterday's innovative, high-margin services inevitably become today's low-margin, commoditised offerings. The basic, remote monitoring services that many MSPs built their businesses upon are already becoming commoditised, undermining the possibility of future business growth and even sustainability.

Standing still is not an option. Strategies that yielded success in the past may no longer be sustainable. In a market where new players, new services and innovative delivery models continue to multiply, MSPs that resort to competing on price will find themselves in a race to the bottom.

Differentiate, Accelerate and Focus on Quality

Three factors will be critical to MSPs' success in the application economy:

1. The ability to differentiate by offering more specialised, higher value and application-centric services
2. The capability to execute and deliver value quickly so customers can capitalise on emerging opportunities
3. The consistent delivery of the quality of service that customers demand

1. Specialising to Differentiate

Given the onset of commoditisation, MSPs need to introduce new services to maintain relevance and profitability. These new services need to deliver differentiation for the MSP, while effectively supporting clients' application economy initiatives.

MSPs need to help customers deliver and manage their most valuable IT assets: the applications that their business increasingly depends on

To capture a growing share of businesses' increased investment in IT, MSPs' services must demonstrate how they support the things that customers most value. This means that, rather than just focusing on managing PCs, servers and routers (which are increasingly regarded as commodities themselves), MSPs need to help customers deliver and manage their most valuable IT assets: the applications that their business increasingly depends on.

Few businesses can credibly claim to be good at everything. For many MSPs, differentiating themselves in the market—and maintaining high profit margins—will require them to specialise.

Specialisation offers three key benefits for MSPs:

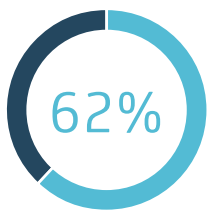
1. By specialising in a particular area, MSPs can reduce the learning curve associated with each new client, become more efficient at service delivery and enhance their ability to leverage existing tools and assets
2. By building up expertise, credibility and customer references, it becomes easier to win each new deal—reducing MSPs' sales and marketing costs
3. By delivering specialised services, MSPs can charge premium pricing and boost margins and profits

The value of specialisation is reinforced by the fact that efficiency and expertise are two of the key attributes that MSP customers say they most value.² And as businesses themselves adapt to the application economy, there will be no shortage of demand for more specialised, value-added services.

With enterprises seeking to address the IT innovation gap, they are increasingly looking for MSPs to evolve beyond offering basic infrastructure management services. They want MSPs to help them meet their broader challenges in areas such as mobility, security, application development, application performance and virtualisation.

Figure 2.

The top three areas IT leaders see as likely for expansion through a service provider.



62% of MSPs already claim some level of vertical focus, with healthcare and legal being the most popular sectors

Given the strength of the argument for specialisation, the next step is how. There are a number of options. For example, MSPs could start to specialise in specific technologies, particularly those at the forefront of customers' journeys into the application economy—such as mobile device management, virtual desktop infrastructures or identity and access management.

Two-thirds of organisations that currently use an MSP cited “gaining access to newer technologies” as a principal driver.² Research from Ovum commissioned by CA revealed that security management and application management were the top two areas that CIOs saw as likely for expansion through a service provider.

Alternatively, MSPs could differentiate by specialising in particular market sectors. This would enable them to develop a deeper understanding of both the issues facing customers in those sectors and the specialised applications these customers rely on. Indeed, 62% of MSPs already claim some level of vertical focus, with healthcare and legal being the most popular sectors.³

2. The Need for Speed

As the world becomes increasingly interconnected, new ideas and innovations spread and so can be rapidly copied. As a result, the window of opportunity for any new competitive breakthrough shortens and speed of execution becomes critical.

Businesses' demand for speed will grow increasingly urgent. If an organisation's internal staff lack the capacity or the knowledge to act, the time it takes to execute will be slowed. This is helping to fuel the demand for managed services. With relevant expertise, an MSP can help the customer deliver on requirements faster. According to 60% of European MSPs surveyed, speed of adoption is an important factor driving customers towards MSPs.⁵

But this clearly also places increased demands on the MSPs themselves. If a new service helps a customer address an innovation gap and gain a competitive edge, but it takes three months to get the service up and running, the business benefits the customer gains will be minimised, or never even realised at all. The pace at which services are delivered will increasingly become just as important as the services themselves.

So, to use the delivery of speed as a source of competitive advantage, MSPs need to focus not just on time to market, but also on time to customer value—the time it takes for users and businesses to start experiencing benefits. This means looking at all aspects of the customer experience: not just the technical delivery, but also the sales and procurement process, the implementation process, user communications and training.

MSPs who cannot meet customer demand for speed will not only miss out on new growth opportunities—they may also find that their existing customers start looking elsewhere.

3. No Compromise on Quality

Competing on quality of service and customer support is familiar territory for many MSPs. When CA surveyed MSPs back in 2012, “Performance/QoS” and “Customer support” were the two most commonly cited forms of differentiation for MSPs.

Ensuring quality of end-user experience and reducing risk are also clearly vital to MSPs’ customers. In CompTIA’s 2014 survey,² businesses cited the following top three factors as the drivers for adopting managed services:

- Improve security
- Proactive approach to IT problems
- Better uptime

As MSPs increasingly support the applications that a business depends on—and those applications become ever more central to core operations and customer interactions—service quality becomes of paramount importance.

As MSPs increasingly support the applications that a business depends on, service quality becomes of paramount importance

If an MSP’s service issue disrupts a supply chain or prevents customer purchases, the focus on that issue will be magnified. The challenge for MSPs will be to maintain service quality while delivering the specialised services and speed that customers demand. If service delivery is accelerated, but the MSP’s input lacks reliability or scalability, the swiftest outcome will be the demise of that MSP’s business.

To meet this challenge, many MSPs will need a new approach—replacing ad hoc, bespoke systems and processes with increased standardisation and automation.

Leveraging the Right Technologies for Growth

To deliver the combination of specialisation, speed and service quality that will enable them to thrive in the application economy, it will be essential for MSPs to have the right technologies and capabilities.

Yet many MSPs are currently held back by the fragmented nature of their current infrastructure management tools and processes. In the past, for example, many MSPs have treated each new service as a one-off—implementing bespoke tools and processes to enable them to address a specific opportunity. As a result, their businesses are now saddled with too much complexity and too many time-consuming, labour-intensive processes.

Trying to make do with tools that are simply not up to today's demands is likely to be a false economy

This level of fragmentation will simply prevent MSPs from being able to meet customer demands for speed, quality and value.

To address this issue MSPs need to take advantage of the new generation of infrastructure management tools—some designed specifically for MSPs—which make it significantly easier to deploy new services while eliminating unnecessary costs.

Monitoring, for example, sits at the heart of a service provider's business. If monitoring operations are not optimised, MSPs will not only struggle to meet current demand, but also find it increasingly difficult to adapt as new demands and opportunities arise. But with a unified monitoring platform (such as CA Unified Infrastructure Management), standardisation and repeatability across all monitoring services, clients and business groups can be achieved.

Similarly, a comprehensive service delivery platform (such as the CA Cloud Service Delivery Platform)—designed to unite key processes and capabilities, from self-service ordering to automated provisioning and billing—can dramatically accelerate MSPs' ability to deliver and scale services and capitalise on the opportunities that the application economy presents.

Clearly the challenges of swapping out older tools to implement newer technologies should not be underestimated. For busy MSP executives, the temptation to put off the cost, hassle and disruption that such a move entails is understandable. But in the long run, trying to make do with tools that are simply not up to today's demands is likely to place an increasingly significant hindrance on an MSP's ability to compete and grow.

As ever, it is not just a question of technology. MSPs also need to develop the broader offerings that will help them earn the position of trusted advisor to clients. They need to be able to help those clients bridge the innovation gap and take advantage of the opportunities offered by the application economy. Indeed, such a capability could well include offering assessments of whether clients are ready for the application economy, identifying any innovation gaps that may be holding them back and offering the specialised services they need to move forward.

Summary: The Need for Action

The rise of the application economy offers exciting new opportunities for MSPs, but to capitalise on these opportunities MSPs themselves need to evolve.

Differentiation, speed and quality of service will be critical attributes for the successful MSPs of tomorrow. To deliver this combination, MSPs will need the right capabilities and the right tools.

Forward-looking MSPs cannot afford to wait. They need to be taking action now to ensure that they can succeed tomorrow.

For those that get it right, tomorrow's application economy represents a world of almost unlimited opportunity.

Foot notes

Sources have been derived from a combination of the following:

¹ How to Survive and Thrive in the Application Economy, CA Technologies, 2014

² TRENDS IN MANAGED SERVICES, CompTIA, March 2014 (based on US research)

³ Annual MSP mentor 501 Survey, MSPmentor, Feb 2014

⁴ Managed Services Market, Market Forecasts and Analysis (2013–2018), Markets and Markets, August 2013

⁵ The Future of Managed Services in Europe, IT Europa/ Webroot, Sep 2014 (based on EMEA research)

How CA Can Help

CA Technologies helps your MSP business thrive in the application economy by making it easier to develop and deliver the innovative, value-added services that generate new revenue streams and improve customer retention.

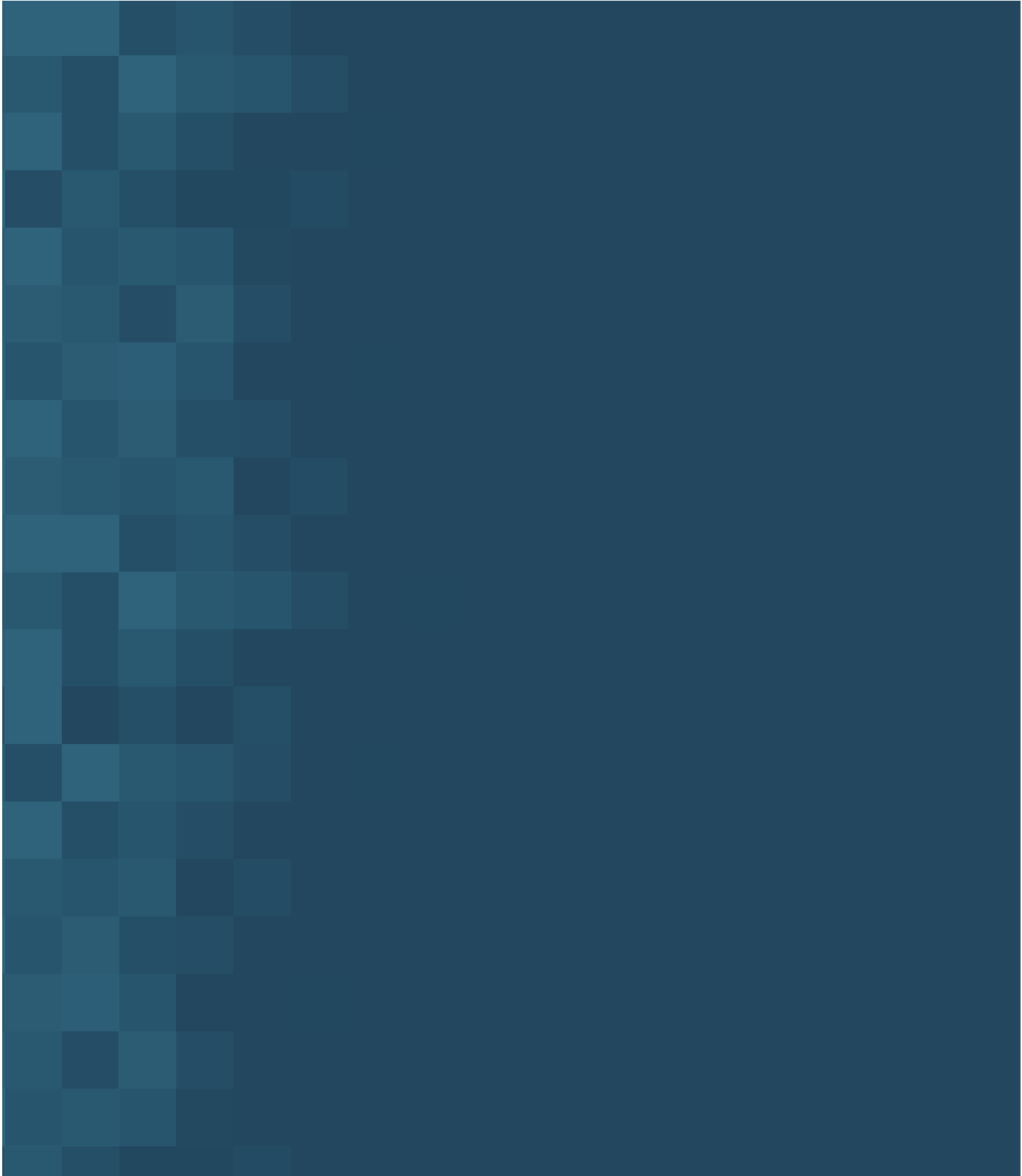


CA has deep experience and understanding of the MSP sector with more than 750 service provider partnerships worldwide.

CA offers an unrivalled breadth of offerings to meet the needs of MSPs, including:

- CA Unified Infrastructure Management makes it easier for you to expand service offerings by providing consistent, integrated monitoring and reporting across networks, servers, databases, applications, public and private clouds and virtualisation platforms.
- CA Cloud Service Management reduces the costs associated with delivering multiple services by streamlining service delivery, service level management, change control and support case management.
- With the CA Cloud Service Delivery Platform your organisation can harness a new operational model that dramatically accelerates your ability to scale your managed IT services. The platform delivers breakthrough operational efficiency, streamlining the process of adding, delivering and supporting new services.
- Solutions from the CA Securecenter portfolio and CA Enterprise Mobility Management enable you to increase your value to customers by helping them address some of the major security, compliance and administration challenges associated with cloud and mobile computing.
- Our robust technologies and extensive support and training options help you meet your customers' demands for service reliability and competitive SLAs.
- The CA Service Provider Centre of Excellence provides you with the strategic, operational and go-to-market support that helps you develop, expand and enhance a competitive service catalogue aligned with IT spending priorities.

ca.com/serviceproviders



Copyright © 2015 CA. All rights reserved. All other trademarks referenced herein belong to their respective companies.

This document is for your informational purposes only, and does not form any type of warranty. CS200-106408_0115