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A Channel Perspective
The Essentials Series

To Cloud or Not to Cloud? Growing a Managed Services Portfolio

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by **Don Jones, Series Editor**

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Don Jones

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To Cloud or Not to Cloud? Growing a Managed Services Portfolio

In truth, information technology and services have fallen upon interesting times, with the introduction of the cloud and its expanding presence and market share. Where some see the cloud as a wedge that permits vendors to skip the reseller channel and leave the channel out, others see the cloud as presenting unparalleled opportunities for resellers to boost their services portfolios and increase their customer touch points. There is no doubt that the cloud is capturing imaginations and creating ample business opportunities.

In fact, the managed services space keeps growing dramatically, year over year. Today, roughly half of resellers provide some kind of managed services, and another third are planning to offer managed services within the next two years. Backup and disaster recovery is hot, and presents a real business opportunity for resellers to get closer to their customer base by offering more comprehensive solutions to meet customers' managed services needs. In this article, you'll find out how to expand your portfolio to include managed services offerings based around cloud computing.

What's in the Managed Services Space?

"Managed services" is the practice of offloading specific IT operations to a service provider, also known as a managed service provider. An MSP might offer some or all of these elements to its customers: IT infrastructure (hardware, software, networking, etc.), platforms, systems, applications, and even data protection and disaster recovery services. But the MSP's key role is to provide manpower and expertise, to manage things on behalf of the customer, often on a subscription basis. These managed services act like an extension to the customer's workplace. Customers can even arrange for MSPs to shoulder responsibility and liability for their IT or services operations. From a customer's perspective, offloading routine IT management tasks to an experienced managed services company enables its in-house staff to focus on higher-priority or more critical tasks, improving the overall efficiency and productivity of its operations.

MSPs offer a wide variety of services, the most popular being the remote management of servers, workstations, and networking, also known as Infrastructure as a Service (IaaS). Various "as-a-service" lines also include Software as a Service (SaaS, which makes applications available from the cloud) and Platform as a Service (PaaS, which makes cloud-based computing resources available as a consumable service). Common business services and applications available as SaaS include office productivity tools, customer relationship management (CRM) software, and enterprise resource planning (ERP) software. PaaS generally involves access to computing resources and application development tools in the cloud that customers use to build their own, customized application platforms or on which companies host their own offerings.

Why the Cloud Is a Great Place for the Channel

Managed services is becoming a lucrative business opportunity for savvy channel partners across the globe. Adapting an as-a-service business model is a smart way to meet existing and future customer demands. It's a flexible model, and allows a reseller to transition to cloud services while still offering on-premise or other professional services—a hybrid portfolio. And by working with a trustworthy technology vendor or established hosted service provider, there's little risk to the reseller, either.

According to a 2010 Forrester Research survey (Source: Tim Harmon and Peter O'Neill. "Channel Models In The Era Of Cloud" whitepaper, November 3, 2010), resellers planned to offer various managed services within the coming year, with these items paramount:

- Remote management of servers, PCs, and networking
- Storage and backup services
- Data center services
- Remote backup/disaster recovery
- Network services
- Security services
- WAN management/optimization
- Enterprise-class (hosted) email services
- Telecom/voice services
- Web conferencing, collaboration services
- Mobility services
- Contact center/IVR services

This article focuses on offering online backup and disaster recovery services, and how resellers can move into that part of this cloud-driven market. It also addresses key questions to which savvy resellers will want answers.

The Cloud Is a Sure (and Quick) Source for Recurring Revenues

One big question that resellers want answered is "Why should we invest in the cloud?" or perhaps "What's in it for us?" The title to this section provides a welcome answer that drives straight to their bottom lines: steady, predictable cash flow.

Managed services are usually priced on a subscription basis. Depending on the type of service offered, pricing may be based on number of licenses, devices, or some other unit with different packages priced at different levels. An online backup service is usually priced on the amount of data stored. Predictable revenues and consistent profits help to even out and balance the business risks associated with high-value deals and seasonal business. Better still, recurring services create an ongoing customer relationship to nurture and grow with follow-up upsells for new products and services. As the "owner" of the customer relationship, the reseller is naturally positioned as the account expert/manager.

Some vendors package up their best practices and knowledge to create a route-to-market program for resellers: an all-in-one data protection appliance that connects to data center storage, online training with an emphasis on best business and technology practices, and marketing tools to help them position and sell their offerings. Resellers should be able to sell their first clients within 4 to 6 weeks of establishing a vendor partnership, and start doing business without incurring extensive startup costs.

Adding or Upgrading Cloud Capability Can Boost Profits

Most resellers will want to be sure that investing in the cloud will produce suitable payoffs. This might be stated as “Do the margins justify the costs in time, people, and capital?” For those resellers willing to dive in, payoffs can add welcome profits (and nice margins) to their business mix.

Offering online backup managed services isn’t limited to a certain type of reseller. Various organizations will find that this market provides new revenue opportunities and reduces risks for:

- An existing backup service provider looking to optimize revenue: Some resellers may already host a backup service. But if that service fails to meet their needs for quality, security, cost, and profitability, it may be time to find a new and better vendor. Improved margins and profits have to be a driving factor.
- A hosted service provider that wants to add a backup service: Some resellers want to expand the IT services they offer through their own data centers. Including backup and recovery, and business continuity or disaster recovery capabilities is proving attractive to a broad customer base.
- A value-added reseller (VAR) moving to hosted services for the first time: Resellers new to hosted services that want to build out data center capabilities and develop hosting expertise will find backup and recovery as well as business continuity and disaster recovery capabilities a powerful draw for increased (and new) business.

Another attractive aspect of getting into online backup and disaster recovery is that the model lets you scale the size of your managed services business when the time is right for you.

Providers Backed by Well-Known Brands

In weighing any partner relationship, resellers know they must be cautious and canny in deciding where and how they “partner up.” The driving question here has to be: “Why should we ink a deal with <name of vendor here>?”

Because companies eye cloud services with apprehension, especially for data protection where security is a key factor, resellers need partners that customers know and trust. Technology vendors lend their names and brands to this mix, and provide well-known, pull-through technology, sometimes as easy as plug and go. Many vendors also provide sales and technology training that resellers might need to ramp up sales for new services.

Note

Although you will partner and be supported by a best-of-breed tech vendor, a channel partner must thoroughly understand the technology to be the trusted advisor its customers have come to rely on. Customers will know if you're simply passing along a service or embracing it.

Low Entrance Costs, High Margins

A perennial concern for any reseller seeking new markets to tackle is always “What will it cost to get in?” As with the answer to any truly good question, costs depend on the reseller’s level of involvement and their comfort level in assuming human and capital expenditures. For a surprising number of interesting parties, that answer turns out to be “less than you think.”

Some companies can enter the online data protection as-a-service market for less than the cost of a backup appliance that connects to cloud-based storage. After that, the tech vendor or hosting provider may charge a reseller for their storage footprint, and the reseller simply passes those charges along to their customers, with a suitable markup.

For a more comprehensive portfolio, a smart approach is to ease into a cloud-based services model. For example, product resellers or on-premise backup providers can begin offering online data protection as a managed service as an additional menu item in their current portfolios. By adding an increasing mix of cloud services slowly rather than overnight, they can build a revenue stream that grows over time. The time to scale up the managed services business, if they decide to go that route, occurs when their managed services revenue stream consistently matches or exceeds their product resell revenue over time. It’s not uncommon for channel companies to increase their profit margins by up to 10 percent after adding cloud-based backup and disaster recovery services.

Data Protection Clients Can Become Disaster Recovery Clients, Too!

Savvy resellers always want to know what else they can offer to their customers, based on any product or services portfolio. This might be stated as “What else can we do?” or “What comes after backup and data protection?”

If resellers already provide backup to their clients, they should consider expanding their services by also offering disaster recovery as a managed service. Disaster recovery may involve setting up a warm or hot site for a customer; in the event of a disaster, the customer could quickly resume operations from a remote location until its primary site is restored.

What to Look For in a Data Protection and Disaster Recovery Services Partner

As a trusted reseller who will deliver data protection and possibly also disaster recovery services to customers and be held accountable for meeting service level agreements (SLAs), it's imperative to choose a technology vendor or service provider that meets the highest standards. Although not exhaustive, the following list includes important factors to consider when evaluating vendors or service providers as potential partners:

- **Quality of technology**—One of the first things to look for is high-quality, robust technology. Your customers will want assurance that their data is being handled by best-of-breed solutions. Do they offer reliable backup and recovery? Adequate security and encryption? Efficient bandwidth utilization? Fast data transfer? Scalability? Support for multiple platforms and applications? Good answers to all these questions are essential.
- **Reputation, trusted name, experience**—Is the vendor well-known in the industry? Will your customers recognize and trust the vendor's brand and reputation? Technology vendors "buy" demand pull-through and promote brand awareness for their technologies, which makes a channel partner's job easier when selling managed services to customers—they can focus on selling services rather than selling brands or trust.
- **Compliance/security of customer data**—Today, dealing with any customer's data also means dealing with data security. When evaluating technology vendors, ensure that their cloud solutions comply with pertinent regulations, such as the Health Insurance Portability and Accountability Act (HIPAA), Health Information Technology for Economic and Clinical Health Act (HITECH) Act, and so on. In addition, by basing data protection solutions on standards such as CoBIT, ITIL, NIST, or ISO, customers can be sure that the technology vendor has done its due diligence to protect data in and out of the cloud. If a vendor is compliant, a reseller can establish a trusted relationship with end users. Also check whether vendors have passed the Statement on Auditing Standards (SAS) 70 audit and have paperwork to prove it.
- **Data center infrastructure**—The key to any operation in the cloud is the quality of its data center infrastructure. The best vendors operate highly reliable, available, and redundant sites with proper provisions for power and cooling, processing, and storage. They also have their own well-rehearsed disaster recovery and failover plans. Resellers need a solid foundation for anything entering or leaving the cloud.

- Vendor support, promotion, and commitment—Many technology vendors view the channel as a necessary and valuable partnership so that if a channel company succeeds, the tech vendor succeeds. First and foremost, look for a vendor that actively supports channel partners by providing a strong SLA and comprehensive Tier-2 support. Other indications of a committed tech vendor are a channel enablement program to help develop sales, coaching and technology training, recruitment assistance to find the most appropriate staff skill sets, accounting training, the availability of marketing funds and promotional items, showcasing channel companies in case studies, and the like.
- A model that supports ease of conducting business through the vendor's channel program—Resellers can't provide great customer service if they're bogged down with an inflexible business model through the vendor. This factor may be more difficult to pinpoint during vendor evaluations, but resellers must try their best to understand the entire business process with each vendor. They should interview possible vendor channel partners or customers, too, if possible.
- 24/7 support—If a technology glitch occurs at 3:00 am that can't be resolved, the vendor must be available to step in immediately. Don't settle for anything less than 24/7 support to provide the best possible service to a reseller's customers.

A few final remarks: look for a superior and experienced technology partner whose products and services are built on the best available technology, and whose data center infrastructure and operations are utterly rock-solid and reliable. You may be surprised to find that the cost isn't much more than that for less-experienced vendors. In addition, even if the technology is new, your chosen partner should have been in business for at least a decade. This kind of partner will provide the best foundation for your company to sell services and retain satisfied customers, while helping you attract new ones.

Summary

The time is right for resellers to expand into managed services for data protection and disaster recovery. However, you need to evaluate the latest technology and tech vendors carefully before diving in. A vendor's reputation is important to consider but also look closely at the vendor's security and compliance best practices, commitment to the channel, data center infrastructure, and level of support. In the final article in this series, pick up tips for selling cloud data protection services to your customers.