



MANAGED SERVICES:

The New Paradigm in Small Business Information Technology Delivery

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Executive Summary

The outsourcing of information technology infrastructure monitoring and maintenance to a value added reseller (VAR) or Managed Services Provider (MSP) is widely used by small businesses as a means to improve uptime performance and reduce costs. Even though many small businesses are increasingly likely to offload such services, they often fail to advance the potential that information technology affords their business through a more extensive collaboration with a service provider. They often are in a reactionary mode, resolving tactical issues that arise through the purchase of more hardware or outsourced skills that rarely demonstrate a favorable return on investment. Many small businesses view IT as necessary, but a drain on cost rather than a business enabler.

The managed services model changes the dynamics of IT service delivery from this tactical mode into a strategic model through a close collaboration with a proven and trusted technology expert. VARs have refocused their business and MSPs have emerged because the small business market now demands that information technology investments be more closely linked to their client's strategic growth plans.

The relationship between an MSP and a small business is now trending toward service level pricing rather than commodity-based pricing (the VAR model). A client pays for a level of service for any of a number of strategic services and projects. Consulting services, an integral part of the model, helps the small business create an IT roadmap that aligns with their strategic goals. The managed services provider, through the Service Level Agreement (SLA) sells value and peace of mind to its client.

The intent of this white paper is to provide those in the small business community that are grappling with the challenges of sustaining and growing their business, an understanding of how this new paradigm shift in IT service delivery will benefit them.

The Small Business Economy

The U.S. Small Business Association, Office of Advocacy, defines a small business as one with fewer than 500 employees. These businesses constitute, by this definition, about half of the private sector employment and GDP output. The vast majority of new job growth in the United States is created by small businesses. In 2004, as an example of the dramatic effect small businesses have on economic growth, businesses with fewer than 500 employees experienced a net gain of 1.86 million new jobs, while large firms had a net loss of 181,000.

Many small businesses, led by entrepreneurial owners with a vision, grow into large businesses. Managing growth, however, is the most formidable obstacle to ongoing achievement of their goals. There are many critical factors that constrain growth even for the most visionary businesses...the macroeconomic environment affecting the availability of financing, government regulatory compliance and taxation, increased healthcare and energy costs, and the inability to attract and retain critical personnel. Small businesses also rank the ineffective utilization of technology high on the list of factors that restrain growth.

Trends in Technology Acquisition within Small Businesses

Access Market International (AMI) Partners, a global leader in SMB (small/midsize business) market intelligence, in collaboration with CompTIA, estimated that small businesses spent upwards of \$200 billion on information technology in 2007, an increase of 6.5% and three times GDP growth. The most significant component of the IT budget is spent with local and regional VARs aligned with major vendors including Microsoft, Hewlett Packard, Citrix, and Cisco. According to Forrester research, outsourced hardware and maintenance is widespread among small businesses with 51% using outside help mainly to solve tactical problems (skill shortages, uptime improvement, etc.), but only 6% of the small businesses do this in the form of managed services.

Managed services is defined by many of the leading vendors and IT consultants as a comprehensive range of business and technical services provided in collaboration with a trusted IT partner. In a 2004 white paper, *A Road Map to Leveraging a Sound Managed Services Strategy*, International Data Corporation (IDC) describes managed services as a “life cycle portfolio” provisioned by businesses through a relationship with a third party. Managed services is segmented by IDC into four service categories: consulting services, integration services, operations services, and support services. Some of the specific managed services include 24x7 network, server, and PC management and monitoring, database administration, security and storage management, virtualized server management, and unified communications. Trends associated with these services will be defined and discussed in this paper.

AMI-Partners, in its analysis, indicated that SMB-based managed services is estimated to represent \$30 billion in expenditures in 2007 and will grow at a CAGR of 15.6% through 2010 and even a greater growth rate beyond.

Although the managed services model seems risky at first glance, given that it is based on the viability and financial stability of the IT partner, it is becoming widely recognized as the new paradigm in IT service delivery within the SMB market. It is a model that any small business with a dependency on information technology should evaluate.

Managed Services: Cost Savings and Benefits

Reports from multiple sources highlight cost reduction as one of the major benefits of managed services. “The major benefits of evaluating a managed services relationship are cost efficiency and minimizing the loss of productivity that comes from less than optimal use of information technology.” (January 2008 CompTIA research study *"Making the Case for Managed Services: The Business Impact of IT Problems at SMBs"*)

Small businesses suffer costly business impacts from network downtime and other common IT problems.

- Using a managed services approach for networks and server monitoring can reduce the cost of network operation by about 50 percent on average because of shorter repair times and downtime.

- The average “network-down” incident was almost 50 percent shorter when the network and servers were covered by a remotely monitored managed service program.
- A typical small business might lose between 21 to 32% in work productivity alone each time there is a network security issue.

(CompTIA).

"From the security perspective, there is a constant threat, and constant changes are required for infrastructure to be secure...trying to maintain that yourself is virtually impossible for the commercial SMB market." (*Cisco Partner Summit Presentation in Honolulu, Nigel Williams, Vice President of Cisco's Worldwide Service Provider Channels*)

Small businesses generally do not have to look long and hard to recognize cost savings, but according to the IDC research cited earlier, when a small business decides to explore a managed services relationship, they must consider the pros and cons carefully. How much control and influence should they defer to the partner in the form of outsourcing? What level of IT staff resources will be required? What level of service does the small business expect from its partner?

IDC offers areas other than pure cost savings that are of equal interest to small businesses when considering a managed services relationship:

- Leveraging a managed service partnership to support operational needs provides the small business with the ability to control resources through the selection of just those skills and technologies deemed to have the most immediate impact thus allowing cost benefits to accrue while ensuring an appropriate level of business risk.
- By handing over management of IT based services to a trusted partner, a company can concentrate on activities that are central to the business.
- Access to managed services provides enterprises with the “on demand” scalability to more quickly adapt to new requirements and opportunities.
- A managed service partner’s broader planning and implementation expertise, up-to-date technology, and economies-of-scale helps to align technology with strategic business goals while providing ongoing cost reduction.
- A managed service partner’s relationships with major best-in-breed technology companies allow a small business to gain access to the best products and best practices available within the industry.

These are common themes cited throughout the industry by many managed service providers (MSPs) as well as the leading infrastructure and application companies (Cisco, Ingram Micro, Zenith Infotech, HP, Citrix, Dell, and others).

To quote Justin Crotty, Vice President of Services for Ingram Micro North America, “Managed services is a very SLA (Service Level Agreement) process. An MSP is not selling a product. They are selling peace of mind - - a repeatable and measurable service level that clients are willing to pay for a specific managed service solution.” How much a

managed service company charges depends on how in-depth a given solution is and what services are required.

According to Dataquest, Gartner's market research firm, "managed services is a hot marketing concept across all of IT. However, one size doesn't fit all regarding how small businesses look to recognize value." The substantial outsourcing of all aspects of the business IT infrastructure may be a worthy end point result, but hardly ever is the starting point for a managed services engagement. There are many strategic services and projects that can be undertaken that will help reduce costs and improve internal efficiencies while at the same time building a solid foundation of trust with an MSP.

Small Business Outsourced Service Trends: 2007-2010

Remote network management and monitoring, including both helpdesk and onsite break-fix support, has historically been the most widely used outsourced service by small businesses even before the emergence of a comprehensive managed services model. As mentioned earlier, outsourced network/server monitoring was found to improve service levels significantly and reduce network downtime costs by about 50% on the average. This service will continue to be a staple for small businesses that are already committed to outsourcing and will be a logical entry point for many small businesses evaluating managed services for the first time.

However the outsourcing of services, under the managed services model, has evolved dramatically beyond basic network support and monitoring providing a range of new opportunities to increase savings and capacity for growth. Although there are many services that could be mentioned, here are some of the most strategic areas of interest to the SMB market that are attracting attention:

Information Technology Assessment and Planning

As many VARS made the transition into support outsourcing and ultimately into managed services, consulting services have become an important part of their value proposition to ensure that small business voids in strategic information technology planning are filled. The IT partner provides the technical resources and expertise, at a reasonable price, to provide ongoing evaluation of the client's existing IT environment and deliver specific, actionable recommendations to achieve the alignment of IT services with their business needs.

IDC's study regards consulting services as providing the "blueprint" of what is needed to align current and future customer requirements with the type and level of services required by small businesses to sustain growth and control over costs. According to IDC and major companies such as IBM, HP, Dell, and many others, consulting services have become commonplace within the high-end IT market and best practices have rippled down from these companies to their MSP partners serving the SMB market. It has been proven that whatever consulting service costs are incurred, they have been returned in the cost effective deployment of new services.

Consulting services are now considered an ongoing and critical component of the managed services model and is the starting point for a managed services partner

engagement. Services typically include strategic planning, operations and needs assessment, capacity planning, change management and process reengineering, and maintenance planning.

Comprehensive Security Management

IPED, a CMP Media channel consulting firm in Manhasset, New York, conducted a survey in 2006 that indicated the number one fastest growing area being adopted by managed services providers as a new service to their clients is security management.

Many small businesses have already implemented basic PC security to include antivirus, spam filters, and spyware, but have yet to deploy the critical server and network-based security that would provide the end-to-end protection against rising security threats. According to Cisco, the cost of security breaches has gone up 30-50% over the past five years, based on an investigation of over 500 companies. 80% of the respondents acknowledged financial losses.

As cited earlier in this paper, a typical small business might lose between 21 to 32% in work productivity alone each time there is a network security issue. Also cited was Nigel William's comments representing a view by Cisco that "trying to maintain [the security infrastructure] yourself is virtually impossible for the commercial SMB market" given the complexity of security technology and the skills required to provide ongoing management and monitoring. Cisco is a major partner to the many service providers that focus on the SMB market segment.

Managed Storage

The 2006 IPED survey also concluded that storage topped the list as the most frequently offered new managed service today with nearly 53% of managed services companies offering storage management and providing their clients strong return on investment.

Data protection has long been considered a difficult and time consuming task...."a voodoo to most businesses" (from CRN article, *Managed Storage Big and Getting Bigger*). The article goes on to say that a MSP, serving as a trusted advisor, can cost effectively consolidate and back-up data, and ensure availability and regulatory compliance in addition to helping a client develop sound business continuity and disaster recovery plans.

The convergence of storage and security, through enabling platforms such as HP's All-in-One Storage, allows managed services providers to assist clients in the implementation of and provide support for lower cost, more efficient, and centrally manageable shared storage capacity with enhanced data protection and security. AMI forecasted storage and security spending growth at 19% in 2007 within the SMB market, a growth trend that is expected to continue in the future.

Virtualization

Based on a survey by Forrester two thirds of IT organizations will be using virtualization by 2009. IT departments of large enterprises that are already using virtualization have virtualized 24% of servers, and that number is expected to grow to 45% by 2009. (from Network World article, *Server Virtualization in Two-Thirds of Enterprises by '09, Forrester predicts*).

Virtualization represents a major trend in the consolidation of infrastructure through improved server utilization resulting in significant hardware and operational cost reduction. Virtualized servers provide the potential for small businesses to run multiple applications and operating systems independently on a single server. Hardware vendors like HP and Dell have shrunk blade servers to fit large numbers of servers in a rack, half the size of a standard datacenter rack, with far less power consumption and cooling. Application capacity, through virtualization, can be adjusted through the “on demand” re-allocation of “virtual workspace” on a single or across multiple servers to accommodate critical business growth needs.

But virtualization will increase small business complexity if the skills are not available to manage, monitor and troubleshoot the many applications used within the business. While the hardware footprint shrinks, lots of “software clouds” need to be maintained. A managed services partner understands virtualization and its potential to improve operating efficiency and can recommend and support solutions based on these new capabilities. The small business can enter a new realm of cost, capacity, and economies-of-scale benefits through the planned and efficient utilization of virtualization technology and services.

Unified Communications

AMI predicts that Voice over Internet Protocol (VoIP), a service with high availability from multiple sources and vendors, will begin a transition into a unified communications service incorporating voice, unified messaging, security, and mobility with provisions for remote management and desktop/server collaboration. While in the early phases, AMI believes the die was cast by Office 2007 and Microsoft Exchange which embed unified communications as a feature.

Cisco commissioned a study by Forrester Consulting in 2007 to analyze the perceived benefits of Unified Communications in specific markets including retail and other service industries. Their conclusions indicated that major quantifiable savings were available through improved team collaboration, improved support for remote workers, more timely problem resolution, improved emergency response, and training without travel.

However, another survey undertaken for Cisco in 2008 by bMighty.com, reveals that many smaller businesses still don't know much about UC. Even those respondents who have a favorable impression of UC's business value express concerns about the cost of implementing UC solutions (62% versus 66% overall). A slight majority of business people surveyed (54%) believe that small and midsize companies should not adopt unified communications until the products become more seasoned. Some observers suggest that developing a plan and starting small, in concert with a managed services

partner, may help ease the risk for small companies that want to invest in UC sooner rather than later.

Unified Communications is expected to be a ripe area for MSP-small business collaboration to allow access to the services while building a solid cost justification and ROI for its use.

SBT Partners: Sustaining Client Value

SBT Partners was established to provide managed services integration services and IT Annual Plan consulting to small businesses. SBT Partners' brings over 20 years of experience in managed services, information technology infrastructure support, and partnership management. The founder and managing partner, Dan Rahko, brings over 10 years of experience serving small and mid-sized businesses in New England, progressing through performance to a leadership and ownership position in a successful Value Added Reseller (VAR) and innovator in early market delivery of managed services. Dan created and implemented the managed services model leading to an account base of over 100 businesses. That model used in New England has been updated, improved, and redefined to provide managed services through a network of proven partners that have extensive expertise in data center operations, infrastructure support, and onsite IT service delivery and troubleshooting.

Dan's partner at SBT Partners, Douglas Blumenthal, is the founder of the National IT Force, a network of IT technical support providers that have organized to support many companies, large and small, as independent contractors for IT services including technical account management and emergency on-site services.

The SBT Partners' engagement model focuses on the client and not on the build-out of managed services solutions that are costly to develop internally and even more costly to manage without a large base of clients to spread costs across. Tactical managed services are contracted through prominent leaders in outsourced services, such as Zenith InfoTech, that have spread their costs across thousands of clients worldwide. With their economies of scale, SBT Partners can offer affordable solutions that no small VAR would be able to come close replicating. However, Zenith, Cisco, Ingram Micro, and other IT infrastructure product and support leaders, don't sell directly to small businesses. We combine their data center services with our implementation expertise providing single point of management.

The IT Roadmap, the forward-looking planning component of the model, provides a valuable assessment of the client strategies and defines the impacts that will affect performance. It is a strategic planning function that is updated yearly to ensure that changes can be made to the Annual IT Plan to meet the client business strategy. There is no cost for the IT Roadmap or TAM functions. They are included in the base monthly price of the solutions offered. These services, if contracted for independent of the managed services solutions, would be very costly and difficult to find within the small business market.

In summary, SBT Partners' mission is to provide unbiased and unvarnished advice to its clients. It makes no difference to us if we do not invent the individual managed services included in our solutions. We did not invent managed services. What is important is that choices can be offered to our clients in a variety of new IT areas that will, over the long haul, provide exceptional opportunities to improve productivity and business growth. SBT Partners' is in the partnering business with a keen knowledge of how IT components fit together to add client value. We are dedicated to the small business market and willing to go the extra yard to ensure that we have a lasting relationship with the client. Our costs are low, our value is based on our expertise.

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