

## How Break/Fix Can Break Your Managed Services Business

How many organizations will successfully make the transition from VARs to MSPs? Probably only 10% will successfully leap the chasm. Why? The move from VAR to MSP is transformational, not evolutionary. To succeed you must break down your traditional VAR business models and replace them with something that may initially make your install base very uncomfortable. Break/fix is one of those existing business models that can really stop successful transformation from VAR to mature MSP.

Very frequently in my talks with emerging MSPs, I hear about problems in one key area: getting traction selling monthly recurring managed services offerings into the existing install base. When we drill down into the problem, a consistent case study emerges: the new MSP has experienced some long-term success selling break/fix services as an established VAR. But that prior success is killing them as a new MSP. It's truly ironic that the stellar service that the VAR delivered to establish strong customer loyalty, actually works against the business looking to become a service provider. Why is this?

When customers call into a successful VAR with an IT emergency, most good VARs will react rapidly, putting experts to the task of troubleshooting—whether at 2:00 in the afternoon or 2:00 in the morning—often at the same discounted hourly rate. They will consistently go the extra mile in order to ensure repeat business on the next hardware or services sale. Unfortunately, clients get “trained” to expect their VAR will provide an expert technical resource, day or night, whenever needed—on demand. While this is certainly a great deal for the client, the model is risky and unsustainable for the VAR because they absorb 100% of the cost/staffing risk. The VAR needs to make payroll for the engineering talent, whether they are on the bench or out fixing broken systems. If nobody calls—goodbye profit.

Shouldn't a good customer expect to pay a monthly fee for access to all that talent? Shouldn't a good customer want a more sustainable business model for it's trusted advisor—so the MSP will be around for years to come? Sounds easy—but these conversations can be difficult. Fact is, the customers like what they have: only spending when they absolutely have to—and accessing expensive talent with no risk whatsoever. That background makes for very tough selling of managed services because well-constructed managed services contracts successfully broker risk between the client and MSP. How can you get clients off the idea that you should bear 100% of the risk in the IT services relationship? How do you convince clients that they should sign on for monthly contracts that create higher value for both parties?

## Align Business Principles and Press for Greater Value

First off, this is a time to be honest with your existing clients. Sit with them and rationalize the economics of keeping high-priced, valuable engineering talent around. As a business, you have to tie revenue to expense, cash out to cash in. Customers need to hear that having an expert sitting around waiting for calls like the Maytag repairman isn't a practical business model moving forward. Ask them, "Would you want your company to run on this business model?"

Second, the MSP has to sell the value of the move to monthly managed services—what's in it for them (beyond you being able to stay in business). It's important to stress that system failures are expensive for the customer and the service provider. The break/fix VAR only gets paid if there are issues—which doesn't exactly provide a great incentive for more uptime! 24x7, proactive monitoring generates real business value by preventing the outages that have a business impact. By moving from break/fix to monthly, proactive contracts, service providers can be a more proactive strategic partner, while earning the guaranteed annuity payments that bankroll the CCIEs and MCSEs on staff.

## Establish Tiered Offerings

One way to move customers off the break/fix merry go round is to establish different service tiers with differentiated response guarantees based on the customer's "skin in the game". If there is no difference in response guarantees between break/fix and true managed services, why would any customer step up to the monthly cost?

For the existing break/fix client, the support they've been getting could still be offered, but that may be structured as a "Bronze" offering. The Bronze offering would not guarantee fast turnaround times and midnight heroics (while they still may happen, they are not guaranteed). See the subtle transference of risk to the customer side? Bronze may only include 8x5 support, with nights and weekends billed at two times the normal rate. This is fair—because night and weekend services are the most expensive for MSPs to bear.

Service levels should be crystal clear to customers in terms of the hierarchy of remediation efforts when conflicting requests come in: if Company A signs up for bronze support and customer B signs on for Silver, Company B will be getting the priority service from the MSP's engineering team. In effect, you say to the customer, "Joe's workload is prioritized based on service levels. Our service desk systems will reflect those priorities when tickets are created."

A "Silver" level offering may be coupling proactive monitoring with preferred break/fix response guarantees. A "Gold" level may be proactive monitoring and guaranteed system availability, with no additional hourly charges to cure system faults. Gold level transfers almost all the risk back to the MSP, but is priced accordingly at a much higher cost per month.

Conducting serious economic-based discussions with your install base will cement your status as a transparent, trusted advisor. Differentiating service levels into Bronze, Silver, and Gold affords clients real choice on how much downtime they want to risk vs. contracting for higher value proactive monthly services. The result: balanced risk, economic stability, and a long-term, high-value managed services partnership.

## About the Author

Phil LaForge is Nimsoft's Vice President, Managed Services. Phil comes to Nimsoft after a long tenure with CDW Berbee, where he grew the business in excess of 300% in 3 years with high double digit margins. In his new role, LaForge will interact with all areas of Nimsoft—including development, marketing, sales, business development, support, and finance—to both set the company's strategy in the managed service provider (MSP) market and to help ensure it is executed effectively. Be sure to check out Phil's MSP Blog at [www.nimsoft.com/mspblog/](http://www.nimsoft.com/mspblog/).



## About Nimsoft

Nimsoft provides Unified Monitoring™ solutions for virtualized data centers, hosted and managed services, cloud platforms, and SaaS resources. The Nimsoft Unified Monitoring architecture eliminates the need to deploy a new monitoring solution for outsourced services, public or private clouds, or SaaS implementations. About 800 customers use Nimsoft Unified Monitoring solutions, including emerging enterprises such as Casual Male, European Medicines Agency (EMA), Ladbrokes, Sur La Table, TriNet, Virgin America and hundreds of leading hosting, cloud and managed service providers such as 1&1, BlueLock, CDW, Hitachi, and Rackspace. For more information, visit [www.nimsoft.com](http://www.nimsoft.com) or to see Nimsoft Unified Monitoring in action, visit the Nimsoft public portal at [www.unifiedmonitoring.com](http://www.unifiedmonitoring.com). Nimsoft is a business unit within the CA Cloud Products & Solutions Business Line.

Nimsoft, the Nimsoft logo, Nimsoft Unified Monitoring, and Unified Monitoring are trademarks or registered trademarks of Nimsoft, Inc. All other company and product names herein are recognized to be the property of their respective companies. © 2010 Nimsoft Inc. all rights reserved.

[www.nimsoft.com](http://www.nimsoft.com)

