

The Bottom Line On Managed IT Services:

Why Many SMBs Are Making The Switch



In an August 2012 article for ZDNet.com's *Enterprise Web 2.0* technologist Dion Hinchliffe writes:

"Businesses must adapt to an increasingly fast pace of technology change, which in turn is pushing the business world to change more quickly as well. Specifically, this ranges from an onslaught of competitive new products and services to how customers are marketed to, sold, and supported. Business users are tapping into the best technology resources they have to drive local improvements . . ."¹

Problem: Change. Complexity. Integration. Innovation.

Not only is business technology evolving at an ever-increasing pace, so is its complexity. Additionally, there is a fast-growing need for technology integration across the business enterprise. (See: Unified communications.) But in order to compete, the challenges of change, complexity and integration must be met. At a minimum this means maintaining a reliable and secure IT infrastructure that fosters organizational productivity. However, as any seasoned executive knows, minimum effort makes for mediocre results and a fast path to failure.

On the other hand, one can usually identify a commonality among the most successful organizations in any industry. These organizations use IT as a strategic tool for out-innovating the competition in ways that enable them to profitably deliver superior service, services, products and/or pricing to the marketplace. (It's well known that a key factor in Walmart's rise to the top of the retailing industry was its astute use of supply chain technology.)

Unlike a Walmart, today's small and medium size businesses (SMBs) expend most of their time and energy tending to important day-to-day IT needs. While this makes sense – after all in 2012 if the computers aren't running, if the website isn't up, if the network is down, you're effectively out of business – it has a downside:

- The overriding focus on the day-to-day leaves little time for strategic customer-facing IT innovations, thus blunting competitiveness and stunting future growth.
- An inordinate amount of management's time and energy is focused on the mundane but important IT issues related to day-to-day operations. Time and energy that would be more profitably spent focusing on the organization's core competencies.
- In addition, there can be substantial inefficiencies and added costs associated with recruiting, training and retaining IT staff – and, in day-to-day IT operations itself.

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Solution: People. Proficiency. Expertise. Experience.

The solution to the problems presented above is both simple and daunting. Simple in that the solution is obvious. Hire, retain and continually train a sufficient and varied technical staff with the requisite proficiency, expertise, experience and certifications. While simple in theory, in practicality this solution is too expensive and time-consuming to be a viable option for most SMBs. As a result, many will also utilize the services of an IT consulting firm on an as-needed basis.

In the last ten years though, a new model for IT management has emerged and SMBs in growing numbers have been making the switch. This new model is “managed IT services.” In the managed IT services model, a managed services provider assumes responsibility for some or all day-to-day IT operations, typically for a fixed monthly fee.

In the balance of this white paper we will –

- Discuss in more detail the drawbacks to traditional IT management
- Point out ways the managed IT services model addresses these drawbacks
- Call your attention to key criteria to consider when considering a managed services provider.

Drawbacks of the traditional IT management model

Even with the trend toward managed IT services most SMBs still employ a traditional IT management model. Typically, this has meant maintaining minimum IT staff and seeking outside help on an as-needed basis – often referred to as the “break/fix” model. As alluded to earlier, the rapid pace of technology change, its increasing complexity and the increasing need for integration means that this model does not often produce the most efficient and cost-effective results.

For example –

- **Payroll costs** – Depending on the size and nature of your business you may require several full-time IT employees. But for the sake of illustration, we’ll limit our example to a staff of one. For instance, a full-time Cisco Certified Network Associate (CCNA) will go on the payroll at a salary ranging from roughly \$50K up to \$90K+ depending on experience. Add in benefits and ongoing training costs and you’re looking at a yearly tab of easily \$60K - \$100K+ for one topline IT employee. And good luck keeping him or her around; the U.S. Department of Labor estimates that by the age of 38 today’s college graduate will have 10 – 14 jobs.

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Of course, with employee turnover comes recruiting and other costs associated with a new hire. These costs can, by many estimates, run five figures. In addition, in any given year there will be high-end issues that crop up beyond the skill level of your staff. In other words, something will be broken beyond your in-house capability to repair it and you'll incur the added costs of bringing in outside help to fix the problem.

- **Downtime costs** – The Computer Trade Industry Association (CompTIA), summarizing the findings of its study of 500 SMB end-users (*Making the Case for Managed Services: The Business Impact of IT Problems at SMBs*) concludes that network downtime, spyware infections and other common IT problems cost SMBs nearly \$13,000 a year. This number, which includes the cost of lost productivity, is based on a business with 50 employees working at an average hourly cost of \$27.50 and assumes desktop repair costs of \$75 per-hour and network repair costs of \$100 per-hour.²

A CA Technologies study, based on 200 online interviews of IT professionals by research firm Coleman Parkes, concluded that companies, on average, suffer about 10 hours of IT downtime a year. According to the study, "even after the service to critical systems is restored, another 7.5 hours of operation is compromised as lost data is recovered." Respondents to this study included an even mix of small, midmarket and enterprise companies.³

- **Draws focus from core business** – As previously noted, its vital importance to day-to-day business operations necessitates that IT maintenance and management be a top priority. For many SMBs though, the undue attention paid to routine IT activities comes at a cost. Namely, it diverts the focus of key personnel and resources from core business activities that drive long-term growth and profitability. But by relieving itself of these everyday administrative tasks the SMB can free up valuable management time. Time that can be used to focus on innovation that leads to new products, new services and stronger, more profitable customer relationships.

Managed IT Services: An effective IT management model for most SMBs

Since 2002 increasing numbers of SMBs have been abandoning the traditional "break/fix" IT management model for the more dynamic and proactive, managed IT services model. We think the reasoning for this migration can be succinctly summed up in this quote from Jack Welch, the legendary former CEO of General Electric: "*Your back office is someone else's front office.*"

Simply stated, in 2012, IT and your IT department constitute your "back office." And while a smoothly run, high-functioning back office is vital to successful day-to-day business operations – odds are, it's not your "front office" business. In

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other words, it is a function of your business, not the reason you are in business. In the managed IT services/managed services provider model your back office is that organization's front office. Maintaining, managing, troubleshooting and optimizing your day-to-day IT operations is the reason that organization is in business.

The Ziff Davis Enterprise *Insider Report on Managed Services and SMBs* offers these details:

“When an SMB partners with a managed service provider [MSP], it trades unpredictable, reactive, and often costly IT services for a single, predictable subscription cost. It trades frantic in-house troubleshooting for proactive, high-quality, expert support and best-of- breed management tools as well. Even more important, the MSP monitors network performance continually and can help prevent problems and service interruptions. And if issues arise, the MSP has the dedicated expertise to address them quickly. This leads to increased availability and uptime for the customer's applications and infrastructure, and thus more efficient and reliable operations.”⁴

To the above we add this additional consideration. In the typical “break/fix” IT management model, technology “breaks” and a services provider is called in to “fix” it, with the provider invoicing its client on a time and materials basis. When it breaks again, there's another call and another charge. The more “breaks,” the more fixes, the more money the service provider makes.

In the MSP model – with the services provider receiving a fixed, pre-determined monthly fee – the roles are reversed and some of the potential loss is shifted from the client to the MSP. Case in point: The more breaks the provider has to fix, the less money the provider makes. In this way, the MSP and its client share a common goal. Keeping the IT systems up and running with as few breaks as possible. In the best situations, it's an arrangement in which both entities can maximize their productivity and profitability.

Single-function or comprehensive services

A good managed services provider can effectively maintain, manage, oversee and optimize all technology related day-to-day business operations, including –

- network operations and security
- data backup
- multiple levels of helpdesk support
- unified communications
- vendor management and more.

If the hardware or software is used in everyday operations, a good MSP can maintain, manage and optimize it for you. On the other hand, if your needs are more limited, or if you prefer to start small, most MSPs will be happy to assume responsibility for a single function of your IT operations.

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In addition, the very best MSPs have the technical and business skills and the people, expertise and experience to serve your organization in much the same way a technical director or CIO would. In this capacity, a team of business and technical personnel will consult with and advise you on how to best use IT to execute business strategy and achieve your long-term goals. Indeed, the best MSPs – those with a significant customer base across a variety of industries – enjoy regular exposure to new IT and new IT strategies and ideas. As a result, they are well suited for the role of technical director or CIO.

Control IT costs. Improve productivity. Sharpen competitive focus.

We could go on for pages on this subject but when it's all said and done there are three main reasons smart executives are making the switch to managed IT services:

1. **Control IT Costs** – A 2011 study by CompTIA, the nonprofit association for the IT industry, revealed that 46% of managed IT services users cut their annual IT costs by at least 25%. Thirteen percent in this group netted savings of 50% or more. Another 50% of the managed services users in the study cut annual costs 1% – 24%.⁵

For another perspective we turn to top five accounting firm, McGladrey. Its Technology Bulletin newsletter lists the top three reasons small and medium-sized businesses are turning to managed IT services. Cost control heads the list. McGladrey states that “Organizations choosing this [managed services] strategy gain a highly talented IT department without the need to pay benefits, vacation and training, or worry about subsequent turnover. The hidden cost savings is on talent availability.”⁶ In the same section McGladrey cites two more areas in which managed service providers aid in cost control and cost savings: (1) Proper budgeting and (2) Access to more advanced technology.

2. **Improve productivity** – As noted earlier, one of the biggest impacts on workforce productivity is network downtime. The use of managed IT services, with its more holistic and proactive approach to IT maintenance and management, has been proven to substantially reduce network downtime. For example, in the CompTIA study cited earlier the average “network-down” incident was almost 50 percent shorter when the network and servers were covered by a remotely monitored managed services program. Simply put, less network and IT downtime equals higher workforce productivity.
3. **Sharpen competitive focus** – We’ve addressed this factor in some detail already. In addition, we will add this quote from the CompTIA announcement highlighting key findings from its 2011 study, Trends In Managed Services. “While costs savings are the top factor in deciding to turn to managed services, more than half of respondents in the CompTIA survey said a major reason they are contracting with an MSP is to free up their internal IT staffs to work on projects that fall into the business’ core competencies – in other words, revenue-generating activities.”⁷

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Five key criteria to consider when considering a managed IT services provider

Google managed IT services provider, as we just did, and you'll get more than 49 million results. Yet another strong indication of the viability and value of this IT management model – for both the users and providers of managed IT services. As a vibrant and growing industry, managed services has attracted a wide swath of people and organizations, the majority of which are highly competent. As is always the case though in any industry, varying degrees of incompetence exist. And any number of MSPs are ill suited for the important job of managed IT services provider. With these thoughts in mind, we offer you five key criteria to consider when considering a managed IT services provider.

1. **Length of time in business** – The managed services industry is growing at a rapid pace and a slew of MSPs open for business every day. Any number of these are newly formed divisions of existing, well-run technology and technology consulting organizations with top-notch people, valuable expertise and a ton of IT experience. In other cases, teams of IT sales and technical personnel pool their capital and skills, set up shop and set forth to make a go of it. We'd consider the former but would be leery of the latter.

According to the U.S. Small Business Administration, roughly 50% of small businesses fail within the first 5 years. Rule of thumb says it takes 6 - 10 years to become proficient at an activity – and as many 10,000 hours to master an activity. And managed IT is not an easy activity to master. It takes a lot of time and (smart) people, well-honed processes, continuous training and a substantial capital investment. Ideally you want an MSP that's been in business and providing managed IT services for at least 6 years and who has a good-sized roster (think 75 to 100 satisfied clients) of customers.

2. **Type and number of technical certifications** – Certifications are a good measure of a company's technical proficiency and know-how. You obviously want to look for certifications from the major technology manufacturers such as HP, Cisco, EMC, VMware and Microsoft. If there's a certification you need for your operations that the provider does not have, ask if the company would be willing to start the certification process once you sign a contract. Most MSPs will view this as a reasonable request.
3. **Helpdesk capabilities, response times, location** – For a majority of your frontline workers this will be where the rubber hits the road and you want them to enjoy a smooth ride. Best in class managed service providers understand this and staff their helpdesks with company employees that are chosen through a rigorous hiring process and perform their duties at the provider's local offices. The best MSPs invest heavily in training and see to it that all helpdesk staffers maintain up-to-date technical certifications.

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You also want to know that the MSP's helpdesk hold time will be minimal and that the average helpdesk employee will be able to resolve the majority of all issues. In addition to helpdesk support, client onsite support should also be available within a specified amount of time.

4. **Detailed, effective system for processing and resolving support requests** – From support request to resolution of same, you want to see a logical, systematic, easily traceable chain of events. Typically it will look something like this: a support request is made, a ticket is created in the ticketing system, an acknowledgement is sent to the client, an engineer is assigned, the ticket is worked, the ticket is closed, a notification is sent informing the client of status, and there is follow-up to ensure quality control.
5. **Onsite, company-staffed, helpdesk** – Offshoring is a well-accepted model for many IT functions. But it's NOT a best practice for managed services providers. The best managed services providers staff their own helpdesks and operate and manage those helpdesks within the four walls of their offices. This way they can do thorough background checks, and their hiring managers can look people in the eye during the interviewing and hiring process and get a better feel for the person's character. This way they know first-hand their people are receiving the regular training they need to keep their skillsets sharp and their certifications up-to-date.

Managed IT Services from NetGain Technologies: Helping businesses meet the challenges of change, complexity and integration –

In his excellent book, *The Tallest Pygmy*, Mark Giannini asks two important questions that every business should be able to answer:

1. "Is your IT department proactive or reactive?"
2. "Are you leveraging your IT resources in the most effective manner?"

Of course, we have no way of knowing what your answers to these questions are. We do know, however, that through our Technology OneSource managed IT services program we make it possible for more than 150 businesses to answer Mr. Giannini's questions in the affirmative. If this appeals to you or if you've ever thought that managed IT services is an IT management model worth considering, we believe NetGain Technologies is worthy of your consideration. And, as we wrap up this piece, we'll leave you with a few NetGain facts to consider and invite you to engage with us to fully explore how our company can help yours:

- 28 years in business, five offices in four states.
- More than 200 regularly-updated technical certifications and literally centuries of accumulated experience.
- When clients call the NetGain Technologies helpdesk 85% of the time the call is answered by the third ring; average hold time is less than two minutes.

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- On average, in any given month 90% - 95% of support calls are resolved at the helpdesk level with the balance handled by the engineering team.
- Ranked by MSPmentor Magazine as one of the top 100 companies in the world for managed IT services.
- Ranked 38th in the nation for technical certification expertise on the 2012 [CRN Tech Elite 250](#) list.
- NetGain Technologies boasts a 95% customer satisfaction rate.

Let us show you how NetGain Technologies' Technology OneSource managed IT services program can help you control IT costs and achieve a net gain in productivity and competitiveness.

Contact us today at 1.866.367.7243 or Sales@NetGainIT.com.

Sources

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