



# The Dawn of the Cloud MSP Model, And You: An Exclusive Report.

The datacentre industry is undergoing a transformation. Enterprises are becoming smarter about their strategies for datacentres and data-usage as they react to cost pressures, advances in technology, the complexity of IT and above all - the expansion of the cloud.

Cloud is now the chief catalyst of change as its adoption becomes stratospheric. Increasing ICT requirements, the vastly expanding use of big data analytics and the need for companies to focus more on the core business has increased the demand for cloud managed services in every sector.

This white paper will examine some of the forces shaping this new landscape and point to the opportunities that are leading many value-added resellers (VARs) to depart from the old ways of doing business and shift to a managed services model.

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## A changing landscape for the VAR

The impact of cloud computing on the datacentre industry and its many ecosystems of suppliers is both deep and wide. In February this year (2017) the respected analysts IDC predicted that worldwide public cloud services revenues will reach \$203bn in 2020.

Even if Gartner believes that figure was already reached at the end of 2016 (as it predicted in 2015), there is no doubting that cloud adoption is the single biggest force in global IT.

In 2017 alone IDC expects revenues in this field to grow by almost a quarter year-on-year, reaching \$122.5bn.

It believes Software-as-a-service (SaaS) will be dominant, capturing nearly two-thirds of all public cloud spending this year and expects it to continue to account for 60 per cent in 2020.

There will also be some significant changes in demand in the same period, with infrastructure and platform-as-a-service (IaaS and PaaS) growing at a much faster rate than SaaS. IDC predicts that IaaS and PaaS will reach 40 per cent of overall public cloud spending in 2020, having been a third in 2015. For its part, Gartner was predicting that IaaS revenues would grow at 38 per cent in the course of 2016 alone.

## The Opportunity

As cloud increases and the appetite for enterprise ownership of datacentres wanes, the vast amount of work they perform will move ever further into colocation, hosting and cloud companies.

Technology suppliers therefore need to adjust their strategies and products accordingly. In its analysis of the trend, 451 Research says this will entail more IT and datacentres in proportionately fewer hands. But it will also stimulate greater need for management tools and services, a stronger overall commitment to high standards and more chances to deploy innovative solutions and technology.

The size of the opportunity for managed service providers (MSPs) supporting enterprises once they have migrated to the cloud is huge. Analysts at MarketsandMarkets for example, believe the cloud managed services market will double what it was in 2016 by 2021, with dispersed datacentre-users preferring to bring their data closer together for greater reliability and speed.

It calculates the market will grow at a compound annual growth rate (CAGR) of more than 16 per cent, from \$35.54 billion in 2016 to \$76.73 billion in 2021.



What has happened in the world of infrastructure services is the arrival of massive-scale platforms built by IBM, Amazon, Microsoft and Google – running cloud infrastructure and SaaS. They now possess operating scale and efficiency that is difficult to match, along with incomparable geographic scope, building a critical mass of customers and ecosystem partners.

The development of cloud services is also about unprecedented levels of innovation. Scale generates new resources and gives space for the trials and use-cases that provide enterprises with the unique insights they seek from their rapidly expanding pools of data. This generates a pace of innovation – at the infrastructure level – that smaller providers cannot easily replicate.

This rise of massive-scale is creating a permanent shift within the competitive landscape. Already, we are seeing multi-tenant cloud infrastructure services operated by smaller providers struggle to gain traction as more workloads head for the massive-scale platforms. The speed of this migration is accelerating and it is already becoming apparent that hoster-operated multi-tenant clouds may end up an endangered species.

These developments in cloud computing are already reducing speculative build-out among enterprises. They now know that if loads reach anywhere near peak, cloud services will give them the time to respond using its unmatched scalability.

## What else is driving enterprises into the cloud?

Data sovereignty laws are also having an impact on approaches to conventional datacentre ownership and management. The looming European General Data Protection Regulation (set to come into force in 2018) will place new burdens on enterprises storing data, requiring them to demonstrate they have appropriate security to protect personal data while complying with all governance and technology requirements, including the right to be forgotten and provision of portability.

The collapse of the Safe Harbour agreement, which is related to this, affected 4,000 companies – including many household names – forcing a rethink about where data must be kept. The agreement allowed licensed companies to carry data back to the US, and its abrogation threw transatlantic data transfer into disarray, forcing major enterprises such as Airbnb, Apple, Google and eBay to make new arrangements.

Lesser, but related effects will be felt as new data protection laws are enacted in countries as diverse as France, Brazil and Russia. In fact, more datacentre activity is taking place outside the US and Canada than ever before.

These legal changes and the enforcement of compliance regulations are compelling organisations to retain data for longer periods and preventing storage professionals from simply deleting old data to make way for new content. The consequence is that enterprises will need to focus sharply on how they handle, backup and protect their data. They will need to avail themselves of storage-reduction technologies such as deduplication and compression to boost the efficiency of their primary and secondary storage systems (such as backup and archives) to keep data growth manageable.

## The growing trend towards managed services

As cloud usage expands so rapidly, the reseller market will respond by undergoing significant change. It will be driven by its ability to meet requirements arising from the increasing complexity of technology, the network-dependency of applications and infrastructures and the ever-more mobile nature of work practices.

451 Research believes cloud managed services will be a \$43 billion market by the beginning of 2018, growing 60 per cent faster than infrastructure-only services.

For VARs, cloud managed services offer a genuine opportunity to add new, higher-margin business lines that provide more stable, steady streams of recurring revenue.

Of course, managed services are not new. For a couple of decades, large enterprises have been employing service providers to manage their IT assets, whether that is as an outsourcer, a remote monitoring and management (RMM) provider or a managed IT provider. Forrester Research plots the start of the trend away from hardware-based sales towards services in the reseller market back to 2008, when the last economic downturn placed severe budget cuts on IT organisations.

In 2012, Andy Monshaw, the then general manager for IBM midmarket business, highlighted how VARs were being stimulated into managed services provision as their customers continued to run flat IT budgets. He wrote: “The key to becoming successful in the MSP business requires creating the right value-added services clients need and, having the operational capabilities to deliver them cost-effectively.” One of the keys to success for putative MSPs was to build repeatable and effective processes, he advised.

However, massive cloud adoption has indeed changed today’s IT landscape demanding a new method of management and a new focus on scale, automation and flexibility. Cloud represents a paradigm shift in the way chief information officers contemplate IT, prompting them to demand new approaches to data governance and security. At the same time they want flexibility, making providers think more carefully about location, while also pursuing shorter, more flexible lease structures.

## How cloud services are taking off

In a sure sign that resellers are evolving into MSPs, Forrester predicts that by 2020, the mix of business for the big vendors' channel partners is likely to be 40 per cent products and 60 per cent services sales (compared with 65 per cent products, 35 per cent services in 2015).

Change is coming fast in the cloud services market. Synergy Research said 2016 will go down as the year in which spending on cloud services exceeded expenditure on cloud infrastructure hardware and software.

It also calculates that operator and vendor revenues across six key cloud services and infrastructure market segments for the 12 months to September 2016 hit \$148bn, an increase of 25 per cent year-on-year. (Enterprise SaaS grew 34 per cent, while private cloud infrastructure - whose key protagonists include IBM and Rackspace - experienced a 35 per cent boost.)

Research by cloud-provider Pulsant in 2016 also revealed that almost all resellers they surveyed (104) across different industries had experienced growth, with 47 per cent saying it came from incorporating SaaS or cloud into their product offering.

Some 90 per cent were reorienting to become cloud or SaaS providers, with 33 per cent saying that service delivery was the biggest obstacle when transitioning to the cloud. In addition, 20 per cent of resellers said the biggest obstacle was adjusting to a new business model.

A significant finding in this survey was that 62 per cent said they were working with partners with complementary solutions in order to remain competitive, demonstrating how many resellers see technological innovation as the way to become more responsive to market demand.

## Why move to managed services?

For the reseller, the advantages of moving into managed services should be obvious at a time when hardware-related business is in steady decline. The MSP model ensures a constant revenue stream as opposed to a project-based series of one-off, individually negotiated deals.

After moving to a consumption-based model, service-providers are providing monthly billing to customers for managed services packages, adding to them over time as the customers' cloud needs grow, along with their business relationships.

Evolving into a managed services provider also opens many new opportunities to diversify the portfolio and add new offerings like cloud dev/test, cloud backup and data recovery, cloud-native app design and much more.

As cloud adoption increases so hugely, MSPs are facing profitable vistas of opportunity. In everything from consulting, to migrations, to operations management, customers increasingly rely on cloud MSPs to demonstrate and then deliver all the benefits that come with cloud adoption – and they require services on a continuing basis.

Forrester recommends that partners of the big vendors wanting to capitalise on these opportunities should consider becoming product shops where services are engineered in the form of tools and methodologies, blueprints, and frameworks that can be used on a repeatable basis to provide continuing revenue.

The point is that as the market changes and increasing numbers of enterprises look to reap the rewards of cloud-adoption, VARs should embrace a relationship with their clients that centres on service.

Resellers can point to the wealth of evidence showing that working with an MSP means installation and maintenance headaches are no longer the enterprise's immediate problem. Precious resources do not have to be redirected towards laborious IT support tasks or ad hoc break/fix reseller charges.

## Better business relationships

Greater demand for MSPs inevitably means more resellers are entering this fast-developing market. The reasons are compelling, as it opens up predictable, recurring revenue, deeper engagement with clients, as well as the nurturing of a trusted adviser relationship that, in turn, generates more business opportunities.

Software-as-a-Service (SaaS) is perhaps the most obvious example of the way in which intermittent, non-recurring sales transactions are replaced with continuous, subscription-based application services. Once established, an MSP can standardise these solutions across all clients to simplify purchasing, deployment and support, with obvious benefits to the bottom line.

All MSPs will recognise that increased mobility along with device and data proliferation, mean customers can, and usually want, to do so much more with their IT assets, using cloud to supply the necessary computing resources. The ability of the cloud to add capacity to a system as soon as it is required has redefined how applications are designed and delivered.

There is every opportunity here for MSPs to fully support their customers, providing a pay-as-you-go, fail-fast, agile method of app development. In fact, DevOps has completely changed the way applications are developed and maintained.



## Regular revenue - moving from CapEx to OpEx

Over time resellers will shift from CapEx to OpEx, taking advantage of technologies and capabilities that enable value to be built on top of raw infrastructure. Reselling cloud services has not always been a high-margin business and the need to build value will drive providers to develop higher-margin, more sophisticated solutions.

The infrastructure services sector has always been a capital-intensive business with heavy CapEx requirements generated by hardware. Operators have to buy the racks, networking gear and servers all of which steadily depreciate. Planning future capacity can also be a tricky proposition and strong growth can put strain on existing resources.

Hardly surprising that resellers around the globe increasingly see the advantages of moving into managed services and working in a world where the underlying infrastructure no longer has the significance it once did.

## Becoming flexible and agile

In a report compiled for IBM, IDC stressed how enterprises often see managed services as giving them the power to adapt more quickly to changes in their markets. These enterprises want rapid access to new capabilities through the cloud, whether that is PaaS, IaaS or SaaS.

Lacking their own resources to support the high level of service required of cloud environments such as 99.999% uptime, businesses like these often want managed services as a “single, hybrid engagement” that involves traditional and cloud-based services. The 2015 IDC survey revealed that 45 per cent of US enterprises, for instance, wanted managed cloud services bundled with traditional outsourcing.

After analysing its research, IDC cautioned that managed service providers must provide good ROI to drive down their customers' costs. But they must also have the ability to keep pace with changing service-delivery and technology requirements. Crucially for managed service providers, IDC stressed how enterprises want to stay in control of their cloud deployments, making access to management tools and platforms offering visibility and control a vital requirement.

Enterprises after all, want all of their problems solved. A survey conducted by 451 Research revealed that North American and European enterprises moving workloads into the cloud made disaster recovery (DR) and information protection their top requirements.

Emphasising just how significant this area of service is and why large organisations are moving into the cloud, this piece of research found that meeting disaster-recovery requirements was a major pain-point for 29 per cent of respondents. However, dealing with data capacity and growth was by far the biggest problem, selected by more than 55 per cent.

Hardly surprising then, that 451 Research predicts that the cloud-based backup and recovery market is expected to surge at a 22 per cent CAGR up to and including 2019, with revenues exceeding \$1bn in 2017.

# The expansion of disaster recovery

With security and compliance now essential, MSPs must demonstrate they can take care of security through a full array of capabilities that takes in disaster recovery (DR).

This is an area where the cloud has completely changed the datacentre landscape. Today, there are less and less reasons to build secondary datacentres and as organisations increasingly embrace hybrid cloud, service providers have an opportunity to help identify and address companies' individual needs with hybrid DR options.

The traditional approach to disaster recovery is that organisations maintain (and scale) a secondary datacentre to house critical applications, which can be costly and may require considerable upkeep. However, new technologies on the market today offer more efficient and cost-effective options.

Disaster recovery (as a whole) and Disaster Recovery-as-a-service (DRaaS) continue to gain momentum with small and midsize businesses, thanks to more affordable prices and enhanced functionality. In fact, Gartner estimates the DRaaS market will nearly triple from 2016, to a revenue point of \$3.4 billion by 2019. DRaaS interest has grown significantly among large enterprises during the past year, with Gartner witnessing a 77 per cent increase in inquiries from these organisations throughout 2015.

There is no doubt that this is an expanding market. In a recent ESG Research study, roughly half of all organisations either currently use cloud services (DRaaS, Backup-as-a-Service, Storage-as-a-Service for Data Protection) as part of their data protection solution or intend to - with another 20 per cent being interested in each of the three approaches.

## The outlook

Observers are predicting a certain amount of turbulence in the global datacentres and cloud services market, given continuing uncertainties in the world, such as the US stance on trade and international relations, Brexit and the fate of the Eurozone.

Margaret Adam, IDC's European director for channels and alliances told an industry gathering in December 2016 that the industry is also going through an identity crisis. She said: "It's getting harder to classify partners now. Digital agencies, niche firms and strategy-consulting companies are competing head on with the IT outsourcers and SIs. We've seen very, very innovative start-ups come to market."

In this changing landscape, she said it is difficult for customers to know what partners are - whether they are VARs or MSPs. Yet tellingly, she predicted that by 2020, 30 per cent of the IT vendors will not exist in the form by which they are known today and that also, 2020 will be a "landmark" year, when the amount spent on off-premises offerings overtakes the amount spent on on-premises kit.

She said the realisation had dawned that specialisation through partnering was one of the ways forward. Although it had happened in a sub-distribution manner, now it was more strategic, with partners creating their own alliance programme to partner with other partners.

Others believe the showdown in the enterprise cloud market could be intense. While Amazon Web Services (AWS) have largely been adopted by start-up companies and small businesses, Microsoft (Azure and Office 365) and IBM Cloud are better known for their Fortune 500 focus.

As a result, there is likely to be a battle to change perceptions, particularly with Global 2000 CIOs who are seeking "digital business transformation" strategies. Amazon introduced its owned AWS Managed Services in December 2016. IBM, too is leaving plenty of room for partners and managed services.

## Putting business on a sure foundation

While the bigger opportunities in the longer-term may involve more sophisticated deployments (such as application performance-management (APM) services), the bread-and-butter managed cloud services market will continue to grow.

It can hardly fail to be the case when so many customers are seeking technically-accomplished, but business-savvy cloud partners for their data storage, protection, continuity, mobile and security needs. These are requirements that MSPs, provided they are equipped with solutions adapted to this new landscape, can fulfil.

For enterprise customers shifting to a managed service provider there are so many benefits compared with handling IT requirements in-house, either in their own datacentres or in a hybrid architecture.

Not only is there the peace of mind from not having to manage IT services, there is greater reliability, resilience and uptime, along with more end-user productivity and not to be underestimated – more straightforward billing.

As enterprise cloud adoption rapidly unfolds, MSPs have major opportunities to truly engage with customers and to supply all their requirements end-to-end. Whether around cloud migrations or app development in the cloud, MSPs have a remarkable opportunity to become trusted advisers and more resilient, profitable businesses.



# About Predatar

Predatar enables traditional value-added resellers to build and grow profitable, sustainable managed services businesses.

The Predatar platform provides new revenue streams through the delivery of remote management, on-premise BaaS, Cloud Backup and DRaaS offerings; converting transactional buyers into loyal, engaged customers.