AFGP | A FEW GOOD PEOPLE

How to take more of the IT pie
with managed services

How to take more of the IT pie

## Contents

Keeping a steady revenue stream is a challenge

In today's market, everyone is looking for ways to increase the longevity of relationships with customers and clients to take the pressure off winning new ones.

Each year you set a target for growth, but as part of that you need to make an assumption you will churn, say, 15% of your revenue. How you achieve that growth target depends on your ability to replace lost clients with new ones (in time to make their contribution to the numbers matter this year) or grow the existing client base. How you can do this depends on your ability to enhance your existing services, but also what services you could add to take the pressure off the new business engine.

If you are in the technology agency / systems integration space, focused on the deployment of specific pieces of technology, it's likely that you'll see some or all of the following challenges:

- Revenue ends with the completion of a project
- Clients, even when they are delighted with your delivery, can't justify paying for a project team once the project is complete
- Your new business costs are high as you're always needing new clients to serve to keep revenue flowing
- The effort required to implement new systems is decreasing as the 'out of the box' functionality gets better
- Revenue can be quite spikey with great times and terrible times that are very difficult to control
- Utilisation of your key people is also spikey, sometimes leading to hiring panics or, sadly, layoffs
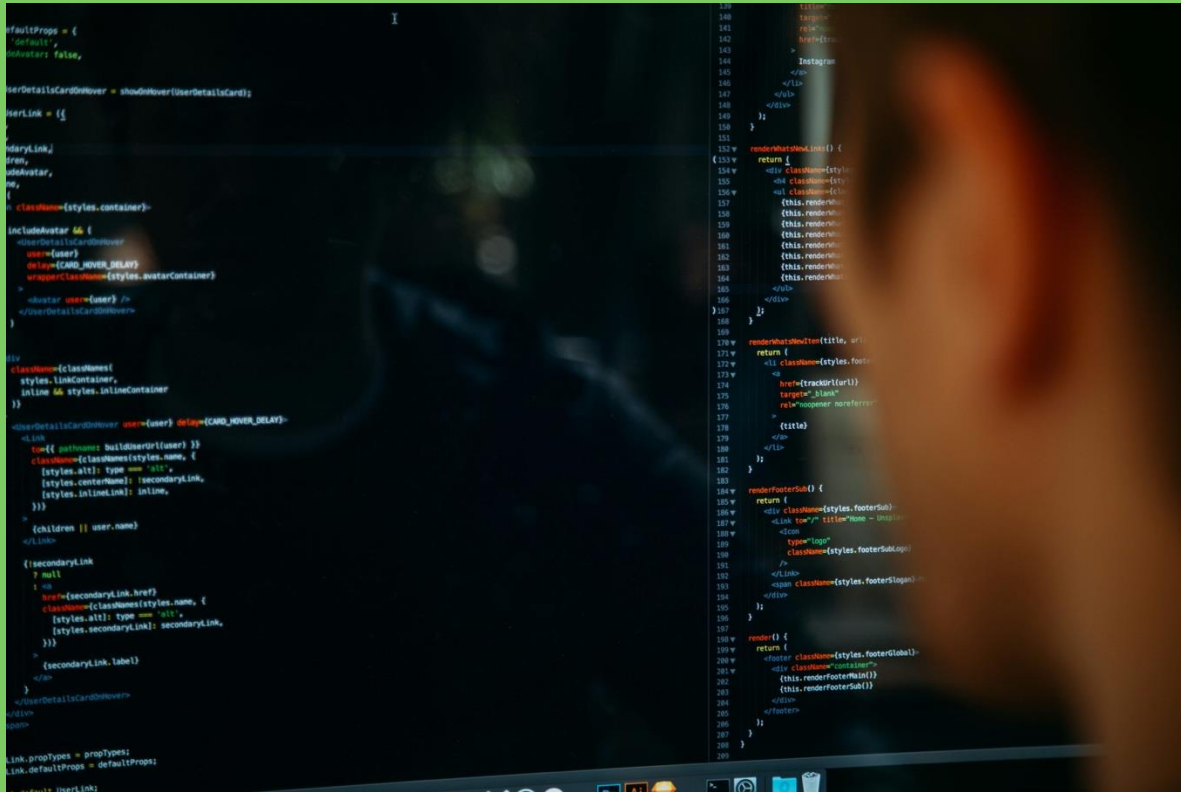
Setting the scene

To address the challenges we've outlined, there are several ways that businesses can convert these into opportunities with differing effects.

In this paper we'll look at how expanding your offer to include managed services can help.

First of all we should define what we mean by managed services, since this could mean all sorts of things, depending on your background and experience.
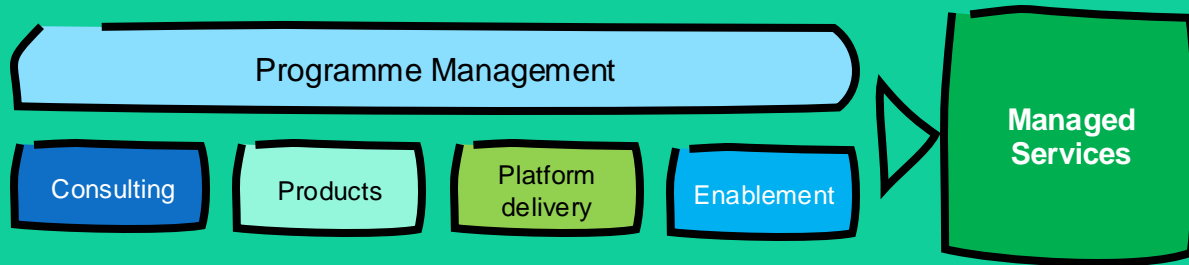
For most organisations, having a full managed service offer means it covers three things:

1. Technical operation of a solution once it has gone live
2. Managing and delivering improvements to that solution
3. Helping the client / customer gain maximum value from it

It could also mean providing the people who actually use the solution, extending the offer into the Business Process Outsourcing space or 'X as a Service'. We'll leave that option for another time since if you are predominantly a software development / integration business ,this would require you to make two separate changes at once, which is mostly to be avoided.

In defining our term, it is now important to distinguish it from the other things you may already do – positioning it within your service portfolio.

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Laying out a typical service portfolio

Programme Management

| Consulting | Products | Platform delivery | Enablement |

→ Managed Services

Positioning Managed Services within your portfolio

For many technology agencies or system integrators, their portfolios will be made up of some or all of the following:

Consulting
Helping a customer understand what they need is a significant area of growth for many organisations. Customers often have a sense of what they want, but struggle to convert this into what they need. They will also often not have a clear idea of what 'good' looks like across their industry or across industries, and there's a lot of value that agencies and systems integrators can bring here in helping justify that need and advise on the right order of investment to maximise returns.

Enablement
There are two statistics from two of the largest consultancies relating to enablement. Firstly, from McKinsey that 70% of digital transformations fail. Secondly from EY that transformation projects that emphasise employee emotions are 260% more likely to succeed.

Having a strong enablement capability helps a customer define how to set up their business to maximise the impact that this new solution can deliver, both structural change and through training. It is always key to remember that people are both your key to success but also frequently the largest reason you can fail.

Products
Some companies, despite being in the services industry invest in intellectual property to act as differentiators against the competition or to improve employee satisfaction amongst other reasons.
Beyond that, some companies convert some of those pieces of intellectual property into products that they present to the market pieces of tooling that help a customer accelerate their project which are available to license. These companies are often the most mindful of their own capabilities and how they are presented to their customers.

Positioning Managed Services within your portfolio – continued

Programme Management
Programme management is critical to your offer as it becomes more complex if you are either a system integrator or software development company. Customers who are looking for end-to-end solutions do not want to manage the delivery of the various parts that make up that solution.

Platform delivery
This is the core of many technology agencies / system integrators. Effective and efficient requirement capture, development and delivery of the technology element of the customers solution is often the revenue powerhouse of a technology agency or systems integrator. This is where you build up your reputation for reliability and quality. Statistics show that despite what customers say, enterprises value consistency over agility, so ensuring quality of delivery is paramount.

Managed Services
Managed services is the on-going ownership of the solution on behalf of the customer as we defined earlier. On the timeline of delivery, it sits at the end, and consequently, is often overlooked by agencies and systems integrators in terms of value.

The impact of Managed Services on client relationships

The Managed Services element described here underplays the importance the offering plays in the lifecycle of the solution. If we broke this down into time, by far the longest is Managed Services since this is the stage where the Return on the Investment is realised. The other service / product areas are typically associated to the Investment phase or the Pre-investment phase. As a consequence, this service has the highest potential to increase the longevity of a client relationship.

The second client lifecycle impact is on relationship duration. As you have a long-term relationship with the client, you are immediately on hand should incremental work appear. You are also completely aware of the context of the client / customer when the work comes in and you can shape it ahead of other suppliers, should they be invited to pitch.

The third client lifecycle impact is that you are engaged with the client in their natural day-to-day use of the system, giving you insights into their ways of working and internal structure that are typically unobtainable during a project phase.

When we look at the impact on client satisfaction, this is highly dependent on how well you are operating their solution. If you are proactive, deliver insightful reporting, offer advice and guidance on how to get even more value from their investment, then this can create a hugely positive impact.

Managed Services impact on your business

In terms of impact to your business from other perspectives, there are a number of positives.

Win rate

The likelihood of you winning managed services revenue post system implementation are extremely high. You have an unfair advantage against all of your competition since you built the system and are therefore always going to be the ones with the deepest knowledge of how to operate it, improve it and use it.

Utilisation

Due to the nature of managed services, utilisation for this type of service is much more even than for project work. There will be peaks should there be an incident, but if they are being well run, these should be matched against troughs created by the other clients being run well.

Margin opportunity

The opportunity to generate extra margin for these services is also high. Clients are more accustomed to purchasing services against a Service Level Agreement or other output oriented commercial model, which lends itself very well to higher margins if you are effective and efficient at delivering these services.

Opening budgets

Due to the nature of the offering, managed services can also open up other budgets within the customer. The title of this paper is 'taking more of the IT pie' but there are other budgets to be considered.

If you are used to implementing technology solutions into clients, you will typically be having your costs capitalised by the customer within their financial accounts. This allows the customer to spread the financial cost of the new solution over several years to manage the way they treat assets.

Alongside this within IT there will be an operational budget, used for doing all the things that 'keep the lights on'.

Outside of IT will be budgets, some with capital, some with opex elements, that you can also use for end-user support, training, producing documentation and so on.

Being fluent in the customers financial structure and language can allow for a much wider range of services to be offered and can also lead to more interesting commercial models being explored both for selling managed services and beyond.

Scale of opportunity

For a typical technology agency or systems integrator, it should be reasonably easy to achieve 15% of total sales in this area – that's incremental to the existing implementation business. We have taken clients on a journey from 7% to 15% over 2 years, so this is entirely achievable.

In terms of gross margin, if you're average you should be able to achieve, 65%. If you're good at it, really understand your market, how business critical the solution is, and how to package the offer to the client in a compelling way, you should be around 75-82%.

The icing on the cake

One final area that is worth considering: employee satisfaction. In my experience, employee satisfaction
is very high in this area, with the lowest churn rates. Once again, this helps manage margins and improves the client experience through consistency.

The customer need for Managed Services

There is often much celebration at the point of a new solution going live. However, the go-live is in reality just the start of the in-life cycle that should deliver the results the customer is needing. As a result, the post-go-live, managed services stage is business critical.

Throughout this document I have used the term 'solution'. This is critical to the overall success of the service, especially in these times of SaaS applications which are operated by their vendors. There are a few areas after implementation where the 'solution' that you've so carefully built for a customer can become challenging where a good managed services offer can fill a need.

The first is in the day-to-day technical operation of the end-to-end system. In many situations, the client does not want to manage all the intricate parts of a solution that goes to make up a business application in today's modern architectures that are less monolithic than those of the past. As a consequence, there is an important role for leading players in being the 'services integrator' for the client where you manage the other third parties on the client's behalf.

The second is where the customer is looking for end-user support for their internal teams who are using the solution. Again, there is a very valuable place for the systems integrator / technology agency to deliver end-user support across the multiple technology elements of the solution.

The third is ongoing change. Change is never easy for any organisation, so having someone on-hand to be able to prioritise and discuss such changes with is very valuable to most clients. There is also a desire to have any such changes coordinated across the numerous vendors that exist in today's solutions. Lastly, there's the implementation of those changes and any consequent updates to user documentation and training that means that the end-users of the system within their business can get as much value out of it as possible.

Where to start

As with most business ideas, a Lean Canvas should be used to draw out the various aspects of the market, problem, solution, revenue and costs associated with doing this would look like for your business.

If you want to dip your toe in the water having done this, there are specialists that offer managed services as a specialty – but be aware that you're not able to use your unfair advantage as strongly as you could with your own direct offer.

We would strongly suggest having a partner such as A Few Good People develop the Lean Canvas with you since it needs rigorous testing from the outside to ensure it is robust and not overly complex or simple.

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