Dropsuite

The Big Market Shift to Dedicated Tech Stacks

To improve the quality of services they deliver to their customers and increase their profitability; more service providers turn to dedicated tech stacks. Here's how they succeed.

It was the Greek philosopher Heraclitus who said change is the only constant in life. That sentiment has never been more appropriate for IT services resellers and service providers than it is right now. The market is accelerating its shift from legacy break/fix and hardware reseller business models to a model of selling recurring revenue associated with cloud and managed services. There's much at stake for service providers to get this shift right. Those that fail to make the shift will find themselves struggling to succeed within an ever-shrinking percentage of the IT market.

Even as organizations increasingly adopt cloud and managed services, success selling services doesn't necessarily come easily to traditional resellers. The challenges associated with the transformation from choosing the right services to provide to customers to making sure existing customers remain customers through the transition are steep. Still, for those that succeed, the rewards can be substantial: a shift from lumpy transactional income to predictable recurring services revenue, a deepening of client relationships and improved support, and reduced operational expenses.

Consider the recent SMB Channel Services Transformation study,

conducted by Channelnomics on behalf of Pax8, Dropsuite, and others, which found that the average SMB-focused solution provider earns as much as 60% of its gross revenue from managed or professional services. The margins earned from managed services are high, ranging from 40% to 50%, the study found. With such high revenue, and much of it recurring, it's no wonder so many solution providers are ditching their break/fix legacies for recurring managed services.

And that's the focus of this paper: how do resellers move from traditional product and services sales to a sales model built on recurring revenue? And how do they do so as successfully and as profitably as possible?

This article aims to provide you with what you need to know to make the shift successfully.

## What is a tech stack? what are the different types of tech stacks?

We need to first define what we mean by a dedicated technology services stack. A dedicated tech stack, also referred to as a bundle, is a set of software services that, in their whole, work to solve particular classes of

customer challenges. For instance, a service provider focusing on providing regulatory and security policy compliance services to their customers could deliver a dedicated tech stack that would include such capabilities as user and device logging, identity governance, backup, and data recovery, among other services. In comparison, a service provider focusing on systems management may provide endpoint and server monitoring, infrastructure logging, and the management of infrastructure-related systems.

There are many different types of dedicated tech services stacks, whether a services provider is focused on cybersecurity, regulatory compliance, IT management, general business services, productivity, or whatever it may be — there is a dedicated tech services stack that can be built to support the services business. A security tech stack could include active endpoint protection, active firewall response, device encryption, DNS filtering, managed software patching, secure remote access, and vulnerability scanning and alerting. While additional, optional enhancements to a security tech stack could include application whitelisting, mobile device management, multi-factor authentication, and encrypted email.

Regulatory Compliance	
System Management	
CYBERSECURITY	
IT Management	
General Business Services	
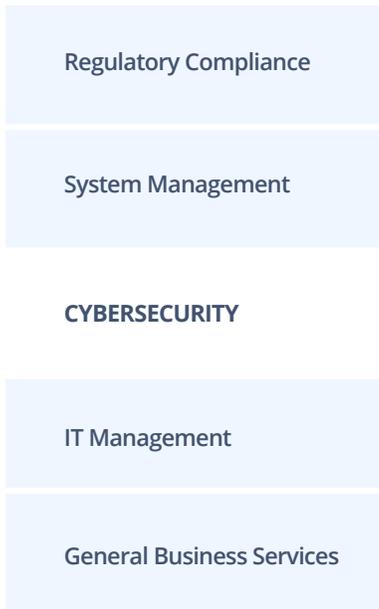
Sample Cybersecurity Tech Stack

- Endpoint Management
- Firewall Management
- Device encryption
- Anti-malware, Patch Management
- Vulnerability Assessment
- Vulnerability scanning, backup and alerting
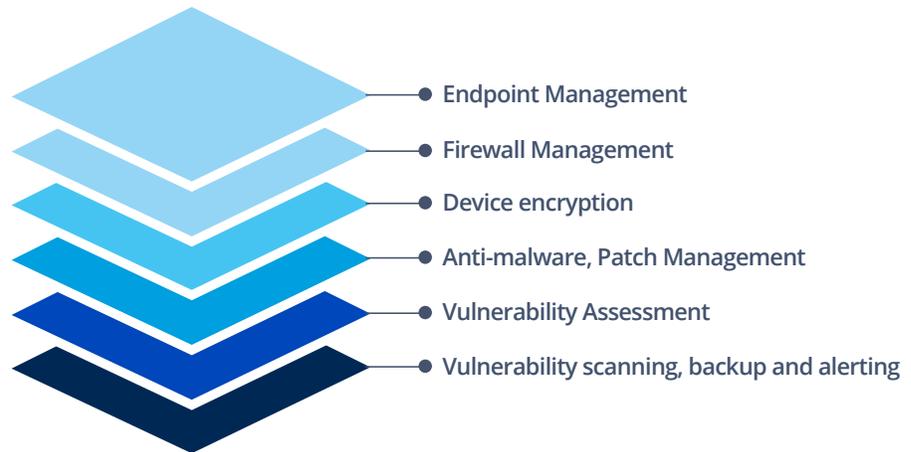
The business benefits and challenges of moving to a dedicated tech stack

Of course, moving a service provider or reseller business to selling a dedicated tech stack isn't as easy as flipping a switch. Some customers will perceive a lack of choice in choosing their components as a detriment, while other customers may be resistant to change what has been working for years. Still, others will believe they can get more value out of their existing investments. There's also the risk of changing the business model, how the business gets paid, and overhauling established sales and marketing efforts. Yet, the business benefits of increased profitability and scalability are compelling. So is positioning the business with current services-based trends. Nevertheless, the move to dedicated service sales is ultimately a profitable one.

Joshua Liberman, president at Albuquerque, New Mexico-based managed IT services provider Net Sciences, Inc., says those service providers that make the switch from break/fix and a la carte services sales to more dedicated tech stacks can expect to see the number of seats they manage decline while profitability

increases. This is primarily due to shedding customers who aren't willing to invest in the services they need to maintain systems properly. That's been the experience at Net Sciences, and Liberman explains that it was entirely intentional."

> "The more we insisted upon deployment of a full security suite, just as when we moved all clients to full managed services, the more seats we shed. But those sites that remained were far better secured, and therefore, better clients"
>
> **Joshua Liberman**

While it may seem counter-intuitive, the move to shed less profitable seats paid-off. "There were no more emergency issues, outages or other unplanned events. Chaos became calm. This was a vast improvement over how things were early on, when were still in the mode of accepting just about any business that walked in the door," Liberman says. This ability to focus on more profitable clients requires fewer dedicated personnel, which in turn increases profitability even more, Liberman adds.

Matt Lee, director of technology and security at Bedford, Texas-based IT services provider Iconic IT, agrees. "Every business has its path to success. But regardless of the specific path, we all have to pick our tech stacks and move our clients to those stacks," he says. When each of the four original MSPs that formed Iconic IT transitioned from offering services from an a la carte model to dedicated tech stacks, he explains that the companies then decided on their tech stacks, set pricing, and went to work selling the concept to their customers.

> "We explained to customers that their level of service would improve because we would be able to deliver services that we knew inside out and how everyone would now benefit from our expertise."
>
> **Matt Lee**

The transition worked, and today Lee says Iconic IT is more efficient and profitable as a result.

The benefits to the service provider and the customer are many

☑ Improved Customer Service

Expertise and comprehensive delivery are substantial benefits, says Liberman. Because service provider teams know the tech stack intimately, everyone on the support team knows each product in-depth and can quickly remedy client issues. "When we essentially serviced anyone and any technology they had installed, we were managing 15 different anti-virus applications and dozens of different firewalls and configurations, it hindered our ability to service our customers to the best of our abilities and hurt our ability to scale," Lee says. Moving to a dedicated tech stack solved those business challenges.

☑ The sale is straightforward

The experts we interviewed all said that by moving to a dedicated tech stack, selling changes from selling each software or service component to selling the overall solution the dedicated tech stack is designed to solve. "You're not selling anything. You're explaining to the client that you understand their problems and how the stack will solve them and empower their growth," explains Lee.

☑ More cost-effective for customers

Everyone likes better pricing. Because the services provider centrally acquires the services from the providers they choose, the service provider gets pricing that is much more competitive than most organizations can get on their own. Therefore, these stacks can provide cost-effectiveness that most customers can't build or buy as cost effectively on their own.

☑ Increased profitability for the service provider

Not only will service providers gain better pricing for each component in their dedicated tech stack, but they will also be able to scale their delivery through automation and more effective support and deployment. Revenue streams are also more predictable. "You can't possibly do this "a la carte." You can't manage the complexity, the billing, the vendor relationships, or the problems that might come up from the folks that chose five of the eight required items, and then something happened in an area they didn't choose. You've got to bundle," explains Liberman.

☑ Increase focus on growing the business

Less time spent on managing vendors, negotiating pricing, supporting various applications that provide the same functionality, and deploying and supporting those applications is all time that can be spent in more proactive ways supporting customers and building the business.

How to successfully transition the business to selling dedicated tech stacks

Transitioning the service provider business model from break/fix or a la carte subscription services is perhaps the most challenging part of the shift to dedicated tech stacks. As is the case with any significant initiative, it is an excellent time to ask big questions. "A great way to get to know where you want to take your business is to ask yourself if you were going to start a new managed service business tomorrow how would you do it?" explains Lee.

Of course, most service providers aren't starting a new, and they have existing business cost structures, challenges, and customer base that they must educate as they make the transition. And one of the biggest challenges is converting the existing customer base.
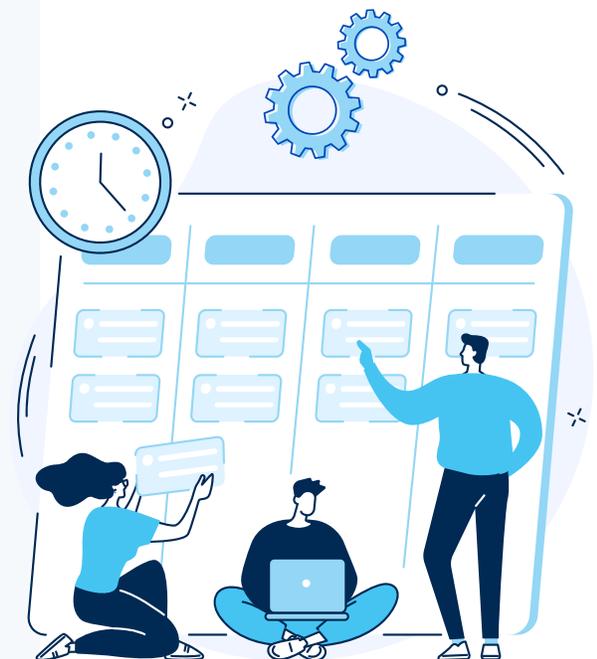
Before You Build Your Tech Stack

This is why before building the stack, other steps must be completed. These include:

- who the target market will be for the dedicated tech stack and the targeted organization size

- what types of business verticals would be interested

- who within those organizations would be the contact to sell to

"If you don't know who you are going to sell to, how do you know what your stack is going to look like? You have to get that done first," advises Patterson.

One of the challenges here is an orderly business transition. To succeed, says Patterson, solution providers must put a system in place to make a smooth entry to dedicated tech stacks. "One straightforward way is to start a new business unit or even a new business. And manage the new business unit under your existing business umbrella while separating the two businesses: this is your break/fix business, and this is your managed services business."

"When you're ready, there are going to be those break/fix customers who love you to death, and those are the clients you should approach first and explain your business plans.

How to build, and sell, your first dedicated tech stack

With the business decisions complete, it's time to create the dedicated tech stack. One of the essential elements of a dedicated tech stack is that it be comprehensive and meet the challenges a customer would typically face. For instance, if it's a dedicated security stack, it would include such capabilities as firewall management,

endpoint management, anti-malware, patch management, vulnerability assessment, backup and alerting. When configured and priced, this will be the dedicated stack offered to customers. That approach is the same no matter what tech stack is being designed. Build what customers will need for success.

Start With Your Expertise

All of the experts we spoke with recommended that service providers first choose a dedicated tech stack within one of their core areas of expertise. This will help you build the dedicated tech stack more effectively and be more persuasive when selling the stack to prospects and clients.

One of the primary objections from customers is their desire to pick and choose the services they want for the stack, such as cutting some capabilities out. Yet, service providers such as Net Sciences' Liberman say that the dedicated stack components are not negotiable. "You have to set a minimum bar," he says. "You are the expert and know better than the customer what they need for the task."

Pax8's Patterson agrees. "The problem here is with educating the customer. Service providers need to flip that argument on its head and position themselves as the expert, and be more like a doctor providing the answers," he says. While the majority of clients and prospects will follow the advice of the expert, some will not. That's okay.

"Sometimes a prospect just isn't a good fit," says Patterson. "When they start trying to dictate what services they need to solve the problems they expressed, that's a good time to tell them simply, 'You know what, I don't think our firm is a good fit for your needs. That gets their attention, and they will engage more closely, wondering why you are willing to walk away," says Patterson. "It often helps close the sale."

Use Your Dedicated Stack In-House

So that service providers understand their dedicated tech stacks inside and out, including all of the pros and cons of what customers will experience, Patterson advises that service providers deploy their stack in-house. "It's critical that you use the stack in-house. This is something that many service providers overlook," Patterson says. "If you put the stack to use in-house first and implement that stack in your own business, your techs will understand it better, and they'll know what to do when a problem arises. They won't be saying to a customer, 'We don't use this, so I'm going to have to look into it.' That's the worst thing I've ever heard a tech say to a customer, but it happens all the time."

Automate As Much As You Can

Finally, to improve service, profitability, and the ability to scale the business, Iconic IT's Lee recommends automating the stack's management as much as possible. "The more you can find ways to integrate your toolsets in a way that you can remove human error, the better," he says. "People are failure point number one. It's best to automate and push the API's to the limit." Today, when a new user is established for one of Iconic IT's clients, the process is automated, Lee explains. "The user is automatically added to all of the right services, and appropriate licenses and permissions are set. All without a technician having to touch anything," he says.

Patterson explains that as the dedicated tech stack's sales grow and the business is earning a good portion of revenue from managed services, it will eventually come time to let some of the existing customers go that don't fit with the new business model. "You reach out to them and explain that you are changing the business model to managed services, and detail all of the reasons why, from increased security to better service. Some are going to

fight, and it's okay to go different directions as business interests diverge," he says.

However, the vast majority of clients will likely appreciate the change. They will be getting better, more costeffective service over time. "This is the way the future is heading, and it's the way most customers are going. It's also the only way to grow a business that can profitably scale," adds Lee.

Conclusion

Change is truly the only constant in life, and service providers and customers — that don't make the shift to dedicated tech stacks – will find themselves left behind. This shift to managed services has been underway for some time, yet the more recent shift to dedicated tech stacks is more recent. Both trends are at an inflection point, and service providers need to get their transition right to succeed.

Dropsuite's Email Backup and Email Archiving products are essential components of many solution provider's security, business continuity, and compliance tech stacks. For more information visit www.dropsuite.com today.

We would like to thank our contributors:

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