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Key Findings

- What do we mean by managed services & cloud services?

- Top 10 research findings about the current MSP market

- SMB explosion of service versus product driven by economic conditions

- Significant cost savings for customers who focus on their core businesses and not on the network and access

- Transferring day-to-day management, reporting, new technology to managed service providers delivers cost savings

- Compelling reasons to focus on managed cloud services

Managed Service Cloud Opportunity

Module 1: Introduction to Managed Services

EXECUTIVE SUMMARY

Managed services and cloud services are great solutions for companies that want to concentrate on their core competency and leave the technical growth and management for the technicians. A company can save money while increasing productivity by keeping its IT Infrastructure constantly monitored by a dedicated party while still focusing on its core productive areas. Staffing levels can usually be reduced because there is no longer a need to have one or two in-house individuals who are responsible for IT, human resources, etc. Budgeting support can be scaled back or improved in response to economic conditions. More and more companies are turning to as-a-service offers to manage their business.

This paper covers:

- Managed Cloud Services: What is it?

- Top 10 Research Findings about the Current MSP Market

- Key Drivers and Indicators to Watch for Managed Cloud Growth

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ACG Research focuses on providing market analysis and consulting to help service providers and vendors monetize their existing infrastructures and increase operational efficiency and profitability. Through ROI and TCO analysis, product and service message testing, and business model review, reports and forecasts, *ACG Research gives you strategic and tactical advice, services and products, and timely answers so that you can better understand market dynamics and grow your telecom operations more efficiently and profitably. We help you make business decisions with confidence!*

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MANAGED SERVICES AND CLOUD SERVICES: WHAT IS IT?

"Managed services" means that a company hands over part or all of the management of its network infrastructure, applications, and security to networking experts. These experts might include service providers, systems integrators or value-adding resellers. Businesses have the option of purchasing a specific managed service or set of services or an all-inclusive package that includes most IT functions.

"Managed service is not a product; it's how it's delivered; it's a contractual relationship with service level agreements."

Greg Donovan, CEO Alpheon Corp.

The practice of purchasing IT functions as a service has expanded in recent years as many companies have come to realize that keeping on top or staying ahead of a sophisticated network infrastructure can tax resources that could be better devoted to core business competencies.

In addition, companies are experiencing significant benefits, such as increased revenue, increased flexibility and agility. Additional benefits include access to skills that a business might not have in-house —networking, security, or communications — and the added assurance that these skills will be up-to-date and scalable.

The trend toward managed services is growing because more companies realize that purchasing IT functions as a service does not mean losing control over critical business functions and that they determine the degree of in-house management and monitoring, which even applies to network services where the physical components are located at service providers' facilities.

In conjunction with the growth, the type of services available has also evolved. The first type of managed services tended to be limited to remotely managed premises-based reports, gear, and software. Managed service providers (MSPs) are now shifting toward delivering a wide range of computing and applications as services for a fixed rate. Certain components of managed service (typically in the application development side) are variable in nature and priced using an hourly rate card. The vendor or MSP manages the service proactively with minimal management from the customer.

Journey from On-Premise to the Cloud

When a company chooses to subscribe to a managed service, the company has several options.

Scenario 1: On-Premise Services (the bulk of the market today)

In this scenario, the business owns the network and shares some management responsibility with the service provider.

Companies that already have an internal IP network may want to continue to manage it while out-tasking management of the onsite equipment [usually known as customer-premises equipment (CPE)] that is used for the managed service only. Businesses just beginning to use a provider for some business functions sometimes feel more secure keeping control of their network equipment.

The service provider sets up, maintains, and administers the equipment needed for the managed service, including company-owned equipment such as servers, while the business maintains and administers its internal network.

Scenario 2: Traditional Hosted or Hybrid Managed Services

As a business' memory requirements and storage requirements grow it may become amenable to having redundancy in cloud storage, a hosted website or having the SP host some applications. Many large enterprises like this arrangement because they can maintain physical control of the equipment while relying on the service provider for 24 hour network operational support.

The traditional hosted or hybrid managed service could include traditional transport such as managed MPLS or IP VPN, connectivity and messaging services, datacenter services and security managed or hosted services.

The service provider sets up, maintains, and administers the equipment for the managed services as well as the corporate network. The business monitors its corporate network through a web interface provided by the service provider, receives regular reports on the network status and managed services, and is notified in case of a defined emergency.

Scenario 3: Cloud Managed Services

Once a company has some experience and is able to compares its costs, such as air conditioning and power, to the security and cost of the cloud, it may decide to purchase its applications, application platform, computing needs, and storage as a service in a pay-per-use model. This is a true "cloud managed service," which opens the full benefits of the cloud to the business.

As defined by the National Institute of Standards and Technologies, a cloud managed service is a pay-per-use model for enabling available, convenient, on-demand network access to a shared pool of configurable computing resources (e.g., networks, servers, storage, applications, services) that can be rapidly provisioned and released with minimal management effort or service provider interaction.

Three major cloud services exist:

Software-as-a-Service
Cisco WebEx, Google Apps, Microsoft Exchange Online, Salesforce.com; end-user facing applications, both consumer and business

Platform-as-a-Service
Google AppEngine, Microsoft Azure Services, Salesforce.com, Force.com; application platform, middleware and application infrastructure

Infrastructure-as-a-Service
Amazon EC2 & S3, Flexiscale, Google Base & BigTable, Rackspace Cloud, and Terremark

Top 10 Research Findings about the Current Managed Services Market

1. By 2010 about one-fifth of businesses will own no IT assets; instead, they will turn to services.

2. In the next five years, North America small and medium-sized businesses (SMBs) will increase their annual spending on remote managed services by 28 percent.

3. Organizations[1] spend is approximately 19 percent of their total IT budgets on services.

4. Seventy percent of Dell's managed services customers used managed services as a way to free internal staff to work on strategic initiatives.[2]

5. Ninety-two percent of those customers said they were achieving better service levels with managed services than with their own IT divisions.

6. SMBs plan to spend an average of 126 percent more on managed services in 2010.[3]

7. SMBs reported that they spent most on managed security and managed desktop services.

8. Thirty percent of SMBs plan to adopt Managed Services in 2010 according to CompTIA.

9. While managed security services have been a strong performer in the economic downturn, among CIOs who outsourced security costs decreased from 22 percent in 2007 to 18 percent in 2010.[4]

10. Forrester Research indicates the managed services business will reach over $190 Billion in 2013 with datacenter driving the majority of spend with a 16 percent CAGR.

Key Drivers and Indicators to Watch for Managed Cloud Services Growth

Organizations need to monitor several trends to assess the growth of managed services. These include the following.

Application-Ready Cloud Offerings

For example, Google e-mail provides access to 7 GB of free storage; document word processing online; spreadsheets; presentations; drawings; and HTML forms, which are all available to edit, import and export, and store in the cloud. This strategy promotes continuity between work environments that can contribute to an organization's productivity. Conversely, the use of Google e-mail presents potential security threats and risks as companies try to maintain virtual private storage and security within the work documents. For SMBs, the move to cloud is providing enterprise collaboration without the IT oversight. Each ISP has developed secure virtual private instances for the companies that prefer to outsource the business of collaboration, application and storage to its ISP.

Growth of Transport-As-A-Service

Economics have forced many companies to either put off product purchases or cut nonbusiness core related services. CEOs/CFOs are now making decisions about the management of the network, which is increasingly including purchasing as-a-service IT for transport from a service provider. More businesses are finding that outsourcing to a trusted provider that specializes in transport technology and customer management is strategically sound and ultimately provides the company with financial benefits.

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[1] Spiceworks
[2] Hurwitz & Associates
[3] CompTIA Survey
[4] Ovum

Vendors looking at this market include new independent software vendors (trends indicating growth in SMB where a domain comes with a service such as WebEx), which are increasing the number of new applications offered each quarter. These applications are in business related areas and are driving development of new devices, such as tablets, cell phones, laptops or PCs, and cloud services.

Current Portfolios of Managed Services

For an accurate measure of the market for your service, interview/survey potential customers on the likelihood of purchasing as-a-service offers versus building them in-house. Focus on what core portfolio vendors and MSPs offer in the market place.
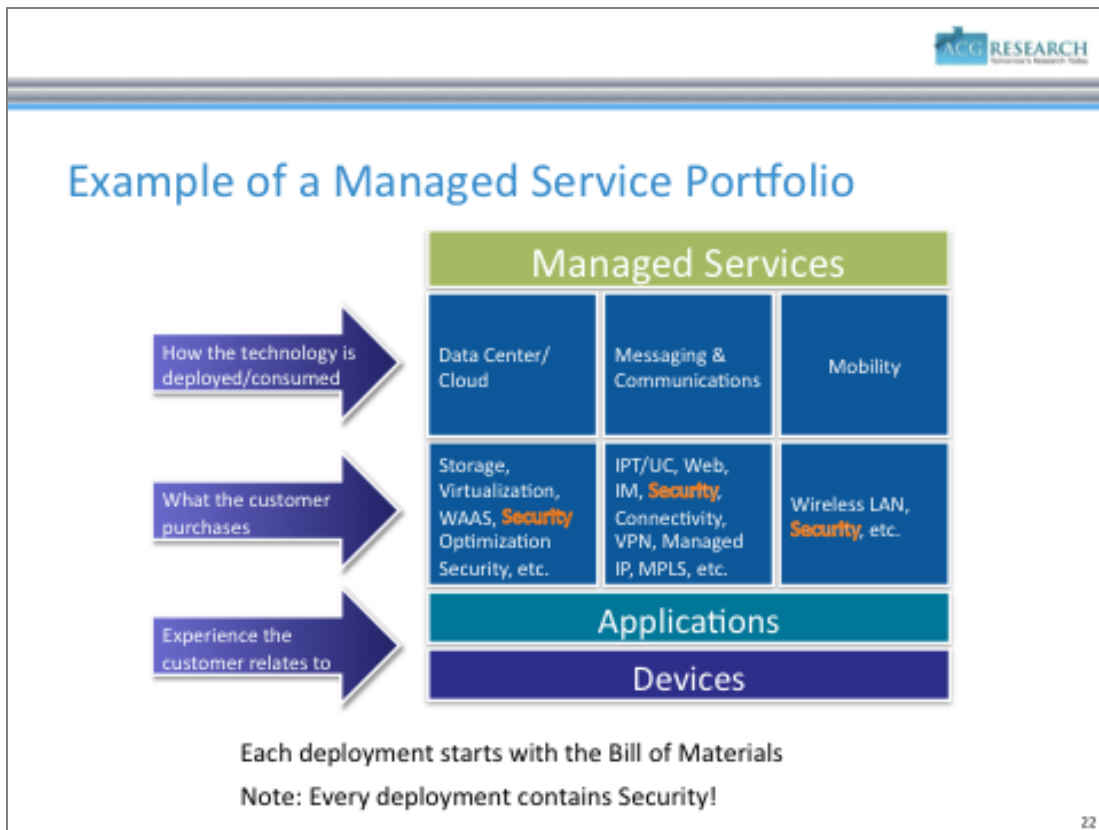

Figure 1.   Example of a Managed Service Portfolio Stack of Offerings

Core services commonly out-tasked are:

- Managed VPN
- Intranet and Internet hosting
- Data storage
- Managed security
- Business continuance/disaster recovery
- Backbone network transport
- Managed business voice
- Managed contact centers

Specialized services are also filling important needs. Financial companies, for instance, are using content and mobile wireless services, and health-care companies are taking advantage of hosted applications. Typical services used by one or more industries include:

- Content services
- Mobile wireless services
- Broadband services
- IP communications
- Hosted applications
- E-commerce
- Customer support and help desk

THE CASE FOR MANAGED SERVICES

Creating a managed service cloud strategy for most businesses allows them to concentrate on core competencies, increase productivity, keep current with technology advances, manage noncore staff, and increase flexibility as the business grows.

Creating a managed service cloud strategy, most importantly, saves companies money by:

- Reducing maintenance and operations costs
- Reducing internal IT and information services (IS) staff and service expenditures
- Reducing operational and capital expenses
- Reducing costs incurred for training, staff turnover, and keeping the staff trained on new technologies, upgrades, viruses, etc.
- Creating economies of scale
- Providing predictable costs for information technology