



Transformation for Managed Service Providers

Why Smart MSPs deliver greater investor returns

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Transformation matters

One of the biggest challenges for Managed Service Providers (MSPs), also known as IT service providers, is the threat of non-traditional competitors that act as digital native industry disruptors and have an immediate advantage with their slick services. To combat them, many service providers are looking to differentiate through an improved customer experience and by developing new products. Digital transformation is the facilitator for this strategy.

Critically, it must be regarded that any transformation initiative cannot simply focus on improving IT processes but must be directly linked to delivering a better customer experience. Only in this way, is it possible to maximise the benefits and achieve a full return on transformation investments. Harnessing both operational and customer innovations simultaneously will always deliver the best results.



Industry inflection point

Those MSPs that can transform effectively, and through automation provide industry leading levels of customer service, will set themselves apart from the rest. The unfortunate truth is that many service providers, some of which sell the dream of cloud services, continue to run their back-office with many error-prone manual processes.

Also referred to as the 'swivel chair', where simple tasks pass through many hands and teams, becoming more complex and expensive to fulfil than they need to be. Consequently, this is what commonly fails the customer, giving the industry a bad reputation.

The challenge of transforming an MSP's operations can seem like a mammoth task and is a major headache for institutional investors and owners alike.

Below are the main factors that subject service providers to huge pressure and cause operational inconsistencies:



Fragmented back-office IT

Including legacy systems with limited or no integration.



Increasing costs

Profits under threat.



Data everywhere

No single source of the truth.



Need for change Vs business as usual.

The friction between the need for change versus keeping a focus on the core business, makes this inflection point significantly poignant and challenging in equal measure. The reality is that transformation can't happen fast enough but the way to get there has proven elusive for most.

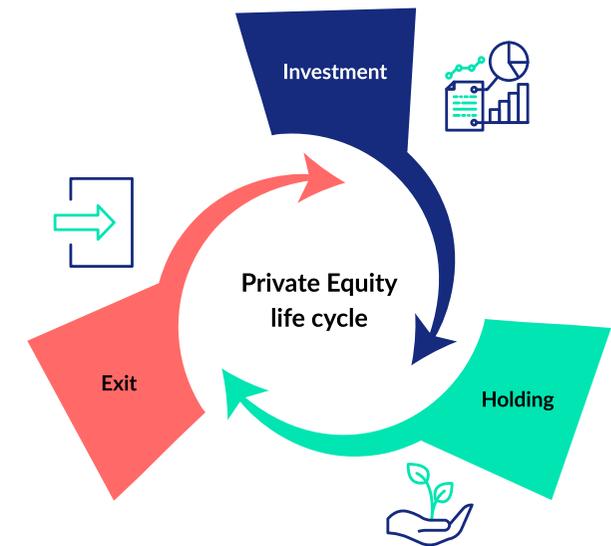
For investors optimising their investments in service providers, the allure of creating a Smart MSP may sound attractive, if perhaps overly ambitious. For this reason, the importance of investor due diligence in the underlying technology deployed within an MSP is vital.

This is more important than in other types of investments because technology *is* an IT service provider's business. Investors need to understand the complexities faced by MSPs, such as:

- What is the strategic vision?

and crucially...

- Are the capabilities in place to achieve this vision?



The top 5 investor questions

Investors must be able to see a clear pathway to adding value to any new asset. Transformation may even present the opportunity to consider investments in challenged businesses that can be quickly integrated into a roll-up entity, to reap higher future returns.

However, this strategy only works if the consolidating company has a reliable method of achieving transformation, with the underlying technology that can facilitate the fast integration of new assets. To do this requires the capabilities of a Smart MSP.

The top 5 questions for investors to answer regarding an existing portfolio service provider or target MSP are:

- 1 What's the ability to scale and at what cost?
- 2 Is it possible to improve book-to-bill times and customer satisfaction?
- 3 Can both EBITDA and value be enhanced in preparation for an exit?
- 4 What capability is present to support an organic and a 'buy and build' strategy?
- 5 Is there a need to deploy a technology platform to facilitate all of the above?

Why MSPs are good investments

For institutional investors, MSP owners or operators, wondering whether managed services are still a viable industry, the answer is a resounding yes. Investors are looking for safe places to put their money, especially under the economic stress of Covid-19. MSPs remain a safe bet for risk-averse investors, seeking recurring revenue and pandemic resilient business models. While other investment vehicles may have lost some of their shine, MSPs consistently maintain a healthy attraction.

While all investments come with their challenges, being aware of the technological issues that can restrict an MSPs ability to grow, will make a big difference. The health of a service provider's operations and the technology deployed to deliver services to customers is increasingly relevant to their valuations. Technical capability concerning integration, automation and the overall customer experience must be demonstrable and a cost-effective facilitator for growth.

Increased valuations

Smart MSPs have addressed the technical, functional and structural challenges that ensure future success. The fastest and most effective route to becoming a Smart MSP is by adopting a ready-made MSP platform, delivered as part of a managed service to ensure successful outcomes.

The improved financial performance of Smart MSPs, with their reduced cost-to-serve and increased EBITDA, can have a direct and positive impact on the company valuation. Forrester, the market research company, has quantified the economic impact of transforming a service provider's operations to turn them into a Smart MSP and the example below is taken from their total economic impact study.

Forrester Total Economic Impact Study

Example MSP

Revenue in millions	\$100m
Customers	3,500
Annual incidents created by monitoring solutions	4,200

Savings Breakdown

35.7%	Increase IT Operations Efficiency
26.6%	Increase Escalated Support & Field Service Efficiency
20.5%	Rationalise Systems (Redirect Current Spend)
13%	Increase Customer Service Efficiency
4.2%	All other benefits

\$15,620,112

Total Annual Value

Increase IT
Operations Efficiency
\$5,583,863

In Savings

What is a Smart MSP?

Definition

A Smart MSP outclasses its competition with a superior customer experience, enabled by service automation to drive scalable operational efficiencies, rewarding investors and owners with significant EBITDA gains.



Smart MSPs focus on the customer experience and make the following aspects of customer interaction their priority:

- > Self-service
- > Complete transparency in:
 - Procurement
 - Provisioning
 - Support
 - Billing

They ensure all of the above can be seen and interacted with in real-time, from any device via a single customer portal with the highest security standards.

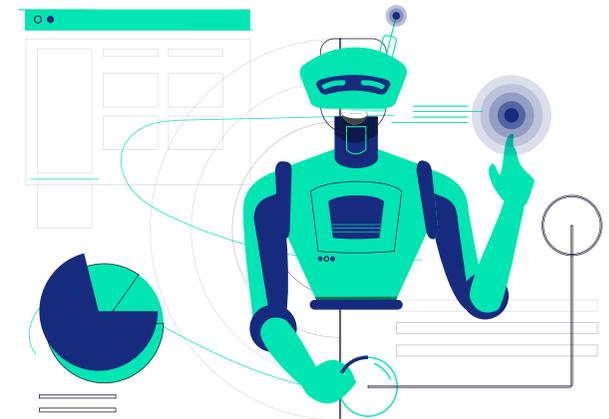
Two of the biggest customer experience failings for service providers are on-boarding processes and billing. The lack of transparency in billing especially is regarded as the most common and frustrating customer experience issue, but solving the problem means effective billing

can then become a strategic asset.

To do this, and indeed improve all customer experience touchpoints, service providers must focus on four key areas of development:

- 1 Increase automation.
- 2 Personalise information and offers.
- 3 Provide more transparency and advice to customers.
- 4 Communicate the value of the services delivered.

Those that do this well will see themselves transform into a Smart MSP.



Opportunity or distraction?

As forecasts indicate, the IT service provider industry is set for continued and healthy growth, so it's understandable that private equity firms have representation in their portfolios and may be looking for new targets to invest in. One of the main reasons for this growth is that the services sold by MSPs help customer organisations achieve the important digital transformation they need to compete effectively.

However, and perhaps a little perversely, the service providers themselves struggle to deliver the effective transformation their internal operations are crying out for. Ultimately, for service providers to survive and prosper, transformation is essential. That's easier said than done because transformation is fundamentally hard, risky and expensive to do. In addition, it can be a long drawn out process, with a slow time to value.

For those Managed Service Providers that can afford to invest in a transformation initiative, it will take years *if* they remain focussed. Unfortunately, most of them will fall short.

This presents a major market opportunity for those that get it right. With the ever-increasing number of service providers all vying to win the same customers, it has been a race to the bottom for prices, with no key differentiator to set them apart. Value-based pricing is uncommon, unless a provider can package solutions to focus on a specific industry niche and/or deliver an unrivalled customer experience with full transparency.



Broken promises

The end-user customer has high expectations and wants the same experience they get from consumer tech, but MSPs are failing to deliver for the following reasons:

- Operational inefficiencies continually let the customer down.
- The cost to serve is spiralling out of control.
- MSPs are fixated on the bottom line at the expense of the customer.

Despite this, there is significant change happening in the managed services industry that has now accelerated due to Covid-19, as customers look to decentralise IT services. This in turn, is driving significant growth in cloud and security services, which ultimately require subscription-based licensing models that customers can flex.

For new service providers, such as resellers looking to become MSPs, they can quickly exploit new platforms to provide a better customer experience and are extremely competitive with the efficiencies they bring. This leaves existing MSPs exposed, as they struggle to cope with the restrictions of their legacy IT systems.

The risks of change

The two options for achieving transformation are:

- 1 In-house initiative.
- 2 Buy a technology platform, such as ServiceNow.

There is no right or wrong option, but to achieve success with either, a service provider must have, or acquire significant software development capability.

The main risks related to each of the above transformation options are:

- Lack of in-house skills.
- Requires teams of developers.
- Will take years to complete.
- Cost of consultants/professional services.
- Distraction of resources and focus away from business development.

Service provider or software company?

Trying to achieve transformation in-house is almost twice as difficult as buying into a solution, as it's impossible to deliver the functionality of leading platforms given the vast sums they spend on R&D. Purchasing a solution may require a smaller software development team, but then the MSP is tied into endless and expensive professional services.

In either case, you are asking the service provider to change their business model and ways of thinking and working. In essence, you are asking them to become a software development company.

Then, consider the length of time it would take to realise the intended benefits and the strain this puts on the organisation, as it struggles with the huge distraction away from the core business.

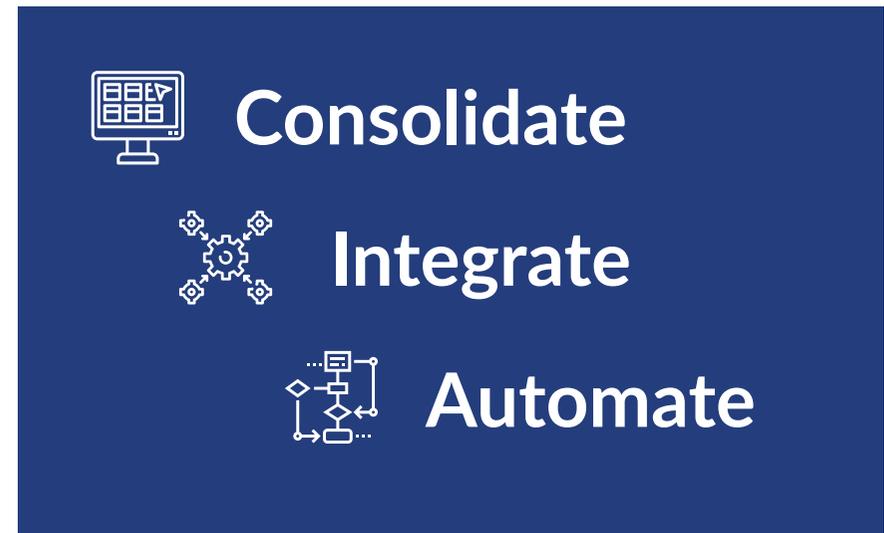


The key factors to successful transformation into a Smart MSP are:

- **Consolidate** disparate tools.
- **Integrate** internal, external and third-party systems.
- **Automate** tasks and processes.

Automation is the capability that accelerates transformation, creates the most value and delivers the highest levels of customer service. However, automation is only achievable when tools have been consolidated and systems integrated to give a single customer view.

Automation must be done intelligently so that it lifts the customer experience by being slick and beneficial. No one likes the promise of automation that results in an error or a multitude of layers making something more complicated than it used to be.



Re-engineering the customer experience

Self-service is the gateway to automation, and it goes hand in hand with a great customer experience. The customer portal has become the central point of focus for all customer interactions. It must be the single pane of glass for customers to view their services and is an opportunity to impress them with full transparency, tempt them with upsells and much more.

The constant drive for IT service providers to reduce costs and automate services must run in parallel with business as usual. All too often, it's a temporary project or done in someone's spare time, when it should be a top priority for any MSP looking to improve their EBITDA.

Performance improvements

Smart MSPs think and act differently, giving them an advantage in the market their competitors cannot begin to emulate unless they first also achieve effective transformation of their operations.

Enhanced capabilities of Smart MSPs include:

- Increase resource capacity up-to 40%.
- Ability to scale without the need for exponential resources.
- Offer customers a comprehensive cloud offering.
- Fully automated services, with zero-touch tasks and processes.
- Lower and control their operational costs and increase EBITDA.
- Better service uptime.
- High rate of customer satisfaction and reduced customer churn.

Primed for the next stage of success

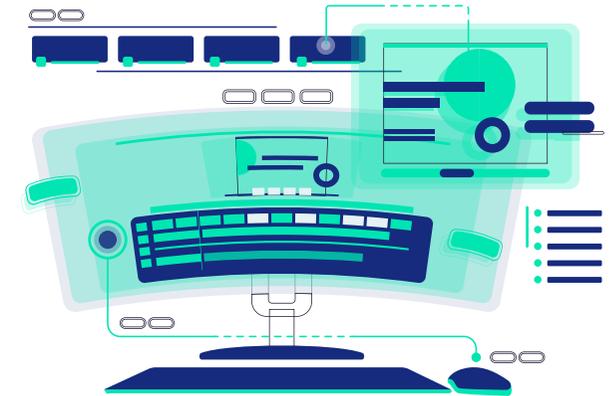
There are many examples of service providers that have attempted digital transformation and struggled. They are living proof that the typical professional services cost model or in-house resources approach are both fundamentally flawed, with the odds stacked against the MSP before they have even begun.

POPX has invested thousands of hours in building a fit for purpose MSP platform. This means IT service providers can be onboarded quickly and immediately start realising value, without a lengthy implementation fraught with risk.

For institutional investors preparing MSPs in their portfolio for the next stage, achieving transformation is fundamental. Only in this way can an MSPs back-office operations and the underpinning technology platform be viewed as an asset, rather than a potential due diligence risk.

Once the key transformation outcomes have been achieved, investors can make their choice for the next stage, whether that's organic growth, roll-up investment or exit. Transformation will not stop there however, as it is a journey of continuous improvement, optimisation and next level service automation.

This is why the era of the Smart MSP will see customers benefit not only from comprehensive cloud services but finally enjoying the levels of customer service they expect and demand. For investors, this is the safest route to maximising asset value and the returns on their portfolio investments.



About POPX

We believe every MSP has the right to access transformation technology, allowing them to deliver next level service automation. POPX facilitates this by answering the biggest operational challenges for service providers looking to fast track and de-risk their digital transformation in just a few short months.

POPX is a fully managed and integrated MSP platform, designed to transform fragmented legacy operations into a Smart MSP, that will delight customers with comprehensive cloud services. All of this is provided as a fully managed service, with fixed subscription pricing, as we continually optimise your operations.

For more information go to www.popx.co.uk