

# **MANAGED SERVICES**

**A White Paper for Executive Decision-Makers**

The top five steps for small and medium-sized businesses to successfully implement Managed Services

## **Executive Overview**

Even as information technology (IT) systems, software and networks become more sophisticated, they are also becoming more complicated and difficult to manage in a cost-effective fashion. And, as IT becomes more pivotal to the day-to-day operations of organizations of all sizes, it has also become imperative that organizations optimize the availability and performance of their IT in order to gain the greatest economic value from these investments. Even more importantly, it is critical that they minimize the risk of any IT failures which could adversely impact their business.

This IT management challenge can be particularly daunting for small to medium-size businesses (SMEs) - commercial and non-profit organizations of 30-400 employees - that typically lack enough in-house skills and resources to systematically manage today's technologies and business applications. Market researcher Gartner estimates that 80% of the money companies spend on IT is dedicated to "keeping the lights on" and represents "dead money" which does not contribute directly to business growth.

Compounding this problem is the escalating number of Internet viruses threatening to disrupt businesses that either don't have the right security systems in place or fail to regularly update their anti-virus, spyware, malware and other security software with the proper patches.

As a consequence of these growing challenges, many SMEs feel like they are not getting the return on their IT investment (ROI) they expected and are often at the mercy of their IT rather than fully leveraging it to achieve their organizational objectives.

And, at a time when many SMEs are facing stiff budgetary constraints, a growing number of organizations are looking for a new way to satisfy their IT requirements and reduce their day-to-day IT management costs.

These forces are driving a growing number of SMEs to consider alternative strategies to solve their IT problems. Many are considering outsourcing their IT operations to an outside IT service company.

While outsourcing can be an appealing way to offload the hassles of day-to-day IT maintenance, not every IT service company is capable of proactively managing an SME's IT environment to minimize the risk of problems occurring and doing so in a cost-effective manner that can also respond to the SME's evolving business requirements.

Managed services have become an increasingly attractive 'out-tasking' alternative to traditional outsourcing for many SMEs. Managed services enable the SME to assign specific IT management responsibilities to the IT service company without relinquishing control of their IT operations. Managed service arrangements also typically include more flexible contractual agreements and better reporting mechanisms to ensure the managed service provider (MSP) is meeting the SME's needs.

Managed services continuously monitor and proactively manage an organization's IT environment to address potential problems before they can disrupt their operations. They can also optimize the performance of end user's systems to allow them to do their jobs better.

This white paper will describe the IT issues that are driving SMEs to adopt managed services; examine how these services work; show how these services are helping companies today; and provide a business case for SMEs trying to determine if managed services are right for solving their IT challenges.

## **Why Managing IT Can Be a Frustrating Task for SMEs**

Although the computing needs of SMEs may seem less complicated than the IT issues facing large corporations or major non-profit institutions, IT complexity is still a major challenge for SMEs. System failures are more commonplace in many SMEs because these organizations typically lack the in-house skills and resources to implement essential management tools and perform routine management tasks. In addition, the threat of computer viruses, spyware, malware and other security attacks is now an ongoing concern

As a result, many SMEs spend more time reacting to IT problems rather than fully leveraging the power of their IT investments to meet their business objectives. For instance, many SMEs unintentionally overload their servers, causing crashes that often lead to disruptions to their businesses and valuable data being lost.

Even when their IT systems and business applications are up and running, SME executives are not sure if they are getting the best performance out of these critical resources or the best return on their investment (ROI). For example, many SMEs under-utilize their servers, creating unnecessary added expense and effort buying, installing and maintaining excess equipment and software. SMEs in many cases may be only generating 10-30% utilization from their servers but not know it because the equipment is poorly configured, translating into a poor ROI for this pivotal technology.

Many SMEs are unable to monitor and measure the performance of their systems around the clock because of a lack of appropriate management software or staff skills. As a result, they miss key indicators that would enable them to proactively manage their systems and prevent potential problems and costly downtime.

Rectifying this IT management issue isn't easy. An SME must not only have the skilled in-house staff who can select and deploy the right IT management software, but also have sufficient IT staff to properly configure and monitor the management solution around the clock to meet the SME needs. In addition, while many IT professionals are good at installing hardware systems and common business applications, few have the skills, experience and dedication to evaluate IT trend data that can uncover potential issues before they become real problems.

SMEs also face higher turnover among their IT personnel than larger organizations where there are more career opportunities. Because IT personnel within SMEs also have less time to document their work, staff turnover can make it difficult for new staff to become acclimated quickly. The discontinuity in IT staff makes SMEs more vulnerable to system failures or security threats. In the past, SMEs would compensate for their IT inefficiencies by looking for outside help from two sources:

1. IT contractors to handle their IT issues on a part-time basis
2. IT service companies to address specific systems and software

Neither of these alternatives can fully address an SME's IT needs. Individual IT contractors lack the breadth of knowledge, experience and time to handle an SME's end-to-end IT requirements. Traditional IT service companies focus on specific products or applications, and generally react to problems rather than proactively managing their customer's IT operations on an ongoing basis to make sure they are performing properly

Because of the shortcomings of IT contractors and traditional service companies, a growing number of SMEs are investigating managed services as a strategic sourcing alternative.

## **Defining Managed Services**

Managed Services can be defined as the ongoing, automated and remote management of computing resources and business applications to ensure their continuous availability, optimal performance and maximum security.

Unlike traditional maintenance agreements that are product-specific and reactive in nature, managed services providers (MSPs) assume responsibility for proactively managing multi-vendor hardware systems, software applications, and network infrastructures to prevent downtime and increase IT effectiveness.

And, unlike traditional outsourcing arrangements which typically extend over five years and include strict terms and conditions, managed service agreements tend to be shorter and more flexible to respond to customer's changing needs.

Managed services permit SMEs to rely on the management skills and experience of the MSP's staff and centralized systems to meet their evolving IT management requirements so the SMEs can focus on their core businesses.

Managed services also utilize a "pay-as-you-go", subscription pricing model that eliminates the upfront financial commitments found in traditional maintenance and outsourcing arrangements. This makes more sense for many SMEs than dedicating a substantial portion of their limited funds and resources to support their ongoing IT management needs on their own or making a long-term commitment to an outsourcing arrangement.

While managed services might sound like a simple concept, it requires three key components to be successful

1. The right technology
2. The right people
3. The right processes

## **Managed Services Technologies**

Unlike traditional vendors and value-added resellers that focus on fixing specific technology problems when they arise, MSPs rely on a set of sophisticated on- and off-site technologies to deliver continuous, proactive management of the customer's operations.

These technologies include:

- Network and systems management tools to monitor hardware utilization levels and identify potential issues before they become real problems.
- Performance management tools to effectively measure network, system and software performance to determine whether it is appropriate to reconfigure the environment to meet the customer's business needs.
- Software distribution tools to automatically update operating systems and applications to ensure proper patch management for security and compliance purposes.
- Remote diagnostic tools to more quickly perform system and software analyses, and initiate self-healing techniques to minimize downtime.
- Security and malware protection tools
- Backup/restore tools

Few SMEs can afford to acquire all of these management technologies to effectively watchdog their IT environments on a 24-hour, seven days a week basis.

It is equally important to note that most MSPs not only manage their customers' IT environments, but they also recommend and help to implement new systems and applications to ensure the customers' IT operations are properly equipped and configured to meet their business objectives.

## **Managed Services People**

Even if an SME could afford to buy all the management technologies necessary to effectively oversee its IT environment, it must also have the in-house skills and experience to select, install and administer these technologies to properly manage its IT operations.

Few SMEs can afford to build a staff of desktop, network, server, storage, security and messaging experts. It also takes more than just a set of specialists to properly manage an IT environment. It requires an experienced and coordinated staff to monitor and analyze network, system and application traffic patterns on a continuous basis to ensure optimum performance and prevent potential problems.

## **Managed Services Processes**

In addition to having the right management systems and staff, it is essential to implement the management processes to perform a series of tasks on a continuous basis to reduce the risk of unanticipated downtime and improve the performance of IT operations.

The procedural disciplines include scheduled software updates, hardware reconfigurations, security testing, system and storage backup, and network performance monitoring.

MSPs utilize management systems and employ skilled personnel that can perform these tasks in an automated and ongoing basis. Their experienced staff and sophisticated service delivery systems leverage a structured set of technology deployment and ongoing management procedures that ensure the smooth implementation and optimized performance of an IT environment.

In sum, full-service MSPs have made a significant investment in centralized monitoring, rapid problem identification and tracking, and automated customer relationship management and reporting systems which their skilled and experienced staff can leverage to provide multi-layer support to their customers.

## **Comparing Traditional Outsourcing and Managed Services**

While the concept of IT outsourcing has become generally accepted by many organizations attempting to solve their IT challenges, full-service MSPs are improving on the traditional outsourcing model.

Under a traditional outsourcing arrangement, an organization can offload its IT management needs to an external service provider that may even assume ownership of the customer's IT assets and staff. Using a single service provider to handle all of an organization's IT needs can reduce the cost and complexity of contracting with multiple suppliers. Strategic sourcing arrangements can also improve the accountability of the service provider by eliminating the finger-pointing that often occurs between suppliers.

However, Gartner estimates that approximately half of today's traditional outsourcing agreements will fail to achieve their business and service-level objectives. This high failure rate is due to a number of factors.

First, traditional outsourcing arrangements typically focus on reducing the customer's capital investment in IT and ongoing IT expenditures, but fail to proactively manage the customer's operations to mitigate risks and optimize performance.

Second, traditional outsourcing arrangements often include strict contractual terms and conditions which restrict the range of issues that an outsourced supplier will address without added fees.

Third, many organizations become overly dependent on the outsourcer because they have taken ownership of their IT assets and displaced their internal IT staff.

And finally, traditional outsourcing arrangements generally last a minimum of five years and include significant penalties if they are terminated or substantially restructured.

Contracting with a managed services service is a more flexible form of out-tasking. Customers can use MSPs to provide varying levels of support from tier one issue identification to tier three problem resolution and incident management. The MSP typically augments rather than fully replaces the in-house IT function. However, in some cases, SMEs decide to have the MSP assume full responsibility for their IT operations.

MSPs also provide a more flexible portfolio of services which can be acquired incrementally. The contract structure of managed service agreements is also more flexible, and a standard contract period is typically less than five years. This flexibility reduces the risks associated with long-term, all-encompassing outsourcing agreements.

Managed services also enable SMEs to convert their IT capital expenditures into operating expenses, and establish a more predictable month-to-month cost structure for their IT operations, without the day-to-day operational hassles of managing their own IT. Table 1 summarizes the differences between traditional outsourcing and managed services.

Table 1: Traditional Outsourcing vs. Managed Services

<b>Traditional Outsourcing</b>	<b>Managed Services</b>
Transfer entire IT management responsibility	Transfer of specific IT management tasks
Long, 5+ year contracts	Short, less than 5-year contracts (longer agreements are possible)
Strict terms/conditions re: engagement scope	Flexible, adjustable contracts to respond to changing customer requirements
Inflexible pricing structure; added fees for every "change order" which creates unanticipated long-term costs and fluctuating monthly fees	Variable pricing based on number of users, devices, tasks, etc.; permits more predictable monthly costs

The following case studies examine how Sonar Managed Services have helped various SMEs overcome their IT management challenges so they can refocus on their core businesses.

## Calculating the ROI of Managed Services

The benefits of managed services are more than theoretical. They are very tangible and straightforward to calculate. Here is a step-by-step approach to determine the potential cost savings of managed services in your organization:

- **Step 1:** Tally your current IT capital and operating expenses, including hardware, software, staff and support costs. This inventory should include desktop, server, peripheral, network, storage, and security product costs; software and application license fees; maintenance agreements; and voice and data (including Internet) communications service costs.
- **Step 2:** Identify the in-house staff costs for those people formally assigned to manage your IT operations.
- **Step 3:** Calculate any outside IT contractor fees you've incurred for additional technical support to select, implement or maintain your office technology.
- **Step 4:** Estimate the indirect costs of network or system downtime, including lost revenue due to customer and partner dissatisfaction, and lost employee productivity.

## Selecting the Right MSP

In order to find the right MSP to meet an organization's specific needs, SMEs should carefully examine each MSP's service portfolio, delivery capabilities and business viability. It is especially important to determine whether the scope of the MSP's services fully meet the SME's IT and business requirements.

While there are plenty of MSPs that can provide passive monitoring services that still put the responsibility of reacting to problems on the SME, only a full-service MSP like Sonar Managed Services can deliver end-to-end, proactive, management services that fully relieve the SME of the uncertainty and hassles associated with day-to-day IT operations.

Therefore, the MSP's service portfolio and delivery capabilities should go beyond simply focusing on the primary technology issues that are critical to your organization today. The MSP should be able to cover the full breadth of your IT operations from a strategic sourcing perspective so they can respond to your evolving business needs. This includes both data and voice services. And they should also be able to address the full lifecycle of IT and voice management requirements including planning and design, deployment and integration, ongoing management and maintenance, and continuous updating of systems and software.

The MSP should also demonstrate the following qualities:

- Strong IT management technology platform, including a VoIP solution.
- Data security policies to protect proprietary information.
- Service management policies to ensure effective problem resolution.
- In-depth personnel skills to provide proactive support.

The MSP must have a track record of success and solid client references. The MSP must be able to provide ongoing IT performance and activity reports that enable you to measure the cost-savings generated by their services and anticipate future IT investments to meet your business objectives.

Finally, the MSP should have the financial strength to make the technology investments and staffing requirements necessary to deliver its managed services in a reliable and cost-effective manner. This means not only putting the right management systems in place, but investing in the right staff skills and establishing the right management policies and procedures.

## Summary and Recommendations

As SMEs become more dependent on IT systems and business applications to perform their day-to-day operations, they become less tolerant of IT downtime and hassles of managing their IT environments.

In fact, SMEs are becoming increasingly frustrated trying to satisfy their technology needs, and are willing to engage a full-service MSP to manage their IT operations so they can refocus on their core businesses.

Managed services have become an effective method of alleviating the hassles and gaining the full business benefits from IT by producing improved performance, greater worker productivity and higher ROI. As a result, a growing number of SMEs are turning to MSPs to satisfy their IT requirements.

In order to successfully adopt managed services to meet their business objectives, SMEs should follow these straightforward steps:

- **Step 1:** Identify a specific set of IT management issues that need to be addressed.
- **Step 2:** Set realistic and measurable objectives for solving these issues.
- **Step 3:** Use the selection criteria outlined in this white paper to pick an MSP.
- **Step 4:** Establish a service level agreement (SLA) that identifies specific, measurable IT and business metrics to evaluate the effectiveness of the MSP. (Remember that the greater the redundancy and the lower the tolerance for downtime, the more expensive the solution.)
- **Step 5:** Conduct frequent performance reviews to determine if service level objectives are being met. If the objectives are not being met, determine if the objectives need to be modified or if the MSP must improve the quality of its services to meet your IT/business needs.

Sonar is a division of Datrix Limited. It is a leading Managed Services Provider (MSP) offering managed IT services, VoIP, and professional services to small and medium-sized organizations. The company's portfolio of managed services provides a comprehensive solution which includes such critical services as email management and administration, electronic backup for servers and desktops, virus and spam protection, desktop support, and server management. For advanced and larger businesses, the company provides business application migrations, storage area network upgrades and complex hosting applications.

For additional information, please visit [www.sonarsupport.co.uk](http://www.sonarsupport.co.uk) or contact the Sonar Managed Services team at [enquiries@sonarsupport.co.uk](mailto:enquiries@sonarsupport.co.uk) or 0207 749 0808.

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