Scaling for Success

Part I: Solving for Staffing, Skills and Growth

Contents

Introduction

Managed IT services have undergone **significant change and evolution in a very short time**. Service providers today are managing a greater number—and variety—of endpoints than ever before, and continued advancements in cloud technologies have brought Software-as-a-Service (SaaS)-based platforms—specifically remote monitoring and management (RMM)—to the forefront of service delivery.

Couple these factors with the **immediate demand for cybersecurity** in the market, and the dynamics exist for rapid, profitable transformation and growth for managed services providers (MSPs).

Your own business has likely evolved since you first started as well. You've overcome the initial growing pains of a 24x7 uptime-driven model, developed a solid customer base, and are looking to the horizon for what's next beyond the traditional MSP model.

You also know that the one constant in this space is change—and the advent of advanced cybersecurity solutions for small- and medium-sized businesses (SMBs) is a **significant opportunity** in the market to expand to new clients and grow your existing accounts that already have RMM and backup and disaster recovery (BDR) products deployed.

To capitalize upon that growth opportunity, you'll need to structure your organization to face the challenges that exist when growing your business, and have solutions to a variety of growth challenges you'll face, such as:

- How do you hire to **meet current demand**?

- Do you have the **right skillsets** in place?

- Can you successfully **onboard new clients** at a higher rate?

- Does your technology actually make you more **effective and efficient**?

- Are there processes you should automate to **alleviate burdens** from skilled techs?

- What is the best alignment for your organization to **scale effectively**?

- Can you maintain enough positive cash flow to **expand your operations**?

These are **just a few questions that need to be answered,** and a deep IT skills gap across all managed services, but specifically in cybersecurity, is yet another significant barrier to growth. Currently, the unemployment rate for cybersecurity professionals is at 0%. With a vast pool of unfilled positions in the market, finding a qualified candidate is becoming increasingly rare, and expensive.

Introduction Continued

This eBook series is the first of our three-part series that will explain these issues and challenges, outlining the ways that the ConnectWise platform can alleviate these pressures as you continue to move your business forward.

✓ **Section I** (this eBook) discusses the issues of staffing and growth, and how you can solve these issues and profitably grow using ConnectWise Assist®, formerly a ConnectWise solution: SOC, NOC, Help Desk, Dedicated Tech.

✓ **Section II** explores how to supercharge your operations using smarter technology and AI-driven automation

✓ **Section III** explains how to focus and structure your organization for profitable growth using the ConnectWise platform.

You'll be **able to swiftly identify the most pressing issues** you need to tackle, explore the root cause of those issues, determine the best way forward and understand how that decision sets you up **to scale for success**.

Challenge: "My staff can't support additional new clients, I can't find or afford qualified talent, and I don't have the right in-house skill sets to meet demand."

This is one of the most common issues that MSPs face, at any organizational size, and the demand for cybersecurity in the SMB market has crystallized this into the most pressing issue in the market today.

In a perfect world, with a healthy lead funnel and an active sales team, scaling a business wouldn't be much of an issue. However, on the operational side of the house, scaling presents a host of issues that can be very real challenges to growth.

Capacity planning is particularly difficult in managed services, as client demand requirements can change at a moment's notice—or a 100+ user opportunity may fall right into your lap without warning.

In both cases, **success depends on your ability to provide immediate and high-quality support without missing a beat**.

At least eight in 10 US businesses are being negatively impacted by the lack of technology talent. —CompTIA

The X+1 Problem

This is known as the "X+1" scenario, a problematic side effect of the traditional MSP model:

Your current staff is capable of performing a certain amount of work ("X")—but as soon as a new client, project or problem appears, capacity is maxed out, requiring you to hire additional resources **("+1") to support it**.

Each of these "+1" hires is a significant investment in

- ✓ Time
- ✓ Training and onboarding
- ✓ Salary
- ✓ Benefits
- ✓ Infrastructure costs
- ✓ And more

All the investments above **cut into your profit potential and slow your operational efficiency**. And, this presumes that all in-house hires have the same experience, skill sets, certifications and talents, which just isn't true in any realworld scenario. It takes an even greater investment in time and resources to raise a new hire up to the same level as your veteran techs—not to mention a lot of luck that the person you hired is right for the job and will stick around for the long haul.

> *64% of managers don't think their employees are able to keep pace with future skill needs. Furthermore, 70% of employees say they haven't even mastered the skills they need for their jobs today.* —Gartner

This means that, in reality, there are only small windows of time where your organization may be reaching its **full potential**: those moments where capacity is truly met, skill sets are adequate, and the organization is running smoothly—right before you're forced to hire additional staff and begin the process again.
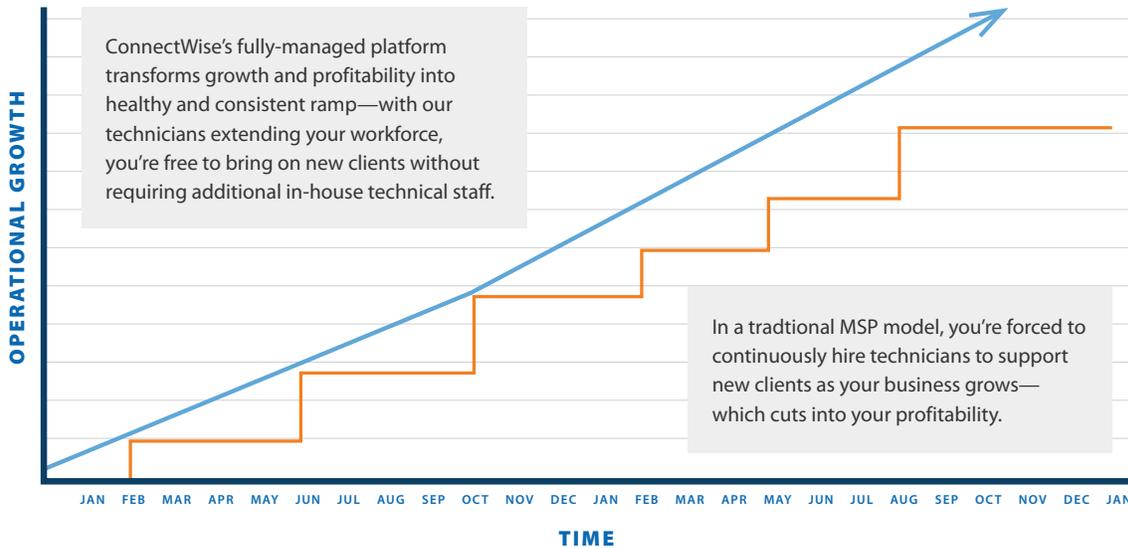
The opposite scenario is equally problematic. If you were to suddenly lose a large client or a large ad-hoc IT project abruptly ends, you'll be overstaffed and overqualified, with techs who command larger salaries based on their skills and certifications that do not have enough work to do. You'll want to keep these valuable resources on your payroll, as they may be impossible to replace, so you need to bring in new business to balance things out.

The effect of the X+1 scenario on the traditional MSP model **leads to operational growth looking like a staircase, rather than a gradual curve**—complete with steep budgetary and resource demands that are difficult to forecast.

Under this model, new client acquisition demands immediate upfront HR spending to hire new techs to service new endpoints. But, finding the right applicants to hire with the correct set of skills and qualifications only compounds the difficulty, as the current skills gap places a massive premium on qualified IT professionals. MSPs are forced to absorb these upfront hiring costs in to reach maximum profitability over time with a client.

This is where the staircase levels off into a mild incline. Profitability increases, costs vastly diminish and absorbed costs are recouped. **However, the cycle begins again when adding any other new clients; another stair begins with another steep increase in spend.**

The X+1 Problem Continued

The Staircase Effect

ConnectWise's fully-managed platform transforms growth and profitability into healthy and consistent ramp—with our technicians extending your workforce, you're free to bring on new clients without requiring additional in-house technical staff.

In a tradtional MSP model, you're forced to continuously hire technicians to support new clients as your business grows—which cuts into your profitability.

OPERATIONAL GROWTH

JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC JAN

TIME

Adding a new $50,000 (USD) technical professional reduces managed services gross margin from baseline 49% to 43.9%—a drop of more than 10% in relative terms. To return to baseline after adding the new employee, $150,000 in new revenue must be added, equating to 8.3 new contracts across 13 months, on average.

S-LI Report: "Address Challenges to Profitably Scale the SMB MSP Business Model"

The Staffing and Scalability Dilemma

Challenge: Should I staff robustly in preparation of client demand, risking low productivity, or maintain a lean organization to maximize profits, regardless of the risks to service quality?

This staircase growth that's caused by the X+1 scenario means that the traditional MSP model is **less predictable to forecast in a budget**, due to a few obvious challenges:

1. Spending/COGS

2. Financial disadvantage from upfront costs

3. Increased risk from unexpected issues

4. Difficulty onboarding clients

5. Investment into trainings and certifications

The dollar value of spend/COGS is entirely dependent on the size of a new prospect (and limited to the costs the MSP can absorb). Larger clients should mean greater growth for your business, **but in reality it leads to larger commensurate upfront costs and challenges**.

It may seem counter-intuitive, but a "hire-as-you-grow" method puts a **damper on your efficiency, growth rate and overall service delivery experience**. MSP business owners are forced to spend extra cash up front and attempt to win it back (and exceed its value) over time with recurring revenue.

And this model **assumes that everything goes according to plan**. If you find yourself unable to attract and hire enough IT professionals with the right experience and skills, your current staff will become overburdened and eventually burnt out, leading to mistakes and lower-quality service delivery. Through the lens of cybersecurity, which has refocused managed IT services into a protective vanguard for SMBs, this is just not an option.

This "staircase" approach is risky at best and is limited by an MSP's ability to absorb these upfront costs in order to win new contracts. Such an approach puts a business at a financial disadvantage and makes it exponentially more difficult to handle any unexpected issues or problems while trying to continually acquire new customers.

MSPs therefore face a dilemma every time they acquire new clients and prepare for growth, and are forced to adopt one of two approaches:

- Overstaff the business to guarantee you'll be able to support spikes in service requests and acquire new clients quickly, regardless of skill level or experience.

- Understaff the business to maintain a lean operation and maximize profit while running the risk of missing out on new deals or losing existing business if customer experience suffers.

Neither is an **ideal scenario for success**.

Solution: Transform Growth into a Ramp

Fortunately, there's a third option—though it challenges much of the traditional thinking and resistance around labor outsourcing.

In the same way that cloud computing allows businesses to add or remove resources and capacity at the click of a mouse, a growing labor arbitrage phenomenon is granting service providers unprecedented access to technical and human resources as well. The most dramatic and effective means of eliminating the uncertainties surrounding workforce management is to **leverage a trusted and reliable third party who has the means to scale human resource capacity up or down at a moment's notice**. For MSPs, this means employing a network operations center that is integrated into and aligned with your managed services platform.

Using this proven method for profitable growth, you can streamline the efficiency of your internal operations with ConnectWise's Network Operations Center, **transforming your growth trajectory** from a rigid staircase into a healthy and consistent ramp.

> *Being able to offload work to the NOC and Help Desk enables our team to focus on client relationships and revenue-driving activities.*
>
> ——SCOTT OLESON, *Senior vCIO and Director of IT, FBP*

This works because the ConnectWise platform is purposefully designed to **allow MSPs to scale by leveraging a deep integration with our NOC**. As a ConnectWise MSP partner acquires more clients and subsequently more endpoints, the support they're receiving from our NOC technicians scales as well—at a rate that accurately meets the needs of service delivery requirements, and without any of the costs associated with infrastructure, technology, training, benefits, etc. tied to an in-house staff.

So, MSPs who utilize the ConnectWise NOC are **never investing in or paying for unutilized or unproductive labor**—they can scale it up or down as needed to meet SLAs, and multiple service levels allow MSPs to decide exactly how they'd like to leverage the NOC on a per-site basis. And, the total cost of ownership over time is far less than hiring to scale.

Furthermore, making the switch to the ConnectWise NOC is not just about managing your employee's time and capacity. **Overall, MSPs do not see direct profit from the tasks that would be characterized as routine, recurring or mundane**. These lower-level tasks are part of most basic service packages and are not significant drivers of revenue or profit, regardless of how frequently they're taking place. No matter how many or how few need to be performed for a client, the MSP does not see any profitable returns for performing these tasks; they're simply what "need to be done".

Solution: Transform Growth into a Ramp Continued

Many service providers also may find that their staff spends so much time managing an RMM tool or conducting password resets for users that they **may be missing out on potential additional revenue opportunities** or project work. At the same time, these tasks are often the crux of an MSP's business, and one of the most valuable components they're providing to clients daily. Ensuring this aspect of service delivery operates as steadily, continuously and efficiently as possible—and continuously operating around the clock—all lends itself to delivering effective customer service.

This dynamic creates an inverse correlation between intensive labor and utility. MSPs are required to staff up their operations with techs to take on the demands of servicing large, profitable clients with many endpoints, **but those techs' can never spend their time on additional projects that could generate additional revenue; they are entirely devoted to maintenance and upkeep**.

And if, from a budgetary perspective, an MSP is not able to take on the upfront costs of adding new hires to their staff to meet incoming demand of endpoints, then that MSP will lose out on opportunities that could further business growth.

How You Can Scale for Success Using the ConnectWise NOC

The ConnectWise model **allows MSPs to take on clients of any size**, because staffing and labor costs are scalable and proportional to the total amount of endpoints that MSP is required to service. ConnectWise's NOC infrastructure is designed for efficient scalability, with technology and training rolled into the overall price.

Utilizing the ConnectWise NOC is neither a get-rich-quick scheme nor or a simple cost-cutting effort—especially in today's business landscape where costly practices like 24x7x365 monitoring and uptime are quickly becoming the level of service your clients expect and demand.

Instead, outsourcing is what allows MSPs to offload much of the day-today maintenance and routine work that their in-house staff is currently stuck managing, **freeing them to focus on client relationships and business development**.

Functions like monitoring, ticketing, scripting, patch management, threat monitoring and other tasks—although critical—can take a significant amount of time away from level II and III technicians who would be better-utilized in other aspects of the business.

> *We've got one client with more than 30 servers— ordinarily that would occupy a full-time staff position in itself, but with ConnectWise, my small team can handle that along with 50 other clients of 5–100 servers.*

— ROBERT S. GELSINGER, *Founder, Secure Network Services, Inc.*

Furthermore, MSP staff are not made redundant by a NOC; **they become even more valuable**. MSP hires can apply their specific skills more efficiently—and more profitably. Operationally, staff can manage and work on advanced projects that add value to clients and revenue for MSPs. Some are also able to move into technical advisory roles—such as a virtual Chief Information Officer (vCIO) that's "embedded" into a client organization at a critical level—to provide the guidance, experience and strategy that are **paramount to a successful managed services relationship**.

The result is that MSP staff can now make existing clients more valuable and profitable, allow new clients to ramp up faster, and **generate larger monthly recurring revenue across the business**.

The ConnectWise NOC is just one component of **ConnectWise Assist**, our solution to extend your capabilities, secure new skill sets and embrace profitable, scalable growth. Assist provides powerful, always-on NOC, SOC and Help Desk solutions that fully integrate into the ConnectWise platform, freeing you from having to take on the massive burden of building these resources in house.

ConnectWise Assist SOC—Deliver advanced security without the need for inhouse expertise. Protect your clients with complete monitoring, mitigation and full problem resolution.

ConnectWise Assist NOC—Let us take care of day-to-day admin tasks, optimize performance and help you be more productive—so you can scale your business without hassle.

ConnectWise Assist Help Desk—Rest easy knowing that your customers are supported 24/7/365 under your brand with our white-label routing and direct response services via chat, email and phone.

ConnectWise Assist Dedicated Tech—Stop worrying about your next full-time hire. Get dedicated ConnectWise technical experts that you control, manage and direct.

ConnectWise Assist Tech Advantage—Assign custom projects and ad-hoc work for our teams to complete during business hours, after hours or on weekends. Free up your technicians for higher-value projects that empower strategic growth.

Conclusion

Thanks for reading part I of our "Scaling for Success" series.

The next installment will discuss how to **supercharge your operations** using smarter technology and AI-driven automation, while the third part will discuss how to **align your organization for profitable growth** using the ConnectWise platform.

If you feel your business could benefit from solving any of these growth challenges, it's time to consider what's next for your business. To take the next step, you should take a look at our platform in action—watch the demo here.

ConnectWise is an IT software company powering Technology Solution Providers to achieve their vision of success in their As-a-Service business with intelligent software, expert services, an immersive IT community, and a vast ecosystem of integrations. The unmatched flexibility of the ConnectWise platform fuels profitable, long-term growth for our Partners. Visit ConnectWise.com.