CSG Advisory

Channel Development

CHAMPIONING MANAGED SERVICES GROWTH WITH AN ECOSYSTEM PLAY

Harness the Right Mindset, Skillset, and Toolset to scale the Managed Services offering through capable and committed partners.

Image Source: Pexels/Faik Akmd

This report addresses two essential questions in growing IT Managed Services through a symbiotic partner ecosystem:

- Why should channel partners consider building a Managed Services practice?
- How can Hi-Tech vendors leverage the indirect ecosystem to scale their Managed Services offering?

Market volatility, geo-political situations, and greater economic uncertainties are compelling organizations large and small to explore adjacencies to help them survive and thrive. The IT Channel ecosystem has been equally impacted by these headwinds forcing partners to search for new value pools.

As per McKinsey research[1], companies that have made business-building a top strategic priority have grown more quickly than other organizations during periods of high economic volatility. (Approximately 10% above market growth rate)

Adopting the business-building mental model is vital for channel partners to future-proof their business. It's time for partners to demonstrate strategic courage in navigating the **VUCA** (Volatile, Uncertain, Complex, and Ambiguous) world. Hi-Tech vendors and partners should take note of this and work together to build adjacencies that propel them forward.

A high-potential segment to consider would be Managed Services. Simply put, it is the practice of removing the undifferentiated IT heavy lifting from the customer so that they can focus on their core business. It is an idea that has evolved since the 1990s and is increasingly relevant to customers, with the landscape shifting from a people-centric to a platform-centric play. Global research indicates (Exhibit 1) that this market presents tremendous growth opportunities (13.6% CAGR, 2023-2030) in the near and long term.
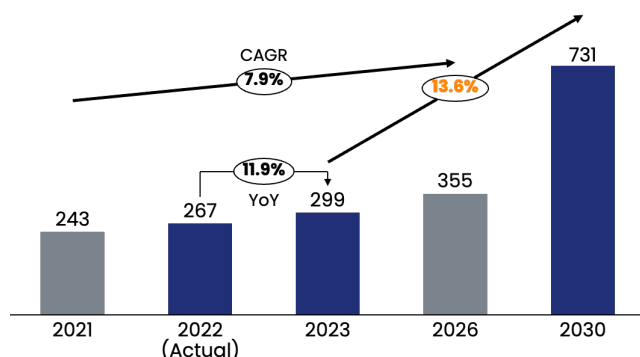
> "Business building is vital to a company's longevity. To do it successfully, an organization needs the strengths of an incumbent and the agility of a start-up."
>
> - McKinsey & Co.[2]

Exhibit 1
Global Managed Services Outlook (in $B)

Source:
1. Secondary Literature, Expert Interviews, and MarketandMarkets Analysis (2021 – 2026)
2. Grand View Research (2022, 2023 – 2030)

1. New-business building in 2022: Driving growth in volatile time, McKinsey & Co.
2. Building a business within a business: How to power continual organic growth, McKinsey & Co.

Forces Shaping Managed Services

The need for customers to lower their IT Operational costs and Invest in Innovation (Exhibit 2) is fueling this growth in the managed services segment. This, coupled with factors like Hybrid work growth, multi-cloud adoption, increased cybersecurity risk, and the need to meet regulatory & compliance requirements, has further accelerated the need to optimize IT management.

McKinsey research[1] suggests that IT leaders are most likely to seek help from external IT providers to access talent and Innovation. This operating model allows them to focus their limited resources on core competencies and partner with managed services providers (MSPs) to deliver IT-enabled business outcomes.

Delivering on the promise of IT agility with stability and resiliency is no longer a solo sport. Successful companies build a symbiotic ecosystem of partners to co-create solutions that deliver superior customer experiences. Hi-tech vendors must embrace this reality and bring along their capable partners in building customers for life.

For partners, this unlocks incremental opportunities for value capture through greater customer stickiness, better visibility into customer utilization and potential needs, and reduces competitive pressure, resulting in increased customer lifetime value. And lastly, the predictable, recurring, and multiplier effect on partner earnings can help them weather economic storms.

> Managed services continue to be one of the three largest growth engine in tech
>
> – TSIA[3]

Based on our implementation experience, we highly recommend that vendors adopt a guided and assisted **approach built on the trifecta of the Right Mindset, Skillset, and Toolset**. Getting this correct ensures vendors stay aligned or risk being forever behind; hence, they need to be the steward of this approach.

Exhibit 2
Help customers achieve success through IT

Customers need to make the flip to innovation...

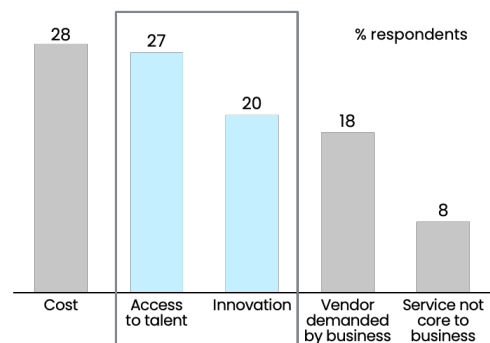Share of IT spend on operations and maintenance vs. innovation and discretionary spending
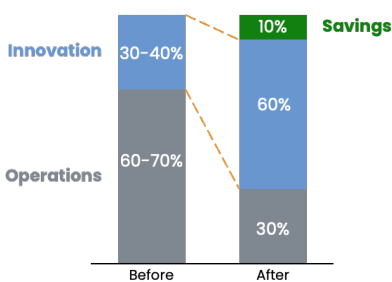
Source: Accenture Research

...and they are seeking help from IT providers

"More than half of IT leaders believe that there is no other way to achieve digital transformation goals without a close relationship with their IT providers."

Source: CIOs are redefining what a successful relationship with their IT providers looks like, McKinsey & Co.

What is driving your need to leverage external IT providers?

% respondents

Cost	Access to talent	Innovation	Vendor demanded by business	Service not core to business
28	27	20	18	8

3. The State of Technology Services, 2023, TSIA

The Right Mindset

Mental model required to select and onboard partners

The critical first step is to identify the right set of partners committed for the long term. While much of this is an art based on existing relationships, we recommend a data-driven approach to assess their partnering behavior and existing capabilities (Exhibit 3).

Shortlisted partners should be onboarded programmatically into a sandbox environment. This ensures they have the proper understanding, risk appetite, and support through the learning curve.

Vendors should deliberate while defining the partner readiness journey. Given the complex nature of the Managed Services business, it can't be treated as a transactional sale. Vendors must start with strategic alignment and lay out the rest of the joint Go-to-market plan.

Remember to keep the plan simple and focus more on the implementation. The schema below (Exhibit 4) outlines this approach in greater detail and calls for a well-curated incubation and activation program. The onboarding journey ensures that partners progressively build the right capabilities, leaving little margin for wasted investments.

A key consideration at the outset is to decide on the engagement model. This is a function of partners' capabilities and ambitions. In our experience, we have mainly encountered two partner archetypes (Exhibit 5):

- **Low or No** Managed Services (MS) experience – they mainly fit the **resell-only model**

- **Medium to High** MS experience – they are mainly interested in **co-delivery and/or leading with their own MS** backed by the vendor.

The engagement model will also determine the nature of the investment and its impact on partner financials. Vendors are responsible for making the partnership economically attractive and should build scenarios to explain the revenue and profit sharing between the parties involved.

Exhibit 3
Partner Prioritization framework
For High-tech firms building a Managed Services partner ecosystem

Two dimensions for evaluating partner willingness in building and growing a joint managed services practice:

1. **Partnering ability**

   Partners willing to align, invest and engage with the vendor to serve joint customers. Engage with the partner's leadership team to assess their priorities and commitment.

2. **Services capability**

   Partner's competency, scale, and focus to build a services value pool. Assess this independently of the existing relationship, if any.
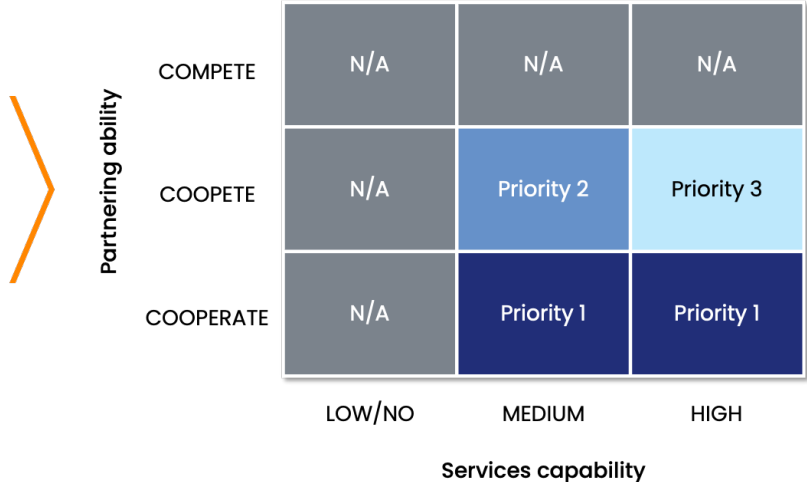
Partnering ability	LOW/NO	MEDIUM	HIGH
COMPETE	N/A	N/A	N/A
COOPETE	N/A	Priority 2	Priority 3
COOPERATE	N/A	Priority 1	Priority 1

Services capability

Exhibit 4

It is not just about sales alignment but operating model alignment

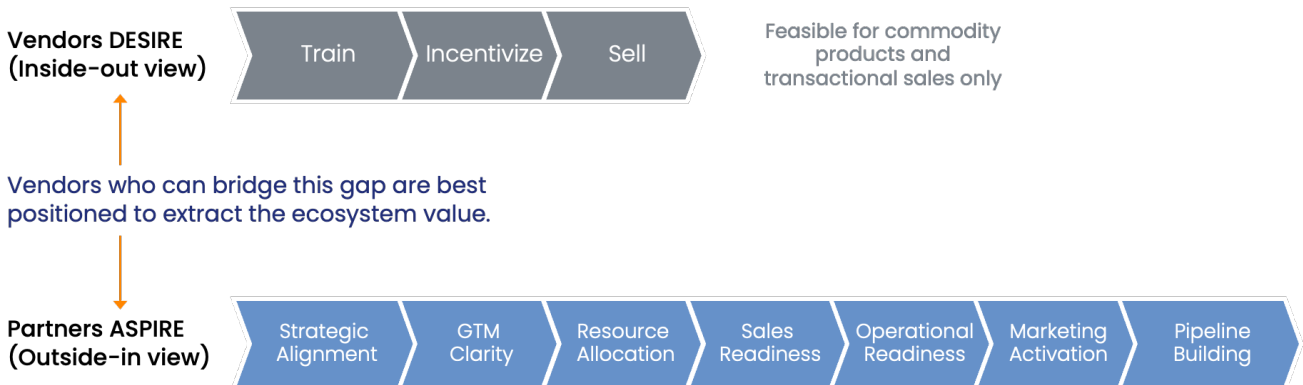An inconvenient truth about high-value selling through partners.

Vendors DESIRE (Inside-out view)

Train → Incentivize → Sell

Feasible for commodity products and transactional sales only

Vendors who can bridge this gap are best positioned to extract the ecosystem value.

Partners ASPIRE (Outside-in view)

Strategic Alignment → GTM Clarity → Resource Allocation → Sales Readiness → Operational Readiness → Marketing Activation → Pipeline Building

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Exhibit 5

Partnering models to explore

For Building and Scaling Managed Services practice

Engagement Models →	Resell only	Co-sell/Co-deliver	MSP play
Sales	Vendor-assisted	Jointly	Partner-led
Delivery	Vendor-led	Jointly	Partner-led & Vendor-assisted
Account mgmt.	Vendor-led	Jointly	Partner-led
Partner investments	Low	Medium	High
Partner profit potential	Low	Medium	High

This is a non-exhaustive list, and other engagement models could exist.

The Right Skillset

Driving partner sales and technical readiness

Once the strategic alignment and joint Go-to-market planning are complete, the next essential step is to harness the right talent and capabilities for this new endeavor. Look for people with the agility and ability to embrace ambiguity and an accelerated pace of change. Start with the partner sellers and nurture them to be field-ready. Sales enablement is not a one-and-done effort and involves a journey toward building sales champions.

Given the technical nature of Managed Services, vendors should encourage partners to bring together their sales and pre-sales teams for such learning programs. Training, learning checks, role plays, and certification is required to build the seller's confidence (Exhibit 6).

In addition, partners need to be trained on the systems, tools, and processes for service orchestration and delivery. They may also have to attain requisite technical certifications to take their solutions to the market.

The Right Toolset

Empowering customer outreach and activation

Will and skill are not enough to guarantee success; vendors must arm partners with the tools to achieve commercial outcomes (Exhibit 7). Create a playbook that partners can refer to as a blueprint for building and scaling their managed services business. Marketing remains a crucial challenge for partners, requiring vendor assisted/ funded marketing firepower across the customer journey.
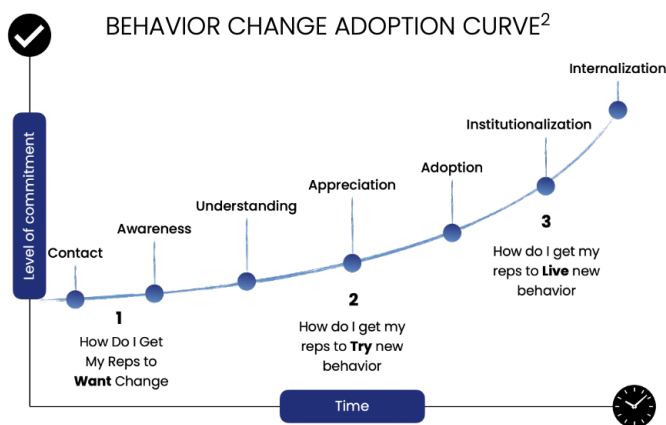
Partners also need access to pricing and quoting tools and adequate pre-sales support to configure the right solutions for customers. They will also need case studies, customer references, and TCO calculators to present a credible value proposition to their customers.

Partner Sales Enablement
Preparing the frontline for customer outreach

REALITY | 66 DAYS AVERAGE TIME TO FORM A BEHAVIOR-BASED HABIT[1]

BEHAVIOR CHANGE ADOPTION CURVE[2]

Level of commitment — Time

Contact · Awareness · Understanding · Appreciation · Adoption · Institutionalization · Internalization

1 How Do I Get My Reps to **Want** Change

2 How do I get my reps to **Try** new behavior

3 How do I get my reps to **Live** new behavior

Vendors should develop an immersive learning experience that provides the sellers a new narrative and confidence in positioning Managed Services.

- Virtual training session
- Knowledge check
- Role plays: Managed Services pitch
- Certificate of Completion

1. European Journal of Social Psychology
2. Enterprise Solutions Competency Center, ODR, Inc.; CEB Analysis

Exhibit 7
Partner Activation Kit
Help drive speed to market

Awareness/Demand	Qualification	Consideration	Decision
• Customer value proposition deck • Demand generation campaign • Customer references	• Customer screening questionnaire • Discovery workshop – structure, content & facilitator • Customer IT audit	• Demo sessions • Pricing tool • Quoting tool • SLA Template • TCO Calculator	• Case studies • ROI Calculator • Competitive information

⸻ Assets for each stage of the buyer's journey ➔

Orchestrating this ecosystem play presents its challenge without full hierarchical power or control. BCG Research[4] states that the most prevalent reason for failure is the lack of a robust governance model in managing the ecosystem. Hence, the **final step is implementing a framework for ecosystem governance** that allows vendors and partners a transparent view of the progress, key milestones, and room for continuous improvement.

Business leaders must define their North Star metrics to measure success, like Net Promoter Score (NPS), Customer Lifetime Value (CLV), Customer Acquisition Cost (CAC), and Customer Churn. There are many other indicators, but vendors and partners must agree on a few to help understand the economics and outcomes of their operating model.

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Envisioning and implementing new growth levers will be crucial to business longevity. An ecosystem play can turbocharge the go-to-market efforts, but such partnerships can't be built and operated in autopilot mode.

Vendors must be co-pilots in this journey, helping navigate the operational complexities, de-risking the investments, and enabling partners to achieve their full potential in the long run.

Authored by Saurav Chowdhary, Founder - CSG Advisory.

4. How do you manage a business ecosystem? - BCG