The economic advantages of managed services

By Tom Seal, Senior Programme Director, European Services, IDC

The economic case for managed services

When it comes to the provision of IT services, businesses have a choice between internal provisioning, managed services or full outsourcing. Increasingly businesses are deciding that managed services are the best option. CIOs and the lines of business they support increasingly see the management of technology as a core activity that they don't want to fully outsource, but they are equally aware they must capitalise on external skills and capabilities. Managed services are seen as a way of capitalising on external capabilities without handing over assets and full control to a service provider.

While the popularity of managed services can certainly be attributed to this strong alignment with current IT strategies, there is also a strong underlying economic case for managed services. These strong economic foundations are all based on the fact that managed service providers (MSPs) have a scale advantage over internal service provision. These economic advantages include:

- **Staff utilisation.** Managed service providers serve a multitude of customers and often deliver a wide variety of service types. This smooths out the demands on the service provider's team and means they can employ precisely the right range of skills and right level of capacity to deliver on the collective needs of their customer base. A business conducting these tasks itself needs to employ the level of resource required to cope with peaks in activity. At other times there is a risk these staff will be underutilised. This is particularly likely in SMBs, where there are fewer opportunities to redeploy excess resources. The fact that MSPs can deploy their staff efficiently means they can also afford to retain a range of more specialist skills.
- **Getting the most out of assets.** The costs of the office space and hardware and software licences required to deliver an IT service can be substantial. In the same way that MSPs have an advantage in utilising their staff, they have an advantage in making the most of these resources. The type of assets bought or licensed will also be specifically chosen to deliver managed services in the most effective way.
- **Investment opportunities.** To continually improve service delivery, sustained investment is required in tools, equipment and automation. In any business these investments will need to pass a certain return on investment threshold to secure funding. MSPs have an advantage over internal IT teams in this respect as they may be able to derive greater benefits from the investment by applying it across their customer base. This enables MSPs to pursue marginal gains in performance that would be uneconomical for internal IT functions. This pursuit of improved service delivery performance and efficiency is critical for service providers both in terms of ensuring customer satisfaction and growing their own profitability.

- **Transition.** The cost of change can often be a barrier to the adoption of new services, even when the business case is strong in the long run. Managed service providers can help customers finance the transition and recoup the cost through efficiencies over the life of the contract.

The fastest-growing IT services segment

The UK managed services market, excluding IT outsourcing, grew at 5.9% in 2019 and is expected to grow in 2020 despite tough economic conditions. This makes managed services the fastest-growing and most resilient segment of the IT services market. The growth in the managed services market is both a result of a good fit with current IT strategies and the strong economic advantage managed service providers have over internal IT functions.

How does this benefit customers?

To attract customers and beat their competitors MSPs must use the economic advantage they have over internal IT teams to deliver customer benefits and be better than their competitors at doing so. Service providers have many choices open to them in how they differentiate themselves, but below are some of the key benefits customers can derive from MSPs:

- **Cost reduction.** Customers can benefit from a straightforward cost reduction over internal provision when adopting managed services. As described above, MSPs have a great advantage and are able to offer cost reductions in combination with other benefits. Importantly these benefits can generally be achieved without the long contractual commitments or asset transfers seen in full IT outsourcing. Although there is some setup cost and a requirement to learn the needs of the customer, the customer will typically see a cost benefit from day 1. Service providers can also offer a high degree of cost certainty where this is of particular concern to the customer, fixing the price of the service within certain constraints. Customers making the shift to managed services will typically achieve cost savings of at least 10%.
- **Lower barriers to technology adoption.** MSPs productise their services to drive efficiency and promote their capabilities. This reduces the cost to a customer of adopting a new service, as the service provider has already learnt the lessons and made the investments. This removal of barriers that may have previously stood in the way of technology adoption provides an opportunity for businesses to quickly adopt advanced technologies, accelerating their digital transformation. Ultimately this more rapid adoption of technology and increased innovation could lead to improved business outcomes and business performance for the customer.
- **Scaling.** One of the key benefits customers seek from MSPs is the ability to scale capacity up and down quickly. In a survey conducted in 2020 by IDC, scalability was the number 1 reason why their organisation was considering managed services. This need for flexibility relates to both the demand fluctuations that can happen on a day-to-day basis as well as longer-term scaling that can happen as a business grows in boom times or contracts during a downturn. As described above, MSPs are very efficient in the way they apply their resources, but this does not just create a cost advantage — it also enables them to offer

great flexibility to their customers. MSPs design their processes and train their staff with scalability in mind, enabling them to quickly apply extra resources to support customers when they require it. The standardisation of services and cross-training of staff are important enablers of this.

- **Best practice.** The delivery of a particular service is a core activity for the service provider in question, and they win or lose on their ability to deliver that service to the highest standard. The experience and expertise of MSPs means they can keep up with emerging best practices and quickly ensure all their customers benefit from these. Customers expect their service providers to actively manage and evolve service delivery.

Despite the clear cost advantages of managed services delivery models customers will rarely choose to adopt managed services purely on the basis of cost. The expectation is that cost improvement will be combined with other benefits of high value to their business, whether that be the certainty that the latest practices are being applied or that they have fast access to the latest technology. For many MSPs their stated goal is to deliver business outcomes and ultimately greater profits for their customers. They can achieve this by making new technology available that will deliver these business outcomes and by unburdening the customer's own IT team to focus on the most value-adding and strategic activities.

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IDC UK

5th Floor, Ealing Cross,
85 Uxbridge Road
London
W5 5TH, United Kingdom
44.208.987.7100
Twitter: @IDC
idc-community.com
www.idc.com

Global Headquarters

5 Speen Street Framingham, MA
01701 USA
P.508.872.8200
F.508.935.4015
www.idc.com

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