

The LogicNow Global IT Service Providers **Harmony Report.**



Are the relationships between IT Service Providers and IT Departments in a state of Harmony or Discord?



Executive summary

- **Are IT Service Providers selling the right offerings to their IT Department customers within client organisations?**
- **Are they building the right relationships with the right internal stakeholders?**
- **Are they structuring their service provision and invoicing in the right way?**

These questions are answered in LogicNow's annual healthcheck on the global IT Service Management market. Are the two sides – IT Service Providers and IT Departments – working in Harmony, or in a state of Discord?

The good news is that across the eight countries surveyed, IT outsourcing is very much preferred, and Managed Services – the well-recognised most profitable option for Service Providers – is either a go-to option or gaining rapid traction.

But for each area we examined, the unescapable conclusion was that Service Providers are failing to offer what their customers want, are misjudging how their relationship is expected to evolve, and are not structuring their services in a way that satisfies IT departments. The market is in Discord – and that means potential profit is being left unrealised.

The reason is universal across all three areas – Service Providers' fundamental misunderstanding of how to evolve from a tactical relationship with customers to a strategic one.

- Service Providers are failing to appreciate IT Departments' priorities when selling their services and are pushing strategic engagement too early
- Service Providers misunderstand the maturity and nature of their relationships with stakeholders across their customers' businesses and again, emphasise consultancy too frequently
- In structuring their services, Service Providers are forgetting the need to address IT Departments' immediate needs and concerns and are instead focusing too hard on trying to deepen the engagement.

These problems can, however, be fixed by aligning the Service Proposition better with the clearly-articulated needs of the customer. Service Providers are aiming for the right objective: Consultative engagements lead to a broader range of activities, longer relationships and greater profits. But this depth of relationship only comes once trust is earned and immediate priorities are dealt with. Service Providers need to understand the process of building trust and the time investment required.

Contents

Introduction	7
Background to respondents	8
Harmony or Discord?	
Are Service Providers selling what IT Departments want?	12
Is the IT Service Provider relationship healthy?	16
Are Service Providers structuring their Managed Security Services correctly?	19
Final Conclusion	
Are the relationships between Service Providers and IT Departments in a state of Harmony or Discord?	24



Introduction

Many IT Service Providers have successfully evolved from break/fix IT support into fully-fledged Managed Service Providers (MSPs) – and are seeing the financial benefit of doing so.

But the upheaval is not yet over. With the IT market undergoing constant change, MSPs are finding that their hoped-for evolution is looking more like a cyclical merry-go-round.

This market uncertainty comes in many forms – rapidly developing technology and customer expectation to keep pace; the introduction of new operating systems and hardware options; the consumerisation of enterprise IT; and of course ever-growing customer demand for Service Providers to offer mobility services, device management and infrastructure consultancy.

Similarly, IT departments have their own struggles to contend with. The same consumerisation of IT that troubles Service Providers also creates compliance issues and a “shadow IT” fragmentation headache for the IT department. Meanwhile, IT’s role as an enabler of any form of corporate strategic change makes it a fundamentally strategic asset with constantly growing and changing expectations.

There has never been a more turbulent time for both sides of the corporate IT equation.

It is all the more important, then, for Service Providers to be certain that their service offering, client engagement and direction of future development are aligned with what their customers want.

This market analysis from LogicNow, provider of the world’s leading integrated IT Service Management platform, examines both sides of the relationship – what IT Departments across the world want and need from their Service Providers, and what is actually being offered. Representative sample data has been drawn from across three continents and scrutinised to highlight any strong alignments – the “Harmony” – and the opportunities represented by them; and to shine a spotlight on where there is need for improvement – the “Discord”.

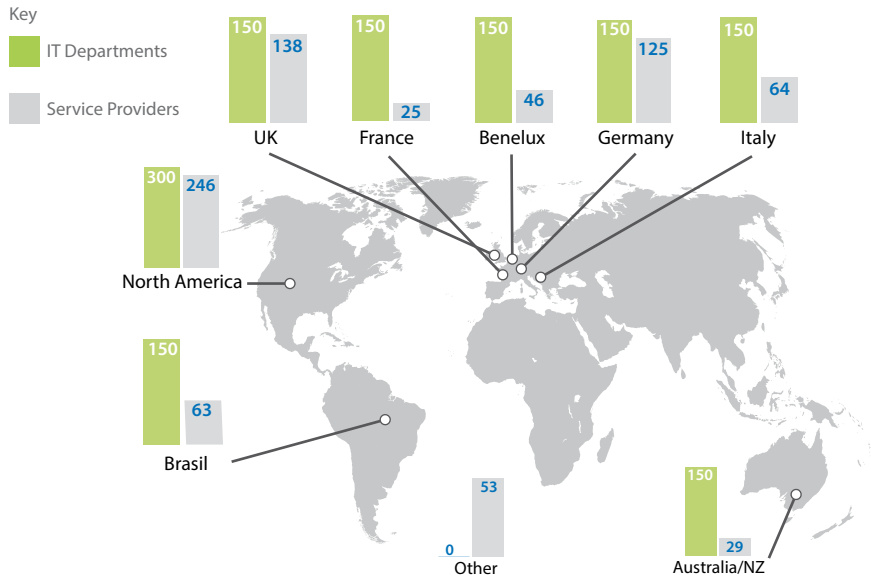
Background to respondents

LogicNow surveyed over 1,300 IT Departments and almost 700 IT Service Providers from eight countries.

Geographical Breakdown

1

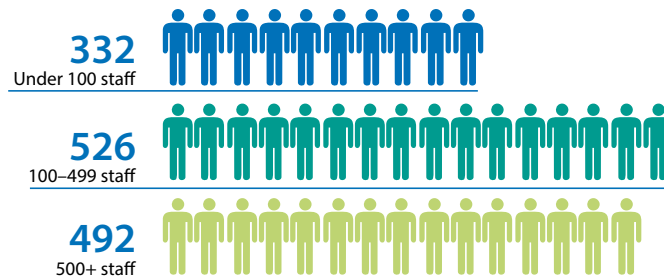
Respondents by Country of Operation



Company Size Breakdown

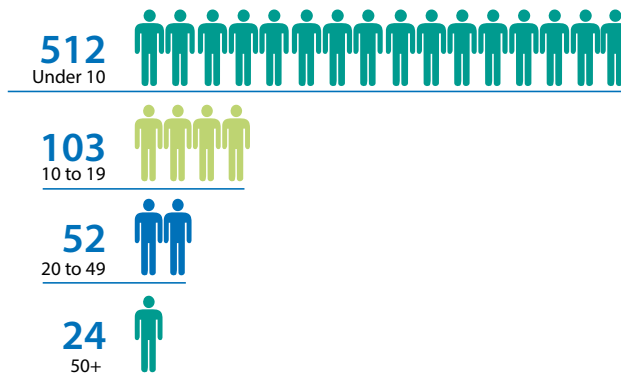
2

IT Department Respondents



3

Service Provider Respondents

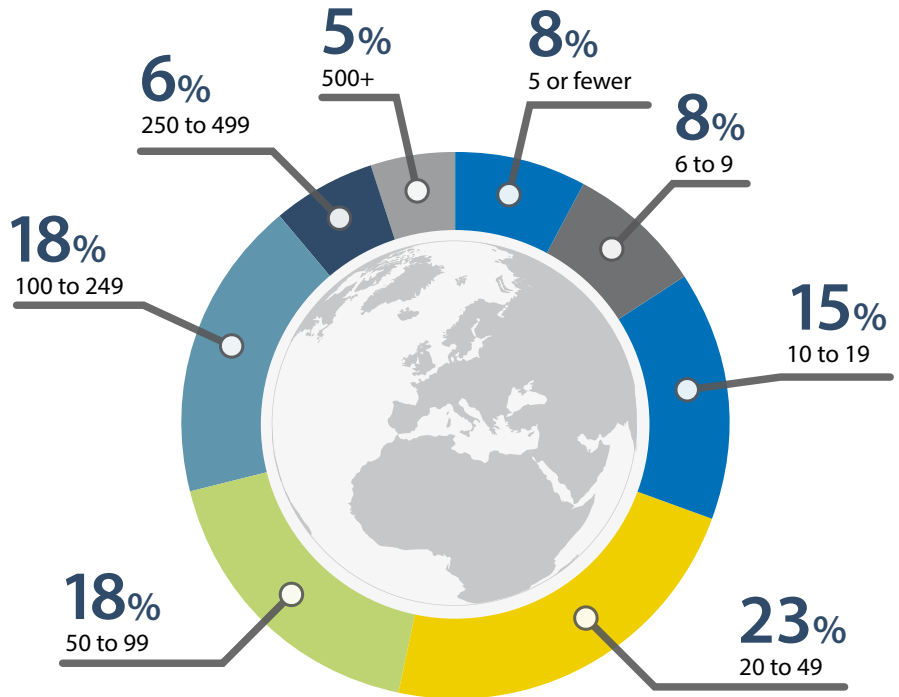


Service Providers Respondents Breakdown

The 691 Service Providers break down to show a sample that is closely representative of the global market

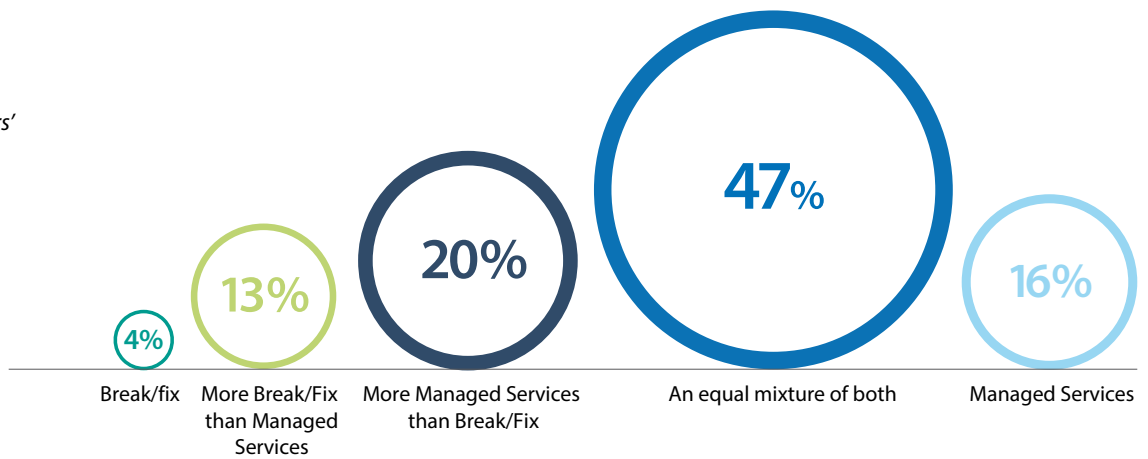
4

Service Providers' Number of Customers



5

Service Providers' Support Model

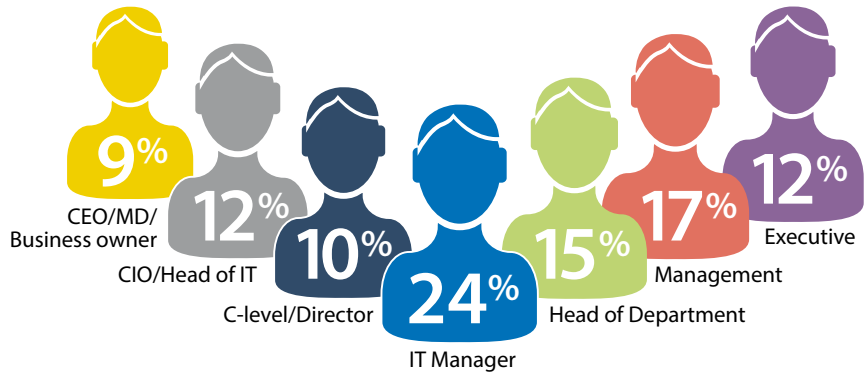


IT Department Respondents Breakdown

LogicNow’s IT Department respondents were deliberately chosen to represent a strong bias towards management level and above – those that own the relationship with the current Service Provider, or are the decision-maker in any future Service Provider selection. This was to ensure that responses accurately represented actual buying habits.

6

IT Department Respondents’ Job Titles



7

IT Departments: Do you currently have an external IT service provider?



8

IT Departments: If yes, are you the relationship owner?



9

IT Departments: If no, are you averse to outsourcing your IT support?



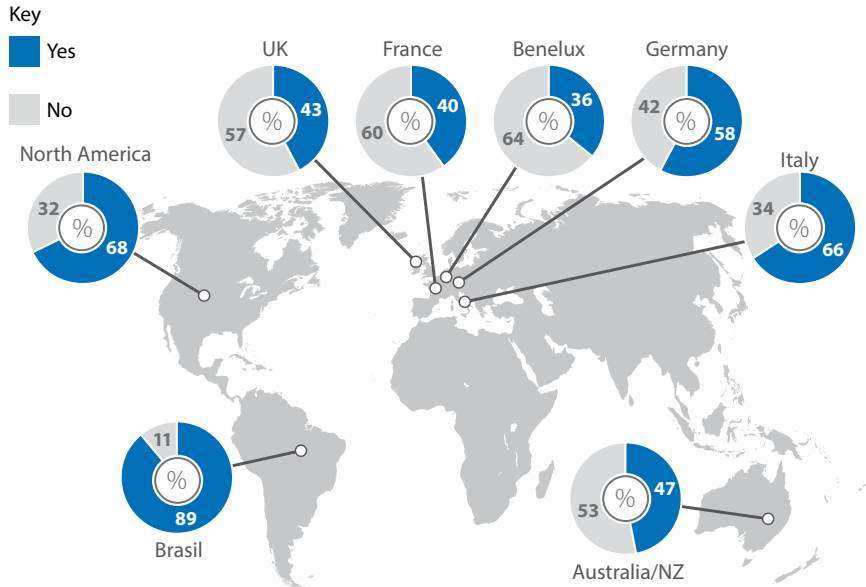
While only around half of IT Departments are currently outsourcing their support, only an extremely small proportion is actually averse to the idea. This means that there is plenty of opportunity for Service Providers to win new business – provided they can perfect their messaging and offering.

Geographical Split of IT Support

Fig 10 clearly shows that the use of IT Service Providers by internal IT departments is well-established in all markets. Traditionally, Service Providers have focused on targeting companies without IT departments, but this data would suggest that there is equal opportunity in offering support to companies with their own IT departments.

10

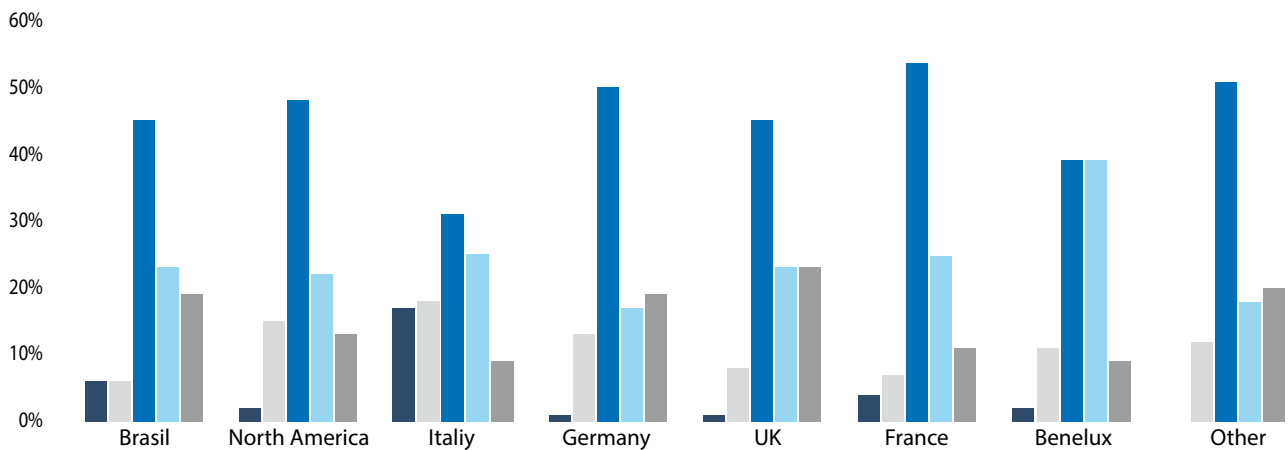
*IT Departments:
Do you currently have an external
IT service provider?*



In terms of the evolution of IT Service Providers, it is reassuring to see a significant proportion of 'pure play' MSPs and that Managed Services represents more than half of Service Providers' business. Significantly, there is also plenty of room to grow in all territories – the managed service market is by no means saturated, especially in countries such as Italy.

11

*Service Providers:
What is your support model?*



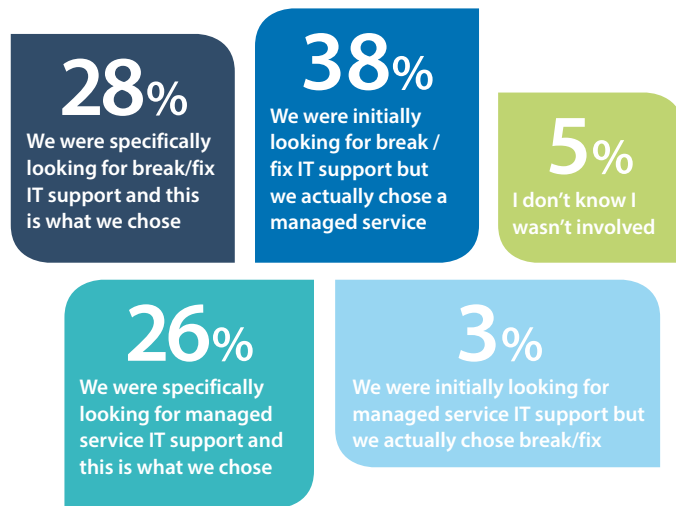
Harmony or Discord?

Are Service Providers selling what IT Departments want?

Fig 12 shows that the majority of IT Departments – 64% - actively chose Managed Services, which is of course of little surprise considering what Fig 11 showed about the services that Service Providers tend to sell. The interesting point however is the route by which the IT Departments get there - most were originally seeking a break/fix, tactical service. By contrast, very few started out looking for Managed Services and ended up choosing break/fix arrangements.

12

IT Departments: How would you describe your search and selection process?



The majority of searches for IT services are triggered by a particular need or pain. By their nature, these are considered one-off projects, and therefore a more tactical solution such as a “break/fix” engagement is sought. What is reassuring, however, is that Service Providers are managing to convert this interest into ongoing strategic relationships.

However, this success does not appear to be because of Service Providers method of selling to IT Departments. Rather, it is despite them.

In a straight comparison between what IT Departments wanted to see from their Service Providers and what the latter were emphasising in their sale pitches, it becomes clear that there is enormous Discord.

Table 1

**IT Departments –
what are the most important
deciding factors in potential IT
support providers?**

**Service Providers –
which attributes do you
emphasise most strongly in your
promotional material and sales**

Cost savings/advantages	①	Breadth of services/ capabilities	①
Experience with companies with similarly structured IT estates	②	Cost savings/advantages	②
Experience with companies of your size	③	Experience with companies with similarly structured IT estates	③
Clarity of pricing structure	④	Ability to provide CIO-level consultancy	④
Breadth of services/ capabilities	⑤	Clarity of pricing structure	⑤
Flexibility of pricing structure	⑥	Experience with companies of customer's size	⑥
Experience in your vertical	⑦	Flexibility of pricing structure	⑦
Ability to provide CIO-level consultancy	⑧	Experience in customer's vertical	⑧

(1 = most important; 10 is least)

... it becomes clear that there is enormous Discord

This data shows a clear mismatch between the two sides of the buying and selling table. While cost savings and experience with similar infrastructures are emphasised as important deciding factors by both sides, experience of working with companies of a similar size is dangerously under-emphasised and is a reassuring “hygiene factor” that many Service Providers seem to be forgetting.

The discrepancy between the two sides’ ranking of breadth of services is one of the most startling findings. It appears to not be immediately valued by IT Departments, as many have approached the Service Provider with a single specific need and are therefore not looking for support in additional areas.

But what about the skillsets that Service Providers are emphasising? Are they the right ones, and what do IT Departments value?

Table 2

IT Departments – what are the most important skills/knowledge from potential IT support providers?		Service Providers – which skills/knowledge do you emphasise most strongly?	
Technical Expertise	①	Technical expertise	①
Network design, configuration, installation	②	Service management	②
Application skills	③	Network design, configuration, installation	③
Service management	④	Trusted Advisor/Outsourced CIO role	④
Service integration	⑤	Product recommendations	⑤
Hardware integration	⑥	Focus on developing business as a whole	⑥
Trusted Advisor/Outsourced CIO role	⑦	Service integration	⑦
Product recommendations	⑧	Hardware integration	⑧
Focus on developing business as a whole	⑨	Application skills	⑨
Vendor relationships	⑩	Vendor relationships	⑩

(1 = most important; 10 is least)

*...Service Providers are
not matching
IT Departments' focus
on business outcomes*

The general theme here is that despite much of the industry advice and oft-repeated best practice, Service Providers are not matching IT Departments' focus on business outcomes.

This is most readily typified by the mismatch on the importance placed on application skills. The success of business-critical applications is vital to an IT Department, and supporting this is the main role that they require from their Service Providers. However, the Service Provider is typically more concerned with positioning themselves as a 'Trusted Advisor' or 'Outsourced CIO' – a role that is not only widely considered to not be as important, but can also be seen as a threat to the IT Department heads.

...IT Departments want their Service Providers to focus on solving a business problem

This comes down to a misperception of the value of application skills on the part of the Service Provider. Application skills are typically deprioritised by Service Providers because as an organisation, they come from an infrastructure management background and therefore often lack these skills. It's a case of deprioritising what they do not consider their 'sweet spot', or what they are not used to delivering – or even know they would struggle to deliver.

As application skills are perceived by IT Departments as so strategically important, this actually represents a potential route for Service Providers to have the 'outsourced CIO' conversations they are pushing so hard for (as seen in both tables) – provided they are able to enhance their skill sets in order to deliver.

Another area of mismatch is in product recommendations. In a similar fashion to application skills, IT Departments want their Service Providers to focus on solving a business problem. The actual tools with which this is achieved is not as important to them as Service Providers believe.

Connected to this, IT Departments are not interested in Service Providers who want to focus on helping to develop the business as a whole. The IT Department is just trying to solve a particular problem (reflected in the tendency to look for a tactical break/fix solution at the outset rather than a Managed Service).

Conclusion:

Are Service Providers selling what IT Departments want?

IT Departments begin their search for a Service Provider because they have a problem to solve – usually a business-critical one – and so are initially seeking out tactical support. This represents the initial opportunity for Service Providers that they are regularly successful in converting to an ongoing Managed Service arrangement (see Fig 12).

However, conversion rates could be higher. Service Providers are too often forgetting the nature of the original pain point that inspired the IT Department's approach and are pushing the outsourced CIO argument too hard too soon (see Tables 1 and 2). Instead, Service Providers must address the initial concern – the business-critical requirement – and use it as a springboard. Once trust is earned through managing vital systems, strategic discussions can follow.

Is the IT Service Provider relationship healthy?

As with any service-based industry, the relationship has to be healthy. This will depend on two factors: access to the correct personnel and the nature of the engagement.

In terms of access to the correct personnel, Fig 13 reassuringly shows that Service Providers recognise the importance of having a strong relationship with both the head of IT and non-IT C-level heads of business. And most

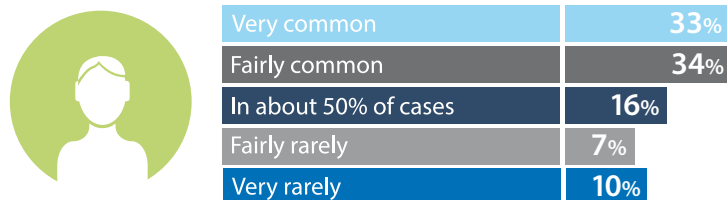
13

Service Providers' views on their relationships with clients

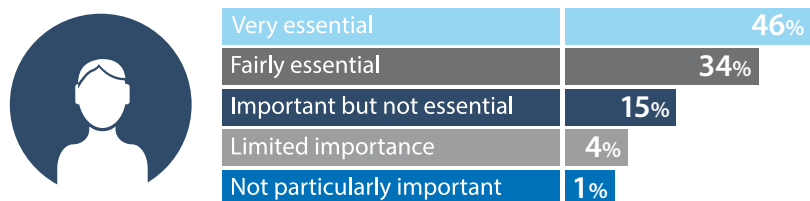
Importance of relationship with Head of IT



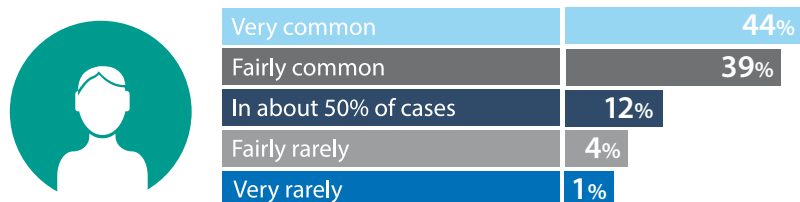
Tendency to have relationship with Head of IT



Importance of relationship with non-IT C-level heads of business



Tendency to have relationship with non-IT C-level heads of business



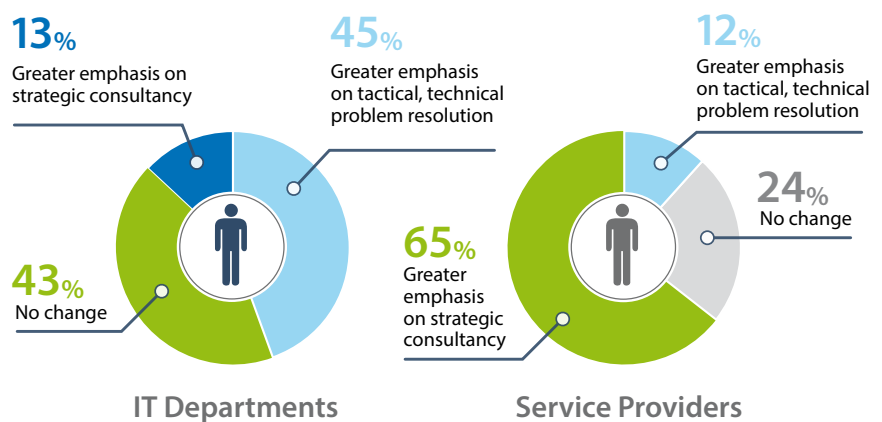
...Service Providers have forgotten why they were originally contracted

importantly, they feel that they are highly successful at securing them. Once these important relationships have been won, Service Providers then understandably want to capitalise on them and move the nature of the conversation with the customer towards broader, more profitable and “stickier” strategic topics.

But Fig 14 shows that the IT Departments are not open to the change. They instead want the Service Provider to focus on the task in hand – the solving of the original business problem. It appears that in their eagerness to move the nature of the relationship towards consultancy, Service Providers have forgotten why they were originally contracted.

14

How would each side like to see the nature of the relationship change?

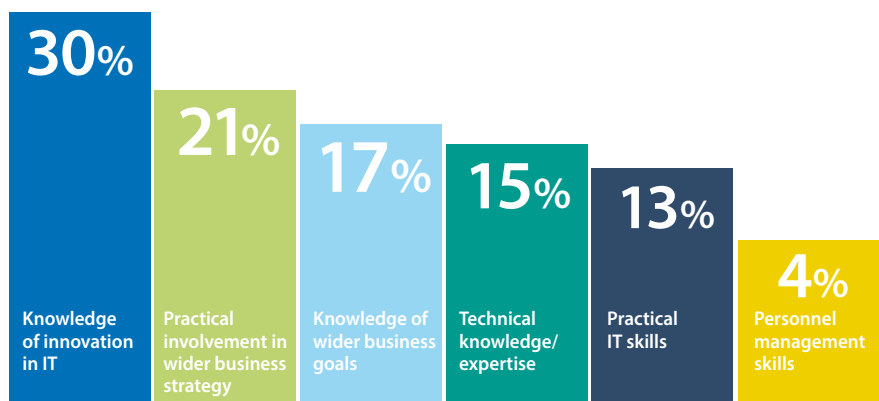


If Service Providers’ and IT Departments are so misaligned in how their interactions need to evolve, are Service Providers’ relationships as strong as think they are?

It seems that Service Providers are misreading having paths of communication and regular dialogue with multiple contacts for valuable engagement. This discrepancy is further highlighted by the areas in which Service Providers feel the Heads of IT in their customer organisations most need to improve (Fig 15).

15

Service Providers: In what areas do the Heads of IT in your customer organisations most need to improve?



...while they think they have successfully built these relationships, our research suggests differently

The high ranking of 'knowledge of wider business goals' and 'practical involvement in wider business strategy' does not highlight as much of a failing on the part of the IT department as it may appear. In fact, this emphasises the lack of depth of Service Providers' relationships with the non-IT business heads. If the Service Providers had the relationships with the non-IT business heads that they think they do, they would not need the head of IT to improve in these two areas and it would be more conducive to establishing a more strategic relationship with their clients.

Conclusion:

Is the IT Service Provider relationship healthy?

Service Providers are correct to pursue stronger relationships with a wider selection of influential contacts in their customers' businesses. But while they think they have successfully built these relationships, our research suggests differently.

An overwhelming majority of Service Providers are misreading what IT Departments want from them. By trying to push their customers in a direction in which they are not yet convinced, Service Providers betray how shallow these relationships actually are.

Are Service Providers structuring their Managed Security Services correctly?

...the nature of IT security is changing in many IT Departments' minds

IT Security is an area that has never seen so much discussion and speculation. Security breaches at household name organisations have become more and more common, leading to paranoia and introspection filtering down to even the smallest businesses.

Businesses are finally realising that the attraction to a hacker is not so much their own bank accounts or IP, but instead the data they hold on trust on their customers, partners and suppliers. And so, the nature of IT security is changing in many IT Departments' minds.

Table 3

The business impacts that IT Departments are most fearful of should there be a security breach

Potential impact to clients'/partners' data	①
External reputation of company/brand	②
Financial impact of downtime/Productivity loss	③
Loss of customers/clients	④
Fines or legal action	⑤
Loss of accreditations	⑥
Internal reputation of IT	⑦

(1 = most important; 10 is least)

Service Providers therefore need to reflect these fears and business impacts in their positioning of managed security. But what functionality and capabilities do IT Departments want to see from managed security services? And how does this compare to how Service Providers are planning to develop their offerings?

Table 4

IT Departments – How do you want managed security offerings to evolve?		Service Providers – How are you planning to evolve your managed security offerings?	
Improved email security	①	Security consultancy	①
Improved web protection	②	More proactive patching and system updates	②
Improved anti-virus	③	Improved web protection	③
Tighter endpoint security	④	Improved anti-virus	④
Provision of security education for employees	⑤	Improved mobile device security	⑤
Security consultancy	⑥	Improved email security	⑥
More proactive patching and system updates	⑦	Tighter endpoint security	⑦
Improved mobile device security	⑧	Provision of security education for employees	⑧

(1 = most important; 10 is least)

... IT departments simply want a solution to email security, anti-virus or web protection.

This data shows that, once again, Service Providers are focusing too much on where they want the relationship to head, rather than fixing the current problems faced by IT Departments.

Service Providers are focusing too heavily on the proactive, strategic side of security services or the new trends of mobile device security. IT departments simply want a solution to email security, anti-virus or web protection.

Similarly, endpoint security and employee education are massively deprioritised by Service Providers, despite them being of significance to IT Departments. Yet, these two offerings have great potential for Service Providers as a route to having more strategic Service Providers input, offering a gateway for Service Providers to solve an initial problem for an IT Department and then expand their strategic influence into other areas.

Are the financials of managed security services structured correctly?

Managed security entails many different technology components – email security, anti-virus etc. – and therefore may require multiple invoices to be processed. But IT Departments don't want to receive lots of separate invoices for separate solutions – that makes the relationship complicated and overly arduous. In essence, they just want to pay the Service Provider to make the security problem go away in as easy a way as possible: one provider, one invoice.

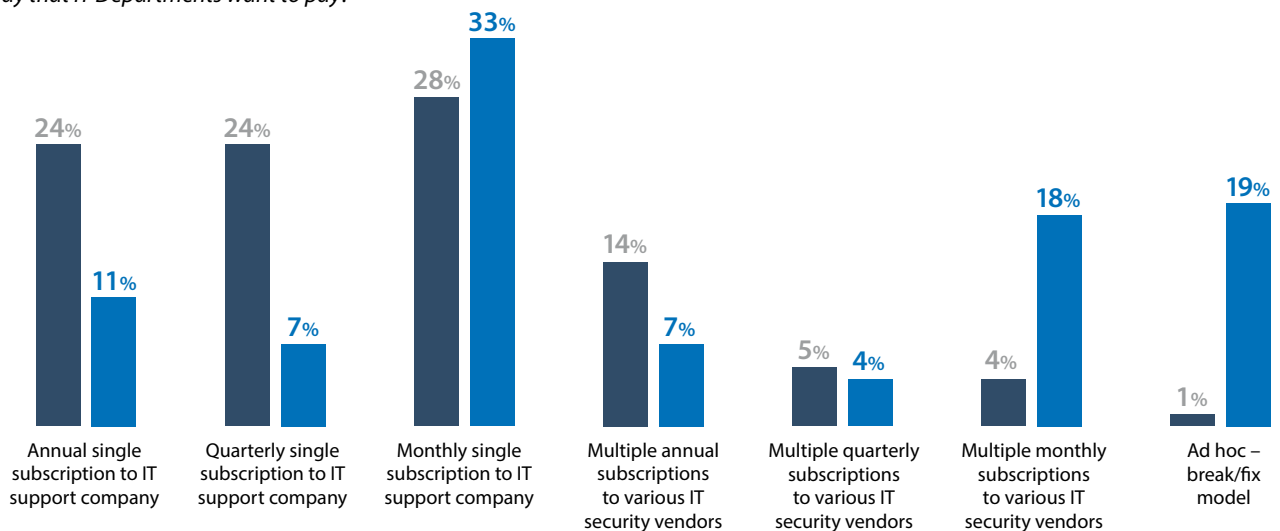
Whether that invoice is on a monthly, quarterly or annual process is largely immaterial. The crucial point is IT departments' preference for single invoices that encompass all the charges for all the security tech vendors. Reassuringly, Fig 16 shows that the majority of Service Providers – 51% – are doing exactly this.

However, that leaves 49% who are continuing to invoice wrongly, either with multiple invoices or on an ad hoc basis.

16

Are Service Providers charging in the way that IT Departments want to pay?

Key
 ■ How IT Departments want to pay
 ■ How Service Providers charge



17

Service Providers: Are you planning to change your pricing structure in the next 12 months?

With such a large proportion of Service Providers not invoicing in the correct manner, it is then concerning that 66% are not planning to change their pricing structure in the next 12 months (Fig 17).



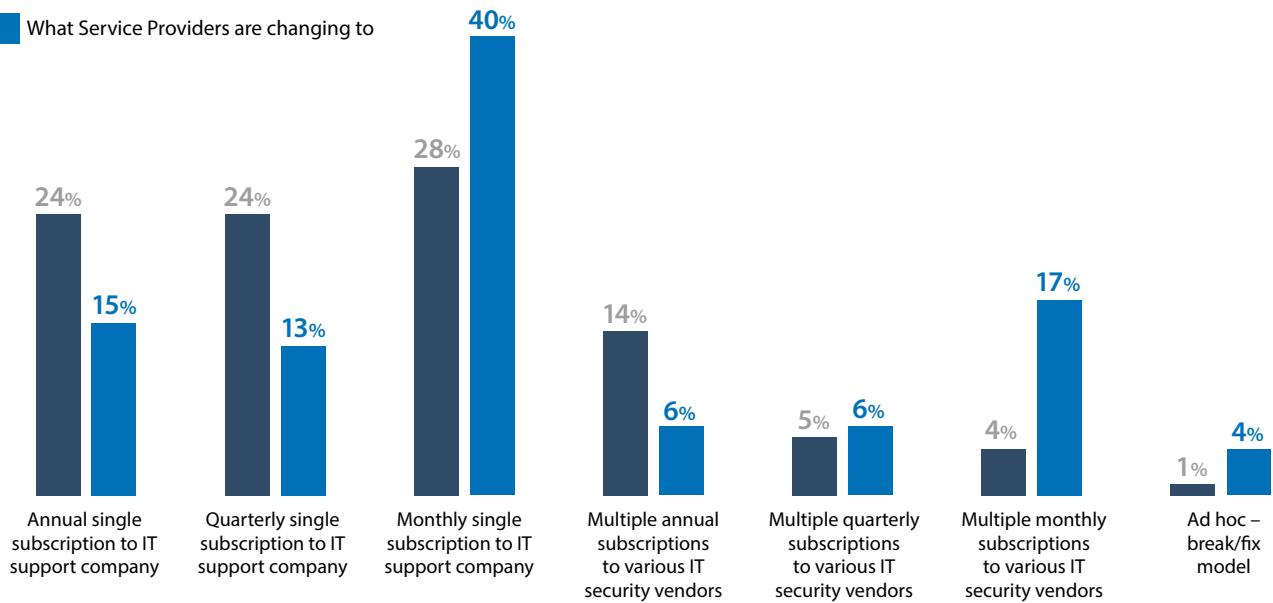
18

Service Providers: If you are planning to change your pricing structure, what are you likely to change it to?

Of some reassurance is that the majority of the 34% who are planning pricing changes are going to move in the right direction – one invoice issued on either a monthly, quarterly or annual basis (Fig 18). But there remains a worrying contingent – 17% – planning to actively shift their invoicing schedule to exactly what IT Departments do not want: multiple monthly subscriptions.

Key

- How IT Departments want to pay
- What Service Providers are changing to



... Service Providers need to address the tactical task at hand first

Conclusion

Are Service Providers structuring their Managed Security Services correctly?

Service Providers are once again falling into the trap of focusing too heavily on creating strategic relationships too early. While this deeper engagement is absolutely the correct end-goal, Service Providers are going about it the wrong way – forcing the issue at the expense of the immediate problem. Instead, Service Providers need to address the tactical task at hand first and then use success here to move the relationship towards a more strategic one – otherwise they risk receiving an unfavourable response.

In terms of payment schedules, Service Providers are largely matching expectations – either currently or in the next 12 months. The concern is over the segment of Service Providers who are actively planning to restructure away from IT Departments' preferences.

Final Conclusion

... Service Providers and IT Departments are overwhelmingly in a state of Discord

Are the relationships between Service Providers and IT Departments in a state of Harmony or Discord?

Unfortunately, Service Providers and IT Departments are overwhelmingly in a state of Discord in all three areas – Selling, Relationships and one of the Service Providers’ greatest areas of opportunity, Managed Security.

There is some comfort in that while there are problems in three separate areas, the reason is the same for each – a misalignment of priorities – meaning that a single consistent approach to addressing these is relevant in all of these areas.

The mismatch in Selling and Managed Security is caused by Service Providers’ over-eagerness to make the relationship with the IT Department a strategic one, running counter to the customer’s aim of fixing a particular pain point. But by focusing on addressing the IT Department’s initial concern, Service Providers would actually find this an ideal route to establishing customer confidence – offering the opportunity to move towards a more consultative engagement.

The discrepancy in how relationships are perceived is also caused by Service Providers’ misunderstanding of what their customers want from them. Links are being made between the Service Provider and customers’ IT departments – and other line of business departments too – but these links are not as strong as Service Providers believe them to be. This is again because they are largely trying to push customers towards strategic conversations – a direction IT departments are not willing to go until the immediate IT needs are solved.

So the lesson for Service Providers is clear – patience.

Pushing strategic consultancy too early in the relationship gives an impression of under-valuing the immediate concern weighing heaviest on the customer’s mind. IT Departments engage with Service Providers because they have a particular problem that needs solving – this must be addressed first to earn the opportunity of a strategic engagement.

But for all the Discord, there are positives. Every researched country showed a strong appetite for outsourcing IT, and Service Providers’ strong track record of closing managed services deals. The issue is the amount of potential profit being left “on the table” by the mismatch between the priorities of Service Providers and IT Departments. Fortunately, this is a problem for which the solution is entirely within the control of the Service Providers.



LogicNow is the world's leading integrated IT Service Management platform provider, helping thousands of IT professionals across the world.

Contact

Head Office
The Vision Building
20 Green Market
Dundee
DD1 4QB
UK

Email: info@logicnow.com