

Partner Transformation Guide — Sales

Building a Successful Managed
Security Services Organisation

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Partner Transformation Guides

Successfully transforming your business to offer managed security services has important implications across several business dimensions. This series of guides describes those implications across sales, marketing, services and security, and provides advice on how to get started, grow and excel in managed security services as an IT partner.



The intended audience for these guides is senior executives and business owners of channel and partner organisations.



Executive Summary

Channel partners can tap into a growing market opportunity for managed security services. IDC has developed a **partner assessment tool** to help partners better understand how well their business is placed to take advantage of the **managed security services opportunity** in this high-growth market. This assessment tool guides partners to progress from early to advanced stages of maturity across sales, services, marketing and security capabilities.

IDC Partner Assessment tool



IDC Partner Assessment Tool

What you need to be a profitable and growing MSP

There are massive opportunities for partners in the managed security services space.

This IDC Partner Assessment tool will help you discover how well your business is placed to take advantage of this.

Simply answer some quick-fire questions on how you currently approach sales, marketing, services and security, to receive a personalized assessment and set of key recommendations on taking your business to the next level.

Let's Go! →



This edition describes the implications of offering managed security services for your sales organisation. In particular, it focuses on the impact of realigning a partner **sales organisation** to the subscription model in managed services and cloud.

The Market Opportunity for Managed Security Services

Managed security services is the fastest-growing security services segment. IDC's Western Europe Security Services Forecast projects managed security services to grow 14.1% annually (CAGR) between 2016 and 2021 — far outpacing other security services. This growth is being driven by four key market dynamics:

Digital Transformation (DX)

European organisations are making large investments in new technologies — especially cloud — to support their DX projects. They expect both better performance from their IT and digital business innovation to remain competitive and be able to deliver new products, services and experiences to their customers. IT spending is undergoing a massive shift towards cloud and cloud-based solutions as well as emerging technologies such as artificial intelligence and the Internet of Things. These technologies promise better performance and greater agility, and as such they are the enablers of digital business innovation.



European spending on technologies and services that enable the **digital transformation (DX)** of best practices, products and organisations is forecast to reach

\$378.2
billion in 2022

Source: Worldwide Semiannual Digital Transformation Spending Guide

IDC predicts that by 2020, **lack of IT skills** will affect 90% of all European organisations, resulting in

\$91

billion in lost revenue annually

IDC FutureScape: Worldwide Services 2019 Predictions — European Implications (IDC #EMEA44618219, January 2019)

Increased Complexity

While investments in new technologies drive digital innovation and enable organisations to improve their competitive position, their successful deployment and integration also require organisations to manage much greater complexity. Increasingly, organisations will operate hybrid IT and multicloud environments. Moreover, they leverage an increasing array of emerging technologies to gain business value from growing amounts of data. A necessarily more complex IT estate makes organisations subject to new vulnerabilities. As a result organisations face a changing and increased threat potential.

Prioritising Security Investments

Security is a key business priority for European organisations as part of their DX initiatives. Increased threats and complexity therefore drive large security investments as DX is forcing customers to rethink their security strategies. Along with technology, security requirements are equally becoming more complex and solutions have to evolve accordingly. Top security concerns for organisations include data breaches, malware, denial-of-service attacks, and insecure interfaces and application programming interfaces (APIs). Organisations seek comprehensive solutions that help them mitigate threats and prevent business disruption and reputational damage.

A photograph of a person in a blue shirt and glasses working on a laptop in a server room. The server racks are illuminated with blue and purple lights, and the person is standing in the aisle between the racks.

Cybersecurity/data security expertise is the most sought-after skill in Europe, according to IDC's Technology Skills Survey

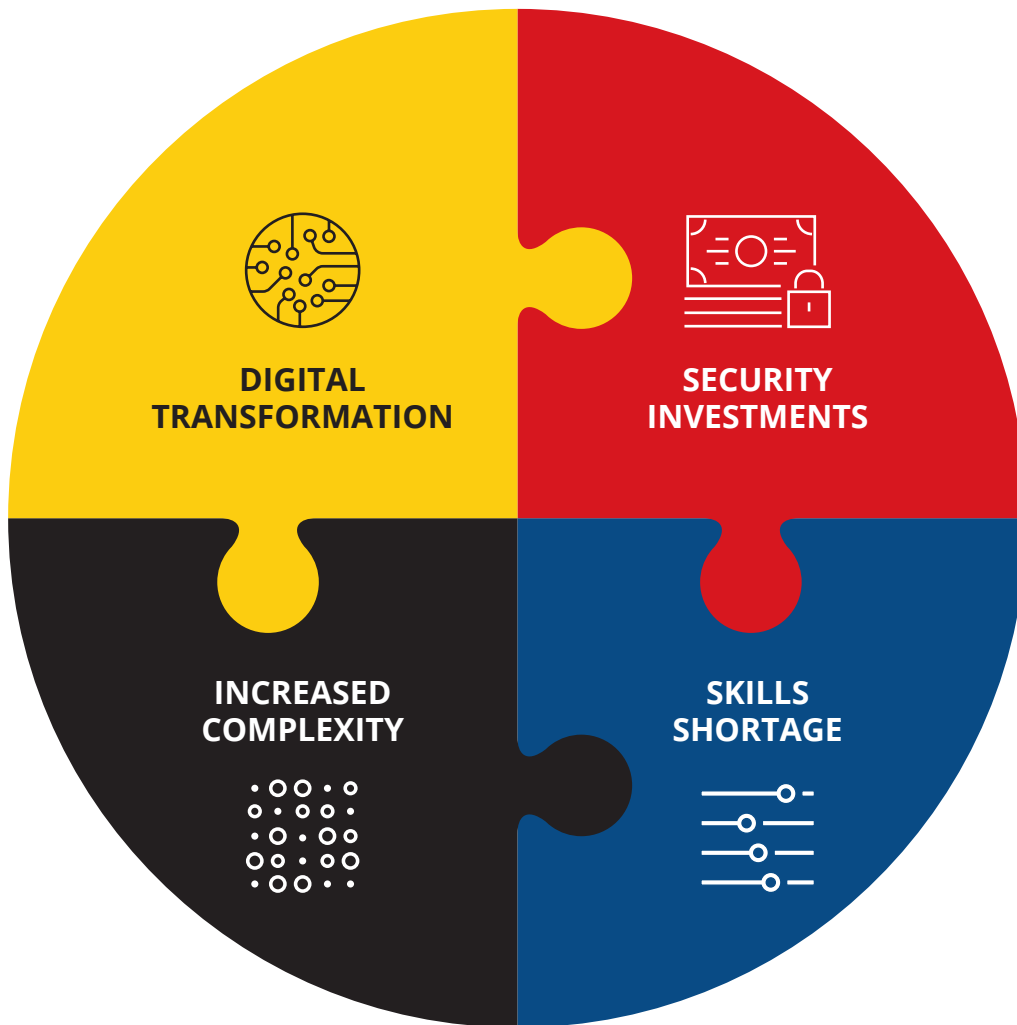
Source: IDC's Technology Skills Survey, December 2018 (European responses)

Skills Shortage

Successfully implementing their DX initiatives requires organisations to manage increased complexity, but they are struggling to hire specialists with the right skills. This is particularly acute in the case of security skills, which are in high demand but short supply. The changing nature of security operations, regulatory upheaval and a dynamic threat landscape further add to this burden.

The Channel Opportunity

These trends reinforce each other and create a **large market opportunity for businesses like yours** as organisations seek support from specialist partners. They will increasingly consider third-party security services providers to either augment their in-house capabilities or fully outsource the management of their IT security function. As a result, there is an opportunity to differentiate against competitors and open up new revenue streams by building up a practice to offer **managed security services**.



The Impact of Managed Security Services on Channel Sales Organisations

Offering managed security services has implications across your entire business and requires you to rethink and evolve your approach to sales. The main driver behind this is the switch from a transactional, resale-focused business model to a subscription model as part of offering a managed service.

Subscription-service/as-a-Service Model

Managed security solutions are offered “as a service” and on a subscription basis. Building up a managed security practice therefore requires your organisation to successfully transition to the recurring-revenue model. While there are many opportunities for partners, this shift has profound implications across your sales organisation and means the overarching sales strategy needs to change.



Impact of Recurring Revenue

Switching to a recurring-revenue model is a fundamental change that challenges the existing partner sales organisation. Unlike in the transactional, resale-focused setting, there is little if any revenue upfront when the initial sale is made. Instead revenue builds gradually over time as customers are billed on a subscription or consumption basis. This means there may initially be a revenue trough during the transition to a recurring-revenue model. However, its increased predictability means recurring revenue will benefit business performance in the long term by providing a more predictable revenue stream, increased stickiness with the customer and higher margins than in traditional product resell.



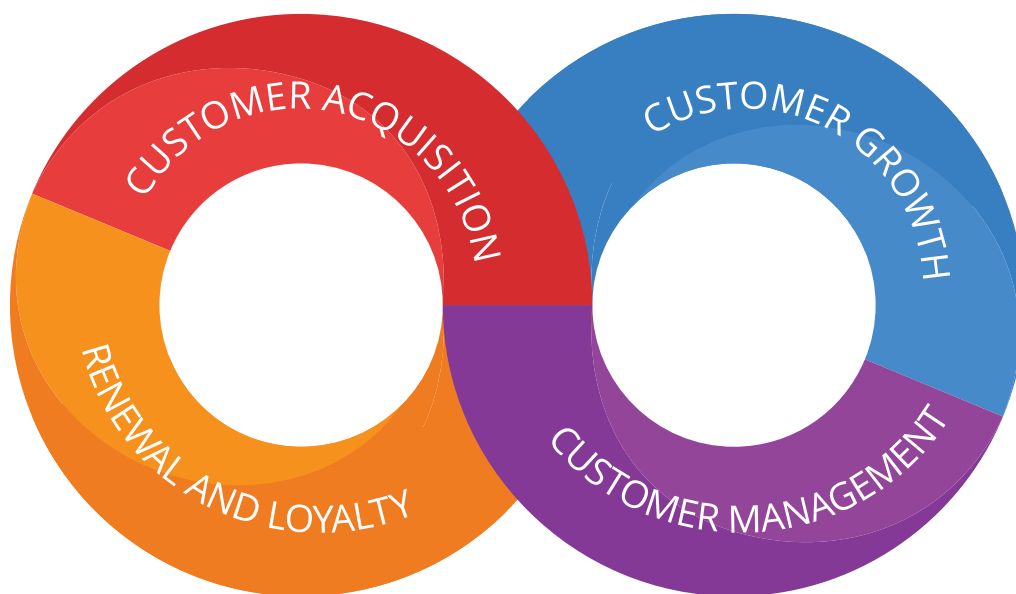
There is a strong commercial upside to making the transition to a recurring-revenue model as part of building up a managed security services offering. However, the rise of the consumption model in managed services and cloud means that 1) the customer journey has changed fundamentally, which has implications for the overall sales strategy. Successfully addressing customer needs and responding to changes in procurement and consumption behaviour requires (2) evolving the entire sales organisation across the different sales functions.

The following sections describe how you need to be set up across the customer journey and the sales organisation to successfully deliver managed security services.

Customer Journey

In the recurring-revenue model, the role of sales no longer ends when a purchase deal is closed. Instead, the customer journey extends across the entire relationship with the customer. This has implications across the different stages of the customer life cycle and your sales organisation.

The customer journey in the recurring-revenue model:



Successfully running a recurring-revenue business depends on two key metrics — customer acquisition cost (CAC) and the customer lifetime value (CLV):

$$CAC = \frac{\text{Sum of all Sales \& Marketing Expenses}}{\text{No. of New Customers Added}}$$

$$\text{Customer Lifetime} = \frac{1}{\text{Customer Churn Rate}}$$

We dive deeper into their significance for your business in the following sections.

Customer Acquisition — The Pipeline

The customer journey in managed security services is substantially different to a transactional, resale-focused setting. This has significant implications across all phases of the customer life cycle and the sales process. In particular, you should consider the following across the different stages of the customer journey and the implications for your sales organisation:

Smaller Deal Size

Subscription-based offerings typically have a much smaller average deal size as well as a shorter and less complex sales cycle. This means you should strive to grow the number of customers subscribing to your services and increase the number of seats or users within those customers.

Changing Buying Behaviour

Customers are increasingly self-educating. Most business buyers only engage a sales representative after they have made or are very close to making a purchase decision. As a result, in addition to generating leads, partners increasingly rely on their marketing function for lead nurturing and conversion. Therefore, sales and marketing need to be even more closely aligned, and to some extent the two functions are converging.

Automation and Digital Marketing

Given smaller deal sizes and shorter sales cycles, you need to invest in tools to automate the customer acquisition process. This enables your sales force to focus their efforts on the most promising or time-sensitive leads, increasing the number of net new customers and growing your business. Building a qualified sales pipeline requires you to invest in modern, digital marketing capabilities. These components are also critical tools and sources of data to improve the overall customer experience (CX).



According to IDC's
2018 Channel Survey,

68%

of European partners are currently investing or have plans to invest in **omni-channel and modern marketing**.

Source: IDC European Channel Survey,
January 2018 (n = 302)

Customer Acquisition Cost (CAC)

From an acquisition perspective, keeping your CAC (sales and marketing expenses per customer) low is key for profitability. As little to no revenue is recognised at the point of the initial sale and revenue only builds gradually over time and based on active usage, it is critical to contain costs. This is one reason why successful businesses automate customer touchpoints as much as possible.

Customer Acquisition — The Sale

From Product to Services Sales

Success in recurring revenue requires a new mindset as you move from selling products to selling a service. This means a shift in thinking from closing deals to building relationships. Instead of focusing on a specific technology portfolio, your sales force needs to put your customers' requirements front and centre and work together with them to identify solutions. This requires a less transactional and much more consultative approach.

77% of European partners are currently investing or planning to invest in **new sales skills** to sell next-gen technologies and solutions.

70% are already investing or planning to invest in **LOB skills** to enable them to sell to business.

Source: IDC European Channel Survey, January 2018 (n = 302)

LOB Skills

Increasingly, business leaders control or influence IT procurement decisions as they seek to leverage technology to drive digital business innovation. Therefore, your sales organisation needs to be comfortable selling to lines of business along with IT, which requires investment in new sales skills.

Specialisation

Successfully addressing customer needs requires a greater understanding of customers' business and their specific needs. To be able to sell solutions that meet those needs, you should invest in your sales force's specialisation, both horizontal in terms of technical areas and in vertical skills (i.e., specific domain expertise).

Customer Management

Customer Lifetime Value

Customer lifetime value (CLV) becomes the key metric in the recurring-revenue model for partners. CLV represents the expected net profit you will derive from the entire relationship with a customer. Driving CLV requires you to shift the focus from the short-term deal to the long-term relationship as revenue builds gradually over time.

71%

of European partners are currently building or considering building a

“customer for life”

or similar organisation to focus on retention and renewal of their recurring-revenue services (such as cloud and managed services).

Source: IDC European Channel Survey, January 2018 (n = 302)

“Customer for Life”

To drive CLV and increase retention, some partners have set up formal “customer for life” organisations to focus the entire business on customer success. This typically includes both the marketing and customer service departments. Key to doing this successfully is visibility into customers’ needs and usage patterns. This requires personal relationships and advanced analytics.

Billing Capabilities

Customers increasingly demand sophisticated billing capabilities to gain visibility into the services they consume. To meet those needs, consider investing in capabilities such as unified, consumption-based and multivendor billing, as well as real-time analytics on service usage.

Customer Growth

Upsell/Cross-Sell Opportunities

Offering managed security services within a recurring-revenue model provides an opportunity to promote, supply and maintain added-value content and services. Consider developing your own services-attach offering as an additional revenue stream. The ongoing relationship with the customer within a subscription service provides ongoing upsell/cross-sell opportunities. This has the double benefit of not only growing your business but also contributing to customer success. An upsell at the right time can not only address a specific customer need but can also increase the CLV and the chances of a successful renewal. Increasingly partners look to leverage internal assets and turn them into their own intellectual property, which typically sees some of the highest margins that partners can achieve. As the revenue from reselling products and licenses declines over time, additional revenue from upsell/cross-sell opportunities become all the more critical to your overall profitability.

72% of European partners are currently investing or plan to invest to **build up their services capability and portfolio.**

70% are already investing or plan to invest to **develop areas of specialisation.**

Source: IDC European Channel Survey, January 2018 (n = 302)



Specialised Portfolio

Over time, you should look to offer more customised solutions as well as billing options to meet customers' evolving requirements. One way that partners can increase their value-add and differentiate themselves is by tailoring their offerings to, for example, specific customer segments and use cases. Again, the better partners can meet their customers' needs, the more satisfied customers will be and the higher the chances are that customers will renew their subscription.

Growing Customer Base and Usage

While recurring revenue benefits partner profitability in the long run, average deal sizes are typically smaller in subscription services compared with product resell. The more you progress on the transition to recurring revenue, the more you should seek to grow both your customer base and customers' use of your services.

Renewal and Loyalty

Renewals

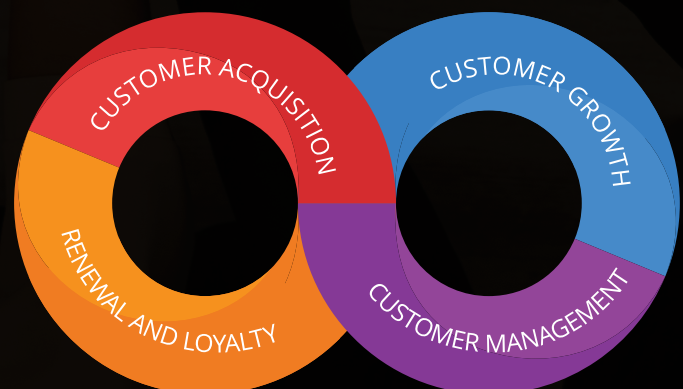
In the recurring-revenue world, the successful renewal is the all-important milestone across the customer journey. This is a complete shift from the traditional resale setting, where the focus was on successfully closing deals. But in the consumption model profitability depends on the longevity of the relationship you have with your customers rather than on selling products. This requires a shift in focus from winning deals to increasing retention and usage.

Customer Success

To increase retention, customers need to be satisfied and actively using your service. Therefore, customer success needs to be at the centre of the relationship. This requires deep understanding of the customers' business and their specific needs. Partners therefore need to make sure they are their customers' "trusted advisor of choice".

Customer Loyalty

The total impact of the changes outlined is best illustrated by the shifting customer journey in the subscription world, which evolves from a linear funnel to an infinity loop. The top priority for profitability in this world is customer retention. Ideally, your customers never leave you. To be successful in the recurring-revenue model your entire sales organisation needs to be set up, trained and motivated to promote customer loyalty.



Impact on Sales Organisation

Entering managed security services and shifting towards recurring revenue impacts all functions across your sales organisation.

This section discusses the specific implications across the different sales functions:



Sales resource



Sales management



Sales growth



Sales Resource

New Breed of Seller

To successfully sell managed security services and be profitable in the recurring-revenue model, partners require a different type of seller. Instead of the traditional “hunter”, you need many more “farmers” as success shifts from closing deals to driving renewals and consumption. This requires a much more nurturing approach, which challenges the dominant mentality of the sales profession. Of course, you will need a degree of hunting instinct within your sales organisation, but the number of hunters needed is considerably lower than it used to be.



Customer Centricity

The successful sales approach for the consumption model in managed services and cloud is shifting from being transactional to being focused on long-term customer outcomes. Consequently, your sales organisation needs to be much more customer-centric as opposed to product-centric and focused on solution selling. Competencies and mindset need to shift to put customers and their specific needs front and centre. This requires greater knowledge of business processes and vertical industries to deliver tailored solutions.

Reskilling vs Recruiting

Whether you fare better by mostly reskilling your current sales team versus recruiting new talent depends on your individual business, the current sales force and how quickly and deep you aim to switch to subscription services, among other factors. Most partners will rely on a combination of both strategies, but to varying degrees. Initially, many partners will find it beneficial to incubate a separate, dedicated sales unit for subscription services and to hire cloud-sales specialists to (partly) fill new roles. At the same time, partners should seek to gradually reskill/upskill existing team members and eventually facilitate integration of sales units.

Sales Management

Measurement

The shift to subscription models and recurring revenue requires you to track and work towards new metrics and KPIs. Given the focus on CLV and the importance of successful renewals, you should track CX metrics such as customer satisfaction (CSAT) and net promoter score (NPS). Other key metrics to measure and monitor include active usage and net new client signings. Metrics such as CSAT serve as an important benchmark to track the overall health of your subscriber base. Many partners use new KPIs as the basis of incentives and compensation models.



Incentives and Compensation Models

In the traditional resale-focused, on-premise world, sales executives were typically incentivised on closing deals through large upfront commissions. But as profitability in recurring revenue depends on customer retention, active usage and the overall CLV, compensation models need to incentivise different sales behaviour. Partners with a successful managed security services offering typically provide a mix of upfront and ongoing commission, with incentives in place to encourage sales of subscription services. The new mix will often include incentives on critical KPIs such as CSAT, renewals and customer success. To incentivise upsell/cross-sell opportunities, you may want to consider “SPIFs”, or special bonuses for sales representatives that successfully sell additional modules, services or consulting, over and above the initial deal. In either case, it is of critical importance that you find the right mix to incentivise behaviour that supports success in the recurring-revenue model. This means new incentives that support the shift from deal to relationship.

How Are Partners Incentivising?

While some partners have begun the process of transforming their incentive structure and KPIs for the recurring-revenue model, many still hold on to traditional compensation models.

Our sales staff have an overall target for sales regardless of on-premise vs cloud



30%

We have a mix of upfront and ongoing commission



20%

We focus on upfront compensation: we pay the salesperson a commission on each deal including first-year subscription



19%

We focus on compensation over the life of the customer: we pay the salesperson a percentage commission on all revenue



18%

We have a mix of upfront and ongoing commission in addition to specific KPIs such as customer satisfaction



13%

Source: IDC Channels and Alliances Software Survey, 2017

Sales Support

Pre-Sales Function

Pre-sales alignment with sales executives is critical to successfully sell managed security services. The pre-sales team needs to work alongside the sales team to surface business opportunities, take them to the vendor, and help build and maintain customer relationships. Given the need for solution selling and the importance of delivering customer outcomes, partners should build specific pre-sales resources that are dedicated to their managed security services practice.



Align with Marketing

As highlighted, customers are increasingly self-educating and partners increasingly depend on their marketing team for lead nurturing and conversion. Additionally, marketing also needs to align with and complement sales when it comes to support as marketing increasingly focuses its efforts on post-purchase communications. Insights into customer needs and experience need to be available to the sales team to drive customer success.

Customer Service Alignment

Similar to the marketing function, the sales team also needs to be aligned to the customer service team to have access to insights on customer usage and satisfaction to support retention, active usage and overall customer success.

Call to Action



Getting started:

0–6 months

Recommendations to get started in managed security services



Pursuing growth:

6–18 months

Recommendations to advance in managed security services



Becoming mature:

18+ months

Recommendations to excel in managed security services

Getting Started: 0–6 Months

Reach out to vendor partners, such as Trend Micro, if you are considering entering managed security. As you start your journey in managed security services, you should focus on the following:

From Product to Services Sales

Enable your sales and pre-sales people to more confidently sell services. Consider starting with a small group (a tiger team): train them well and use them to help influence the broader sales team (e.g., a train-the-trainer approach). Identify which of your vendor partners can help you to train and enable this team and ask them to help and support you. Take a selected team of pre-sales staff and focus them purely on managed security services, so that they build up expertise in this area.

Develop Customer Base

Begin building up a customer base by identifying existing project-based business that you can convert towards recurring managed services.

Rethink Compensation and Incentives

Think about how your compensation and incentive models need to evolve as you bring recurring and subscription-based managed services to your business. Ensure that they are still lucrative for sales people who are more used to bigger upfront product and project deals. Plan, in tandem, the transformation of compensation structures. One of the biggest challenges facing new managed services and cloud services providers is overcoming the sales person's perception that smaller, more frequent recurring revenue will make it more challenging to meet quotas. Think very carefully about how you incentivise for these services.



Set Up Billing Capabilities

Think about how you bill your customers. As your managed services business grows, features like unified billing will become more important. Look at ways to bring consumption-based billing to your managed security services, as more and more customers are looking for this kind of functionality.

Pursuing Growth: 6–18 Months

Priorities to grow your managed security services business and accelerate your transformation include:



Grow Customer Base

Look outside the existing customer base to try and win new managed service provider deals with new customers, rather than focusing only on transitioning the existing base.

Expand Services Portfolio

Think about services-attach, such as bundling a cloud productivity suite with a managed endpoint security service. This makes life easier for the sales person as well as the customer.

Set Up Pre-Sales Capability for Managed Security Services

Bolster the pre-sales teams and ensure they have a focus on growing the managed security services business, leveraging them to better support the sales teams in their efforts.

Develop New Billing Features

Think about incorporating analytics features into your billing, such as real-time usage dashboards. This enables sales to understand what their customers are using to serve them better and understand their needs.

Refine Incentives and Track New KPIs

Incentivise cleverly — whether it be new logos, transitioned accounts or attractive compensation plans. Measure sales teams differently — start to think about incentivising new KPIs like customer satisfaction and active usage. This ensures that customers are happy and therefore will be more likely to renew.

Becoming Mature: 18+ Months

As an advanced partner in managed security services, you should look to build on the strong foundation you have developed to maximise opportunities and boost profitability. Now it is time to enhance and expand your managed security services portfolio, innovate and differentiate. Consider the following:

Pre-Sales

Ensure your pre-sales teams are enabled and empowered to develop opportunities and work closely with their vendor partners.



Expand Services Portfolio to Increase Specialisation

Focus on services-attach and creating complementary bundles to make it easier for sales people to make the connections, to cross-sell and upsell. Look to deepen specialisations and use-case-driven solutions and ensure these are reflected in the go-to-market activities.

Optimise Sales Approach and Incentive Structure

Ensure your sales teams are focused on customer satisfaction, renewals and customer success; consider creating a “customer for life” sales structure. Emphasise solution selling, i.e., tailoring managed service provider solutions to customer segments and needs. Consider investing in consultative selling frameworks, tools and resources. Ensure cross-sell, upsell and services-attach are incentivised and encouraged.

Learn More

Partner assessment tool: *Take the assessment test*



IDC InfoBrief: *How Partners Can Seize the Managed Security Services Market Opportunity in Europe*



Partner Transformation Guides



Get in touch with Trend Micro



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