



Delivering customer outcomes through managed services

Re-imagined managed services for IT modernization and scalability

In this paper, we discuss how technology and business forces are pushing channel partners to focus on customer outcomes as a key objective, and how services-led business models are central to new channel partner strategies.

We also introduce an extensible and modular EDGE framework as a starting point to re-think a channel partner's services portfolio. This new framework will guide channel partners and their customers through the next-generation managed services outcome delivery model and brings together Deloitte's perspectives on customer outcomes and managed services models with Cisco's experience working with customers and partners.



Market Trends

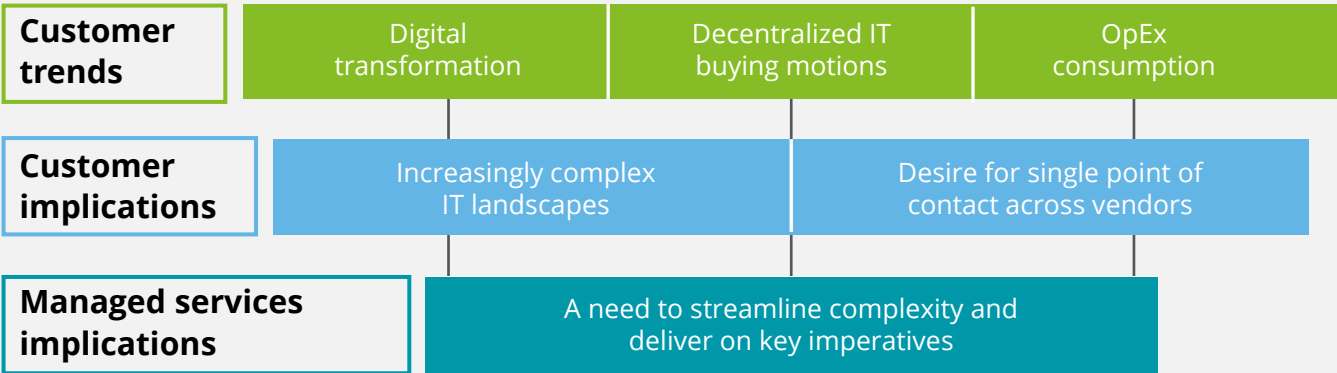
As the technology landscape continues to evolve, IT administrators may face growing complexity and a larger technology stack to maintain and support. In response, companies select managed services to increase agility, deliver relevant value, and accelerate growth over time.

Concurrently, CXOs are rethinking their IT strategy to drive business forward. They increasingly turn to a more holistic framework based on business outcomes for decision-making, as opposed to focusing on features, performance, and investment considerations. A global Deloitte survey of senior executives involved in technology buying decisions revealed that 90% of the respondents wanted to understand business outcomes up-front, starting from the pre-sales stageⁱ.

The current business model of managed services providers (MSPs) is that of a recurring revenue model based on standardized solution stacks that abstract underlying product complexity and cater to specific customer segments and use cases. This ideally positions current MSPs to drive customer outcomes and explains why MSPs are the fastest growing route-to-market, increasing by 11.4% CAGR during 2018-2023ⁱⁱ.

Figure 1: The relationship between customer and technology trends and managed servicesⁱⁱⁱ

Customers are looking to managed services to cut through the complexities of their multi-vendor IT landscape



What are customer outcomes?

We define customer outcomes as the realization of value across three dimensions: performance, experience, and business.

Business

Value delivered from the solution provider's offerings that helps customers achieve quantifiable business outcome improvements on key metrics such as revenue, operating expenses, customer acquisition cost, customer retention, and time to market.

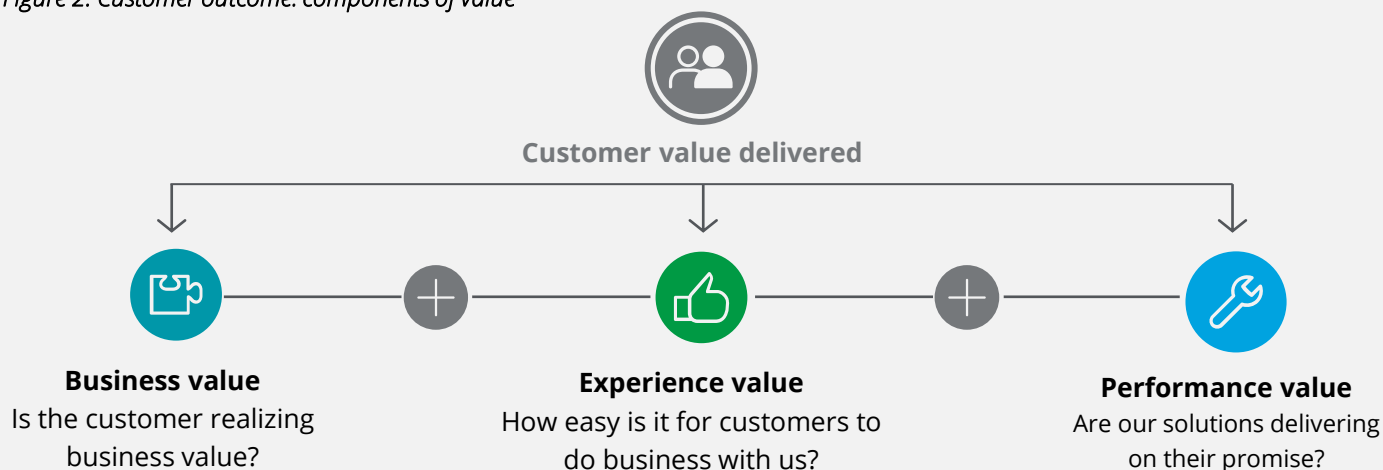
Experience

Value delivered from the overall customer experience, ease of doing business and depth of relationship established across all touchpoints and interactions, measured using metrics such as net promoter score (NPS) / customer satisfaction score (CSAT) and customer referrals.

Performance

Value delivered in terms of utility of features, solution compatibility, and periods of uninterrupted usage without errors, and measured metrics such as reduced downtime, increased peak capacity, number of concurrent users supported and threats mitigated.

Figure 2: Customer outcome: components of value^{iv}



“Outcome chain segments” and the EDGE Framework

To unlock the value of customer outcomes, technology vendors and partner organizations need to strategically reposition themselves as customer-outcome oriented companies, while also achieving their own financial and business objectives.

The EDGE framework offers valuable guidance, outlining four “outcome chain segments” that technology vendors and partners can embrace as they work to achieve this transformation:

Explore: distill objectives and uncover true business need

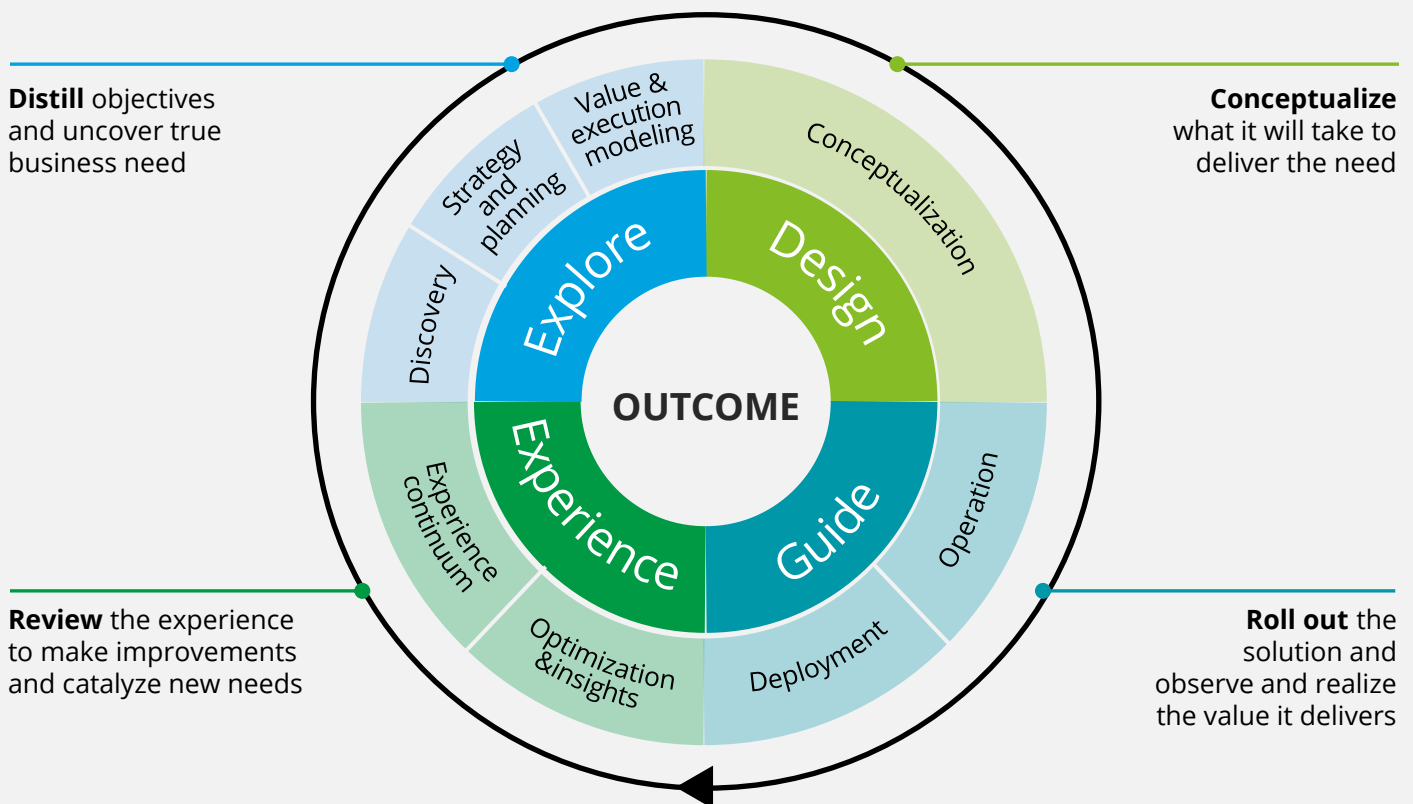
Design: conceptualize the necessary steps to deliver on those needs

Guide: roll out the solution, observing its value and realizing its benefits

Experience: review the experience to identify areas for improvement and catalyze new needs

Partners rarely offer services at scale across all outcome chain segments, as specialization in specific areas is common. Typically, MSPs focus on the Guide and Experience portions of the outcome chain, while system integrators (SIs) start earlier in the lifecycle and concentrate on Design and Deployment, with global SIs offering Explore services at scale. Management consulting firms typically focus only on the Explore outcome chain.

Figure 3: EDGE framework



The full structure of the EDGE framework

The EDGE framework can expand into eight service areas, which encompass the core pillars of service capabilities needed to deliver customer outcomes.

Explore

1. **Discovery:** understand customer needs, use cases and challenges, as well as buyer and stakeholder priorities and desired outcomes
2. **Strategy and planning:** formulate the high-level components of a potential offer and develop a strategic implementation roadmap focused on customer outcomes
3. **Value and execution modeling:** quantify the value proposition, business outcomes, and investment plan for the strategic roadmap, including scenarios and options for solution approaches

Design

4. **Conceptualization:** develop a solution design for the prioritized offer concept, including the technical architecture, services overlay, customer success plan, and commercial models

Guide

5. **Deployment:** install and integrate the solution into the customer environment
6. **Operation:** operate the solution on an ongoing basis after deployment

Experience

7. **Experience continuum:** support and maintain the solution throughout the customer experience
8. **Optimization and insights:** continuously optimize the solution based on a data-driven feedback loop

In each of the above areas, individual services are categorized into segments that provide specific services to customers. Additionally, services within the service segments span three levels of sophistication and specialization, which correlate with the margin profile of a service.



Foundational services are at the base of the stack and are considered table stakes because most providers offer them.



Differentiating services provide a competitive advantage and are delivered by a limited number of providers.



Advanced services are valued most highly by customers but require sophisticated skills typically only offered by a select few providers with specialized capabilities. These services typically aren't adopted at scale.

MSPs traditionally focus on the Guide outcome chain segment, within customer IT operations, which results in gross margins of 20%-30% for foundational services and around 40% for differentiated services^v. SIs that concentrate on Strategy through Deployment areas may realize slightly higher gross margins in the 40%-50% range due to the higher level of sophistication required in selecting the most suitable strategic and operational solution for a customer. Most customers lack this expertise in-house, resulting in a higher perceived value for these services.

With an aggressive push for more recurring revenue, SIs are increasingly shifting towards providing Guide and Experience services. This move often means sacrificing fees from higher-margin strategy and design services, as the absolute dollar value of these services tends to be orders of magnitude lower than the net present value (NPV) of a recurring managed services contract.

Moving upstream into Strategy and Design services is a strategic option for MSPs, however, this comes with new practice capability requirements and the need to cultivate relationships with new C-level buyers. Use this approach when you have a strong incumbent presence with a customer and in specific solution areas where talent and practice capability support service scope expansion.

Margin growth can also be driven by focusing on moving “up the stack” in a partner’s area of expertise to more differentiating and advanced services that provide up to 10% incremental margin.

The experience outcome chain is an emerging area of focus for partners due to the desire of customers to manage to outcomes. Lifecycle services provide support, adoption, and customer success services that deliver immediate business value to the customer and provide service margins in the range of 30%-40%.

Partners focused on these services also realize upsell/cross-sell opportunities in subsequent sales cycles. Optimization services provide immediate and tangible risk/cost-saving benefits (e.g., automated cloud spend optimization), enabling providers to capture higher margins, ranging between 45%-65%.

Figure 4: Service stack and service value drivers

Outcome chains help partners to move “up-the-stack”

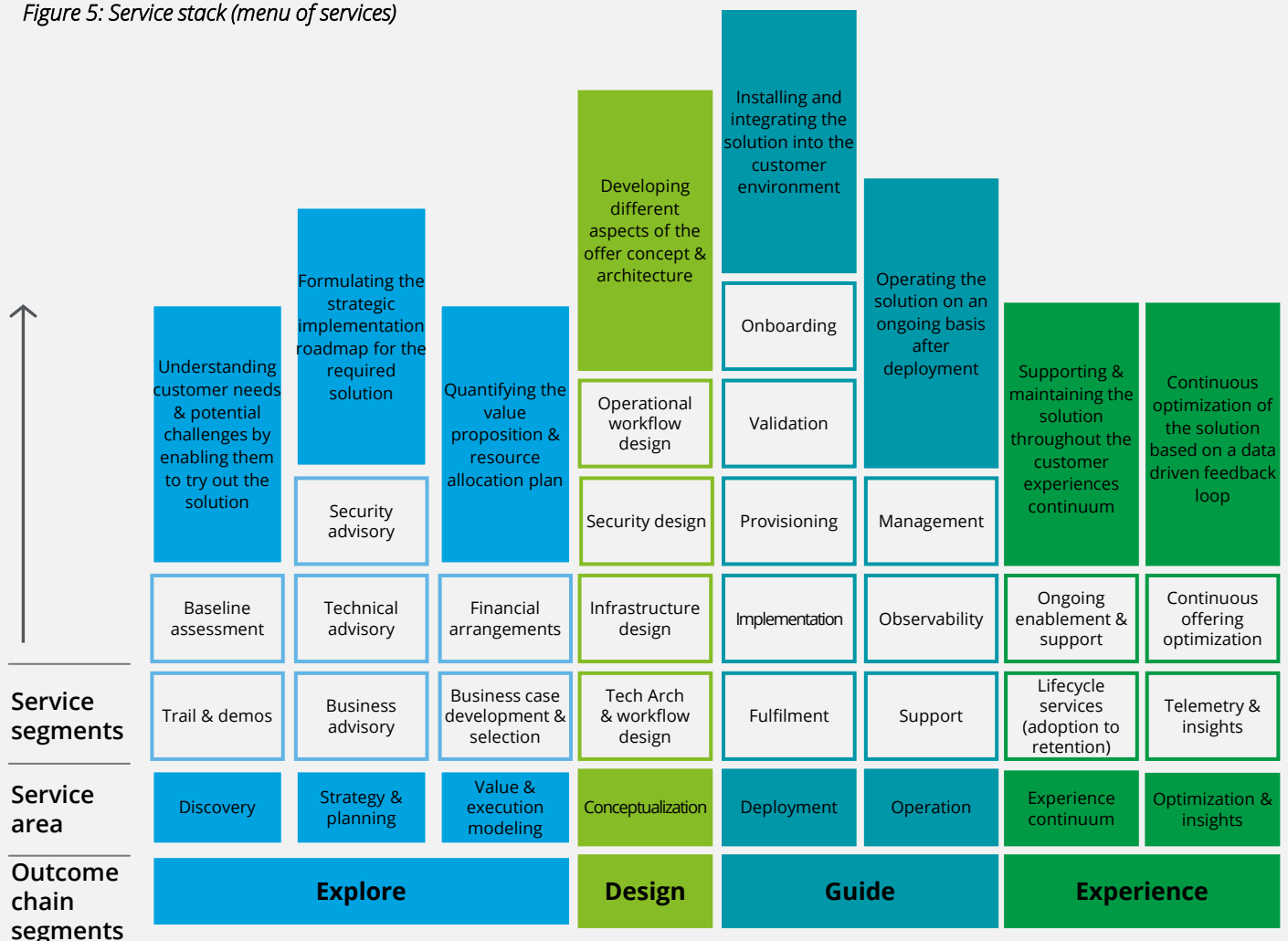
Deliver higher value, differentiating services across the outcome chain to maximize profitability

Service value	Advanced	Most valued by customers and requires providers develop sophisticated skill sets and capabilities						
	Differentiating	Valued highly by customers, who see these services as key points of differentiation between providers who invest in building differentiation into their offerings						
	Foundational	Valued as table-stakes by the customer; services that most providers in the market offer						
Service areas	Discovery	Strategy & Planning	Value & Execution Modelling	Conceptualization	Deployment	Operation	Experience Continuum	Optimization & Insights
Outcome stages	Explore			Design	Guide		Experience	

For any partner delivering these services, automation (increasingly leveraging AI capabilities) and a focus on Experience services are key levers to improve margins without radically reshaping the business model.

Leveraging the complete EDGE framework empowers organizations to identify their strengths and recognize where strategic partnership opportunities can effectively address service gaps. This fosters a structured approach for organizations to understand the end-to-end servicing needs required to deliver on customer outcomes.

Figure 5: Service stack (menu of services)



What this means for your business

To adopt an outcome-based approach, partners must focus their strategic thinking and organizational models on customer performance rather than products or technologies.

This means evolving from intermediaries to value creators and expanding beyond single-capability roles to play a part in different stages of the outcome chain. For example, SIs increasingly move into operate services to realize multi-year recurring revenue in addition to one-time implementation revenue. An MSP may need to look at services gaps that limit their ability to deliver a complete outcome and advance their tooling and resourcing capabilities to take over operations for multiple customer environments.

Conclusion

Improving customer outcomes will be crucial for the success of partners as the managed services industry continues to evolve. While it may seem daunting at first, an outcome-driven transformation offers significant advantages, including enhanced customer relationships, increased lifetime value, and higher win rates.

A recent global study of IT buyers found that the ability to deliver customer outcomes was the most important consideration when selecting a managed service provider^{vi}. The study also shows that up to 80% of customers are looking to work with channel partners to purchase IT managed services. Additionally, companies specializing in tech services achieve 12 percentage point higher win rates and 7% higher deal sizes from outcome-based selling compared to traditional solution-based selling^{vii}.

By embracing the principles and frameworks outlined above, channel partner organizations can better position themselves to enhance competitiveness in the marketplace and drive success in the evolving landscape.

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