Evolving the MSP as a Technology Enabler

White Paper

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Executive Summary

The Managed Service Provider (MSP) sector is facing a pivotal transformation, driven by increased complexity of technology solutions, the investment shift of VMS providers away from servicing and towards innovation, and evolving client expectations. The Staffing Industry Analysts (SIA) Managed Service Provider (MSP) Global Landscape Report 2023 highlights a trend where organizations are separately procuring technology solutions, pressuring MSPs to adapt. These emerging trends are in addition to the longer-term, pre-existing challenge for MSPs deploying technology and being compensated through a percentage of spend funding model. This model drives speed to revenue through scale without considering value-adding investments supporting integrations, change management, and solution design helping to manage new ways of working. This white paper outlines strategies for MSPs to remain competitive, focusing on flexible technology integration, enhanced service offerings, and strategic business positioning.

Introduction

The current MSP landscape is characterized by a dual need: to integrate diverse technology solutions and to deliver enhanced value to clients. With 36% of organizations opting for separate technology agreements, MSPs must demonstrate adaptability and technical proficiency.

According to SIA's Vendor Management System (VMS) Global Landscape Report 2023, approximately 44% of the market by spend is represented by programs of $100 million or less, signifying plenty of opportunity in the mid-market space. Several VMS providers have developed new offerings to target this mid-market opportunity with repeatable configurations and solutions.

Yet, for this market segment (as well as larger enterprise clients), MSPs are now expected – by design or default – to help accelerate the VMS value-proposition providing an array of support services including but not limited to the user experience, configuration, integration with the client technology stack, deeper analytics, business intelligence and reporting, and assessing where AI meets VMS capabilities in order to automate service delivery where possible. In addition, operating teams are increasingly expected to deliver technology Help Desk / first-line support services while maintaining focus on hiring excellence.

Adding complexity to this equation: According to SIA, the global Net Promoter Score (NPS) for VMS providers is -39 with a clear decline in the net number of clients willing to recommend their current VMS supplier. Overall, this suggests a higher level of dissatisfaction with the current services offered by VMS. Further, the drive for MSPs to also diversify into Light Industrial (LID), Statement of Work (SOW), and Employer of Record (EOR) for additional sources of revenue has been hampered by each technology offering varying design and solution maturity levels with buyers expecting the MSP to fully understand and implement these evolving solutions.

Problem Statement

For the MSP, they already are (or are expected to) take on these additional responsibilities without additional compensation. For buyers, paying directly for such services risks eroding precious cost savings. For the MSP (or the client), charging staffing providers additional basis points to pay for these services

further diminishes razor thin margins and puts access to the staffing partners' best talent at risk. For the MSP, buyers have an explicit expectation of continuous investment in talent, infrastructure, and innovation without compensation in an industry dynamic set up to be a zero-sum game.

The challenge lies in integrating and optimizing technology solutions, improving client satisfaction, and reframing the industry cost/investment dynamic to expand and sustain support services.

Strategic Considerations

1. **Technology Integration and Optimization**: Prioritize partnerships with various technology providers, focusing on seamless integration and optimization of client-specific solutions and services touchpoints between buyer>MSP>VMS. Consider reasonable investment in enabling technologies such as Help Desk systems, training portals, communications systems, etc. that streamline processes and minimize additional headcount.
2. **Value-Added Services**: Develop a range of support services, including user experience enhancement, deeper analytics, and AI-driven automation that elevates the MSP value proposition and addresses the current market dissatisfaction with VMS services.
3. **Change Management and Adoption**: Implement robust strategies for change management to accelerate innovation adoption and resulting processes.
4. **Focus on Mid-Market Opportunities**: Tailor solutions for the mid-market segment, leveraging repeatable configurations and specialized offerings that deliver value for all parties.

MSP Action Plan

1. **Conduct a Technology Ecosystem Review**: Assess current technology partnerships (including enabling technologies) and identify gaps or opportunities for change.
2. **Invest in Talent and Training**: Enhance the team's skills in technology integration, customer service, and innovative solution development across the VMS partner landscape.
3. **Develop Customized Solutions**: Create tailored solutions for different market segments, particularly focusing on the unique needs of the mid-market.
4. **Implement Customer Feedback Mechanisms**: Regularly gather and analyze customer feedback to improve services, identify areas of further investment, and increase buyer satisfaction of services, technology, and staffing partners.
5. **Explore Alternative Revenue Models**: Consider innovative pricing structures to compensate for expanded MSP services balancing resource and infrastructure investments with market requirements, VMS offerings, buyer expectations, and profitability.

Conclusion

MSPs must evolve to meet the changing demands of the workforce solutions ecosystem embracing innovation, technology integration, enhancing service offerings, and challenging legacy fee structures to deliver future forward services. Success in this dynamic environment requires continuous investment in talent, innovation, and strategic partnerships.

By adopting these strategies, MSPs can navigate the challenges of the current landscape and emerge as versatile, value-driven partners to their clients. By extension, VMS providers should recognize the effects of this shift and improve their partner strategies recognizing buyer expectations and challenges faced by MSPs.