Unlocking

the Revenue Potential of IaaS

 |

Table of Contents

Unlocking the MSP Revenue Potential of IaaS 1

Bezos' Law 1

SaaS-ify Your Infrastructure 3

Overages 4

Design Your Service Plans 5

Add Your Unique Value to Productize Your Plan 5

Step-by-Step Plan to Convert IaaS to SaaS Style Offering 5

How Pax8 Can Help You 6

Unlocking the MSP Revenue Potential of IaaS

> **MSPs focusing on the small and medium-sized business (SMB) market are finding increased success in moving their business applications and data to the cloud.**

Analysts and media outlets continue to publish reports about the massive growth of cloud Infrastructure-as-a-Service (IaaS) but making financial sense of it all can be a tricky proposition. Providing IaaS to the end customer can be extraordinarily complex (Azure has over 20,000 distinct SKUs), and the usage-based billing model can often provide challenges for managed service providers (MSPs), including slim margins, unpredictable bills that are multiple months behind, and more.

That said, MSPs focusing on the small and medium-sized business (SMB) market are finding increased success in moving their business to the cloud. The market opportunity is expected to triple between 2022 and 2026.[1] The flexibility, stability, scalability, and incredibly fast turnaround time of IaaS are tremendous and are often cited as key benefits of IaaS.

But how are MSPs unlocking the revenue potential?

Bezos' Law

The first building block of the IaaS opportunity can be found in an interview with Jeff Bezos, then CEO of Amazon, published by GigaOm in 2014.[2] In the article, Jeff proposed a change to Moore's Law that applies specifically to cloud services.

From 2006 to 2014, Jeff observed that the cost of cloud computing dropped by 50% every three years. While there have been only some signs of slowing lately, overall, IaaS costs are trending downward.

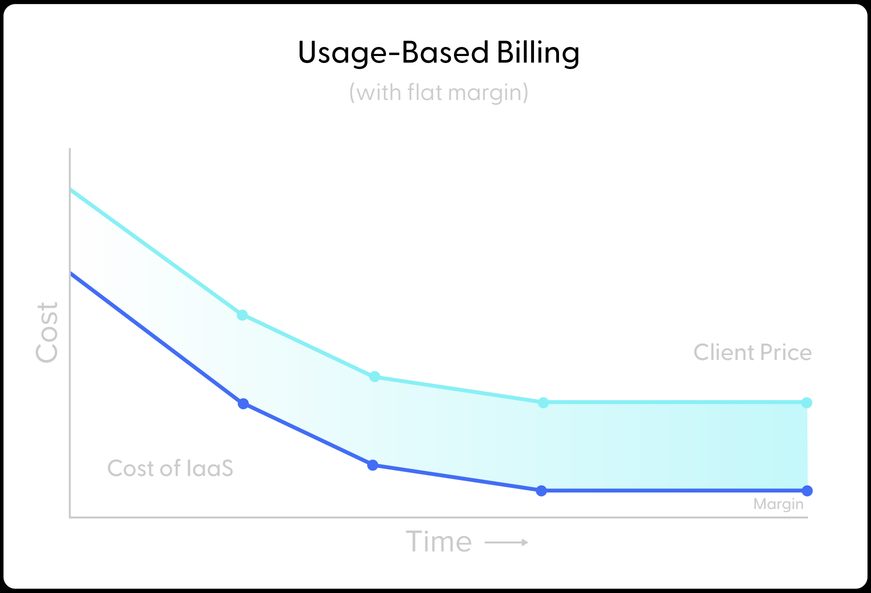
The key is not only measuring the cost of cloud infrastructure but measuring the cost-to-performance ratio. When accounting for performance, the market has seen roughly a 15% per year reduction in costs.[3]

1 Source: ResearchAndMarkets | Business Wire, "Infrastructure as a Service (IaaS) Global Market Report 2022, By Deployment Type, Application, End User, Industry Vertical, Operation," June 2022

2 Source: GigaOm,"Moore's law gives way to Bezos's law," Greg O'Connor, April 2014

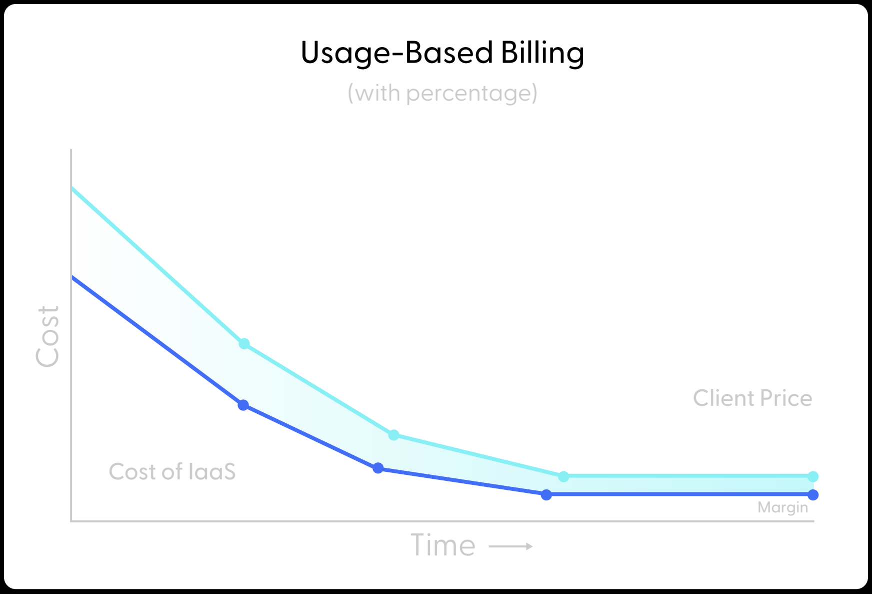
3 Source: Medium, "Moving from Moore's Law to 'Bezos Law'," Marc Baillavoine, February 2021

A common instinct is to apply a static or percentage-based margin on top of the client's actual usage. In the first example, we chart applying a static margin. Notice that as Bezos' Law takes effect, the actual revenue benefit for the MSP remains fixed.



"

Bezos' Law takes effect in a flat margin billing system, pushing MSPs' margins down over time.

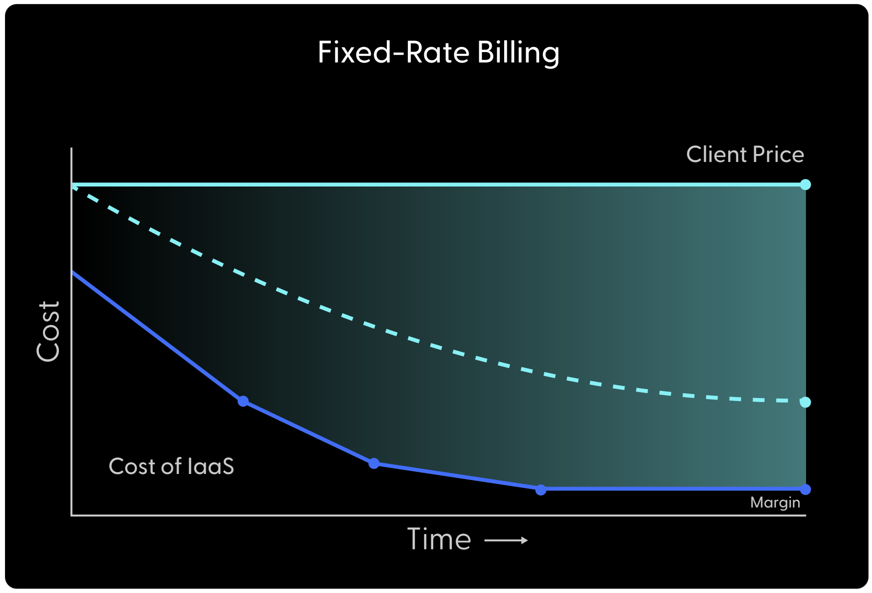


In this next example, we see what happens if you change your margin based on a percentage of cost. As costs decrease, the percentage-based margin also trends toward zero.

SaaS-ify Your Infrastructure

Create a pattern of predictability in your clients' invoices, easing the transition to IaaS.

Consider changing your billing model from an arrears/usage-based model to a simpler, bill-ahead, monthly recurring service. By setting a fixed cost, the forces of Bezos' Law work for you. We now see that as time goes on, a recurring cost to the client yields an ever-increasing profit margin.



The above chart implies that optimizations can be realized through IaaS, which provides direct benefit to the MSP's bottom line.

The fixed-rate schedule provides other benefits as well. By offering a fixed price to your client, you create a pattern of predictability in your clients' invoices, easing the transition to IaaS. This allows clients to better plan their own finances, and it generally raises their comfort level.

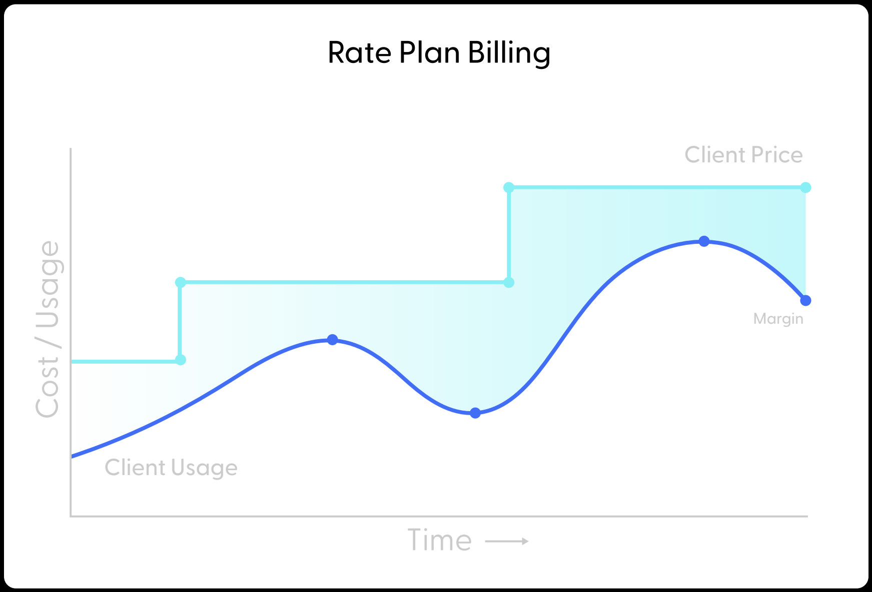
Anyone who bills in arrears understands the potential risks that come with collections. Billing accurately against a usage model requires waiting until the vendor reports usage. This generally happens around the fifth of the month and is often after the invoice period.

In this scenario, you are stuck trying to recoup costs for something that happened one, two, or even three months ago, and it increases your exposure to the potential of non-paying clients and collections.

However, we have a solution to this. If you bill forward, similar to a cellphone service, this problem is largely mitigated. In the case of non-payment, service suspension applies to the current month.

It can be that simple.

Overages



One of the primary concerns with charging a flat rate is the fear that a client has the potential to use drastically more services than anticipated and thus leave the partner (you) liable for charges. With the margins in IaaS, you could blow through your entire revenue potential with a single large overage.

By billing the expected usage in advance, any overages are just a portion of the overall bill.

For instance, if a client has $1,000 USD in standard infrastructure usage and a $250 USD overage, by billing in advance for expected usage, the client has an unexpected bill of $250 USD, instead of an unexpected $1,250 USD bill. Essentially, it is the same math but different psychology.

> Overages are an opportunity.

Overages are an opportunity.

When setting up the agreement with the client, establish that their flat fee comes with some caps, just like a cellphone data plan. If the client uses more than they are allotted, you then charge a one-time overage fee to recoup those costs.

More importantly, overages provide an opportunity to move them into a more substantial service to fit the client's future needs. Waiving overage charges when moving to a higher price tier can be an opportunity to strengthen the client relationship and grow long-term revenue.

Think of IaaS billing as an environment where the client usage fluctuates, but each spike provides the MSP an opportunity to raise the level of service provided.

Design Your Service Plans

Building out your service plans and deciding what to charge can be intimidating with usage-based services. The good news is IaaS charges are actually very predictable.

In general, the primary area that the end client can influence is bandwidth.
Try to approach your plans in three steps.

> "IaaS charges are actually very predictable.

1. Design the servers needed for your client business case. Use the calculators provided by the IaaS providers to accurately estimate those costs.
2. Add in your margin in the form of a service fee.
3. Identify one bandwidth tier that covers the current projected client bandwidth, including backup traffic, and then two to three more tiers they could grow into. Once you attach the bandwidth costs to the server and service fees, you have your tiered plans.

Add Your Unique Value to Productize Your Plan

Infrastructure can be a competitive space to sell, and risks becoming a commodity play if you sell it as a standalone line. Instead, incorporate your tiers into an encompassing service that describes what you do. Sell your unique value as an overall service package where infrastructure is a component.

Step-by-Step Plan to Convert IaaS to SaaS Style Offering

Here is the step-by-step plan for success:

1. Determine projection of client use.
2. Design your "good, better, best" tiered service offerings, including data caps.
3. Wrap up your infrastructure service tier as part of an overall value offering.
4. Establish a recurring contract with the client and an expectation of what happens if they exceed bundled usage.
5. Configure virtual servers to take advantage of low usage periods.
6. Monitor client usage.
7. Charge overage fees as required and use overages as an opportunity to increase the level of service.

How Pax8 Helps You Establish Scalable Infrastructure

We at Pax8 know that every partner we work with is focused on growing their business, gaining efficiencies, and reducing risk. As a result, we are focused on helping our partners discover what's possible, design what's required, and deliver a phenomenal customer experience.

Here's how we do that:

> "Pax8 provides calculators and threshold management capabilities.

Discover

- Technical consultants identify more complex infrastructure workloads
- Teach partners how to scale in Azure/AWS to find more opportunities with customers
- Pax8 Marketplace services to increase project capacity for the partner
- Expertise in solutions that enable growth in Azure/AWS

Design

- Educate on infrastructure capabilities to open new revenue streams
- Provide insight on how other partners are growing their infrastructure business
- Technical training to expedite the learning curve of engineers
- Access to MDF/POC funds to accelerate growth in consumption

Deliver

- Pax8 Marketplace services to offload complex projects to a team of certified engineers
- Direct to vendor escalations to ensure timely resolutions when issues arise
- Technical trainings to ensure partners are following best practices
- Access to self-paced, instructor-led, and peer group interactions to learn innovative approaches

---

About Pax8

Pax8 simplifies the way organizations buy, sell, and manage cloud solutions, empowering our partners to achieve more with cloud technology. Our born-in-the-cloud marketplace modernizes the channel's cloud journey with consolidated billing, automated provisioning, and industry-leading PSA integrations. And our technology is backed by our world-class partner experience that provides responsive support alongside the education and resources you need to grow your cloud business. Pax8 has displaced legacy distribution by connecting the channel ecosystem to our award-winning cloud marketplace. If you want to be successful with cloud, you want to work with Pax8.

For more information, please visit pax8.com.
Follow Pax8 on Facebook, LinkedIn, and Twitter.