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A VAR's Guide to MRR – 'Moving With the Cheese'

MSPs are transitioning away from break/fix to a monthly recurring revenue model — and with good reason. Delivering services that result in monthly recurring revenue increases customer lifetime value, among other benefits.

By Allison Francis

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A VAR's Guide to MRR – 'Moving With the Cheese'

It seems that every time you blink, things in the technology world are changing. Change is as inevitable as breathing, but today's channel partner companies are faced with a rather unique, difficult decision. The rise of the monthly recurring revenue (MRR) model begs the question: To VAR, or not to VAR?

MRR Rocks the World's Economic Model

Since the dawn of civilization, the overriding economic model has been "I pay you money, you give me a product or service." This structure has been the predominant driver of economic growth and prosperity, and it has remained relatively untouched and unchanged. Until now.

Enter the MRR model, a complete overhaul to the conventional, time-honored methods of recognizing revenue. Not to put too fine a point on it, but MRR is a massive shakeup. A seismic switcheroo. So, what is it exactly, and what does it mean for the IT channel?

Simply put, MRR is income that businesses can count on receiving every month – a predictable, consistent revenue stream. Essentially, MRR hands companies a crystal ball of sorts. Because customers pay a set monthly fee over the lifetime of their contract rather than a lump sum upfront, it's easier for partners to accurately forecast and budget. That's far different from the one-time, lump-sum revenue model traditionally used by value-added resellers (VARs) (think Blockbuster). MRR is more constant, allowing companies to operate under a subscription model (think Netflix).

Source: Ventana Research

MRR Rocks the Channel Model

Understandably, for those used to making big money from one-time sales, this new model is a big shift. Your classic "who moved my cheese" in action.

Historically for VARs, it has been typical to go from project to project, big payday to big payday. For example, if a customer buys a one-year Microsoft Office license, they pay the reseller upfront for the entirety of the contract. Then the reseller has to cool its heels until the license is up for renewal before getting another lump-sum payment – and that's

only if the customer chooses to renew.

These gaps and lack of service and predictability get tricky when you factor in ongoing expenses, with VARs sometimes scrambling to find enough projects to see them through to renewal. Crossing one's fingers and hoping something breaks or that someone will want a big setup/implementation so that bills get paid isn't the most sustainable way of doing things, eh?

That's one of the major advantages of the managed services model – predictable income. No gaps, guesswork, projecting or financial sting. With the MRR model, managed service providers (MSPs) can build a consistent recurring revenue flow from monthly fees for services. Providers know exactly how much they will charge and exactly when they will see the cash roll in.

Jerod Powell, president and founder at INFINIT Consulting, says one of the biggest issues for VARs is that they're so used to transaction-based business models that it's difficult for them to see a clear path to providing managed services. It's a complex pivot to execute, but once complete, it pays off in spades.

"At the end of the day, it's infinitely easier to project, budget and forecast," explains Powell. "If you add or lose customers, it's easier to scale up and scale down. All of this has become vital to success and to being that trusted advisor."

Gavin Livingstone, president of Bryley Systems, has been in the managed technology business for more than 30 years and experienced firsthand the rise of MRR. Bryley Systems has been following the recurring revenue model for quite a while now, but Livingstone remembers a time before MRR came on the scene and the pivotal moment when the company made the leap to the new model, and he recognizes how today's business compares.

Looking back to when MRR was just kicking off, Livingstone recalls one of Bryley Systems' strongest sales years being the year 2000 when a client ordered more than a million dollars' worth of IBM ThinkPads – a nice little payday. But that was also the year the company switched from being a hardware/software provider to a managed IT/cloud/security provider.

"Our recurring revenue at that point was probably around 20-25 percent of sales," says Livingstone. "Once we made the switch to MRR, our sales dollars in terms of hardware and software began a march downward. Now, 18 years later, those sales are less than 20 percent of our overall sales."

It's important to note that Bryley Systems has retained those line items because the company feels they are still part of the overall solution. A lot of its clients like to have a single source on that solution, so Bryley drove down the hardware/software sales and drove up the recurring revenue sales. And now? The company's sales are better than they were in the year 2000.

Proactive vs. Reactive (Transitioning Away From Break/Fix)

With your typical break/fix scenario, reactive is the name of the game. While it's been the reigning model for ages, it is a stop-go, alarm-responsive process that leaves the provider scrambling after each disaster that strikes.

With the break/fix model, a provider's services are utilized only on an as-needed basis. If a customer's network crashes or its computer system breaks, the provider must pull a Clark Kent and fly to the customer's side to fix the issue. At the end of it all, the provider then bills the customer for the time it took to complete the service.

This way of operating is also limiting in the growth sense. If a provider wants to grow or scale, it has to hire more staff, which is a big, prohibitive expense.

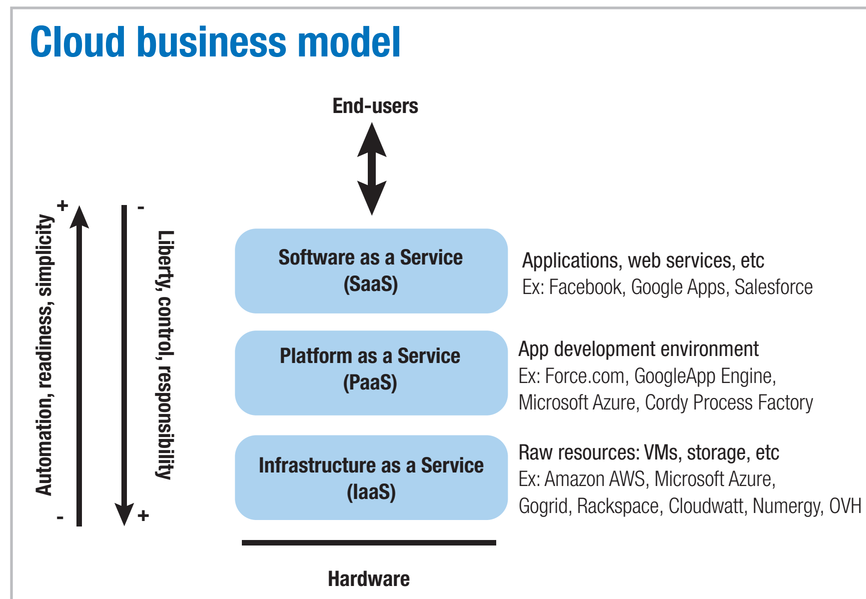
The managed services/MRR model allows MSPs to be proactive rather than just reactive. In this scenario, Clark Kent (the MSP) doesn't need to rush to change outfits in a phone booth and fly to a location. He can sit at his computer and, using a remote monitoring and management (RMM) solution, proactively monitor, patch and troubleshoot for all of his customers with no spatial or temporal constraints.

So, when something breaks, goes wrong or needs updating in Tokyo, an MSP in Dallas can

use RMM tools to gain access and visibility in real time into appliances and networks to perform the necessary updates and fixes. This makes it easier on everyone and decreases or eliminates any downtime, which of course could negatively impact business.

Unlike break-fix, managed IT services providers are able to provide their clients with the full gamut of IT support for a fixed monthly fee, resulting in that oh-so-lovely steady stream of predictable revenue.

This means that money is no longer just the project, it's in the service.



Source: Economic Impacts

Tech That Plays Well with MRR (Adding Recurring Managed Service Offerings)

Both the managed services and cloud business models, such as software as a service (SaaS), use the MRR model. While the managed services model means collecting recurring revenue by managing clients' IT systems for a set monthly fee, a cloud-based business generates monthly recurring revenue when it charges for storage, software and other such cloud services. A cloud service company (such as a SaaS provider) follows the subscription business model, charging on a monthly basis to access its software.

Remember the example of paying for a one-year Microsoft Office license? Boom, hello cloud/SaaS/subscription business model era. All of a sudden, customers don't need providers to sell them Microsoft Office because they can get Office 365 from the cloud. For pennies. And, they can handle it themselves.

Game changer.

In the midst of a mass migration to the cloud, this is the golden ticket for vendors selling software-defined wide-area network (SD-WAN), unified communications as a service (UCaaS) and disaster recovery as a service (DRaaS) services.

"Through SD-WAN and DRaaS, the big shift right now is moving to a public cloud setting and some sort of software-defined infrastructure," says Clinton Boyleston, brand developer at eGroup. "As that's developing more and more, it's becoming easier for us to 'get in there' and help with those migrations, particularly given our partnership with Microsoft, for example."

MRR has had a profound impact on the economy and business models worldwide. The important thing to note about this new model is that it's largely customer-driven. Once the subscription-based, recurring revenue apple hit folks on the head, it was the customer who held the control.

With the rise of cloud applications, every company is a tech company, and just about all of them rely on some sort of MRR. Almost every industry is turning to MSPs to sell them their necessary machines or devices, configure the operating system, handle integration with all other systems and provide predictive maintenance, all for one monthly price.

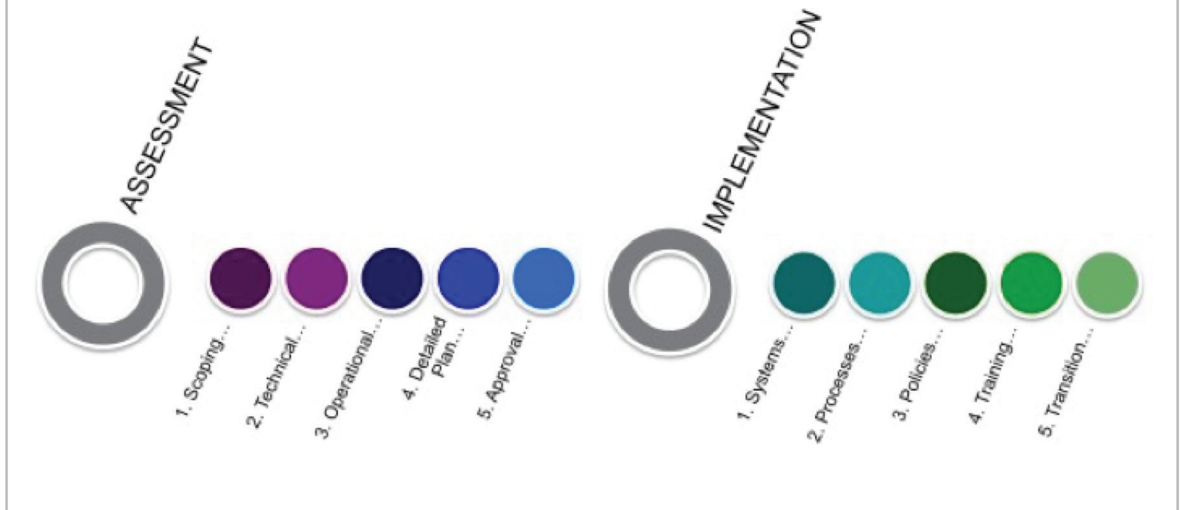
Take Caterpillar, one of the top manufacturers of construction and mining equipment, for example. This may seem like a bit of a far-fetched case, but it shows how deep the rabbit hole goes.

Caterpillar, looking to drive sales and growth, recently turned to smart data and connected products. Slapping a little internet of things (IoT) magic on a bunch of tractors was one of the smartest moves Caterpillar could have made. Its machines come equipped with IoT-enabled, predictive maintenance applications and capabilities made to understand the machine, improve the efficiency of the equipment, and shoot back data and analytics.

Here's the tie-in: To generate new recurring revenue streams, a lot of manufacturers are incorporating these types of services. Not only is MRR a huge component of this, but it's also important to widen the lens and realize that cloud/SaaS applications and IT are now in everything. Every. Thing. What were previously product-only business models now widely have "as a service" components.

Real-World Impacts

Since the MRR model came about so quickly and unexpectedly, there has been some wheel spinning in terms of how exactly to recognize this form of revenue. Take ASC 606, for example, the rather significant corporate finance compliance change that the Financial Accounting Standards Board (FASB) issued earlier this year. ASC 606 was the response to the new way businesses were recording MRR, which was a bit Wild West-y in nature due to the suddenness of it and lack of protocol.



Source: Connor Group

The old accounting standards, rooted in a formerly cash-based economy, were no longer cutting it. This was new, unfamiliar territory, this subscription-based economy. Because the pay-as-you-go economy came on the scene and took off so quickly, each industry created its own practices around when recurring revenue can be recorded and recognized. Everyone played by different rules.

A PwC report predicted that "products and services is expected to be one of the areas most impacted by the new standards." This means big changes in the way MSPs sell and service their offerings.

Time to Move With the Cheese?

So, if you are a VAR looking to shift, or in the midst of shifting, from the VAR model to the solutions provider/MRR model, here are three tips to keep in mind:

You don't need to be the expert in everything. Partner up. VARs aren't going to be able to

become an MSP overnight – it's a big endeavor. But they need to have access to that knowledge and expertise, and that's why a partnership with a company that does have that next level of ability is a good idea.

Buy an MSP. Yes, you read that right. If you're a VAR and you would really like to transition over to becoming an MSP, consider buying an MSP. It will mean some disruption in your business, of course, but that's the necessary evil.

According to Darrin Swan of INFINIT Consulting, most VARs have really good revenue streams already, so partnering is certainly a good way to go. "A lot of what we're seeing in the market today is a lot of them are buying up MSPs and slowly integrating over time so that they can onload that expertise automatically," says Swan. "The simple fact is that it is a big hurdle to transition from a straight VAR to an MSP organically. This is a solution a lot of folks are scooping up."

Embrace your role as a trusted advisor. As you transition to MRR, the biggest transformation will be a focus shift. You're not just providing services and fixing things that break; you will now be a trusted consultant and advisor to your customers. Now that tech is in every facet of every business, IT is now the backbone of every business. So partners have to be able to talk not just tech, but business as well. You have to know how to leverage tech to get your clients the business outcomes they want. Your focus is now finding the best solution for the customer.

eGroup's Boyleston is in the middle of such a shift.

"We're aiming to restructure things from a pricing and positioning standpoint because we've found that people are willing to pay for what we know," he says. "We've created a more diverse portfolio of services options, whether they be incident-based or hourly-based, to allow organizations to utilize our services more – to get us away from that VAR mentality." Customers can still buy technology from eGroup, but they can also utilize the provider to implement it and help them manage their entire environment.

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