

Managed Service done right!

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Managed services are an awesome business model. You are managing a very relevant piece of business for you clients. Done right, clients will treat you as a relevant business partner. A relation like that will lead to open doors, encounter cooperative attitudes, have low problems, high margins, and clients for life that will help you to get new business in.

But managed services are not an easy business. You will have to be on top of your game every day of all the long years of the contract. You have to be better in managing this piece of their business than your clients could be. And better than they think your competitor will be.

What is special about managed services? Managed services are long term (or continuous) contracts with a considerable deal size. With this, clients want you to act as a business partner. They want your advisory role over the term of the contract.

Not always does the initial contract reflect your position as a partner. But even if the contract is mostly about costs or price and operational KPI's, you will have the opportunity to develop the relationship. You can develop a partnership over time.

In all managed services clients want two things:

Solve the problems you were hired to solve and then bring innovation to their business.

Sounds simple enough, right? But let's look at these two aspects.

Why are you contracted?

Why are you contracted? This is one of the most important questions you should ask yourself periodically. But before we explain why, let's do a little test.

Don't cheat and read ahead, take 5 seconds to answer a simple question. It will help you understand this article much better.

Question: Take your newest large client and answer "Why are you contracted?"

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Have an answer in mind?

It will probably fall in one of two categories.

1. What is special about us. What differentiates us from the competition.
2. What problems to solve for this particular client. What value the client is looking for.

I usually find that about 50% of the people answer in the first category and the other 50% in the latter.

On one of our recent strategy sessions with a group of CCO's of outstanding managed services companies, we had an interesting discussion on this topic.

One of them mentioned a new client for their mobile phone services. This client chose them for their best in class user portal. This was an answer in the category of 'What is special about us'. And when I asked him why this was important to them, he knew exactly 'what problem this would solve' for this client. Their employees at that moment were not satisfied with the service desk of their former supplier. The service was too slow for something so important as their mobile phone. This excellent user portal would fix this, so they believed.

As the discussion evolved, it became clear that they had not measured what progress was made in employee or user satisfaction. They could not convincingly communicate their impact (value) on their clients' business. The contract KPI's they did measure performance on, were standard and operational in nature. Needless to say, that didn't help their position with this client in the long term. Also, they did not have a process for discussing how the relevance of this value may change over time. When user satisfaction increases, the original problem to solve will no longer be a pain. That topic will not be on the client's agenda anymore. The problem is gone and so is the need for a solution. And when that happens, having a great user portal will no longer be a strong reason for retaining this supplier. Or at least it will no longer be a differentiator. What we see is the beginning of what we call the value gap (read more about the service life cycle and the value gap [here](#)).

Another example from this group of CCO's came from an organization specialized in outsourcing hospital departments. They often get contracted to lower costs for a hospital while increasing quality of patient care. They measure cost by beds occupied in the outsourced department. With their services the average stay of patients decreased due to the better care. But the beds that freed up got re-assigned to other departments. So, in practice there were no savings to the bottom line for the hospital. In this case what was measured failed to express the value delivered. The hospital board was not impressed. They perceived less value than expected in the cooperation. This led to price discussions later in the contract.

Many of the organizations present in the strategy session were having difficulty answering the question why they were contracted. Or they found it difficult getting clients to fully acknowledge the value they delivered. At some organizations, this question never even comes up in managing clients.

If you do not know why you were contracted, you don't know what value is relevant to your client. And that is a major issue as 'Money flows to Value'.

So, how did you answer the question?

Do you measure and communicate your value?

What do you do when you have solved the problems you were hired to solve?

There are three points in time when to ask why you are (being) contracted:

- During the sales process. Use this information to win the contract.
- After the sales process. Get alignment on how to measure value in the contract before you start operations and agree how you will report on this.
- At any time in the contract. Set future goals in the cooperation and get alignment on how to measure value

Relevant Value is value perceived by clients. That is the only value worth any money. Every client will value different things. That is why it is so important that you know why each client has contracted you.

Relevant Value should be the heart of your client engagement activities. Your account management process should guide account managers to what is valuable to their client and how to delivered accordingly.

It is critical. It is the basis of managed services done right.

Now let's look at innovation.

What is innovation in managed services? Innovation is usually seen as introducing new products or services to the market place.

For clients it is irrelevant whether the service is new to the market place. They don't care whether it is something the market place has never seen. They care about you helping them to improve their results in the area's that matter to them. What is old news to you, might be a big step forward for a specific client.

In managed services, clients define value. They decide what is a relevant innovation.

When we talk to decision makers of managed service clients, we hear a lot of the following:

- They already do the same thing here for many years. Nothing is changing. It is time or a fresh approach
- We want them to do something with the ton of data they have on our organization
- We want them to show us what we should be doing differently
- They have all this information about what is happening in the market place. We want them to have a view on how this effects our business and show us how to best deal with it.

- They should tell us what the future may look like, not just act on our demand.

Does this sound familiar?

If it does, your company may have delivered what it was contracted for, but not all of the value your clients are looking for is in the contract.

Does your organization have a structured and formal process for monitoring all the value your clients are looking for? And for dealing with it?

All managed service clients expect you to bring innovation to their business once you have solved the problems you were hired to solve.

No sooner and no later.

Most clients will perceive efforts to cross sell right from the beginning as self-orientated. But when you are well on your way solving their problems, they expect you to do so.

It is about timing. You need to know exactly where you stand. Are you getting close to the value gap we mentioned before?

The best way to track where you are in the service life cycle, is to measure to what degree you have met expectations from your client's stakeholders.

That will tell you if the initial reason to hire you is still high on their agenda or whether their focus has shifted. When focus shifts, new opportunities to be of relevant value present themselves. If you ignore these changed expectations, they will become complaints or disillusionments about your lack of innovation.

How is the activity of managing innovation organized in your organization?

What innovation to bring?

The exact innovation that is relevant to a specific client is always situational. But not the fact that they will need you to bring innovation to their business. This is a given. Fail to do so and you will suffer the effect. Do so successfully and you will experience the benefits of managed services done right.

You can leave it to your people. Or you can equip them with the best possible process to do this effectively and efficiently.

A best practice process will bring everybody to their best performance. It will assure the most effective way of working throughout your organization in this critical part of your performance. Processes are how you work as an organization. It is how you get results.

Clients only will keep treating you as a business partner when you keep your services relevant to them. As a result, doors will be opened, their attitude cooperative, problems low and margins high. You will have clients for life, helping you to get new business in.

Having periodical, proactive discussions with clients about their current and future expectations should be part of your formal way a working. You should have a best practice process guiding your account managers. This process should define when, how and with whom to have these discussions and what to do with the outcome.

Do you want to read more on best practice account management and retention processes? Get a [free copy](#) of our landmark book “what your clients won’t tell you and your managers don’t know”.

