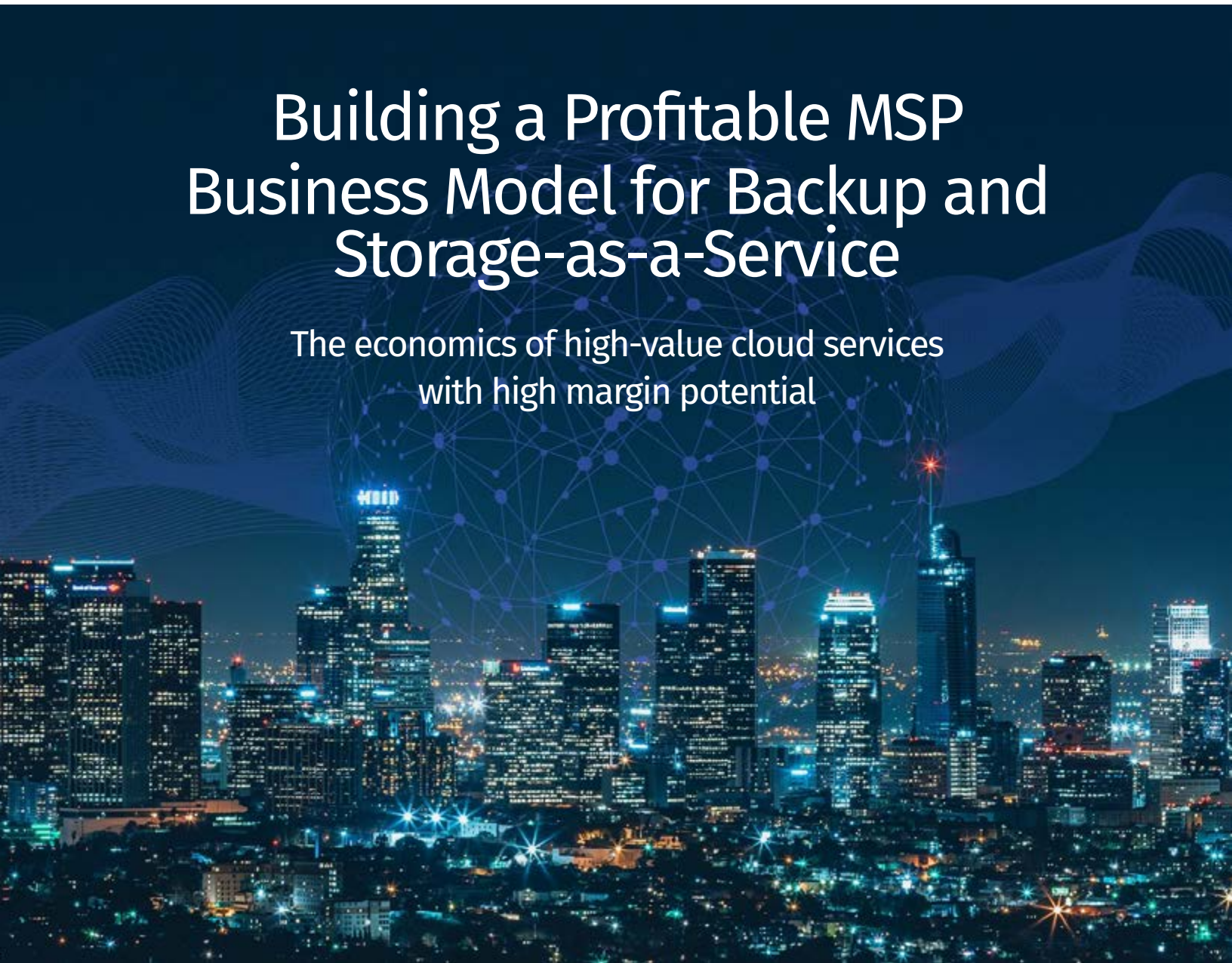




Building a Profitable MSP Business Model for Backup and Storage-as-a-Service

The economics of high-value cloud services
with high margin potential



CLOUDIAN BUSINESS WHITEPAPER

Executive Summary

Managed Services is a healthy, thriving market. Organizations of all sizes are streamlining their operations by focusing their resources on the work they do best for their customers, while partnering with service providers for the rest. As a result, the managed services market is expected to reach \$257 billion by 2022.¹

For Managed Services Providers (MSP), this is good news. But it also means the field will become increasingly competitive as new players enter the market. To succeed, MSPs must deliver a broad portfolio of sought-after services along with excellent customer service. And of course these services must be built on a platform that lets you match revenue growth with expenses, and enables non-disruptive expansion to meet growing demand. Such a combination will ensure a successful, scalable business model.

Profitability demands a competitive cost structure. Here, Cloudian provides a solution with scalable storage systems that enable service delivery at a fraction of public cloud cost, enabling MSPs to generate margin potential in excess of 50%. Furthermore, Cloudian is designed to grow non-disruptively within a single namespace, eliminating the need to procure capacity far ahead of demand.



Key Takeaways

- Storage-as-a-Service and Backup-as-a-Service are growing in popularity
- Managed Service Providers are positioned to benefit from this growing market opportunity
- Cloudian HyperStore enables margin potential in excess of 50% for MSPs
- Modular storage growth lets you start small and expand with demand

Storage-as-a-Service (STaaS) Trends

Every organization is faced with growing volumes of data. Managing and protecting this data is a top priority for every IT executive. Instead of building expensive storage infrastructures—and hiring the staff to manage it—many organizations are looking at storage-as-a-service (STaaS) to get the storage capacity they need.

With STaaS, organizations outsource a portion of their storage management by turning over responsibility for storage infrastructure, maintenance, facilities, and operations to a third-party provider.

This offers many benefits to customers:

- Reduced capital expenditures with less spend on hardware and data center space
- Operational expense tied to actual storage requirements
- Storage capacity on demand
- Robust infrastructure, protected against loss due to physical disasters
- Enhanced business continuity and availability

Although any organization can benefit from STaaS, small businesses—that's 99% of businesses that employ fewer than 500 employees—often benefit the most. These organizations typically have fewer IT personnel and smaller data footprints, which are two factors that make STaaS an attractive solution.

As an MSP, the growing demand for storage-as-a-service creates an opportunity for you. By customizing your own STaaS offerings, you can reap the following benefits:

- **Higher Revenue:** Your customers need more capacity. What better place for them to get it than from you, an MSP they know and trust?
- **Improved Customer Satisfaction:** Your current customers won't need to look elsewhere to satisfy their storage needs. Plus, having the offering in your portfolio will be attractive to prospective customers.
- **Increased Profit:** A well-built STaaS offering can generate more profit for your company.



Backup-as-a-Service (BUaaS) Trends

Making sure critical data is protected is a high priority for business and IT executives alike. After all, every business runs on data. If their data were to become lost, damaged or stolen, it could be devastating to operations.

But ensuring data is backed up properly is a growing challenge, especially as data volume increases. As a result, many organizations are looking to options like backup-as-a-service (BUaaS). According to Advance Market Analytics, the BUaaS market is expected to grow at a compound annual growth rate (CAGR) of 26.6% from 2019 to 2024.²

Backup-as-a-Service (BUaaS) combines backup and recovery software with offsite data storage and packages them into an easily-consumable service.

For customers, BUaaS offers many benefits:

- **Scalability:** Projecting storage capacity for backups is a challenge for most customers. Data growth is accelerating, making it harder to estimate how much capacity is needed to protect that data. BUaaS allows customers to get capacity on demand, paying only for what they currently need.
- **More time to focus on strategic activities:** Data backup is critical to business operations, but it's a routine task. It's like paying the electric bill—customers have to do it for their businesses to operate well, but it doesn't differentiate their products or help them stand out in the marketplace.
- **Confidence:** Too often, problems with backups go undetected—sometimes for months or longer—and don't come to light until a restore is needed. It takes time and effort to discover root cause issues and fix them. With BUaaS, a third party monitors backups and notifies customers when there are problems. That way, customers feel more confident in their backup operations, knowing the processes are being watched to ensure they're working.
- **Cost Savings:** Storage infrastructure and backup applications can be expensive to purchase, install, and maintain. BUaaS enables customers to address their backup requirements using a subscription model that lets them pay as they use the service.

As an MSP, what are the benefits of offering backup-as-a-service in your portfolio? There are several:

- **Higher Revenue:** BUaaS is in high demand today, as accelerating data growth continues to plague most organizations. Customers need a better, more cost-effective way to ensure their data is protected. Adding BUaaS to your portfolio meets a need for your customers and opens up a new revenue opportunity for you.
- **Elevated Value:** Your customers need to backup their data. When they do, they want a high level of confidence that their data can be restored if there's a problem. By offering BUaaS, you can help them solve their backup challenges, add more value to your relationship with them, and stand out among other providers in the marketplace.
- **Increased Profit:** A well-designed delivery model ensures profitability and helps you manage cash flow by matching revenue growth with expenses.

Both storage-as-a-service and backup-as-a-service are valuable services to offer your customers, and both can be offered to your customers with a business model that delivers reliable service at a competitive cost while ensuring a profitable business model for you. In the next section, we'll review two typical scenarios your customers would likely evaluate—a public cloud option vs an end-to-end service from a provider—and compare the costs.



COST COMPARISON: Storage-as-a-Service (STaaS)

Comparing the cost of Clodian HyperStore to Public Cloud pricing

Why are we comparing costs with public cloud? As mentioned earlier, customers are struggling with data growth. They need storage that will scale quickly and easily, and this has led to an increase in demand for storage-as-a-service. The most readily available “As-a-service” offerings are provided by the public cloud vendors, and customers evaluating MSPs are likely to consider this alternative.

From the MSP’s perspective, the question is how to offer a service that competes on cost, performance and service. The choice of underlying infrastructure will have a long-lasting impact, making it critical to evaluate all options.

One infrastructure option would be to employ traditional enterprise storage: SAN, NAS, or tape. But these options soon prove to be either too expensive (in the case of SAN or NAS), or too slow (in the case of tape) to be competitive with public cloud storage options. Hence, this comparison is built on Clodian HyperStore, a storage system that offers fast, disk-based access at about 1/3 the cost of SAN or NAS. Clodian systems provide similar scale and performance characteristics to public cloud infrastructure, and hence best meets the customers’ needs while ensuring profitability for the provider.

For this analysis, we will look at an MSP storage environment consisting of five petabytes (5PB) of capacity. We will assume that customers will access 10% of this volume monthly, and will calculate the costs for a period of five years, the typical useful life of the infrastructure.

Scenario Parameters	Value
Data storage capacity	5PB
% of data accessed per month	10%
Analysis time horizon	5 Years

Table 1. Scenario Assumptions for Clodian HyperStore vs. Public Cloud Storage Analysis

Using the values in Table 1, we configured a public cloud solution and a Clodian HyperStore solution and identified the costs associated with each one.

First, let's look at the public cloud option. The costs are listed in Table 2.

Expenditure	Public Cloud
Storage at rest (cost/month)	\$105,500 (2.1¢/GB/mo)
Storage access (cost/month)	\$25,300 (0.5¢/GB/mo)
Storage transactions (cost/month)	\$2,500 (0.05¢/GB/mo)
Total Cost for 5 Years	\$8.0M (2.7¢/GB/mo)*

Table 2. Public Cloud Costs

*Public cloud cost estimates are based on standard Amazon S3 pricing: <https://aws.amazon.com/s3/pricing/>

There are three separate fees that comprise the cost of public cloud storage. First, the user is charged a fee to store their data in the cloud (storage at rest). This fee varies based on the total amount of storage needed and will increase (or decrease) as storage volume increases (or decreases). Second, the user is charged a fee whenever they access their data (storage access). The more they access or manipulate their data, the higher the fee. Next, the user is charged for certain storage operations performed (i.e. storage transactions – GET, PUT, LIST and more). This fee also varies—it depends on the number of operations performed in a given month.

Now, let's look at the costs of a Cloudbian HyperStore solution. These costs are listed in Table 3 (Note: monthly system costs amortized over five years, which is the expected useful life of the hardware):

Expenditure	Public Cloud
Hardware (with 5 yrs support)	\$1,500,000 (0.5¢/GB/mo)
Software (with 5 yrs support)	Included with hardware
Storage administrator (0.5 FTE, 5 years)	\$250,000 (0.08¢/GB/mo)
Rack Space	\$125,000 (0.04¢/GB/mo)
Power & Cooling	\$240,000 (0.08¢/GB/mo)
Total Cost for 5 Years	\$2.1M (0.7¢/GB/mo)

The Clodian solution consists of four cost components. First, there is a cost for the hardware appliance and associated software. For 5PB, the hardware appliance will require rack space in the data center at an estimated annual cost of \$25,000. Second, a Clodian storage administrator is required to operate the environment. For this analysis, one-half of a full-time resource (.5 FTE) will be needed at a cost of \$50,000 per year. Lastly, there is a cost for power and cooling for the equipment in the data center.

Once the costs of each storage service option have been identified, the last step is to see how the public cloud pricing stack up against the cost to build the service on Clodian HyperStore.

As shown on Figure 1, an MSP can price an offering built on Clodian HyperStore with a potential to earn over 70% margin.

Storage-as-a-Service COST COMPARISON

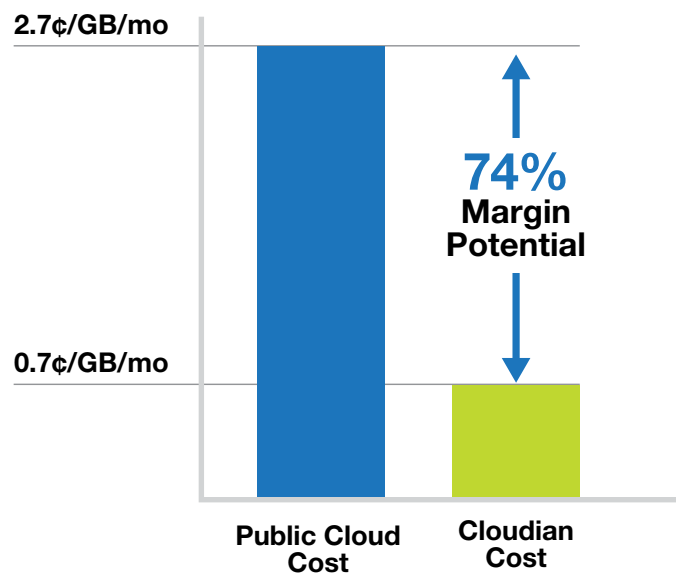


Figure 1. STaaS – Clodian HyperStore vs. Public Cloud

COST COMPARISON: Backup-as-a-Service (BUaaS)

Comparing the Cost of Backup to Public Cloud vs BUaaS with Clouidian HyperStore

In much the same way as storage-as-a-service, backup-as-a-service is a growing need for many customers. As an MSP, you have an opportunity to grow your business by adding BUaaS to your portfolio using Clouidian HyperStore deployed alongside an enterprise backup software solution.

For this analysis, we compare two scenarios:

- 1. Public Cloud:** The client procures backup software on his own, an employs public cloud as the target.
- 2. MSP-based BUaaS with Clouidian:** MSP offers backup as a service with Clouidian HyperStore employed as the backup target.

For this analysis, we will use the same storage capacity as the previous example—five petabytes (or 5000 terabytes)—and calculate the cost of backup-as-a-service (BUaaS) using standard pricing from a top backup software vendor and a leading public cloud provider.

For simplicity, we have used the same storage costs that were used in the previous example.

The following table shows the public cloud option vs the cost to build a BUaaS based on HyperStore:

Expenditure	Public Cloud Cost	Clouidian Cost
Backup Software	6¢/GB/mo	3¢/GB/mo
Storage	2.7¢/GB/mo	0.7¢/GB/mo
Total Cost	8.7¢/GB/mo	3.7¢/GB/mo

Table 5. BUaaS with Clouidian HyperStore vs. Backup to Public Cloud

As the table shows, there are several advantages to offering backup-as-a-service as part of your portfolio. First, as an MSP, you receive discounted pricing on the backup software—often 50% off the list price. In addition, as we showed in the STaaS example, building a storage platform based on Clouidian HyperStore provides a significant savings vs public cloud.

With discounted pricing on BUaaS software and the storage cost savings offered by Cloudian HyperStore, you can turn BUaaS into a highly profitable offering, potentially earning in excess of 50% margins.

Conclusion

Customers in nearly every industry are challenged with finding better ways to deal with fast-growing volumes of data, and this is creating a growing opportunity for storage-as-a-service (STaaS) and backup-as-a-service (BUaaS).

As an MSP, you're in a unique position to benefit from this market opportunity. This paper has shown that by offering STaaS and BUaaS using Cloudian HyperStore, MSPs can drive margins in excess of 50%. Furthermore, the underlying storage infrastructure can also be leveraged for other use cases, such as big data services or S3-compatible application hosting, again driving greater demand.

By using Cloudian HyperStore for your STaaS, BUaaS and other offerings, you can deliver competitively-priced, high-value services to your customers, grow your business, and generate considerable profit for your organization.

Backup-as-a-Service COST COMPARISON

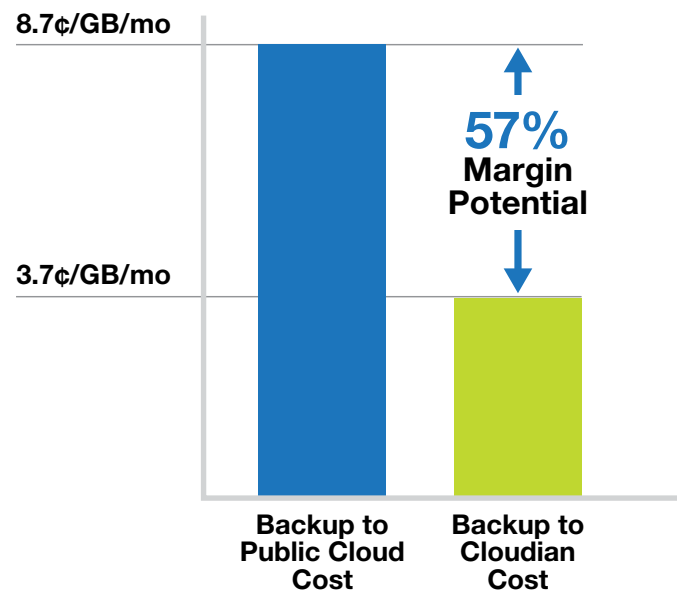


Figure 2. BUaaS built on Cloudian HyperStore vs. Backup to Public Cloud

REFERENCES

¹ “Managed Services Market by Service Type (Managed Security Services, Managed Network Services, Managed IT Infrastructure and Data Center Services), Vertical, Organization Size, Deployment Type, and Region - Global Forecast to 2023.” MarketsandMarkets Research website. Accessed July 15, 2019. <https://www.marketsandmarkets.com/Market-Reports/managed-services-market-1141.html>

² “Backup-as-a-service Comprehensive Study by Application (Small Business, Medium-sized Business, Large Business, Others), Deployment Type (On-premise, On-cloud (Public) Players and Region - Global Market Outlook to 2023.” Advance Market Analytics website, December 2018. Accessed July 22, 2019. <https://www.advancemarketanalytics.com/reports/8811-global-backup-as-a-service-market-1>



Try Clodian At No Cost Before You Start

Download the full-featured free trial of Clodian HyperStore software and install it on any commodity hardware to build and test an on-premises object storage solution.

cloudian.com/free-trial



Clodian, Inc. 177 Bovet Road, Suite 450, San Mateo, CA 94402
Tel: 1.650.227.2380; Email: info@cloudian.com; www.cloudian.com

©2019 Clodian, Inc. Clodian, the Clodian logo, HyperFile, HyperScale, and HyperStore are registered trademarks or trademarks of Clodian, Inc. All other trademarks are property of their respective holders. MSP-StaBa-0919-2