A Guide to Success for Managed Service Providers

Accelerating your cloud business

Get Started

Getting to know the public cloud providers

Cloud management services is a rapidly growing market segment that has attracted the interest of many managed service providers (MSPs), value-added resellers (VARs), and systems integrators (SIs). There has been an increasing interest in the consulting partner programs from the leading public cloud providers.

Your ability to take advantage of public cloud providers, such as Amazon Web Services (AWS), Microsoft Azure, and Google Cloud Platform (GCP), is largely dependent upon understanding how they work, as well as what they do and do not provide. Because the opportunities in the market have attracted so many partners, and because each is focused on providing their own distinct value, you should approach the relationship with a clear understanding of the opportunities for monetizing and a strategy for how to differentiate your offerings within the cloud provider frameworks.

This ebook provides an overview of program basics, identifies common challenges service providers face, and offers guidance on what you will need to get started with and accelerate your business.

Public cloud partner overview

Public cloud providers have their own partner programs they have developed to help their partners support more customers and boost profitability. For example, members of the AWS Channel Reseller or Managed Service Provider programs, as well as the Microsoft Cloud Solution Provider (CSP) program, help customers of all sizes design, architect, build, migrate and manage the workloads and applications on their infrastructure. These programs are designed for partners who have a business that adds value to customers using AWS, Azure and GCP.

Typically, MSPs with existing services look to cloud providers for enhanced support and improved pricing in the delivery of various marketing and customer development opportunities. Some examples include the following:

- Joint webinars – Co-sponsor webinars on your products or services.
- Test-drives – Enable customers to quickly test your product or service.
- Program listings – Promote products or services directly to the AWS, Azure or GCP customer base.

How do you make money?

Many service provider programs are notoriously slim on margins. You will have plenty of opportunity for monetizing by providing customers with value-added services on top of the infrastructure, and/or by optimizing the public cloud costs across customers.

Value-added services you may want to consider may include a variety of offerings, such as:

- Monitoring, management, reporting and remediation on behalf of your customers
- Monitoring, reporting and assessments that deliver actionable insights and recommendations for overall cloud management and optimization
- Assessment services that highlight opportunities and recommendations for cost, performance, cloud governance and security optimization
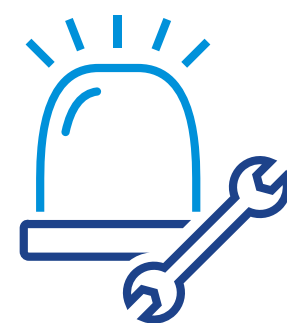
Market snapshot

Public cloud resellers come in all sizes and shapes. As with any consulting, reseller or service provider program, both the partner and the public cloud providers have specific responsibilities.

The public cloud provider delivers:

- Discounted services and support
- Technology support, including solution architect guidance and support
- Business support, including go-to-market
- Tools and reporting

The MSP delivers:

- Value-added solutions to customers
- Marketing, selling and supporting end customers receiving solutions
- Relationship management
- Invoicing and collecting payment from customers

There is a wide variety of public cloud consulting partners. Their specializations range from geography and specialized value-added services to target vertical industries.

Public cloud infrastructure makes sense. Now what?

Because public cloud consulting partner programs, such as those for AWS, Azure and GCP, are designed to provide cloud infrastructure in support of additional value-add services provided by the MSP, it's important that those offerings be a good fit for the cloud infrastructure it provides. Some common services you may offer include:

- Assessments – Help customers determine readiness for migration of data center infrastructure.
- Custom application development – Provide turnkey application development solutions that include hosting.
- Digital marketing – Manage turnkey campaign services, including hosting of content, user engagement, and reporting hosted in the cloud.
- Managed services – Manage the outsourcing of applications deployed and operated.
- Migration services – Assist customers in moving data center applications and infrastructure to the public cloud.
- Strategic/IT consulting – Deliver consulting services in support of IT business goals.
- Systems integration – Provide integration services leveraging cloud infrastructure.

Take the time to understand account types and discounts

Before discussing the different models for managing customers and their accounts, let's use AWS as an example and look at their different types of accounts and the corresponding implications on price discounts. AWS provides three different types of accounts:

- Consolidated – This is an account designated by a customer as a billing account, to which one or more additional accounts can be linked. The billing contact for a consolidated account receives a statement summarizing charges for all its linked accounts.
- Linked – This is an account linked to a consolidated billing account. An account can only ever be linked to one consolidated bill.
- Standalone – This is an account not linked to a consolidated billing account, which receives its own statement.

While many customers will have only a single AWS account, it is very common for customers to have multiple accounts. Larger enterprise customers commonly have very complex account setups that can include multiple consolidated bills and hundreds of linked and/or standalone accounts.

As an MSP, it will be necessary for you to be the administrator (including the billing) for these accounts. This will impact the onboarding, management and ongoing billing of these customers. To optimize pricing and the resulting margins, it is important to take full advantage of the two types of discounts available with AWS:

- Capacity reservations – In return for making a prepayment for capacity (e.g., reserved instances), AWS provides significant discounts on the compute costs for different resources.
- Volume discounts – Customers who achieve high usage of services with tiered discounts (e.g., Amazon Simple Storage Service [S3]) will receive reduced pricing for usage of these resources.

The discounts for capacity reservations and volume discounts are limited to what Amazon calls a billing family. This means that for a reseller to achieve a volume discount, the aggregate usage must be within the same billing family (e.g., a consolidated bill and its linked accounts). This can present a challenge for resellers as they look to maximize their discounts while supporting more complex customer models.

Establish a FinOps practice at your organization

The FinOps Foundation defines cloud FinOps as "an evolving cloud financial management discipline and cultural practice that enables organizations to get maximum business value by helping engineering, finance, technology and business teams to collaborate on data-driven spending decisions."[1] More and more organizations use FinOps to help guide their spending and usage decisions with public cloud providers. And as cloud consumers stive to maximize their efficiency, they often look to experts to help them along their FinOps journey.

Establishing a FinOps practice at your organization is a vital step to ensuring you are able to meet the changing needs and expectations of your customers. Not only will you be able to take advantage of the benefits FinOps provides within your business, but you will also be able to pass best practices and knowledge to your customers. Having customer-facing certified FinOps practitioners will better support the value-added services you provide as an MSP, including:

- Driving better financial accountability and ownership across your customers
- Understanding how all components of a modern cloud environment contribute to TCO
- Making business decisions based on accurate ROI analysis
- Identifying best practices that can be scaled across your customers' organizations

To learn more about FinOps and how you can begin your journey, visit the FinOps Foundation.

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1. FinOps Foundation. "What is FinOps." November 2021.

Onboarding customers

How will you manage your customer accounts? There are three general approaches to operationally managing customer accounts:

- Managing customer accounts independently – You take billing control over accounts without any change to their existing account type.

- Managing customer accounts through a consolidated bill – You convert the accounts from linked accounts to a consolidated billing account under your customer's administrative control.

- Managing customer accounts through a consolidated bill and independently – A hybrid of both approaches, you support both of the above models in some capacity, depending on customer need.

In each case, it is necessary to take billing control over customer accounts to be able to receive statements from Amazon, Microsoft and Google.

Depending on the agreement with the customer, you may also choose to take administrative control over customer accounts. The following sections summarize some key advantages and disadvantages of each approach to managing customer accounts.

Simplest: Manage customer accounts independently

- In this approach, you take billing control over the account or accounts for each customer.

- You will receive an independent statement from Amazon and Microsoft for each customer.

- The billing statement you deliver to your customers is identical to the statements provided by the public cloud provider.

Limitations of this approach include inabilities to:

- Take advantage of tiered discounts.

- Optimize costs cross-customer through the purchase of reservations.

- Optimize costs across multiple customers through the purchase of AWS Reserved Instances (RIs), Azure Virtual Machines (VMs), or Google committed use discounts (CUDs).
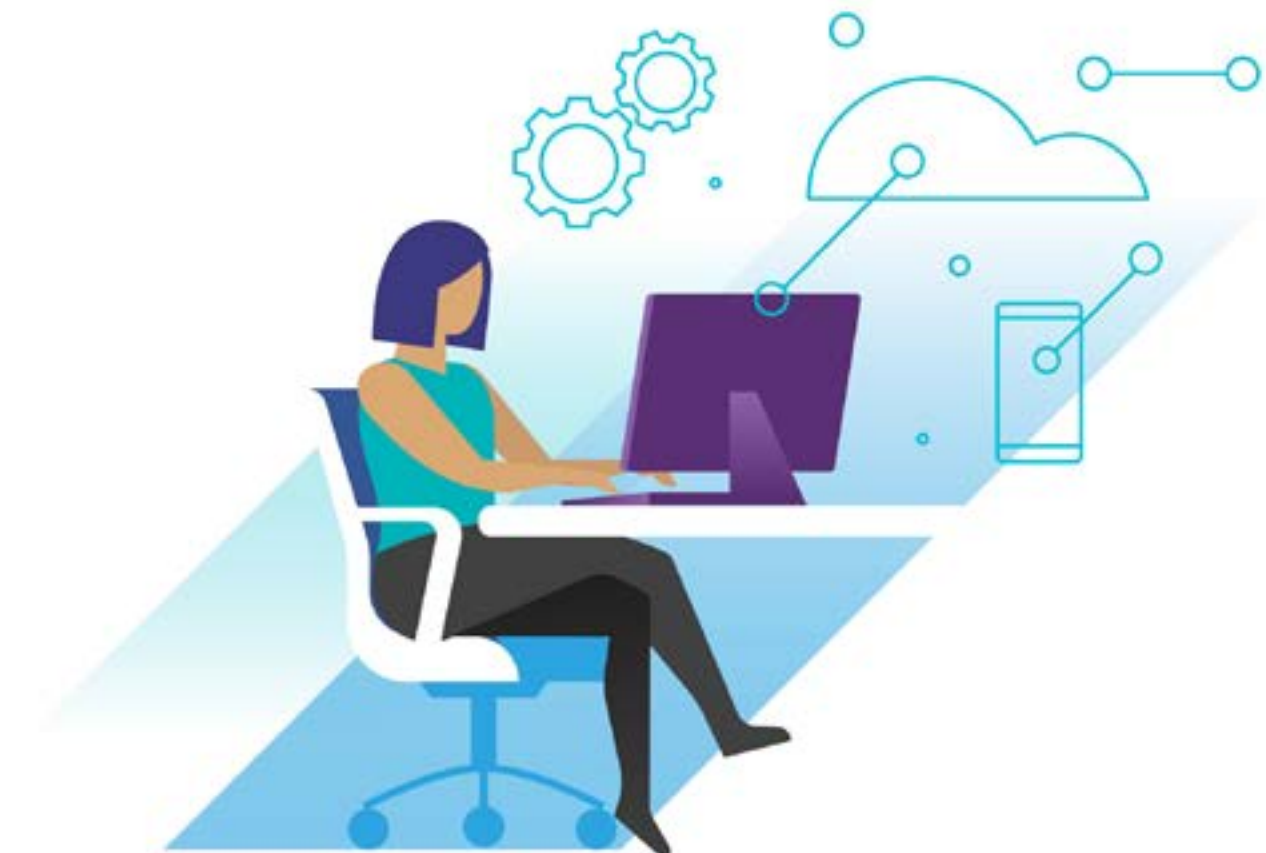
More complex: Manage customer accounts through a consolidated bill

Service providers who want to aggregate the usage across all their customers to maximize their volume discounts typically adopt a model in which their customers must link their account(s) to a master consolidated billing account owned and managed by the service provider. The advantages of this approach include the ability to aggregate usage, simplified cross-account reporting, and the ability to leverage tiered or volume discount purchases across more than one customer. The disadvantages include the service provider now owns responsibility for generating customer statements, which includes controlling pricing provided to the customer.

To illustrate the advantage of this approach, it is useful to better understand how volume discounts are handled within a master billing account. One of the more powerful features of cloud provider partner programs is the ability to receive volume discounts by aggregating customer usage. The feature is only available to partners who have aggregated customers under a master billing account. This means that if you use a master billing account and want to bill customers based on the list price for cloud services, the partner is required to remove the impact of tiering or volume discounts from the final customer statement. This feature can be particularly powerful for a reseller looking to optimize margins across multiple customers.

The biggest downside to consolidating your customers into a single billing account is the complexity of generating customer statements. Each month, you will receive a statement providing detail for all the accounts across your customers.

It is up to you to separate this consolidated bill into individual statements for each of your customers. In doing this, you need to account for the pricing benefits you obtain from tiered or volume discounts offered by the cloud provider, and manage the pass-through or removal of those tiering or volume discount benefits.

For cloud providers that offer a partner reservation solution, this can add further complexity to the billing process. These complexities can be simplified by using a cloud service management platform that provides automated bill generation capabilities and automatically handles these complex tiering and volume discounts, as well as reallocating reservation benefits.

Complex: Manage customer accounts both through a consolidated bill and independently

Enterprise customers or customers with a substantial existing investment in AWS, Azure or GCP may be unwilling or unable to link their accounts into a service provider's master consolidated bill. This can be caused by a variety of reasons, including internal security policies and the lack of IT control over all the accounts. But if a service provider needs to support customers like this,

they almost certainly will need to adopt a hybrid approach. The primary disadvantages of this approach include a substantial increase in the complexity of customer billing, and an increase in the operational overhead to manage the accounts. Let's take a look at how AWS processes the billing report.

Amazon billing statements

AWS provides customers with different billing reports, each of which can be turned on by enabling programmatic access to your billing information. These reports get delivered to an S3 bucket in CSV format, typically updating every few hours. The reports include:

- Monthly report – A monthly statement that provides a summary of costs at a service level. This is effectively a CSV version of the monthly statement you receive from Amazon.
- Monthly cost allocation report – This is the same as the previous report but includes tag information to allow basic categorization of the charges.
- Cost and Usage Report (CUR) – A more detailed and customizable version of the DBR that provides the option of additional metadata around resource usage.

The CUR provides costs at both their blended and unblended rates. The unblended rate represents the actual cost for usage in a billing period and is critical to allowing a reseller to have a base price for all usage. The blended rate represents an average of the variable cost for comparable usage across all the accounts in a consolidated bill and should be used with caution by a service provider only after fully understanding its implications.

Know this

Tiered discounts

Some public clouds, such as AWS and GCP, offer tiered discounts for different services based on volume usage. The tiered discounts are limited to a single consolidated bill and its linked accounts, and cannot span more than one consolidated or standalone account. By not aggregating all customer usage under a single consolidated account managed by the reseller, the reseller will lose out on the tiered discounting advantages as they scale their customer base and cloud usage.

Learn more about AWS Reserved Instances

RIs allow you to make a one-time payment to AWS in return for a discount on your compute costs and a capacity reservation that guarantees your right to launch a similar instance at any time during the term of the reservation.

The rationale for reserved pricing is simple: By getting customers to commit to the usage of specific infrastructure, AWS can better manage their capacity, and therefore pass these savings onto their customers. But by managing each customer's account(s) independently, the reseller must purchase RIs independently within each customer, which increases the risk in RI purchases and also increases the cost for managing these RIs.

Table 1: Pros and cons of each approach to managing customer accounts

Approach	Pros	Cons
Managing customer accounts independently	• Simplified customer billing	• Inability to leverage cross-customer tiered discounts to improve costs/margins • Increased risk purchasing reserved capacity to optimize costs/margins
Managing customer accounts through a consolidated bill	• Ability to leverage cross-customer tiered discounts to improve costs/margins • Reduced risk purchasing reserved capacity to optimize costs/margins	• Increased complexity to customer billing
Managing customer accounts both through a consolidated bill and independently	• Ability to leverage some cross-customer tiered discounts to improve costs/margins • Some reduced risk purchasing reserved instances to optimize costs/margins	• Substantially increased complexity to customer billing • Increased operational cost to managing billing and operations

Preparing for potential challenges

While AWS, Azure and GCP offer robust, full-featured programs, there are potential challenges service providers face, including:

- Managing customers and different accounts through a single console
- Automating production/delivery of customer statements
- Providing reseller margin reports per customer and overall
- Providing a value-add end-customer console
- Optimizing margins by taking advantage of RI purchases and tiered discounts

Managing customers and accounts through a single console

Public cloud providers offer a rich set of features for managing your cloud infrastructure, including the ability to start, modify and terminate infrastructure for different services. One of the primary disadvantages is the limit to viewing a single account at a time.

As you scale your business, you may be responsible for hundreds or thousands of individual public cloud accounts, each belonging to different customers. Each account will have a separate login and may use different regions within the account. The result is a substantial operational overhead to managing each account for your customers.

Automating the production and delivery of statements

Because you own responsibility for billing your customers, it is up to you to automate the production and delivery of statements. While public cloud providers offer cost transparency, producing customer statements each month can be made more complex if you're planning to perform activities such as:

- Optimizing margins with volume discounts
- Optimizing margins through reserved capacity purchases
- Marking up the pricing offered by the public cloud providers for services
- Supporting a hybrid deployment model

In each of these cases, you will need to collect the one or more statements from your public cloud provider, preprocess these statements based on predefined pricing rules, and then deliver invoiced statements to each of your customers.
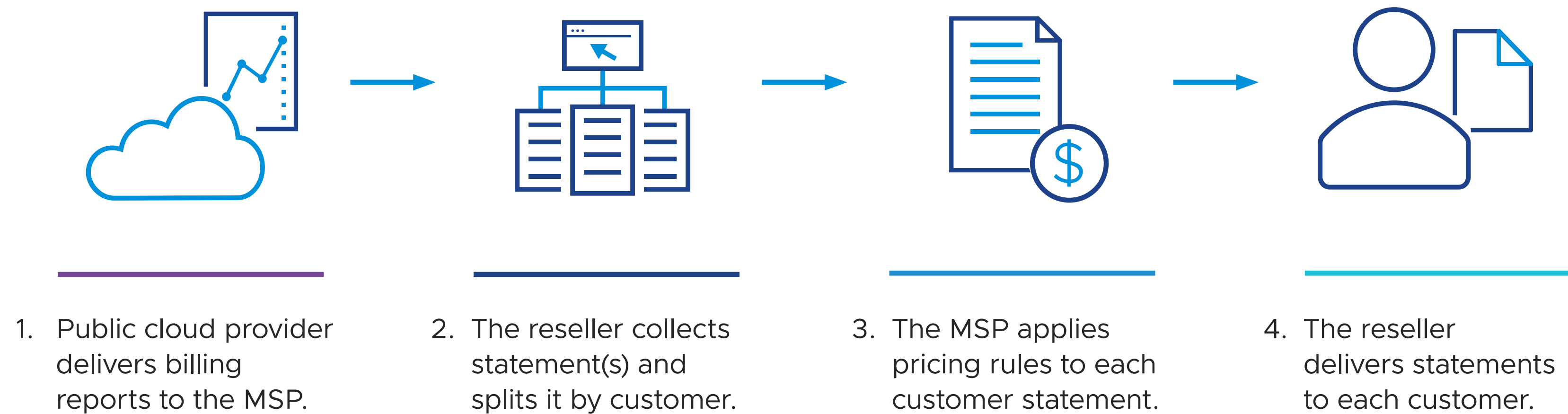
Typically, it makes sense for service providers to implement a system for invoicing that maintains the integrity of marginalized pricing. Examples include:

- Eliminating the tiered discounts from customer statements
- Eliminating the pricing benefit of RIs from customer statements
- Marking up or down specific services/usage based on the contract with each customer

Service providers can either develop custom software to perform the statement processing or use a commercially available product from one of several available vendors.

The steps for automating statement processing include:

1. Public cloud provider delivers billing reports to the MSP.

2. The reseller collects statement(s) and splits it by customer.

3. The MSP applies pricing rules to each customer statement.

4. The reseller delivers statements to each customer.

Providing margin reporting

It is important for a service provider to be able to track their customers' public cloud spend and their margins in a consolidated report. Because the discount a service provider receives from various public cloud providers is provided outside of statements via chargebacks, it is also useful to have projected and actual margins.

Delivering an end-user console

It has become increasingly important for service providers to differentiate services to customers through software-as-a-service (SaaS) solutions that add value on top of the public cloud infrastructure. Some common features customers expect from their service providers include:

- Cost reporting
- Cost and billing transparency
- Cost optimization reporting and recommendations
- Security reporting and recommendations
- Performance reporting and recommendations

Some service providers have developed custom consoles to provide services to their customers, while others license a commercial solution designed for rebranding.

Optimizing margins

As you look for ways to improve margins, look closely at margin optimization opportunities, such as volume discounts and capacity reservations. Because capacity reservations have the ability to reduce some costs by up to 72 percent, they offer the best opportunity for improving margins.
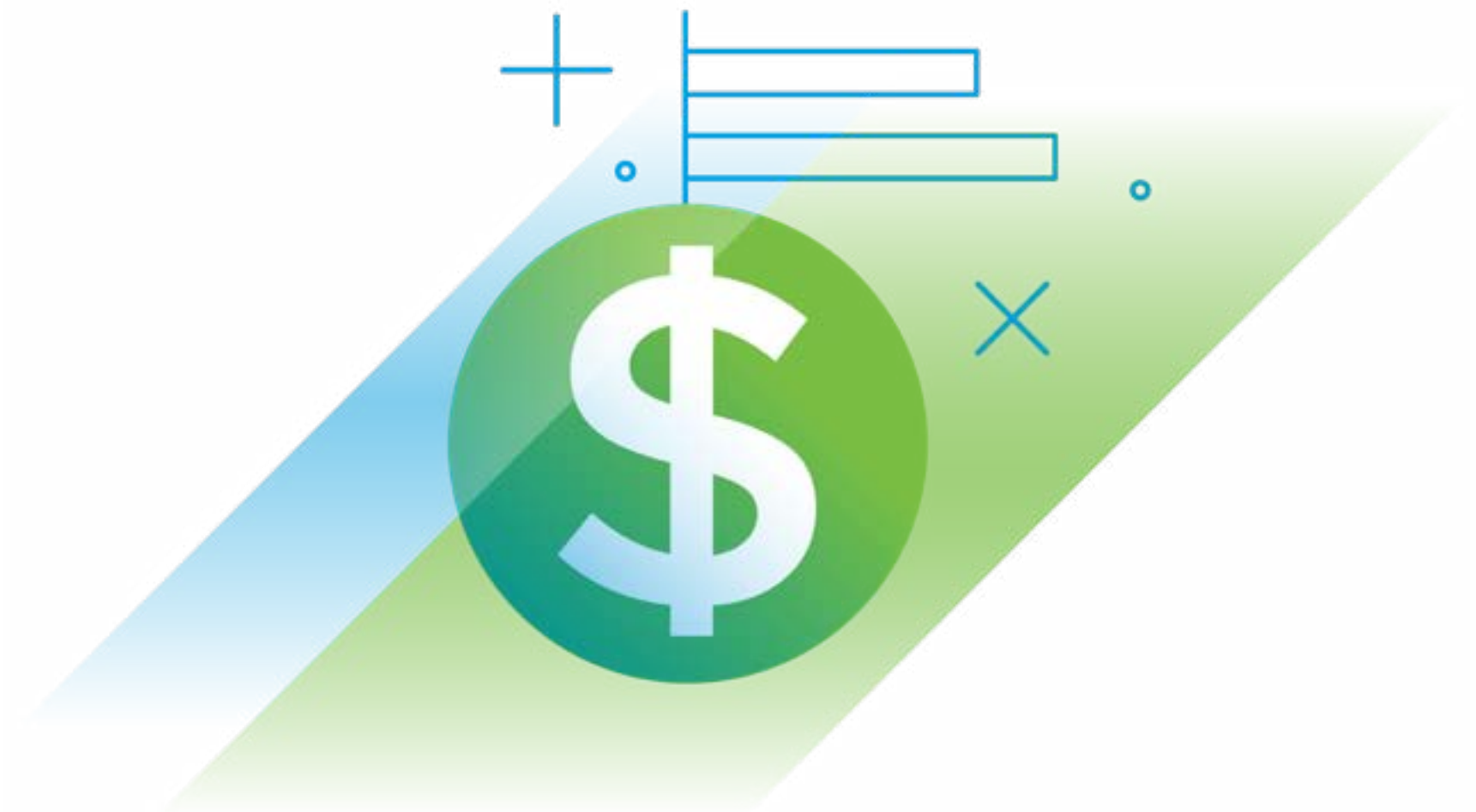
# Make life easier with a third-party provider

Today, there are several products available in the market to support cloud service providers.
Some features you should look for in choosing a successful product for you will include:
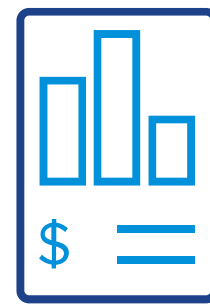
Provide an integrated console from which the reseller can view spend and margins across all customers.

Deliver an end-user console that provides value-added and differentiated services to your customers around cost, usage, performance and/or security.
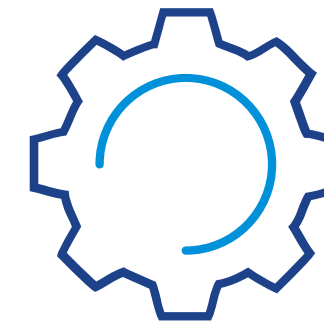
Automate the production and delivery of customer statements.

Provide support for different deployment models, including managing customer accounts independently, managing customer accounts through a consolidated bill, and a hybrid of both approaches.

Enable service provider margin optimization by price list control.

Ready to get started?

If you are a new service provider or interested in moving into this space, the following are important first steps you should take to get started.

1. Define your value-add services

Public cloud providers have designed their program with the expectation that service providers will drive additional value-added services to their customers. These services can be delivered through consulting services or applications.

2. Sign up as a partner of the public cloud provider

You can apply for the program on the public cloud providers' partner portals. It is important to already be an existing public cloud customer with usage. The program will come with requirements that will include a minimum monthly billing, a committed public cloud support level, and required accreditations that must be maintained by your staff.

3. Choose a third-party product

You will need a third-party product to support you in managing your customers, optimizing your margins, and delivering value-added/differentiated services to your customers.

Conclusion

The VMware Tanzu CloudHealth® team has extensive experience in driving cloud success for MSPs. Read our solution overview for more information on how to accelerate your cloud managed services with Tanzu CloudHealth.

Accelerate your cloud managed services with Tanzu CloudHealth.

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