

The evolving landscape of the MSP business report 2020.



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Foreword



The MSP landscape is in a constant state of flux as end user priorities, perception and adoption surrounding managed services continues to evolve. No longer an emerging market, today the MSP space is an established category that is prevalent throughout the global IT channel, from SMB-sized providers

to larger MSPs responsible for significant business functions for enterprise clients and everything in between. As the MSP market has grown, providers have had to continuously balance and adapt their portfolio services to stay relevant and meet their customer's varying needs, which has resulted in many service providers regularly expanding their offerings far beyond the traditional fundamentals expected of the MSP.

In spite of additions to portfolios and new, lucrative avenues for MSPs to explore, the market still faces its own changes and challenges. Recently, U.S.-based MSPs have faced consolidation and commoditization that, for some, has negatively impacted their margins. On a wider scale, the pressure to find and keep staff with the right skills to service increasingly complex technologies is a challenge the global MSP community faces - an obstacle that has only been exacerbated by the current climate.

This is echoed in CompTIA's latest research, Trends in Managed Services, which recently revealed that two thirds of MSPs expect to significantly increase their service offerings in the coming year (further confirmed throughout the following report), whilst a majority, though still maintaining a basic offering, will look to offer managed Internet of Things and other cloud-based applications. In total, a majority 64% of respondents expected to increase their mix of services over the next two years. The most in demand of these services, unsurprisingly, is security. More than half of our respondents, 52%, cited gaining more cybersecurity skills as the most significant route to ensuring strong performance in the coming years.

We agree, as evidenced in the following report, that the next shift in focus for MSPs looking to bolster their portfolio to continue to meet their customer's needs will be towards security, which is why CompTIA is supporting the 2020 MSP Day movement. Now in its third year, MSP Day has quickly become the event of the year for MSPs looking to become trusted and lasting security advisors to their customers and, alongside Barracuda MSP, we want to help service providers not only in navigating the evolving landscape before them, but also in delivering multi-layered, effective security services that they can bring to their customers, beyond typical offerings. In these uncertain times, as cybercriminals continue to capitalise on scattered and vulnerable organisations, end users need trusted third party providers more than ever before.

Despite the skills gap and the pressure of consolidation for many, this report portrays a growing opportunity for the MSPs of the world as adoption of managed services continues to rise - of which security offerings are the leading commodity.

Security as a managed service is only going to become more sought after as organisations continue to wrestle with a shortage of skills and adjust to new working conditions, presenting a huge opportunity for MSPs to bolster their portfolios and cement themselves further as vital partners to their customer base. Any MSP failing to capitalise on the opportunities presented in this report should expect their customers to look elsewhere, and their margins to suffer accordingly..

Carolyn April

Senior Director, Industry Analysis
CompTIA

Executive summary



In a world filled with uncertainty, the one thing we can guarantee is that the demand for cybersecurity solutions is increasing exponentially.

Many companies have been forced to implement a remote working policy in record time as a result of the global Covid-19 pandemic,

and this signals a greater opportunity for unscrupulous cybercriminals to take advantage.

For all those channel partners currently on their MSP journey, now really is the time to really think about adding security to their services portfolio.

We spoke to nearly 300 partners from across the world for our 2020 The Evolving Landscape of the MSP Business report, and it is clear that all are facing the same challenges when it comes to managed services provision. It is also clear that security forms a significant part of the growth opportunities in the services sector going forward.

Our results also show that 88 per cent of partners questioned believed demand for security services was set to increase over the next 12 months. It also is no surprise to read that according to our figures, 91 per cent of the global MSP partners we surveyed are planning to increase the number of services they offer in the coming year, particularly around security.

As this report shows, end users are struggling to recruit the right cybersecurity skills, and they are increasingly concerned about the cost and time needed to maintain the security tools they need to keep their company and sensitive data safe from cybercriminals. These end users need IT suppliers that they can trust – partners that not only have the knowledge, skills and capabilities in terms of technology and service provision, but also those that will treat them with respect and listen to their concerns, rather than just talking over them.

In turn this gives us an opportunity to really get closer to the MSP community and make sure that together, we can give those customers everything they need to ensure they are fully protected and feel valued by their suppliers.

Brian Babineau

SVP & GM

Barracuda MSP

Key findings

- **Nearly all MSPs are looking to expand their services portfolio in 2020.**

A significant 91 per cent of partners said they were planning to increase the breadth and depth of their services capacity in the next 12 months.

- **Managed services are set to be the top revenue generator for the vast majority of respondents.**

A total of 69 per cent of respondents picked managed services as the biggest opportunity for increasing sales this year. This is significantly up on 2019 where 54 percent saw managed services as their biggest opportunity.

- **A hybrid approach to services is favoured by the vast majority of partners.**

More than half (53 percent) of respondents said they expect to generate 51 percent or more of their business through managed services, with approximately 45 percent saying they expected to generate up to 50 percent of business through managed services in 2020.

- **Security services are higher up the agenda for MSPs this year.**

Endpoint Security, Email Security and Network Security all made it into the top five services table in 2020. In 2019, email security was the only security service in the top five.

- **Rising security concerns and a lack of in-house skills within end user customers are driving the need for third party service providers.**

A total of 79 per cent of partners felt customer security concerns were a good opportunity particularly with the rise of remote workers, 72 per cent said the lack of in-house security skills at their customers was also creating new revenue possibilities.

- **Nearly all partner respondents agreed that demand for managed security services is increasing.**

In total, 88 per cent of those questioned said that demand for security services was either 'moderately' or 'significantly' increasing.

Security emerging as the driving force behind managed services shift

A new way of working will see demand for security solutions skyrocket as more firms implement a remote working policy, but MSPs risk falling behind and losing vital business if they fail to get their services mix spot on.

The push towards managed services has always been more of a marathon rather than a sprint for many channel players, because they face the double challenge of transforming not only business processes but also those cultural changes needed within their own workforce and customer base to embrace a more fluid approach to billing and internal commission structure.

For those partners that are making that transition from being perhaps a traditional hardware-heavy VAR offering a limited service such as break-fix or service desk support, there has never been a more opportune time to take that plunge into a wider services model, particularly with developments over recent months that have forced a new way of working on pretty much every company on the planet.

In this report, based on the third annual MSP Day Survey conducted by Barracuda – nearly 300 partners globally were questioned - from countries including the USA, UK, Germany, Canada, Ireland, Belgium and Spain - to find out their willingness to embrace managed services, how they are providing managed services and more importantly, the opportunities for these players in the market.

According to analyst firm IDC [source 1], the global services market grew five per cent in 2019 and was on track for similar growth this year, until recent events put a spanner in the global economy. Now the revised outlook is a 1.1 per cent drop in revenue this year, and one per cent growth in 2021.

But even in times of an economic downturn, innovation will thrive, and demand for services will soar. In particular, with workforces spread thinly over different geographies, the need to protect sensitive company data and networks with a cast iron security shield is never more urgent. Now, more than ever, it is a perfect time to be proactive in the services space, and to pick your services portfolio wisely by investing in the areas that are seeing demand skyrocket.

As this report reveals, many channel players are still on the path towards becoming a true MSP. They have perhaps been hampered by customers unsure about a move to cloud-based services or a pay-per-use model; or perhaps internal cultural challenges such as the existing salesforce realising and resisting the end of the huge deal-by-deal bonus. Perhaps partners have been hampered by a lack of in-house skills in their preferred service areas.

Those partners that have gone through the pain of transitioning to a service player have certainly not regretted opening up new continuous revenue streams, and for many it has brought them even closer to their customers. Another point worth making is that pure-play MSPs are in the minority, and by far the largest number of MSP players could be classed as hybrid providers – offering a mix of hardware and services.

Source 1:

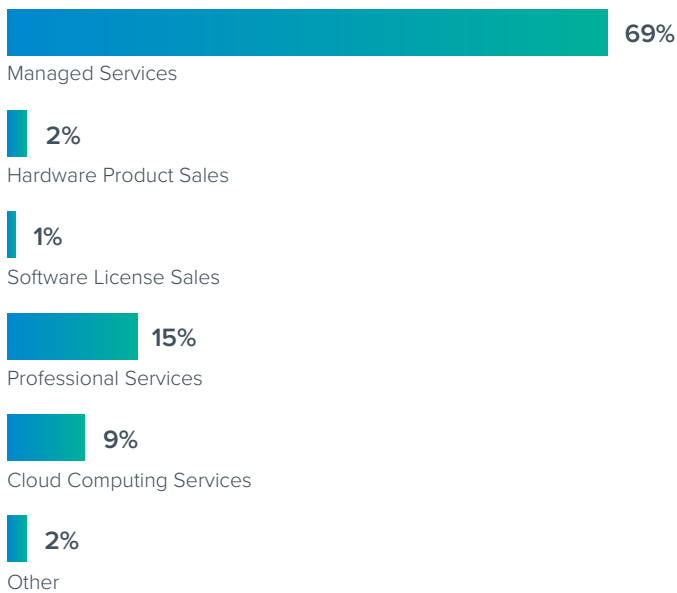
IDC: Worldwide Services market momentum derailed by Covid-19 Pandemic: <https://www.idc.com/getdoc.jsp?containerId=prUS46215420>

Opportunity knocks

According to Barracuda MSP's figures, managed services are seen as the single biggest opportunity among channel players for increasing sales/revenue, with 69 percent of respondents choosing that option; well above the nine percent that picked cloud, or the two percent that chose hardware. This is a significant increase on the 2019 report, where 54 percent identified managed services as their biggest opportunity, and 12 percent cloud. Hardware was seen as an opportunity by six percent in 2019.

Which of the following presents you with the biggest opportunity for increasing sales/revenue?

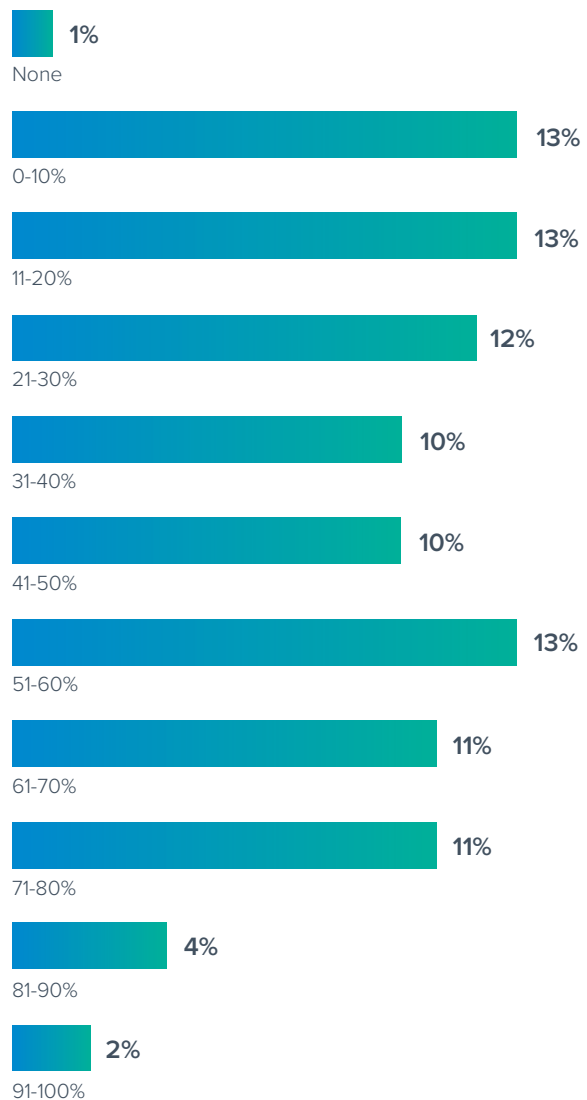
(n=278)



In total, 98 percent of respondents generated revenue from managed services in 2019, but as mentioned above, the majority of those respondents operated a hybrid services model with 13 percent generating up to 10 percent of business through services, similar numbers generating between 11 and 30 percent of business through services. Nearly 40 percent of respondents this year generated half (or more) of their business through managed services, to varying degrees. Last year that figure was around 30 percent, signalling a 10 percent increase overall.

What percentage of your revenue was derived from managed services last year (2019)?

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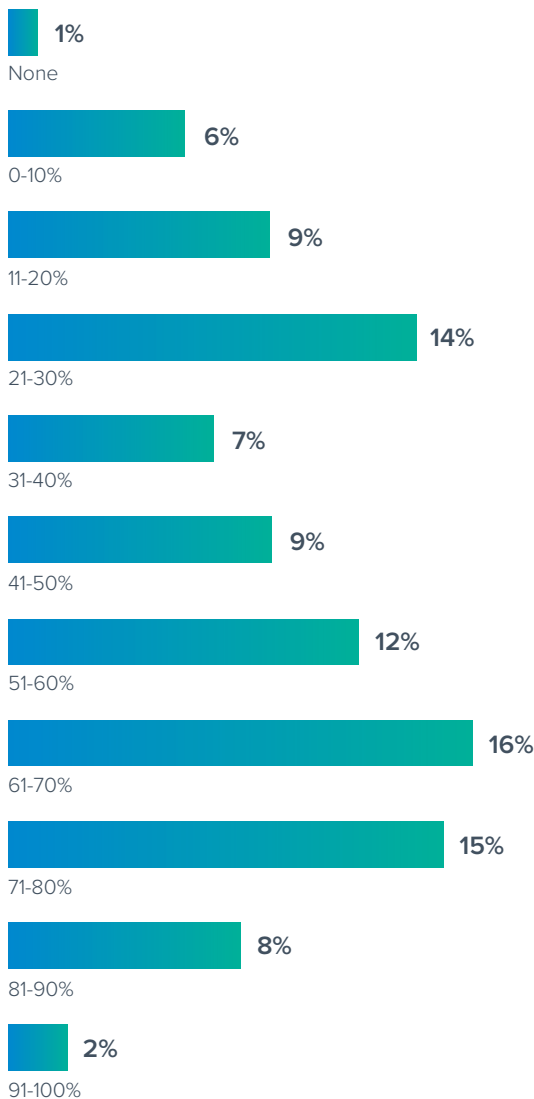


Services are driving change in the channel model

The figure changes further when asked how much survey respondents expect to generate from services in 2020. Around 53 percent said they expect to generate 51 percent (or more) of their business through managed services, with approximately 45 percent of respondents expecting to generate up to 50 percent of their business through managed services. The numbers are climbing.

What percentage of your revenue would you expect to come from managed services this year (2020)?

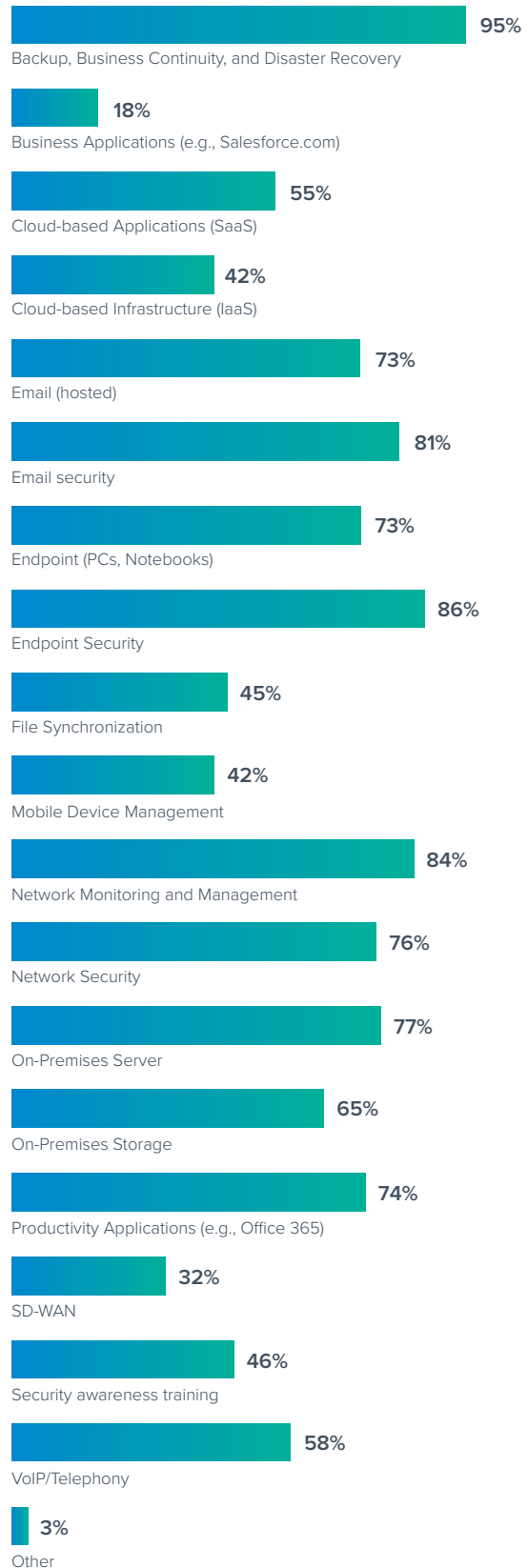
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Next, respondents were asked to select which managed services they were providing.











Which of the following technologies/products does your company sell and/or support as a managed service offering?

(n=278)



Leading the pack this year was backup, business continuity and disaster recovery (DR), with a whopping 95 percent of partners offering that as a service, whereas in 2019, a smaller 58 percent picked that as a top service. The shift has very much been made to more security and backup-based service offerings this year – see table below:

Top five services in 2020 compared to 2019

2020	2019
 <p>1. Backup, Business Continuity and DR</p>	 <p>1. Network Monitoring and Management</p>
 <p>2. Endpoint Security</p>	 <p>2. Email Security</p>
 <p>3. Network Monitoring and Management</p>	 <p>3. Backup, Business Continuity and DR</p>
 <p>4. Email Security</p>	 <p>4. Storage</p>
 <p>5. On Premises Server/ Network Security (tie)</p>	 <p>5. Cloud-based Apps (SaaS)</p>

Security has bubbled to the top of many end user's OpEx lists over recent years, mainly because of the increasingly complex nature of threats facing the average business ranging from ransomware to phishing attacks. Coupled with the fact that firms have been slowly moving towards a more fragmented and remote workforce over recent years.

The security market itself is set to grow even further – according to figures released by research firm Statista [source 2] – the global cybersecurity market is set to grow to \$248 billion by 2023 – driven by increased demand for security services.

This shift towards security-based services will just continue to ramp up because of the amount of companies that have been forced to change their working practices almost overnight. Many should be operating on a 'zero-trust' basis, not only because it is the best way to protect against cybercriminals and human error, but because it is an opportunity for the service partner to offer not just one solution, but a range of solutions and services to keep customers as protected as possible.

Source 2:
Age of the Transformers Report November 2019 – CRN UK and Agilitas

Trusted advisors

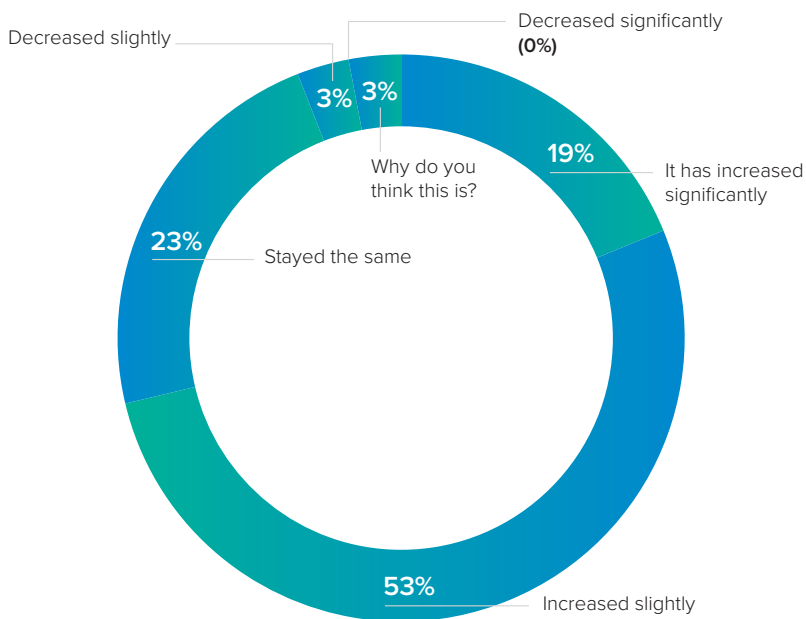
But the issue of trust in the world of an IT and services provider is a vital one. The results of this survey revealed that 52 percent of respondents felt trust had increased slightly between suppliers and their customers – perhaps this is because more suppliers are realising the importance of looking after customers all year round and keeping in regular contact. End user customers expect their IT service provider to act as a trusted advisor, and to guide them along the right path, offering them advice and selling them technology and services because it will benefit their business rather than generate extra profit.

Because cybersecurity is such a high priority, those MSPs that have no security flavour to their portfolios risk losing valued customers to those providers that do. There is no place for loyalty when the very core of a company is at risk.

More staff are working remotely than ever before, and that means an explosion in the number of security issues facing the customer. Most employees will be using different devices all requiring endpoint security coverage; all will require VPNs if they are handling sensitive company and customer data; and a spread-out, remote workforce just means more opportunities for hackers/unscrupulous cyber criminals to take a chance and hone in on all these new targets. Customers need to have faith in their security systems and in those providing them.

How do you think SMB trust in MSPs has changed in the last year?

(n=278)



Backing up the findings

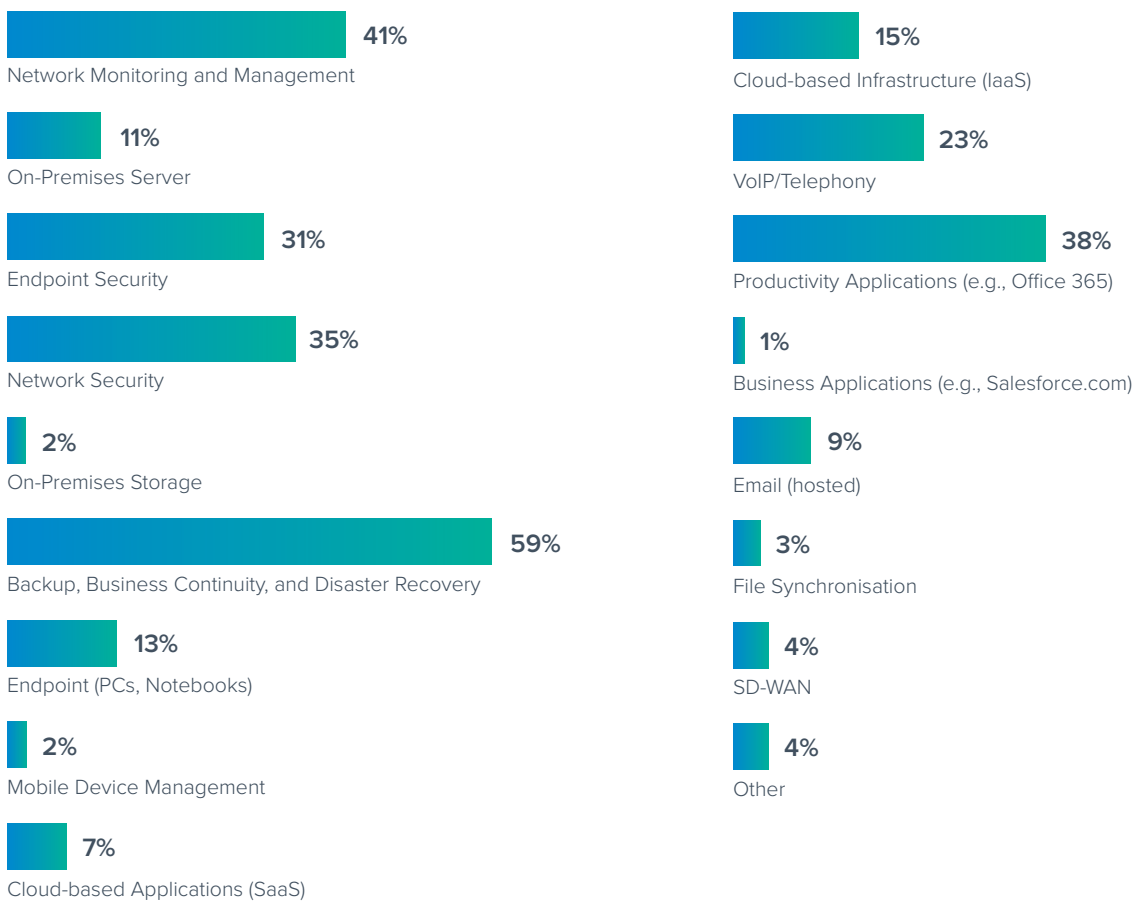
Of course, part of that overall security offering is backup and disaster recovery, in the event of a massive cyberattack or natural disaster, customers need to be assured their systems can be backed up and running as quickly as possible.

This is reflected in the fact that the majority of those questioned by Barracuda – 59 percent – said one of the top technologies or products they would be promoting to

customers this year is Backup, Business Continuity and Disaster Recovery (DR). Also forming the top three were Network, Monitoring and Management with 41 percent of votes, and third with 38 percent were productivity applications such as Office 365. Rounding off the top five was Network Security with 35 percent and Endpoint Security with 31 percent.

Which of the following three technologies/products are you promoting the most to customers?

(n=278)



These figures differ quite considerably to 2019 where cloud-based infrastructure was happily sitting in the top five. In 2020, this technology only garnered 15 per cent of votes.

Top ranking managed services according to MSPs.

2020	%	2019	%
1. Backup, Business Continuity and DR	59%	1. Network Monitoring and Management	76%
2. Network Monitoring and Management	41%	2. Backup, Business Continuity and DR	65%
3. Productivity Apps (eg Microsoft 365)	38%	3. Network Security	63%
4. Network Security	35%	4. Productivity Apps (eg Microsoft 365)	59%
5. Endpoint Security	31%	5. Cloud-based Infrastructure	59%

The survey results prove that security is rising to the top of the agenda for MSPs and that many are opting for a multi-layered approach. The next question asked what the current top three revenue generators were for partners. Unsurprisingly given previous answers, Backup, Business Continuity and DR scored top marks with 59 percent of votes; Network Monitoring and Management was second with 51 percent of votes and third was Network Security with 29 percent of votes. Rounding off the top five was Productivity applications with 28 percent, and Endpoint Security with 27 percent.

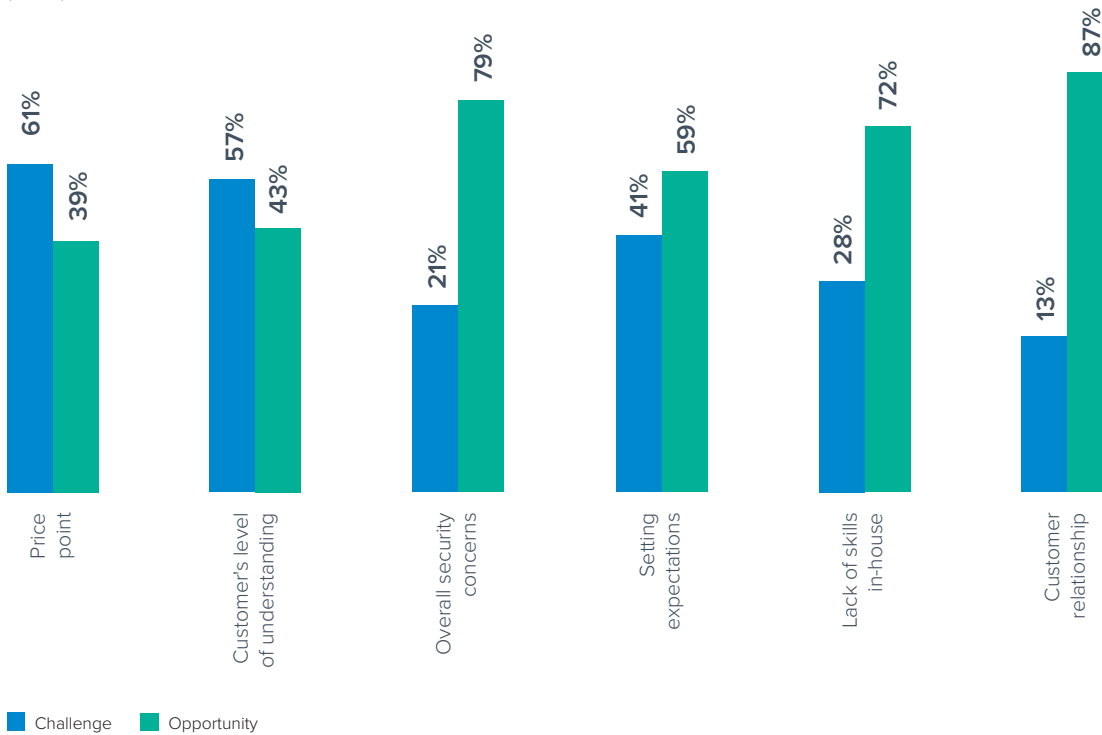
Keeping customers close

Every successful channel partner knows that staying close to customers and listening to what they want/need is the key to success. The one historical sticking point between suppliers and customers has always been price. So it is no surprise that when asked which of the following would be seen as a challenge or opportunity - Price Point; Customer's level of Understanding, Overall Security Concerns, Setting Expectations, Lack of Skills In-house, and Customer Relationship – the highest percentage (61 percent) said price was a challenge. The other big hurdle partners faced was the customers' level of understanding – with 57 percent labelling it as a challenge.

In better news, overall security concerns from customers was seen as an opportunity by 79 percent of respondents, and 72 percent said a lack of skills in-house at a customer was a chance to persuade them of the benefits of a third-party supplier. Keeping a good relationship with customers was seen as an opportunity by 87 percent of respondents.

Do you perceive the following to be a challenge or an opportunity in selling managed services to end users?

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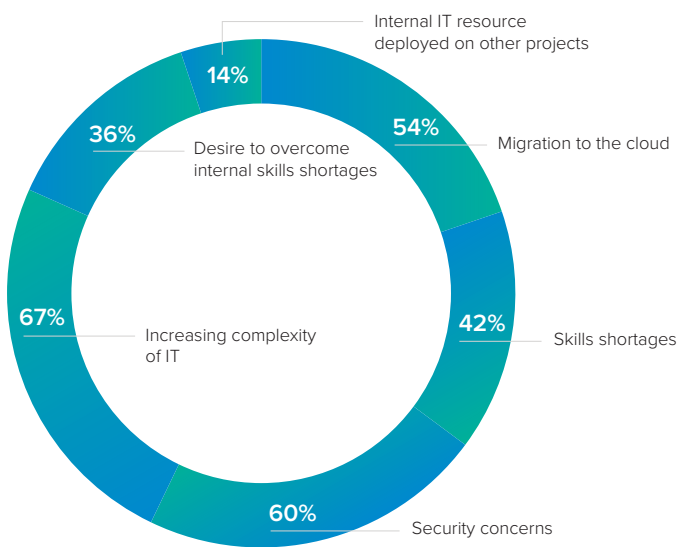


Driving managed services

When partners were asked what the key drivers were behind SMB's shift to managed services, 67 percent said it was because of the increasing complexity of IT, but security was not far behind, with 60 percent attributing the increase to security concerns. Migration to the cloud was cited as the reason by 54 percent of respondents.

What do you think are the key drivers behind SMB's shift to managed services?

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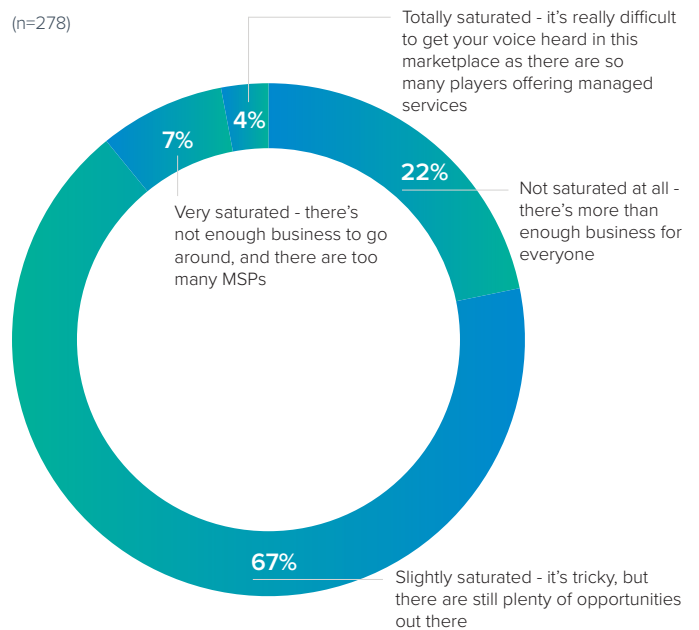
A question of confidence

Next partners were asked what their perception of the managed services marketplace opportunity was. Interestingly 67 percent said it was 'slightly saturated' – meaning they felt the market was tough, but with plenty of opportunities still out there; 7 percent felt it was 'very saturated', meaning there are too many MSPs competing for the same business; and three percent said it was 'totally saturated', meaning they felt it was increasingly difficult to get their voice heard in the crowd. Conversely 22 percent felt it was not saturated at all, and there was more than enough business out there for everyone.

However, taking the broader view of these particular results, the overwhelming majority – 90 percent – felt there was varying degrees of opportunity out there for MSPs.

What is your perception of the managed services marketplace levels of opportunity at the time?

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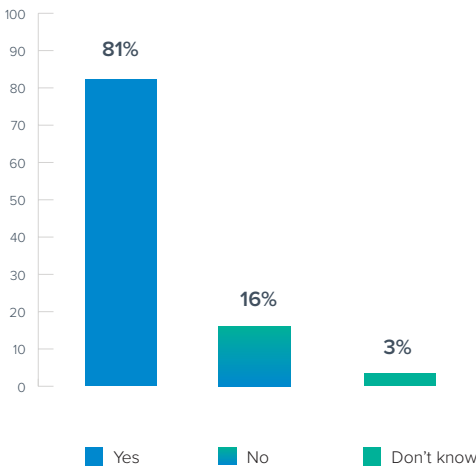


Insecurities

Respondents were then asked whether their customers were increasingly concerned about how to maintain sufficient cybersecurity protection. A whopping 81 percent said yes. Cyber attacks are reportedly a major concern among the business community, increasing business risk and the potential for data breaches that can result in significant monetary losses.

In your view, are your customers increasingly concerned about how to maintain sufficient cybersecurity protection?

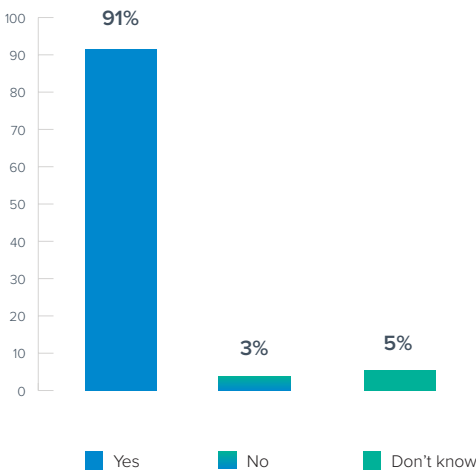
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As a result, an equally impressive 91 percent of partners said they were planning to increase the breadth and depth of service offerings in response to rising demand. That equals a significant number of partners that intend to bolster their security offerings in the coming years and months.

Are you increasing (or do you have plans to increase) the breadth and depth of service offerings in response to rising demand?

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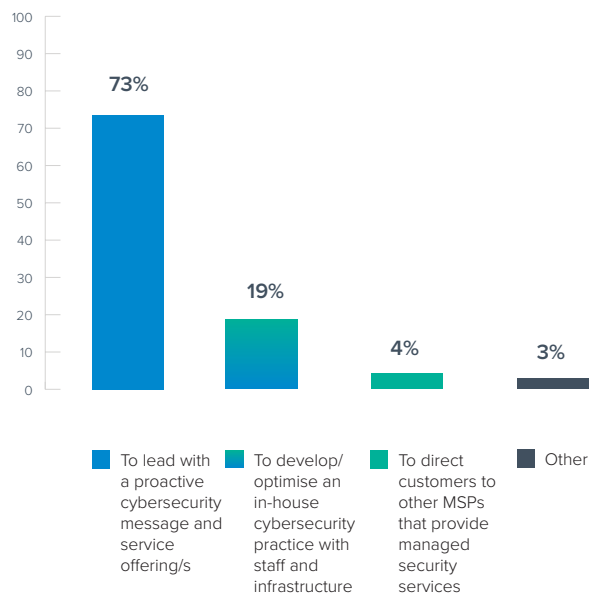


With many companies making that slow but steady transition to the public cloud, security concerns are on the rise, and do act as barriers to some companies taking that cloud leap of faith. Respondents were asked to pick how they would be addressing these growing security concerns from their customers.

Recent research also points to security concerns as a significant obstacle that prevents organisations from adopting public cloud services, causing as many as 94% of EMEA businesses to look to third-party providers to help them navigate these issues.

Which one of the following options best sums up what you consider will be the most successful approach for your business to capitalise on this opportunity?

(n=278)



The majority, 73 percent, said they would be leading with a proactive cybersecurity message and service offerings and 19 percent said they would be developing an in-house cybersecurity practice with staff and infrastructure. The spirit of collaboration was alive and well with some, with four percent saying they would direct customers to other MSPs that provide managed security services. However, that approach is a risk, and one that partners should carefully evaluate whether it is worth taking. Again the issue of trust should be considered. Do you trust that partner not to steal your customer? Can you not provide the service yourself with a little investment?

Is the demand there?

When asked how demand for managed security services for a rising number of remote workers was progressing, 45 percent said it was significantly increasing and 43 percent said it was moderately increasing. With the 'new normal' way of working, this demand will only increase as more firms are forced to implement social distancing and remote working rules into their daily routine.

Driving this need to engage with third-party service providers is the growing cybersecurity skills gap and also the difficulty and cost of attracting and retaining top talent. Many end user companies simply don't have the resources to pay their own in-house security staff and consequently 46 percent of partners said this was a growing dilemma

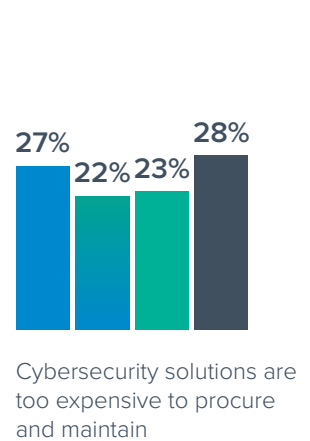
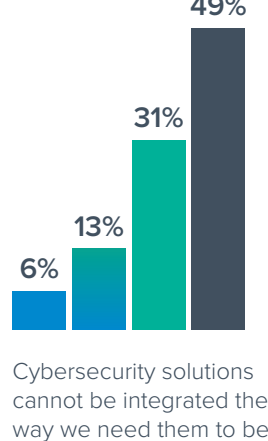
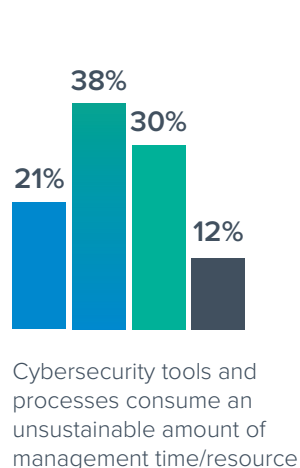
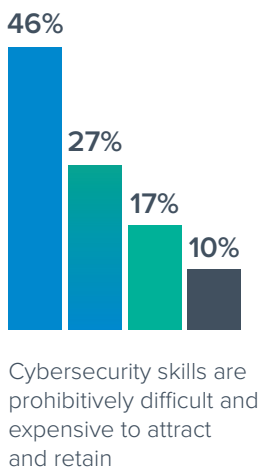
for their customers. Do they heap the expense on their own shoulders, or do they bring in an MSP to manage the situation for them?

Other customer concerns reflected by partners included the amount of time and resource security tools and processes need to be managed to the highest level, as well as concerns about the cost of investing in and maintaining the right solutions. Some also felt cybersecurity solutions could not be integrated the way they wanted them to be.

Organisations dealing with cybersecurity issues are reporting a range of triggers that compel them to seek external assistance.

Rank the following in order of the importance placed upon them by your customers, based on your experience.

(n=278)



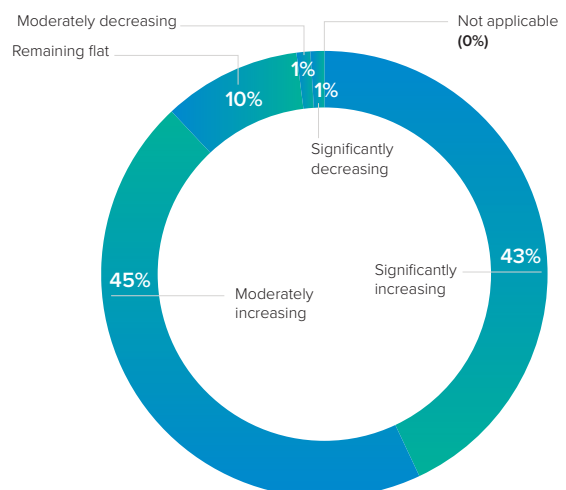
■ 1 ■ 2 ■ 3 ■ 4

And this is where the trusted advisors come into their own and where regular communication is key. It is not only vital to stay in touch with customers to make sure they are always up to date with their security solutions, but also to make sure all their concerns and fears are being answered. Perhaps the vendor products they are being supplied with are failing to be integrated the way they desire, but there are plenty of alternative vendors out there who would be more than able to meet those needs.

The results also confirmed that demand for managed security services is on the rise, so it is absolutely the area to be placing your services bets. According to the findings, 45 percent of respondents said demand was 'moderately' increasing, while 43 percent said it was 'significantly' increasing.

Demand for managed security services to protect rising levels of support for remote employees is:

(n=278)



Conclusion

As this report has repeatedly shown, the appetite for managed services is growing across the board, and security is probably the hottest area to be in right now. Even in an economic downturn, the many unscrupulous cybercriminals out there will not stop in their quest to make money by any means possible.

For those partners still mulling where to place their service bets, it is almost a fool-proof plan to ensure you have some form of security service in your portfolio. The results reveal almost every partner questioned already has some sort of services offering in their kitbag, but also show that nearly all of them are planning to grow and evolve their services business in the coming year.

There is no doubt that the need for security services will continue to increase as firms of all sizes become more clued-up about their remote working practices, and also about the threats they face from cybercriminals and sometimes within their own company on an almost daily basis.

The first port of call for these security savvy companies will be their trusted IT advisor, and if that partner is unable to fulfil those security requirements, then there is no doubt they will be forced to go elsewhere and get the service they need. Is this really a risk you want to take?

There really has never been a better time to add a cybersecurity string to your services bow.

Sources:

Source 1: IDC: Worldwide Services market momentum derailed by Covid-19 Pandemic:
<https://www.idc.com/getdoc.jsp?containerId=prUS46215420>

Source 2: Age of the Transformers Report November 2019 – CRN UK and Agilitas