THE EVOLVING LANDSCAPE OF THE MSP BUSINESS REPORT 2019

COMMISSIONED BY **BARRACUDA MSP**
WITH ANALYSIS FROM EUROPEAN CHANNEL
INTELLIGENCE GROUP **IT EUROPA**

National **MSP** Day

EXECUTIVE SUMMARY

The second annual MSP Day (23rd May 2019) once again provides a priceless opportunity to make managed services more understandable, trustworthy and significant, with the ultimate aim of giving businesses the best possible experience
of managed IT services.

As part of this initiative – and in the spirit of MSPs coming together to share success, best practice and data-driven insights – Barracuda MSP has conducted a new study into the managed services outlook of channel organisations from across Europe. The findings of this report follow on from Barracuda MSP's original 2018 research and offer a fresh perspective that supports MSPs and channel businesses to capitalise on the opportunities available to them.

This research exercise, conducted and independently analysed by IT Europa, examines a range of issues from market confidence and the composition of service offerings, to the obstacles and catalysts that govern the future of MSP adoption.

Contained within this report are the startling conclusions that managed services are not only perceived as a bigger opportunity than all others combined, but are also rapidly on their way to becoming the majority contributor to channel partner revenues within the next few years. If that weren't enough, trust in the concept of MSP among SMEs is reckoned to be on the increase and – respondents overwhelmingly agree – the marketplace for managed services is still some way short of reaching saturation point.

While the findings provide fuel to the burgeoning flame of profitable managed service evolution, they also record the implications of increased competition and rising expectation levels. The overall picture is very positive, but there remain many notes of caution to guard against complacency and pinpoint opportunities for improvement and exploitation.

SCOPE

The 2019 MSP Day Survey was a research exercise entailing an online survey undertaken by IT Europa Media & Intelligence. The survey involved an audience of 50 qualified decision makers – predominantly C-level management, directors and proprietors – from channel partner organisations across Europe.

FOREWORD

The managed services concept really started to gain traction and some elements of maturity in 2018/2019. Rising complexity of customer IT systems, the need to trial and pilot new concepts and the ability to rapidly introduce and scale managed services systems has meant a high level of interest from customers for MSP-based solutions. The customers themselves, especially in the small and medium-sized businesses (SMB) sector, are feeling squeezed by a lack of in-house skilled resources, but see a need to work towards a more productive IT engagement, if not all the way to digital transformation.

The managed service industry, in turn, has developed its solutions in key vertical markets and is being seen as a supplier of easily scaled and managed security solutions at a time when customers are under increasing threat.

The challenges remain however; there is a notable gap in customer understanding between the promised technology transformation that is possible and the tasks of involving and adapting managed services to supplement existing systems or pilot new ones. Managed services businesses have also had to develop their sales and marketing engines to reach and reassure customers and potential clients.

In this survey, undertaken by IT Europa on behalf of Barracuda MSP, channel partners in over 20 European countries were asked their views. They ranged in size from small, with a handful of staff, to long-established multi-territory firms with sales in the millions of Euros.

It is clear that MSPs are optimistic about growth and the potential for expansion; they see customers facing real problems with their own in-house resources as they look to grow and develop their IT systems.

John Garratt
Editorial Director, IT Europa Media & Intelligence
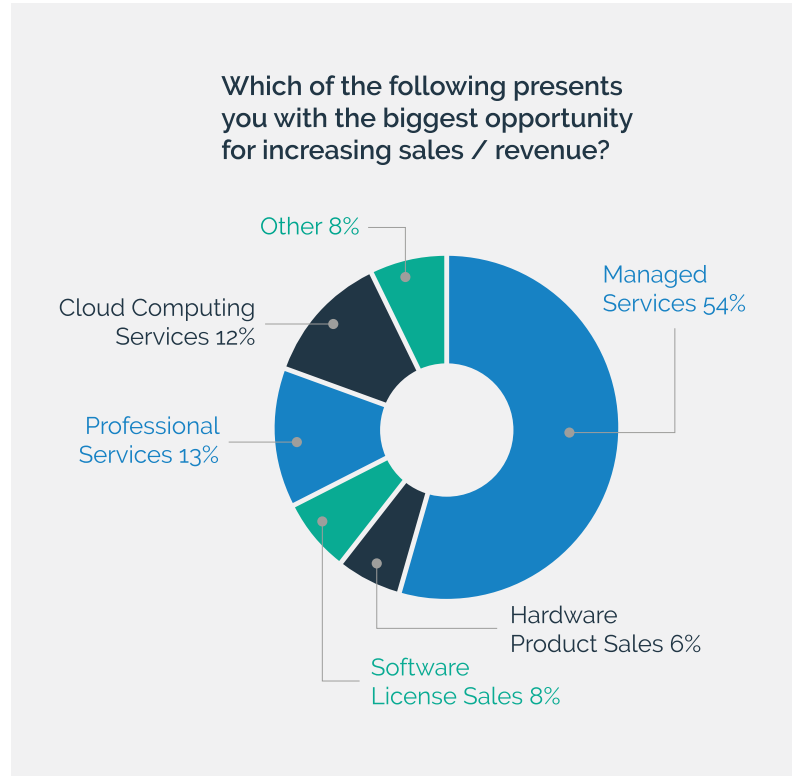May 2019

KEY FINDINGS

- **Managed services is the number one revenue opportunity, bigger than all others combined.** 54 percent of channel partners say it offers the greatest potential revenue; almost x4 times as many as the next largest response.

- **Managed services revenue is growing as a proportion of overall sales.** Around half (52 percent) of respondents made more than 30% of their revenue from managed services in 2018, growing to two-thirds (66 percent) in 2019.

- **MSPs are aware of the risk of customer switching.** And while price and budget pressure are (unsurprisingly) major factors, the biggest reason why customers cancel contracts is "being acquired by another company" (55 percent).

- **A lack of internal IT skills is the main catalyst for MSP demand.** 69 percent of channel partners said customer skills shortages were the key driver for managed services uptake, while 61 percent cited cloud migration.

- **Customer relationships remain key to managed services sales success.** 86 percent believe this is a major opportunity in selling managed services; around two-thirds said the same about "overall security concerns" and "lack of in-house IT skills", respectively.

- **Customer misconceptions still undermine managed service offerings.** This was identified as a barrier by the largest group of channel partners (89 percent). It also led the way last year.

- **Channel partners believe SME trust in MSP offerings is on the rise.** 73 percent say they've seen a significant or slight upswing in trust in the last 12 months, while the remainder believe it has stayed the same.

- **We are a long way from saturation in the managed services marketplace.** 22 percent of channel partners believe there is "more than enough business for everyone", and a further 73 percent concede there are "still plenty of opportunities out there".

CONFIDENCE IN MANAGED SERVICES

Focus intensifies on greater managed services revenues

In terms of potential increased sales in the future, managed services dominates the thinking of the channel partners surveyed. A total of 54 percent identified it as their biggest opportunity, compared to just 13 percent for professional services and 12 percent for cloud computing. Only 8 percent see software licence sales as their top priority, and barely 6 percent say the same about hardware products.

This reflects a significantly increased degree of confidence in the managed services market from last year's study. In the 2018 survey, such positive sentiment for managed services beat cloud computing and professional services by a margin of 4 to 3. Now it is 4 to 1.

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

Other 8%

Cloud Computing Services 12%

Professional Services 13%

Managed Services 54%

Hardware Product Sales 6%

Software License Sales 8%

Plenty of room left to develop a successful MSP business

There appears to be little concern among the channel partners surveyed that the managed services marketplace is reaching saturation point. Only 4 percent of respondents are concerned that there are "too many MSPs / not enough business to go around". At the other end of the spectrum, around 22 percent contest that there is no saturation whatsoever. The bulk of respondents (73 percent) occupy the middle ground; recognising that competition is increasing but that there are "still plenty of opportunities out there".

More SMEs are thought to be warming to an MSP approach

The increased confidence in managed services among channel partners may be coming, at least in part, from a growing level of trust in the MSP concept among SME customers. None of the partners surveyed in this report perceive any decrease in trust among the SME community, while 27 percent believe it has remained the same over the last year. The remaining 73 percent say it has definitely increased; 26 percent of those by a "significant" margin.

How do you think SMEs (less than $50m annual turnover) trust in MSPs has changed in the last year?
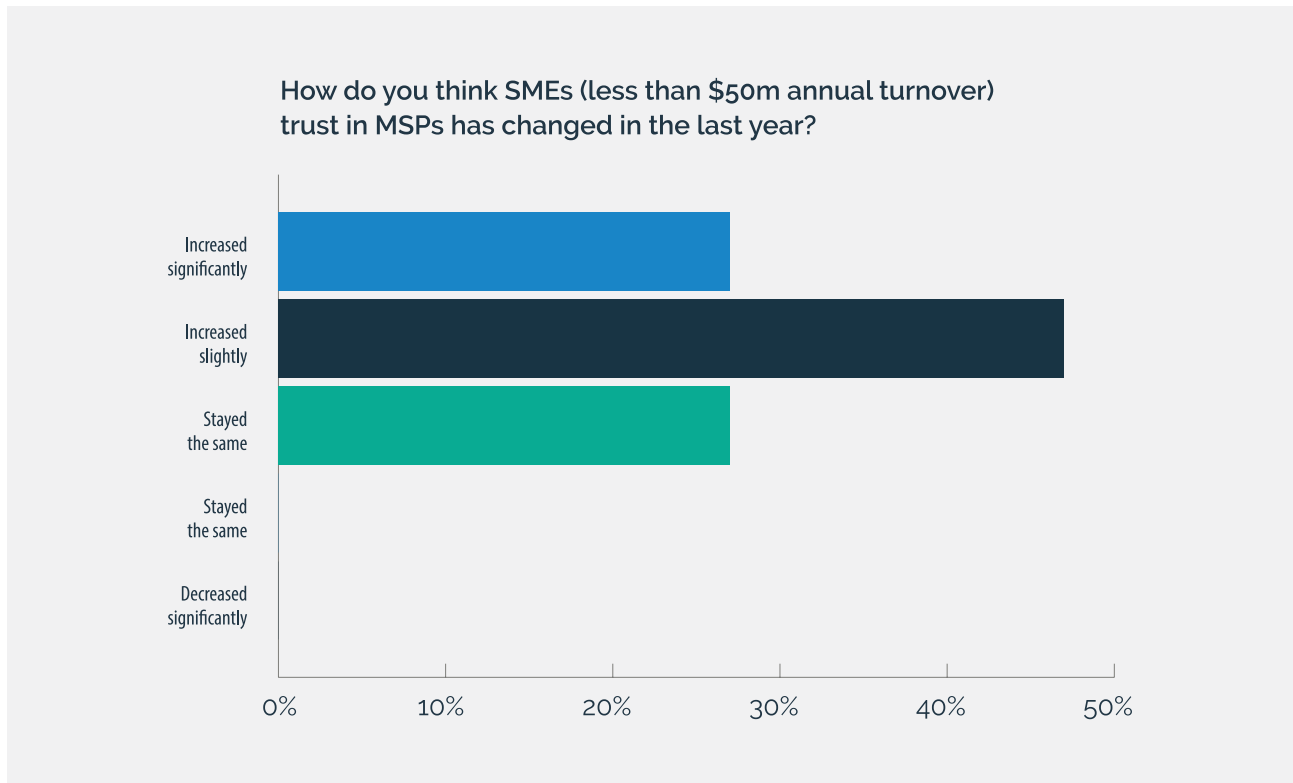
CHARTING MSP REVENUE GROWTH

Building on strong foundations

All respondents in this year's survey reported a revenue return from managed services in the last 12 months whereas, in the 2018 survey, 95 percent were "offering or looking to offer" them. Looking in more detail, 30 percent of channel partners made more than half of their 2018 revenues from managed services. At the highest end of the scale, 6 percent claimed that managed services constituted more than nine-tenths of overall income; at the lowest end 16 percent said it was less than one-tenth.

What percentage of your revenue was derived from managed services in 2018?
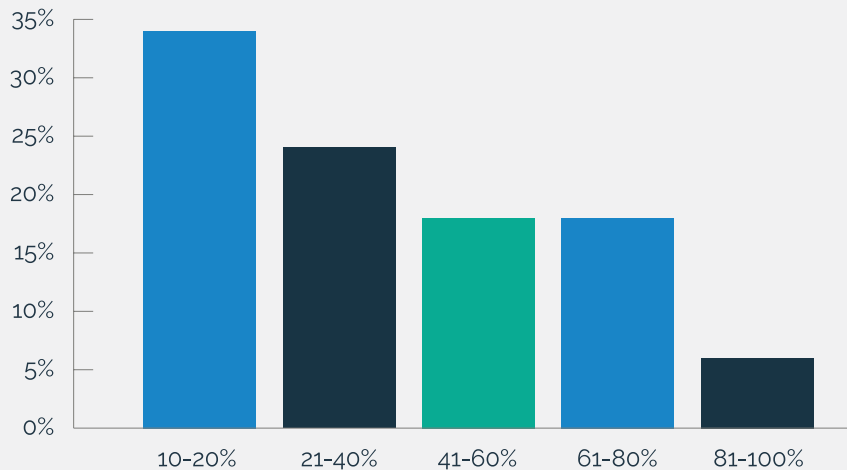
Managed services fast becoming the main revenue contributor

When asked to forecast the importance of managed services in their 2019 revenue mix, the overall picture projects a strong increase. The proportion of those expecting to make more than half of total revenue from managed services is 47 percent higher than 2018 levels (44 percent versus 30 percent). By the end of 2019, two-thirds (66 percent) expect to earn over 30% of their income from managed services.

What percentage of your revenue from managed services would you expect in 2019?
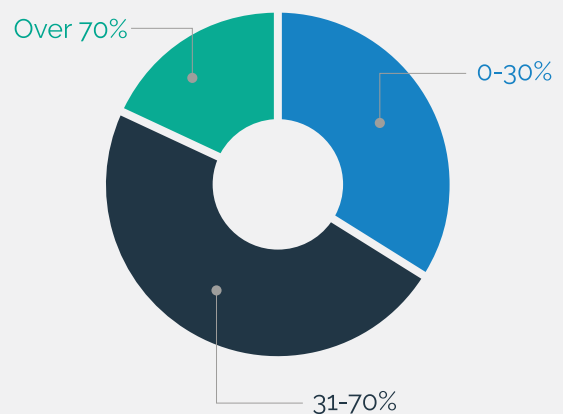
THE MSP SERVICES MIX

Network monitoring, security and backup continue to lead service portfolios

The data collected from this survey shows that channel partners are offering a wide array of managed services across networking, security, storage, applications, devices and infrastructure. The three most offered services currently are Network Monitoring & Management (72 percent), Email Security (62 percent) and Backup, Business Continuity & Disaster Recovery (58 percent).

Charting how the five most commonly offered differ from this year's research from the 2018 survey shows the following:

Rank	2019	2018
1	Network Monitoring & Management	Backup, Business Continuity & Disaster Recovery
2	Email Security	Network Monitoring & Management
3	Backup, Business Continuity & Disaster Recovery	Endpoint Security
4	Storage	Productivity Apps (e.g. Office 365)
5	Cloud-based Apps (SaaS)	Network Security

Top money-spinners and marketing bets

The most lucrative managed services appear to reflect those most commonly offered, according to data from this study. When asked which were the top selling and/or most heavily marketed, 76 percent opted for 'Network Monitoring & Management'. The other top ranking services were as follows:

Rank	Service	Proportion of respondents reporting as top selling and/or heavily marketed
1	Network Monitoring & Management	76%
2	Backup, Business Continuity & Disaster Recovery	65%
3	Network Security	63%
4	Productivity Apps (e.g. Office 365)	59%
5	Cloud-based Infrastructure (IaaS)	59%

MSP MARKET DRIVERS

Lack of skills and the move to the cloud top managed service adoption drivers

Of the many reasons for customers to adopt managed services from an MSP, channel partners identify those relating to skills shortages as the highest (at 69 percent), with internal resource shortages polling at 55 percent. Other high ranking drivers perceived of managed services customers are a dedication to cloud migration principles (61 percent) and a desire to counter the increasing complexity of IT (59 percent).

What do you think are the key drivers behind your customers' moves to managed services?
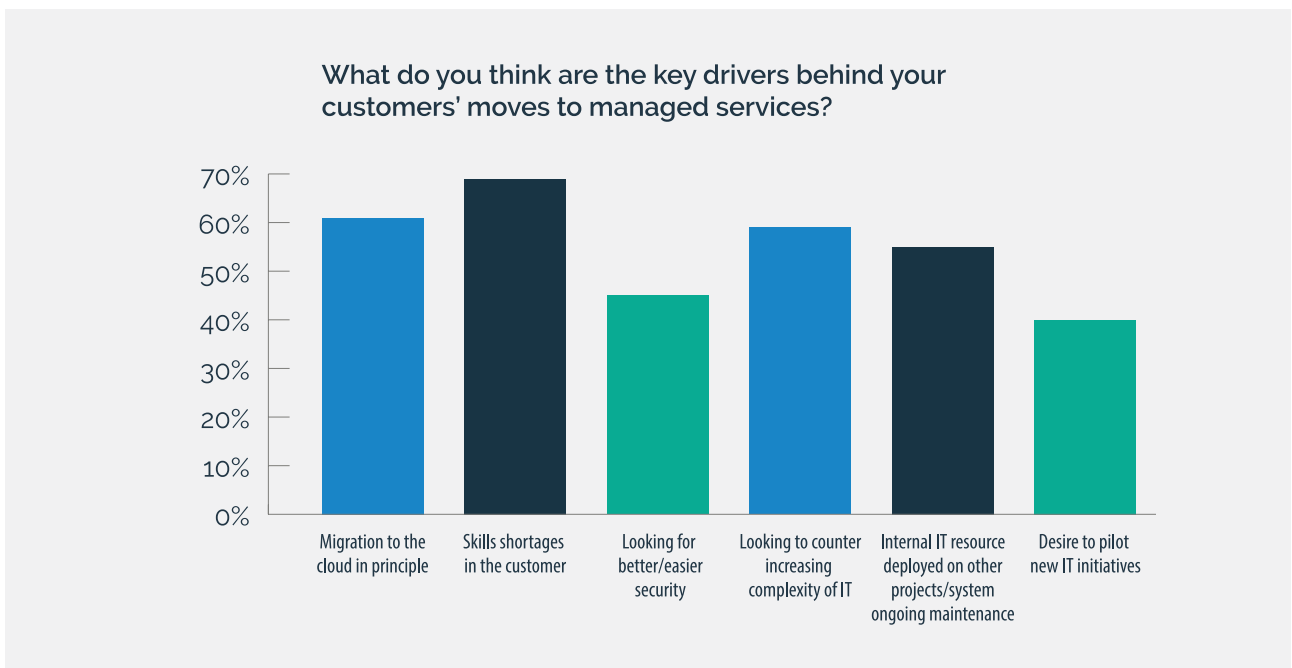
Reasons to decrease or cancel reflect the profile of SME target customers

Many of the reasons given by MSPs for why customers decrease service consumption or cancel altogether have remained largely the same between this year's and last year's surveys. As with 2018, the top reasons for 2019 are budget cuts (45 percent), price (51 percent) and acquisition by another company (55 percent); all of which chime with the primary concerns of the target SME customer audience who are likely to be cost-conscious, growth orientated and susceptible to rapid change.

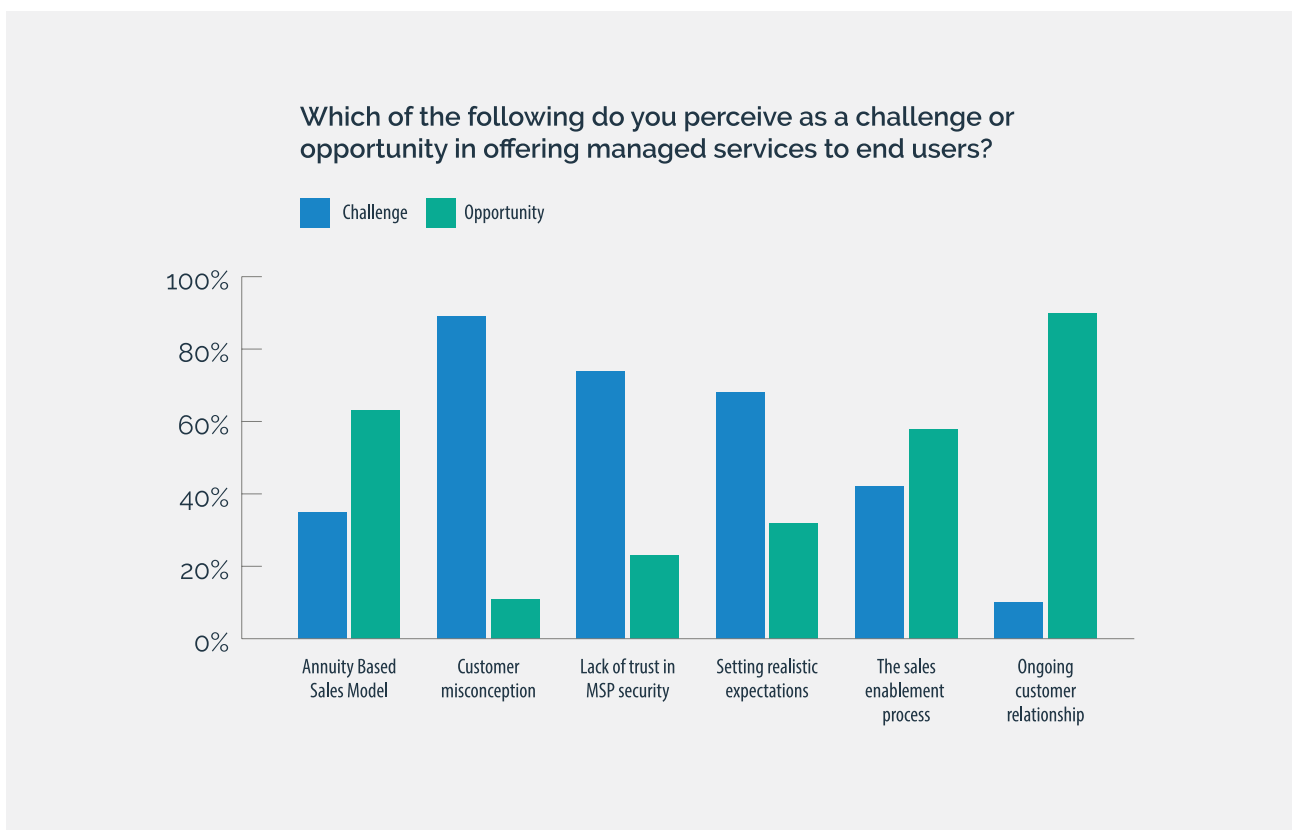## Competitive threats and escalating service expectations raise the bar

However, the remaining reasons for decreased consumption of cancelation provided by channel partners have each risen by varying degrees. For example, the threat of the customer receiving "better service from a competitor" has risen by 20 percent, while the risk of "unmet service expectations" has grown by 96 percent. Both remain comparatively low in overall terms i.e. cited as reasons by 10 percent and 27 percent of 2019 respondents, respectively.

| Reason given by channel partners for why managed services customers decrease consumption or cancel contracts	2019 respondents	2018 respondents
Price	49.15%	51.02%
Unmet service expectations	13.56%	26.53%
Budget cuts	30.51%	44.9%
Declining need	27.12%	32.65%
Acquired by another company	44.07%	55.1%
Too difficult to work with	3.39%	10.2%
Better service with competitor	8.47%	10.2%
Bringing IT management in-house	25.42%	32.65%
Other	6.78%	4.08%

FUTURE CHALLENGES & OPPORTUNITIES

Customers' lack of MSP understanding still the biggest potential barrier

In terms of offering managed services to end users, channel partners were asked to classify a range of potential factors as either a challenge (i.e. a barrier or inhibitor) or an opportunity. Significantly, over 89 percent of respondents considered 'customer misconception' as a challenge; the highest for all factors. This echoes a very similar finding from the 2018 study that also placed it out front. The perceived lack of trust by customers in MSP security also scored worryingly high at 76 percent of respondents, though this should be seen in the context of increasing trust in MSP propositions overall, as evidenced on page 5 of this report.

Which of the following do you perceive as a challenge or opportunity in offering managed services to end users?

Legend: ■ Challenge ■ Opportunity

Close customer relationships key to future MSP sales success

With regard to the process of selling managed services to end users, channel partners were again asked to classify factors as either challenges or opportunities. Here, a matching comparison emerges with the 2018 data where both identify the "ongoing customer relationship" as the most critical opportunity for future MSP sales success – 86 percent of 2019 respondents support this statement. Other high-scoring opportunity factors include "lack of skills in-house" and "overall security concerns", each of which was cited by 64% of respondents.

Which of the following do you perceive as a challenge or opportunity in offering managed services to end users?
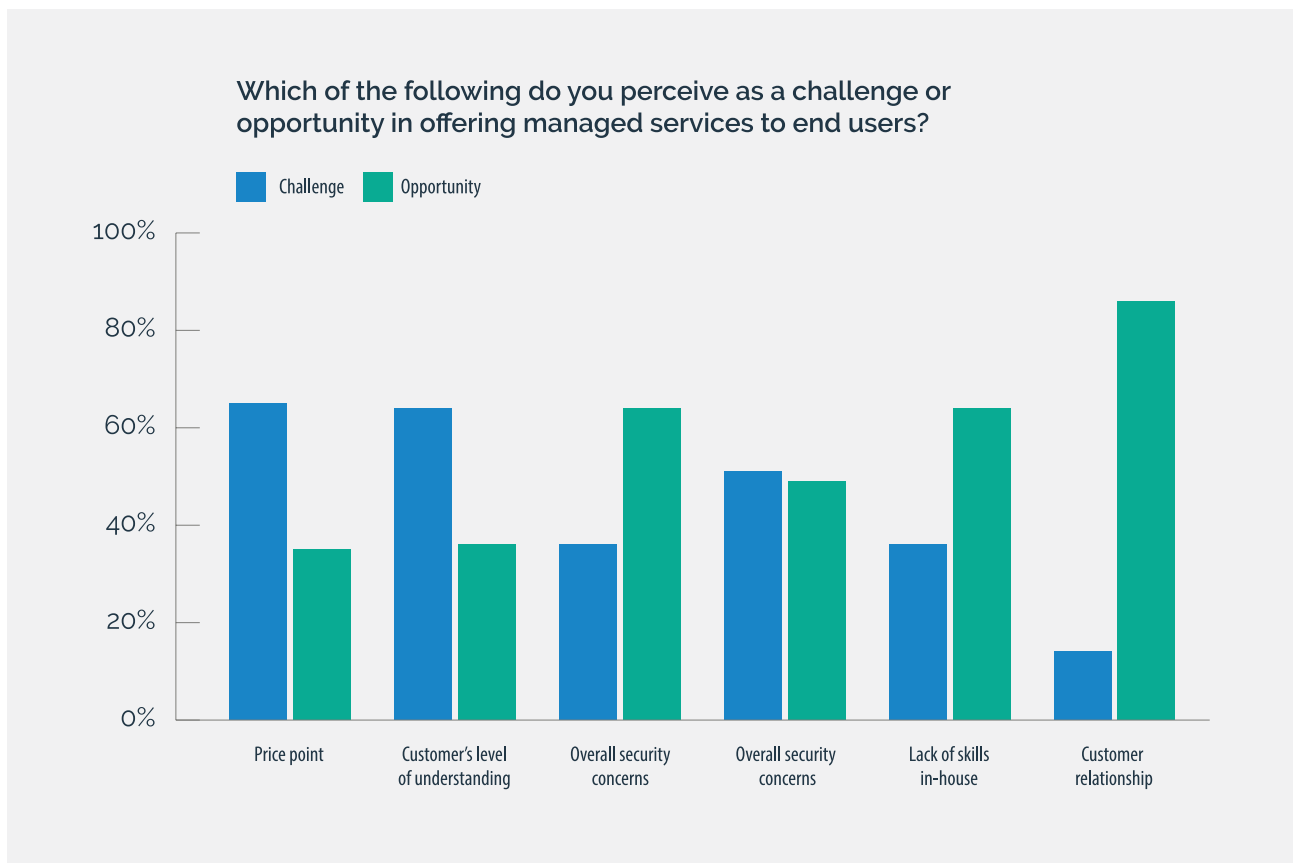
CONCLUSIONS

By John Garratt, Editorial Director at IT Europa Media & Intelligence

Given the problem of meeting customer expectations, coupled with an apparent poor understanding of the basic concept of managed services by some, the MSP industry needs to find a voice to help explain what it does and how it delivers the services. The technology is established, but there is still some work to do within MSP businesses on getting the sales models right and in using the marketing function established to build the sales pipeline.

MSPs are optimistic, however, since theirs is one of the few parts of the IT channel marketplace currently with a dependable growth forecast. With the size of the available market, particularly in the SMB sector, most see a period of growth ahead. Yes, there is strong competition between MSPs since, by the nature of the model, managed services are easily transferable across horizontal sectors and scalable at low cost. The best MSPs are concentrating on developing their specialisations and building their sector knowledge to deliver real value to customers in the long run.

John Garratt is a veteran journalist and broadcaster of over 25 years' standing, with direct experience of running an IBM and HP dealership. As Editorial Director of IT Europa, John talks to, and writes about, the leading figures in the industry, reporting on the changing fortunes and directions of the IT channel in Europe.

By Jason Howells, Director EMEA, MSP Business at Barracuda

Aside from the positive outlook we're seeing from MSPs, it's clear that there are some specific themes emerging from this year's report - trust and education.

These themes get to the heart of why we established MSP Day. Our purpose back at the start of 2018 was to make managed services more understandable, trustworthy, and significant. In order to achieve this, we believe that MSPs needed the opportunity to get together to share success, best practice and insights in order to give businesses the best possible experience of managed IT services.

It's only by working together to address the challenges that MSPs can help to change the perception of managed services. It's perhaps something of an irony that only by increasing the trust between MSPs can we truly hope to better educate end users and give businesses the best possible experience of managed IT services.