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MSP's
The opportunities and challenges beyond 2020

MSPs have played a critical role in 2020, ensuring their customers' businesses remain up and running though exceptional circumstances. But what can they expect next, and how can they navigate this new period of uncertainty?

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Introduction

As with every other business, IT managed service providers (MSPs) today face unprecedented challenges. COVID-19 has placed extraordinary pressure on MSPs, who are tasked with ensuring their customers' businesses remain up and running under extraordinary conditions.

At the same time, MSPs have been forced to rethink and re-engineer how they operate within their own businesses to survive. They are considering what they can do to mitigate the effects of the pandemic and the ensuing economic uncertainty. What happens if it's a long recovery? Will customers cut their budgets? Where should they allocate their resources to best navigate this new operating environment? Will they need to reduce their workforce? How can they ensure their relationship with the customer beyond COVID-19?

It is a time of great uncertainty. Looking beyond 2020, it remains unclear the extent to which the pandemic will continue to disrupt our lives, or its potential impact on businesses.

There is, however, some good news. Channel analyst Canalys reports a four percent growth in the EMEA channel in the first three quarters of 2020 – compared to an overall EMEA GDP decline of nine percent during the same period. This indicates that many MSPs are thriving as they continue to support and enable their customers' operations during COVID-19.

This report will draw on market research and industry analysis to examine the key trends affecting the market to understand how MSPs can tap into new revenue streams and maximise opportunities to thrive in 2021 and beyond.

What's in your MSP kitbag?

Help desk, network services and IT support continue to top the list of offerings that MSPs sell today. Indeed, they are the services that form the foundation upon which the MSP market was built. Their continued presence in the MSP toolkit, along with managed device services, basic security and storage, are why customers – especially SMBs – choose to outsource their IT to a third-party provider.

And yet, change is happening. IT association CompTIA's Trends in Managed Services research notes that MSPs are starting to embrace newer, emerging types of services, along with a shift toward deeper specialisation in areas such as security.

"Consider the following: two thirds of MSPs in the study say they expect the mix of services they have in their portfolio to increase over the next year. The majority will maintain the basic offerings but move up the stack to offer everything from managed internet of things to cloud-based applications portfolios," it reports.

Additionally, it is interesting to note that in 2020, MSPs that focused on a specific industry experienced slightly higher revenue than more general MSPs (79 percent vs. 75 percent). According to IT Glue's Global MSP Benchmark Report, MSPs that target the following four industries in particular were more likely to report profits of 20 percent or more: legal (43 percent), government (40 percent), finance (39 percent) and professional services (38 percent).

However, the firm warns that while specialisation can be a boon, it can be a risk for MSPs to place all their eggs in one basket. For example, those that specialised in retail and hospitality were especially hard hit during the pandemic.
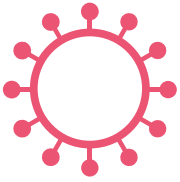
The coronavirus impact on MSPs

MSPs have played a crucial role during the pandemic, ensuring customers' new remote workforces are set up quickly, seamlessly and securely. But what effect has the crisis had on their own businesses, and how will it affect their operating models beyond 2020?

"MSPs are likely to face reduced IT budgets and spending due to recession within existing customers, while also struggling to secure new customers. They must also navigate social distancing requirements in the office and at customer sites and adapting to having staff and clients work-from-home."

SolarWinds MSP surveyed 500 MSPs across Europe, North America, Australia and New Zealand, to gain insight into how MSPs are navigating the impact of coronavirus and their views on the next 12 months in the market.

It found that 59 percent of MSPs have applied for government financial relief programmes, with 74 percent receiving the help they needed. The good news is that more than 80 percent have continued operating at their pre-pandemic staffing levels, and most MSPs say they have adapted their security services for work-from-home clients.

"The technology industry, and the channel, is resilient but also resourceful, and this crisis has re-enforced the value MSPs bring to businesses. Without MSPs as an extension of the team – focused on risk mitigation and business continuity – many businesses would have been lost and wouldn't have been able to support remote working on such a vast, immediate scale," says Colin Knox, vice president of community at SolarWinds MSP.

Accelerating digital transformation

The knowledge, expertise and skillset of MSPs have truly become essential during the crisis. The coronavirus has highlighted how critical technology is to ensure organisations continue to function on a day-to-day basis.

But more significantly for MSPs, it has accelerated many firms' digital transformation projects with organisations forced to rapidly overhaul their legacy IT systems to accommodate the new, distributed workforce.

This is reflected in Datto's Global State of the MSP Report, which asked MSPs how they expect the pandemic to impact 2020 revenue. Eleven percent stated that they are actually revising their growth projections upward, expecting revenue to increase during the crisis compared to their original plan.

"MSPs believe that the pandemic will accelerate cloud migration projects and security projects for many clients, with both driving the managed services opportunity through 2020."

VoIP, business continuity, Azure migrations, hardware sales, and business resilience solutions are also expected to drive revenue as clients continue to recover.

What's keeping MSPs up at night?

Datto investigated what issues prey most on the minds of MSPs. The findings were interesting.

- Economic uncertainty: Despite the 11 percent revising their growth projections upward, nearly 40 percent of MSPs expect to reduce their growth projections by between 10 percent and 20 percent.

- Cybersecurity for clients remains a top pain point for 34 percent of MSPs. Sixty-one percent state that they consider anti-virus the most critical security solution for SMBs, followed by advanced firewall and RMM.

- Interestingly, the survey doesn't mention that MSPs are increasingly becoming the targets of ransomware attacks. Criminals see them as entry points to access their customers' networks as they frequently have some degree of privileged access to their customers' IT systems.

- Other pain points for MSPs include work/life balance (27 percent), hiring staff (25 percent) and sales & marketing (23 percent).

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Recurring revenues

While there has been an acceleration around digital transformation, particularly around cloud services, one-off projects or implementations have been off the table with on-site work impractical in many cases. With the country in full lockdown in the first few months of containment efforts, physical implementation of technology was impossible.

Conversely, partners that have implemented an annuity model look to fare much better, with many believing it provides more consistency and transparency of revenues in the long-term.

In fact, according to the Datto findings, high growth MSPs share two key attributes and activities: generating a higher portion of revenue from managed services and setting specific growth goals. Over the past three years, 22 percent of MSPs said that their total revenue per year grew by up to 5 percent, 24 percent reported growth of up to 10 percent, 19 percent of respondents saw growth of up to 20 percent per year, and 12 percent remained the same.

5% **10%** **20%** **No change**

22% **24%** **19%** **12%**

MSP total revenue growth per year
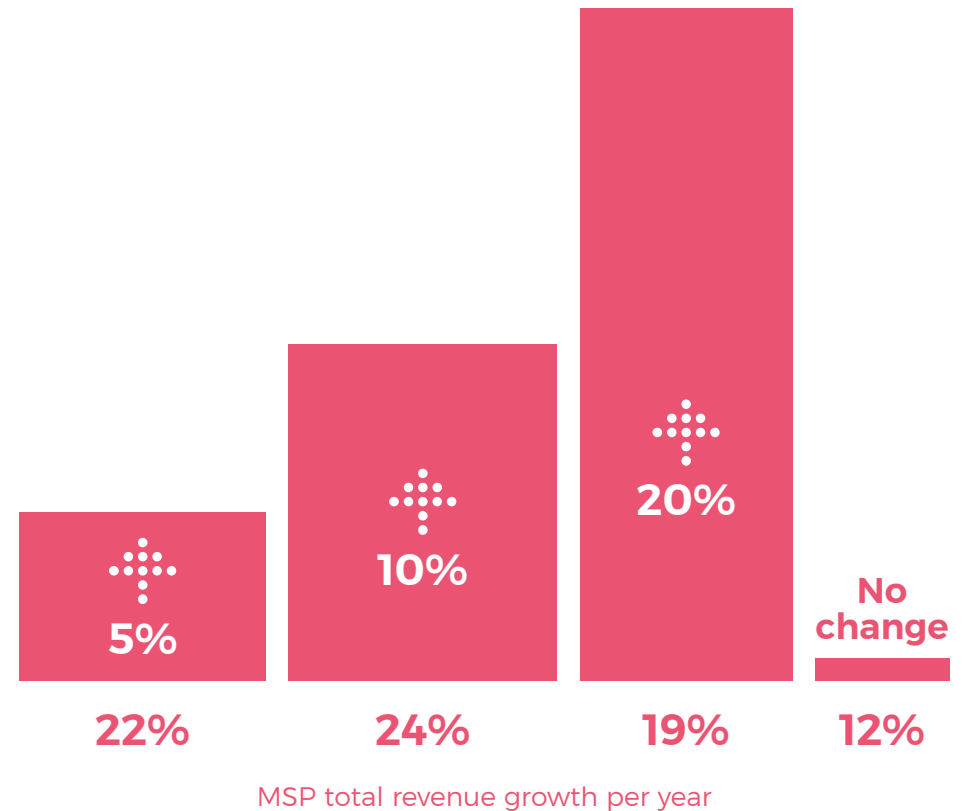
Want to know more about other MSPs?

- More than half of MSPs says that over half their revenue comes from recurring service

- Twenty-four percent report that their businesses makes between $1-$2.49 million in annual revenue. On average, MSPs have 122 clients.

- However, 69 percent of MSPs have fewer than 100 clients and 89 percent say that most of their clients are small businesses. Half of MSP contracts are less than $15,000 per year.

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AVERAGE
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"**While economic uncertainty is troubling for MSPs, it's still a good time to be in the industry. Nearly 40 percent of MSPs reported annual revenue of $2.5 million, demonstrating health and opportunity in the market. MSPs remain the cornerstone of our economy as they serve small businesses through the pandemic and beyond,**" says Rob Rae, SVP of business development, Datto.

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Cybersecurity

Security has long been cited as one of the biggest growth areas for MSPs. However, customer demand for cybersecurity services surged in 2020 with the need to secure the new remote workforce. MSPs truly became an extension of the IT team – particularly as many in-house security pros were reassigned to help to establish and support employees working from home.

Moreover, cybercriminals have followed Winston Churchill's advice to "never let a good crisis go to waste", launching a wave of attacks that seek to exploit the situation. Research by Barracuda MSP shows three main types of phishing attacks using COVID-19 themes — scamming, brand impersonation, and business email compromise. There has also been a spike in activity among nation state hackers, or APTs (advanced persistent threat) groups. They too are making use of the move to remote working, employing a 'spray and pray' approach to their attacks.

More than nine out of ten security pros says attack volumes have increased due to more employees working from home during COVID-19 stay at home orders.

So how can MSPs help secure their customers' businesses in this new landscape? SolarWinds research into the effects of the pandemic on MSPs' operations shows that 59 percent of managed-services-centric businesses are offering more security bundles than any other business model.

Although MSPs are comfortable with the security basics such as antivirus, backup, and firewalls, there is room for growth in some of the more advanced security solutions and offerings including penetration testing, auditing and compliance management, and risk assessments.

Dealing with the sheer variety and growth of security threats such as ransomware, malicious insider attacks, and advanced persistent threats, requires MSPs to take a broad, layered approach to security including robust solutions to defend against today's sophisticated threats.

Getting customers back to work

Two-thirds of MSPs (66 percent) have reported going the extra mile to support their customers during this time. Along with adapting their security services for work-from-home clients, MSPs have been continuing to accommodate customer needs in the following ways during the pandemic:

- 24 percent have offered delayed payments
- 23 percent have offered temporary discounts
- 19 percent have reduced their services to fit shrinking customer budgets
- 13 percent intend to increase their prices following the pandemic

* SolarWinds research, August 2020

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23% offered temporary discounts

19% reduced their services to fit shrinking customer budgets
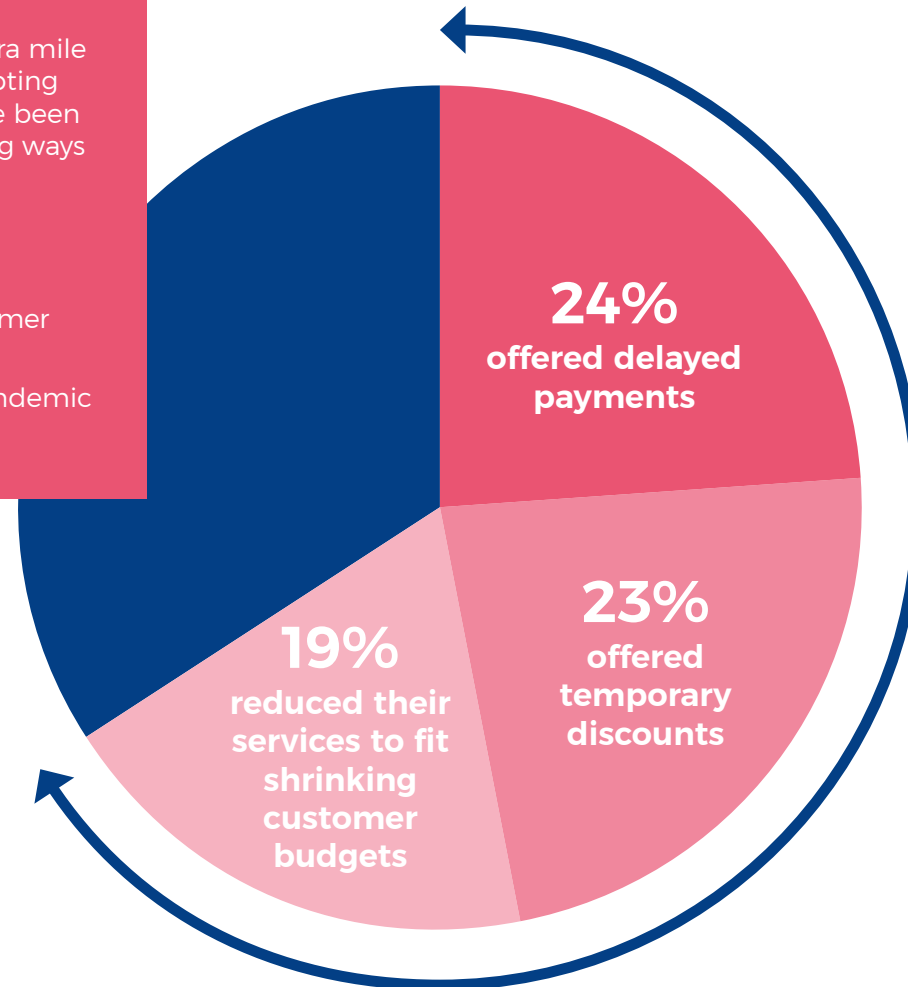
66% of MSP's reported going the extra mile to support their customers.

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Emerging technologies

There is always hype around which emerging technology is going to be 'the next big thing'. Hyperconverged infrastructure, edge computing, blockchain, and artificial intelligence (AI) have all been touted as potential areas into which IT providers should tap.

However, there is still some uncertainty as to what take-up of new technologies will be like moving beyond 2020. While many organisations have fast-tracked their digital transformation plans out of necessity, others will have put spending on innovation on the back burner. Research from Spiceworks on the impact of COVID-19 on IT budgets shows that except for security solutions, plans to adopt emerging tech will drop year-on-year in 2021, as IT buyers deprioritise cutting-edge features in favour of more pressing needs.

Nevertheless, SolarWinds MSP reports that out of the category, MSPs are most excited about the promise of 5G technology, which ranked higher than AI, IoT and ML in terms of how valuable the technology will be. Given MSPs reliance on remote management technology, the benefit of a faster wireless network makes sense.

At the other end of the spectrum, MSPs aren't buying the concept of self-healing. Most MSPs have experienced in one way or another that everything that can go wrong, will go wrong, so while self-healing sounds promising, they'll have to see it to believe it.

M&A: Paused for now?

The pandemic appears to have created a shift in sentiment around mergers and acquisitions (M&A). The MSP space – and the IT channel in general – has long been a hive of activity for M&A. In IT Glue's Global MSP Benchmark Report in February, just prior to lockdown, more than half (52 percent) of MSPs indicated they were at least somewhat interested in acquiring or merging with another MSP.

However, fast forward to a follow-up survey in May, and only 37 percent said they were considering M&A activity following the move to remote work under quarantine. This is understandable given the cash conservatism during COVID-19, as businesses have retrenched and protected their assets.

Though M&As are likely to slow down because of the pandemic, market consolidation will continue – however, the pace of which remains to be seen.

Photo by Kenrick Mills on Unsplash

Looking to the future

The demand for outsourced and managed IT services is greater than ever. In its report, Preparing for the Post-Pandemic Workplace, Aruba forecasts that the average proportion of IT services consumed via subscription will accelerate by 41 percent in the next two years, from 29 percent of the total today to 41 percent in 2022.

The share of organisations that consume most (more than 50 percent) of their IT solutions 'as a service' will increase by approximately 74 percent in that time.

All the research in this guide indicates that those MSPs that have created balanced portfolios of both clients and services will be better placed to come out of the current situation than those reliant on a single source of income.

Similarly, MSPs that operate an annuity model will likely be in better shape to survive and thrive in 2020 and beyond than those that rely on one-off or project-based work.

Also, in times of uncertainty, MSPs that go the extra mile for their customers will reap the benefits. They will remember the suppliers that were empathetic and treated them fairly during this period. A key part of this requires gaining an intimate understanding of their customers' business challenges and working closely with them to find a solution.

Helping customers get safely back to work – whether in an office environment or any dedicated physical facility – is now a priority. Now is the time to demonstrate greater loyalty and value to customers so MSPs can weather the storm, and even emerge from 2020 with a stronger business than before.

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