

2020 Managed Services Landscape

Traits of Successful MSPs and the Vendors They Rely On

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Multi-client research - by ESG and Research Partner Pax8



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Research Methodology, Outcomes, and Objectives

ESG conducted research in Q4 2019 and Q1 2020 to uncover what it takes to:

- **Identify high-potential MSPs.**
- **Transform less-productive partners into those successfully selling high-value solutions.**
- **Identify the characteristics of and steps taken by partners that have achieved successful transformation.**

Respondents included senior-level partner decisions makers (C-level, VP, and director) from a range of managed service providers and value-added resellers offering managed services to clients across several different vertical markets.

ESG obtained 346 qualified web-based surveys and conducted deep-dive interviews with 12-15 high-profiled partners. The results were then segmented by employee count, revenue size, and customer focus.

This eBook provides vendors with insights into the current state of the MSP partner landscape, with a focus on the behaviors and preferences of best-in-class partners. It includes guidance on critical issues affecting where and how top vendors have invested in their partners, programs, and ecosystems to ensure growth and success.

RESEARCH OBJECTIVES



What are the best practices and actions leading partners take to unlock MSP success?



How do the top vendors serving MSPs structure their offerings, programs, and support in order to stand out to help their partners succeed?



What differences do we see between small and larger partners serving different customers and different markets?



What consistent themes and best practice guidance do we see throughout the research?



Executive Summary: A Changing, Growing Market

IT Decision Maker Perspective: MSPs Must Adapt to Stay Viable



53%

of IT decision makers (ITDMs) reported that they consider on-premises and public cloud services equally when deciding to deploy new applications.*



Cloud-based managed services offer:

stability and savings for customers in addition to the benefits of letting external groups put their arms around IT problems.



Organizations now use cloud-based managed services to experience:

lower operating costs, improved time to market, reduced risk, and increased flexibility.

*Source: ESG Master Survey Results, *2020 Technology Spending Intentions Survey*, January 2020.

The Delivery Model for IT Services is Changing, and Partner-led Cloud-based Managed Services Are Here to Stay

Managed service providers (MSPs) remotely manage customer's IT infrastructure and systems. They outsource, maintain, and anticipate the need for systems and services for customers. MSPs have a strong focus on improving operational aspects of the business and cutting expenses.

MSPs are clearly seeing an expansion in their businesses. Overwhelmingly, partners expect a moderate to significant level of growth in the next 12-18 months.

Customer preferences and new consumption modes are driving this growth and fueling increasing demand for cloud-based security offerings. Darwin's "survival of the fittest" applies and MSPs are now investing to provide the services customers want, in the cloud-based model they require.

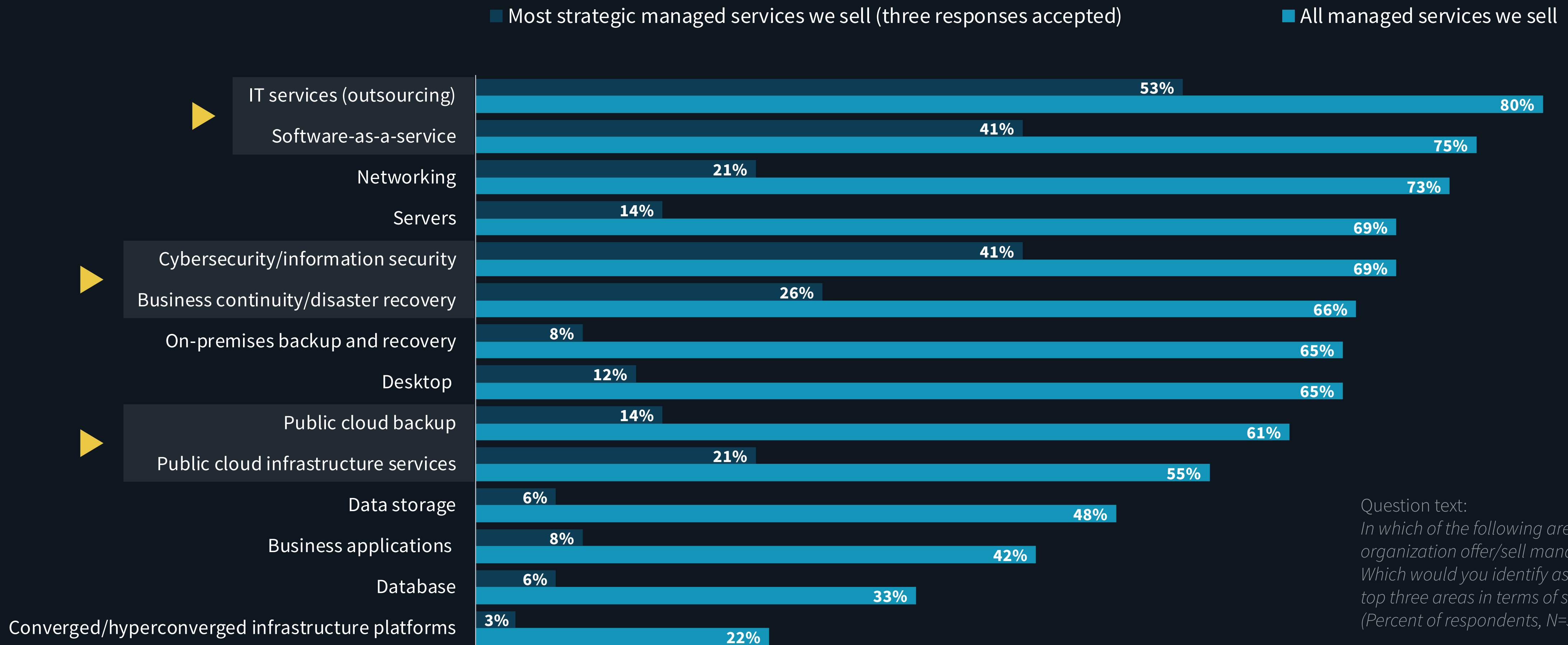
Partners are placing strategic bets on services, security, and software—all of which are moving to the cloud—and are choosing the best-in-class vendors that can deliver on this need.

“*There's a reason the IT world is moving towards subscription product—and it's not just for the customer.*”

- MSP Partner



Partners Are Placing Strategic Bets on Services, Security, and Software— All of Which Are Moving to the Cloud



Question text:
In which of the following areas does your organization offer/sell managed services today? Which would you identify as your organization's top three areas in terms of strategic importance? (Percent of respondents, N=346)

IT Partner Business Models Are Transforming

Partner size was found to predict how, and to whom, managed services are marketed, sold, billed for, and supported.

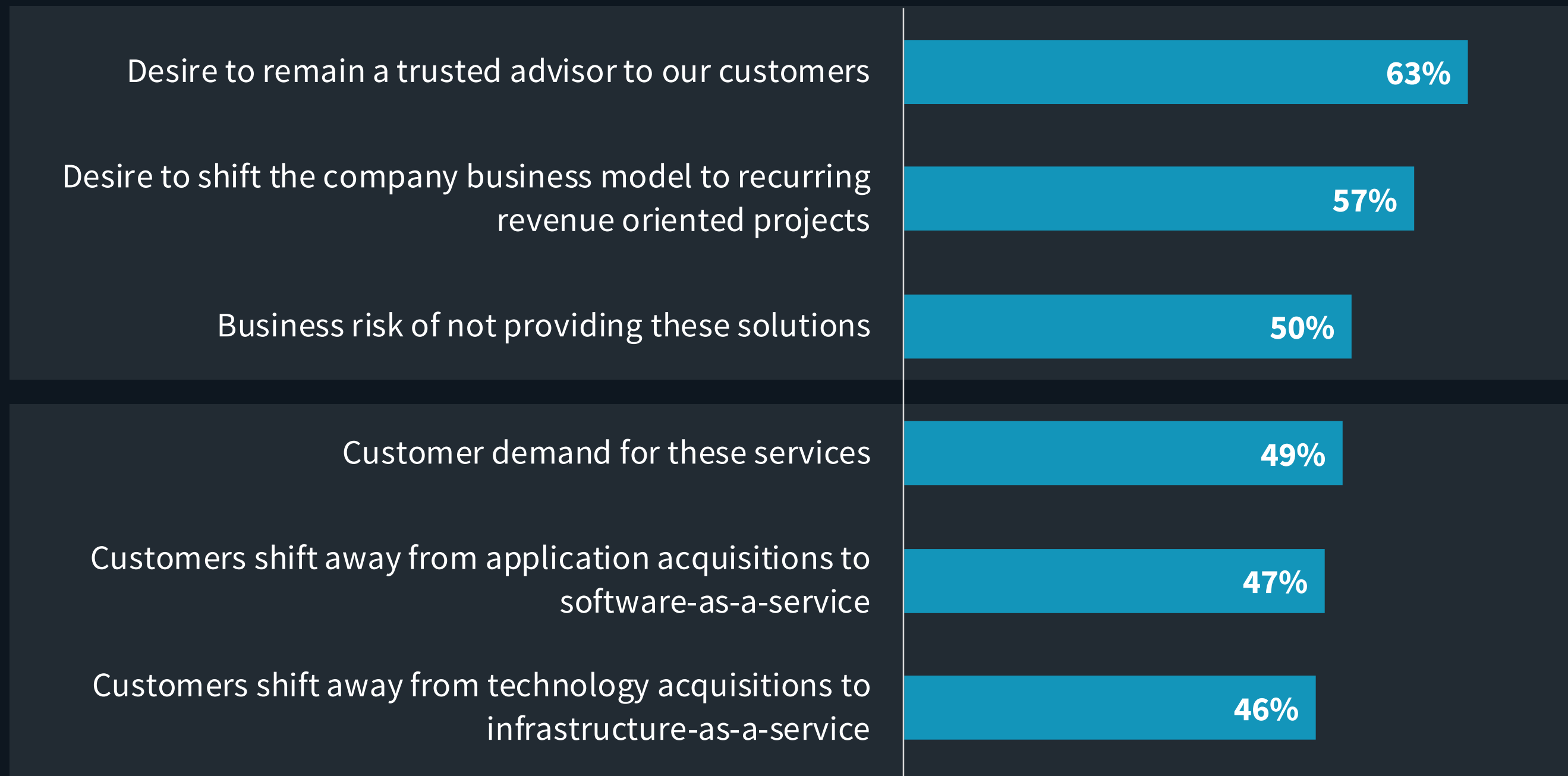
- A large percentage of MSPs have traditionally served the small-to-medium market with standard, “out of the-box” solutions.
- MSPs who serve larger customers (500+ employees) are seeing the enterprise increasingly comfortable with cloud-based managed services—a change from just a short few years ago.

✓ ESG INSIGHT:

- Well-run MSPs understand that ongoing viability is largely predicated on focusing on efficiency in every part of their businesses as a cash flow driver and a strong bottom line.
- MSPs now have strong vendor preferences and look for a fast path to profitability. Vendors that demonstrate an understanding of their business, help them become self-sufficient, and provide support to develop solutions and services are clear leaders.



Responsive Partners Will Adapt, Survive, and Thrive



#1 - Business viability:

Partners recognize their role needs to change to maintain trust, and they are also looking to reduce ongoing business risk by creating recurring revenue streams.



#1A - Shifting customer demand:

Customers are increasingly transitioning to software-as-a-service and infrastructure-as-a-service consumption models and partners follow suit with their offerings.

Question text:

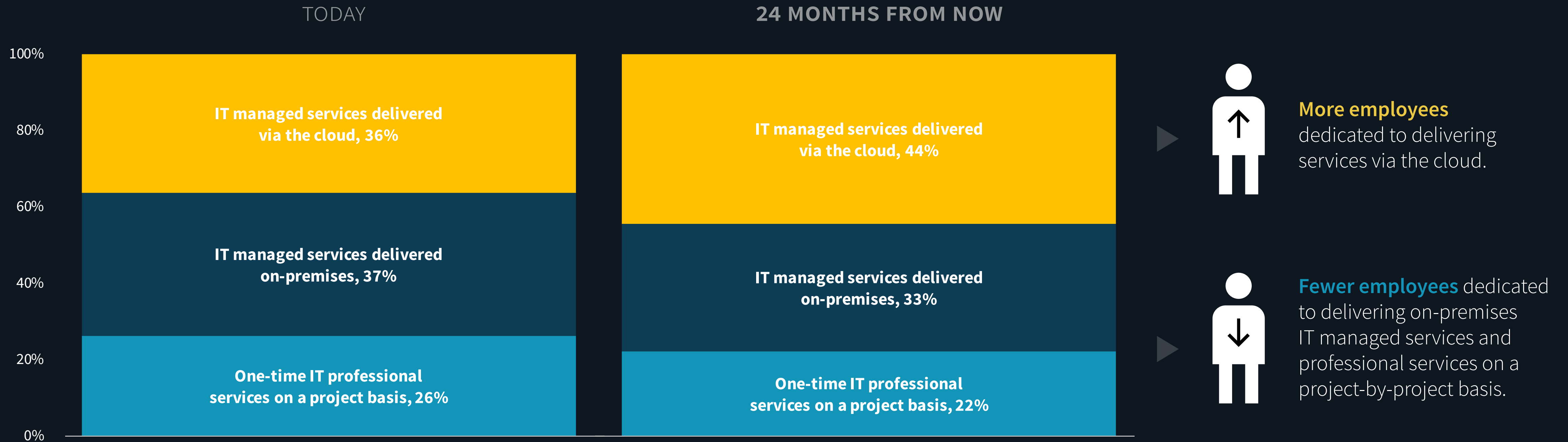
In your opinion, what factors have motivated your organization to include—or consider including—cloud-based managed services as part of its overall solution portfolio? (Percent of respondents, N=346, multiple responses accepted)

“To stay in business, I need to give my customers what they want in the way they want it...”

- MSP Partner

Partners Must Adjust Their Teams, Skills, and Focus

24 months from now, MSPs expect to have **more employees** dedicated to delivering services via the cloud, and **fewer employees** dedicated to delivering on-premises IT managed services and professional services on a project-by-project basis.



Key Finding - Call Out to Security!

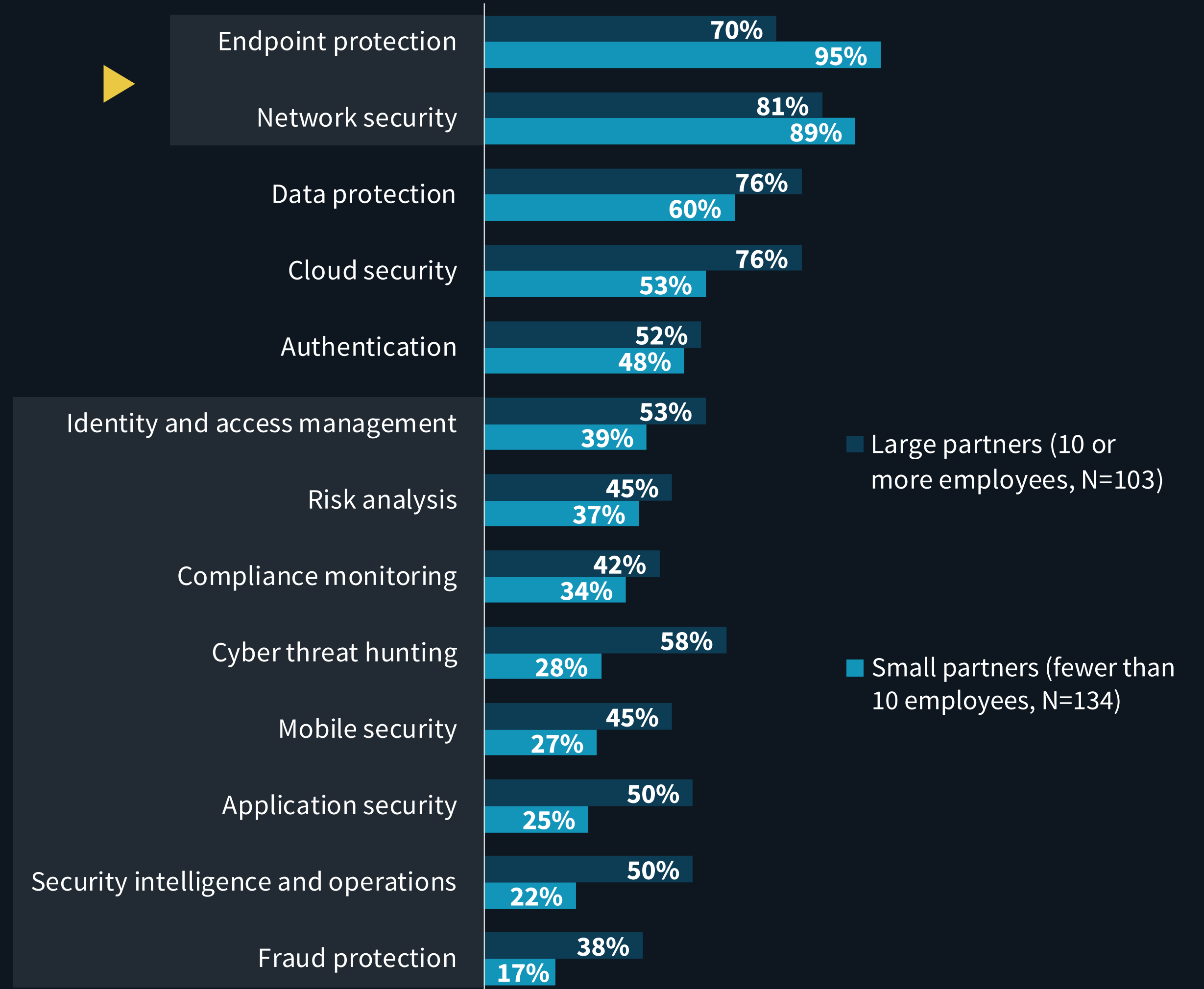
Smaller MSPs are already selling lots of network security and endpoint security in the form of standard, branded security products. However, they are bullish on the opportunity to move upstream with more complex, higher margin products.

Larger partners are more likely to view security operations, threat hunting, application security, fraud protection, and other complex, higher margin services as important.

Without a doubt, security is hot and MSPs are looking for ways to increase their total security offerings.

✓ ESG INSIGHT:

- MSPs understand that they need a “security story” for everything they sell.



A modern office interior with a glass wall and wooden ceiling. People are working at a table in the background. The text is overlaid on the left side of the image.

Today's MSP Economics – The Opportunity is Real; Success Requires Discipline and Efficiency

Crash Course in MSP Economics

Today's buyer is driving the consumption models for cloud-based managed services. At the same time, the allure of the predictability and accurate forecasting of monthly recurring revenue (MRR) is just too strong to ignore for partners.

As a result, overall, partners report that they are satisfied with revenue contribution, and that vendors have **generally set the right expectations** on ROI for and selling of cloud-based managed services.

Note: Deal metrics track as expected for smaller and larger partners.

- Small partners' average deal size is <\$10K, and larger average deal sizes are well over \$10K.
- Small partners are more transactional—sales cycles are shorter as are contract lengths.

“*We operate in constant renewal mode.*”

- **MSP Partner**



69%

of smaller partners operate on 1-year or month-to-month agreements.

✓ ESG INSIGHT:

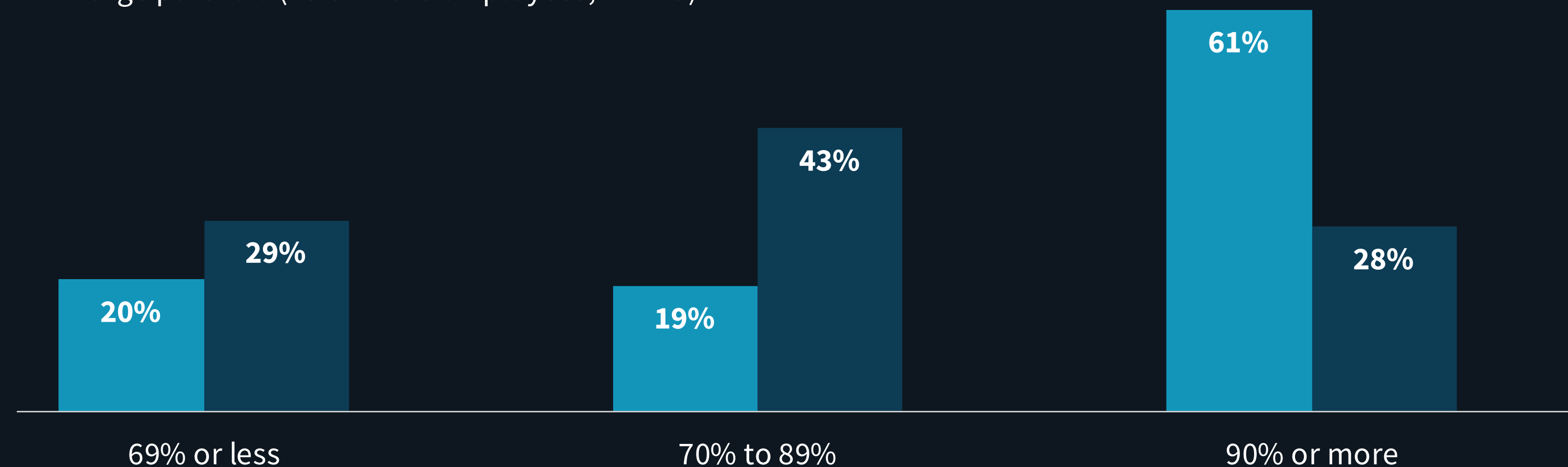
- Smaller partners engage mostly in month-to-month or 1-year contracts, for less complex products, which puts them at a higher risk of losing a customer and places a premium on maintaining a positive customer experience. To combat this, smaller MSPs are looking to vendors that help them move into the enterprise tier with new managed service offerings and differentiated add-on services.

Follow-on Business + Renewals = Profitability!

RENEWAL RATES FOR CLOUD-BASED MANAGED SERVICES

■ Small partners (fewer than 10 employees, N=166)

■ Large partners (10 or more employees, N=179)



✓ ESG INSIGHT:

- MSP profitability is closely tied to follow-on business and high renewal rates, particularly for smaller partners.
- Successful MSPs maintain ongoing conversations with customers—they're not just waiting for an annual renewal conversation to discuss the business.
- Leading vendors have become experts in helping partners support and automate follow-on and renewal business.

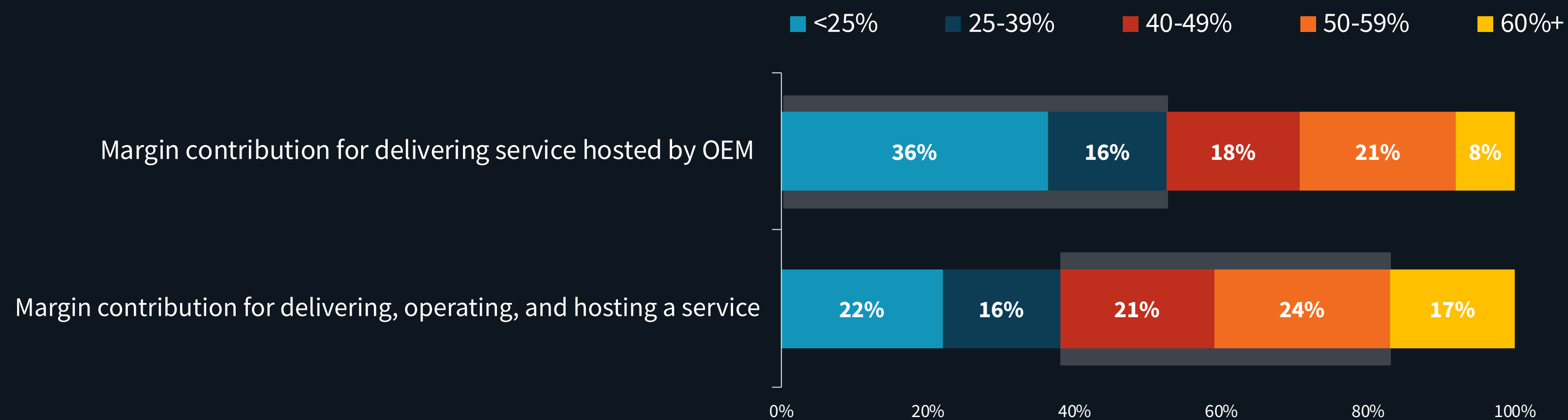
“We ignore renewals and just let them happen – most customers don't notice unless there's a bunch of pain or end of a big agreement.”

- MSP Partner

Hosting a Partner-branded Service Has a Big, Positive Impact on MSP Margins

There are significant margin differences for partners who just resell a vendor branded service versus those who have integrated to operate, host, and deliver that service.

Partner-branded solutions are another way for partners to add value and therefore margin. MSPs who have their own development teams can customize offers around a vendor’s core technology, and often offer higher margin services.



Question text:
*In general, what are the ranges for the gross profit margin contributions your organization gets from selling and delivering cloud-based managed services?
 (Percent of respondents, N=346)*



ESG INSIGHT:

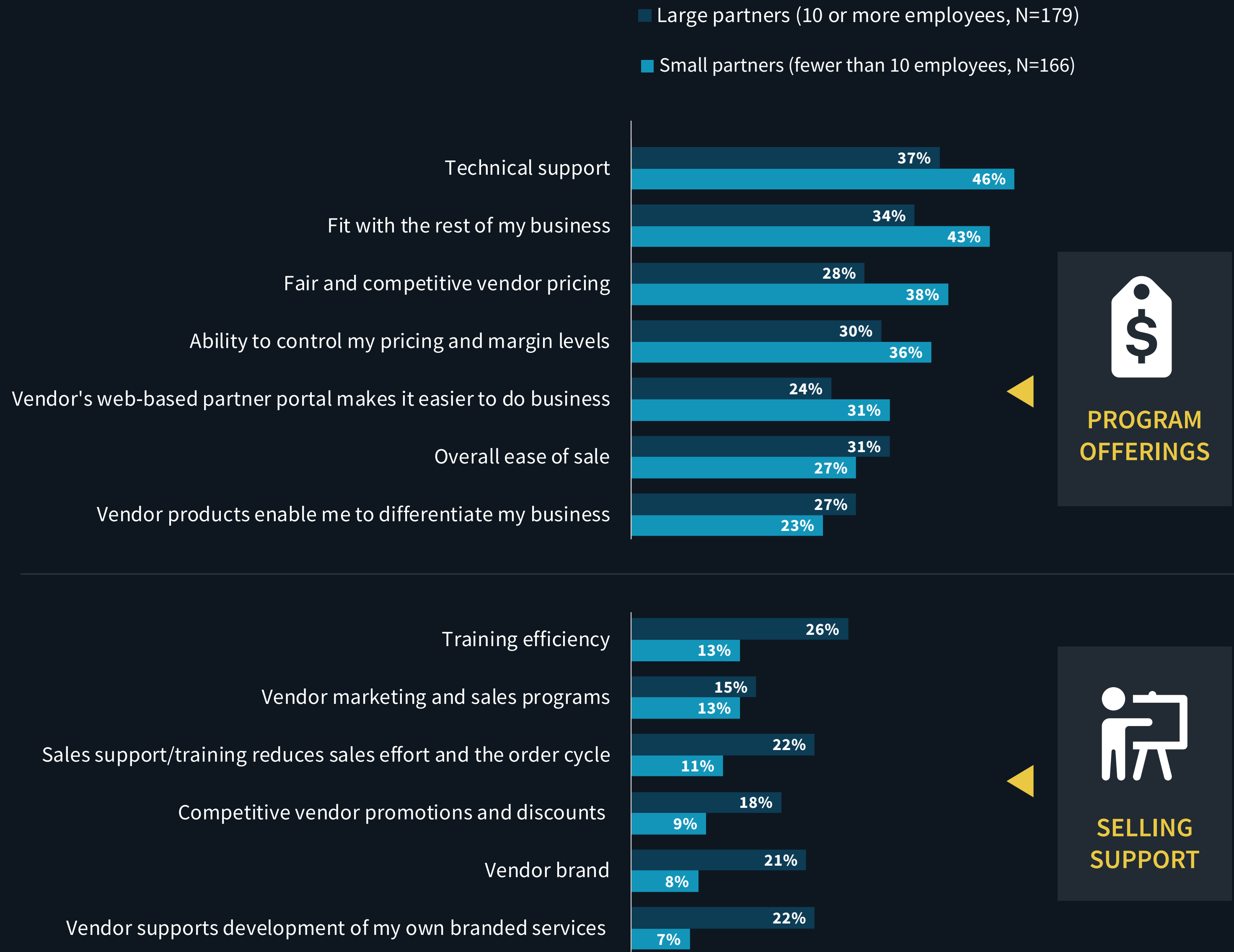
- MSPs expect to sell more high margin managed services in 2 years. This won’t happen magically. It requires investment from the MSP and support from the vendor. To lead, vendors must offer technical training, IP transfer, and field support to help MSPs develop and deliver these differentiated, higher margin services.

Key Finding: Profitability Drivers Influence How Small and Large Partners Make Vendor Choices

“We have a checklist we use for efficient and profitable operations. We look at investment and gross margin.”

- MSP Partner

Question text:
Which of the following has the most positive impact on your organization's profitability? (Percent of respondents, five responses accepted)



Challenges Abound – Leaders Take Measured Actions to Capture the Opportunity



MSP Challenges: Designing and Selling The Right Offerings

From an internal standpoint, partners cite challenges related to acquiring new customers in two key areas:

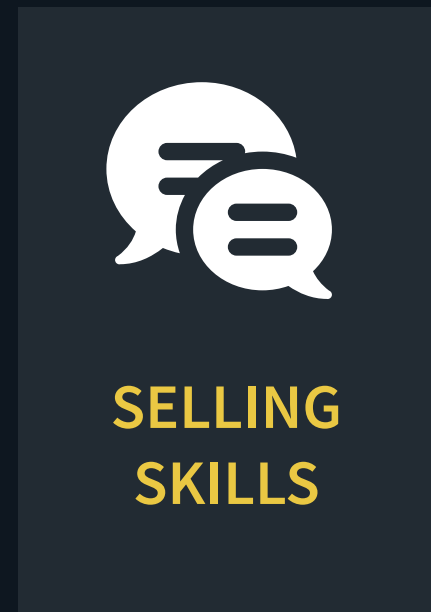
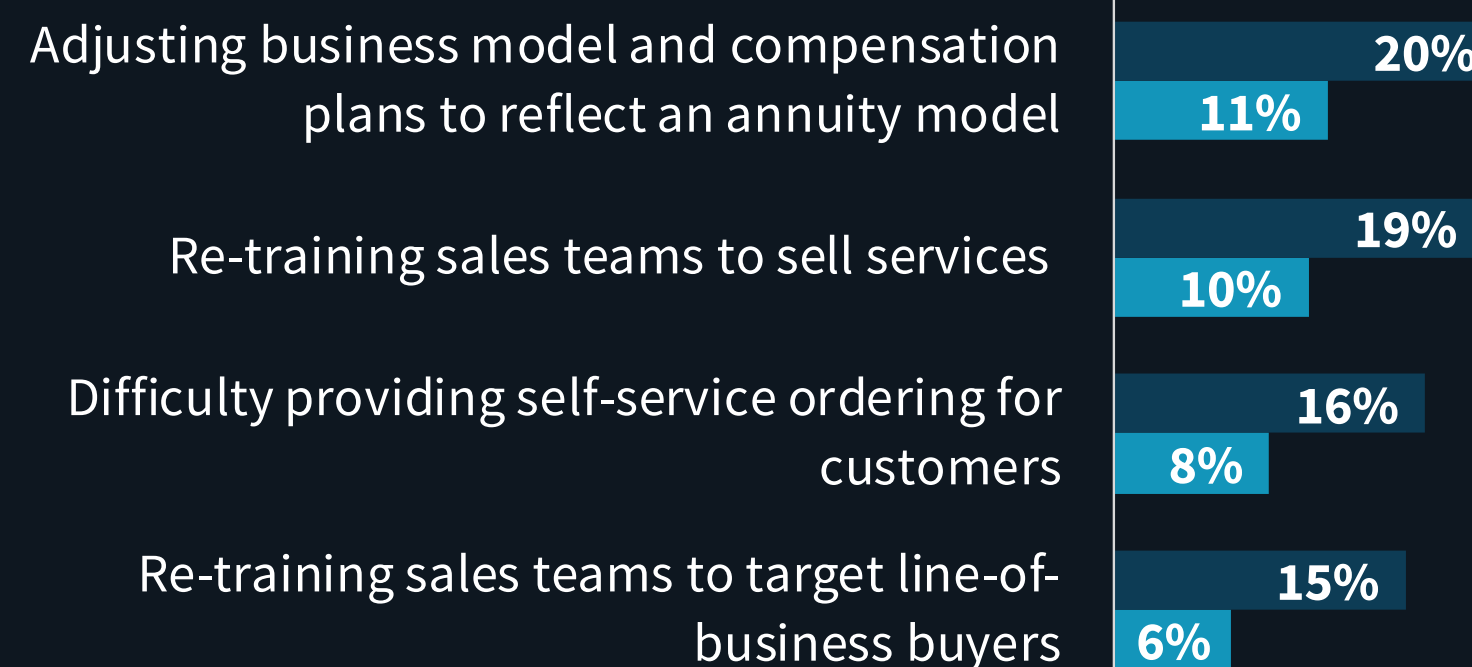
1. Designing offerings.
2. Building MSP selling skills.

“Help me sell your solutions – including designing comp plans for an annuity model and re-training my teams to sell cloud-based services.”

- MSP Partner

Question text:
In your opinion, what are your organization’s biggest internal challenges or concerns in its transition from selling point products to selling cloud-based managed services? (Percent of respondents, three responses accepted)

- Large partners (10 or more employees, N=179)
- Small partners (fewer than 10 employees, N=166)



Key Steps Large Partners Have Taken: Invest in New Skills and New Processes

“Content – help us keep abreast of industry trends and information important to our business.”

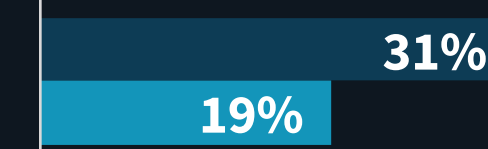
- MSP Partner

Question text:
What were the most important steps your organization took during the transition to selling and supporting cloud-based managed services? (Percent of respondents, three responses accepted)

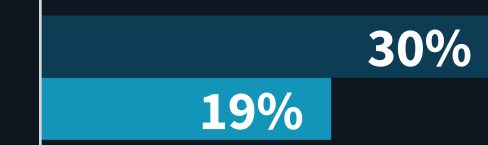
■ Large partners (10 or more employees, N=179)

■ Small partners (fewer than 10 employees, N=166)

Invested to develop and/or adopt back-end systems and processes, such as a cloud services delivery platform

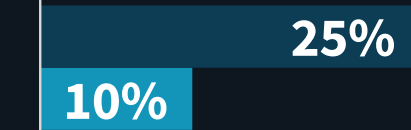


Invested in specific training and education around cloud business processes

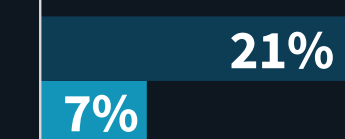


UPGRADING PROCESSES

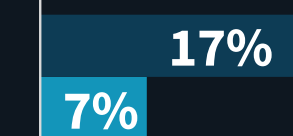
Hired new/experienced technical talent



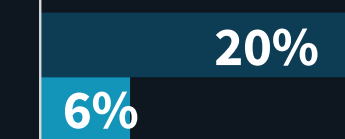
Established a separate sales and business unit for cloud services



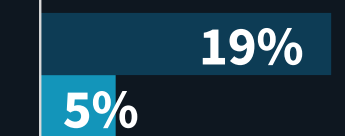
Changed compensation/incentive plans for sales and technical staff



Secured additional funding specifically to grow the business unit



Hired new/experienced sales talent



EXPANDING CAPABILITIES

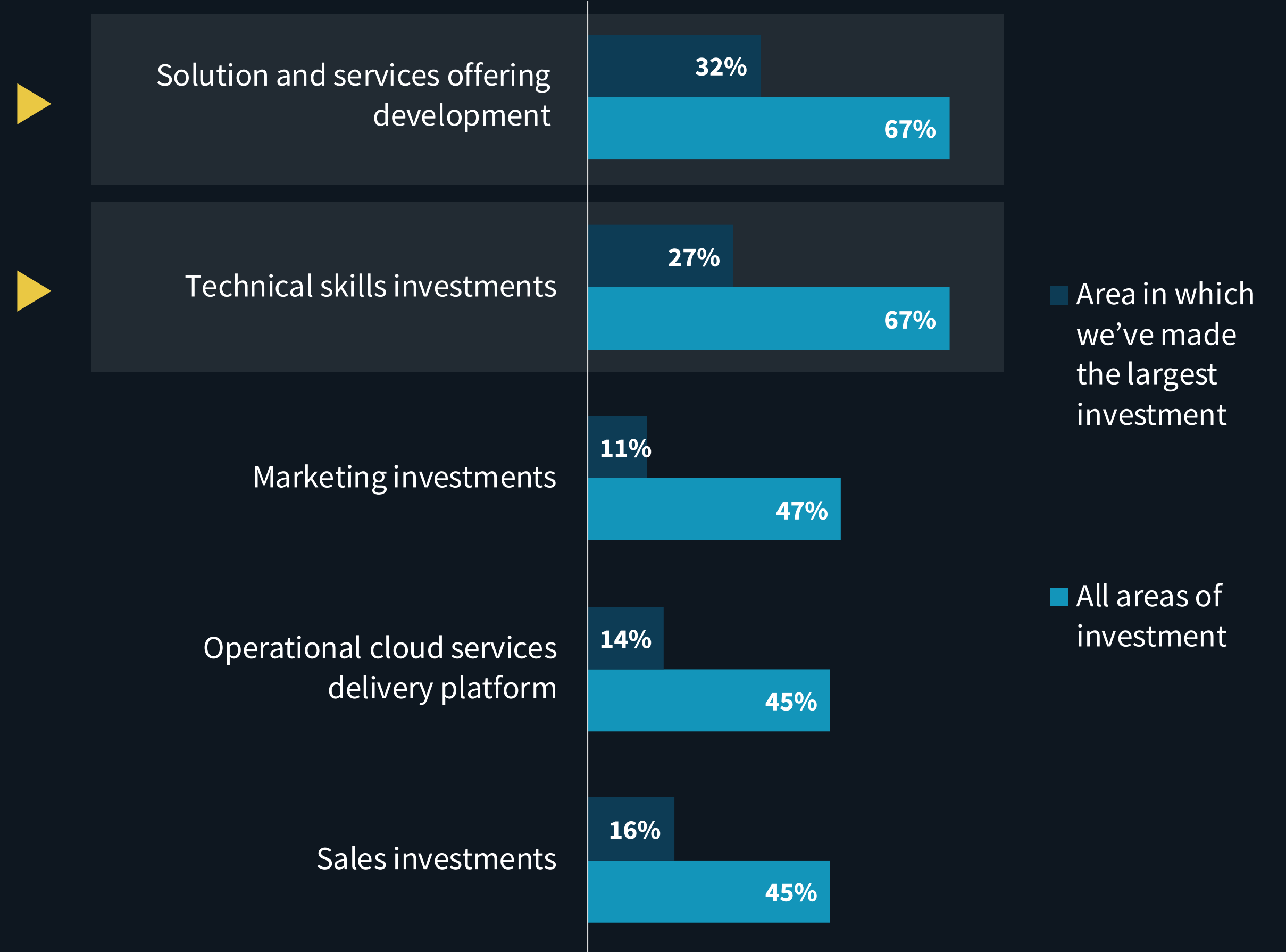
Follow the Money.... Where MSPs Invest for Success!

TOP AREAS FOR SPENDING:

1. Developing new offer packages and services.
2. Expanding technical skills.

“It’s not a product– it’s our reputation. Vendors have good intentions – but we don’t sell product. Product is what comes with our managed services offering.”

- MSP Partner



The Profile of Successful, High-potential MSPs

KEY TAKEAWAYS



Next-gen organization roadmap is in place.



Making the right strategic, scalable vendor decisions.



Investing in revenue sustainability.



Efficiencies are built into all areas of the business model.



Sales and marketing (GTM) for adding net-new clients is a focus.



ESG INSIGHT:

- A key criterion vendors look at when determining which MSPs will invest is which ones have the ability and desire to offer higher margin services based on their investments with the vendor and are able to leverage the vendor's investments with them.

It's Not Just The Best Technology – How Leading Vendors Can Stand Out

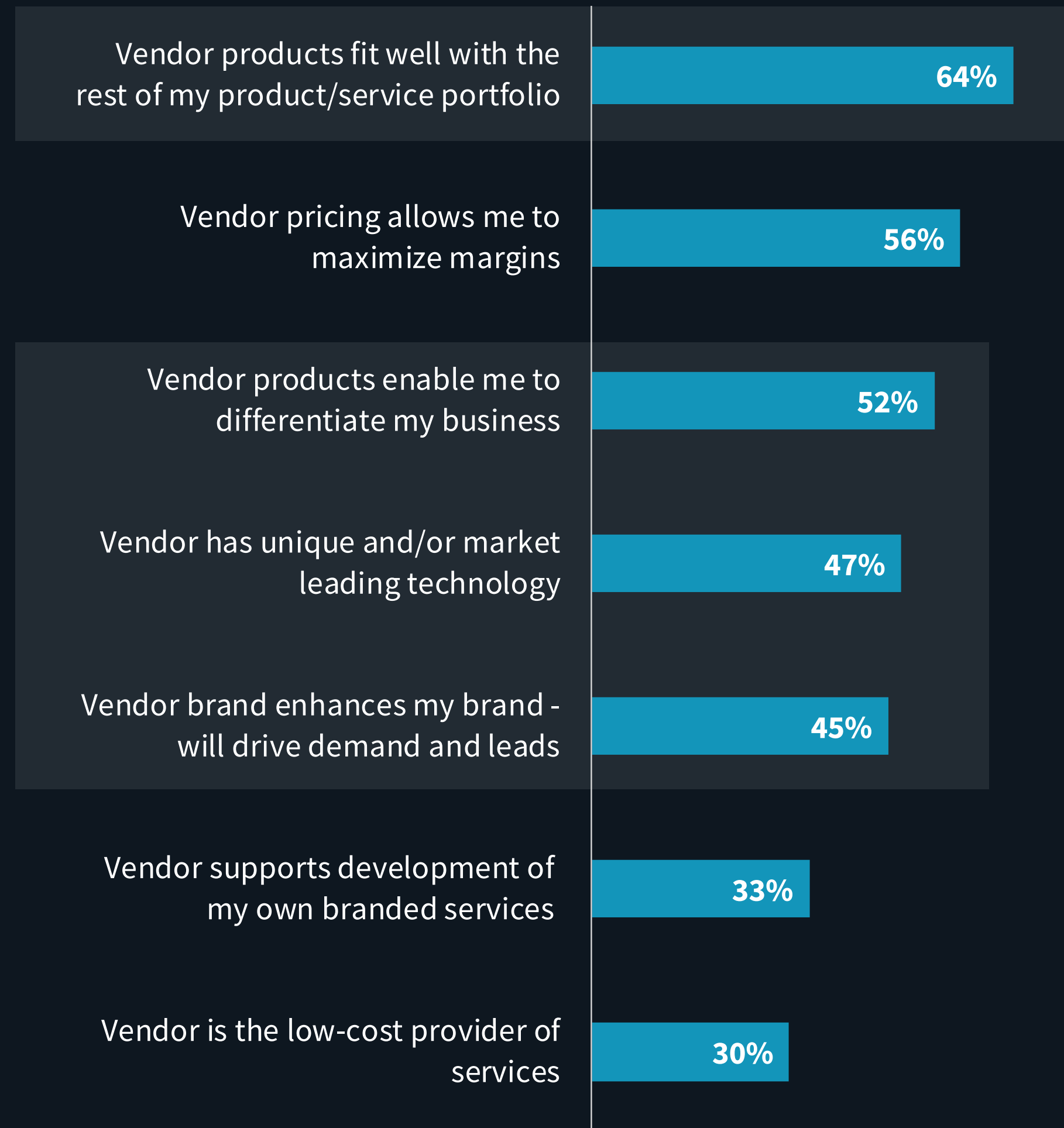


Vendor Selection: It Starts with the Right Fit and Then Goes Deep with Differentiation!


 **ESG INSIGHT:**

- Savvy MSPs make sure they choose a set of vendors that complement their core businesses. This allows them to leverage and build on team skills and strengths, achieve operational efficiency in both sales and delivery, and ultimately focus on specific needs of their targeted, vertical market customers.

Question text:
Which of the following product/service characteristics has your organization used to guide its selection of preferred vendor(s)? (Percent of respondents, N=346, multiple responses accepted)




THE RIGHT FIT



STANDING APART

What Partners Look For in Go-to-market Support: Key Sales Asks Are The Table Stakes

- Enable me!
- Make it easy!
- Provide field support!

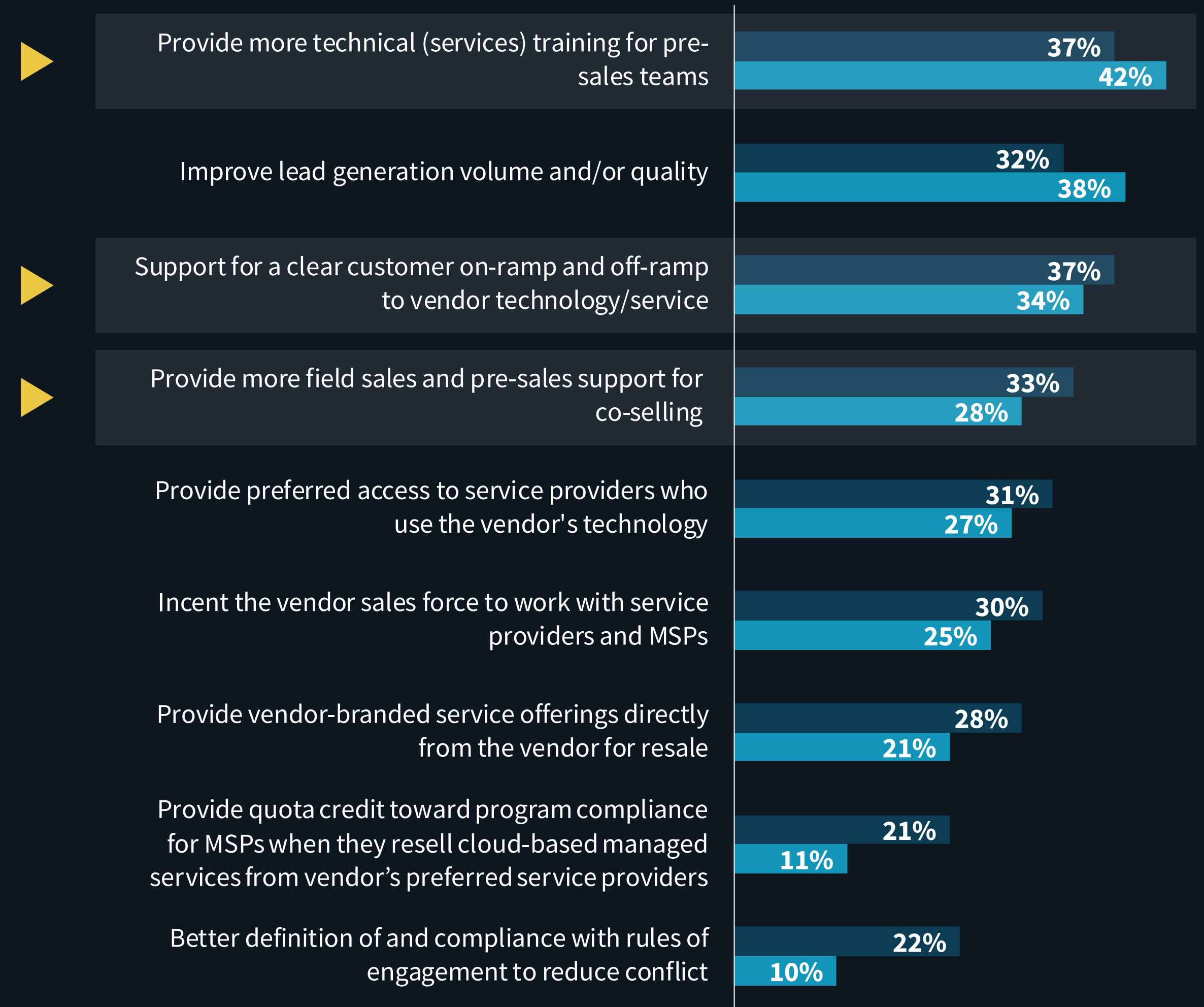
“Technical training (in multiple formats) and technical support is critical to my business and profitability.”

- MSP Partner

Question text:

Overall, what are the most important steps your technology vendor partners can take to help your organization at the point of sale to be more successful in selling cloud-based managed services? (Percent of respondents, three responses accepted)

- Large partners (10 or more employees, N=179)
- Small partners (fewer than 10 employees, N=166)



Top Program Elements Must Work Together to Drive Operational Efficiencies

✓ ESG INSIGHT:

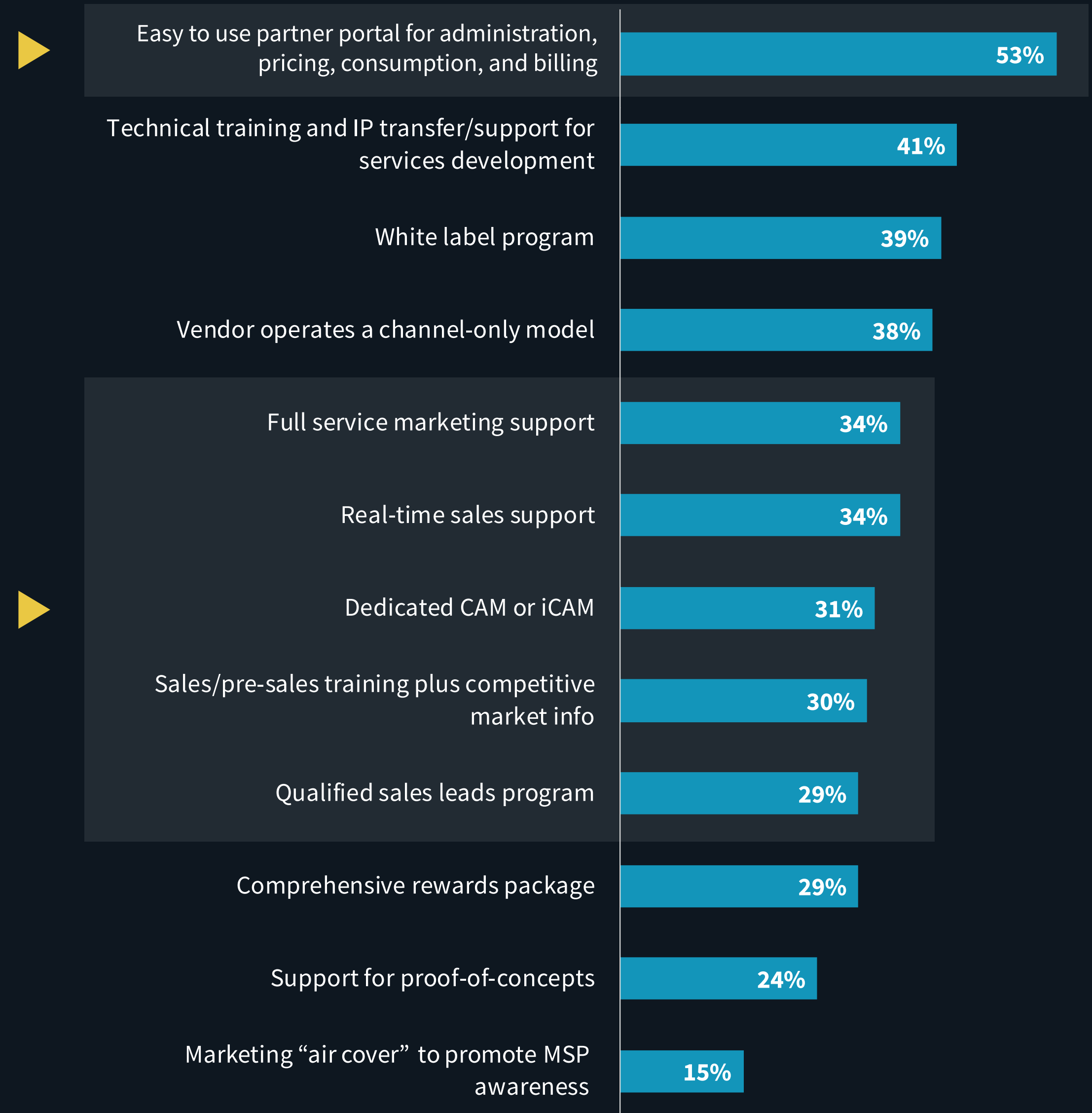
- Portals are no longer static repositories of marketing materials and sales scripts. Portals are how and where MSPs do business, their lifeblood. Highly efficient MSPs run their customer’s business via portals rather than through manual intervention and going onsite—this affects individual productivity and overall profitability.

“Every product has to sync into our monitoring system. If not, we don’t take it on.”

- MSP Partner

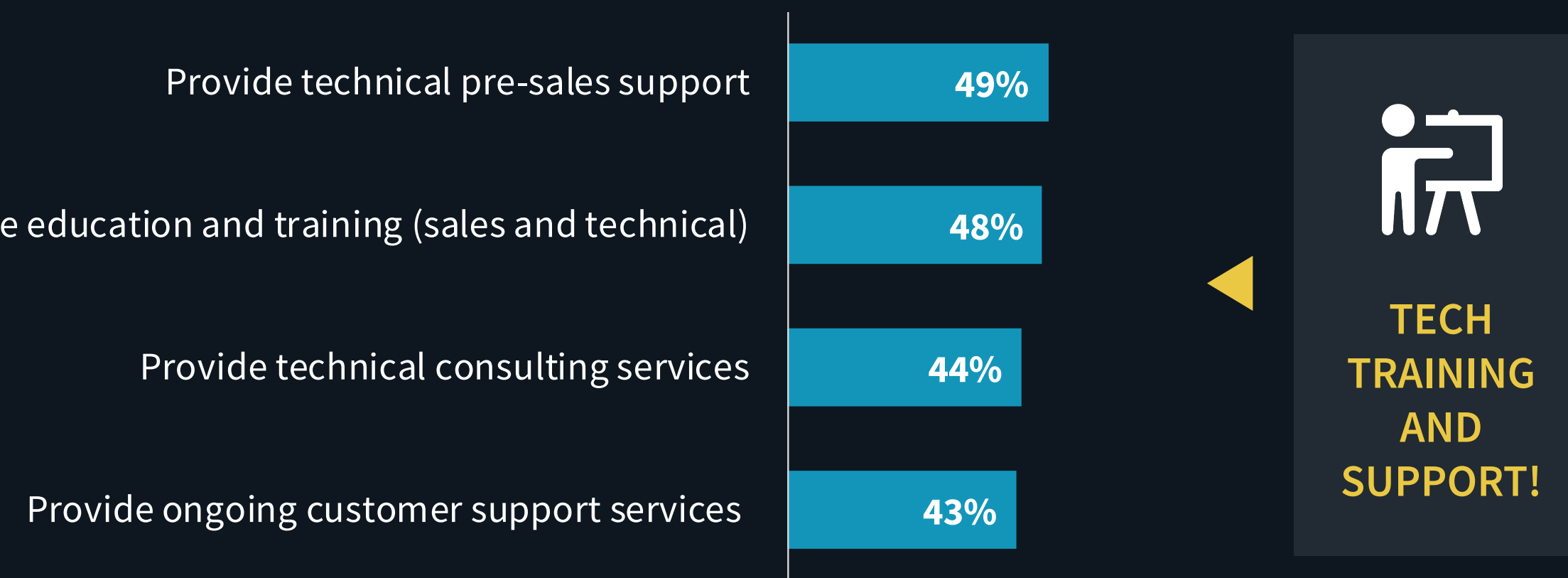
Question text:

From your organization’s perspective, which of the following are the most important components of an IT vendor’s channel program in order for your business to succeed at selling and delivering cloud-based managed services? (Percent of respondents, N=346, five responses accepted)



Distribution: It’s No Longer Pick, Pack, and Ship – Partners Look to Disti to Complement and Extend Vendor Programs

- Smaller partners want education and training, DM and lead gen, and confidential customer lists.
- Larger partners want access to services through resale of a range of vendor-branded solutions and financing for working capital needs.



“Disti sits at central spot and should share all vendor specials, SPIFs, rebates, etc. MSPs want to know: ‘What is my total benefit (total rewards and incentives) that is available at a certain time?’”

- MSP Partner

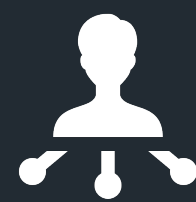
Question text:
 How can value-added distributors better assist or augment your organization’s current capabilities as it builds out its cloud-based managed services portfolio?
 (Percent of respondents, N=346, multiple responses accepted)

What Vendors Need to Know: How to Invest and Position

KEY TAKEAWAYS



Must show that they understand MSP business model.



Enable MSPs to develop, brand, and market.



Invest in programs to support:

- Services development.
- Sales and marketing support and actions.
- Strong training – especially technical.



Define the pathway to profitability:

- Investment required.
- Time to revenue and ROI.



ESG INSIGHT:

- Forward-looking MSPs understand that choosing the right vendors is critical to their businesses. Vendors who want to win the “hearts and minds” of MSPs have to show them how they’re going to: maintain trust, help them shift business models, and reduce risk.

Asigra.
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About Asigra

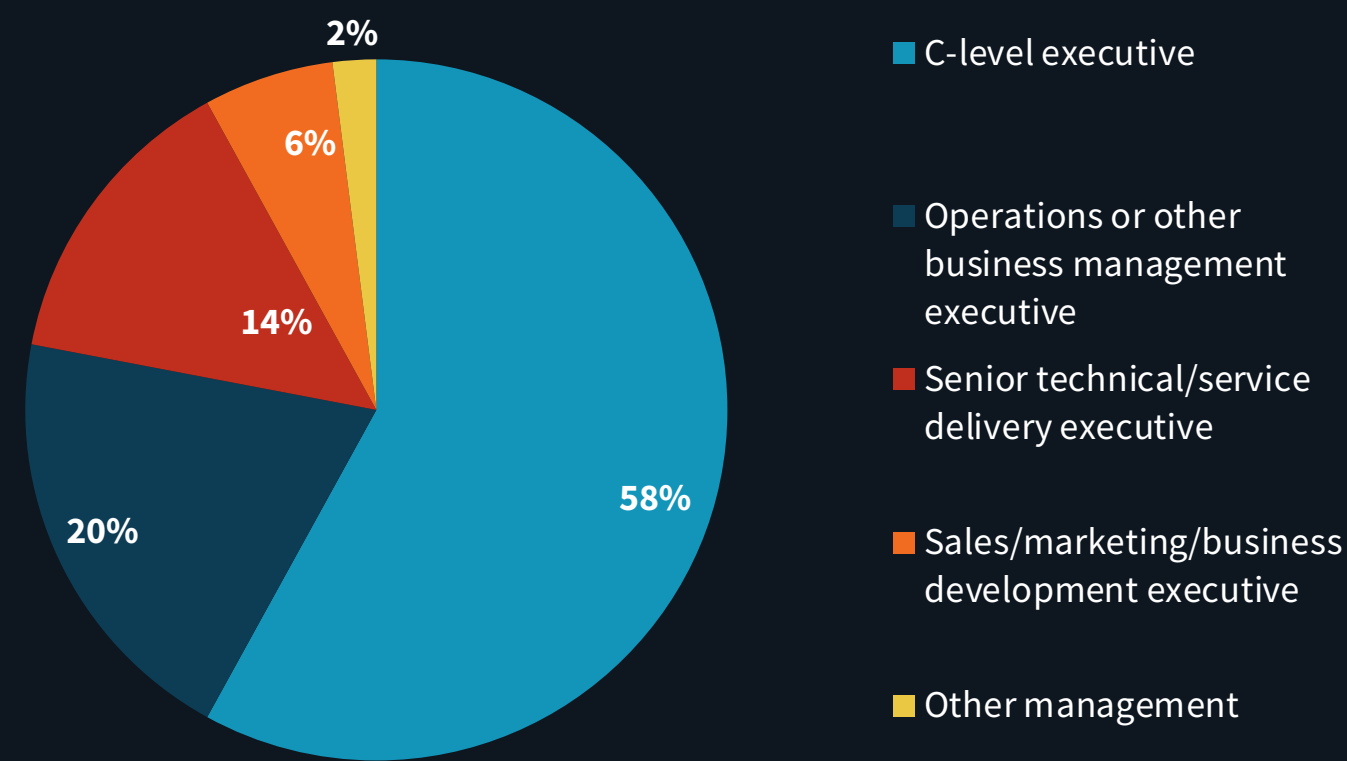
Asigra is the most secure data protection platform to host and deliver cloud backup and recovery services as public, private or hybrid deployments. With Asigra as preferred backup platform, Managed IT Providers gain the benefit of a reduced resource footprint and the confidence that backups are secure from ransomware. Trusted by a worldwide partner network, we are confident Asigra's backup and recovery technology can improve the way you do backup, freeing you up to focus on the business outcomes that that deliver a more sustainable and profitable backup business model.

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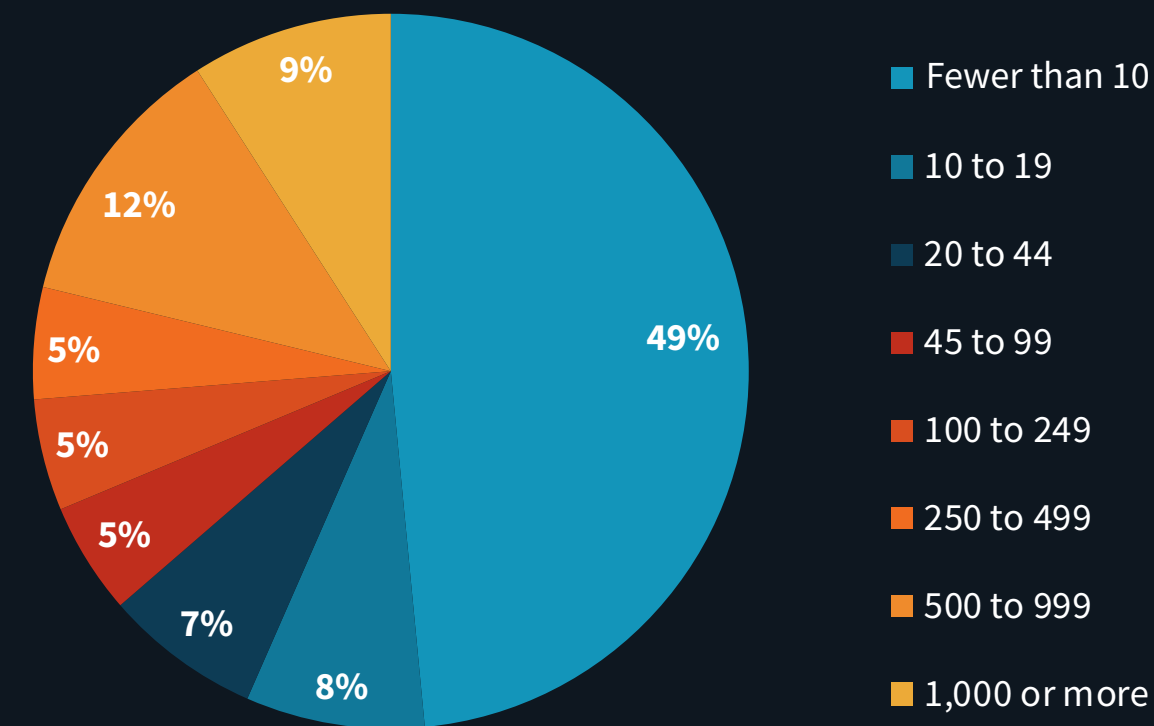


Research Demographics

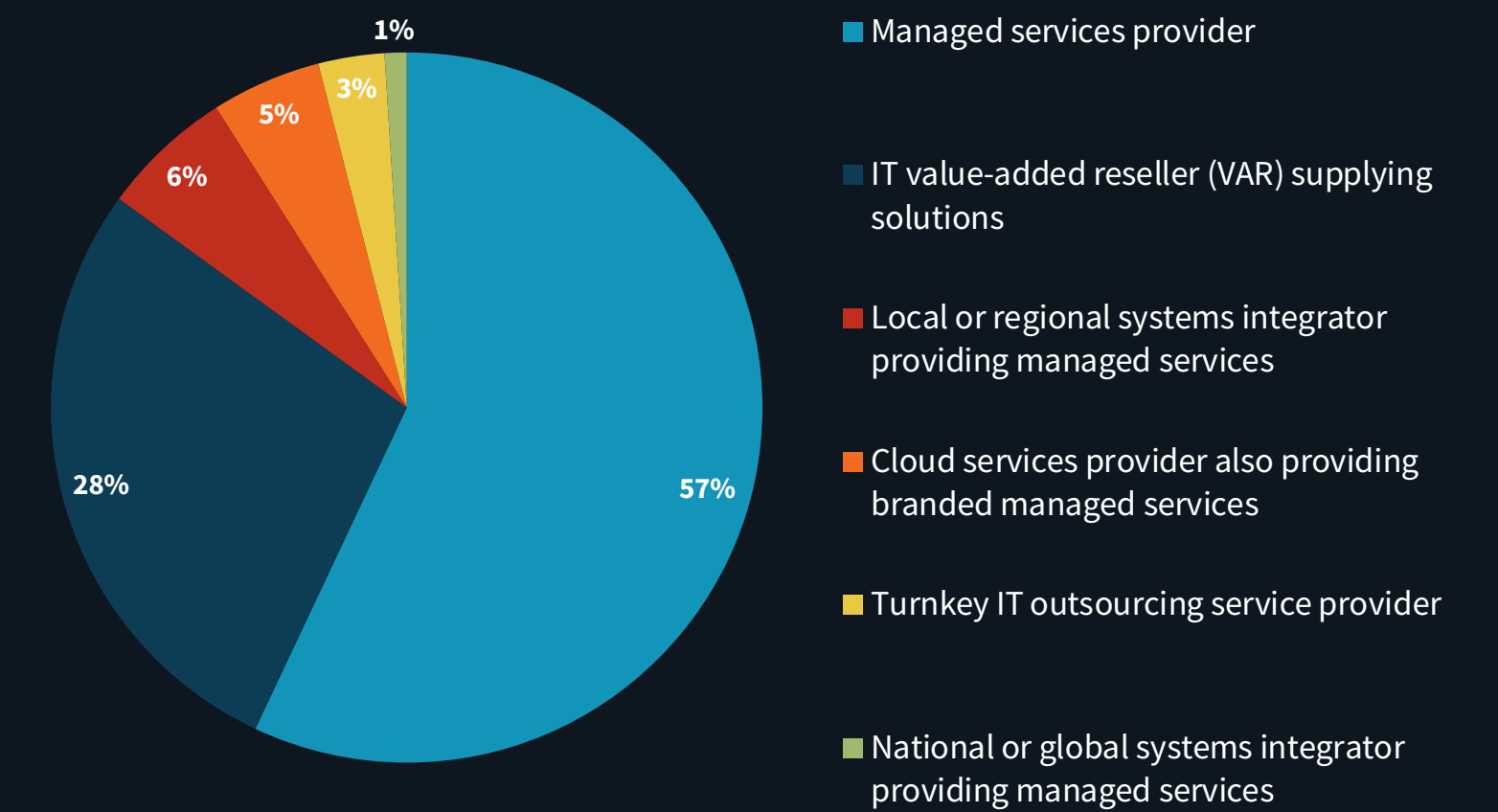
RESPONDENTS BY JOB RESPONSIBILITY



RESPONDENTS BY NUMBER OF EMPLOYEES



RESPONDENTS BY INDUSTRY



RESEARCH PARTNER: PAX8, INC.

Pax8 is modernizing how partners buy, sell and manage cloud. As a born-in-the-cloud company, Pax8 simplifies the buying journey, empowering its partners to achieve more with cloud technology. The company's technology displaces legacy distribution by connecting the channel ecosystem to its award-winning transactional cloud marketplace. Through billing, provisioning, automation, industry-leading PSA integrations, and pre and post-sales support, and education, Pax8 is a proven disruptor in the market. In 2018, Pax8 was ranked number 68 on the Inc. 5000 and in 2019, the company was ranked number 60. If you want to be successful with cloud, you want to work with Pax8. Get started today at www.pax8.com.

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