

STRATEGIES OF THE

**FASTEST-
GROWING
MSPs**



Introduction

A study released by the [Service Leadership Group](#) showed that MSPs that are ranking within the top quartile for profitability, are consistently delivering EBITDA three times higher than MSPs with median profitability. A low EBITDA margin is a good indicator that an MSP is selling solely off price. As one might imagine, the valuation increases exponentially with a higher EBITDA.

No matter which industry you speak to, they're all in agreeance about the trajectory of businesses and how their needs have shifted on a global scale. Although the years leading up to 2020 showed that change was inevitable, the pandemic forced the transition to occur at a frenetic pace. The demand for MSPs and platforms catering to the new era of workers has experienced hyper-growth, rapidly shifting the outlook for this industry. The fastest-growing MSPs have watched the landscape change and adapted accordingly.

NEEDS HAVE SHIFTED ON A GLOBAL SCALE

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At one point, the hybrid and **fully remote work model** was only a pipe dream for certain industries. It was impossible to manage these lofty goals with existing infrastructure. However, MSPs rescued businesses who wished to participate in the digital pivot and saved them from what seemed like an inevitable demise. The new normal of the virtual landscape has inspired growth for some while abandoning others who refuse to accommodate the modern workforce. Their archaic practices led to them becoming victims of the Great Resignation.

01 MSPs & COVID-19

MSPs & Covid | Datto 2021 State of the MSP Report

Although the Covid pandemic had a mixed impact on revenue for MSPs, a vast majority of them witnessed a slight increase, while some remained flat. However, the industry, as a whole, flourished in terms of innovation. As we progress into the modern age of business, you might be wondering what the fastest MSPs are doing to differentiate themselves from the competition and foster growth.



58%

saw an increase
in workload



18%

saw a decrease
in revenue



47%

saw an increase
in revenue

02 MSPs Current Growth Trend

MSP Growth | Datto 2021 State of the MSP Report

The current trajectory for a vast majority of MSPs is not promising. Data released by Datto shows that the largest chunk of MSPs in North America are only expecting growth between five to ten percent, which is abysmal from a company development standpoint. In addition to these poor figures, the shift to monthly recurring revenue (MRR) isn't occurring at a rate one would expect from this industry either. The largest segment of MSPs MRR is growing at a paltry six to ten percent.

Less Than
5%
Growth

More than half of MSPs are
expecting revenue growth to
be < 5% over the next 3 years

Source: Datto

With the right plan in place, MSPs have tools at their disposal to grow beyond their wildest dreams. However, they're currently unable to achieve these objectives on the current path. Something needs to change – MSPs must get strategic or face getting swallowed up by the competition and becoming an afterthought in the industry.

even MRR is not
growing quickly
enough

6-10%



What Services Do MSPs Offer?

While MSPs offer an array of services, a survey found that all MSPs who responded offer cloud-based infrastructure design and management, proving that a [shift to the cloud is underway](#) among SMBs. According to the findings, the pandemic is the primary reason this migration has accelerated. Other “bread and butter” offerings included managed security, BDR, and endpoint security.

Managed Security

99%

Backup and Disaster Recovery (BDR)

97%

Endpoint Security

96%

Help Desk / Service Desk

95%

Network Security

94%

Managed Email / Anti-Spam

92%

Remote Monitoring (Servers, Desktops, Laptops, Networks)

92%

Phishing

90%

Cloud Storage

88%

End User Security Training

88%

At this point, most businesses have migrated to the cloud, or they're in serious consideration to make the transition soon. Suffice to say; cloud migration has become one of the hottest services in the MSP sector.



Top Challenges MSPs Face Today

There hasn't been a better time for MSPs than today. As the demand for remote monitoring services continues to grow and cloud adoption increases, organizations seek to install hybrid infrastructure solutions. At the same time, they're trusting MSPs with their IT functioning, mission-critical systems, and VoIP. Organizations are seeking a reliable partner that delivers services consistently. It might sound simple – produce a consistent service and provide support, but what are some of the top challenges MSPs are facing in the days ahead?

Competition

In the golden era of MSPs, it's common for new managed service providers to pop up rapidly and take advantage of this gold rush. The primary challenge this industry faces is competition. New MSPs are undercutting existing providers' prices, despite implementing an inferior service. This is causing big-names to seek innovative solutions that demonstrate their value.

Revenue Growth

Many MSP owners and executives have come out and directed disdain at their revenue growth. The current addressable market for SMBs in the United States hovers around \$50 billion. This includes product resale, Recurring Revenue, and Project Revenue. An estimated **40 percent** of MSPs had revenue between one million and five million dollars, with a majority of MSP clients spending less than \$5,000 on managed services.

Profitability

Money is the motivation, and another hurdle MSPs face is profitability. Reselling a service and tacking on a percentage for profit, known as the cost-plus model, plagues MSPs and translates to weak profits. Charge based on the value you're delivering and differentiate yourself from others by offering something they can't. It's essential to create value by adding vertical-specific integrations and innovate through your vendors API's that improve profitability. You must always choose vendors who enable you to innovate through APIs & integration, rather than receiving a basic package with no ability to innovate and differentiate.

Top 3 Challenges MSPs Face | Datto 2021 State of the MSP Report



What are MSPs investing in today?

The role of hybrid and remote work has changed the landscape and accelerated the digital transformation of businesses across the spectrum, causing a need for improved cloud technology. In addition to the emphasis on the cloud, the IT channel will also transform exponentially in years to come.

Since companies have become more reliant on cloud technology, they require additional services and solutions from providers, placing MSPs into a more consultative role. SMBs that outsource their IT support are looking for advice as the landscape continues shifting away from traditional break-fix models. MSPs have also had to look at their business models and adjust their approach.

By following and investing in the steps below, you're setting your organization up for success:

- Enhancing their services and solutions portfolios
- Developing a better customer experience
- Streamlining their business with new tools
- Becoming more efficient with their operations
- Enhancing their marketing and sales activities
- Developing a business plan with clear goals & strategies
- Differentiation with Application Integrations & investing in wrapping value through APIs

At this stage of the game, most MSPs expect that at least **50 percent of client workloads will be in the cloud by 2023**, so streamlining the business with new tools and becoming more efficient with internal operations are vital for long-term success. Since most MSPs serve SMBs across five to six industries, enhancing services is crucial to retain new clients.

8 Strategies of the Fastest-Growing MSPs

In a period of unbelievable growth in this sector, the fastest-growing MSPs have focused on the following key factors for sustained growth, increased revenue, and profitability, allowing for investment back into the business to become even more dominant in their industry.

Adding New Services

With each day that passes, we witness a new MSP popping up and undercutting revenues from more established providers. However, the more seasoned MSPs have responded by adding new services. The most significant chunk of MSPs are adding four to five new services per year.

Choosing the Right Cloud Service Offering

Although a staggering amount of businesses are moving their workloads to the cloud, they're facing a significant issue – notoriously low margins associated with the cloud. The largest segment of MSPs is making 11-20 percent of gross margins from their cloud services. Why is this happening?

The outsourced vendors MSPs use not only dictate the packages MSPs can sell, but they're putting MSPs in a cost-plus pricing model, which always results in a race to the bottom on pricing. The fastest-growing MSPs are selecting cloud services with much higher margins.

Customer Ownership

Customer ownership is the new battleground. Large brands continue to step over the MSP, leading them to have direct relationships with your end-users. The result? End-users lack clarity on where their loyalty lies. The actual value lies with the MSP where you have a local presence and deep-rooted understanding of your customer's needs and outcomes. The innovative MSPs choose the vendors that allow them to keep control of their brand.

Sustainable Differentiation

The fastest-growing MSPs' primary focus is to provide value-based services. They differentiate themselves because they're not a conduit for the big tech brand to the end-user. They wrap substantial value around these services and place a large gap between the big brand and the end customer.

Minding the Gap

The fastest growing MSPs have deeply entrenched themselves into specific verticals. They're doing this with clear communications and interaction with their customers to understand the gap between services they offer and customer needs.

Controlling the Innovation

The fastest-growing MSPs that are able to bridge those gaps and control the innovation ultimately make themselves sticky, resulting in higher margins. It's common to see 80-90 percent Gross Margins in these MSPs and demonstrate the effectiveness of this method. This bridge-building is constructed around the vendors ability to empower the MSP with tools to innovate and deepen their integration stacks. MSPs that invest in this highly valued innovation make themselves sticky in that vertical and margins flourish.

Choosing Their Vendors Carefully

MSPs currently stuck in the paltry five-20 percent margin range is due to the vendor they've attached themselves to. The fastest-growing MSPs are reaching breakout velocity and hitting sky-high margins by investing in innovation and vendors who support this lucrative strategy.

Pick Vendors Who Don't Charge Per Seat

Not only should you choose vendors who enable the innovation and vertical integration, but it would be wise to choose one that doesn't charge on a per-seat/device or user basis. The industry has become aware that 80 percent of the workforce doesn't have a desk. For those who do, they're away from their desk 60 percent of the time (Cisco), so why is your vendor charging your per seat?

Solving the MSP Low Margin Problem

We'll take a detailed glance into high margin solutions with the following eBook– [Ways to Boost MSP Margins](#).

