

It is an ideal time for MSPs to expand their businesses and capitalise on the growing revenue opportunity

May 2019

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At their core, **managed service providers (MSPs)** are relatively simple businesses that offer outsourced ICT support, but their role as a channel is becoming more important. Changing and increasingly complex ICT networks and systems, particularly those used in the shift to cloud services, are driving the demand for MSPs' services. Small and medium-sized businesses (SMBs) are increasingly reliant on technology to do business, but do not necessarily have the internal expertise to manage it. We expect that MSPs will be one of the fastest growing providers of ICT services in terms of revenue, **growing at 12% each year and accounting for 11% of the USD2.8 trillion ICT market by 2023.**

This article is based on our [strategy report](#) and considers the most successful business practices for MSPs that wish to expand their businesses and capitalise on the rapidly expanding MSP market.

MSPs should diversify their portfolios, manage all aspects of the customer lifecycle and become KPI-driven businesses

Figure 1: Key factors for MSPs to be successful



Source: Analysys Mason, 2019

Figure 1 shows the key business practices that will help MSPs to gain a greater share of the growing revenue opportunity. MSPs will need to build their service portfolios and expertise and enhance their business processes to service the growing demand from businesses.

Diversifying their portfolios can help MSPs to differentiate and improve margins

MSPs generally have a core set of services that they must offer to be considered an MSP: backup management, infrastructure management and monitoring, basic endpoint protection and IT helpdesk outsourcing. MSPs should look to gradually diversify their portfolios to include more-advanced and differentiating services, such as managed security, SaaS and telecoms services such as SD-WAN. It is critical that MSPs expand into less-commoditised services in order to avoid having to rely on price competition for low-margin services.

MSPs of all sizes can consider diversifying their portfolios. Smaller MSPs may not have the resources or skills to expand either organically or through acquisition, but they do still have several options. MSPs can outsource certain responsibilities to partners. Some tool providers, such as [Continuum](#), offer MSPs the option to outsource many of their helpdesk requirements, thereby minimising the number of basic support queries that MSPs have to handle. MSPs also regularly partner with each other to share resources and capabilities.

A lack of internal resources is therefore not an insurmountable barrier to having a diverse MSP portfolio.

MSPs will need to perform well at all stages of the customer lifecycle

MSPs need to gain customers' awareness through effective sales and marketing, agree a contract with careful attention to pricing and SLAs, and provide constant ongoing support.

Over 60% of an MSP's managed services workforce tends to be focused on sales and marketing. MSPs have a range of sales and marketing techniques available to them, and they should consider the return on investment of each one carefully. Direct face-to-face campaigns remain the most effective. As such, MSPs should not avoid face-to-face marketing events even if they are expensive; it is the direct interaction with clients that generates the highest sales impact. Online webinars and digital marketing tools are also highly effective. MSPs should invest in providing material such as videos and whitepapers to support the message delivered by webinars and sales staff.

Pricing models are rarely standardised and MSPs are generally flexible so that they can cater to the needs of different customers. SLA-based pricing is the most common model, and it allows MSPs to differentiate on, and generate revenue from, quality of service and support. MSPs should be flexible in order to cater to their customers' needs, but should try to focus on selling premium support in cases where there is less competition from lower-cost, less-sophisticated MSPs.

It is essential to acquire and train skilled people in order to support and sell managed ICT services. Vendors such as AWS and Microsoft require companies to gain certain certifications to sell their products. MSPs should constantly be training and incentivising staff to enhance their capabilities and earn certifications. Developing staff capabilities is increasingly important as MSPs expand their portfolios to include more-complex services.

MSPs should be metric-based businesses, and should track and analyse business, service and satisfaction KPIs

Tracking KPIs can help MSPs to understand the performance of their businesses and can also be instrumental in helping them to meet SLAs and remain profitable.

There are three primary KPI groups for MSPs: business, service and satisfaction. MSPs should be tracking KPIs across each of these categories in order to measure the health of their services and their businesses. Most businesses consider high-level financial metrics (such as cash flow, revenue and growth rates), but it is the underlying KPIs within each category that drive the success of an MSP. For example, MSPs should not just track the overall profitability, but the profitability of each customer. Monitoring service KPIs such as average response times can help to improve customer satisfaction.

Tools, such as those used for professional services automation, are instrumental in helping MSPs to track KPIs. Equally important is how MSPs use the KPIs. When a customer churns, the KPIs of that customer should be analysed to understand why they left (for example, perhaps because of the low first-time fix percentage and the long average response times). High levels of customer satisfaction are a strong differentiator in a service market and should be used in sales and marketing material.

It is an ideal time for MSPs to expand their businesses and gain a greater share of the growing revenue opportunity

The ICT market is in a phase of change and development. Shifts from on-premises to cloud and increasingly complex technology is driving the demand for MSPs' services. MSPs that move to adapt and service this market have a considerable opportunity for revenue growth. MSPs should invest across all aspects of their businesses and should use partnerships to fill any gaps in internal resources. The growth opportunity can be seized by MSPs of all sizes.