

The COVID-19 crisis will hit MSPs hard, but it should reinforce their importance as a channel

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The COVID-19 pandemic and the resulting need to adapt to new working conditions have posed many challenges for small and medium-sized businesses (SMBs). This is dramatically increasing the workload for the managed service providers (MSPs) that are supporting these businesses. MSPs are also facing difficult financial situations because their SMB customers are likely to be hit hard by the crisis. Many small businesses will go bankrupt, and those that survive may not be able to pay their bills on time.

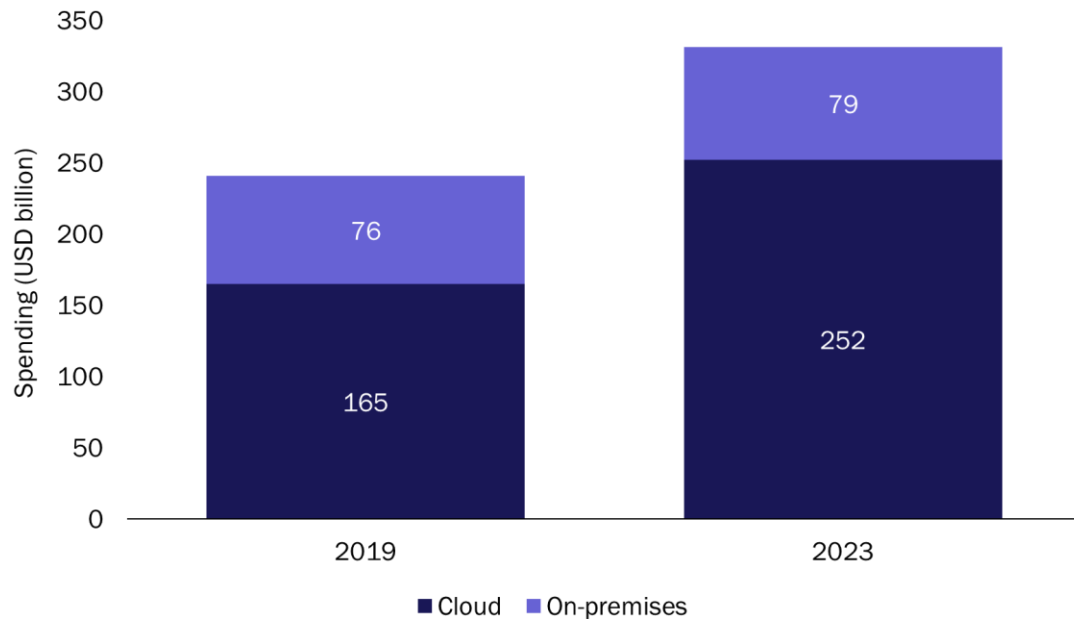
MSPs may struggle in the short term, but there is a good opportunity for them to prove their value to their customers. The support that they provide now will act as a base for offering more services in the future. Vendors that are supplying services to MSPs need to think about how they can best support them, for example through financial aid, online and on-demand technical support, sales-related training and certifications.

MSPs have a unique opportunity to demonstrate their value to their clients thanks to the sudden shift in working conditions

During typical working conditions, MSPs may get less credit for their work than is due because they mitigate issues and risks before they become a problem. However, they are now having to enable new infrastructure in record time because of the COVID-19 crisis, meaning that businesses are realising MSPs' true value and potential.

We expect that more SMBs will adopt advanced technologies that enable a better and more secure environment for working from home as a result of the current short-term crisis. The adoption of cloud-based collaboration, cyber-security, productivity (and other business applications such as CRM and HRM) and IT/managed services will rise as businesses move to fully cloud or hybrid (cloud and on-premises) infrastructure (Figure 1). These are all services that MSPs are well-placed to support.

Figure 1: SMB spending on business applications, collaboration tools, cyber security and remotely managed IT services, split by on-premises and cloud-based solutions, worldwide, 2019–2023

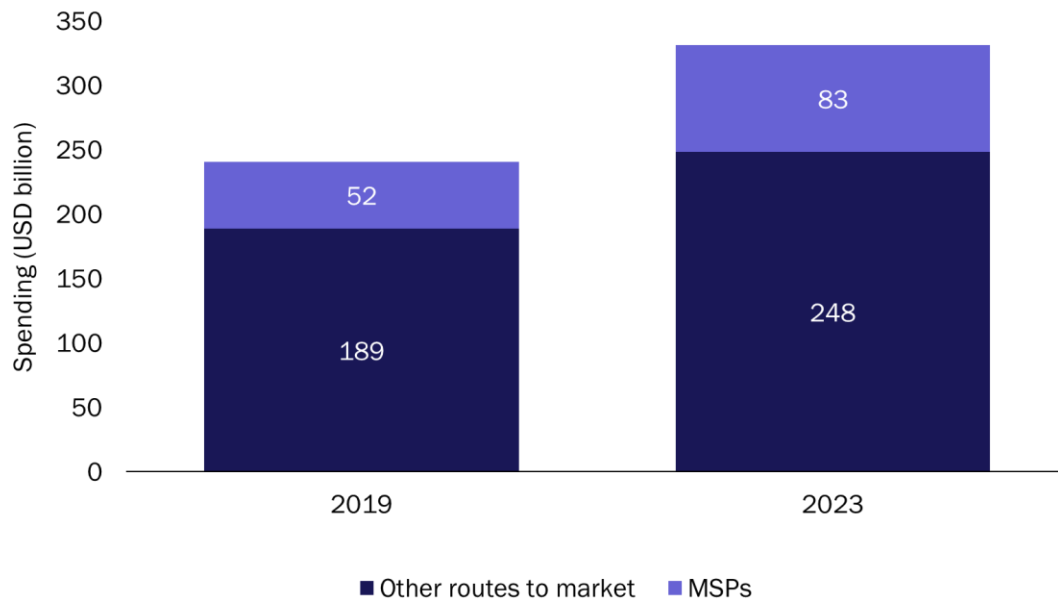


Source: Analysys Mason, 2020

The SMB Technology Forecaster estimates that SMBs spent USD240 billion on key IT solutions such as business applications, collaboration tools, cyber security and remotely managed IT services in 2019. The COVID-19 outbreak is accelerating businesses’ migration to the cloud because they have been forced to enable work-from-home operations. As a result, we expect that cloud deployments will account for a growing share of the spending on these key IT solutions (from 69% in 2019 to 76% by 2023).

Many SMBs choose to procure the key IT solutions mentioned above from MSPs. Indeed, 22% of the USD240 billion of SMB spend went to MSPs in 2019 (Figure 2). This figure is expected to grow at a CAGR of 12% between 2019 and 2023, making MSPs the SMB route to market with the second-highest revenue growth rate. Only hosters (such as AWS and Microsoft Azure) will be able to grow their revenue from SMBs more quickly (17% CAGR).

Figure 2: SMB spending on business applications, collaboration tools, cyber security, and remotely managed IT services, by route to market (MSPs versus other routes), worldwide, 2019–2023



Source: Analysys Mason, 2020

MSPs’ success in these testing times largely depends on the aid and support provided by IT vendors

MSPs will come under significant pressure and will face considerable uncertainty due to changing business conditions, and they will require substantial support from their vendor partners to successfully manage increasing workloads. Vendor–MSP relationships are crucial to the success of an MSP, and IT vendors are in a better position now (more than ever) to offer their partners the help and support that they need to scale their services and operations efficiently.

An increasing number of IT vendors are offering relief measures to support their MSP partners. Vendors such as Cisco, Dell and HPE have announced special financing programmes amid this economic downturn. These programmes allow businesses to purchase products and services (including those purchased through partners) with no interest and deferred payment terms. Some vendors are also providing extended payment terms to their partners that are suffering due to delayed payments from their clients. In addition to financial benefits, vendors are stepping up by providing bundled solutions, online sales and product training and various certifications. These efforts from IT vendors are crucial in enabling their MSP partners to maintain business continuity and stability in order to serve their customers.

2020 is likely to be an extremely challenging year for all businesses (including MSPs), and it is likely that not all will survive. However, the crisis should help to reinforce the importance of MSPs as true strategic partners for their SMB customer base. Vendors that do a good job in supporting MSPs in the short term are likely to be rewarded in the medium and long term.