ConnectWise's purchase of Continuum creates a dominant player in the MSP market

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ConnectWise announced the acquisition of perhaps its biggest competitor, Continuum, on 30 October 2019. Both firms serve the sizeable and growing managed service provider (MSP) market and provide MSPs with the tools that they need to run their businesses, as well as services that these MSPs can sell to their customers (for example, security). The deal comes as something of a surprise; the plan (at least publicly) had been to keep the two firms separate, despite having a common owner in private equity firm Thoma Bravo.

The merger will result in the creation of what is almost certainly the biggest MSP-focused technology firm, with a scale and product reach that other vendors will struggle to match. However, the integration will be complicated, and MSP customers may have concerns about the new entity. Both factors could create opportunities for other MSP vendors.

In a separate announcement, ConnectWise reported that it was buying ITboost, an IT documentation tool, and partnering with Webinfinity. These agreements will further add to the scale and breadth of ConnectWise's portfolio.

The logic behind the deal is straightforward

The rationale behind the merger of ConnectWise and Continuum is straightforward given the economies of scope and scale that it brings. The combined firm will be able to provide a broader set of products than either company individually because the two firms are active in several complementary areas: ConnectWise is strong in professional services automation (PSA) (something Continuum does not offer), while Continuum brings security and help desk capabilities. The target markets of the two firms are also complementary; Continuum is strong with small MSPs while ConnectWise serves MSPs of all sizes. The small MSPs that are currently served by Continuum will now have a pathway to more-integrated solutions as they grow, and ConnectWise will benefit by obtaining a new set of small customers that it can migrate up or upsell to.

In time, we expect that ConnectWise will eliminate duplicate products (for example, remote monitoring and management (RMM) tools), and this will cut costs. Other activities, such as marketing and partner management should also be more efficient following the merger.

The overall increase in scale for ConnectWise matters. Both firms are prominent in the MSP landscape, but both are minnows relative to the likes of Microsoft, Oracle or SAP. Even after the merger, the company's total revenue will probably be under USD1 billion, and it will employ fewer than 3000 people. The merger gives the combined entity greater scale as it grows further.

Thoma Bravo had seemed comfortable owning competing entities

The private equity firm that owns both ConnectWise and Continuum, Thoma Bravo, has a strategy of purchasing competing firms and appeared, until now, to feel no need to combine these competing entities, as we

have discussed elsewhere. For example, its portfolio also includes at least two other firms with a keen interest in the MSP market (Barracuda and SolarWinds).

This merger does not appear to have been in the original plan; it would presumably have been simpler to merge the firms back in February 2019 when Thoma Bravo acquired ConnectWise. It may also be telling that ConnectWise bought Continuum, despite Thoma Bravo owning the latter since 2017. Finally, when Continuum CEO Michael George was asked whether the ConnectWise deal would change the way in which Continuum did business, he replied, "I don't think so. I don't think it does at all."[1] For Thoma Bravo, the temptation to make the two firms work more closely together may have been irresistible, as we wrote in a previous piece on Continuum's strategy. Thoma Bravo may have realised that Continuum was not going to be able to serve the entire MSP space and that it needed ConnectWise, and only later saw that merging the two made more sense in order to give customers a seamless product.

If this deal does mark something of a change in strategy for Thoma Bravo in its approach to portfolio companies, we may see it combine other investee firms (Barracuda and Sophos may be candidates for a merger, or even Barracuda and ConnectWise).

Competitors will closely monitor the impact on MSPs

The merger will have advantages for the MSP customers of both ConnectWise and Continuum, not least as they will be able to buy bundles of more services and even outsource more of their activities (such as help desk), all through a single dashboard and as part of a single contract. This will simplify operations for MSPs and will allow them to focus on the aspects of their businesses that create real differentiators (for example, a local presence and service levels). There will be disadvantages too; MSPs may not want to be dependent on a single dominant supplier for much of their business, especially if this weakens their position when contracts with ConnectWise are due for renewal. Inevitably, the attention of the ConnectWise management will be on integration for the coming 1–2 years, which could affect product quality. Continuum customers, in particular, may be wary of significant changes (notably, Michael George, CEO of Continuum, is already leaving the business).

Vendors competing in the MSP market will see the flip side of each of these arguments. They will hope to benefit from any MSP dissatisfaction following the merger. However, the scale and portfolio of ConnectWise will be hard to compete against, especially as future deals will bolster its position further. Smaller vendors such as Auvik and NinjaRMM will need to focus not on how they can compete directly against ConnectWise but on making sure that customers understand the difference in their propositions and how, in turn, these differences can help an MSP to set itself apart.

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1   CRN (2019), *Continuum CEO Michael George Talks ConnectWise And Arnie Bellini's Legacy.* Available at: https://www.crn.com/slide-shows/components-peripherals/continuum-ceo-michael-george-talks-connectwise-and-arnie-bellini-s-legacy?itc=refresh.