MSPs’ revenue growth decelerated in 1H 2019, but those with key differentiators are still performing well

November 2019

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Managed service providers’ (MSPs’) revenue grew strongly during 1H 2019, albeit at a slower rate than in 1H 2018. Analysys Mason’s *Managed service providers revenue tracker* shows that MSPs’ revenue grew by 11.1% (on average) in 1H 2019 year-on-year, compared to 14.1% in 1H 2018.[1] Several providers flagged the slowdown in the global economy (the IMF’s October 2019 World Outlook predicts that global economic growth in 2019 will be at its lowest level since 2008–2009[2]) and rising levels of competition as reasons for this lower revenue growth.

Nevertheless, some MSPs achieved strong revenue growth in 1H 2019. This article focuses on three MSPs that have done so (ECS, Hand China and rhipe), and examines the reasons for their strong revenue performance.

Figure 1: Summary of the MSPs included in this article

MSP	Region	1H 2019 revenue (year-on-year growth rate)	1H 2018 revenue (year-on-year growth rate)
ECS	North America	USD359 million (17.9%)	USD304 million (not reported)
Hand China	Asia–Pacific	USD236 million (22.2%)	USD193 million (37.5%)
rhipe	Asia–Pacific	USD19 million (40.8%)	USD13 million (24.8%)

Source: Analysys Mason, 2019

ECS’s expertise in advanced cloud and security services is helping it to win lucrative public-sector contracts

ECS has been a subsidiary of ASGN, a large IT and professional services provider, since April 2018. ECS offers managed services, primarily in the cloud and cyber-security segments, to public-sector organisations in the USA. Its revenue growth in 2018 and 2019 was driven by demand for advanced cloud services, such as AI solutions, where ECS has developed particular expertise. This has allowed ECS to add additional value to its contracts beyond that from simple cloud migration services.

ECS has also used acquisitions to expand its capabilities. It bought InfoReliance in April 2017, which added to its cyber-security expertise, and DHA Group in January 2019, which provides managed services to the FBI.

1 The growth rate for 1H 2019 was calculated from those MSPs in our revenue tracker that had reported revenue for 2019, as of October 2019. It excludes AGC Networks, which reported a growth rate of 518% due to a large acquisition, and Softcat, which adjusted part of its revenue in accordance with IFRS 15.

2 IMFBlog (2019), *The World Economy: Synchronized Slowdown, Precarious Outlook.* Available at https://blogs.imf.org/2019/10/15/the-world-economy-synchronized-slowdown-precarious-outlook/.

These acquisitions have positioned ECS as a key player in the defence and security sectors, where lucrative contracts for cyber-security and AI solutions are on offer.

Hand China has refocused its business to make its own products the key drivers of revenue growth

Hand China was founded in 1996 as a provider of ERP consulting services, but has since added a wide array of managed services to its portfolio. It continues to offer traditional enterprise support services and licenses popular software from vendors such as Oracle and SAP, but it has also developed and acquired a wide range of its own products. It offers over 20 ‘Hand’-branded products as of November 2019.

Hand China’s revenue growth was 22.2% in 1H 2019 (on a year-on-year basis); this is lower than that in 1H 2018 (see Figure 1), and Hand China attributed this primarily to macroeconomic conditions in China. The sale of Hand-branded cloud products and solutions has been a key driver of revenue growth. Hand China offers a large range of these products and often bundles them together as a single solution. Many of its customers have been clients for a number of years; they originally purchased Hand China’s ERP services, and now buy Hand China’s new products. This has helped to keep recurring revenue high and churn low, which in turn has helped Hand China to maintain revenue growth despite the worsening macroeconomic conditions.

rhipe is diversifying, both in terms of product range and geography

rhipe is based in Australia but operates across the Asia–Pacific region. The majority of its revenue comes from licensing cloud software subscriptions, but it also provides cloud consulting and support. rhipe reformulated its business model in FY2016: it added public cloud solutions to its portfolio having previously only licensed private cloud data centre software.

rhipe’s new products are predominantly available in Australia and New Zealand, where the company is well-established. However, it is also using its traditional core offering of private cloud licences to expand into new markets in Asia where the demand for private cloud remains strong. 14% of rhipe’s revenue came from outside Australia and New Zealand at the end of FY2018; this increased to 19% at the end of FY2019. rhipe considers further expansion into Asia to be a key part of its 3-year growth strategy and entered into a joint venture with Japan Business Systems (JBS) in August 2019. JBS provides IT consulting and system integration services, and has particular expertise with Microsoft, which will aid rhipe’s entrance into the Japanese market.

rhipe has also invested in other new areas of business. Its cloud solutions segment provides consulting and post-migration management services. The revenue from this segment is only a small proportion of the company’s total revenue (20% in FY2019), but its recent growth has outpaced that of the revenue from the product segments. The solutions segment made up 30% of rhipe’s operating profit in FY2019, highlighting its growing importance as a different source of consulting-based revenue with a high margin. rhipe has also invested heavily in its internally developed ‘PRISM’ recurring subscription management tool; it spent AUD2.3 million (USD1.6 million) on it in FY2019. The tool is currently used by over 3000 IT resellers to bill and manage monthly cloud software subscriptions. PRISM may act as a key differentiator by providing a separate stream of revenue and helping to deepen existing partnerships with vendors such as Microsoft and Red Hat.

There will be opportunities for further revenue growth, but some MSPs will struggle due to increased competition

24% of the firms in our *Managed service providers revenue tracker* reported revenue declines in 1H 2019, up from 14% in 1H 2018. We expect that the level of competition in the MSP market will remain high. This, combined with continued weakness in many countries' economic performance, is likely to have a negative impact on MSPs' total revenue growth. This will create an even bigger gap between the strongest performing MSPs and the weakest: MSPs should focus on strongly differentiating themselves to maintain revenue growth.