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Executive summary

One of the biggest challenges for any MSP is knowing what areas to focus on when it comes to offering services. The services market is becoming increasingly crowded, and once a course has been set, it is not easy to change direction. So MSPs have to get it right the first time. Many are still in the early stages of their services journey and some were perhaps forced on the services path during the challenging year that was 2020. But as the fourth annual MSP Day Report shows, the appetite for services is growing, with more than half of our respondents (56%) revealing they saw managed services as the biggest sales/revenue opportunity for 2021.

We spoke to over 400 partners from across the globe for the report, and the answers all showed that MSPs are facing similar challenges when it comes to services provision and the increasingly complex needs of their customers. But one fact remained crystal clear, security is the top concern for customers and the number one driver to services. Security is now one of the managed services bets to make, thanks to a huge leap in threats caused by the rush to remote working during the COVID-19 crisis which has left many companies vulnerable to attack. And that demand is only going to increase, as the way workforces operate has changed for good.

As the report will demonstrate, end user customers are struggling with a lack of skills and resources when it comes to cybersecurity, but they are increasingly aware of the need to have the right tools in place to keep their valuable data safe from unscrupulous cybercriminals. The fact that so much of their workforce has been working remotely over the past year has left many more at risk, because they couldn’t get a full endpoint protection strategy in place, which made them a prime target for phishing attacks and malware. These companies are looking for trusted IT suppliers who will listen and act on their concerns and who have the knowledge and skills to take the security headache away from them. And we know that MSPs, in turn, need vendors that will listen to them, value them, and give them the support and resources they need to offer their customers the very best security services they can.

Brian Babineau
SVP & GM
Barracuda MSP

Methodology

Barracuda MSP conducted a survey of 419 IT managed service providers globally. Since IT responsibilities, cybersecurity threats, and economics vary by region, respondents from a variety of job functions and industry sectors were surveyed, to get an understanding of the business trends and perspectives. The survey was fielded in March and April 2021.
Key findings

There is no lack of opportunity in the market.
A total of 85% of MSP respondents believe there is opportunity for them to grow their business in 2021 and that the market is not saturated.

The hybrid approach is still popular, but managed services are accounting for more business. 59% of respondents said they expect services to account for 50% or more of their revenues this year, with 39% saying they expected to generate up to 50% of their overall business through services.

Many MSPs are growing their services portfolios. 59% of respondents said they had expanded their services portfolio in the past 12 months.

Security is now the top driver in the growth of managed services.
This year security concerns were listed as the main driver behind SMBs adopting managed services, followed by the increasing complexity of IT. In 2020, it was the other way round.

Security services are rising to the top of the agenda for MSPs this year.
Five security-based services - Endpoint security, email & network security, server security and endpoint monitoring - all made the top five services in 2021. This is one more than in 2020, and four more than in 2019.

Security technology is what customers want.
Email security, endpoint protection and network security were all in the leading technology demands of 2021.

Increasing security concerns and a growing remote workforce is driving up the need for third-party providers.
A significant 80% of respondents felt overall security was a significant business opportunity, but leading the field was remote working, which saw 90% label it as a lucrative opportunity.

Being proactive is a key factor in providing security services.
Respondents said proactivity is a key requirement when moving to a security-centric services model along with ensuring customers are fully protected with the right solutions.
Digital transformation drives growth

Security is still the biggest concern for customers and the greatest revenue opportunity for MSPs after the pandemic left many firms exposed.

MSPs have never been in a stronger position due to the accelerated pace of digital transformation and the increasing appetite for security technology and related services over the past year.

According to one report, seven years of digital transformation took place over four months in 2020, as firms scrambled to keep their businesses running and their employees set up to work from home.

Over the last year, it has felt as though technology was keeping the world turning, and without MSPs acting as that vital trusted link between the technology vendors and the customers, many firms would not have been in a position to adapt and survive, many schools would not have been able to teach their pupils, and many relatives would not have been able to say goodbye to loved ones.

Now those same firms still need trusted MSPs to help them ensure they are spending their IT budgets in the right areas, and are protected from the ever-increasing number of external threats.

In this report, based on the fourth annual MSP Day Survey conducted by Barracuda – over 400 partners across the Americas, EMEA and APAC were surveyed – to find out their attitude to managed services, how they are growing their offerings and also the main opportunities they are seeing in the market. One key theme became apparent in their answers – security is still the biggest opportunity for MSPs going forward. More on that later.

According to figures from market watcher Research and Markets, the global IT services market is expected to reach $1123.57 billion by 2026, growing at a CAGR of 8.02% during 2021 to 2026. This stellar growth in services is fuelled by a growing demand for cloud-based software, and a desire to automate business processes.

Which one of the following options best sums up what you consider will be the most successful approach for your business to capitalize on this opportunity?

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Positive: There’s plenty of opportunity for us in the market and more than enough business to go around</td>
<td>85%</td>
</tr>
<tr>
<td>Neutral: There are opportunities for us in the market, but we choose to not participate in many</td>
<td>14%</td>
</tr>
<tr>
<td>Negative: There are not enough opportunities for us in the MSP market</td>
<td>1%</td>
</tr>
</tbody>
</table>

Those partners that made the move into managed services earlier will have definitely reaped the benefits over the past 12 months, while those that were perhaps at the start or early stages of their journey could have lost out on vital business, as desperate customers turned to those who could provide what they needed quickly, and keep them up and running.

But the good news is, it is not too late, and with the World Bank predicting earlier this year that the global economy will recover by around 4% in 2021 thanks to the vaccine rollout impacting infection rates and helping to lift lockdowns. This means there is still plenty of opportunity out there for MSPs both established and those at the start of their journey.

Similar to the findings of this report last year, the majority of partners are operating a hybrid services and infrastructure model, with pure-play MSPs still very much in the minority. But managed services are definitely growing.
Rising to the top

What percentage of your revenue was derived from managed services last year (2020)?

(n=419)

- 76-100%: 15%
- 51-75%: 33%
- 26-50%: 26%
- 0-25%: 24%
- None: 2%

In total, 98% of respondents to the survey said they generated revenue from managed services in 2021 exactly the same percentage as in 2020. A total of 24% said they generated up to 25% of their business through services, and 26% generated between 26 and 50% of business through managed services.

Interestingly, the number of respondents who generated half or more of their business through managed services in 2021 (48%) was almost 10% up on 2020.

When asked if they had expanded their services portfolio in the past 12 months, a significant 59% said they had, and 41% said they had not added any new services.

Data collected from the survey certainly backed this point up. Respondents were asked what percentage of their revenue from managed services they were expecting in the coming year.

What percentage of your revenue from managed services do you expect this year (2021)?

(n=419)

- 76-100%: 19%
- 51-75%: 40%
- 26-50%: 26%
- 0-25%: 13%
- None: 2%

The same 2% stuck to their guns claiming they expected no revenue from managed services this year, while 13% revealed their services revenue will account for up to 25% of all business. Similarly, 26% (the same as in 2020) expected services to account for up to 50% of overall business. But interestingly, 59% revealed that they expect services to account for 51% or more of their revenues this year, proving a definite upward trend.
The results of the survey continued to confirm partners had realised the value of a managed service offering. Respondents were also asked to pick what they saw as the biggest sales/revenue opportunity for the coming year, and managed services absolutely blew the competition away with a chunky 56%. Cloud computing scored significantly lower in second place with 17% of votes. Third with 15%, was professional services, and fourth was software license sales with 4%. Surprisingly, just 2% was hardware product sales, but this could be because there was a significant rush to purchase and upgrade hardware at the start of the pandemic.

When asked what the key drivers behind SMBs adopting managed services, security came out on top for the first time. Respondents identified security concerns as the number one reason for managed service adoption with 61% of votes. The increasing complexity of IT was close behind with 57% and hot on its heels was a growing remote workforce with 55% of votes. Migration to the cloud (53%) and skills shortages (33%) rounded off the top five.

Top five drivers to managed services 2021 compared to 2020.

<table>
<thead>
<tr>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Security concerns</td>
<td>1. Increasing complexity of IT</td>
</tr>
<tr>
<td>2. Increasing complexity of IT</td>
<td>2. Security concerns</td>
</tr>
<tr>
<td>3. A growing remote workforce</td>
<td>3. Migration to the cloud</td>
</tr>
<tr>
<td>4. Migration to the cloud</td>
<td>4. Skills shortages</td>
</tr>
<tr>
<td>5. Skills shortages</td>
<td>5. A desire to overcome internal skills shortages</td>
</tr>
</tbody>
</table>

What do you believe presents the biggest opportunity for increasing sales/revenue in the next 6-12 months?

(n=419)

Cloud Computing Services 17%
Professional Services 15%
Managed Services 56%
Software License Sales 4%
Other 6%
Hardware Product Sales 2%
A much as the drivers for customers appear to be increasingly security-centric capabilities in 2021, so it seems, are the actual services offered by the MSPs themselves.

Which of the following technologies/products does your company sell and/or support as a managed service offering?

Results revealed that while the range of services offered by respondents was large and varied every one of the top five was security related in some way. Leading the top five was backup, business continuity and disaster recovery with 90% of votes, followed by endpoint security with 82%. In joint third place with 80% of votes each was email security and network security with on-premises server support in fourth place with 76%. Rounding out the top five with 75% of votes each was endpoint monitoring and network monitoring and management.
It is no surprise that security services are in such high demand. Since the accelerated move to remote working, a recent study revealed that people working from home are more likely to be sucked in by email scams that put valuable company data at risk.

Data released by Deloitte revealed that 47% of individuals fall for a phishing scam when working at home, with the average cost of a data breach resulting from remote working can be as high as $137,000.

The global security market is set to grow at a CAGR of 12.5% by 2028 according to research house Quince Market Insights, with the market hitting $162.5 billion in 2020 and projected to reach $418.3 billion by 2028, due to the rapid rise of threats, vulnerabilities and malware.

In a separate survey conducted by Barracuda among its MSP partners on the effects of COVID-19, security was again the top concern across the board. Email security was identified as a top issue for MSPs’ customers, with 76% of respondents revealing their customers were most concerned with email security since the pandemic started.

In addition, 89% of MSP respondents themselves felt their customers were receiving the most attacks via email, and 63% of MSPs were concerned that the rapid shift to remote working over the past year had created more vulnerabilities for their customers.

<table>
<thead>
<tr>
<th>2021</th>
<th>2020</th>
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</thead>
<tbody>
<tr>
<td>1. Backup, business continuity and DR</td>
<td>1. Backup, business continuity and DR</td>
</tr>
<tr>
<td>2. Endpoint security</td>
<td>2. Endpoint security</td>
</tr>
<tr>
<td>3. Email security/ network security</td>
<td>3. Network monitoring and management</td>
</tr>
<tr>
<td>4. On premises server security</td>
<td>4. Email security</td>
</tr>
<tr>
<td>5. Endpoint monitoring/ network monitoring &amp; management (tie)</td>
<td>5. On premises server/ network security (tie)</td>
</tr>
</tbody>
</table>
With the COVID-19 pandemic in mind, respondents to the fourth MSP Day Survey were also asked to select the top three technologies that have been in demand since restrictions were imposed on customers. Security again was strongly present in the top five.

In pole position was Backup, Business Continuity and Disaster Recovery, with 40% of votes, closely followed by Cloud-based Applications (SaaS) and Email Security in joint second, both with 39% of votes. In third place was Endpoint Security with 35% of votes, and not far behind was Productivity Applications (i.e. Office 365) with 31% of votes. Close behind in joint fifth place, with 30% of votes each, was Endpoint Protection (PCs/Notebooks) and Network Security.
But while rising security concerns are very pressing and real for customers, the other is peace of mind when it comes to their IT suppliers. Without trust, customers are likely to go elsewhere and there is no chance for relationship building.

How do you think SMBs’ trust in MSPs has changed in the last year?

Respondents to the survey were asked how they thought SMBs’ trust had changed in the past year, and interestingly more partners thought it had increased significantly when compared to the previous year. In total, 28% said trust had increased significantly over the past 12 months, while 43% said it had increased slightly. A further 25% said it had stayed the same as last year. However, the number of respondents that felt trust had slipped, actually increased, albeit marginally. 4% felt trust in MSPs had decreased slightly, and half a percent of respondents said trust had decreased significantly.

How has SMB trust in MSPs changed over the past year?

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<thead>
<tr>
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<th>2021</th>
<th>2020</th>
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<tbody>
<tr>
<td>Increased Significantly</td>
<td>28%</td>
<td>19%</td>
</tr>
<tr>
<td>Increased Slightly</td>
<td>43%</td>
<td>53%</td>
</tr>
<tr>
<td>Stayed the Same</td>
<td>25%</td>
<td>23%</td>
</tr>
<tr>
<td>Decreased Slightly</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>Decreased Significantly</td>
<td>0.5%</td>
<td>0%</td>
</tr>
</tbody>
</table>

However, trust goes both ways, and MSPs need to trust the vendors that are providing them with their security solutions and support. If that trust is not there, it is unlikely a partner will feel comfortable recommending a particular vendor to their own customers for fear of losing that customer due to poor service or lack of communication.

In terms of additional support from vendors, is there anything else you would wish to have more access to?

So, when asked what the MSPs need from their vendors, the majority – 46% wanted more training and certification access. With customers expecting more from their providers, it is crucial that they have the knowledge and ability as possible to keep those customers locked in. Close behind, with 38% of votes is more technical support. Again, because customers’ needs are more complex, partners want instant access to their vendors’ technical experts, or they could risk losing relationships and business. In third place, with 36% of votes was more marketing support – such as campaigns in a box or white-labelled content. Many partners just don’t have the resources to create their own marketing collateral and need extra support from their vendors to do this. Business Development Support was fourth with 30% of votes, and ‘dedicated partner success’ was fifth with 21%.
**Opportunity knocks**

Although the opportunities for MSPs are clearly huge, one of the main tension points between customers and their suppliers over the years has always been price. Nobody likes parting with their hard-earned cash, but convincing customers that they need to invest in third-party expertise and solutions is not always easy, particularly when budgets are so constrained after coming out of one of the biggest recessions in recent history.

Therefore, it was no surprise that when asked what would be considered a challenge or opportunity – Price point, Customer’s Level of Understanding, Overall Security Concerns, Setting Expectations, Lack of Skills In-house, Customer Relationship and Remote Working – the biggest challenge, with 63% of votes, was price point. This figure had actually increased 2% in 2020, when 61% felt it was a challenge. Others struggled with Customers’ Level of Understanding – with 54% picking it as a challenge. However, many saw the above points as an opportunity to drive business, as well. The most lucrative opportunity for 2021 is Remote Working, with 90% of respondents seeing it as a way to drive managed service uptake. Close behind, with 87% of votes was Customer Relationship – there is no doubt that COVID-19 has pushed customers closer to their suppliers thanks to the speed of turnaround needed at the height of the pandemic, and any savvy MSP will have used this to their advantage and opened up even more lines of communication with these valued customers. Not surprising, and in keeping with the theme of this report, Overall Security was also seen as an opportunity by 80% of respondents and a Lack of Skills In-house on the part of customers was also an opportunity for MSPs.

Although security managed services are definitely the way forward, what are the final triggers that seem to push customers in the direction of third-party providers. Many customers just do not have the internal resources or skills to give cybersecurity the attention it needs, and therefore need that third-party expertise to take away that headache. Similarly, the cost of security solutions can be prohibitive to procure and maintain for the smaller firms, so often it is MSPs that can save them vital money in the long run by implementing the best solutions for them, and making sure that they have been integrated completely within their existing infrastructure and applications.

**Do you perceive the following to be a challenge or an opportunity in selling managed services to end users?**

(n=419)
For many small firms struggling to get their heads around the threats they are facing, their only hope is to put their trust in MSPs, which in turn, allows them to focus on their own core business.

Offering security services is proving to be the big move for 2021, which of these would you define as the most important factor in moving to a security-centric model?

But what about those partners that are still only dipping their toes into the waters of security services and want to become more security focused? Where should they start? Respondents were asked to select what they felt was the most important factor in moving to a security-centric model.

In first place, with 26% of votes went toward protecting users, information, appliances and devices – literally the basic starting point for IT security. If customers and their information/devices are unprotected at any point, then they don’t have a watertight security strategy and are extremely vulnerable to attack.

Secondly, with 21% of votes, was the need to provide proactive security services. Any partner that is reacting to security breaches is simply too late; the customer has already been compromised. Only a proactive approach and a good knowledge of the threats in the market will truly keep customers safe and protected. Third, with 19% of votes, was the need to incorporate security-oriented RMM and MMR solutions which makes it easier for both the customer and the MSP by automating certain processes and monitoring/managing them remotely. Next, with 11% of votes was the need to provide safety and security training to customers — human error is the biggest risk in any company, and the more aware staff are to the threats they are facing, the safer a company can be. And in joint fourth place with 11% of votes, was the need to provide continuous improvement of security capabilities for customers.
Conclusion

As the findings of the research has proven, security is firmly at the forefront of the majority of customers’ minds and also a major focus point for MSPs in 2021 and beyond.

The market has proven itself more than capable of handling a major crisis over the past year, but now what is needed is to ensure customers are fully protected against the ever-increasing range of threats they are facing. Scammers, fraudsters and hackers are not going away anytime soon and they are rooting out vulnerable business victims on a regular basis.

Customers want and need to engage with third-party providers to make sure they are fully secure and have a robust IT infrastructure that can handle all the challenges thrown at it, and also keep their own demanding customers satisfied and serviced.

Many SMBs just don’t have the resources, skills or time to manage it themselves or source the latest and most cost effective products, and those that think they do often end up changing their minds when faced with the reality of going it alone. But they want partners they can trust and who will take the time to get to know them and understand their individual demands and challenges.

As ever, communication is absolutely crucial – whether this is between the vendor and the MSP, or the MSP and their customers – and this includes keeping them informed on what is going on in the market and where they should be investing/focusing their time and resources.

Budgets are still constrained, but with the right advice and guidance, and of course through proven outcomes and a trusted working partnership, there is no reason why customers will not invest or even increase their investment in managed services.

Now is the time to make that move into security managed services or you could risk missing the boat altogether.

As this report hinted right at the start: there really isn’t a better time to be an MSP.

Sources:

About MSP Day

In 2018, the MSP landscape was surveyed and it was clear that although the MSP market was experiencing exponential growth - predicted to reach global revenues of $257.84B by 2022, it remained largely embryonic and insulated and had many barriers to entry. The MSP Day movement was therefore conceived to overcome these growing challenges by building an interactive, connected, and collaborative community.

Our mission was to unite a community of MSPs, vendors and customers to celebrate success, stimulate ideas, share best practices, and discuss key industry insights.

Fast forward to 2021, MSP Day is now in its Fourth year, and we’ll be continuing to help organizations to navigate the evolving MSP landscape, capitalize on these opportunities, and ultimately solidify their status as integral partners to their customers.