ITGlue

2020 GLOBAL MSP

BENCHMARK REPORT

A Pre and Post COVID Analysis

Contents

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Opening Remarks

The IT Glue 2020 Global Benchmark Report is likely going to be one of the most interesting Benchmark Reports we ever publish, because quite frankly we are living in the most interesting of times. Never before have we felt this combination of fear, opportunity, overwork, underwork, survival mode and profound optimism that we can come out of this with the world a better place.

This year's Global Benchmark Survey ran in February, a little earlier than usual. We made that change to move the creation of the Benchmark Report away from the time we were putting together GlueX — just a simple matter of re-organizing our schedule a bit. I was visiting the Miami office on the day when I turned off the Survey, and by the time I flew back from Miami to Vancouver the entire world had turned on its ear.

Since that time, COVID-19 has been the only thing anybody's talked about. In May, we ran a follow-up survey to determine what changes the pandemic has had on MSPs, and on their sentiment regarding a number of critical issues.

This IT Glue 2020 Global MSP Benchmark Report reflects not only a snapshot of the world immediately prior to the pandemic, but a view into how the world has changed in the past couple of months, as we've built into this report data from both our February survey and our May survey.

I'd like to give a shout to all the MSPs who participated in the two surveys. Your time has proven incredibly valuable to the entire MSP community, because of the unique nature of the insight in this year's report.

From IT Glue and the entire MSP community, thank you!

Joshua Oakes
Content Manager, IT Glue

4%

5%

75%

4%

2%

2%
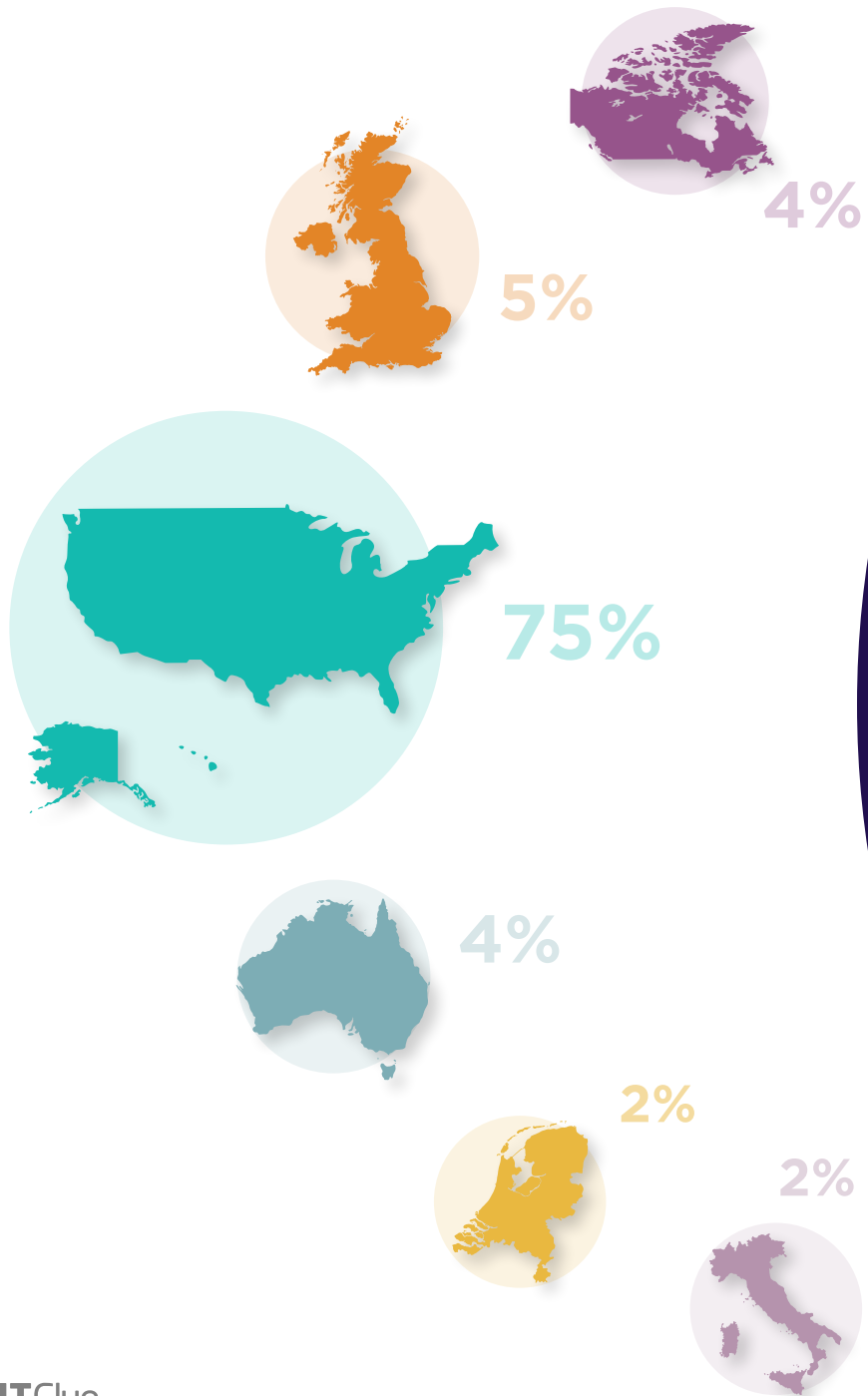
The Participants

The 2020 survey enjoyed a big bump in the number of MSP participants, from around 700 last year to over 1500 this year. The continued success of the survey is testament to how much IT Glue has grown, but also to how many people are getting great value from the survey and want to contribute.

Our participants were drawn 32 different countries, a jump from 23 countries last year. We've seen a similar spike in the number of countries represented in our partner base, which highlights not only our growth as a company but the universal importance of documentation. The countries with the greatest representation were the United States (75%), the UK (5%), Canada (4%), Australia (4%), the Netherlands (2%) and Italy (2%).

Among the respondents, 72% were IT Glue partners. Last year it was 90% — we wanted to bring that number down to get a better feel for the total MSP marketplace, so we're really happy to have so many participants from outside the immediate IT Glue family.

What do Top Performing MSPs Look Like?

Prior to the impact of the coronavirus, the MSP business had stabilized at an enviable level of performance, where stable revenue and a 15% net margin put you in the bottom quintile. The top third of MSPs had revenue growth and net margins over 20%.

We've been saying for years this was a great business to be in for the long haul. We were very curious about the impact of the coronavirus on MSP financial health.

Coronavirus Impact

For 2-3 months, entire economies shut down. But how did this affect the MSP business? We know that the work from home scramble in March was replaced by a slowdown in April. In our follow-up survey, we found that around half of MSPs saw their monthly revenue decrease as the result of the coronavirus shut down, though some MSPs reported an increase in revenue as well.

29% reported that receivables had increased, and a larger number saw their receivables stay flat. 23% reported a decrease in receivables, which is probably a bit surprising.

What was the impact on your accounts receivable from March 1st to May 1st?

| Increased 50% or more | Increased 25-50% | Increased 10-15% | Increased 0-10% | Flat | Decreased |
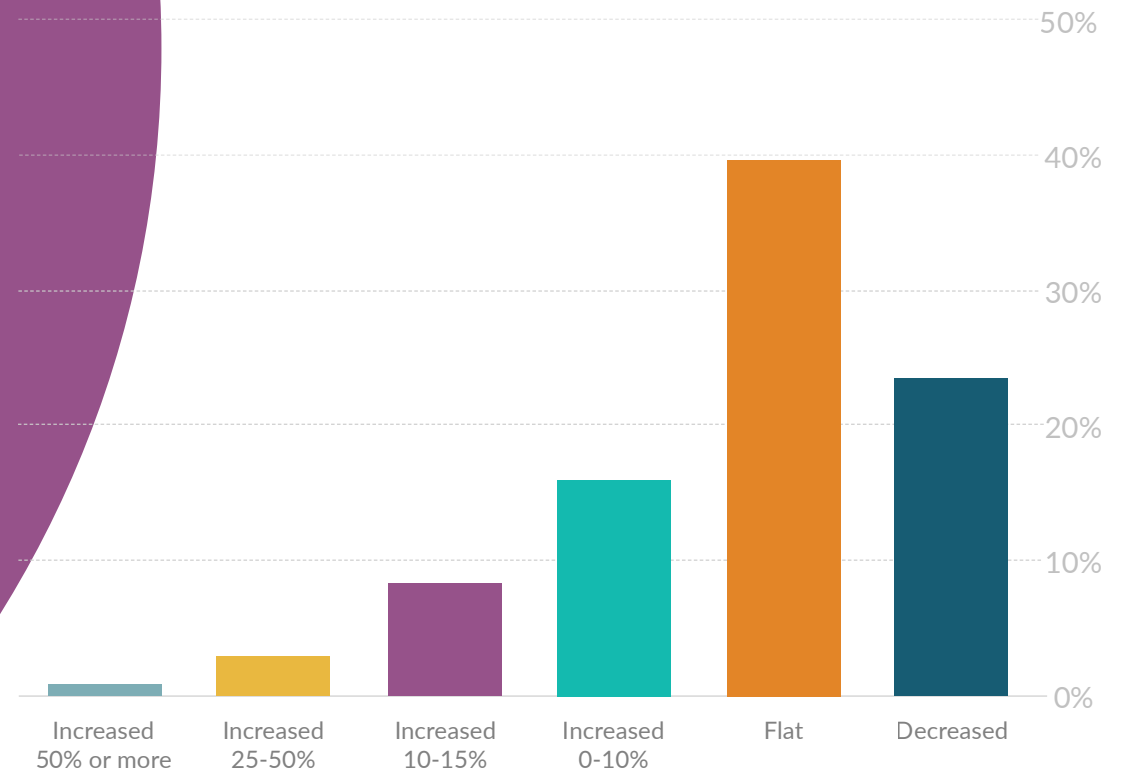
Stack Analysis

This year, we asked which CRMs and quoting systems you're using as well as repeating quetsions about PSAs, RMMs, BDRs, etc. Most MSPs use some sort of CRM, though the majority appear to use their PSA to perform this role. Quoting systems used seem to be all over the map. ConnectWise Sell has a healthy share, but "None" and "Other" were two of the other major responses. Quoting systems are not a well-developed part of the MSP stack.

In terms of network monitoring, most MSPs are still doing Visio or LucidChart by hand, and Auvik still has a lot of fans, but Network Glue has already made an impression on the industry.

There's a lot of other pieces to the MSP software stack. Almost three-quarters of respondents use some sort of accounting software—I hope the rest are outsourcing their accounting!—but there's a lot of demand within the MSP space for security/threat intelligence, marketing/sales, dashboard, customer engagement and project management components to the stack as well.

It's worth keeping an eye on this stack data over the coming years. As the MSP space matures, we're predicting more stack pieces outside of the basics—bigger MSPs can and should be looking at marketing, dashboarding and security/threat intelligence in particular. Smaller MSPs are looking for more nimble, agile solutions that place emphasis on efficiency, but the best of those tools could easily grow to challenge the big two legacy players.

Stack Analysis cont.

Each year, we ask about switching intent for major platforms. We do this because we're curious about the sentiment around platforms used, especially as the MSP space evolves and the "new entrants versus legacy platforms" battles continue. This year, we saw a reduction in switching intent for both PSA and RMM tools. We've also seen that while 40% of respondents in the past two years expressed an interest in switching, market shares have changed little for these tools.
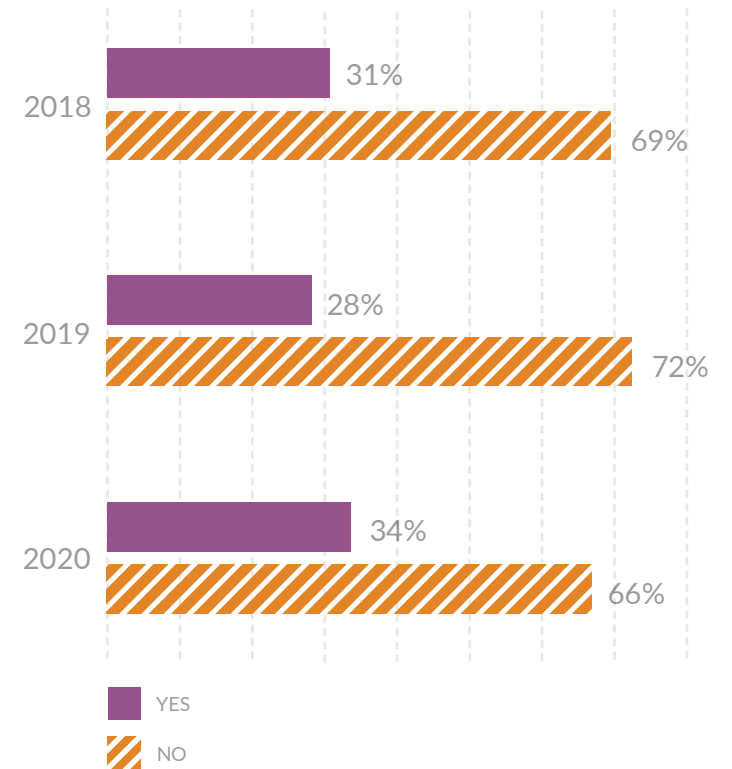
Follow-Up Survey Update

We asked about switching tools in our follow-up survey, and around **one-quarter** of respondents indicated they were open to switching either their PSA or RMM, which indicates a notable shift towards maintaining these core tools during tumultuous times.

Are you considering changing your RMM in the next 12 months?

2018
44%
56%

2019
38%
62%

2020
36%
64%

YES
NO
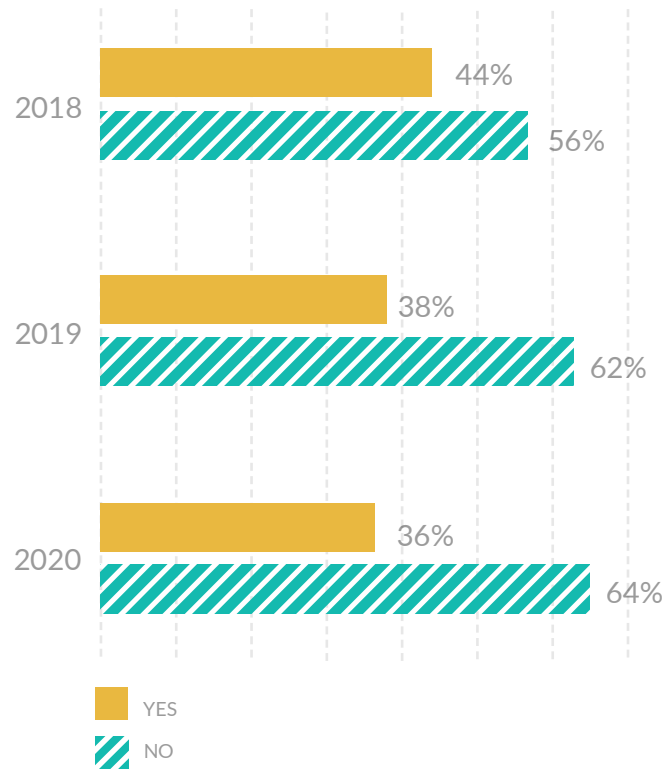
Are you considering changing your PSA in the next 12 months?

2018
31%
69%

2019
28%
72%

2020
34%
66%

YES
NO

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Customers, Seats and Churn

Churning customers is one of the biggest challenges for MSPs, and relates back to whether you're competing on price or service, and if the latter, how well you're performing on service. What we saw in the 2020 survey was a weakening of the relationship between churn and revenue growth. Where in the past couple of years, we saw that higher rates of customer churn correlated with lower revenue growth, that was not the case this past year.

While around the same percentage of MSPs reported a high rate of churn, fewer of those suffered revenue declines as a result. Either new customers were brought on immediately, the cost of acquisition for new clients was lower, or these MSPs were simply removing clients that were not that valuable to begin with. Given that there was no relationship at all between churn rate and net margin, it genuinely could be a case of MSPs churning strategically, as many MSP consultants recommend.

Follow-Up Survey

This stat will be especially interesting to watch next year. We know from our May 2020 Benchmark follow-up survey that revenues are down almost across the board, but we don't know how much of that is based on permanent churn, customers going on furlough, or other factors. So we're quite curious to see next year's survey results.

Endpoints / Servers

We ask about endpoint counts each year, as a means of helping track the size of MSPs. Last year, we found evidence that MSPs are in fact getting larger. This year, that data continues to indicate this.

Mean Assets Serviced
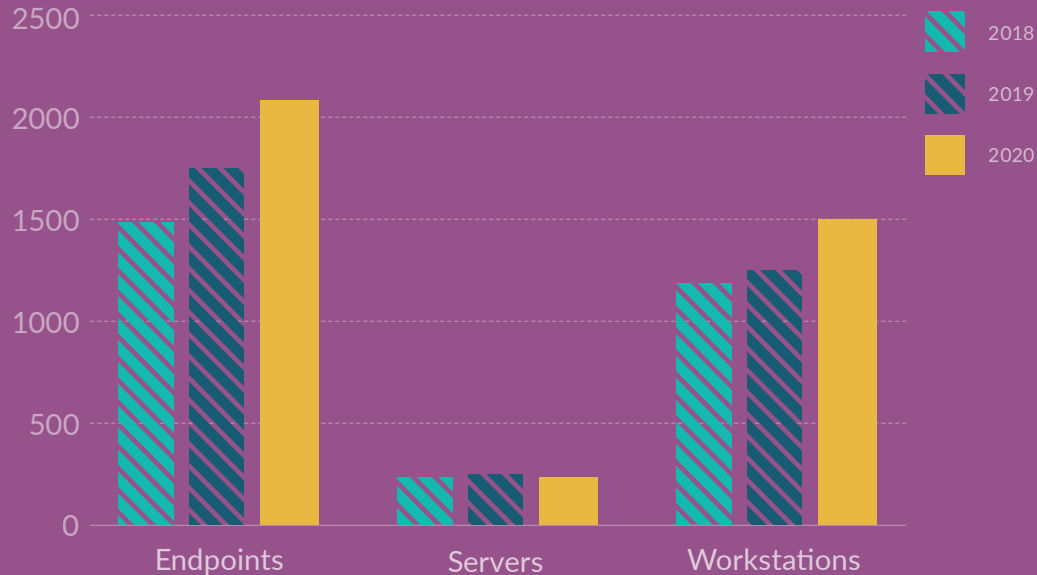
The average MSP continues to get bigger, but this is most noticeable in endpoints. The rise of virtual servers has allowed the number of servers under management to remain flat, while factors such as IoT, customer growth and MSP expansion have increased the size of the average MSP when measured by both endpoints and workstations under management. As more MSPs deploy powerful monitoring tools, they are also better able to track the endpoints that they're managing, which is especially important if you're charging by the endpoint.

Verticals

There's typically two questions when it comes to verticals. The first is whether or not MSPs that focus on verticals outperform the generalists. In the first two years of the Global Benchmark Survey we found no particular relationship between having verticals and making money. This year, MSPs with a vertical focus were slightly more likely to experience an increase in revenue than ones without (79% versus 75%).

The data this year also shows that MSPs with a vertical focus are earning better margins, which is what would be intuitively predicted but didn't show in our results the past couple of years.

Margins, by Verticals (Yes/No)
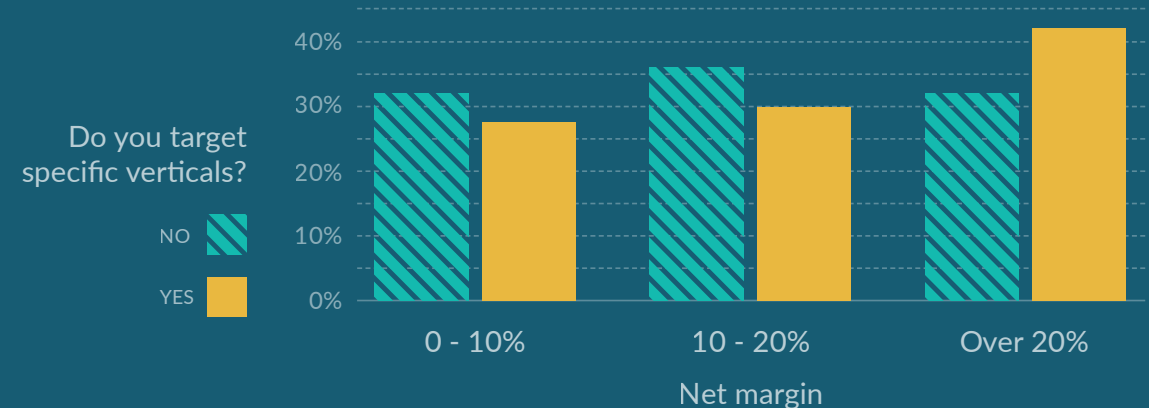
We looked at MSPs reporting net margins over 20%, and what verticals those served. The verticals most associated with higher profitability are legal with 43% of legal-vertical MSPs reporting profits of 20% or more. This is followed by MSPs in the government vertical (40%), finance (39%) and professional services (38%).

Headcount

Despite growth in the number of endpoints managed in the past few years, and double-digit IT spend growth over several years, MSPs remain small businesses. The average headcount is around 20 employees, with 12 of them being techs. One possible sign of growth in the industry, however, is an increase in the percentage of MSPs that have large non-tech workforces. In the past couple of years, we've measured techs as a percentage of the MSP workforce. MSPs where techs are 40% of the workforce or fewer were more prominent in this year's survey.

Turnover was around 14% on average. In the US, the Bureau of Labor Statistics has estimated turnover (voluntary & involuntary combined) to be 43.2% (pre-COVID) for IT, so MSPs are significantly outperforming on staff retention, even when adjusted for the number of mom-and-pop shops with almost no turnover.
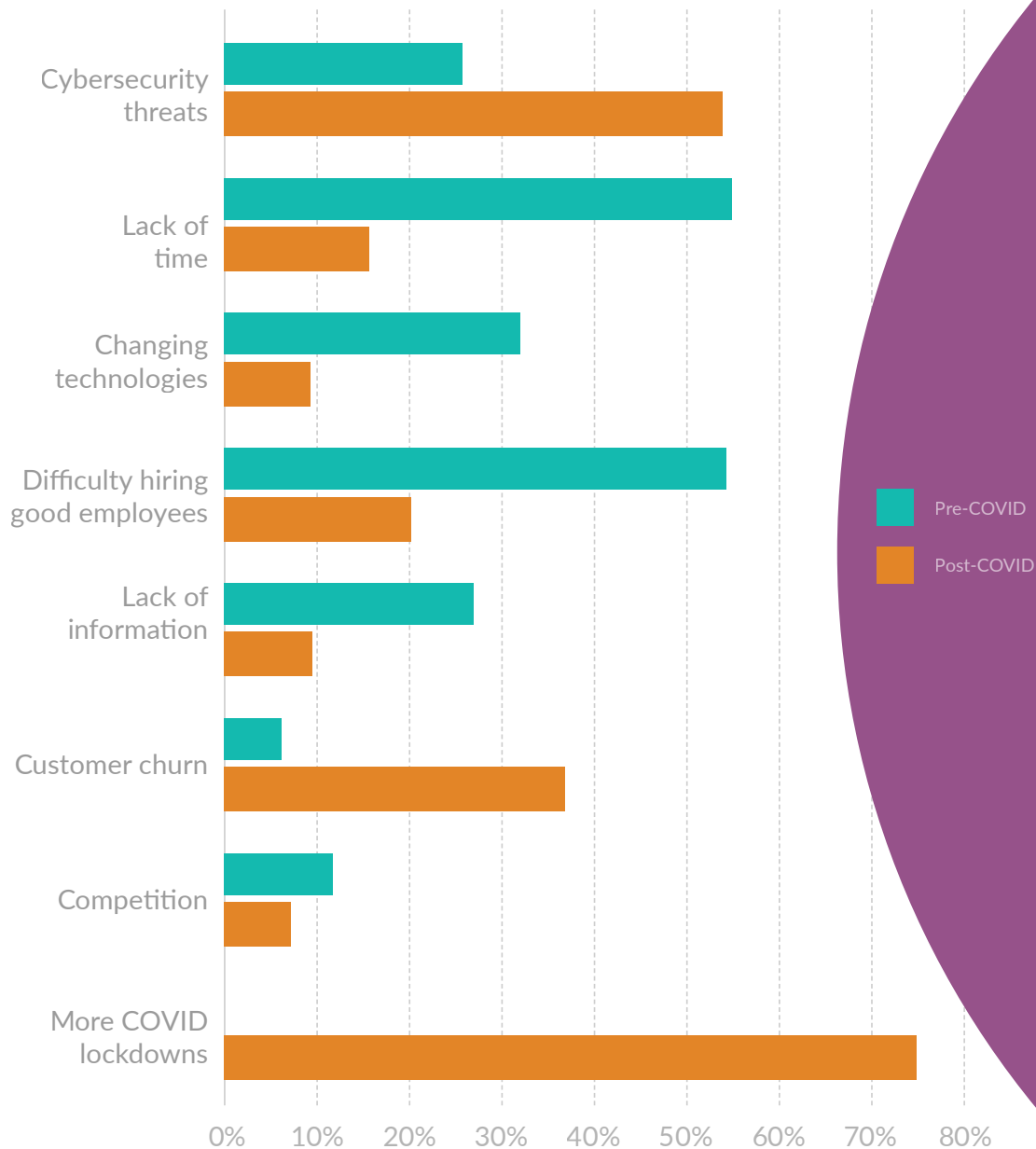
Turnover

In a 2019 survey by Gallup involving US companies, voluntary turnover was highlighted as a substantial drag on business, to the tune of $1 trillion in the US annually. It's no wonder, as the same survey noted that the cost of turnover is around 0.5x to 2x the annual salary of the employee.

The impact on the bottom line is less noticeable this year than in prior years. While the past two surveys showed that higher employee turnover hurt net margins, this year that correlation did not hold.

What are the biggest challenges?

Chart comparing Pre-COVID and Post-COVID challenges:

Challenge	Pre-COVID	Post-COVID
Cybersecurity threats	~26%	~54%
Lack of time	~54%	~16%
Changing technologies	~32%	~9%
Difficulty hiring good employees	~54%	~21%
Lack of information	~27%	~9%
Customer churn	~6%	~37%
Competition	~12%	~7%
More COVID lockdowns		~74%

Legend:
- Pre-COVID
- Post-COVID

Challenges

Each year, we ask you about the biggest challenges you face. This year, the biggest challenges listed in the pre-COVID era were lack of time (54%) and finding good techs (53%). The latter is interesting, because it highlights just how important talent is, and how sparse good talent is. Even though MSPs have relatively low turnover compared with many other businesses, you still struggle to bring in the talent you need. After all, even if you don't lose anybody, you still need talent in order to grow. Changing technologies (32%), lack of information sharing (27%), cybersecurity threats (26%) and price pressure (21%) all registered a significant number of votes.

The big changes here from past surveys is that price pressure is less important now, but cybersecurity has increased in importance as a challenge the industry faces.

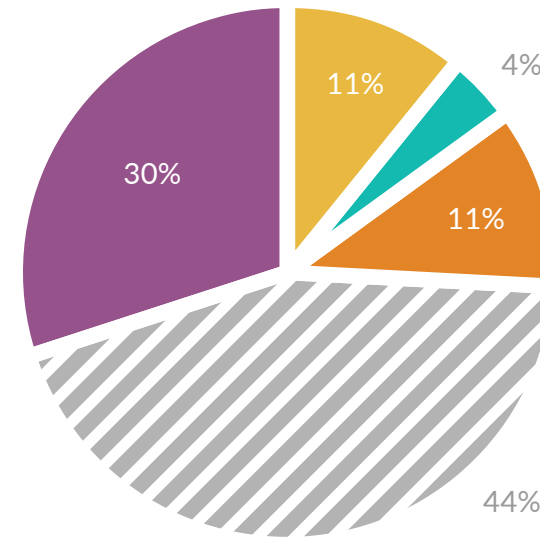Then the pandemic hit, bringing with it an entirely new set of challenges.

74% of you registered that another lockdown in the fall was a concern. Changing technologies and lack of time aren't as important now, but cybersecurity threats, customer churn and price pressure have become more important. The following graphs shows the results from our surveys in February and May, 2020, pre and post COVID.

Economic Outlook

The responses to the questions about economic outlook are interesting in that the sentiment remained little changed from the original survey from February to the follow-up survey in May. The questions were slightly different — in Feburary we asked about sentiment in general, whereas in May we asked specifically about sentiment regarding your market's ability to recover from the pandemic. But the surveys yielded almost identical results.
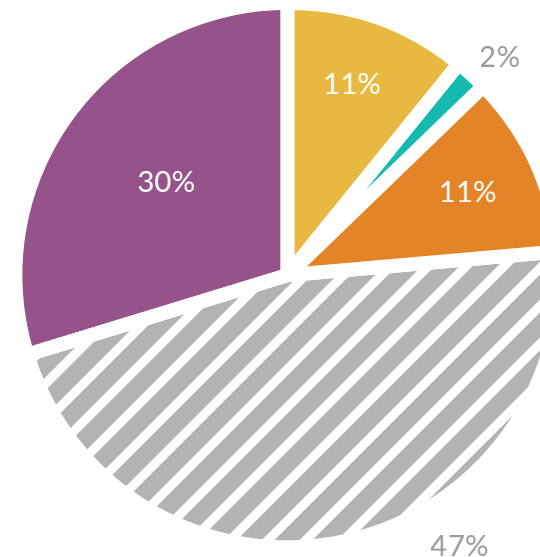
This lack of change would seem to reflect a view of the pandemic as a short-lived economic phenomenon, one that would come with a V-shaped recovery, rather than a slower return to normal economic activity.
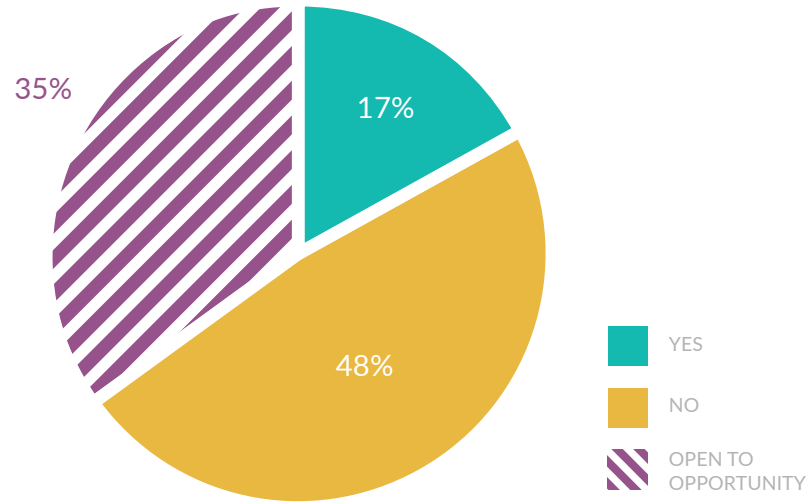
MSP Economic Outlook — Pre-COVID

11%
4%
30%
11%
44%

MSP Economic Outlook — Post-COVID

11%
2%
30%
11%
47%

1 - Most bearish
2
3
4
5 - Most Bullish

Are you considering acquiring or merging with another MSP? (Pre-COVID)

- 35% OPEN TO OPPORTUNITY
- 17% YES
- 48% NO

Legend:
- YES
- NO
- OPEN TO OPPORTUNITY

Are you considering acquiring or merging with another MSP? (Post-COVID)

- 24% OPEN TO OPPORTUNITY
- 13% YES
- 63% NO

Legend:
- YES
- NO
- OPEN TO OPPORTUNITY
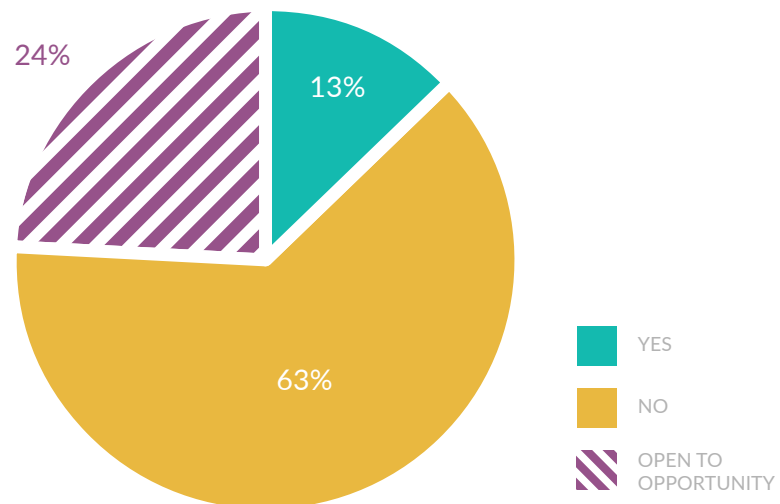
Mergers & Acquisitions

It would be unusual if a profound shift in the economy did not impact merger & acquisition activity. We know that a lot of veteran MSP owners are getting to the point where they're starting to think about their exit strategies, and that consolidation is a long-run trend in managed services. Over the past years we've seen interest in M&A activity at fairly healthy levels.

Prior to the pandemic, just over half of MSPs were either interested in acquiring or merging with another MSP, with 17% reporting an active interest. The pandemic — and the move from a status quo operating environment to an uncertain one, has taken the number of MSPs that reported no interest in acquisitions from 48% to 63%. For context, in our 2018 survey only 38% of MSPs were uninterested in M&A activity. While this figure has been steadily rising, the pandemic has marked the most profound shift in M&A sentiment in the MSP space.

Mergers & Acquisitions cont.

The other question is whether this means that M&A activity overall will decline, or if we're seeing a shift from a seller's market to a buyer's market. The percentage of MSPs that are either looking to sell or are open to opportunity has decreased from 27% to 15%. It appears that the pandemic has had a cooling effect on M&A intentions on both the acquiring and selling sides. This is not surprising — it's harder to value a business effectively in this sort of uncertain environment.
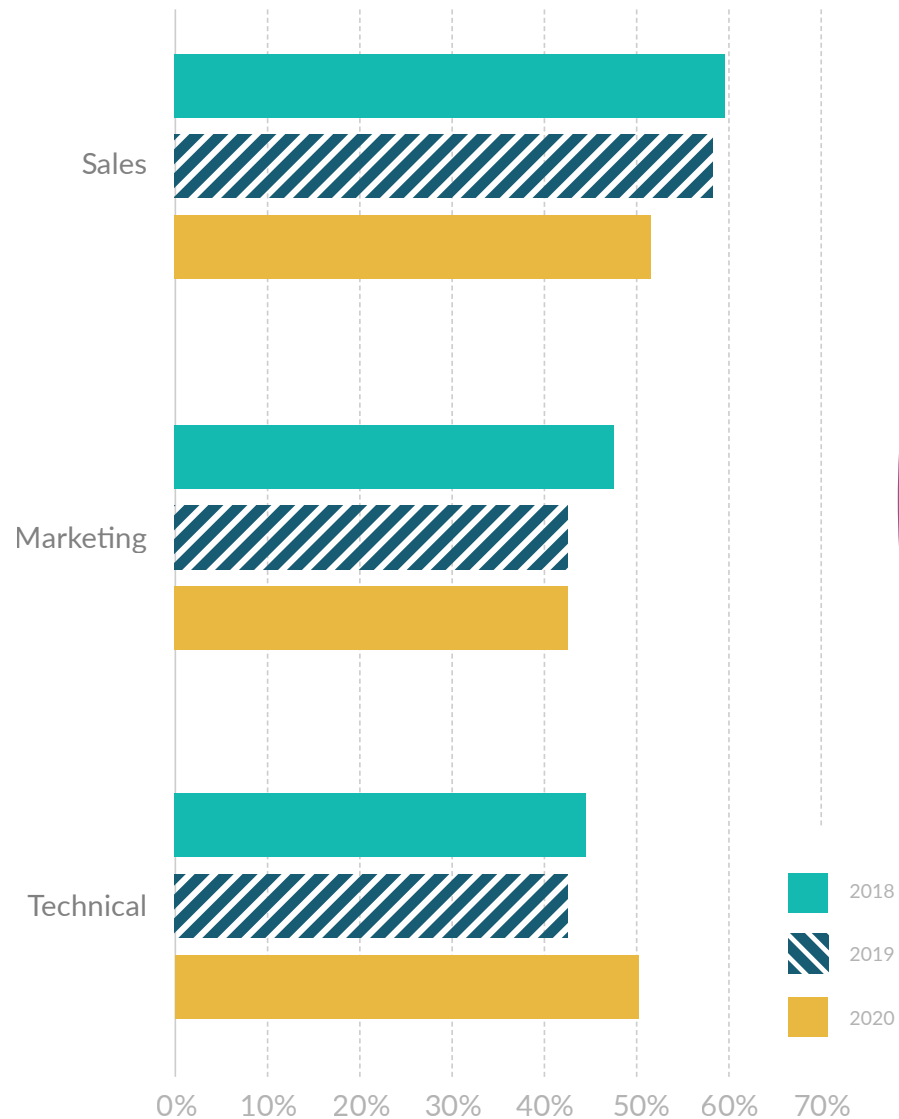
Are you considering being acquired by another MSP? (Post-COVID)

11%

4%

85%

YES

NO

OPEN TO OPPORTUNITY

Are you considering being acquired by another MSP? (Pre-COVID)

21%

6%

73%

YES

NO

OPEN TO OPPORTUNITY

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12
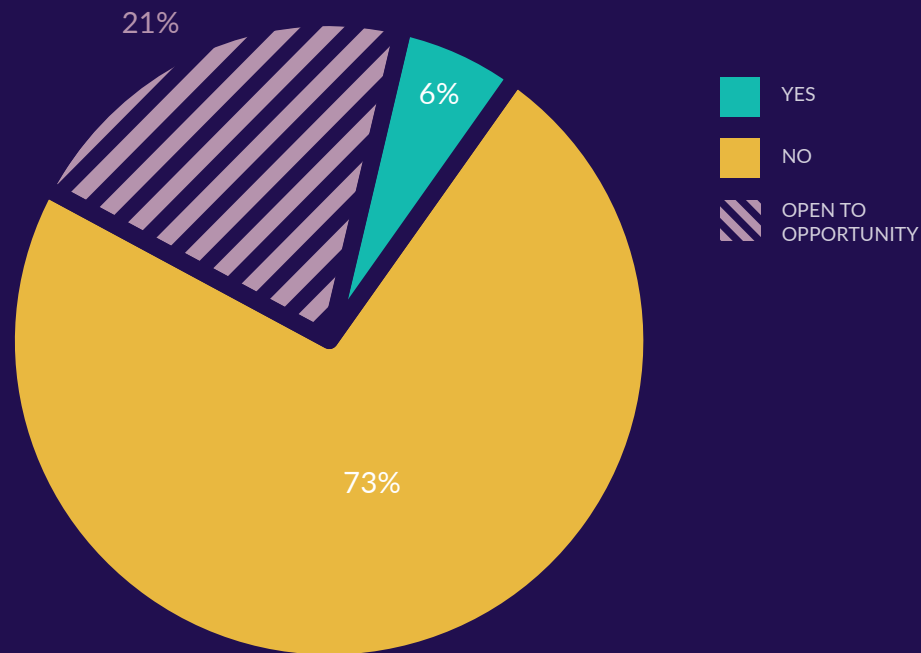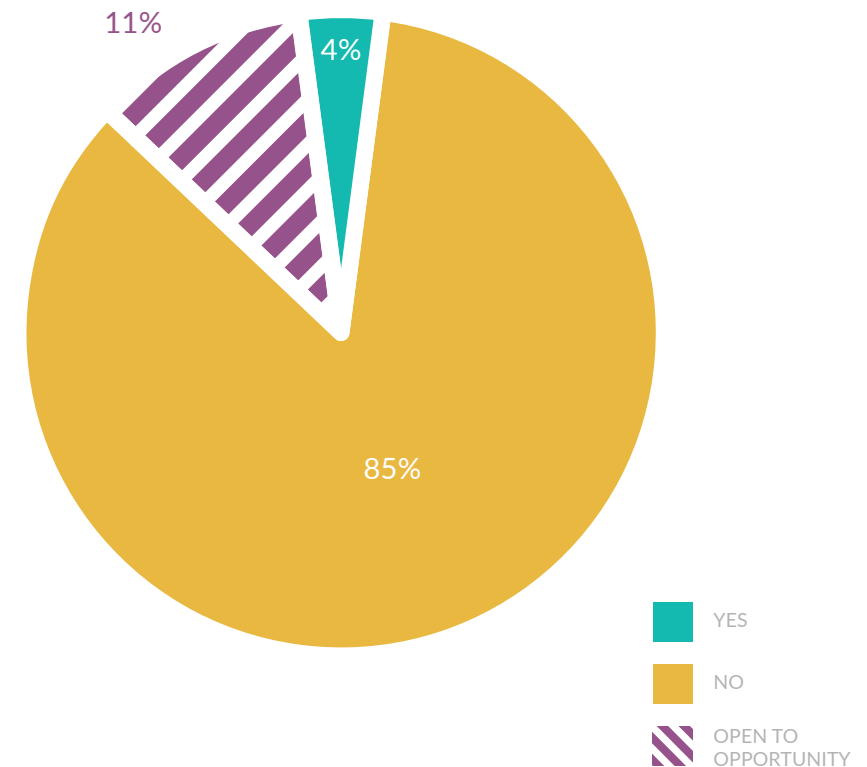
In which area(s) of your business do you feel that you would most benefit from more help?


Where MSPs Need Help

In each year we've run the survey, the top three areas where MSPs report needing the most help have been sales, marketing and technical. Those are still the top three, but fewer MSPs are reporting the need for help on the sales and marketing side of the business. For one, there are lot of consultants to assist with marketing in particular, but also sales. Plus, these are areas where a lot of small businesses struggle, because it takes time to get sufficient cash flow to afford good salespeople or marketers, and even longer to build a great team and processes for these functions. It's just a matter of maturity, and with increased MSP maturity it's not a big surprise to see these numbers declining.

Finding good technical staff, on the other hand, is a perpetual problem, and it's one that probably only gets worse as an MSP scales, especially ones that have a technical owner who no longer has time to influence the technical side of the business. Not only did "Technical" come in at #2 this year, it was almost #1 as the biggest area where MSPs report needing the most help.
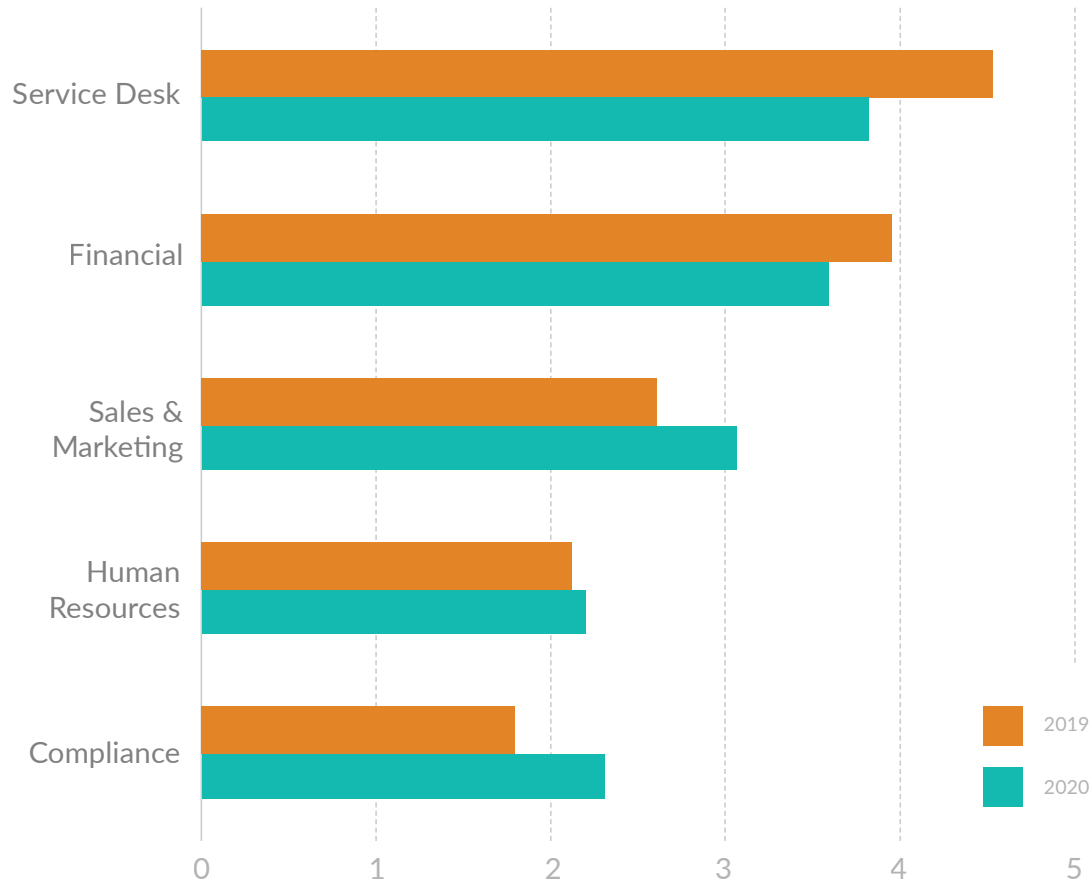
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New Revenue Opportunities

As technology changes, what is and is not considered a promising revenue driver will change. Things that had potential two years ago might not offer the same potential change anymore to today because they are now standard revenue drivers (think O365).
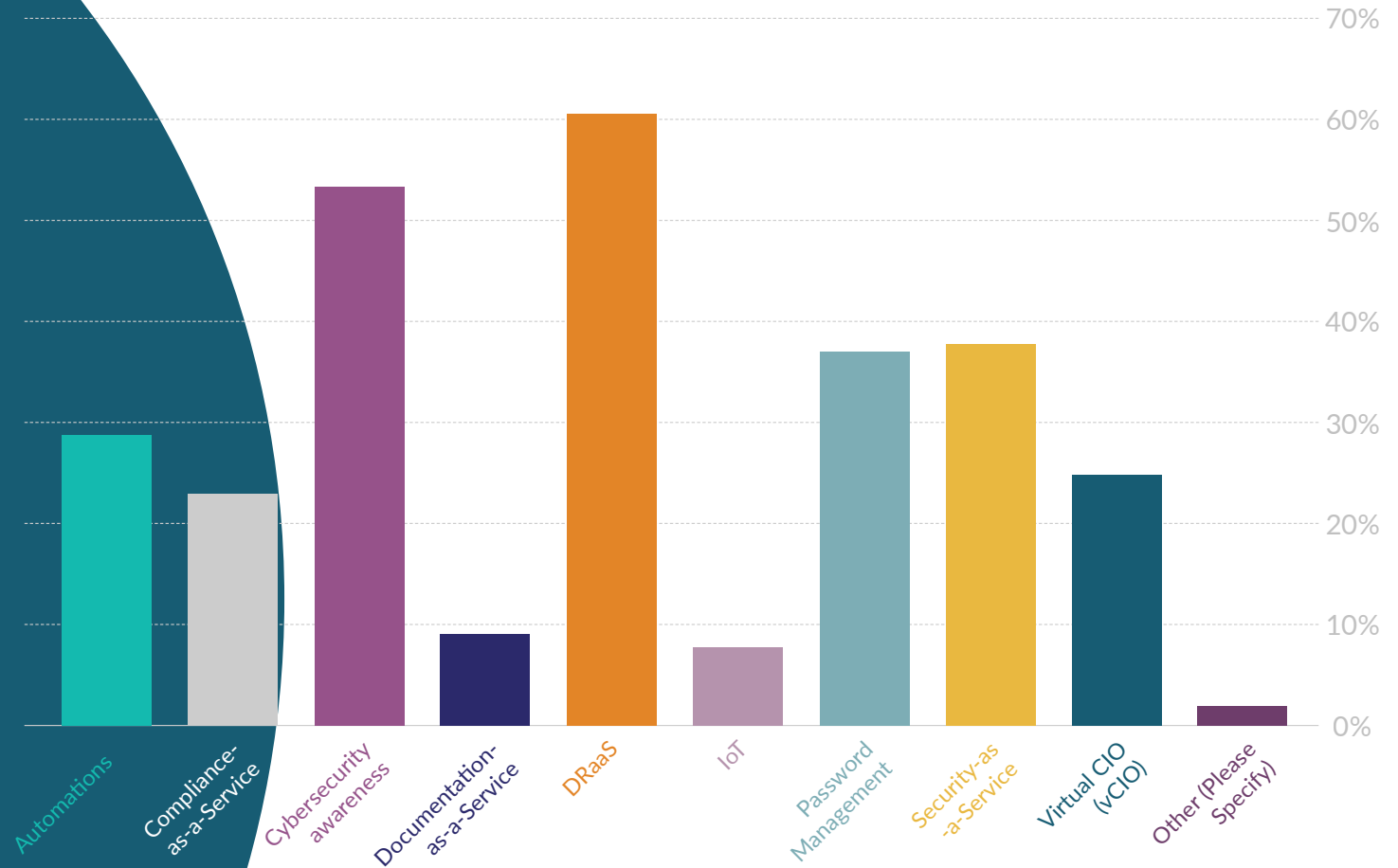
Most of the big opportunities today are in the security, continuity and compliance domains. This should come as little surprise — the biggest thing your clients want is to keep things running smoothly. Indeed, these challenges only become more complex in work-from-home environments. Challenges like securing personal devices and deploying backup and recovery for decentralized workforces will only become more important in 2020. It's interesting that over half of MSPs reported cybersecurity training as a valuable revenue opportunity BEFORE the pandemic-induced work from home revolution. One can only imagine how big that is now. We didn't ask this question in our follow-up survey, but one can only imagine how big it is now.

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Average score, Rank the following metrics by importance (5 being most important)

Service Desk
Financial
Sales & Marketing
Human Resources
Compliance

2019
2020

0 1 2 3 4 5

Metrics

With maturity comes instrumentation and a more metrics-driven approach to doing business. Last year, 52% of MSPs reported using KPIs, and a further 33% indicated "not yet", implying a desire to. This year, again 52% reported "yes" but "not yet" went from 33% to 18%, with "no" increasing by the same amount. Is the lack of traction for instrumentation a matter of not seeing the value, or not having the right tools available?

Among MSPs that do make use of KPIs to manage their business, service desk and financial metrics are considered the most critical, and it's not close. The chart shows the average (on a scale of 1-5, five being the most important) for each type of KPI.

Given the rough ride the economy is facing this year, and the trend towards increased competition and maturity in the industry, it is reasonable to expect that tracking metrics, especially service desk and financial, will be an essential component for MSPs going forward. It's all well and good to let metrics take a back seat when the good times are rolling, but when they're not rolling anymore, businesses with a strong metrics game will be able to make better adjustments, faster, than competitors who don't really know what's going on.

Passwords

Passwords are still one of the most popular attack vectors for cybercriminals, and a constant cause of consternation for MSPs. From 2018 to 2019, we saw a significant decrease in the number of MSPs who don't know how their clients manage passwords, and that trend is continuing. The use of Word & Excel also continues to decline—no offense to those products but they aren't password managers, so this is a positive trend. While MSPs still report a sizeable portion of their clients under 'not sure' or using inappropriate means, the use of dedicated password managers has grown substantially over the past couple of years. Unsurprisingly, IT Glue has seen a similar adoption rate of our proprietary password manager, MyGlue, as a secure solution MSP partners provide to their clients.

How do your clients manage passwords?

Legend:
- 2018
- 2019
- 2020

Categories: Not Sure, Word & Excel, Dedicated PW Managers

Y-axis: 0% to 80%
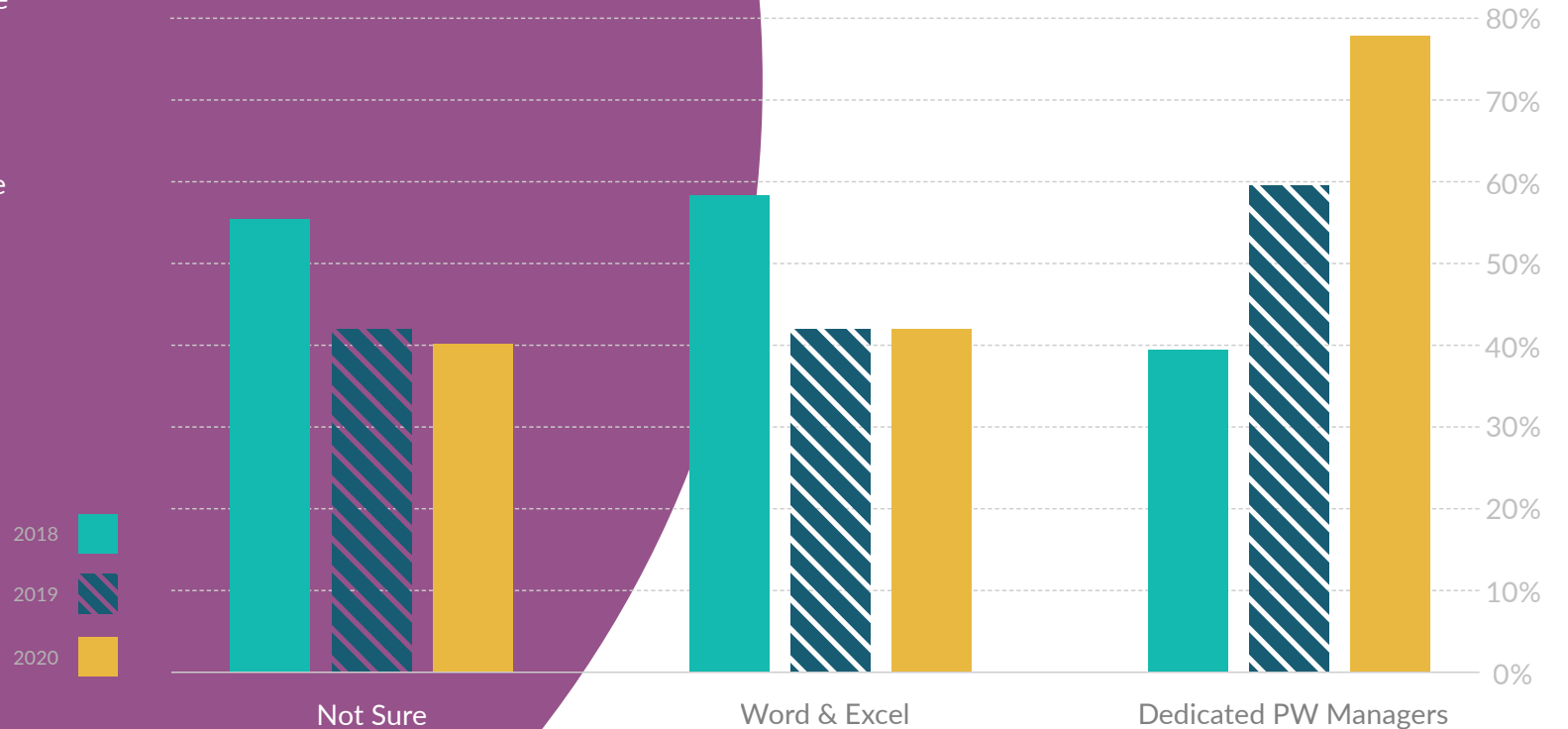
How are you currently documenting your clients' networks, other than workstations and servers? (Check all the apply)
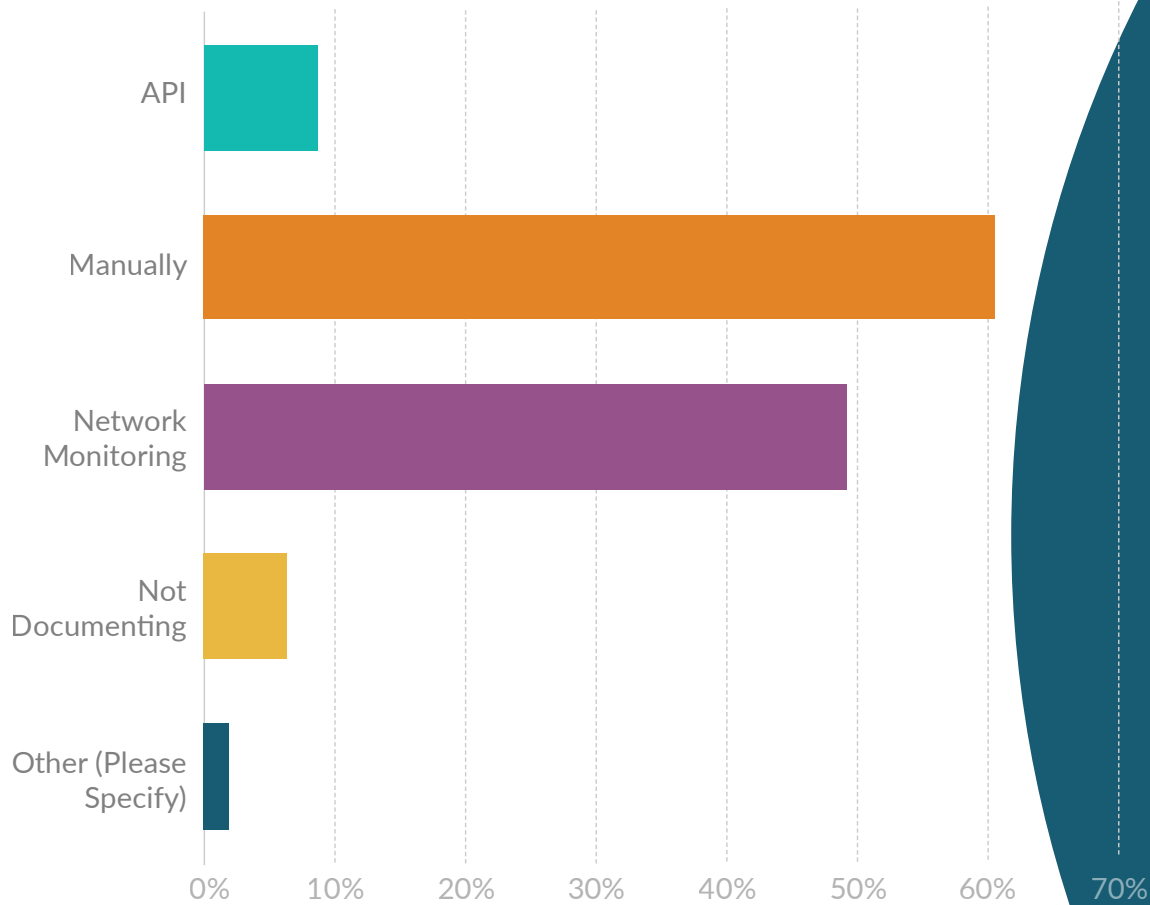
Mapping and documenting networks is something MSPs tend to do when they see the value — for example, if they bill by device. Having this visibility also provides an opportunity to ensure that devices are secured — you can't secure what you don't know exists. Using an automated tool for network diagramming can help reduce these pain points significantly.

Network Diagrams

Network diagrams continue to be a challenge for many MSPs. Many report that maintaining network diagrams is not a priority, but for those that do prioritize network visibility, the use of manual diagramming is still widespread. There are viable automated solutions, including Network Glue, that have reduced the pain somewhat. The challenge is really one of adoption. Fewer than half of all MSPs use network diagramming tools, which might explain why network documentation and diagramming remains a significant pain point.

Summary

It's too early to know the precise impact that the pandemic is having on the MSP business, but our data tells us a couple of things. One, the MSP industry seems to be faring quite well in comparison to most. The managed services business was a great one to be in prior to the pandemic, it took a smaller hit than a lot of segments of the economy, and MSPs are expecting to rebound quickly.

We also know that IT Glue partners seem to be faring better than other MSPs. It's not just the efficiency that you get from having IT Glue, it's the cultural mindset of smart documentation that you bring to the table every single day. Your commitment to operational excellence, superior customer service, and continuous improvement is why this industry is so amazing, and it's why the vast majority of MSPs are doing well, even through incredibly adverse circumstances.

Hats off to all who make the MSP industry such a great place to work!

At IT Glue, we understand the issues that MSPs face every day. We work with our partners to build the best documentation platform possible, to help you work smarter, faster, and more efficiently.

Connect with your IT Glue account rep for tips on optimizing your MSP toolset to reduce your costs and do more with less.

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