



Datto's Global State of the MSP Report

Trends and Forecasts for 2024

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Navigating Vendor Consolidation, Fierce Competition
and the Customer Experience Challenge



Introduction

In this ever-evolving technology landscape, managed service providers (MSPs) continue to play a pivotal role in supporting businesses worldwide. In 2023, Datto embarked on a journey to uncover the intricate narrative of MSPs by surveying 1,575 of these technology heroes globally. This survey aimed to learn more about their stories, understand their challenges and reveal their predictions for the year ahead.

The survey results highlighted several important findings. For the second year in a row, the survey emphasized the role competition plays for MSPs. In this fiercely competitive landscape, MSPs aren't merely surviving – they are thriving. As the industry witnesses an influx of new players and opportunities, MSPs are harnessing this dynamism to innovate and grow at an unprecedented pace. With competition on the rise, a notable shift has occurred in MSP priorities. Delivering a memorable and positive customer experience now stands shoulder-to-shoulder with revenue growth as the top strategic priority.

Additionally, MSPs are increasingly looking to consolidate their technology vendors, especially across Europe and APAC. This strategic move isn't just about simplification. Rather, it's a well-timed step towards efficiency, cost-effectiveness and the prevention of vendor fatigue.

The data tells a story of MSPs streamlining their operations, echoing the very essence of Datto's vision – simplifying the complex for the benefit of all.

Within the dynamic IT and MSP landscape, there's an exciting segment to explore – the growing realm of co-managed relationships. Under this model, technicians from internal IT teams collaborate with MSPs to divide their roles and responsibilities based on technology, skill gaps or expertise. This expansion allows MSPs to enter larger organizations while providing businesses with budget-friendly managed IT services. Datto's strategic expansion into co-managed services not only presents new opportunities for MSPs but also marks our foray into a fresh domain beyond traditional MSP partnerships. Together, we're shaping the future of IT services, embracing innovation and adaptability. We hope that this report will shed light on this thriving industry that is currently experiencing more growth potential than ever before.

Key findings

Vendor relationships and the quest for consolidation

One resounding theme that echoed throughout the survey results was vendor consolidation. MSPs are increasingly looking to streamline their vendor relationships – a trend that not only promises to make their operations more efficient but also contributes to significant time and cost savings while preventing vendor fatigue. By utilizing one solution that offers a comprehensive suite of tools and services that cover a wide range of IT needs, MSPs can reduce the need to engage with multiple vendors and streamline the management of IT resources. Simplifying and unifying IT solutions makes the lives of IT professionals easier and more efficient.

Rising revenues

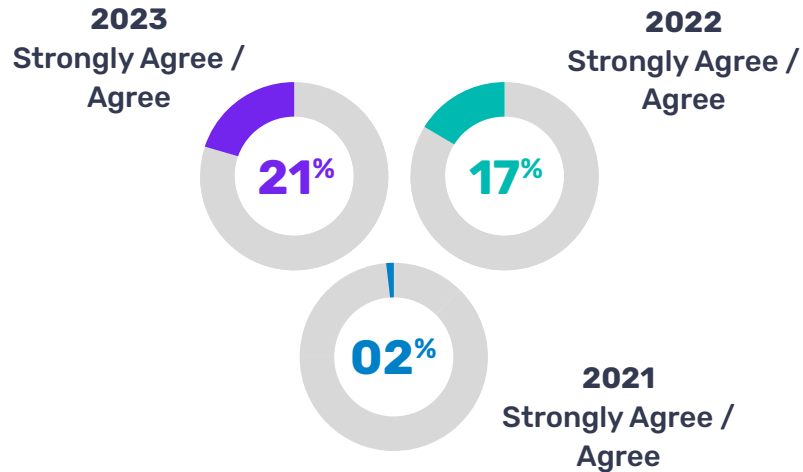
There's an encouraging narrative of increasing revenue across the industry. In fact, the majority of MSPs' annual revenue increased by more than 10% year over year.

In North America, 68% of MSPs experienced a revenue increase, and among them, 38% saw their revenue grow by more than 10%. Likewise, the revenue increase was also significant in Europe. Nearly two-thirds (64%) of MSPs in Europe experienced year-over-year revenue growth, and among them, 37% of those experienced an increase of more than 10%.

Additionally, MSPs are feeling more content with the size of their business now than in 2021.



MSPs across all regions that are content with the current size of their business



Adapting to a competitive marketplace

Competition is undeniably stiff, with MSPs across the board citing it as their biggest challenge for the third consecutive year. However, the bright side of this heightened competition is that it isn't just a hurdle but also a catalyst for growth and innovation. MSPs are harnessing this competition to drive innovation and are offering solutions to better meet their clients' needs.

In an industry marked by intense competition, MSPs are focusing on enhancing the customer experience. This newfound emphasis on customer experience is driven by the desire to stand out in a saturated market. It's no surprise that improving the customer experience is now tied as the top overall strategic priority for MSPs along with revenue growth.



Who MSPs serve: Basic demographics

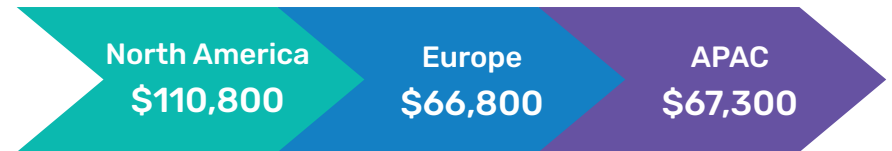
MSPs serve a diverse range of businesses. In 2023, the majority of MSP respondents reported serving businesses with 26-50 employees (23%) – a shift from 2022, where the most popular employee size was 50-100 employees (20%).

Employee size of businesses MSPs serve



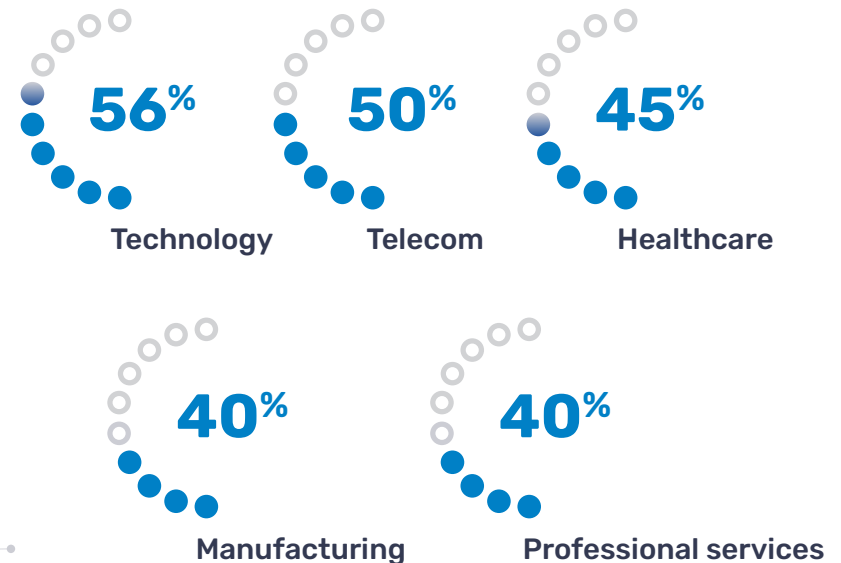
The MSP client landscape varies across regions, with MSP clients in North America spending, on average, close to double the amount on managed services compared to other regions, with most spending between \$100,000 to \$500,000 on managed services. Additionally, the average amount of money clients spend on managed services in North America is \$110,800 compared to Europe's \$66,800 and APAC's \$67,300.

Average client spend on managed services



Across regions, the top industry served by MSPs is technology, followed by telecom and healthcare. Of the respondents surveyed, 56% have clients in technology, 50% have clients in telecom, 45% have clients in manufacturing and 40% have clients in professional services.

Top industries MSPs serve



Revenue by the numbers

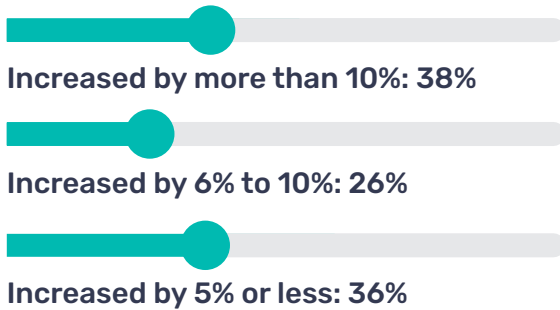
The majority of respondents experienced an increase in revenue in the past year, with North America leading the way in revenue growth. A significant percentage of MSPs worldwide increased revenue by more than 10%, signaling a robust financial outlook for the industry. This trend is expected to continue, with most MSPs anticipating revenue growth over the next three years. North America is expecting the biggest increase relative to other regions.

MSPs worldwide may be seeing revenue increases because small- to medium-sized businesses (SMBs) have recognized the criticality of IT and are turning to MSPs to provide key IT and security services.

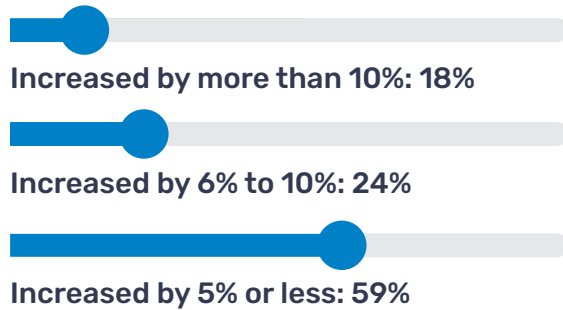


Change in revenue in 2023

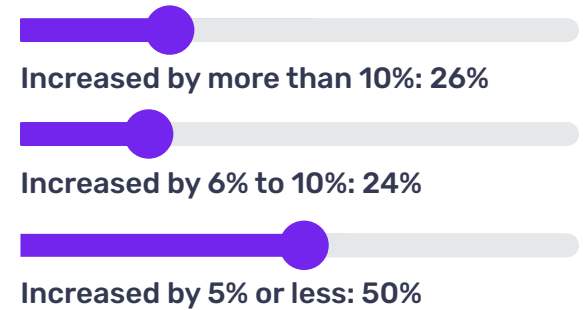
North America



Europe

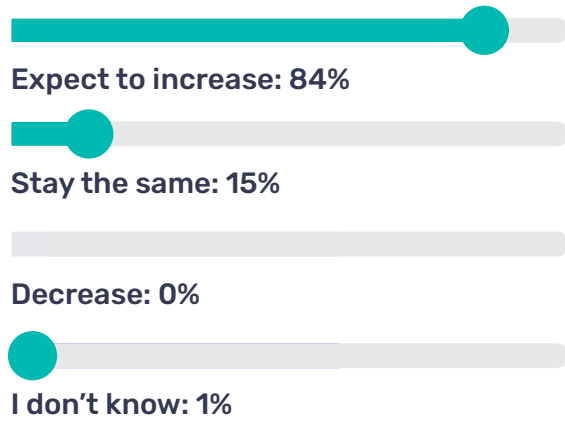


APAC

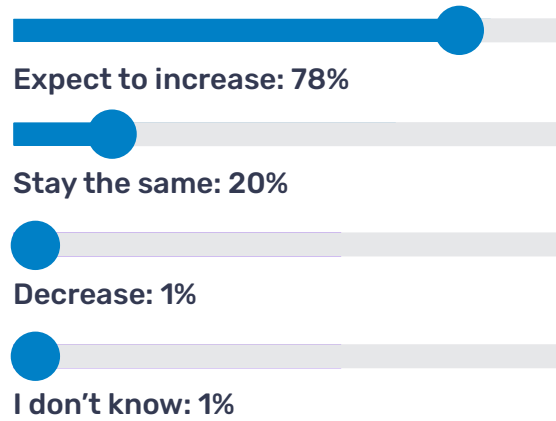


Revenue expectations over the next three years

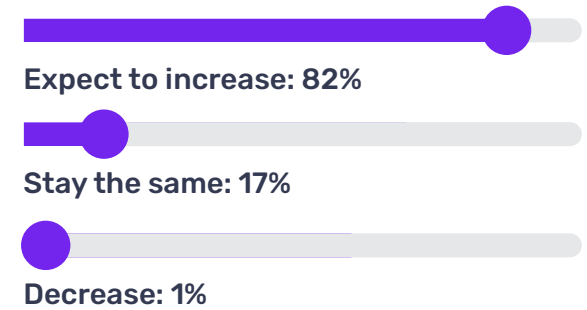
North America



Europe



APAC



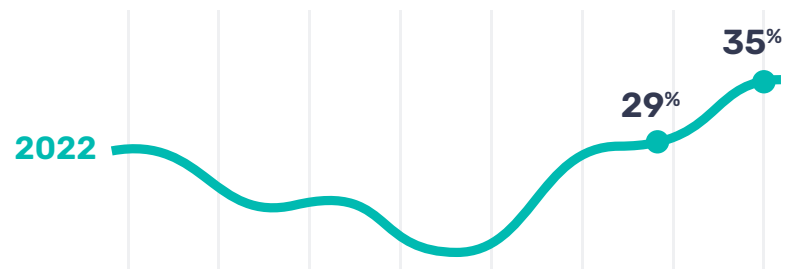
Geo trend: Revenue changes in 2023 are similar within regions. However, in the U.K. and Ireland, budgets increased more than in other Europe markets. Also, the U.S. experienced a larger revenue increase than Canada.



What's keeping MSPs up at night?

Competition continues to grow

Competition remains a significant concern for MSPs, especially as a growing number of players continue to enter the field. For the third year in a row, MSPs across all regions said competition was their biggest challenge – 35%, up from 29% in 2022.

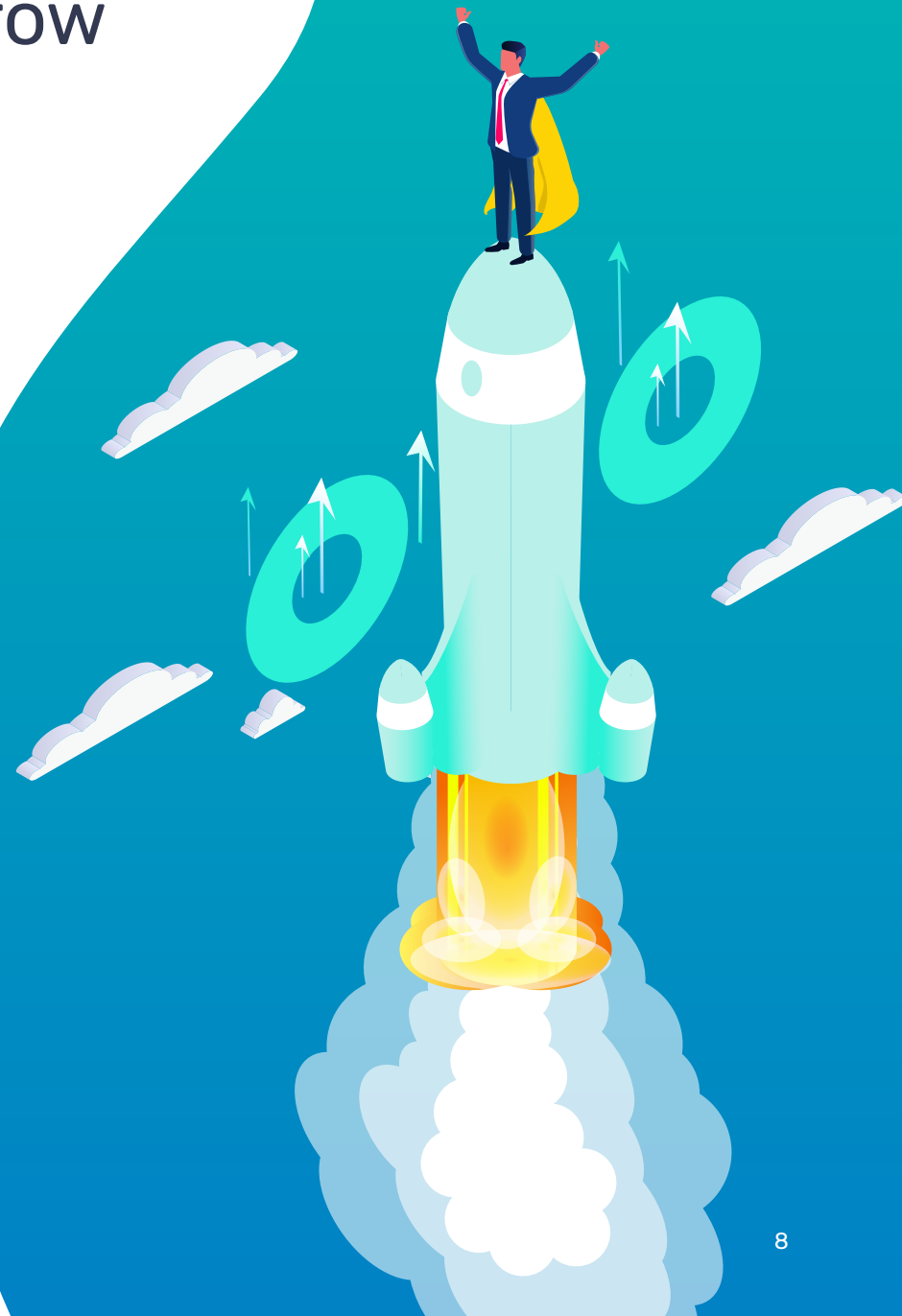


The upside of this increased competition is that it is driving MSPs to innovate and differentiate themselves to compete. When asked about their biggest growth drivers, cybersecurity concerns and awareness were cited as the top new-business drivers (54%).

Interestingly, even as competition steadily increases, so too is revenue. This is clearly not a race to the bottom.

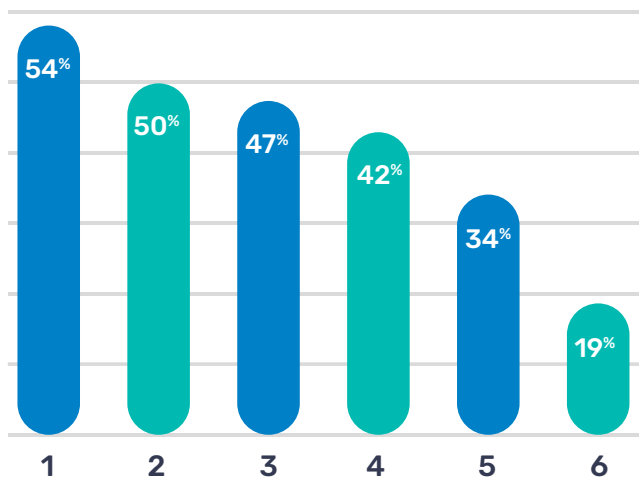
Collectively, this speaks to a growing understanding of the critical role technology plays in a sustainable business and an awareness that this need cannot be filled with internal resources.

Respondents in North America cited increasing cybersecurity risk concerns and the need for more expertise than they have internally as the top reasons to turn to an MSP.



Top reasons their clients were looking for an MSP (cited by MSP respondents in North America)

- 1 Increasing concerns about cybersecurity risks
- 2 Need for more expertise than what they have internally
- 3 Need help managing a hybrid or remote workforce
- 4 Are generally more aware about cybersecurity
- 5 Decided to outsource rather than manage with internal resources
- 6 Not satisfied with their previous MSP



Strategic priorities

New focus on customer experience

MSPs are juggling a multitude of strategic priorities, with a strong focus on enhancing the customer experience and growing revenue, which tied in first place as the top strategic priorities among respondents in North America. The competitive landscape has amplified the importance of providing exceptional service to clients as a means of standing out in a saturated industry.

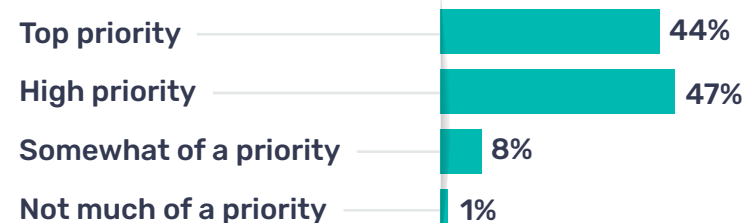
Top MSP strategic priorities in North America



In our survey, we delved into the concept of customer experience within the MSP landscape. We sought to understand what “customer experience” truly signifies to MSPs and why it demands enhancement. For 44% of respondents, improving the customer experience emerged as the top priority, signifying its pivotal role. An additional 47% regarded it as a high-priority endeavor. Not a single MSP we surveyed stated that improving the customer experience was not a priority at all.

When we looked further into the reasons behind this intense focus, we found several interconnected factors at play. MSPs recognize that the modern IT landscape is fiercely competitive, and delivering a superlative customer experience is their means of standing out. The risk of client churn looms, making it essential to not only retain current clients but also attract new ones. It's clear that, for MSPs, improving the customer experience isn't merely a box to check; it's a strategic initiative born out of the need to thrive in a demanding market.

Importance of improving the customer experience



Top MSP offerings

Current top offerings

Cloud-based infrastructure design and management, along with office productivity software services, continue to dominate as the top services offered by respondents.

Top solutions offered by MSPs across all regions



Cloud-based infrastructure design and management



Office productivity software services



Networking



Technical support or help desk



Business continuity and disaster recovery (BCDR)

Solutions that represent growth opportunities

Collaboration software, self-service capabilities, and storage design and implementation represent notable growth opportunities for MSPs as we head into 2024.



Collaboration software



Storage design and implementation

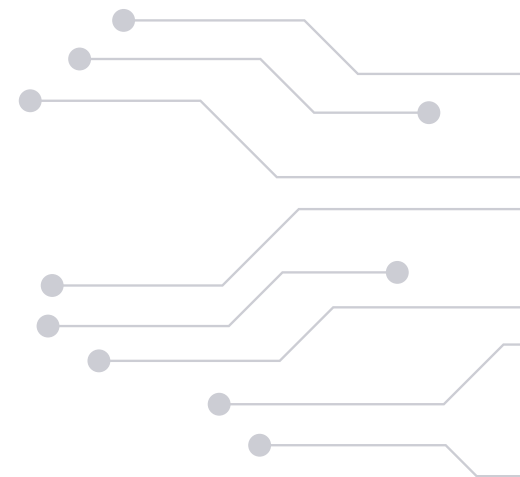


Self-service capabilities

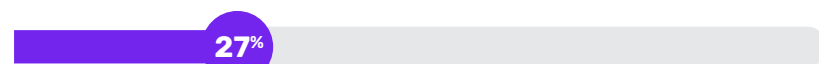
Geo trend: While solutions offered are relatively consistent across regions, some are more prevalent in Europe than North America. VoIP telephony, incident response and forensics, management of mobile phones, self-service capabilities and leveraged power apps are more popular in Europe.

Services projected to be added over the next 12 months

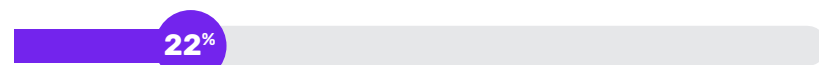
MSPs are keen to expand their service portfolios further as we approach 2024. Top services that respondents anticipate adding to their portfolios include collaboration software, business intelligence or analytics software, and incidence response and forensics.



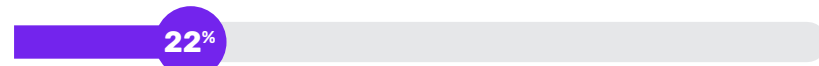
Top services projected to be added over the next 12 months in North America



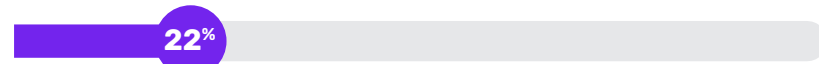
Collaboration software



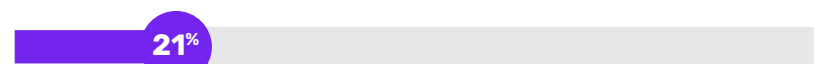
Business intelligence or analytics software or services



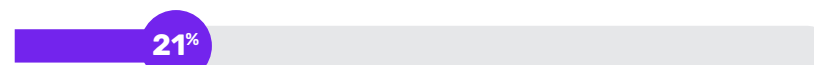
Incidence response and forensics



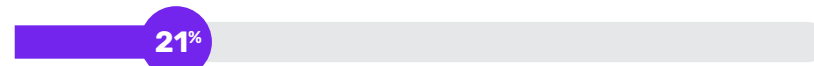
Threat hunting



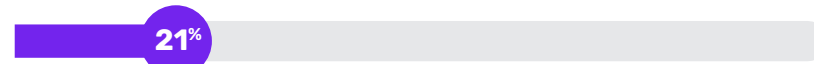
Storage design and implementation



Physical security or access management



Data backup and protection



Self-service capabilities

Geo trend: Plans for new services are generally consistent across regions, although APAC is expecting the most growth in endpoint detection and response.

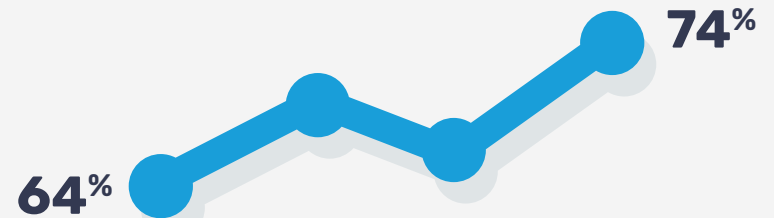
Increasing vendor fatigue across the board

When it comes to interacting with vendors, for our respondents, less is more. MSPs are increasingly looking to consolidate their technology vendors. Our respondents adhered to this trend to simplify vendor relationships, streamline billing and reduce time wasted moving between disparate applications. A desire for reduced costs and complexity and increased efficiency drives this trend.

Vendor consolidation is more than just reducing vendors – it's about strategic partnerships. While having just one vendor may not be practical, strong relationships with a select few can boost efficiency, cut costs and yield lasting results. Fewer vendors mean a streamlined supply chain, improving procurement, delivery, deployment, asset management and services. The IT lifecycle becomes much easier to manage and enables fewer SLAs.

Interestingly, when analyzing this data further, we found respondents with a higher percentage of recurring revenue are more interested in consolidating vendors and far less content with their current size. This supports the idea that companies that consolidate vendors are on their way to achieving higher overall revenue.

About 74% of respondents said they prefer to use fewer vendors to meet their technology needs – up from 64% in 2022.



What's happening to the hybrid workplace?

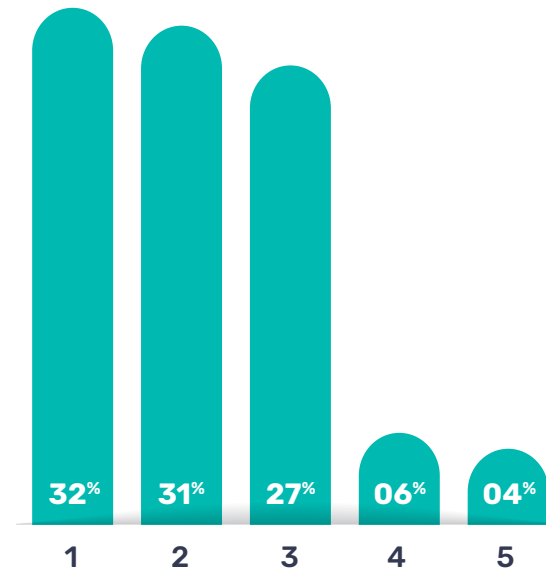
Clients of our North American respondents are embracing the hybrid workplace model. When asked about their clients' work setups, those who transitioned back to a traditional workplace were about tied with those continuing to maintain a hybrid workplace.

While the hybrid workplace was popular in 2022, several MSP clients still favored a fully remote workplace at the time, as brought on by COVID-19. The popularity of a fully remote workplace seems to be diminishing as the hybrid workplace and traditional in-office environments gain traction.

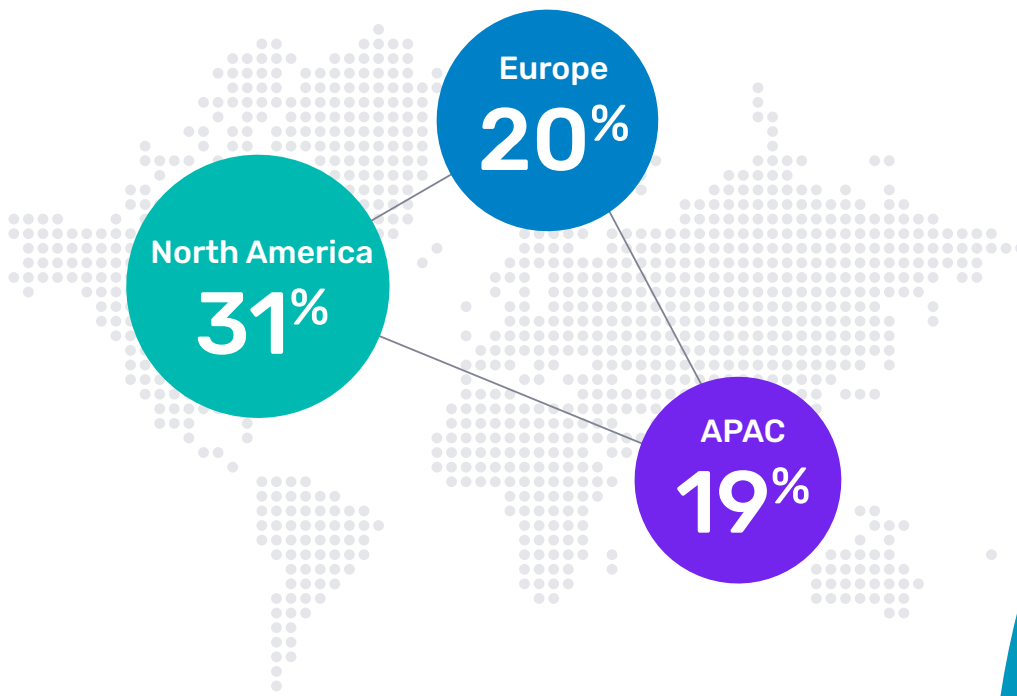


Client workplace changes in North America

- 1 Already shifted back to traditional (in-office)
- 2 Remaining hybrid
- 3 In the process of shifting back to traditional (in-office)
- 4 No consistency to what clients are doing
- 5 Most clients maintaining a fully remote workplace



Clients keeping a hybrid approach to workplaces in different regions



Geo trend: In Europe and APAC, clients are more likely to have transitioned back to an in-office environment or are in the process of doing so. The hybrid work model is more of a preference in North America than in other regions among respondents.



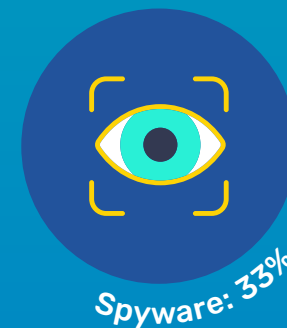
Top cybersecurity concerns, issues and barriers

Cybersecurity remains a top concern for respondents, with computer viruses emerging as the most prevalent cybersecurity issue. North American respondents cite the widest range of cybersecurity challenges, with computer viruses, phishing messages and endpoint threats leading the list.

Despite the importance of offering cybersecurity protection, respondents face challenges. Chief among them (across all regions) are the complexity of cybersecurity products and the challenge of hiring skilled cybersecurity professionals.

Highlighted within the survey results is a critical concern – 28% of respondents cited a major cybersecurity challenge – their customers' lack of concern about cyber-risks. This statistic isn't just a data point; it's a ticking time bomb. It underscores the pressing need for MSPs to be equipped with the tools and knowledge to educate their customers effectively. The 28% of customers who do not prioritize cybersecurity present a massive vulnerability, directly impacting MSPs who bear the responsibility for their clients' safety.

Top 5 cybersecurity threats faced in North America



Top cybersecurity solution barriers across regions

47%

Complexity of cybersecurity products

43%

Hiring skilled cybersecurity professionals

37%

Managing too many different cybersecurity products

34%

Insufficient training of existing staff

33%

The cost of having too many different cybersecurity products

32%

Responding to too many alerts

28%

Customers are not concerned about cyber-risks

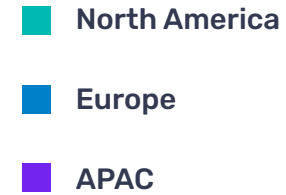
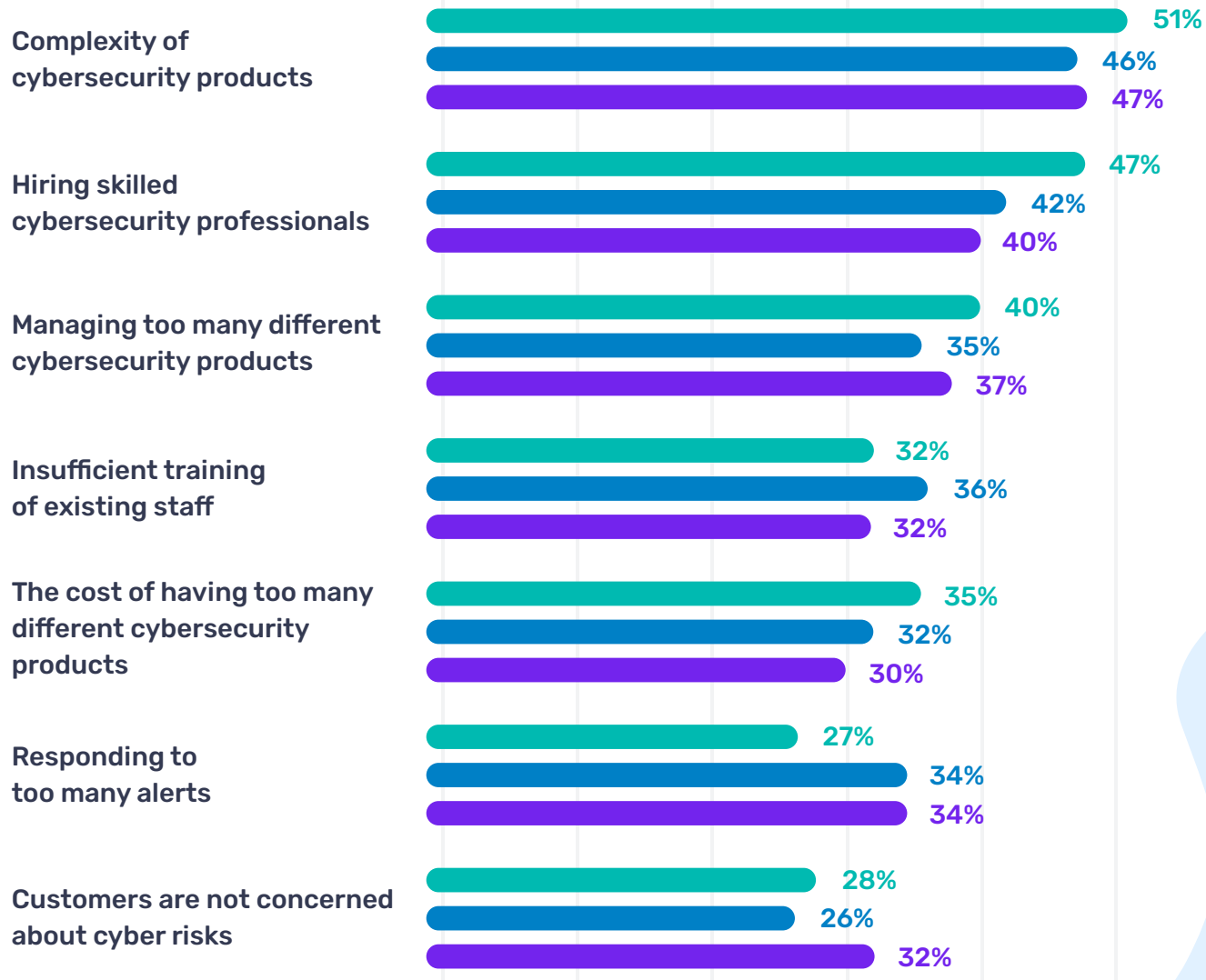
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In North America, hiring skilled cybersecurity professionals stands out as a bigger barrier than it does across other regions.

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Top cybersecurity solution barriers across each region



Staying up to date on compliance regulations is crucial for MSPs to effectively support their clients since it helps ensure data security and legal adherence in an ever-changing business landscape.



Security frameworks that MSPs across regions must comply with

Security and compliance framework



CIS (Center for Internet Security Controls)



CMMC (Cybersecurity Maturity Model Certification)



COBIT (Control Objectives for Information Technology)



SOC II



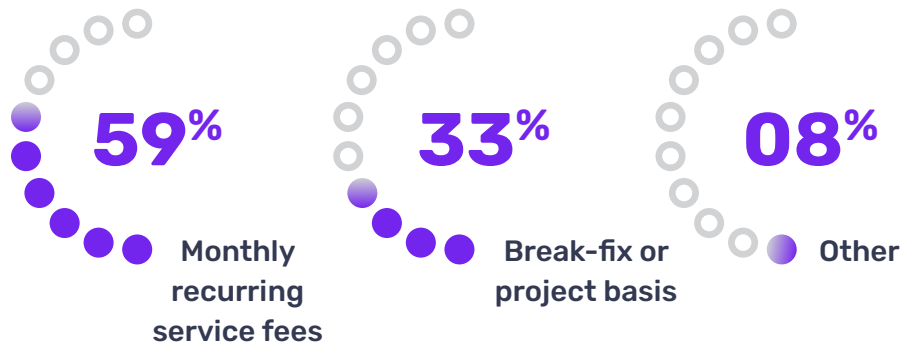
Across all regions, CIS (Center for Internet Security Controls) leads as the top cybersecurity framework for MSPs.



Managed security services

Managed security services primarily rely on monthly recurring revenue (MRR) across all regions, ensuring a consistent and predictable revenue stream for both providers and customers. While smaller MSPs may occasionally employ break-fix or project fees, MRR remains the prevailing model for mature and larger MSPs.

Top revenue sources for managed security services across regions



Managed security services are on the rise across all regions, with an increasing number of MSPs offering them. Of the MSPs that do not currently offer managed security services, over half plan to offer them in 2024.

Email security, two-factor authentication, password policy management, and security framework and compliance auditing are among the top services offered across all regions.

Top managed security services offered across all regions

Email security: 75%

Two-factor authentication: 66%

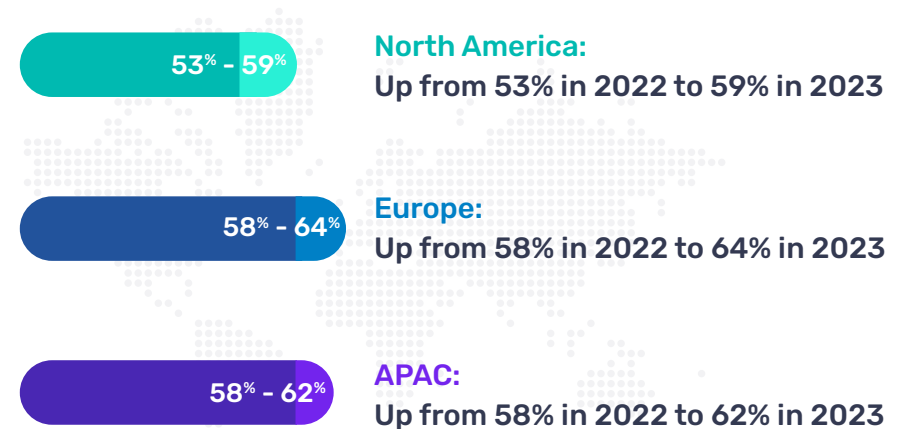
Security framework and compliance auditing: 65%

Firewall: 64%

Password policy management: 63%

Revenue associated with managed security services has increased across regions after a drop in 2022.

Year-over-year increase in revenue from managed security services by region

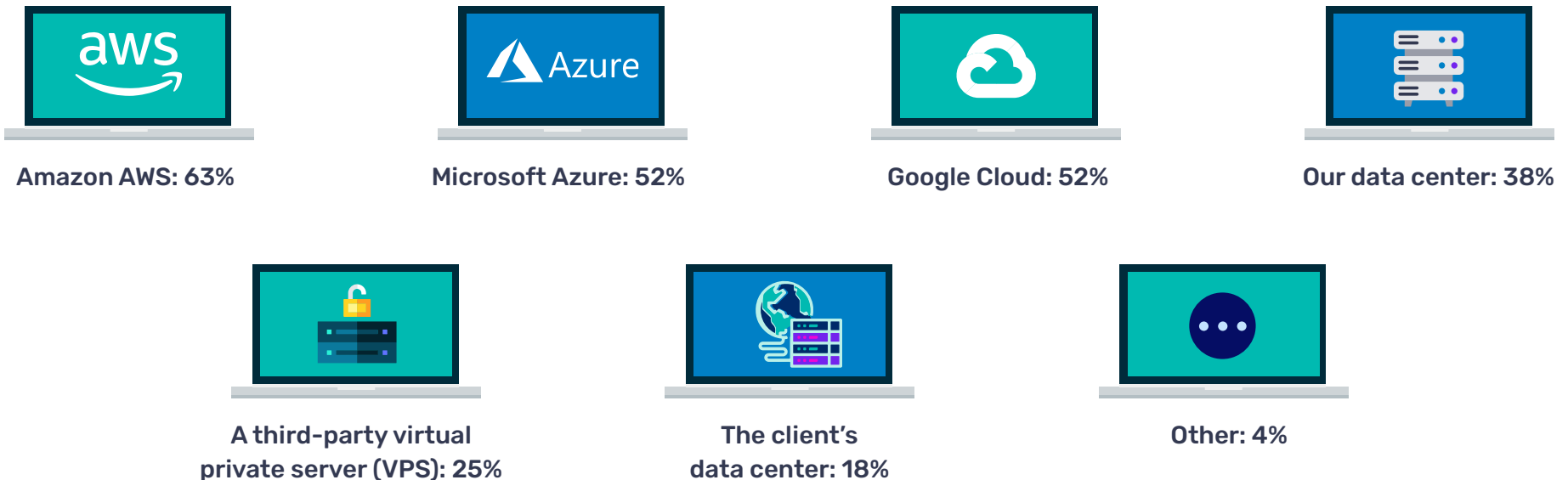


Where do SMB workloads live?

Approximately half of the respondents report that 50% or more of their clients are shifting their workloads to the cloud. MSPs in North America anticipate the most significant shift in cloud migration in the next three years, driven by clients adopting Infrastructure as a Service (IaaS) and migrating databases and email servers to the cloud. Nearly half of the respondents (47%) predict that 75% to 99% of their client base will move workloads to the cloud in the next three years.

This shift underscores the critical need for flexibility in backup solutions. As MSPs transition from on-premises to cloud-based workloads, they encounter new challenges, including ensuring the continuity of data protection and investment security. To combat these concerns, MSPs should explore solutions that offer the ability to seamlessly transition between backup solutions without the fear of sunk costs. This ensures that MSPs can effectively adjust to changing client requirements, safeguard their investments and confidently drive their business growth within the context of the modern, cloud-centric IT landscape.

Where MSPs anticipate client workloads in North America will move in the next 12 months



Use cases remain for on-premises workloads

While the cloud is an attractive option, there are still compelling reasons for clients to maintain on-premises workloads, particularly in North America, where 18% of MSP respondents anticipate workloads shifting to the client's data center in the next year. The evolving landscape underscores the importance of flexible, hybrid workloads.

MSPs are increasingly transitioning environments iteratively from on-premises to the cloud, recognizing that this shift won't happen all at once and is unlikely to reach 100% in the near future. Clients maintain on-premises workloads due to various factors, including concerns about trust and security in the public cloud, the need for operational transformation and compliance requirements. This strategic hybrid approach enables MSPs to address immediate client needs while maintaining the flexibility to adapt as their journey to the cloud continues.

The majority of respondents expect their clients' use of business-critical apps or servers to decline in the next three years, although North America expects more increases compared to other regions.



Reasons to keep workloads on-prem in North America

27%

Lack of trust or security concerns with the public cloud

26%

It requires a level of technical and operational transformation that our organization is not willing to undertake

26%

Compliance-driven requirements that make public cloud impractical

23%

Third-party SaaS applications are not adequate to replace hosted line-of-business applications

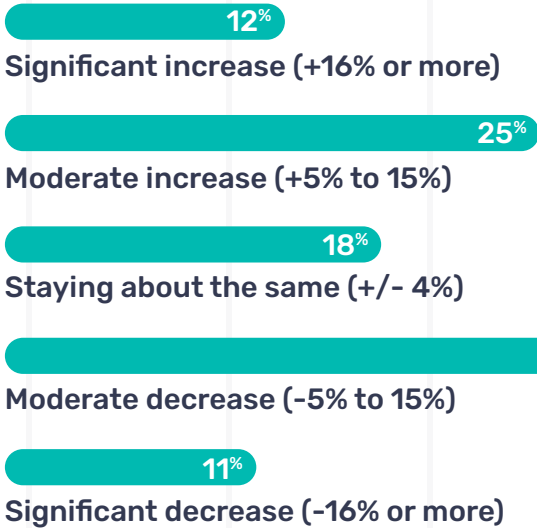
20%

On-premise works well, and there is limited financial value in shifting to the public cloud

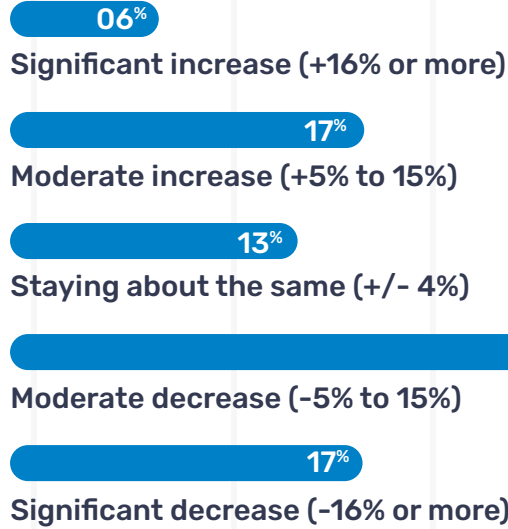


Expected change (increase, decrease or staying about the same) in on-premises apps and servers in the next three years for each region

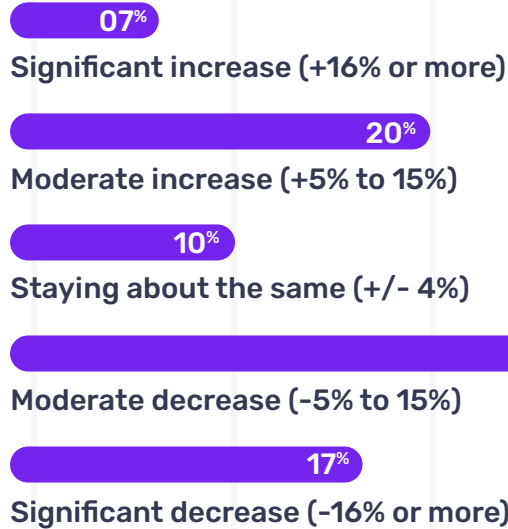
North America



Europe



APAC



Key takeaways

Preparing your MSP for success in 2024

As we look ahead to 2024, several key trends and findings from our report offer valuable insights for MSPs seeking to thrive in an evolving landscape. Here are some actionable steps and strategies to consider.

Embrace vendor consolidation: Building strong strategic partnerships with a select few technology vendors can lead to efficiency gains, cost-effectiveness and improved service quality. While it may not be practical to rely on just one vendor, focusing on fewer vendors can streamline your supply chain, optimize procurement and simplify vendor management.

Leverage the power of recurring revenue: The majority of MSPs are experiencing revenue growth, primarily driven by monthly recurring revenue (MRR). Consider strengthening your MRR model as it ensures a consistent and predictable revenue stream. While smaller MSPs may occasionally use break-fix or project fees, MRR remains the prevailing model for mature and larger MSPs.

Enhance the customer experience: With increased competition, delivering an exceptional customer experience is paramount. Focus on providing outstanding service to stand out in a saturated market. It is now as important as revenue growth and should be a top strategic priority.

Expand your service portfolio: Consider adding new services such as collaboration software, self-service capabilities and storage design and implementation. These represent significant growth opportunities for MSPs in 2024.

Stay compliant: In an ever-changing business landscape, staying up to date on compliance regulations is crucial. Ensure that your MSP is well-versed in compliance requirements to support your clients effectively.

Embrace cloud migration: Be prepared for the continued shift of client workloads to the cloud. Invest in skills and resources to manage cloud services effectively. Anticipate your clients' needs for cloud services like Amazon AWS, Microsoft Azure and Google Cloud.

Address cybersecurity concerns: With cybersecurity still a top concern, investing in solutions to protect against computer viruses, phishing, endpoint threats and password compromises is vital. Hiring skilled cybersecurity professionals and managing the complexity of cybersecurity products is essential as well.

Adapt to the hybrid workplace: Recognize the ongoing importance of supporting hybrid work models. Offer solutions and services that cater to clients' evolving workplace needs.

Continuously innovate: Continually innovate to differentiate yourself in a competitive landscape. Keep an eye on emerging technologies and trends that can benefit your clients and your business.

Ready to explore how Datto's solutions can help you implement these strategies and drive your MSP's success in 2024? Schedule a demo with us today to see our tools in action and discover how they can empower your business.

By taking these steps and staying aligned with the key trends identified in this report, your MSP can position itself for success in 2024 and beyond. The dynamic nature of the technology industry offers opportunities for growth and innovation, making it an exciting time to be an MSP.

Schedule a Demo



Research approach

This report is based on a survey of over 1,500 MSPs worldwide. It was conducted by Strategy Analytics, an independent research firm based in Boston, Massachusetts.

Methodology

- » 15-minute online survey

Respondents

- » Must be from a managed service provider (MSP)
- » Must be a decision-maker or influencer for solutions from their company

Regions

n = 465 North America

- » n = 310 U.S.
- » n = 155 Canada

n = 728 Europe

- » n = 164 U.K. and Ireland
- » n = 154 Benelux (Belgium, Netherlands, Luxembourg)
- » n = 155 DACH (Germany, Austria, Switzerland)
- » n = 104 ROE (France, Italy)
- » n = 151 Nordics (Denmark, Norway, Sweden)

n = 382 APAC

- » n = 142 Australia and New Zealand
- » n = 82 Singapore
- » n = 80 Indonesia
- » n = 78 Philippines



Glossary of key terms

MSP: Managed service provider. Technology service providers who manage and support the IT needs of businesses.

SMB: Small and midsize businesses. According to Gartner, “small businesses are usually defined as organizations with fewer than 100 employees; midsize enterprises are those organizations with 100 to 999 employees.”

Vendor fatigue: A situation where businesses become overwhelmed or frustrated by dealing with too many different technology vendors.

Vendor consolidation: The process of reducing the number of technology vendors a business works with, often to increase efficiency, cost-effectiveness and simplify vendor relationships.

MRR: Monthly recurring revenue. A revenue model where customers are billed a consistent monthly fee for services, providing a predictable income stream.

Hybrid workplace: A work environment that combines both in-office and remote work arrangements.

Cloud migration: The process of moving digital assets and services from on-premises servers to cloud-based platforms.

Collaboration software: Tools that enable individuals or teams to work together on projects and tasks.

Storage design and implementation: Planning and setting up data storage solutions, including hardware and software configurations.

Break-fix: A service model where IT issues are addressed on an as-needed basis, often billed per incident.

Incidence response and forensics: Actions taken to manage and investigate security incidents and breaches.

Endpoint threats: Security risks that target individual devices, such as computers and mobile phones, within a network.

Managed security services: Outsourced security solutions provided by MSPs to protect against cyber threats.

IaaS: Infrastructure-as-a-Service. A cloud computing service that provides virtualized computing resources over the internet.

CX: Customer experience. The overall quality of interaction and satisfaction that clients or customers have with an MSP, encompassing all touchpoints and services.



About the report

Datto's MSP Pulse for 2024: Global Trends and Forecasts is based on statistics pulled from a survey of roughly 1,600 MSPs worldwide. The survey was conducted by Strategy Analytics on behalf of Datto.

Credits

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About Datto

As a leading global provider of security and cloud-based software solutions purpose-built for Managed Service Providers (MSPs), Datto, a Kaseya Company, believes there is no limit to what small and medium-sized businesses (SMBs) can achieve with the right technology. Datto's proven Unified Continuity, Networking, Endpoint Management and Business Management solutions drive cyber resilience, efficiency and growth for MSPs. Delivered via an integrated platform, Datto's solutions help its global ecosystem of MSP partners serve over one million businesses around the world. From proactive dynamic detection and prevention to fast, flexible recovery from cyber incidents, Datto's solutions defend against costly downtime and data loss in servers, virtual machines, cloud applications or anywhere data resides. Since its founding in 2007, Datto has won numerous awards for its product excellence, superior technical support and rapid growth, and for fostering an outstanding workplace. With headquarters in Miami, Florida, Datto has global offices in Norwalk, Connecticut as well as Australia, Canada, Denmark, Germany, the Netherlands and the United Kingdom.

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