



MSP Trends Report 2018

Abbreviated version



Welcome to MSP Trends



The UK has fallen out of love with large-scale outsourcing, with Carillion being liquidated, Capita reporting a £513m loss, and the mega-deals of old drying up.

But according to the findings of our inaugural *MSP Trends* report, the appetite for outsourcing and managed services more broadly is only rising, with end users set to lean more on third-party IT providers in the coming years.

We asked 258 IT decision makers at small, medium-sized and large firms to estimate what percentage of their IT estate is currently managed by a third-party provider, or providers. We then asked them to predict what that figure will be in five years' time.

Today, the figure stands at an average of 36 per cent, but the average for five years' time rises to a whopping 48 per cent, with cloud, lack of in-house skills and the growing complexity of IT among the drivers cited.

This is good news for managed services providers, who argued in interviews for the report that they are actually benefitting from the demise of monolithic outsourcing contracts as end users look to break up deals into bite-sized chunks.

We hope the data and qualitative comments from respondents and MSPs featured in this report make interesting reading for any IT supplier with an eye on expanding their managed or fully outsourced services repertoires.

■ *Doug Woodburn is editor of CRN*

Report summary

■ CRN questioned IT decision makers at 258 end users on their appetite for working with MSPs and outsourcers. They were asked to indicate what percentage of their IT estate is currently managed by a third party or third parties, and to estimate what this figure will stand at in five years' time. They were also invited to leave detailed comments on their approach and attitude towards outsourcing. These survey responses, alongside in-depth interviews carried out with leading UK MSPs, form the basis of this report.

■ Appetite for outsourcing and managed services is clearly rising. The end users questioned currently entrust an

average of 36 per cent of their IT estate to third parties, but expect this figure to rise to 48 per cent within five years. The move to cloud, along with skills shortages and the increasing complexity of IT, were among the drivers cited.

■ Despite this, many respondents exhibited a hard-wired scepticism towards outsourcing, with 'we only outsource what is absolutely necessary' a common stance. Instances of where end users had had their fingers burned entrusting swathes of their IT functions to an outsourcing giant were common, perhaps not surprisingly given the woes currently being endured by the likes of Capita, Carillion and BT.

■ MSPs we spoke to were hopeful they will be a beneficiary – rather than a casualty – of the current malaise towards large-scale outsourcing thanks to their bite-sized approach that leaves the end user fully in command. Despite this, they may also find themselves having to work harder to convince end users that bringing everything back in-house isn't the answer.

■ The well-publicised outsourcing backlash is fuelling the rise of the 'hybrid services', according to one MSP quoted in this report. That is to say, rather than outsourcing everything, internal IT teams are keeping hold of strategic IT functions and collaborating with a team of external specialists that provide wrap-around services of either a commoditised or specialist nature.

■ Other growth hotspots picked out by the MSPs questioned include virtual data protection officer services, robotic process automation and Windows-as-a-service.



This is an abbreviated version of the *MSP Trends Report 2018*. The full version is available only to *CRN Essential* subscribers. For information on subscribing, please contact matthew.dalton@incisivemedia.com.

Are you in or out?

Which IT functions to keep in-house, and which to hive off to a third party, is one of the eternal questions that has vexed IT decision makers through the years.

Entrusting all or part of an IT estate to an MSP or outsourcer can yield obvious benefits for end users looking to control costs, automate basic IT functions, boost innovation or address a lack of in-house skills.

And yet many end users, concerned about protecting security, privacy and keeping knowledge inside their organisations, have opted to keep it all in-house.

Based on the views of IT decision makers at more than 250 UK end users, this report aims to provide a snapshot of how end users' attitudes to that equation are changing.

How much of an average end users' IT estate is currently managed by an external provider or providers, and is that figure growing or shrinking? Do they want to hive off more IT functions, or do the opposite and bring them back in-house? If so, what are the key drivers governing that decision?

The data, and qualitative comments left by the respondents, should serve as a guide for channel firms providing managed and fully outsourced services who want to know whether clients are likely to lean on them more – or less – in the future, and why.

We have also spoken in depth to several leading UK MSPs to cross-reference their views with our data, and gain insight into which areas of the managed services market are most in vogue.

Direction of travel

If the central goal of this report is to determine whether the appetite for working with MSPs and outsourcing firms is increasing, the answer is a resounding yes.

The data for this study was collected in October and November 2017 as part of the end-user research for *CRN's Top VARs* report. It questioned 258 IT decision makers at UK end users of all sizes (see figure 1, below) and from a range of vertical markets (see figure 2, p4).

By size, 19 per cent worked for organisations with more than 10,000 seats, 37 per cent for organisations with 1,001 to 10,000 seats and 20 per cent for those with 251 to 1,000 seats. Some 17 per cent worked for SMEs with 25 to 250 heads and six per cent for micro-businesses with between one and 25 staff. Respondents were screened out of the survey if they were not an IT decision maker within their organisation.

Respondents were asked four questions specifically about managed services, the results to which we held back from publishing in *Top VARs* with this report in mind.

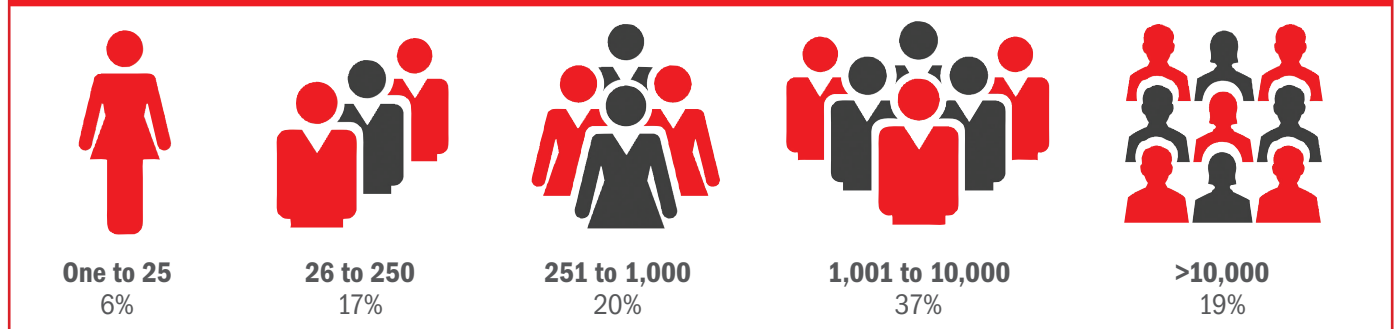
Firstly, we wanted to know to what extent they currently lean on external firms to run their IT, and whether this use is increasing.

Using a slider button, respondents were able to indicate what percentage of their IT estate is currently managed by a third-party provider or providers. They were then asked to estimate what this figure would stand at in five years' time (see figure 4, p7).

1. Which of these best characterises the industry of which your organisation is a part?

					
Education 12%	Financial services 10%	Other professional 9%	Local government 9%	Healthcare 7%	Telecoms 7%
					
Retail 6%	Media 6%	Other public sector 5%	Central government 4%	Legal 3%	All other 24%

2. How many people are employed by your organisation?



The results to these two questions was illuminating, with the average figure among the respondents rising from 36.1 per cent currently to 47.7 per cent for five years' time.

What's more, the figure rises sharply regardless of customer size.

For small businesses with one to 25 staff, it swells from 21.3 to 29.3 per cent. SMBs with 26 to 250 staff see it increasing from 31.6 to 45.7 per cent, while the equivalent stats for lower mid-market firms with 251 to 1,000 heads stand at 30.2 and 42.7 per cent.

Among the larger firms – where the levels of outsourcing has typically been highest – those with 1,001 to 10,000 employees see the figure pogoing from 40.7 to 51.0 per cent and those with 10,000-plus staff expect it to swell from 36.1 to 47.7 per cent.

Looking at the five groups, the biggest jump looks set to take place among SMBs with 26 to 250 heads. By 2022, they expect close to half of their IT estates to be managed by third parties, in line with their much larger counterparts with over 1,000 or 10,000 heads. The next-largest jump is among lower mid-market firms with 251 to 1,000 staff.

End of the mega-deal era

Data for this survey was collected just as the UK was beginning to fall out of love with outsourcing. Capita has been on rocky ground ever since it issued its first-ever profits warning in September 2016, foreshadowing the collapse of peer Carillion this January. BT Global Services is also struggling, while the annual contract value of large UK outsourcing contracts plunged 60 per cent in Q1, according to analyst ISG.

Comments left by respondents in the qualitative section of our research add some colour to this dynamic, with many sticking the boot into the outsourcing model and detailing how they are now bringing more functions in-house.

"We were outsourced and the service was so awful that we have been unsourced and it has improved drastically," said a respondent at a healthcare organisation with 251 to 1,000 staff, who predicted their outsourced services proportion would fall from 33 to 27 per cent over the next five years.

Holding onto the 'crown jewels': MSP versus fully outsourced

Managed services and fully outsourced services may be related concepts – and even sometimes used synonymously – but for Amicus ITS' JP Norman, there is one crucial difference: namely that in the former instance "you are not giving your IT crown jewels to someone else".

The MSP model, which enables clients to retain control over their policies and procedures, is an antidote to the pain many firms have felt after hiving off their IT, lock stock and barrel to a large, fully outsourced outfit, Norman claimed.

"Organisations are finding it more difficult to work with someone who is multiple times larger than they are when they are having to comply with their policies and procedures," he said. "The key difference is that we are an MSP, and it's not about outsourcing all your IT talent; it's about outsourcing the day-to-day maintenance and the specialist tasks. But we will always comply with a customer's policies and procedures, rather than forcing them to comply with us."

By enabling them to focus on innovation, this hybrid model can appeal to clients whose natural inclination is to keep as much of their IT in-house as possible, Norman said.

"We don't encourage any of our customers to outsource every single IT function and individual to us, and all the knowledge that goes with that," he said. "The business we are in is ensuring your IT works. It's about complementing and doing it at a much more economical rate than is possible by employing your own team of individuals."

"With a managed services situation, you're enabling the customer to re-utilise their IT knowledge within their organisation for some of the more interesting projects they wish to be getting on with."



Automate to innovate

Scott Dodds, CEO of £100m-revenue reseller and MSP Ultima Business Solutions, says the role of the modern MSP should be to enable their clients to innovate

According to our figures, end users expect more of their IT estate to be managed by external firms in the future, with many citing the rise of cloud as a key driver. Does that chime with what you are seeing among your mid-market clients?

Yes, definitely. I think it's increasing for the reason you mentioned – there are more cloud and more SaaS-delivered services and infrastructure, so that is continuing to drive it upwards.

We do a lot of pure professional services work on projects and more and more of those are ending in discussions around MSP-type work. If we're going to do a big cloud infrastructure change with Citrix in the cloud, or Azure, a lot of the time that comes back with a request for managing it as well.

Despite the headline figures, a lot of respondents expressed their antipathy towards the fully outsourced model and said they are bringing services back in-house. Are you hearing any similar rumblings from your customers?

It's about evolving into new services they require from a third party as they desire it, rather than 'we're going to bring it all back in-house'. I don't think that's the case.

The example I'd use is around traditional MSP helpdesk stuff. In the past that has been, 'we've got this massive problem with inbound traffic and calls (or whatever it might be) from passwords up to network problems, and I want someone to catch that, and it's going to be x thousand calls a month. I want that taken care of'. The problem with that is a lot of those agreements are set up with that as the sole objective. There's no innovation being applied to stop those calls coming in. When we talk about automation of services and robotics, it's really about call avoidance. That's the innovation bit that Ultima is focusing on.

By and large, do you think it is cheaper for end users to outsource IT functions or keep them in-house?

Again, it's down to the MSP to make sure our service levels

are optimised through the use of smart technology and automation. Just throwing bodies at it can be an answer to a lot of the problems, but it doesn't fix the challenge of how you're managing the infrastructure or software issue that the client is having a problem with. So we are doing our damndest to optimise and automate as much of the processes, first of all to give a better service, but also to release time and money to go and innovate.

What do you say to potential customers who are hell-bent on keeping everything in-house?

Clearly there are some clients, use cases and industries where [the managed services model] isn't appropriate. I would say the world is hybrid and that's a truism of the cloud and the services you want to buy, and everything else.

If the company you are working with wants to innovate and do new things, I think the MSP can come in and really help with that. If it's just keeping the lights on and using old-style outsourcing, which is essentially driving down the costs to as little as possible, the customer is not getting anywhere near the innovation and chance to move with the flow of the market. All customers need to work out how they innovate, be it the application layer, the customer engagement layer – whatever it is. But they need to release the money out of the infrastructure costs to do that – and that's our story. Automate to innovate.



This was echoed by a respondent at a telecoms firm with 10,000-plus staff who said their firm is "rapidly insourcing and reversing the outsourcing of 15 to 20 years ago". They expected the proportion of their IT estate which is managed by third parties to fall by three quarters, from 40 to 10 per cent.

"The problem is that all the clever bods have left the business (as they lost their jobs!) so the rest of us are unpicking the mess from the last two decades," they explained.

Although outsourcing and managed services are closely related, they are – of course – subtly different concepts, with a separate cast of players and different business drivers, with the latter enabling clients to retain ultimate control of the service or services in question.

Indeed, some of the MSPs we spoke to for this report suggested that they have been a direct beneficiary of outsourcing's woes, as some end users look to disaggregate contracts and work with smaller providers who allow them to retain ultimate control over IT strategy.

John Pepper, managing director of Milton Keynes-based MSP Managed 24/7, claimed MSPs are profiting from this dynamic, with clients now more likely to plump for a halfway house of a “hybrid services model”.

Pepper said Managed 24/7 had picked up “four or five” contracts in the last six months where mid-market or large firms are cutting services into chunks. This includes Virgin Trains.

“We are seeing a move to customers wanting more modular services experts,” he said. “Rather than taking everything outsourced, businesses are choosing particular services companies to do particular things, be that security, be it in tools, so wrapping around automation around existing teams.

“We’re moving into that world of hybrid services where there is collaboration between an internal team and then a wraparound function of specific service providers. Virgin is a good example.”

JP Norman, director of technology, security and governance at Southampton-based MSP Amicus ITS, agreed, saying the healthcare and public sector specialist is seeing “some significant disaggregation of the large players in the market”.

“It’s fair to say that MSPs such as us, which focus on managing services rather than full outsourcing, are able to pick up from some of the very large disaggregation of contracts,” he said.

Outsourcing impetus

As the previous comments indicate, the growing hostility towards monolithic outsourcing projects isn’t necessarily a sign that the appetite for managed and outsourced services more broadly is shrinking.

As well as the headline question, which looked forwards, we also asked respondents whether, in the last five years, their organisation’s appetite for entrusting certain IT functions (such as helpdesk support) to a third-party IT supplier had risen, fallen or stayed the same (*see figure 3, right*).

Close to half (48 per cent) said it had stayed the same, with 23 per cent saying it had shrunk and 27 per cent saying it had risen.

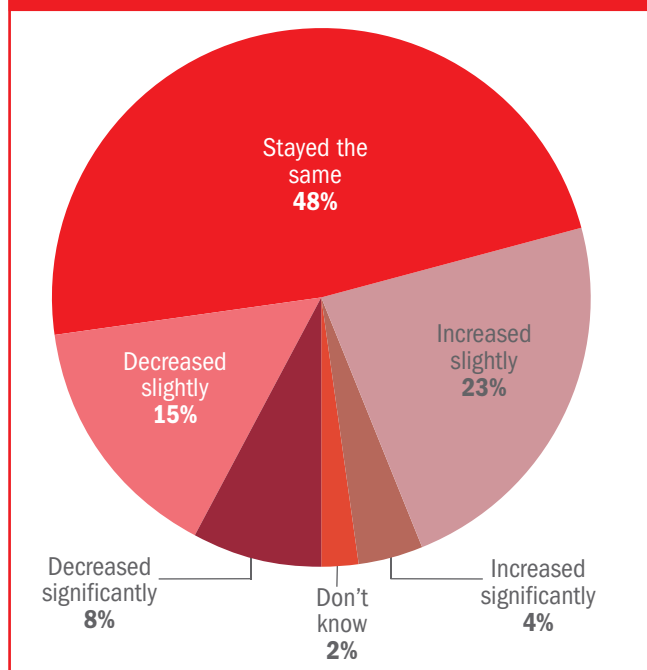
Respondents were invited to expand on their attitudes towards outsourcing and managed services in a qualitative comments section.

Among those who said their organisations are hiving off more functions to a third party, complexity of IT and lack of in-house skills were often mentioned.

Cloud, however, was name-checked more than any other factor, and appears to be a major reason why some firms are predicting that the management of more IT functions will move outside their own walls in years to come.

“The cloud and subscription model has changed the company’s view [on keeping things in-house versus outsourcing them],” said a respondent at a professional

3. Over the last five years, has your organisation’s appetite for entrusting certain IT functions to a third-party supplier:



services firm with between 26 and 250 staff, who saw the percentage of their IT estate that is managed by a third party/parties rising from 40 to 60 per cent.

They added: “As we have downsized it is now cheaper to host applications with vendors than it is to do this in house. [Office] 365 a perfect example. There is simply no RoI on doing some of the cloud/hosting model on-premise.”

Another respondent at a 1,000-plus-employee financial services firm, who predicted that third parties will manage 60 per cent of their IT estate in five years, up from 25 per cent today, said: “Our specialised services will remain in-house though over time some of them will run in the cloud. Generic business functionality is significantly cloud based and partly outsourced already. This trend will continue.”

Meanwhile, another public sector respondent, who envisaged the proportion of their IT estate managed by third-party firms to hike from 60 to 90 per cent, said: “Generally we adopt a cloud-first strategy, and I anticipate more services being hosted and managed by cloud providers. More functions will probably be outsourced, but it’s likely to be much more ‘cloud hosting’ than outsourcing. IT suppliers do have a role in augmenting existing technical skills but generally this is quite limited here due to cost.”

Norman at Amicus ITS argued that the managed services model, specifically, has benefited from the uptake of cloud.

“The general public and business users are getting more and more used to and comfortable with the use of cloud technologies such as Microsoft Azure and Google,” he said. “It then becomes natural to outsource that movement and support because the managed services environment has the skills which at the moment are still relatively expensive

if you were to purchase them for a single company. [MSPs] can do the cloud migrations safely and monitor and manage the cloud work on behalf of a firm at a much more economic rate than employing their own dedicated teams.”

Putting cloud to one side, several respondents cited a lack of in-house skills as the impetus for working more with MSPs or outsourcers.

One respondent from the world of retail, who saw managed IT and outsourcing providers increasing their sway over their firm’s IT estate from 11 to 17 per cent, said they were “looking to outsource to reduce reliance on limited in-house skills”.

Another respondent who worked for a large public sector organisation, and who anticipated that the percentage of their IT estate managed by third parties will rise from 15 to 25 per cent, added that they are “finding it hard to recruit permanent staff due to the cost of living in our part of the country. So we need to look outside even if we would prefer in-house staff. IT suppliers can provide us with contingent labour to help us keep progressing.”

Meanwhile, a local government respondent, who estimated the proportion of their IT estate managed by a third party would stay at roughly 50 per cent, complained that it is “too complex for in-house teams to do everything properly”.

“We’re looking to outsource first-line support,” said another respondent at a professional services firm with between 26 and 500 heads, who saw the proportion of their IT estate managed by third parties growing from 65 to 89 per cent.

Winning over the sceptics

Other respondents, however, remained obstinately opposed to the idea of moving the management of any more IT functions than is necessary outside their own teams.

Some 5.2 per cent of respondents claimed zero per cent of their IT estate is currently managed by third parties, with a further 7.1 per cent claiming the figure stands at between one and five per cent.

“We do not outsource IT functions,” said one respondent at a printing firm with 26 to 500 employees who claimed zero per cent of their IT estate is managed by third parties.

“Basically we do things in-house; we only outsource where we perceive specialist skills are needed on an irregular basis,” said another respondent at an education organisation with more than 1,000 heads who estimated the proportion of their IT estate managed by third parties would double to 20 per cent.

Concerns over security and keeping knowledge inside the organisation were often cited among those reticent to use third-party providers.

Cost was a factor that split respondents down

the middle, with some finding an outsourced model cheaper and others believing it does not represent value for money.

One respondent working in the housing sector, who envisaged outsourcing staying at 10 per cent of their IT estate, said there was “false economy in outsourcing”.

“It is cheaper up front, but service levels suffer,” they said.

“For general IT it is much cheaper to do in-house,” agreed a respondent at a small IT firm, who said eight per cent of their IT estate was managed by third parties, a figure they expected would remain static.

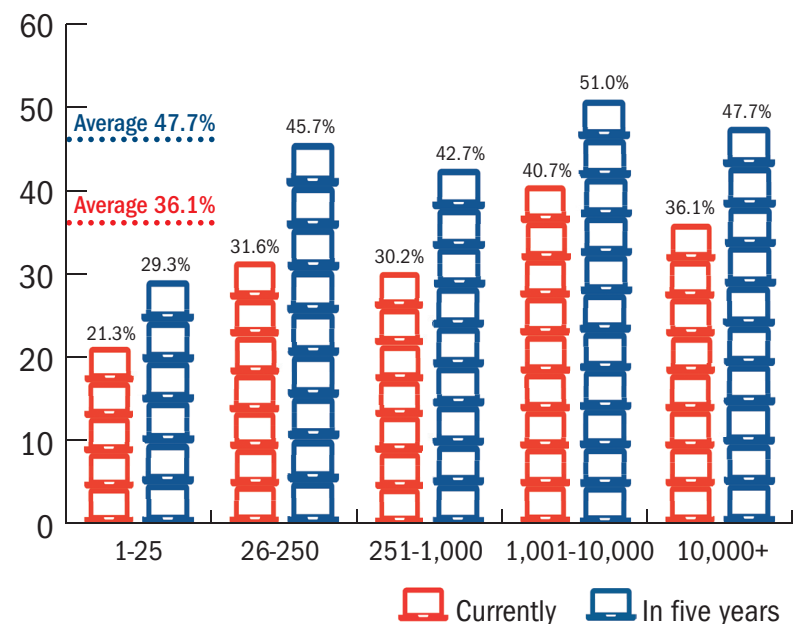
Amicus’ Norman, however, argued that an outsourced or managed services model often works out cheaper, especially where the MSP can offer economies of scale.

He gave the example of a situation where a firm employs one person to maintain a particular system within their business.

“It sounds great, but that person has holiday allocation in their contract, which means you need a second person to cover holiday,” he said. “Then throw in illness and it means one system that could be supported by one person actually equates to about three, to make sure that one system is maintained for 365 days. Value for money would suggest working with an MSP. You may wish to keep one of those resources in-house as they have unique knowledge of the business layer as well as the IT layer, but we can save the cost of other staff because we can suck up the work within our wider teams.”

Pepper at Managed 24-7 said firms that in-source everything may find it difficult to keep pace with innovation and new security threats.

4. Average outsourced IT services by customer size



"Some customers won't see [managed services] as a way forward until they suddenly realise the team won't keep up with the demands of the business or a security threat that the business doesn't have the skills to deal with," he said.

"A lot of the more innovative businesses we work with are working on this hybrid services model where they're saying 'we've got a great team in-house, but now we want to extend the capability of that team'.

"So many threats appear every day, and so much innovation, that to drive the business forward you need more than an internal team. When you get to 500 employees, 2,000 employees, if you're running an internal team and not having conversations beyond those four walls, that's a threat."

That certainly chimes with one respondent in our survey who worked for a manufacturing firm with 251 to 1,000 heads and who saw outsourced IT services rising from 15 to 50 per cent.

"We are trying to use outsourced providers to do the operation work, while using our in-house staff to do the innovation," they said.

This was echoed by a retail respondent, who saw outsourced IT rising from 25 to 40 per cent of the total. "Our preference is to outsource commoditised skills and retain the value-added skills and knowledge internally," they said.

Growth hotspots

The terms 'commoditisation' and 'saturation' are never far from any conversation about today's rapidly maturing managed services market, and how to differentiate in a crowded market is a question that vexes every MSP.

Locating the next growth hotspots of the managed and outsourced IT market is therefore more vital than ever for MSPs if they are to avoid the margin crunch.

In line with his previous comments, Pepper at Managed 24/7 said the biggest growth opportunities lie around helping clients extend capabilities through the night.

"Things like the tools and applications running networks, [clients] want to outsource that function and deliver

beautiful dashboards back to their team to work on," he said. "And security – the SOC play. We're not experts in SOC, but we do work very closely with third-party SOC providers as part of our ecosystem to deliver this hybrid services model which the clients are asking for."

Norman at Amicus picked out cloud migration and management as a growth hotspot, adding that demand for a virtual data protection officer (DPO) service is also picking up quickly.

"On the back of GDPR, that virtual DPO service is becoming very popular," he said. "It doesn't require the significant investment it would do for one individual per company. And it enables our customers to pick up the same sort of advice, the same sort of policy changes, that we are able to provide through me and my team as a virtual service, rather than that focused investment."

Dodds at Ultima, meanwhile, pinpointed robotic process automation and Windows-as-a-service as a red-hot areas for MSPs.

"There are better and better models coming out for financing devices and refreshing. Everyone is getting their heads around what that means as it has only been a year or two since Windows-as-a-service has been possible," he said.



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