

Report

datto

# Datto's Global State of the MSP Report

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# Introduction

Datto surveyed more than 1,800 managed service providers (MSPs) worldwide to learn more about who they are and what they care about. Of those surveyed, only 17% were active Datto partners. The result: A wealth of data and insights from a diverse sample of MSPs on how they run their business, the solutions they use to serve clients, and their predictions for the next few years.

There were a number of results that stood out, especially when compared to previous Datto surveys. For one, respondents said that competition is now their top challenge. Also, nearly all MSPs now offer some flavor of managed security services. Finally, most MSPs expect that at least half of client workloads will be in the cloud by 2023.

It is also important to note that nearly all respondents said that now is a good time to be an MSP. And while each of the items above may have a connection to COVID-19, MSP revenues were not significantly impacted by the global pandemic. This is quite remarkable and speaks to the strength of the managed services business model.

MSPs are not just the core of the IT channel and Datto's business, but essential service providers for millions of small and medium businesses. We hope that this report helps shed light on their thriving industry.

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# Research Approach

This report is based on a survey of over 1,800 MSPs worldwide. It was conducted by [Strategy Analytics](#), an independent research firm based in Boston, Massachusetts.

## Methodology:

- 15-minute online survey
- Ending sample is a total of n= 1,884 globally

## Respondents:

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

## Regions:

### n=610 North America

- n= 410 US
- n= 200 Canada

### n=744 Europe

- n= 159 UK/Ireland
- n= 158 Benelux (Belgium, Netherlands, Luxembourg)
- n= 159 DACH (Germany, Austria, Switzerland)
- n= 109 ROE (France, Italy)
- n= 159 Nordics (Denmark, Norway, Sweden)

### n=526 APAC

- n= 104 Australia
- n= 105 New Zealand
- n= 105 Singapore
- n= 107 Indonesia
- n= 105 Philippines



# Glossary of Terms

**SMB** - Small and medium 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."

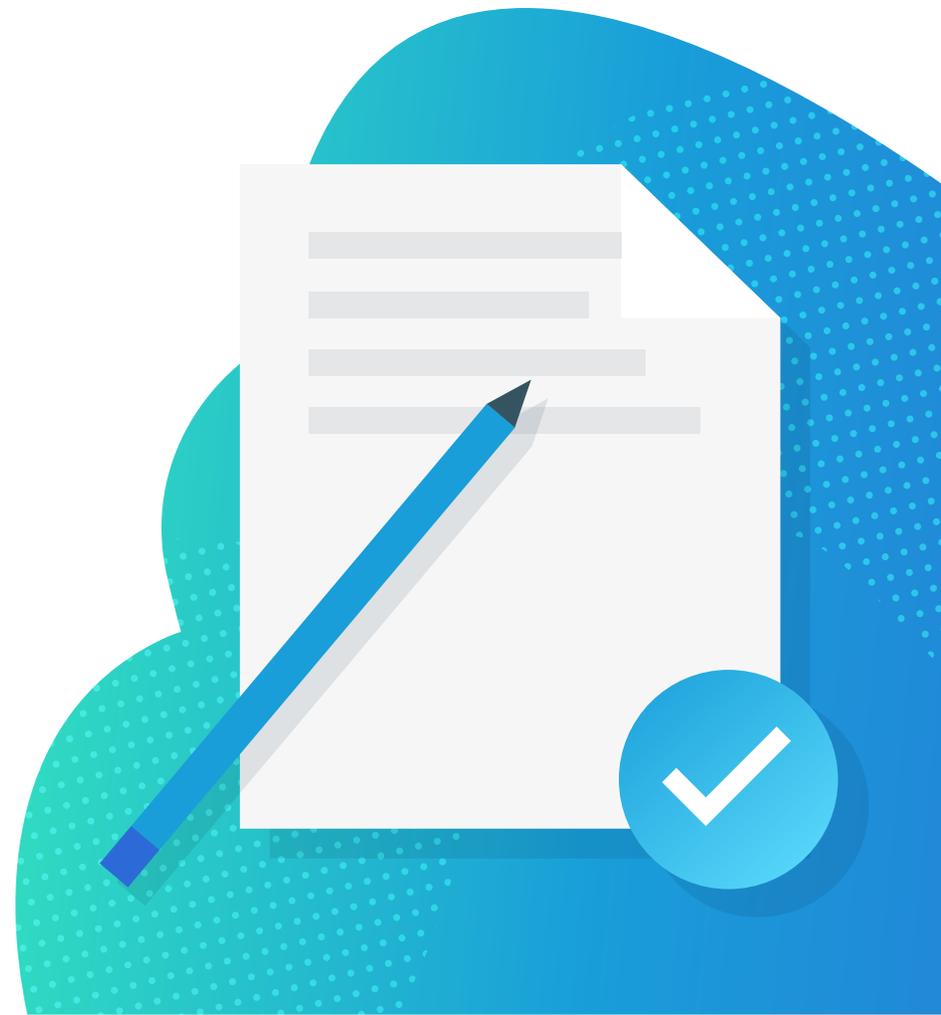
**MSP** - Managed service provider. A third-party IT contractor or firm that delivers an agreed upon set of services for a monthly or annual fee.

**MSSP** - Managed security service provider. Due to the complexity of IT security, MSSPs focus on it exclusively. Many MSPs partner with MSSPs for their security expertise.

**Co-managed IT** - A model in which multiple parties are responsible for a single organization's IT needs. This might mean an MSP and an MSSP working together as outlined in the example above. Or, it could mean an MSP partnering with an organization's internal IT team.

**Break-fix IT** - IT services delivered on a project basis. Many MSPs started as break-fix IT providers and some portion of their revenue may come from one-off projects billed on an hourly basis.

**Cyber resilience** - Cyber resilience is a measure of strength in preparing for, operating through, and recovering from a cyber attack. It relies on the successful ability to identify, protect, detect, respond, and recover quickly from any cyber event and combines cyber security, business continuity, and incident response.



# Major Findings

**Competition** is the top challenge facing MSPs.



**COVID-19** had a mixed **impact** on revenue, but most saw a slight increase or stayed flat.



Nearly all MSPs currently offer some flavor of **managed security services**.



Most MSPs expect that at least **half of client workloads** will be in the cloud by 2023.



# The Business of Managed Services

**Just over half of respondents said they have been in business between six and 11 years.** However, nearly a quarter reported that they've been in business for less than five years, indicating the industry is still attracting newcomers.

This makes sense considering that 93% of respondents said now is a good time to be in their industry and 96% expect that revenue will increase over the next three years. That being said, competition is getting stiffer—34% said it was their biggest challenge. It will be interesting to see how this plays out over the next few years as the market gets more crowded.

93%

believe now is a good time to be an MSP

52%

have been in business between six and 11 years

34%

said that competition is their biggest challenge

**Geo trend:** MSP optimism was strong across all regions surveyed, but MSPs in the UK and Ireland were particularly bullish—98% said it was a good time to be an MSP. MSPs in APAC were more concerned about compliance and data privacy than other regions. 21% said it was a challenge compared with 15% in North America and 14% in Europe.

# Who MSPs Serve

**The majority of MSPs reported serving businesses with 20 to 200 employees.** More specifically, the 50 to 100 employee-range was most common (24%) followed closely by 25 to 50 (20%) and then 100 to 150 (16%). Outside of the 20 to 200 employee-range, there was a sharp drop-off on either end. Very few respondents serve clients with less than 10 employees (3%) or more than 300 employees (1%).

On average, the clients of the responding MSPs spent \$13k per year on managed services—27% fell within the \$5K to \$10K range, and another 28% spent \$10K to \$15K. Some clients spent an even larger amount with responding MSPs, though—18% spent between \$15K and \$20K and another 8% spent between \$20K and \$30K.

Telecom (46%), High Tech (45%), and Healthcare (44%) were the top industries the responding MSPs report serving, but it is clear that, in general, MSPs across the globe target a very wide variety of verticals. Many respondents have clients in Travel/Transportation, Manufacturing, Professional Services, Energy, Media/Entertainment, and Finance, as well.



**84%** of MSP clients have between 20 and 200 employees



The majority of MSP clients spend between **\$5,000 and \$15,000** per year on managed services



**Geo trend:** Among the responding MSPs, the clients of the North American MSPs are somewhat larger in size than in other parts of the world —21% reported clients in the 100-150 employee range compared to 16% across all regions surveyed. However, the 51-99 employee size is the sweet spot in all regions. Benelux MSPs serve larger clients than other parts of Europe with 33% reporting client size between 100 and 200 employees. Benelux MSP's clients also spend more on services—nearly half spend more than \$15K annually.



On average, MSPs serve SMBs across **5 to 6** industries

# Managed Services Revenue by the Numbers

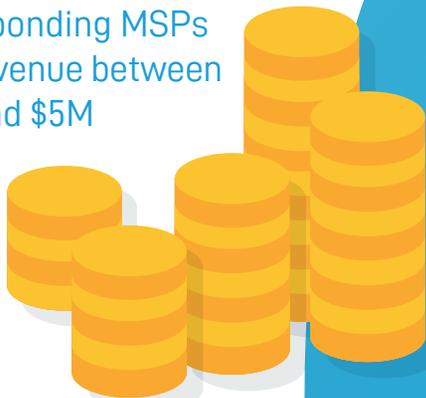
## Annual Revenue

Nearly 40% reported annual revenues between \$1M and 5M and 32% said they had annual revenue of less than \$1M. However, 15% of respondents had annual revenue of over \$10M and 6% over \$20M. This illustrates the diversity among MSPs in terms of revenue while underscoring just how lucrative the business can be. MSPs are stackin' chips!

67% of respondents' total revenue came from recurring services, a key marker of MSP maturity. 24% of revenue came from break-fix/project-based work. This is likely because many MSPs have flexibility built into their contracts to charge extra for projects that fall outside of their normal responsibilities. Others may have legacy clients that have not been converted over to managed services.

**Nearly 40%**

of responding MSPs had revenue between \$1M and \$5M



**67%**

total annual revenue of responding MSPs from managed services



# Managed Services Revenue by the Numbers

## COVID-19 Pandemic Impact

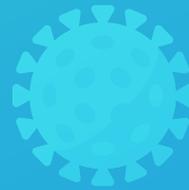
The impact of COVID-19 on managed services was a mixed bag.

Nearly half of the responding MSPs experienced a modest increase in revenue due to the pandemic, but almost 1 in 5 experienced a decrease. Others saw no impact—36% reported no change in revenue. More than half of MSPs reported an increased workload due to COVID-19, while 27% increased headcount.

Many MSPs serve clients that shifted to a work-from-home scenario. For those MSPs, potential revenue loss was likely offset by helping clients "go remote," the transition to SaaS applications, or moving workloads into the cloud.



**47%**  
of MSPs saw a slight increase in revenue as a result of COVID-19



**18%**  
saw a decrease in revenue due to COVID-19

**Geo trend:** More Europeans (50%) reported a revenue increase during COVID-19 compared to other regions.

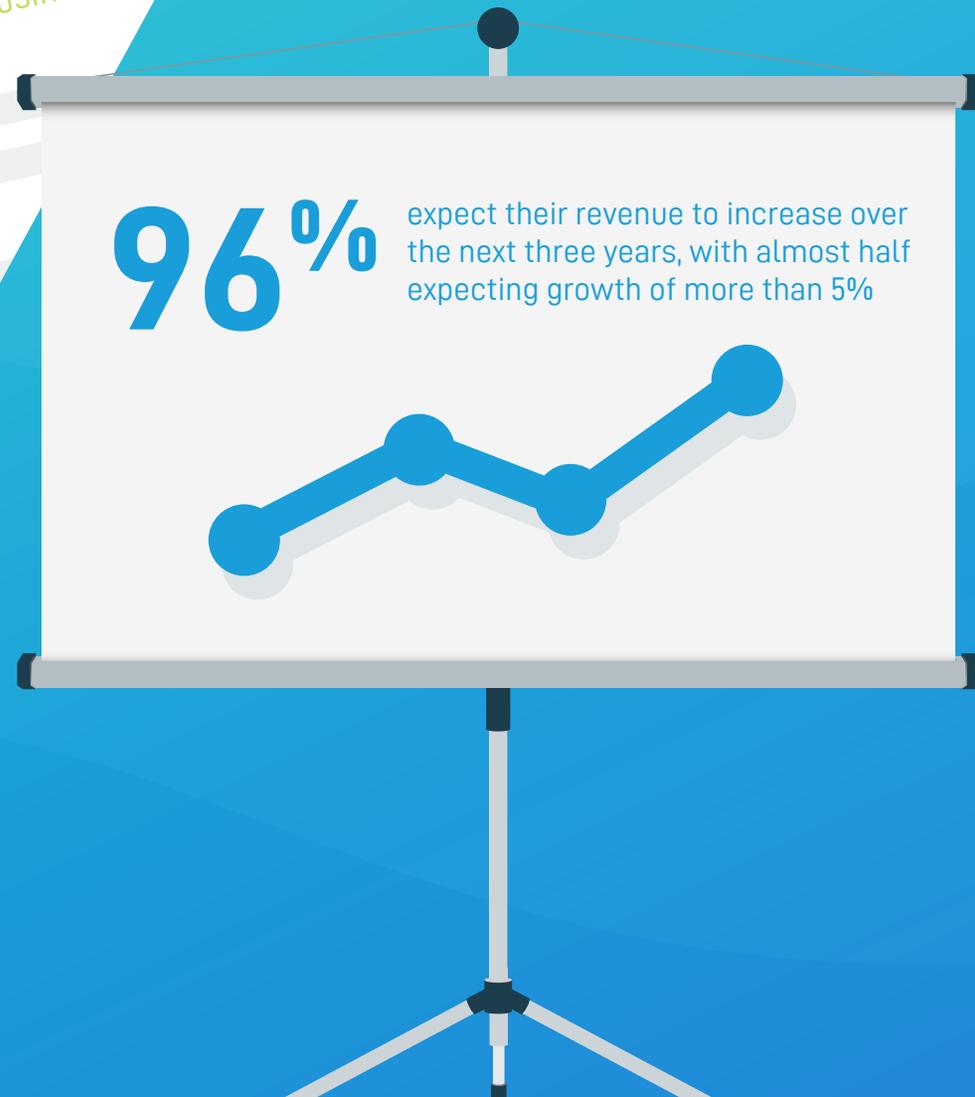


**58%**  
saw an increase in workload due to COVID-19

# Managed Services Revenue by the Numbers

## Annual Growth

MSPs that responded to the survey have a **positive outlook** for growth as the economy continues to recover following the COVID-19 pandemic. Nearly all MSPs said that they expect revenue growth in the next three years and that they set specific growth goals.



**Geo trend:** The responding MSPs in Europe and APAC expect to see slightly more growth in the next three years than North American MSPs. 53% of respondents in Europe and 51% of respondents in APAC said that they expect to see between 5% and 10% over the next three years, compared with 35% of North American respondents who expected growth.

# What's Keeping MSPs Up at Night?

The top challenge of responding MSPs was competition, followed by revenue growth, profitability, and acquiring new customers. This isn't particularly surprising, as MSPs have consistently reported sales- and marketing-related challenges in our State of the MSP surveys. However, this year was the first time that competition topped the list.

It makes sense that the MSP space is competitive and getting more so. Even in a global pandemic, many MSPs saw revenue growth, while lots of other industries did not fare nearly as well.

*Survey respondents were able to enter multiple responses.*



# Top Products and Services Offered by MSPs

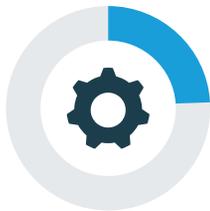
## Current Managed Services Offerings

Nearly all MSPs responding to the survey now offer cloud-based infrastructure design and management, indicating that the shift to the cloud is well underway among SMBs. Many predicted that COVID-19 would accelerate the migration to the cloud, and that appears to be the case. Bread and butter MSP offerings, like office productivity and BCDR, rounded out the top three.

## Planned Managed Services Offerings (within the next 12 months)



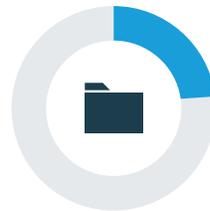
25% of MSPs report collaboration software



24% of MSPs report application integration/middleware



24% of MSPs report video surveillance



23% of MSPs report storage design and implementation



**Geo trend:** It seems New Zealanders are keen on application integration/middleware. 44% of the responding MSPs located in New Zealand cited integration/middleware as a planned service offering in the next 12 months, higher than any other region.

93%

Office productivity software services (Microsoft 365, Google Workspace, etc.)

88%

Business continuity and disaster recovery (BCDR)

97%

Cloud-based infrastructure design and management

Survey respondents were able to enter multiple responses.

# Managed Security Services

## Nearly All Responding MSPs Offer Managed Security Services

Given the increase in ransomware and security breaches in the past year, this is hardly surprising. SMBs need security expertise now more than ever, but many are simply unable or unwilling to hire in-house security specialists. A third (or more) of respondents in all markets believe security solutions present significant new business opportunities.



99%

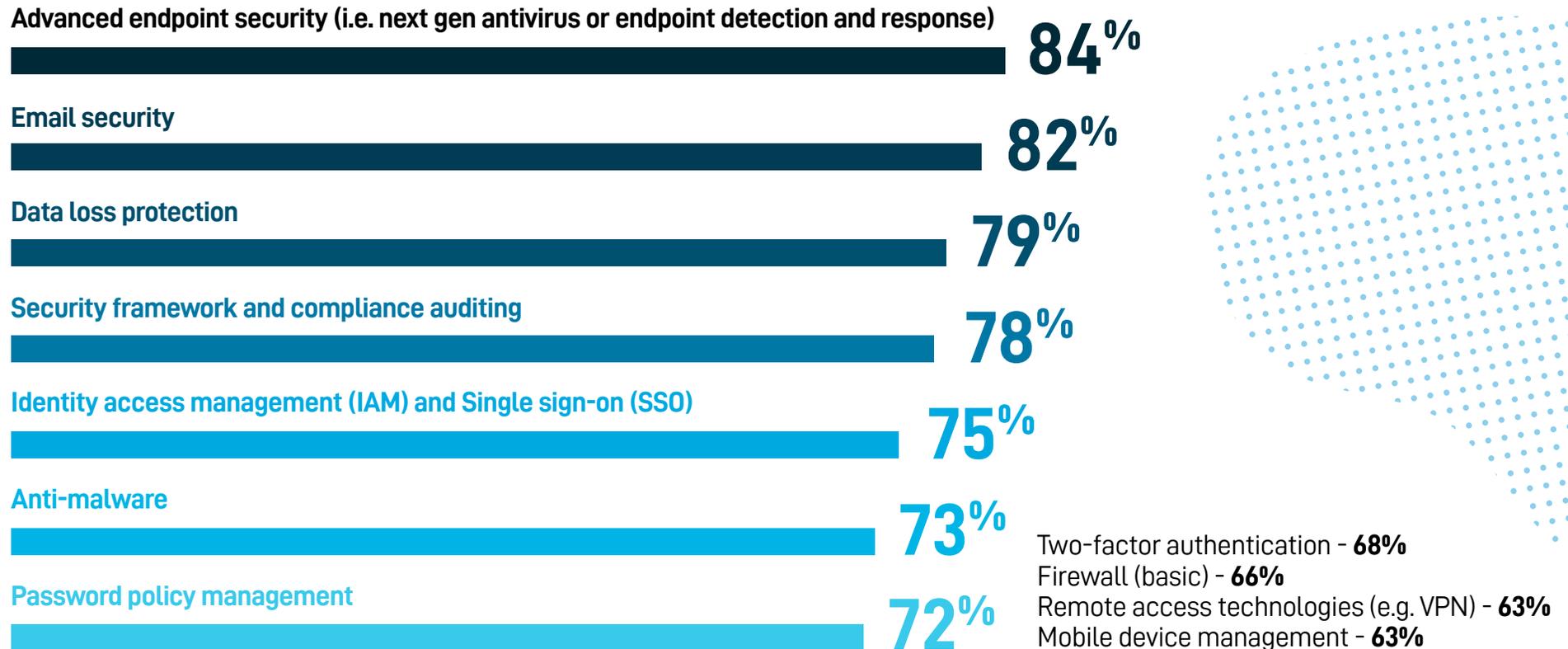
of responding MSPs offer managed security services



# Managed Security Services

## Managed Security Offerings

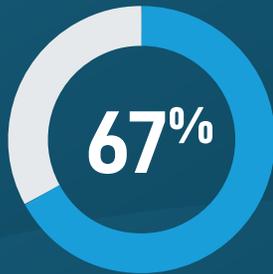
The specific security services offered by the responding MSPs vary, but endpoint and email security technologies topped the list, and anti-malware software wasn't far behind, pointing to the need for a multi-faceted approach to ransomware protection. Data loss prevention, security and compliance auditing, and access management tools were prevalent as well, reflecting the variety of threats SMBs face.



# Managed Security Services

## Building Security Expertise

The responding MSPs acquired security expertise in a variety of ways ranging from partnering with security vendors to hiring experienced security personnel. Partnering with managed security service providers (MSSPs) and managed detection response (MDR) providers was also popular.



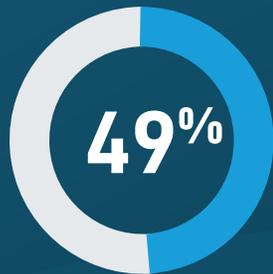
Co-managed security tools



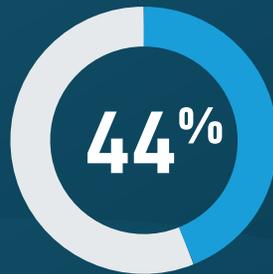
Partner with an MSSP



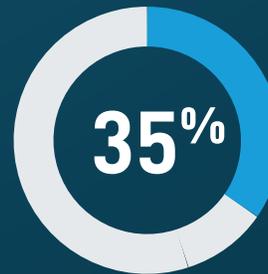
Hire internal security talent



Contract/Consulting security expert



Partner with an MDR provider



Education of internal talent pools

# Managed Security Services

## Security and Compliance Standards

The Center for Internet Security (CIS) Controls topped the list of security and compliance frameworks that the responding MSPs are using this year, but just barely. Still, this tracks with the security spree indicated by much of this year's results. PCI-DSS followed very closely. SOC II, two CMMC levels, and HIPAA tied for the third spot.



"The emergence of CIS controls as a top framework, the prevalence of co-managed security offerings, and MSP partnering with MSSPs are all promising trends. As MSPs progress with CIS controls, I expect that they will expand their security offerings further to include cyber resilience capabilities, which support the detection, response, and recovery from realized threats," said Datto CISO Ryan Weeks. "MSPs that are ahead of the curve with these offerings stand a better chance of capturing a larger portion of growth in SMB IT spend attributed to security capabilities in the coming years."

**CIS**  
**18%**

**PCI-DSS**  
**17%**

**SOC II**  
**15%**

**CMMC Level 5**  
**15%**

**NIST CSF**  
**14%**

**CMMC Level 3**  
**14%**

**HIPAA**  
**14%**

**CMMC Level 1**  
**14%**

# Solutions that Positively Impacted MSP Businesses

Security tools dominated the most valuable solutions category this year, in keeping with the fact that managed security services were nearly ubiquitous among respondents. All of these solutions were specifically designed for security or play a role in an MSP's security strategy.

Datto partners saw a more positive impact from several tools than other respondents—especially threat intelligence.



**46%** Advanced endpoint security

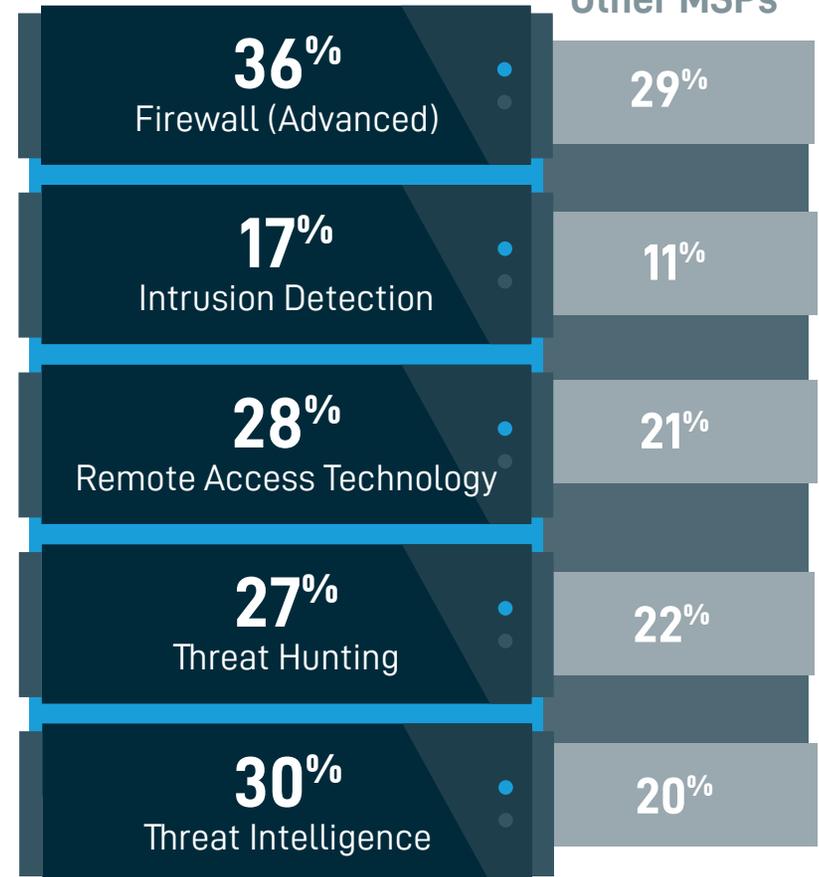
- 39% Email security
- 35% Data loss prevention
- 33% Identity management/SSO
- 32% Firewall (basic)
- 31% Anti-malware
- 30% Firewall (advanced)
- 29% Password policy management
- 28% Mobile device management
- 22% Remote access technology



**Geo trend:** North American MSPs responding to the survey saw more of a positive impact from anti-malware than other regions, while APAC ranked threat hunting and threat intelligence higher. Perhaps this indicates a difference in the types of attacks MSPs and SMBs are facing in each region.

## Datto Partners

### Other MSPs



*Survey respondents were able to enter multiple responses.*

# SMBs Shift to the Cloud

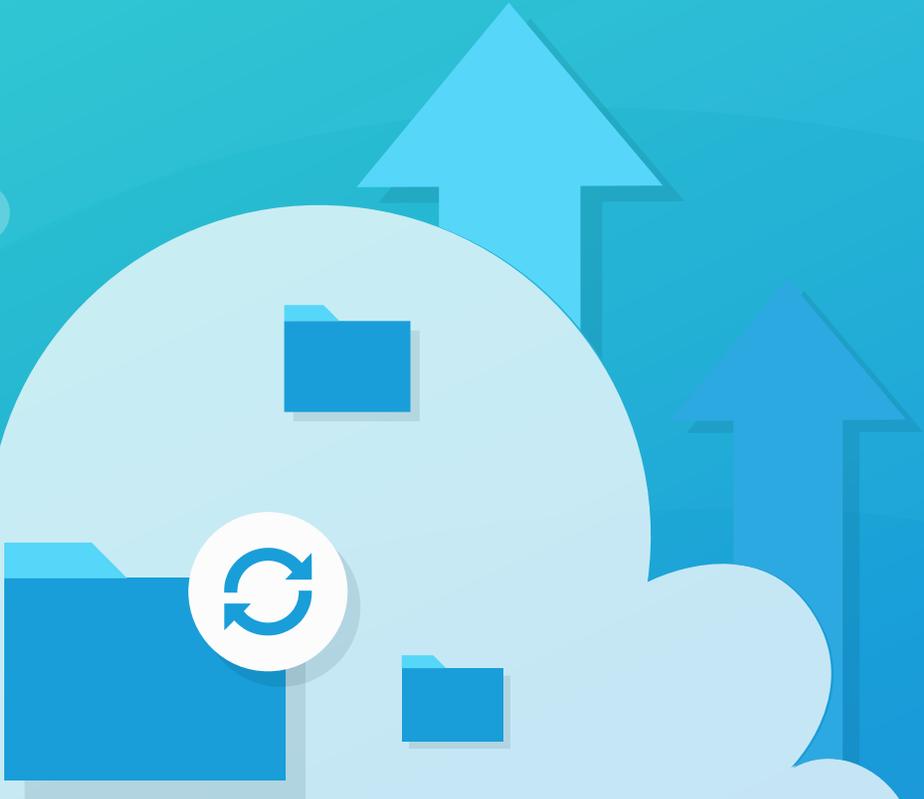
## Cloud Use is Now Ubiquitous Among SMBs

It's been bandied about for years, but SMB cloud use has finally gone mainstream. Nearly all respondents said that their clients have shifted workloads to the cloud. Nearly two in five MSPs said that their clients have between 25% and 50% of workloads in the cloud today. Half said they have between 50% and 75% in the cloud.

This shift is projected to continue over the next three years. Almost all respondents said that at least half of their clients' workloads will be in the cloud by 2024. Of those, 53% said that more than three-quarters of client workloads would be in the cloud. Not surprisingly, on-prem server use is in decline. Only 5% of MSPs expect on-premises server use to increase over the next three years.



**99%** of MSP clients are using the cloud in some capacity



**50%** of MSP clients have shifted more than half of their workloads to the cloud

**93%** of MSPs expect to have at least half of client workloads in the cloud in the next three years

# SMBs Shift to the Cloud

## Which Workloads?

Of the workloads already in the cloud, the respondents said that databases, email, and application servers were most common (and expected to continue to be most common in the next three years).

File servers, office productivity applications, print servers, and domain controllers have also been moved into the cloud. Of those, print servers and domain controllers are least expected to be off-prem in the next two years.

Database Servers

88%

Application Servers

84%

Email Servers

87%

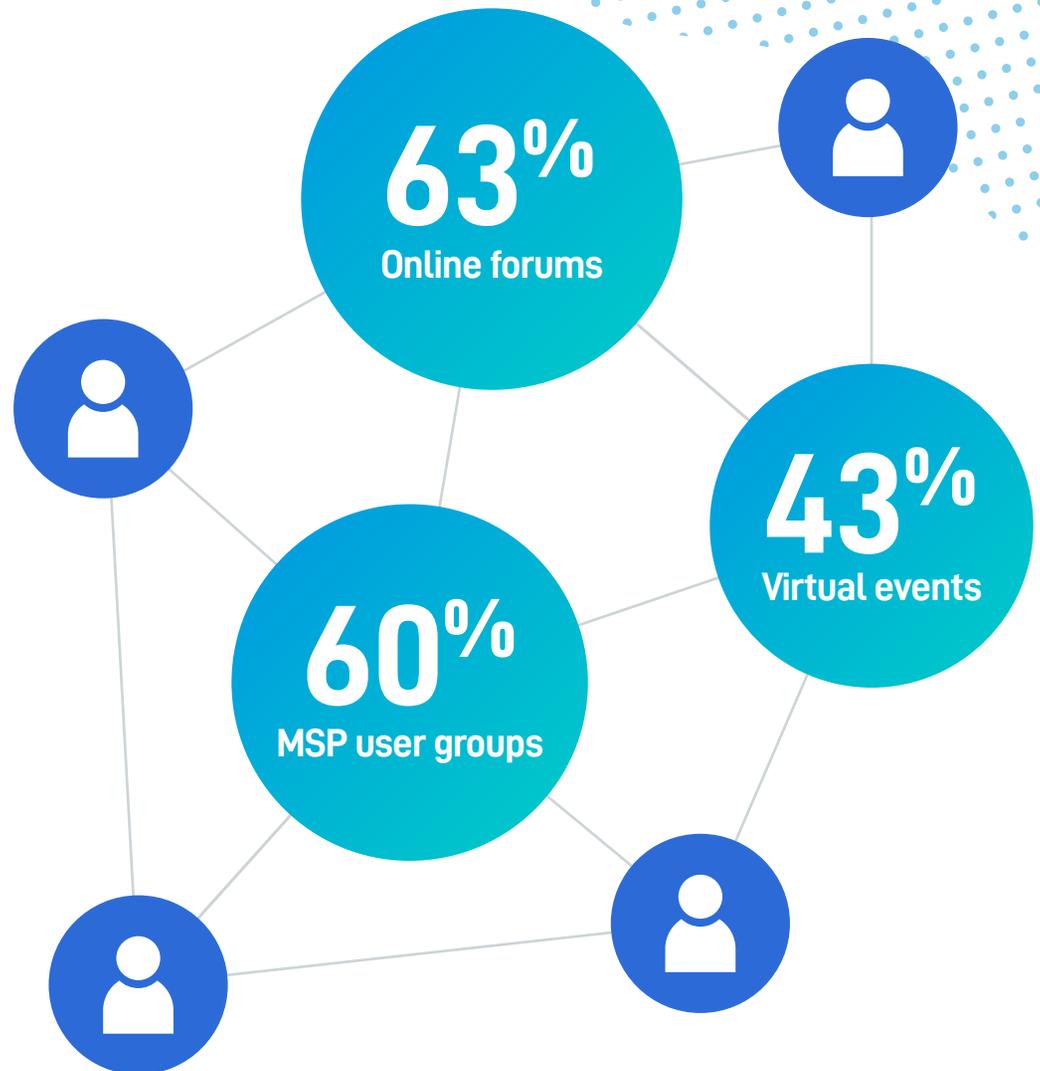
**Geo trend:** In APAC, 6 in 10 of the responding MSPs expect 75% or more of databases to be in the cloud in the next 2 years. By comparison, only 4 in 10 North American MSPs expect 75% of databases in the cloud. APAC is ahead of the curve with application servers as well. Among respondents, they have the largest percentage of app servers in the cloud today, and more than half expect 75% or more to be in the cloud in 2 years.

# How MSPs Network

**As in-person events were canceled worldwide due to COVID-19, responding MSPs went online to connect.** Online forums were the preferred method for networking with peers and vendors, followed closely by MSP user groups. Virtual events, such as Datto's own MSP Tech Day series, rounded out the top three.

It's worth noting that passive networking seemed to be the most popular approach this year. As evidenced by other results in our survey (revenue growth; increased competition), responding MSPs stayed quite busy in 2020. Perhaps this is why they preferred interacting with peers and vendors on their own time via forums rather than sitting for a full, scheduled virtual event.

**Geo trend:** Online community forums are used more in Benelux (69%) than other markets in Europe for networking with peers and vendors.



*Survey respondents were able to enter multiple responses.*

# Key Takeaways

- **Competition** is the top challenge facing MSPs.
- **COVID-19 had a mixed impact** on revenue, but most saw a slight increase or stayed flat.
- Nearly all MSPs currently offer some flavor of **managed security services**.
- Most MSPs expect that **at least half of client workloads** will be in the cloud by 2023.



# About the Report

Datto's 2021 State of the MSP Report is based on statistics pulled from a survey of roughly 1,800 managed service providers worldwide. The survey was conducted by [Strategy Analytics](#) on behalf of Datto. To learn more about the results, please reach out to Nirupama Raghavan, Vice President, Demand Generation at Datto, Inc.

## Credits

This report was created by (a-z): Andrew Burton, Tori Price, Michaela Scampoli, and Katie Thornton of Datto, Inc. Research was conducted by Strategy Analytics. Illustrations were created by [MRPJ Designs, Inc.](#)

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# About Datto

As the world's leading provider of cloud-based software and security solutions purpose-built for delivery by managed service providers (MSPs), Datto believes there is no limit to what small and medium businesses (SMBs) can achieve with the right technology. Datto's proven Unified Continuity, Networking, 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, rapid growth, and for fostering an outstanding workplace. With headquarters in Norwalk, Connecticut, Datto has global offices in Australia, Canada, China, Denmark, Germany, Israel, the Netherlands, Singapore, and the United Kingdom.

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