IT GLUE 2018 GLOBAL MSP
BENCHMARK REPORT
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2018 marks the first year of the IT Glue Global MSP Benchmark Report, and we received an absolutely fantastic response. So thank you!

This exclusive whitepaper, rich in business intelligence, represents a synthesis of your responses and our analysis. To that end, we’ve extracted critical insights as to what works and what doesn’t.

In this whitepaper, we introduce the concept of the Golden Quintile. In a world where only 20% of small businesses are successfully sold, it’s critical that you know what a desirable acquisition looks like, in case you ever want to stop working.

The top-performing MSPs are the ones most likely to be sold, so we identified what that top performer looks like. More important, we’ve identified what top-performing MSPs do, and do not do, to get and maintain their positions at the top of the industry.

At IT Glue, we’re bullish about the MSP space. We see our partners as some of the most progressive MSPs around.

Here’s to continued momentum through 2018 and we’ll see you again for the 2019 Global MSP Benchmark Survey!
PARTICIPANTS

IT Glue’s first Global MSP Benchmark Survey garnered hundreds of responses from MSPs across 20 countries. Of these countries, we saw the most involvement from the United States, Australia, the Netherlands, and Canada.

To facilitate a comprehensive picture of the trends and strategies MSPs are employing today, we opened our survey up to both partners and non-partners alike. Our results indicate that the responses came from 80% partners as well as insights from 20% non-partners.
The MSP industry demonstrates significant growth and opportunity for businesses moving forward. The large majority of MSPs indicated that they saw an increase in revenue from their previous year. 21% reported both higher revenue and margins over 20%. We call this group the Golden Quintile. It is interesting to note that 50% of these top performers have revenues under $1 million, highlighting that many small MSPs can pack a powerful punch.
Among IT Glue partners, 81% reported higher earnings last year than the year prior. 66% of non-IT Glue partners reported higher earnings last year. This suggests that the most progressive MSPs are IT Glue users. Or it might mean IT Glue contributes to profitability. Among partners reporting higher earnings last year, 84% of the ones with over $2M in revenue were IT Glue partners, versus 78% of the ones with revenues lower than $2M. MSPs who have adopted IT Glue have a better chance of growth than those who have not adopted IT Glue. This holds especially true for MSPs as they get larger.
Most MSPs provide a range of IT services, not just managed services. Among survey respondents, it’s about an even split between the ones who do less than 50% of their business in managed services, and ones who do more than 50% in managed services. A trend that we do see is that the more managed services you offer, the more likely you are to have seen revenue growth last year.

88% of companies that are mostly managed services saw revenue growth last year, compared with 75% of respondents with less than half of their revenue from managed services. Among service providers with 80% or more managed services, none saw revenues decline last year. Increasing managed services is a reliable pathway to growth.

THE MORE MANAGED SERVICES YOU OFFER, THE MORE LIKELY YOU ARE TO HAVE SEEN REVENUE GROWTH.
The size of the MSPs participating in this year’s survey showed significant variation alongside the customers they provide managed services to. Some of you are pure managed service providers, others offer a range of IT services. Over the next three years, maturation of the industry might start to see more specialization in services, so we’ll be keeping an eye on how this trend develops.

It’s no surprise that MSPs vary in size, a lot. The large MSPs in the survey skewed the data on the number of seats - the mean seat count was 1282, the median 795.

We say that churn is evil, and it really is. Thankfully, nearly 70% of you experienced customer churn of less than 5% last year. **How important is minimizing churn to your financial health?** Take a look for yourself:

Among MSPs reporting churn under 5% last year, over 80% of those experienced higher revenues. Conversely, among MSPs reporting churn over 10% last year, only 40% experienced higher revenues.

It’s also worth noting that of the MSPs who reported churn over 5% last year, only 62% considered churn to be one of their biggest challenges.
There were some interesting findings with respect to the tech stacks that MSPs are using. First is that 4% of MSPs do not use a PSA. Not surprisingly, most of these had revenues less than $500K, but there were a couple of outliers earning seven figures, and doing it without a PSA.

Several MSPs reported using more than one RMM solution, highlighting that different types of RMMs exist on the market. 100% of companies using Auvik, for example, also had another RMM, because they do different things.

This trend is even more pronounced among backup and recovery solutions, where ¾ of survey respondents reported using two or more solutions. The three most popular BDR solutions are Datto, Veeam and StorageCraft, and 19% of MSPs surveyed use at least two of these solutions.

It is interesting to note that 46% of MSPs do not use a CRM, which seems odd given how many MSPs struggle with sales and/or marketing (nearly 75%). An MSP is more likely to struggle with both sales and marketing if it does not have a CRM, but the survey shows that a CRM is not necessarily a guaranteed solution to sales woes, as 28% of MSPs with a CRM still struggled with sales.
The following chart shows the size of each MSP in the survey by the number of endpoints, servers and workstations managed. The gentle initial slope indicates that most MSPs are relatively small. The steep, nearly exponential slope at the right hand side of the graph indicates that the size difference between MSPs in the 98th percentile and those in the 80th is substantial once a certain mass has been achieved, the growth prospects for MSPs are significant.
Two-thirds of MSPs do not currently specialize in specific verticals. However, of the 34% that do, the verticals that are most commonly focused on include healthcare, professional services, and legal. There was no difference in size between MSPs that focus on verticals and those that do not.

There was, however, a slight difference in the margins earned by MSPs that have vertical specialties, and those that do not. While one might expect that specialization would allow an MSP to derive greater efficiencies, the survey revealed that margins were a little higher for MSPs that did not report a vertical specialization. The difference, however, was in the mid-range, rather than the high or low end of the margin range.
Talent was reported as one of the biggest pain points you face. A lot of small MSPs only have technical staff, which explains why things like sales and marketing are a challenge. Very few MSPs run without at least 40% of their staff being techs, highlighting the importance of finding talented technical staff.

MSP Survey Results

Techs as % of Total Headcount

- Under 40%: 27%
- 40-59%: 30%
- 60-79%: 30%
- 80%+: 12%
One question that arises when strategizing the best ways to scale an MSP is what percentage of techs is optimal. The following graph shows the margins of survey respondents by what percentage of their workforce are techs. The x-axis here is the techs as a percentage of total headcount. The y-axis is what percentage of MSPs in that category earn what margins.

So among MSPs that are 100% techs, nearly 35% of those earn margins in the 15-30% range. MSPs that are 100% techs also have the highest percentage of 30%+ margin performers - these are typically the highly efficient, very small shops.

One interesting finding is that the percentage of MSPs earning margins under 5% seems to grow as companies take on more non-technical talent. Finding ways to make technical talent as efficient as possible is also important because good techs are hard to find. Finding ways to make non-technical talent as efficient as possible is important because the larger the percentage of your non-tech workforce, the more downward pressure there is on margins.
There weren’t too many surprises with respect to tech salaries - the greatest breadth of responses came with Tier 3 salaries, where Tier 1 and Tier 2 salaries were more uniform across survey respondents.

What was interesting here is when the number of techs is run against the revenue per tech. The data shows a massive productivity spike going from 2 to 4 techs, as that 3-5 tech mark seems to be a productivity sweet spot. Presumably, this reflects an MSP with low overhead. It’s not going to grow much past that point without overhead investment, but it is in a great place in terms of profitability.

After that point, however, revenue per tech still grows. We have not really seen a point where economies of scale ceases to hold in this industry.
Employee turnover over the past 12 months has been relatively low with over 60% of respondents indicating they lost between 0-2 employees during those 12 months. For context, however, the median headcount for MSPs in the survey was only 11, and nearly half were 4 or fewer people.

This chart shows the relationship between turnover and margin. The x-axis reflects the margin buckets and the y-axis the turnover percentages. Companies with no turnover saw the best odds at having high margins. Companies with turnover over 50% could still do well, but 62% of companies with a turnover rate between 20-50% saw margins below 15%. High turnover companies actually managed to do a little bit better, which is definitely unexpected.
ONBOARDING NEW TECHS

Over half of MSP respondents believe it takes at least 3 months for a technical employee to be 80% effective in their role. With numbers like that, how do we make that time frame shorter and with the utmost efficiency?

IT Glue partners generally report shorter onboarding times for their new techs, with 49% reporting times less than 3 months, compared with just 37% of MSPs that are not presently using IT Glue. MSPs with average onboarding times are more likely to have shorter onboarding times when they are an IT Glue partner, than if they are not.

"IT TAKES AT LEAST 3 MONTHS FOR A TECHNICAL EMPLOYEE TO BE 80% EFFECTIVE IN THEIR ROLE."
MSPs face a number of challenges, and for smaller MSPs in particular it can be difficult to juggle multiple priorities. *The most pressing concerns for MSPs*, voted on by nearly two-thirds of the respondents, *are a lack of time and difficulty in hiring good people*. Price pressure and a lack of resources were also cited as concerns by over one-third of MSPs, and most MSPs had more than one item that they identified as a major challenge.
BUSINESS EXPANSION

Most MSPs are bullish about their local economies. This makes sense, since more MSPs saw increased revenue last year. Half of MSPs reported that they are either bullish or very bullish about their local economies, with only 11% reporting a lack of enthusiasm for the state of their markets.

The MSP business is a growth business. For a lot of survey respondents, that means expansion is on the table. As local markets become saturated, MSPs are looking for growth elsewhere. One-quarter indicated that they intend to expand geographically in the next year, with another 43% indicating that they are open to opportunity.
Overall, there’s definitely some interest in mergers and acquisitions in the channel. One of the more interesting findings in our survey is that the usual rule of a stronger company wanting to acquire and a weaker company looking to be acquired doesn’t hold. Whether an MSP is performing well or not appears to have little bearing on its interest in M&A activity.

Whether a company wants to be in the M&A game right now seems driven more by market-related or personal considerations than the financial health of the MSP in question.
WHERE MSPs NEED HELP

Good people are hard to find, we all know that. But what types of people do you need the most? Sales and marketing do not come naturally for many technical people, so those areas tend to be the areas where you need the most help. But finding good technical staff seems to be a perpetual need. Food for thought - strong documentation makes life easier for your techs, allowing you to reduce turnover and become a more attractive employer.
Finding talent is one of the biggest issues facing MSPs in 2018. But what type of talent? Survey respondents indicated that they could use more help on a lot of fronts:

A majority (62%) of you are interested in outsourcing some element of your business. Given that a lot of respondents are quite small, this isn’t a big surprise. Hiring an accountant or consultant - or in the case of one respondent, a janitor - to handle a non-core aspect of the business makes sense if that role can’t support a full-time employee.

The responses that came up the most were marketing & sales, and technical (help desk / support / NOC). A lot of channel writers talk about marketing and sales, because those are known pain points for MSPs.

But the need for help desk, support and NOC services is one of the rising trends in the MSP business. Finding reliable outsourcing partners can be difficult, so the response is often going to be some combination of finding ways to reduce tickets and using third parties to increase capacity.
The survey results show that MSPs without IT Glue are more likely to see their techs spending 3+ hours per day looking for information. Just 2.8% of IT Glue partners reported 3+ hours looking for information. For MSPs whose techs spend less than an hour each day looking for information, half are small MSPs under 5 people.

The average size of an MSP that spends less than 1 hour each day looking for information is 13 people for the ones without IT Glue, 19 people for IT Glue partners. These numbers seem to emphasize the fact that IT Glue is essential to maintaining efficiency when you’re scaling. Things you can get away with when you only have a few employees are not as easy to get away with when you’re larger.

Most of your non-technical departments are not using IT Glue yet. Of the ones that are, we see Administration/Management using it the most. It is worth remembering that every employee, no matter what department, spends time searching for information. This means that they all waste time that they could spend doing more productive tasks. Using IT Glue allows information to be in one place for anyone. Document your SOPs and create Checklists and processes become that much easier.

IT GLUE IS ESSENTIAL TO MAINTAINING EFFICIENCY WHEN YOU’RE SCALING.
ONBOARDING

Typically, 5-20 hours are spent onboarding new clients, with 21-40 hours being quite common as well. This poses as a significant area where efficiency is highly important, as time waste can be costly. Many portions of the onboarding process are automated, but there is still obvious room for improvement for many MSPs.

There are definitely two schools of thought with respect to onboarding new technical talent. One is to throw them in the deep end with little training, but arm them with SOPs and robust documentation at their fingertips. The other is to dedicate a senior tech to spend time training. The latter might work, eventually, but often results in longer onboarding and training times, and wastes the time of a senior tech. It might be possible to streamline even within this approach by empowering junior techs to train, through the use of process documentation.

PASSWORDS

Many MSPs are currently using IT Glue to manage their passwords - awesome! However, over 50% of respondents indicate they are unsure of how their clients manage their passwords. This creates a significant point of vulnerability for both client and MSP. Of those who do know how their clients manage passwords, 34% acknowledge that their clients use Post-it notes, a high security risk in itself. With a large percentage of customers still facing malware, ransomware and spyware attacks, these numbers need to be reduced. Moving forward, MSPs must step up to ensure their clients are using the right resources for password security.
NEW OPPORTUNITIES
Top 3 revenue opportunities

1
SECURITY-AS-A-SERVICE RANKS AS THE #1 NEW REVENUE OPPORTUNITY FOR MSPS. This is unsurprising as concern surrounding security continues to be on the rise alongside the threat of cyber attacks. In addition, more businesses continue to be subject to an increased list of government guidelines and compliance standards. MSPs must take on an expert role in their client’s industry to create a comprehensive approach to their security.

2
ONE OF THE LARGEST CONCERNS FOR MSPS IS A LACK OF TIME. The movement towards automation as the 2nd best revenue opportunity seeks to combat this concern with increased efficiency and scalability. Automation frees up the time of your techs to focus on other opportunities and thus increase growth.

3
DISASTER RECOVERY-AS-A-SERVICE (DRAaS)
DRaaS is the 3rd most popular choice for a new revenue opportunity for MSPs as they seek to provide security surrounding data. In an increasingly connected environment having the ability to keep data up and running during any kind of failure is essential.

NEW OPPORTUNITIES OF INTEREST

DevOps 13%
IoT 13%
IDaaS 18%
DRaaS 42%
AUTOMATION 58%
SaaS 78%
### SUMMARY

- The majority of MSPs saw an increase in revenue from their previous year.
- Almost half of MSPs do not use a CRM within their tech stack and yet also indicate a pain point with marketing and/or sales.
- IT Glue partners account for 80% of the survey respondents.
- Many MSPs still use a variety of business models.
- There was significant variation in the size of the MSPs participating in the survey.
- Nearly 70% of MSPs experienced customer churn of less than 5% last year.
- Almost 30% of MSPs handle less than 50 tickets per client, per month.
- 2/3rds of MSPs do not currently specialize in specific verticals.
- Very few MSPs run without at least 40% of their staff being techs.
- Many small MSPs have only technical staff.
- Over 60% of MSPs lost between 0-2 employees during the past 12 months indicating a relatively low employee turnover rate.
- It takes 3 months for a technical employee to be 80% effective in their role.
- MSPs indicate that a lack of time and difficulty hiring good employees are the biggest obstacles in the near future.
- Very few MSPs are actively planning for business expansion in the near future.
- There is significant interest in acquiring another MSP.
- 62% of MSPs are interested in outsourcing some element of their business.
- Security-as-a-Service ranks as the #1 new revenue opportunity for MSPs.
- Technical employees are often spending up to 2 hours searching for information per day.
- Over 50% of MSPs are unsure of how their clients manage their passwords.
- Anywhere from 5-40 hours is frequently spent onboarding new clients even with a large percentage of the process being automated.
- Only 27% of MSPs require QBRs.
We hope you found our insights and analysis beneficial for highlighting where you are situated among the trends, successes and struggles in the industry today.

We look forward to seeing how the industry has progressed in our 2019 Global MSP Benchmark Survey!