



MSP: TRENDS, CHALLENGES AND THE KEYS TO SUCCESS IN MANAGED SECURITY IN 2017

A report by Kaspersky Lab and Business Advantage

Introduction

The global managed services market is growing. According to a recent [study](#) from Market Research Future, it is expected to reach a value of approximately USD 245 billion by the end of 2022 with a compound annual growth rate (CAGR) of 11% during the period 2016-2022.

While there are several factors contributing to the growth of the MSP market, the study shows that the need to secure a constantly growing amount of digital data is one of the key drivers. This means that cybersecurity is becoming increasingly important for MSPs and they will be looking to deepen their expertise in this area among other types of IT services.

So, what does managed security offer MSPs? To find out, Kaspersky Lab and Business Advantage have carried out a survey of 569 MSPs and VARs with managed services offerings from 10 countries. The respondents were split into two categories: companies with smaller customers (with an average client size of < 50 end-user workstations) and companies with larger customers (with an average customer size of > 50 end-user workstations).

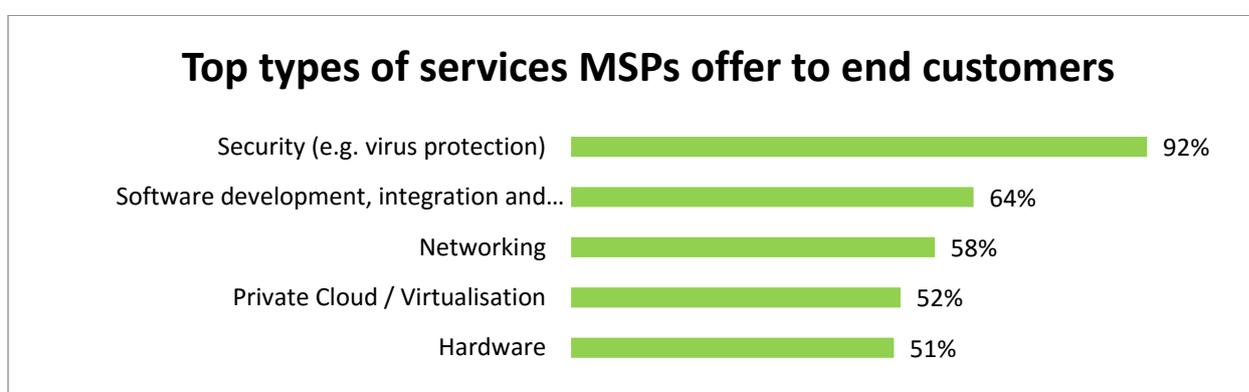
The following report investigates how MSPs define success, what challenges they face in managed services and managed security in particular. It aims to provide an insight into the technology and business trends that MSPs will try to leverage, to stay on top of the market in 2017.

MSPs: Current Realities and Trends

Managed services: a diversified portfolio over a single specialization

A managed services provider (MSP) can be defined as a third party that proactively delivers information technology services to its customers. While in general, outsourced IT services are usually delivered on a reactive basis, MSPs can distinguish themselves by taking a proactive approach to their 'customer-provider' relationships.

While there are companies specializing in particular services (such as MSSPs), MSPs typically diversify their portfolio to cover several areas. According to the research, managed service providers tend to include the following in their offering:



MSP benchmarking research 2017, global data

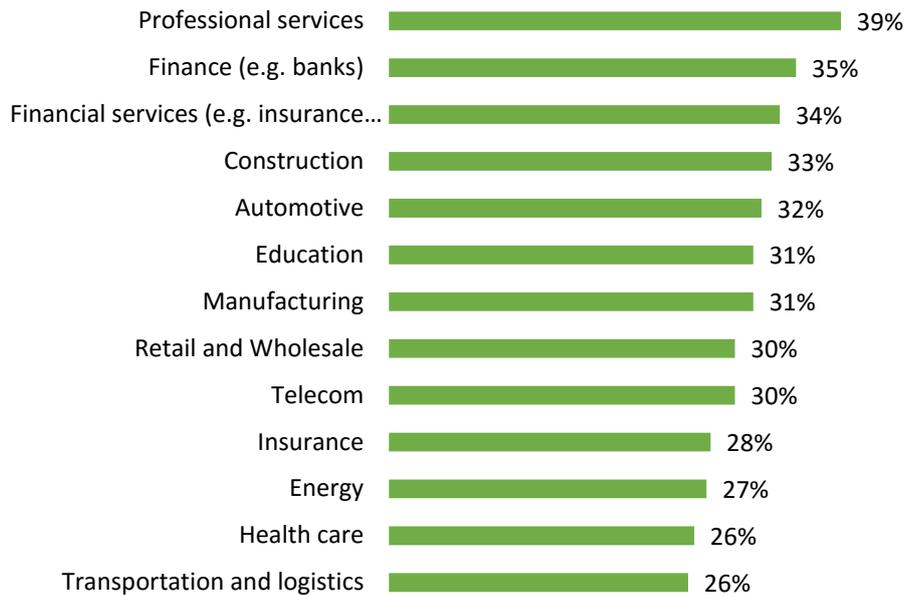
As the table above shows, security plays a leading role with as many as 92% of MSPs featuring this in their portfolio. Other types of service within the top five include services related to the maintenance of customer infrastructure: software, networking, virtualization and hardware. Apparently, service providers are looking to be more involved in the strategic development of IT on the customer side, for example by addressing the most business critical aspects of a customer's IT such as performance and security.

Typical clients: anyone could benefit from an MSP partnership

When asked about a typical client, a managed service provider will likely answer: anyone. As the chart below shows, MSPs serve a wide range of clients across different industry verticals: from professional services to transportation and logistics.

Apparently, industrial bias does not exist in this business and many companies, regardless of their specialization, are enjoying the benefits of an MSP partnership.

Industry verticals served by MSPs



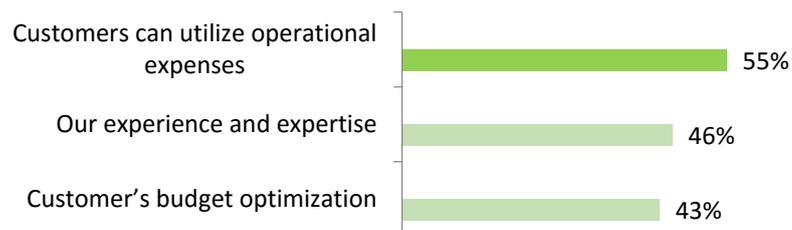
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MSP selling points: expenses optimization and unique expertise

In general, MSPs mostly see themselves as an answer to their customers' increasing IT expenses. However, the perception of their key selling points varies depending on their clientele – and whether they mainly work with larger companies or SMBs.

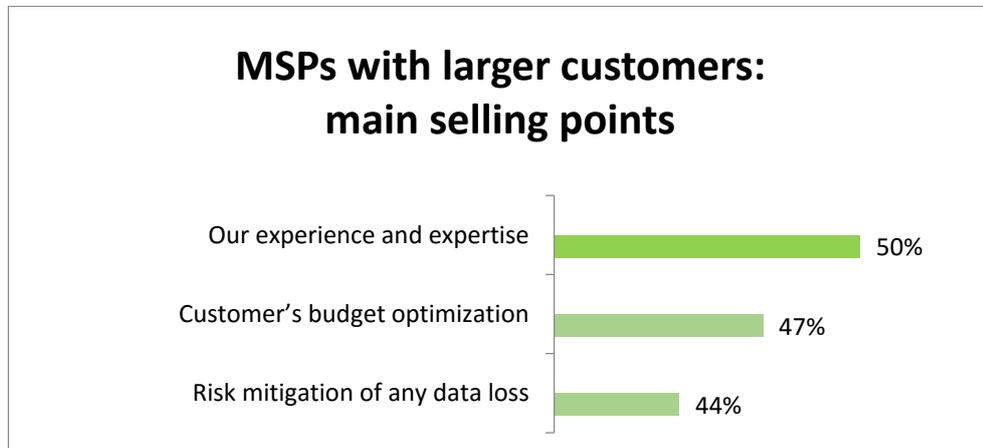
The table below shows the three main service provider selling points for smaller customers: their ability to make customer budgeting easier through operational expenses is ranked as the most important by half of MSPs (55%). It appears that their SMB customers are more interested in outsourcing IT to MSPs for economy and convenience than in seeking deep expertise among service providers.

MSPs with smaller customers: main selling points



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As for the MSPs with larger customers, their primary selling point is in their unique experience and expertise, with 50% supporting this statement. Apparently, enterprise-level companies are looking for more than just budget optimization. Service providers working with them therefore need to keep up with their customer requirements: to sell the skills, technologies and experience that their customers don't have in-house.



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Because many enterprises have specific requirements for securing their vast amounts of business-critical data, MSPs serving larger companies also include mitigation against the risk of data loss on their lists of services.

Technology trends: attention to security and cloud

We have looked into the current realities of the MSP business. But what do service providers see when they think about the future? We asked them about the major technology and business trends that will affect their market in the next three-five years.



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As the majority of MSPs agree, the most popular trends can be attributed to either security or cloud computing. Apparently, those two major technology areas will remain the top priority among MSPs for the next few years.

The essential role of security in operational continuity seems to be the biggest eye-opener: half of MSPs (51%) ranked it within the top three most important trends. This means that security is no longer seen as a separate or even optional function. It becomes an integral part of the IT services delivered to customers by MSPs.

Part of the reason why security is becoming more and more difficult to ignore, is the growing pressure from new regulatory requirements. For example, some MSPs believe that data protection regulations, such as the GDPR, might push customers to pay more attention to security as an essential part of their business.

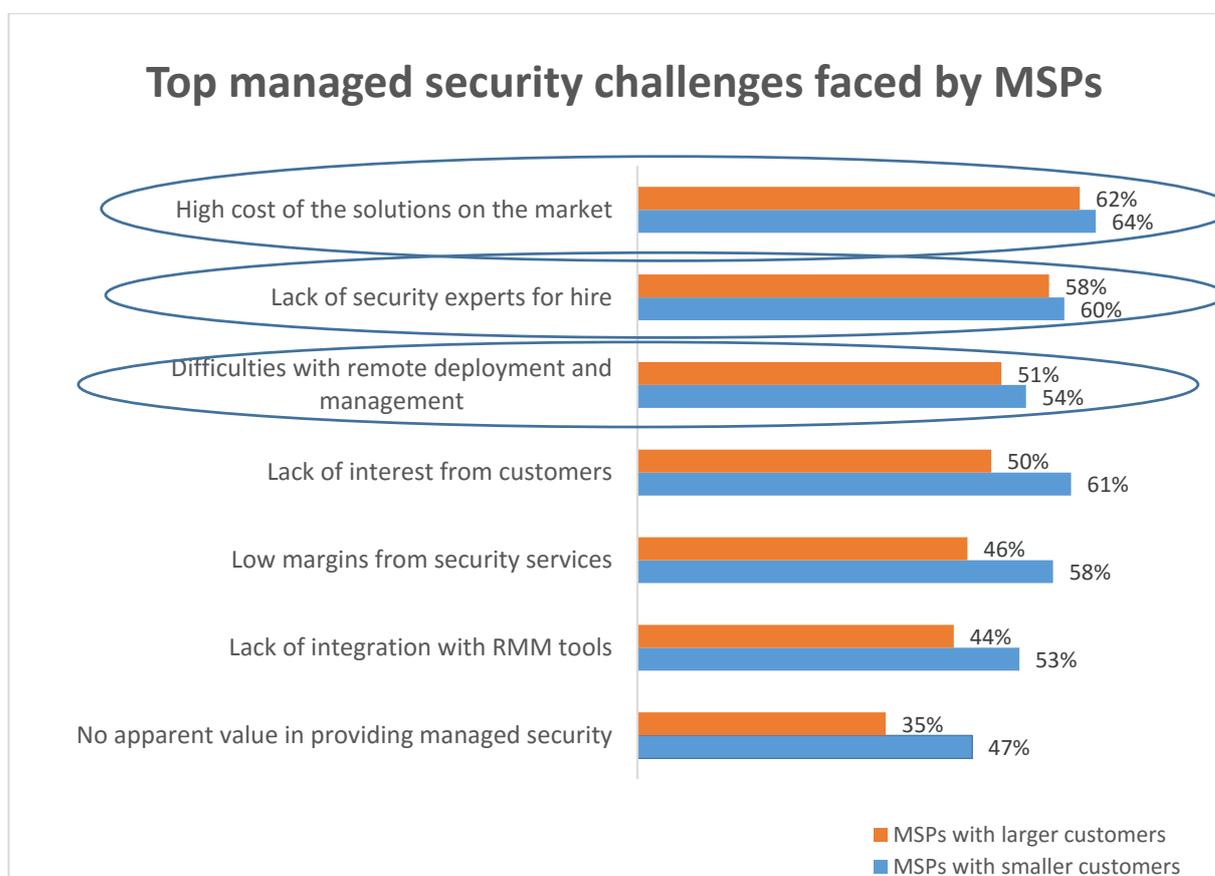
The growing attention on security also seems to correlate with another major trend — that of cloud computing. Processes such as cloud expansion (41%), desktop/server virtualization (38%) and the increasing hybridization of the corporate networks (35%) make the infrastructure more complex, and security is thus becoming more difficult to manage across a heterogeneous environment. MSPs need to find an adequate response to this challenge in the near future, as their clients continue to embrace the cloud.

Challenges and the Keys to Success in the World of Managed Security

Challenges of cybersecurity services: high costs, lack of specialists and insufficient manageability

Even though security services are currently the leading trend that will affect MSP business development over the next couple of years, service providers still come across many obstacles when they are investing in the expansion of their cybersecurity portfolio.

MSPs serving both small and large customers are both in agreement about the number one challenge in this area. 64% and 62%, correspondingly, say that cybersecurity solutions available on the market are too expensive. There is also an agreement on the question of staff - 60% and 58% in both groups admit that there's shortage of qualified IT security professionals for hire. Both groups speak in unison about the difficulties of remote deployment and management of protection, blaming the insufficient functionality of solutions offered by cybersecurity vendors. Those MSPs that are working with larger customers list a lack of integration with the RMM platforms they're using for managing customer devices as one of the top-5 challenges they face in their 'groundhog day' reality.



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MSPs that focus on smaller customers are struggling with a lack of interest from the customers themselves: according to the data from the survey, this is the second most common concern for them, following the cost of cybersecurity solutions. Apparently therefore, SMBs pay less attention to cybersecurity risks. MSPs with larger customers however, face this issue in just one-in-two cases (50%) and it does not come within their top three barriers when it comes to security services.

For probably the same reason, smaller MSPs question the profitability of managed security as 58% say that this type of service brings them low margins.

Cybersecurity challenges on the customer side: ransomware, lack of awareness among employees and shortage of internal experts

While MSPs are struggling with several challenges in terms of delivering cybersecurity services, their customers are seeking help in particular areas. The table below indicates what kind of problems MSP customers face most often.



MSP benchmarking research 2017, global data

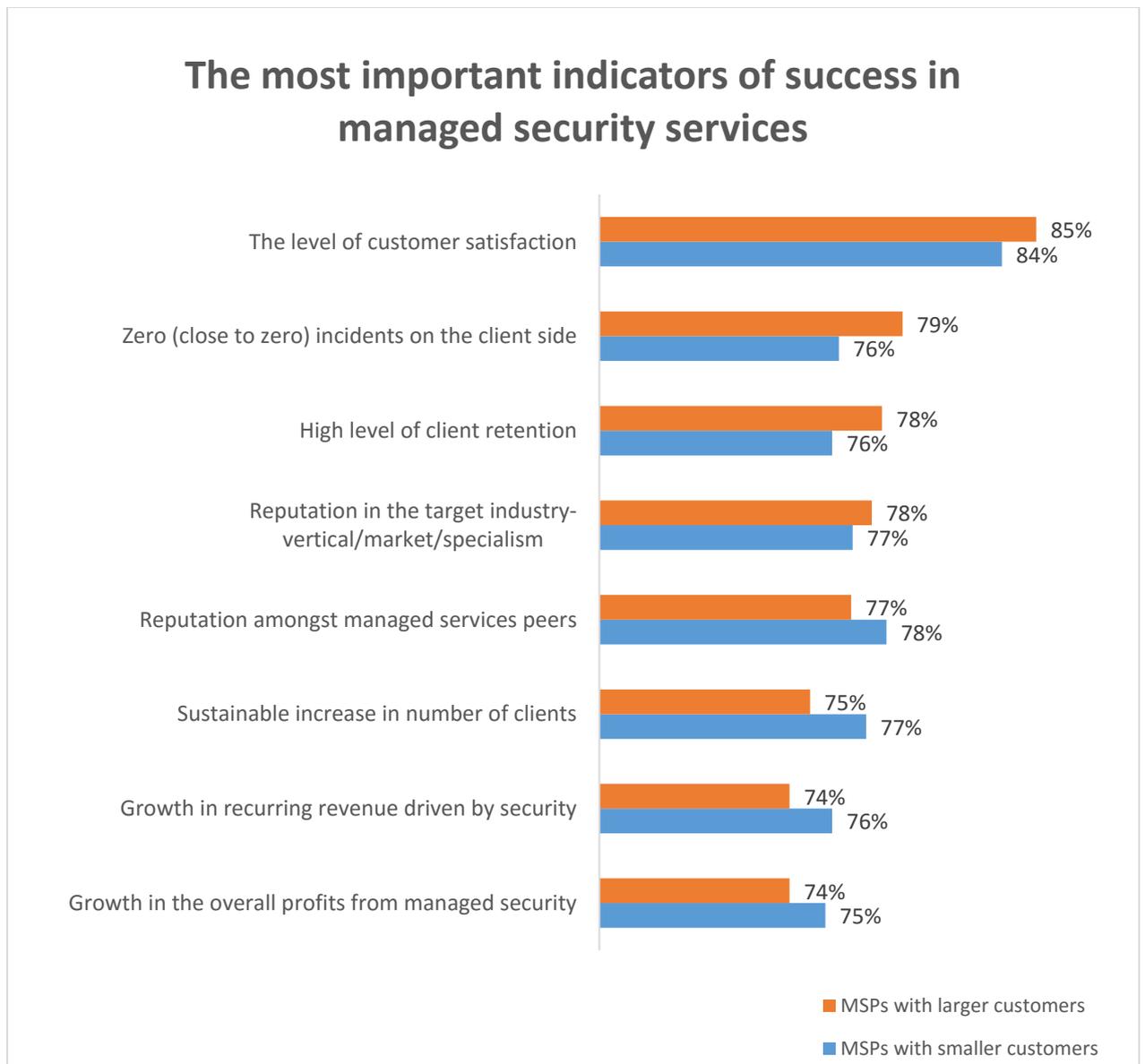
Every second MSP surveyed agrees that protection from ransomware is the most pressing point in the end customer's cybersecurity routine. Interestingly, this threat holds the top position in both smaller and larger companies. This, again, proves that ransomware can be a problem for companies of any size.

The second and the third most wide-spread challenges are related to people working in organizations. A lack of IT awareness among employees is something that MSPs address by delivering training to their customer’s staff. The challenge of raising internal expertise seems to be a common problem for both MSPs and customers of any size, as confirmed by 37% of MSPs with both larger and smaller customers.

In general, it is refreshing to see that customers are looking for strategic help from MSPs: apparently, they need a trusted partner that will help improve the overall efficiency of their protection, rather than one that merely addresses particular threats.

Steps towards success in managed security: the customer is king

As a part of the research, we asked MSPs what they consider to be the most important indication of success in the field of managed security.



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The level of customer satisfaction leads as the most important factor for both smaller and larger MSPs (84 and 85%, correspondingly). It is not surprising that in a very client-oriented business model, managed service providers are seeking to treat their accounts with ultimate care.

Other top indicators of success vary greatly depending on the size of an MSP's customers. Smaller providers put reputation among peers in second place (78%) while the third most important indicators for them are an increase in the number of customers, and reputation in their target industry/market (both rated by 77% of respondents). Apparently, MSPs with smaller customers see managed security as an opportunity to acquire new customers, and evaluate security's success by whether it helps them achieve this goal or not.

As the data shows, larger service providers see the most important indicators of success in a very different way. For them, the second most valuable achievement is their ability to limit the impact of security incidents for their customers (79%). Reputation in the target industry/market and a high level of customer retention (both rated by 78% of respondents) hold joint third position in terms of how they rate their success.

Overall, MSPs seem to agree about what makes them successful, regardless of the company size of their clients. Nevertheless, it appears that smaller providers tend to view security services as an opportunity to expand their presence in the market. They focus on profitability, while larger MSPs see security as a requirement that helps them keep their current customers satisfied.

Conclusion

The research has demonstrated that the expansion of security services could be a major contributing factor in the growth of the MSP market. Companies from all industrial verticals could benefit from strategic support in cybersecurity as they not only suffer from particular threats, such as ransomware, but feel the need to improve major weaknesses in their defenses (for example a lack of internal specialists and employee unawareness). This creates opportunities for service providers to incorporate cybersecurity in their portfolio and fill these gaps.

MSPs are starting to realize that cybersecurity can no longer be seen as merely an extra offering in their portfolio: it's instead becoming an integral part of IT services because of the growing complexity of customer infrastructure, increasing regulatory pressure, and massive cloud adoption.

Nevertheless, provisioning cybersecurity services still poses challenges for MSPs. The high cost of solutions and insufficient integration of technologies can undermine the development of the managed security part of their business. Finding the right balance between customer needs, the requirements of MSPs, and vendors' approaches to technology and products, is becoming more and more important to the benefits of all sides.

But how can MSPs measure the impact of security services on their business? Customer satisfaction is still the top indicator of success in terms of cybersecurity. To meet their clients' expectations, MSPs should pay attention to several things such as a high level of automation, flexibility in terms of changing requirements, regular reporting, quick and always available support, as well as the ability to protect the entire infrastructure. Taking steps in these directions will help service providers to stay on top of a highly competitive market in 2017.



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