

COMMENT

Creating value from the enduring attraction of MSPs

Armstrong director Mike Callow explains how his firm's Managed Service Provider (MSP) framework helps PE investors and management teams create value in a considered, strategic way.

MSP market dynamics

First up, what do we mean by MSP? We used to talk of ITMS, UComms, MSSPs etc, but these distinctions have blurred. 'MSP' broadly defined these days covers any type of technology, delivered as a service, fully managed and supported. MSPs are not just managing 'stuff' as a service – they're designing it, building it, securing it, and guiding their customers' technology strategy as a trusted advisor. In other words, they're pushing into traditional 'digital transformation' territory – project-based, but super sticky, and with a halo effect of on-sell opportunities for the core MSP business.

MSPs are a natural PE asset, serving a vast, fragmented, and growing market, with a strong recurring revenue base, and sticky customers who are receptive to cross-sell.

We expect strong MSP deal flow to continue for some time yet, with lots of opportunity for value creation. Seemingly endless investor appetite (from PE and PE-backed trade) and strong valuations look well entrenched. Early mover MSP investments are hitting their exit windows, other star performers are being bought forward to benefit from the active market and founder owned businesses continue to come to market.

Breaking through the silos

Managed services for every technology domain, previously siloed to a greater or lesser extent, are becoming part of a single IT stack. This encompasses connectivity, communications, network, service desk, modern workplace, cloud applications, cloud infrastructure, security, data management, data analytics and devops. MSPs are re-evaluating their service offering, moving into higher growth or more 'future proof' segments, and plugging gaps in their service portfolio – be that organically and through M&A.

What are the most appropriate adjacencies for your MSP?

Size matters

SME-focused MSPs can be a 'one stop shop' for their target customers. The more domains you cover, the greater your revenue opportunity. Make it easy to buy, offer 'cookie cutter' bundles and tiers, and use standardised platforms. The expansion strategy needs to feature a scalable route to market, building regional brand recognition, and increasing regional coverage.

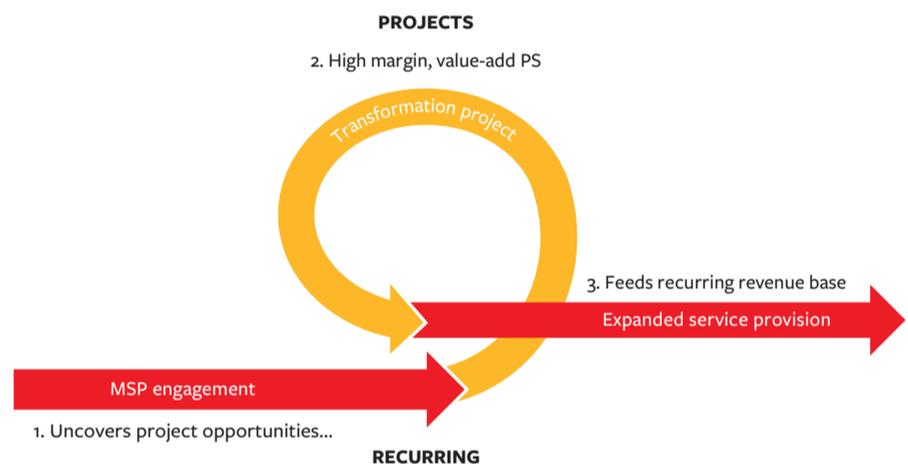
The larger the target customer, the more depth of expertise comes in. Do you specialise in the Microsoft stack (thus allowing you to span domains)? Or go for vendor neutrality in one or two closely related domains? How do cloud business applications (ERP, CRM) and low-code fit into this? What is the opportunity to offer data services and prepare your customers to leverage AI and automation? Does verticalization make sense?

What is your MSP's ideal customer profile and how does this inform the service offering?

Reoccurring is the new recurring...

It used to be that more recurring revenue was better, but this is an overly simplistic view and non-recurring professional services are a critical part of the mix. MSPs are in a privileged position, with oversight of their clients' technology estates, they can guide their roadmap and identify projects to deliver them ROI and competitive advantage; and with 'trusted advisor' status it's a relatively easy sell. Project work has a halo effect with the MSP businesses; projects are originated from MSP engagements, and in turn feed Monthly Recurring Revenue to run, maintain and support. MSPs are going beyond simple change projects, proving that they can cross-sell increasingly bespoke transformation projects; including business application implementation, low code application development, even full custom development projects.

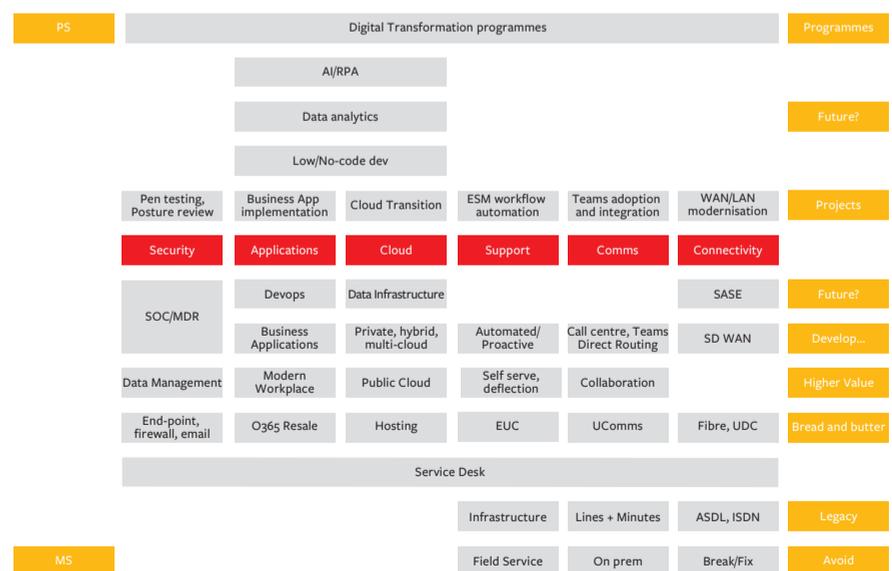
How far up the 'digital transformation' value chain can (or should) your MSP push?



Introducing the Armstrong MSP framework

We have developed a framework, based on our many engagements with MSPs over the years to help MSP leaders and investors answer these three basic questions:

1. Is our portfolio of services coherent, sensible and future proof?
2. What are our competitors' offering and where are they likely to move next?
3. What should we add next, and how should we package it?



This is an excerpt from the Armstrong MSP Framework, please contact Mike Callow if you would like to talk through it and see how it can be applied to your MSP investments, or about other opportunities in the technology sector.

● Mike Callow, Director, +44 7894 594500, mcallow@armstrong-ts.com