

TRENDS IN MANAGED SERVICES

FULL REPORT

RESEARCH



OCTOBER 2011

About this Research

CompTIA's *Trends in Managed Services* study consists of five sections, which can be viewed independently or together as sections of a comprehensive report.

Section 1: Market Overview & End User Outsourcing Habits

Section 2: End User Managed Services: Adoption/Demand Drivers

Section 3: End User Managed Services: Experience/Satisfaction Levels

Section 4: Channel Managed Services: Adoption & Business Transition

Section 5: Channel Managed Services: Customer & Vendor Trends

To view other sections of the report please go to the managed services research page on the [CompTIA website](#).

This study was conducted in two parts.

Part I: quantitative online survey of 400 IT and business professionals in the United States involved in IT decision-making (aka end users). CompTIA worked with the research firm Research Now to facilitate data collection using an independent panel. Data collection occurred during June 2011. The margin of sampling error at the 95% confidence level for the U.S. results is +/- 4.5 percentage points. Sampling error is larger for subgroups of the data.

Part II: quantitative online survey of 364 IT firms in the United States (aka channel). CompTIA worked with the research firm Research Now to facilitate data collection using an independent panel. Data collection occurred during June 2011. The margin of sampling error at the 95% confidence level for the U.S. results is +/- 5.2 percentage points. Sampling error is larger for subgroups of the data.

As with any survey, sampling error is only one source of possible error. While non-sampling error cannot be accurately calculated, precautionary steps were taken in all phases of the survey design, collection and processing of the data to minimize its influence.

CompTIA is responsible for all content contained in this series. Any questions regarding the study should be directed to CompTIA Market Research staff at research@comptia.org.

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TRENDS IN MANAGED SERVICES

SECTION 1: MARKET OVERVIEW AND END USER OUTSOURCING

RESEARCH



OCTOBER 2011

Key Points

- End user organizations that react more favorably to the various concepts of outsourcing, offshoring and automation are more likely to be involved in some kind of managed services arrangement for some or all of their technology needs. Case in point: Nearly twice the number of non-users of managed services (61%) characterized the term “offshoring” as negative/questionable as did current users of managed services (33% did so).
- The smallest end user organizations (\$9.9M and below in revenue) reported outsourcing at least half of their IT-related functions, eclipsing the rates seen by medium- and large-sized respondents. Many of these companies lack internal IT staff, rendering them prime customers for today’s MSPs.
- Nearly 8 in 10 (78%) end user organizations reports being very or mostly satisfied with the outsourcing experience, compared with just 4% citing the most negative response. But the incidence rates are low. The most outsourced business function, payroll, is still only handled mostly by a third party among 28% of respondents.
- 68% of end user organizations today contract with a managed services provider (MSP) for some or all of their technology needs, versus 29% that handle all of their IT on their own.

IT Outsourcing and the Managed Services Market

In the last five years or so, as technology has grown more complex and expensive to manage, more and more companies have turned to outside parties to handle the running of day-to-day IT needs. Thus the now-maturing concept of managed services, in which technology is bought, delivered, monitored and managed as a set of services provided from a remote location and provider. Today, as many organizations look to trim costs and shift from a cap-ex model for buying technology to an op-ex model for remotely delivered services at a recurring monthly fee, the willingness to outsource some or all IT needs has become more commonplace.

CompTIA's *Trends in Managed Services* study finds that 68% of end user organizations today contract with a managed services provider (MSP) for some or all of their technology needs, versus 29% that handle all of their IT on their own. The high incidence number for managed services use is somewhat misleading, however. Respondents are still handling the majority of their IT needs internally, based on study data. But if just one function is being handled externally by an MSP, then they identify as a user of managed services. It's a matter of degree of use and the data suggest there is quite a bit of room for MSPs in this marketplace.

The study explores current attitudes, usage trends and demand drivers around managed services and IT outsourcing in general, tapping the insights of both end users and the IT channel. Section 1 of this report takes a look at how end user organizations perceive outsourcing of general business functions and technology, usage prevalence and satisfaction levels.

Over the past decade, outsourcing has played a more prominent role in how businesses operate. The largest companies were the first to turn to outsourcing some of their business functions, such as payroll, but the trend has also trickled down to the smallest-sized organizations, especially those that lack an IT staff and need outside help with their technology needs.

Consider the following recent statistics on the outsourcing market:

- Gartner estimates that North America's business process outsourcing (BPO) market will grow 3.8% in 2011. This is somewhat tepid growth compared to the levels of outsourcing growth going on in developing countries, according to Gartner. Yet there are some bright spots; Gartner identified several key vertical markets poised for industry-specific BPO growth through 2014 in North America, including retail, healthcare, transportation and utilities. Within horizontal sectors, dynamic growth is expected for customer selection in the customer relationship management (CRM) and human resources (HR) domains.
- Gartner also projects the worldwide BPO market to grow 6.3% in 2011 and 5% in 2012. Meanwhile, IDC expects the global IT outsourcing market to grow at a five-year compound annual growth rate of 3%, reaching \$133 billion in 2015.
- Insight Research Corp. predicts that the managed services market will see double-digit growth through the next four years. In addition, the research group expects the U.S. managed services market to outpace the telecommunications services market – which has itself been buoyed by the surge in cloud computing -- by about two or three times, increasing 12% per year through 2015.

- Recent data from CoreConnex, a financial analytics research firm and CompTIA partner, calculated year-on-year revenue growth for managed services-centric channel businesses to be 40% as of August 2011. On a quarter-to-quarter basis, managed services revenue was up 6% from 2010. This data is representative of the 800 participants in the CoreConnex channel program.

Attitudes Toward Outsourcing

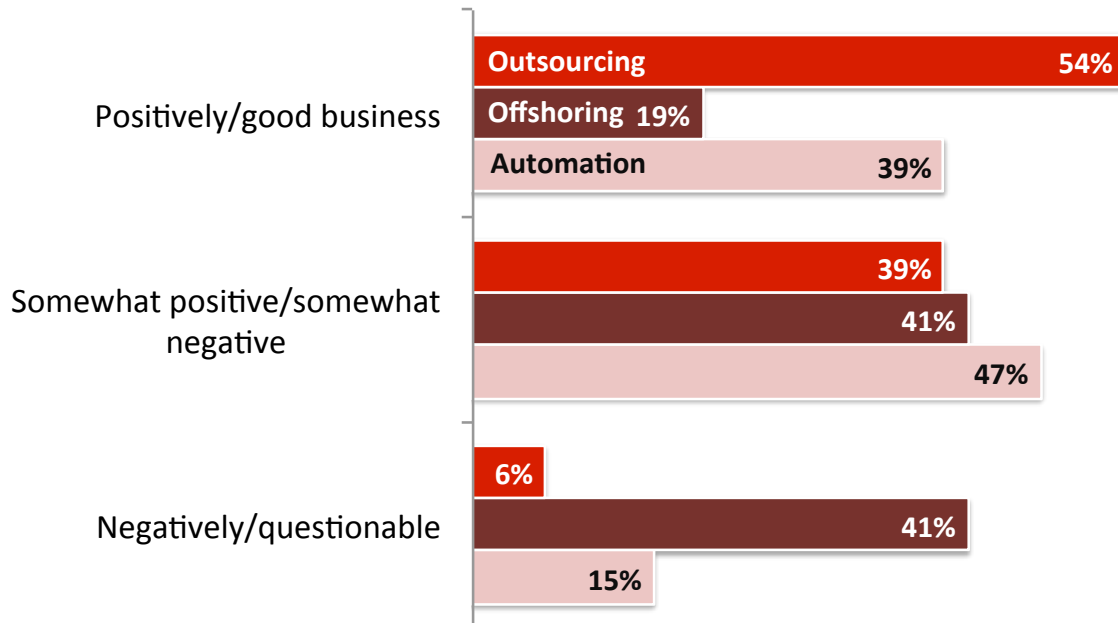
In addition to collecting data on how prevalent the use of managed services is among end user organizations, the study also sought information on outsourcing in general. Respondents were asked if their companies outsourced any type of business function to an outside party, from payroll to human resources to accounting. They were also polled on how they rated the experience. General attitudes toward outsourcing are important as they often reflect whether a company is a potentially willing customer for a managed services engagement.

For some, outsourcing comes with negative connotations. When asked their perception of three words often associated with the use of a third party to handle business functions outside a company – “outsourcing,” “offshoring” and “automation” – a healthy percentage of respondents leaned toward a less-than-positive view of the three terms, particularly offshoring. In general, the term offshoring resonated poorly with the total sample, with 8 in 10 viewing the practice as at least a somewhat negative. But breaking responses down based on users vs. non-users of managed services reveals a stark difference. Nearly twice the number of non-users of managed services (61%) characterized the term “offshoring” as negative/questionable as did current users of managed services (33% did so). Likewise, 45% of managed services users view the term “outsourcing” positively compared with just a quarter of non-users of managed services.

Both groups tended to view the term automation in a more positive light, with nearly two thirds of respondents working in an IT-related job for their organizations favorable to the concept.

Bottom line, the data suggest that those organizations that react more favorably to the various concepts of outsourcing are more likely to be involved in some kind of managed services arrangement for some or all of their technology needs.

Attitudes Toward Typical Outsourcing Terminology



Of the business functions that are most outsourced, payroll is the clear leader. This isn't surprising. Payroll processing giant ADP is a household name to anyone who's held a corporate job. And yet, just 28% of companies said they "mostly outsource" payroll functions. Across all size companies by revenue, just about half on average said they handle payroll mainly internally. It's possible definitions play a role here; payroll functions can include a number of things from calculating employees' hours worked to assessing overtime wages to printing and distributing the actual paychecks. It's possible that just one piece of payroll is handled externally, prompting the majority of respondents to say they handle payroll mostly in-house.

One other data point to note, the smallest organizations (\$9.9M and below in revenue) reported outsourcing at least half of their IT-related functions, eclipsing the rates seen by medium- and large-sized respondents. In many cases, the smallest companies lack any IT staff at all, rendering them prime customers for today's managed services providers.

Outsourcing Trends by Business Function

	Mostly Outsourced	Mixed Bag	Mostly Done Internally
Payroll	28%	14%	54%
Call center	14%	16%	54%
IT functions (network management, etc.)	12%	31%	56%
Supply chain/logistics	12%	22%	63%
Public relations/communications	11%	27%	61%
Finance/accounting functions	9%	22%	63%
Human resources	6%	14%	78%

78% of end user organizations report being very or mostly satisfied with their outsourcing experience, compared with just **4%** citing the most negative response.

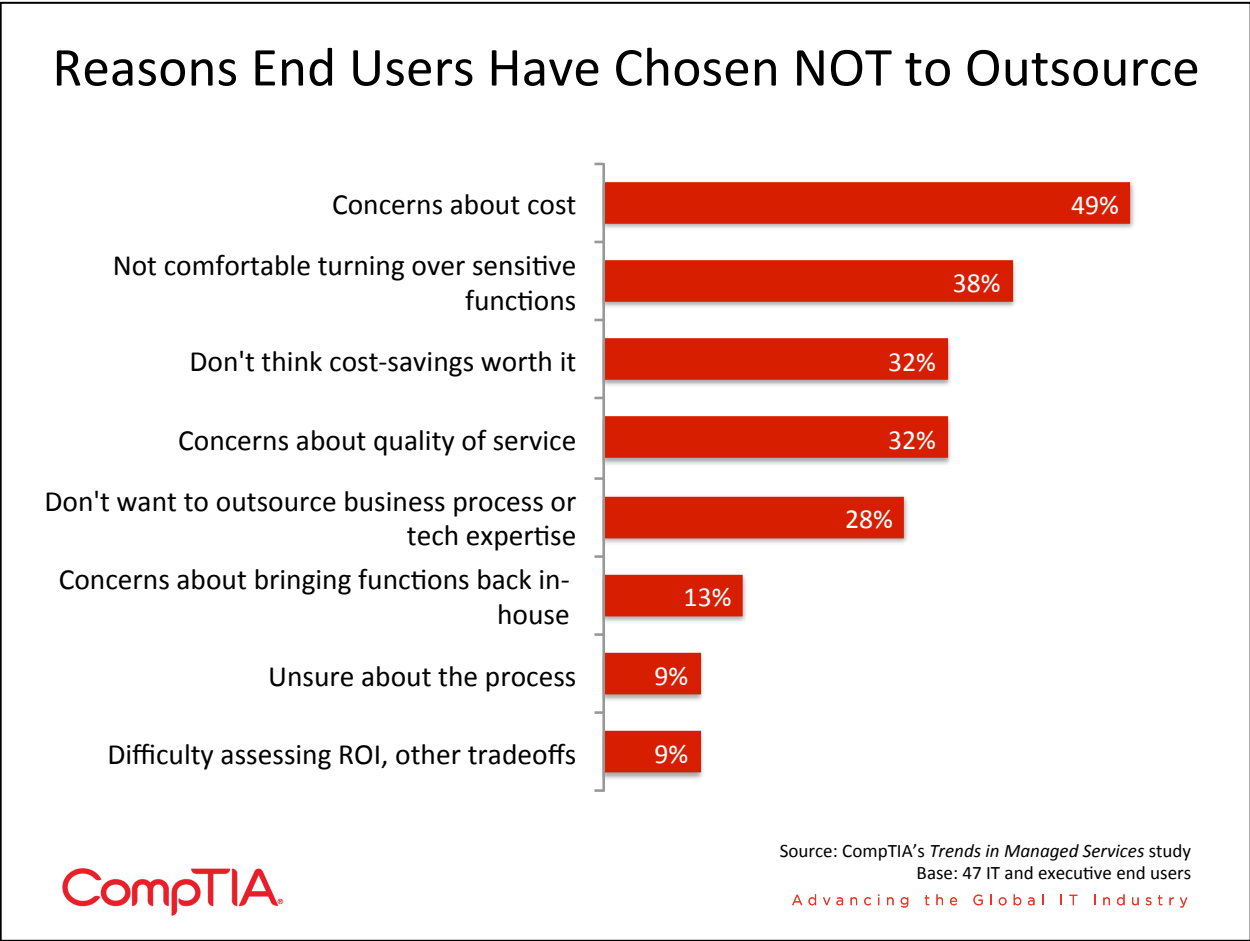
While incidence rates for outsourcing of general business functions are relatively modest, satisfaction with the experience is positive. Nearly 8 in 10 (78%) end user organizations reports being very or mostly satisfied with the outsourcing experience, compared with just 4% citing the most negative response. Positive satisfaction levels broke evenly across all size organizations, while similar among users and non-users of managed services, interestingly.

Obstacles to Outsourcing

The primary reason for not choosing to outsource any business functions is cost-related. That's a bit ironic given that cost-savings and predictability is typically one of the prime reasons companies cite in making the decision to outsource some or all of their business functions to a third party. This may come down to an awareness issue – these organizations do not know the exact costs associated with outsourcing – or to the fact that not all pricing schemes are the same for every outsourcer. Some charge a flat recurring fee each month; others do a pay as you go model. Depending on the needs and usage patterns of a particular organization, costs could end up being more than operating things in house.

One worthwhile data point to note: More than half (56%) of respondents who work in an IT role in their organization cited concerns over the quality of service of an outside firm as the second only to cost considerations as their reason not to outsource. That compares with just 17% of business executives

respondents who reported quality of service concerns. Some of this can be explained as human nature; in-house IT staff want job security and if outsourcing is perceived as a threat to that, they will understandably raise objections.



In Section 2 of this report, we will dive more deeply into specifics around technology outsourcing and examine trends and patterns around the use of managed services among end user organizations. The data reveals that technology, in general, holds very high value for companies today. More than 9 in 10 of respondents said technology was important or very important to their businesses, with the same number predicting similar levels of importance moving ahead into the next year.

TRENDS IN MANAGED SERVICES

SECTION 2: END USER MANAGED SERVICES—ADOPTION DEMAND DRIVERS

RESEARCH



OCTOBER 2011

Key Points

- Nearly two thirds of the managed services purchasing decisions are made by CIOs or other senior level IT staff, while a third are decided by non-IT executives, based on the study findings.
- The No. 1 reason end user organizations have moved part or all of their IT into a managed services model is the desire to reduce costs. Of those that cited cost savings as the major managed service demand driver, half saved between 1%-24% in IT costs annually, while more than a third saved between 25%-49%. Another 13% trimmed their IT expenditures by more than 50% as a result of the managed services shift.
- The two most popular IT functions to outsource are Web site hosting and Web site design, with roughly a third of end users choosing to do this. Contrary to common perception, just 17% of current managed services users said that email is an IT function that they mostly outsource, though another 22% said they outsource about half of their email systems, while maintaining the other themselves.
- The No. 1 reason organizations cited for not using managed services today is security concerns.

Handling IT and Managed Services Adoption

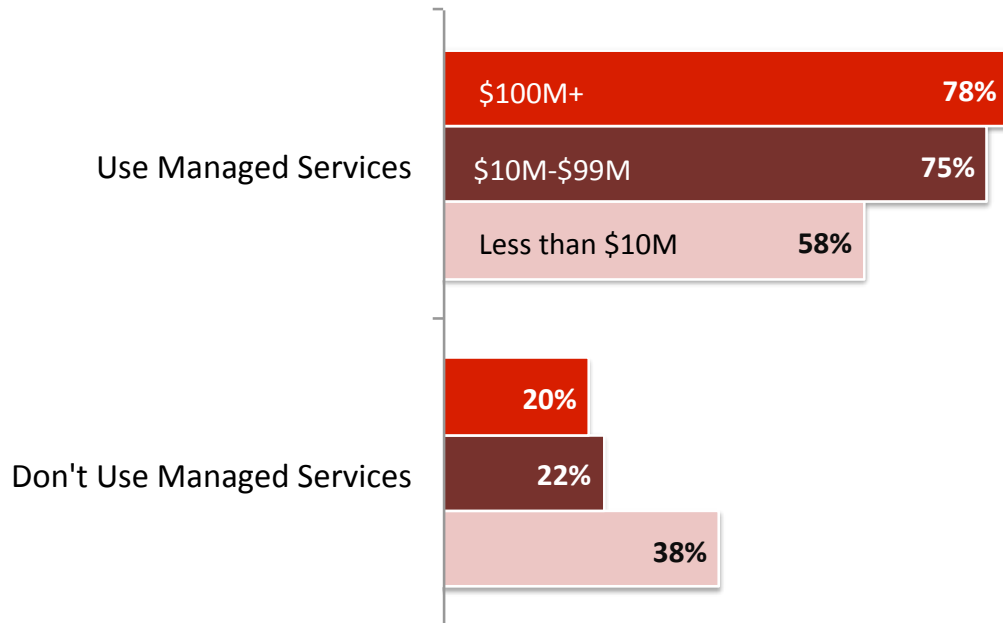
As companies grow more comfortable with outsourcing some or all of their technology, the managed services market has become a more commonplace way for end user organizations to handle IT needs. A managed services arrangement typically involves hiring an outside provider to deliver technology as a service to your organization. It is an ongoing contractual arrangement in which the provider remotely monitors, manages and updates technology infrastructure, systems and services such as email and security software while billing the customer on a recurring basis.

An immature model five-plus years ago, today 8 in 10 end user organizations say they are very familiar or familiar with managed services, according to CompTIA's *Trends in Managed Services* study. The research study also finds that 68% of end user organizations today contract with a managed services provider (MSP) for some or all of their technology needs, versus 29% that handle IT exclusively on their own. More than half of these engagements have been in place between 2-5 years, though a quarter of respondents using managed services are veterans, having done so for more than five years.

The high incidence number for managed services use is somewhat misleading, however. Respondents are still handling the majority of their IT needs internally, based on study data. But if just one function is being handled externally by an MSP, then they identify as a user of managed services. It's a matter of degree of use and the data suggest there is quite a bit of room for MSPs in this marketplace.

Larger companies are more invested in their use of managed services, which isn't surprising given that these firms often sport multiple office locations, more complex systems and applications across a range of employees, partners and their own customers. Typically, larger firms operate their technology in a hybrid type model, outsourcing some functions to an MSP while keeping others under the auspices of an in-house IT department. The smallest companies that engage with an MSP often do so for the entirety of their technology needs, typically because they don't have on-staff IT personnel to manage their systems, perform upgrades and do break/fix.

Managed Services Usage by Company Revenue



Source: CompTIA's *Trends in Managed Services* study
 Base: 400 U.S. IT and Business Executives (aka end users)
 Advancing the Global IT Industry

Adoption Rates Remain Measured

Yet despite high incidence of end user organizations adopting managed services, the data suggests that they are doing so in low doses depending on the particular technology function. The two most popular IT functions to outsource are Web site hosting and Web site design. This may be because companies do not have the development skill set in house to create and manage their own Web site and that hosting remotely is a time-tested model.

One of the biggest surprises in the data concerns email. Just 17% of current managed services users said that email is an IT function that they mostly outsource, though another 22% said they outsource about half of their email systems, while maintaining the other themselves. It's almost hard to believe that a larger percentage of managed services users do not include email as part of their outsourcing mix when you think about the marketplace. Flagship hosting products such as Microsoft's Hosted Exchange, for example, by all accounts appear to have high market saturation and ubiquity. Hosted Exchange provides a major source of recurring revenue for many MSPs and IT channel players today, as do a raft of other hosted email solutions.

In or Out? How IT Functions Are Managed

	Mostly Outsourced	Mixed Bag	Mostly Done Internally
Website hosting	35%	32%	31%
Website design	30%	31%	37%
Help desk/IT support	19%	28%	53%
Security (firewall, antispam etc.)	19%	32%	49%
Business continuity/disaster recovery	19%	36%	44%
Security (firewall, antispam etc.)	15%	27%	58%
Email	17%	22%	61%
Printing administration	16%	27%	56%
Network admin/maintenance	14%	31%	54%



Source: CompTIA's *Trends in Managed Services* study
 Base: 400 U.S. IT and Business Executives (aka end users)
 Advancing the Global IT Industry

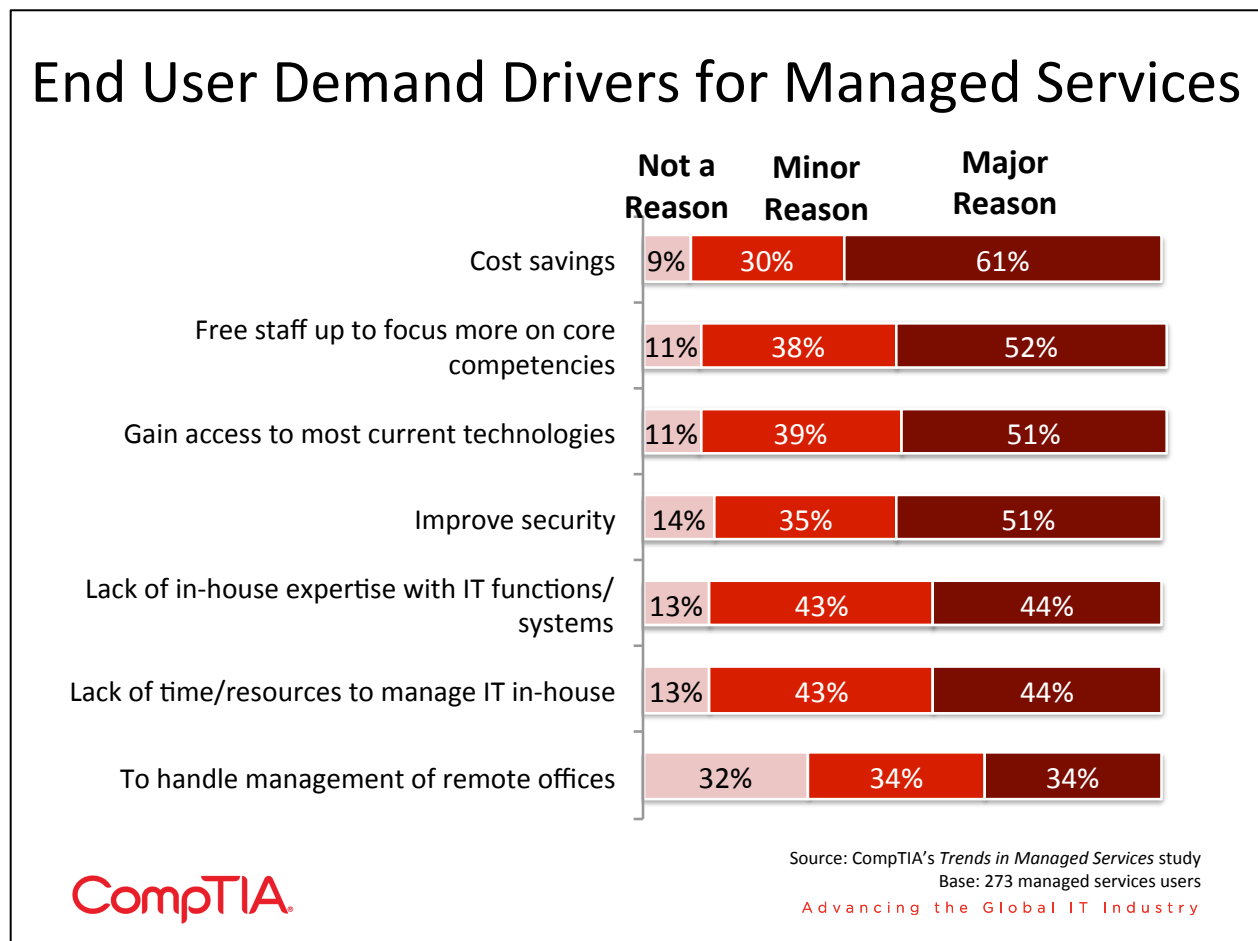
One factor that might explain things from an end user perspective: Knowing where the technology is coming from. Consider a line of business manager dealing daily with his routine email, calendar and schedule in front of him. Those tools are simply there, on his device. The party responsible for managing them on the back end – the IT department or an outside MSP -- is hardly obvious to that executive. Corporate IT today consists of an amalgam of tools, including email, that come from multiple sources with multiple stewards – in and outside of the company's four walls. Because email is so tied to an individual worker's everyday office devices -- as opposed to a selectively skilled activity such as Web site design – users might assume it is managed internally.

When comparing respondents in business roles vs. those in IT roles, the data further suggest the possibility that some users simply don't know how IT functions in their organization are managed. In many cases, the two constituencies have a different take on which IT functions are outsourced vs. handled in-house. For example, with respect to help desk functions, nearly twice as many business executives said most of those functions are outsourced as did IT workers, who, presumably, are in a position to know for sure. A similar discrepancy exists between the two roles when they were asked about the handling of network administration/maintenance functions.

Why Managed Services?

Not surprisingly, the No. 1 reason end user organizations have moved part or all of their IT into a managed services model is the desire to reduce costs. The cost argument is the major selling point to managed services, a model that in many ways epitomizes the shift from a cap-ex model of purchasing IT infrastructure to an op-ex model that allows companies to make recurring, predictable payments for technology services utilized.

Of those that cited cost savings as the major managed service demand driver, half saved between 1%-24% in IT costs annually, while more than a third saved between 25%-49%. Another 13% trimmed their IT expenditures by more than 50% as a result of the managed services shift.



Beyond the obvious cost savings inducement, other reasons for adopting managed services are notable in that they speak to end user organization's strategic goals. For example, more than half of respondents said a major reason they are contracting with an MSP is to free up their internal IT staffs to work on projects that fall into the business' core competencies – in other words, revenue-generating activities. Across the board, roughly half of companies of all sizes cited this as a major reason. This is great news for solution providers selling managed services; they can speak directly to a potential customer's core

business priorities, while also allaying any concerns the internal IT staff has about managed services impact on their job security.

Not all end user organizations have an internal IT staff, or if they do it's limited. That's especially true of the smallest organizations. Consider this finding: More than half of the organizations with less than \$10 million in annual revenue cited the lack of in-house expertise with IT functions and systems as a major driver in moving to managed services. Many of these organizations don't employ sizeable IT staffs – if any at all – and they are looking externally for help filling specific IT skills gaps or to manage the entire infrastructure. Nearly half of the smallest firms also cited the lack of time/resources to manage IT internally as a catalyst to a managed services decision.

Among organizations not using managed services today, 1 in 3 has never explored or researched the option for their technology needs, while half said they had “casually investigated” before opting against. This group of organizations would appear to present an untapped market for savvy solution providers in a position to raise awareness, educate and articulate the benefits of managed services clearly to these potential customers.

The No. 1 reason organizations cited for not using managed services today is security concerns. The trust factor goes hand in hand with any form of third-party outsourcing, particularly when it involves the management of sensitive data. But just as internal IT staff take measures to protect their network from threats, reputable MSPs back up their managed services with security best practices, service level agreements, and 24/7 customer service and response times. Customer security concerns are more perception than reality, but all the same need to be addressed during the sales process. Sections 3 and 5 of this report will address SLAs and the MSP-customer relationship in depth.

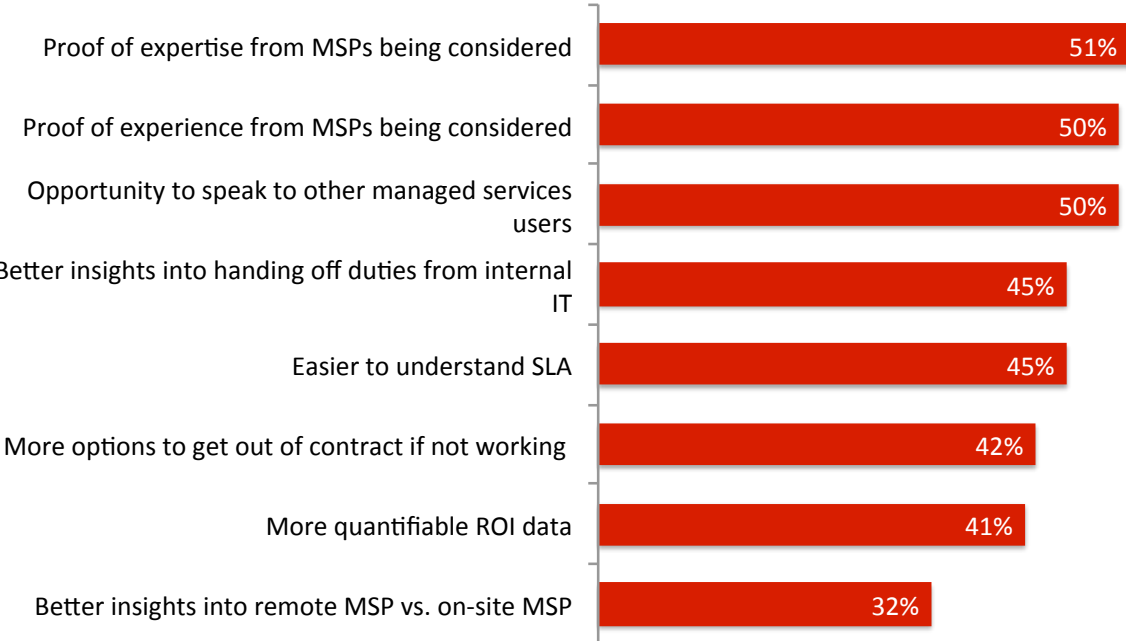
Decision Makers

Among current users of managed services, the trust factor is also very much in play. When asked what kinds of information would have helped them in making their decision to move to managed services, the top 3 responses focused on assessing the potential MSP's skills and experience, along with hearing from other customers about their own experiences with managed services. Among the largest firms this was especially true. On average 6 in 10 organizations with more than \$100 million in revenue said they would have benefited from hearing more about the MSPs skills and their experience. This is likely due to the fact that enterprise-sized organizations are under strict compliance mandates based on the industry they operate in, as well as financial regulatory requirements such as Sarbanes-Oxley. They aren't going to entrust their data to an unproven entity.

One of the other interesting factors regarding decision making around managed services is just who is making the call at end user organizations. Turns out, it's mainly the top brass in the IT department. Nearly two thirds of the managed services purchasing decisions are made by CIOs or other senior level IT staff, while a third are decided by non-IT executives, based on the study findings.

For many IT staffers, managed services can be seen as both a blessing and a curse. On the one hand, contracting with an MSP for routine maintenance, break/fix and other day to day IT activities frees up internal staff to work on more strategic projects. On the other hand, turning to an outside firm for your IT needs could potentially lead to staff reductions internally.

Information End Users Find Useful in Decisionmaking



Source: CompTIA's *Trends in Managed Services* study
Base: 273 managed services users
Advancing the Global IT Industry

TRENDS IN MANAGED SERVICES

SECTION 3: END USER MANAGED SERVICES—EXPERIENCE/SATISFACTION LEVELS

RESEARCH



OCTOBER 2011

Key Points

- Half of end user organizations today are working with between 2-4 MSPs, though 4 in 10 cite a preference for working with a single provider.
- More than half of companies that engaged with an MSP made no changes to their own IT staffs, instead freeing them up to work on more strategic projects that drive revenue for the company. Just 4% of companies across the total sample eliminated an entire IT staff when making the shift, while 3 in 10 reported reducing headcount.
- Service-level agreements are critical to end users. The top 3 SLA elements deemed most important to include are: Response times, 24/7 support and data/systems security.
- 62% of the sample said they plan to increase their IT spend on managed services over the next two years, with the balance opting to remain at current levels.
- End users of managed services are mainly satisfied with the experience with more than half saying they are “mostly satisfied” and a third reporting to be “very satisfied.”

Managed Services Adoption Tactics

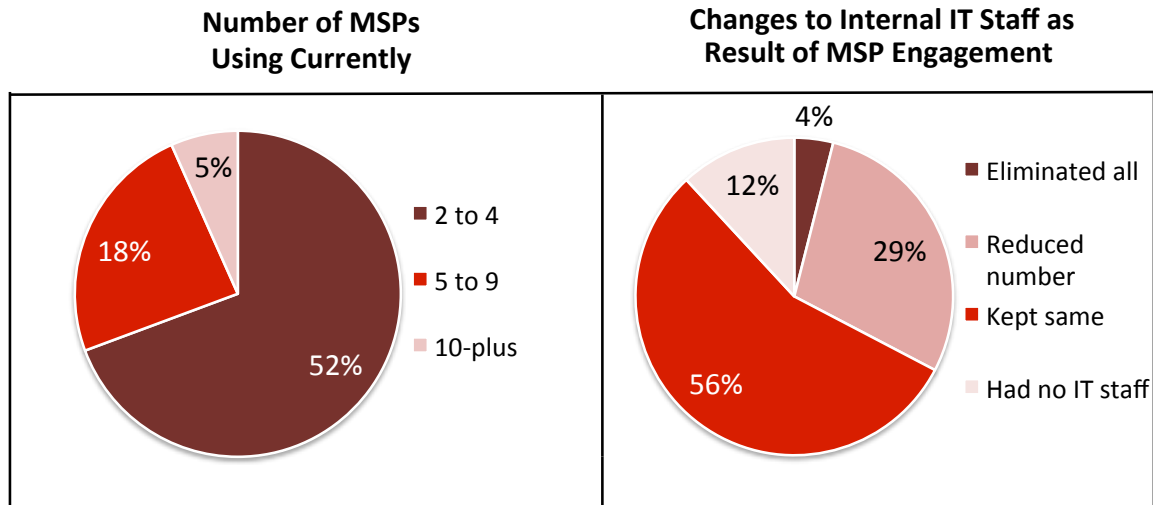
One of the most important decisions an end-user organization makes when deciding to move some or all of their IT to a managed services model is choosing the right MSP. The fact is that managed services means turning over responsibility for the oversight and care of your in-house technology to a third party, which also means providing them access to corporate data. An unwillingness to let go is one of the chief reasons that a segment of companies in the marketplace eschew managed services altogether.

In this section of the CompTIA report, we explore the structure and details of the relationship end users have with the MSP partners they work with, including information about payment structures, implementation times, service level agreements and overall satisfaction rates.

As discussed in Section 2 of this report, CIOs and other senior level IT staff are the predominant decision-makers when it comes to choosing an MSP. Nearly two-thirds of the sample reported that the managed services decision falls to parties in those job roles. Larger organizations were far more likely to follow this pattern, with on average about 8 in 10 companies with \$10 million and above in annual revenue designating an IT executive for this decision.

Not surprisingly, among the smallest organizations – those with less than \$10 million in annual revenue – far fewer senior IT executives (4 in 10) handled the managed services decision. About 30% of companies this size said they do not have any official IT personnel, defaulting technology-related decisions to the business owner or other non-IT staffers.

Use of MSPs and Impact on IT Staff



Half of end users today are working with between 2-4 MSPs, though **4 in 10** cite a preference for working with a lone provider.

Speaking of IT staffs, many of the larger organizations have at least a small team of internal IT workers, while enterprises clearly have entire departments devoted to technology. One of their concerns about managed services historically has been the impact that model will have on their jobs and job security. It's clear from the data that switching some or all of technology needs to an MSP has a subsequent impact on internal IT departments, it is not as dire as some have suggested. More than half of companies that engaged with an MSP made no changes to their own IT staffs, instead freeing them up to work on more strategic projects that drive revenue for the company. Just 4% of companies across the total sample eliminated an entire IT staff when making the shift, while 3 in 10 reported reducing headcount.

And proving further that a hybrid of managed services coupled with an internal IT department can work well, companies that reported the highest levels of satisfaction with their MSP experience were least likely to have made any internal IT staff changes. Six in 10 from those satisfied MSP customers kept headcount stable.

Organizations for the most part aren't tossing their lot with a single MSP either, but interestingly many of them wish that they were. More than half of end users today said they are working with between 2-4 MSPs, with less than a quarter (22%) on contract with a single MSP. And yet, 4 in 10 cite a preference for working with a lone provider. The fact that few are likely reflects that a single MSP can't or doesn't

always offer the full range of technology services that an organization needs. So while having one throat to choke is desirable by many firms with respect to third-party providers, it's not always possible.

The smallest companies were more likely to work with a single MSP, while the largest, understandably, engaged with multiples. More than half of respondents in business-related job roles cited a preference for working with a single MSP, compared to 30% of IT staff. Business executives are more likely thinking about the administrative and cost implications of engaging with multiple providers versus IT-focused staff concerned less with how many MSPs it takes so long as the technical skills needs are met.

Managed Services: Laying the Groundwork

The transition to managed services prompts many questions. Does in-house IT infrastructure need to be upgraded, updated or purchased to comply with the MSP's systems and integrate smoothly with remote monitoring software? What does the ideal SLA look like? What is the best payment model to pursue?

Laying the groundwork properly is critical because many of these engagements are based on long-term contracts, often a year, but in some cases up to three years or longer. End users need to work with their MSP to get the underpinnings – both technical and contractual – right so they aren't kicking themselves later when things go wrong and they've not built in ways to correct smoothly or exit gracefully.

On the technical side, there is the question of what systems need to be updated, installed or integrated in order to accommodate the software tools MSPs deploy to manage and troubleshoot an end user environment.

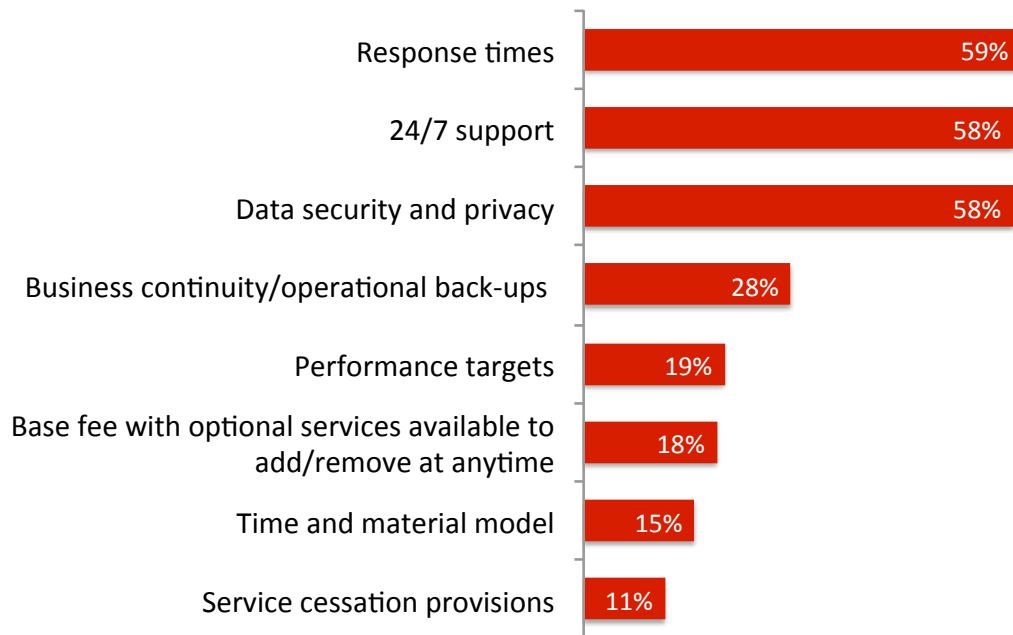
<i>Getting Ready Technically: Upgrade Needs</i>	
Servers, routers or other networking equipment	62%
Software, i.e. operating systems	54%
Desktops/laptops	50%
Printers	40%
Didn't have to upgrade anything	25%

Sometimes it is overlooked that there are initial startup costs to the managed services transition in part because end users view the model as moving away from a lot of capital investment in IT infrastructure to installing an op-ex system of paying for IT services. While this is true, it's important to note that there the infrastructure on-premise must now comply and integrate with that in the MSP's data center. Often MSPs charge for this initial environment

preparation on a more conventional product sale and services basis, then once the end user is on-ramped to their system the managed services contract along with recurring payments is activated. Across the board from smallest to largest sized end user organizations, the majority required infrastructure investments upfront in the move to managed services.

The other major upfront considerations are contractual: How long should the contract be, what type of pricing structure should be agreed to, and most critically, what elements go into the service level agreement (SLA). The SLA is the guiding principal behind any managed services engagement, protecting both the end user and the MSP by establishing clear requirements, standards and accountability.

SLA Elements Deemed Most Important by End Users



Source: CompTIA's *Trends in Managed Services* study
 Base: 273 managed services users
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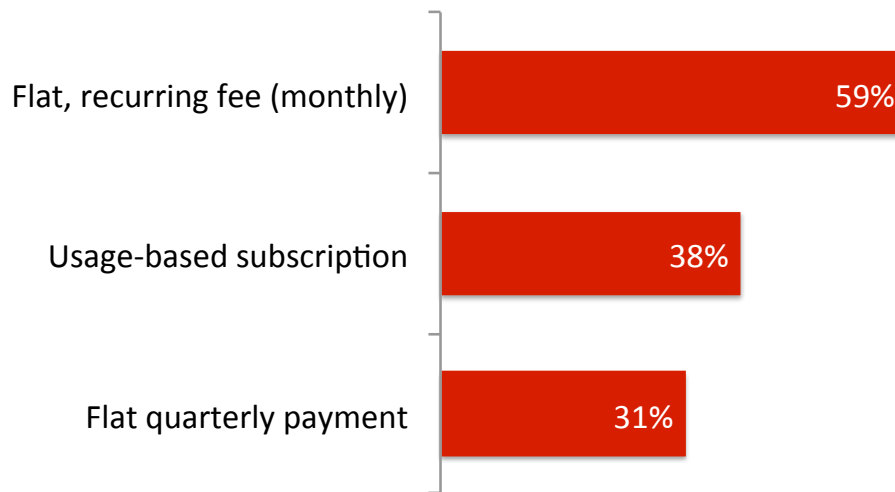


From an end user perspective, there are some obvious priorities when drafting an SLA, from 24/7 uptime to data security. No organization wants to enter into a managed services agreement only to find service levels are worse than any they have experienced with an in-house IT staff. Downtime results in lost dollars, productivity or worse.

But in looking closely at the data, some types of organizations value aspects of SLAs more than others. One example: the smallest end user organizations – those with less than \$10 million in revenue – prize an SLA that allows them to pay a base fee with the option of adding and subtracting services over time. A quarter of the smallest end user companies value that particular SLA element, compared with just 8% of those with more than \$100 million in revenue. One of the more compelling aspects of managed services in general is the ability to start small and scale up as needed. Many companies first engage in basic remote monitoring and management of IT, only later adding more complex services such as managed IT security. And while the scaling option is important for all end users, it is especially so for those on the smaller size that might not need the kitchen sink of services at the outset and for which there are often cash flow considerations. As they grow their businesses, they can introduce new types of managed services as they can afford them.

Pricing models for managed services are also a factor when choosing an MSP to work with. Some MSPs charge a flat recurring fee, typically monthly, but not always. Others charge based on usage per month, similar to an electricity utility. End users that contract with multiple MSPs often have multiple types of payment arrangements.

Pricing Models for Managed Services

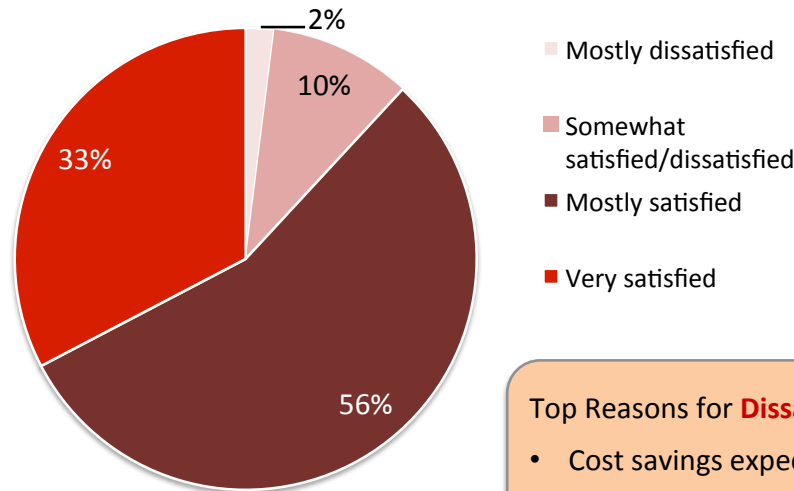


The monthly flat fee is the most prevalent option in use today, with nearly a third of current users of managed services paying based on that model. That is consistent across all size organizations, although among the largest companies the quarterly flat payment is also popular. Nearly half of companies with in excess of \$100 million in revenue worked with at least one MSP that charged on a flat-fee quarterly basis in the last year. In fact, across all business sizes, each of the three payment models is in place in many cases, indicative of multiple MSP contracts.

Managed Services Satisfaction Levels

End users of managed services are mainly satisfied with the experience, the study finds. Smaller companies tended to report the highest satisfaction levels, which could reflect the fact that they are on contract with a single MSP – so fewer relationships to judge – and may only be accessing base level services. The larger the company, the lower the level of high satisfaction. For example, 4 in 10 companies with below \$10 million in revenue said they were very satisfied with their managed services experience, while just 2 in 10 of end user firms with more than \$100 million in revenue expressed a similar level of approval. Similarly, 21% of those large organizations reported at least some level of dissatisfaction with their managed services experience compared with 12% of the total sample.

End User Satisfaction Levels with Current Managed Services Experience



Top Reasons for **Dissatisfaction**?

- Cost savings expectations not met
- Difficult handoff from IT staff

Source: CompTIA's *Trends in Managed Services* study
 Base: 273 managed services users
 Advancing the Global IT Industry

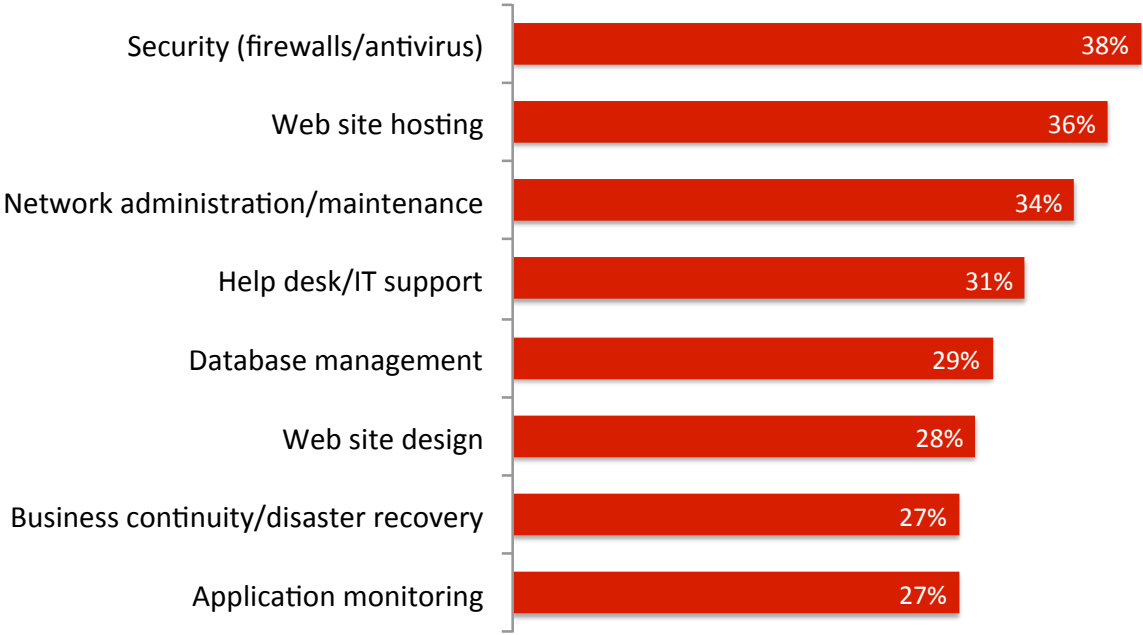
What drives satisfaction rates? Performance and uptime, along with agreeable contract terms, a secure environment and a model for adding new services are all critical. But it's also about communication between MSP and the customer. Consider the following: Three quarters of respondents that reported being highly satisfied worked with MSPs that provided regularly activity reports on all of the steps they had taken with the customer's IT environment during a certain timeframe. This includes documenting any problems they averted and ones they caught early and solved. This shows ROI and fuels accountability, which builds loyalty and raises satisfaction among end customers.

Seven out of 10 end user organizations that reported being highly satisfied received such activity reports from their MSPs. Those reports are not only important to prove MSP accountability, but from the MSP's perspective these are opportunities to make recommendations on new services to add or provide warnings that storage capacity is reaching a limit and more will be needed x-number of months down the road. This way customers are engaged, even though they are not managing their own IT.

Looking ahead, organizations are going to continue to contract with MSPs for some or all of their IT needs. In terms of investment levels, 62% of the sample said they plan to increase their IT spend on managed services over the next two years, with the balance opting to remain at current levels.

Not surprisingly, organizations with the highest satisfaction rates with their current managed services experience are expecting the most significant level of new investment over that two-year timeframe.

IT Likely to Move to Managed Services in 12 Months



Source: CompTIA's *Trends in Managed Services* study
Base: 273 managed services users
Advancing the Global IT Industry

One of the big surprises in the data is the top spot security holds as the most likely technology function to move to managed services in the coming year. Security was cited as the No. 1 hurdle to managed services adoption by end users currently.

TRENDS IN MANAGED SERVICES

SECTION 4: CHANNEL MANAGED SERVICES—ADOPTION/BUSINESS TRANSITION

RESEARCH



OCTOBER 2011

Key Points

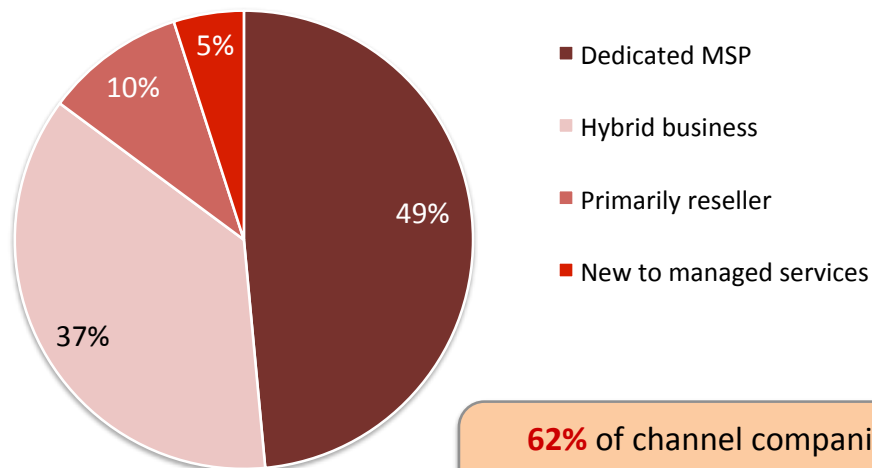
- 4 in 10 channel companies report offering managed services. Of those companies, CompTIA's study finds just about half consider themselves dedicated MSPs, with two-thirds of that population deriving more than half of their annual revenue from managed services contracts. Another 37% operate what they characterize as a hybrid business that includes a mix of managed services (but typically less than half of overall revenue) and more conventional IT product and services offerings.
- The No. 1 demand driver behind channel companies adoption of managed services as part of their business model is to protect their customer base. Six in 10 respondents said protecting their customer base was a very important reason to begin offering managed services, ahead of clear cut financial reasons such as increasing sales revenues and building recurring revenue stream.
- Nearly half of channel respondents said that managed services accounted for between half and 75% of sales during that last 12 months. Mid-sized companies are grabbing the biggest piece of the managed services revenue pie, with 7 in 10 reporting more than half of their sales coming from this part of their offerings in the last year.
- Roughly 4 in 10 of the total sample pegged between six-12 months as the expected timeframe for their managed services business to reach its minimal target of profitability.

Managed Services and the IT Channel

The rise of managed services over the last five years has provided the IT channel with a way to reinvent itself in the mode of a utility, generating that Holy Grail of recurring revenue through contractual arrangements with customers for IT services. This model has come about slowly in terms of adoption, with past fits and starts that included the Application Service Provider push nearly a decade ago. Today, 4 in 10 channel companies report offering managed services. Of those companies, CompTIA’s study finds just about half consider themselves dedicated MSPs, with two-thirds of that population deriving more than half of their annual revenue from managed services contracts. Another 37% operate what they characterize as a hybrid business that includes a mix of managed services (but typically less than half of overall revenue) and more conventional IT product and services offerings.

One reason that more channel companies are adding managed services to their plates is growing customer interest. More end users are asking about managed services as they seek to lower their cap-ex IT spending and shift their technology budget to a recurring operational expense. Sections 1 through 3 of this report detail end user demand drivers and other factors behind their interest in outsourcing some or all of their IT functions; information that can help inform today’s IT channel on the best ways to pitch managed services to these organizations.

Managed Services in the Channel



62% of channel companies offering managed services have done so for **5 years** or longer.

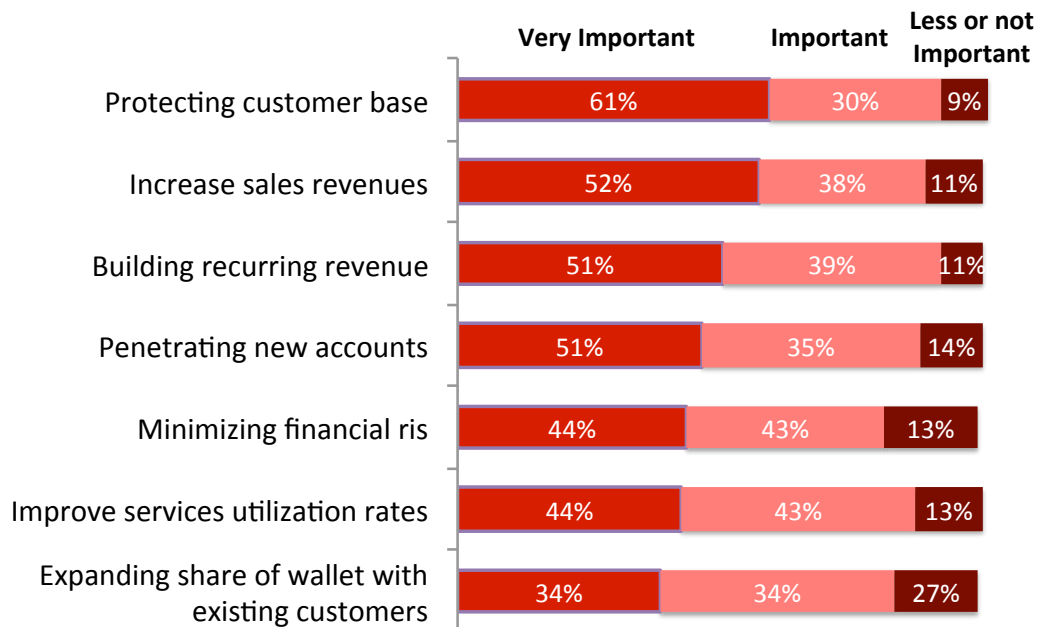
Among the different types of solution providers, the smallest in terms of annual revenue (less than \$10 million) were slightly more likely to identify as dedicated MSPs. Fifty-six percent of them did, compared with 45% of solution providers with more than \$100 million in revenue. This is likely because the largest companies have longer legacies in conventional product sales and services projects and rely heavily on those revenue streams. Managed services becomes just another piece of the pie for them. In the case of the smaller firms, the challenges of trying to juggle multiple business models – transactional and recurring managed services – can be difficult. Settling on one is often the wise course.

They may be committing whole hog, but smaller firms were less likely to identify themselves as skilled experts at managed services today than larger companies. Just 4 in 10 described their managed services experience in that way, with half characterizing their MSP acumen as competent and getting better. This compares to roughly 7 in 10 firms with more than \$10 million and above in revenue that self-identified as skilled experts in managed services. Length of time in the managed services market has much to do with this; the smallest companies were less likely to have been MSPs for five years or more than the rest of the sample.

Demand Drivers for the Channel

As mentioned previously, customer interest in managed services has grown with their comfort levels toward outsourcing and the desire for things like predictable IT pricing and the ability to start small and add IT services as needed. Savvy channel players recognize the importance of being in tune with their customers' current needs and interests on the technology front. Which is why it is not surprising that the No. 1 demand driver behind channel companies adoption of managed services as part of their business model is to protect their customer base. In other words, give them what they want or someone else will.

Channel Drivers for Offering Managed Services



Source: CompTIA's *Trends in Managed Services* study
 Base: 155 IT channel companies
 Advancing the Global IT Industry



Six in 10 respondents said protecting their customer base was a very important reason to begin offering managed services, ahead of clear cut financial reasons such as increasing sales revenues and building recurring revenue stream.

Ironically, the driver least impacting the channel's decision to offer managed services is the desire to increase business with existing customers. Just a third cited that as a very important demand driver. This could be reflective of the current state of the economy; MSPs understand that their customers' IT spending ability is tight so the priority becomes retaining customers in their current capacity versus trying upsell them on additional services.

There are some differences in demand drivers based on company size and type. The largest MSPs prize the recurring revenue stream of managed services as the most important driver. Nearly 7 in 10 cited this reason. Larger companies were also far more likely to cite being able to control all aspects of the offering as a reason to provide managed services than smaller firms.

The managed services model has borne fruit for the channel. A full 15% of companies offering managed services today reaped more than 75% of their revenue from these contractual services last year. Nearly half said that managed services accounted for between half and 75% of sales during that last 12 months. Looking ahead, growth expectations are not overly aggressive, however, perhaps reflecting the tepid economy. Still, a quarter of respondents projected significant growth (more than 10%) and a full two-

thirds expected modest growth. None of the sample predicted any level of decline in MSP business in the coming year.

Higher growth rates are happening among MSPs with a track record of core best practices. A recent survey by financial analytics research firm and CompTIA partner, CoreConnex, calculated year-on-year revenue growth for managed services-centric channel businesses to be 40% as of August 2011. The survey sample comprises 800 users of CoreConnex partners selling high-end financial analytics managed services. These MSPs share certain attributes that CoreConnex credits with their high growth patterns.

- Established a niche and embraced specialization
- Created a sales process tightly integrated with delivery (“promise = reality”)
- Know their numbers at a detailed level and keep internal performance data visible to the team
- Do not compete on price; in fact are usually priced higher than average and compete on knowledge and experience
- Present themselves as “taking responsibility for delivering results” and not as selling service as a “product”

Among the general MSP population, mid-sized companies are grabbing the biggest piece of the managed services revenue pie, with 7 in 10 reporting more than half of their sales coming from this part of their offerings in the last year.

Ample revenue generation is just one critical financial factor when considering the MSP route. Time to profitability is also a major consideration. Historically, how long it takes to turn a profit has been a source of concern for channel firms eyeing a switch to the model. The reasons are myriad. For one, a managed services business model requires a higher volume of customers than are necessary in a more conventional transactional sales set up, where often deal sizes can be large and lump sum. For the budding MSP, new customer acquisition means an acceleration of demand generation and marketing activities and often requires staff retraining – especially of sales reps. The reality is that at first, the amount to build out a managed services practice is often much more than the dollars coming in from those first few customer contracts. In this scenario, cash flow and a quick time to profit are paramount.

The sweet spot for profitability targets across all solution provider types that do managed services is between six-12 months. Roughly 4 in 10 of the total sample pegged that as their expected timeframe when their managed services business would reach its minimal target of profitability.

Channel Timeframe Expectations to Reach Managed Services Profitability

	Small MSPs	Medium-sized MSPs	Large MSPs
At target profitability now	16%	17%	17%
Less than 6 months	16%	14%	33%
6-12 months	43%	42%	23%
12-24 months	16%	23%	17%
24-36 months	6%	3%	10%



Source: CompTIA's *Trends in Managed Services* study
Base: 155 IT channel companies offering managed services
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Managed Services Adoption Challenges

The transition to managed services is not without its hurdles to leap. MSPs cited a number of challenges, including the aforementioned time it takes to reach profitability, customer acquisition and the required level of capital investment.

The study asked respondents to rate the level of importance of each of the challenges, while also having them assessing the level of difficulty to overcome those same challenges. The data show that MSPs generally recognize the items that are most important are also difficult to achieve. The one outlier appears to be time to profitability. The MSPs rate it of lower importance, but indicate that's it's difficult to do. Perhaps there is an element of avoidance inherent in this finding; because time to profitability is difficult to do, its importance is underrated. It could also be a matter of MSPs not seeing a tremendous difference in reaching profitability in six months versus 12 months, for example.

Managed Services Adoption Challenges: Importance vs. Execution

	Importance*	Execution Difficulty**
Achieving operational efficiency	70%	81%
Selecting right managed services software	67%	69%
Customer acquisition	63%	81%
Required level of human investment	60%	75%
Required level capital investment	56%	70%
Availability of trained consultative sales and tech staff	56%	66%
Time takes to reach profitability	54%	80%
Determining correct monthly pricing model	54%	62%
Migrating sales staff to new model	49%	65%

*Items rated as 'Very Important'

**Items rated 'Extremely' or 'Somewhat' difficult to achieve

Source: CompTIA's *Trends in Managed Services* study
Base: 155 IT channel companies offering managed services

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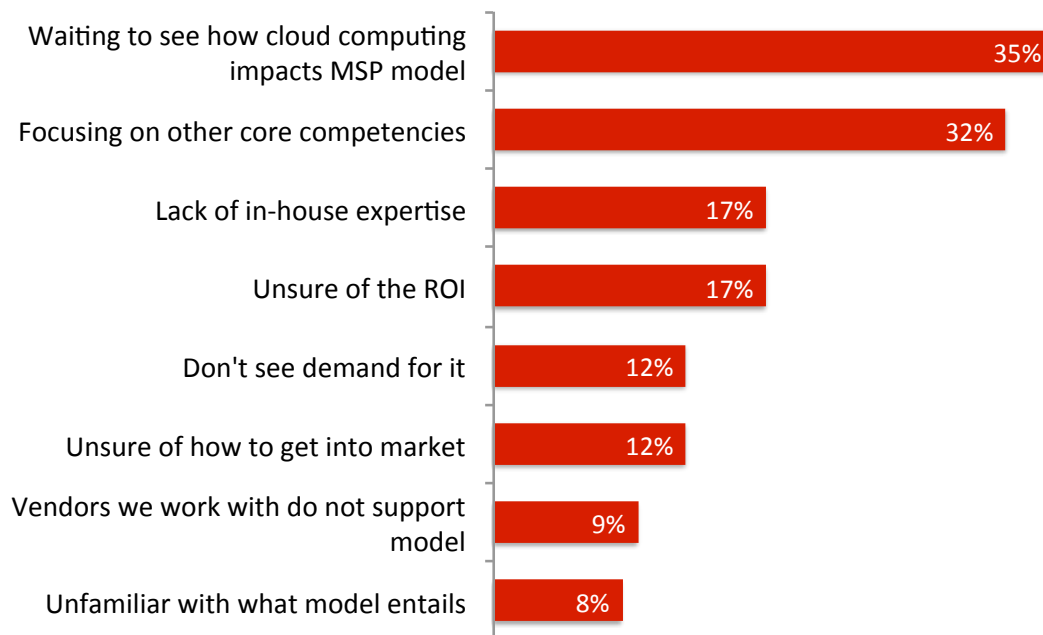
Achieving operational efficiency ranked highest in importance across all channel types. Roughly 7 in 10 respondents singled this challenge out as very important, and likewise it was widely cited as difficult to achieve. One of the goals of the MSP model is to reach a point where the systems, people and processes put in place for the remote management of customer IT infrastructure operates in a lean, minimally intrusive manner. MSPs make money in the inverse of a typical time-and-material solution provider business, where the size of the customer bill is predicated on how long the engagement lasts (longer the better), what tools and systems were used/sold and the level of sophistication of the job. MSPs charge customers the same flat fee every month regardless of how much work they do, so operationally it makes more sense to spend as little time as necessary attending to an individual customer's environment. Getting the system down right in the first place is key to that.

The data illuminate some differences among MSPs of different sizes and levels of commitment to the managed services model. For example, those companies that identified themselves as dedicated MSPs rated the various challenges at higher levels of importance than every other solution provider type (size, business model, revenue) in the study. Nearly three quarters of dedicated MSPs said selecting the right software to run their managed services business was very important, compared with 67% of the total sample. Tools such as professional services automation (PSA) and remote monitoring and management (RMM) software are the operational lifeblood to any successful MSP, but especially so to those with the highest volume of customers to manage and overall, the most skin in the game. It makes sense that MSPs in the dedicated category would value this element so highly. Section 5 of this report will provide additional specifics around software tools being used by MSPs today.

Non-MSP Insights

Today, 6 in 10 channel companies currently do not offer any managed services as part of their business portfolios. The No. 1 reason? Cloud computing. More than a third of respondents said they are waiting to see how cloud impacts the MSP model, if at all. Anecdotally, the arrival of cloud computing onto the scene has caused some confusion in the marketplace as to whether this much-hyped model just another term for managed services or an altogether different animal that could supplant the MSP business model.

Channel Reasons for NOT Offering Managed Services



Source: CompTIA's *Trends in Managed Services* study
 Base: 209 IT channel companies not offering managed services
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The impact of cloud is the top reason for holding off on managed services for channel companies of all sizes. Half of firms with greater than \$10 million in revenue and above cited this as their primary cause for pause. While this study did not get into the question of the difference, if any, between managed services and cloud-based services, it's clear that there are both points of intersection and diversion with the two models. One of the more plausible intersections is the MSP that opts to deliver services from the public cloud versus an in-house data center. Are they an MSP or a cloud provider? These are the types of questions being batted around in the channel today.

The data on non-MSP players do underscore a strong intent to start offering managed services in the near future, however, regardless of the cloud debate. Six in 10 respondents expect to start offering managed services in the next 12 months, with more than a quarter putting their timeframe at six months. For these soon-to-be initiates, technical training is what they say they need most in making this transition. Vendors and distributors have a huge role to play in the education and training arena. Section 5 of this report will dive deeper in the relationships current MSPs have with their vendor partners and their customers.

TRENDS IN MANAGED SERVICES

SECTION 5: CHANNEL MANAGED SERVICES—CUSTOMER AND VENDOR TRENDS

RESEARCH



OCTOBER 2011

Key Points

- Nearly 4 in 10 of the smallest MSPs said they plan to add server management to their offerings in the coming year, which might indicate an increasing complexity of IT infrastructure among their SMB customers.
- Eighty-percent of dedicated MSPs report selling network management services versus 65% of hybrid MSPs. That may change, however; another 3 in 10 hybrid firms plan to enter the network management services market in the next 12 months.
- The top 3 customer objections to adopting managed services are their lack of understanding of the cost benefits, security concerns and the desire to own their IT.
- Four in 10 channel companies offering managed services have customer retention rates above 70% on average. That includes 9% citing a 90% retention rate. Just 1 in 10 report holding onto customers less than half the time on average.

Managed Services and the IT Channel

Becoming the “trusted advisor” to the customer has long been considered a prerequisite for success in the world of the IT channel. It effectively holds that solution providers need to establish ongoing consultative relationships with clients, ones that apply technology solutions and services to business needs and goals.

For companies offering managed services, trusted advisor status is absolutely critical to winning and most importantly, retaining customers. Think about the customer leap of faith: Engaging with an MSP means handing over the management and monitoring of their IT infrastructure to a remote third party, not only relying on them to keep systems up and running, but also entrusting them with sensitive company data and the responsibility for making sure compliance mandates are being met. Decisionmakers, most often CIOs and other C-level executives are likely to be quite picky in selecting the MSP they work with. (See Sections 2 and 3 of this report for more on end-user IT decisionmaking) It’s imperative, therefore, that MSPs sport a positive track record.

This section of the CompTIA study, “*Trends in Managed Services*,” examines the relationship between MSPs and their customers – from the MSP perspective. Findings include a demographic breakdown of the typical managed services customer, retention rates for MSPs and an exploration of some of the main customer objections MSPs face when selling. Additionally, the section will take a look at the relationships MSPs maintain with their managed services vendor partners, including branding strategies.

At Your Service...

First off, it’s important to understand the types of managed services that MSPs are primarily offering today as a potential indicator of customer demand and overall direction MSPs are heading into the next year.

Application monitoring is the most prevalent managed service being offered by MSPs today, but not by much. In fact, roughly 7 in 10 MSPs currently offer the top 10 most common managed services in the marketplace today, including network management, desktop management, security, and help desk functions. On average across all channel segments, 4 in 10 expect their current mix of managed services offerings to remain the same in the coming year, while just slightly more than that (on average nearly half) predict an overall increase in the type of solutions they sell.

In looking into the data across various segments, a few distinctions can be made. Server management, a staple of many managed services operations for years along with desktop and network management, is among one of the most prevalent services in the stable of mid- and large-size MSPs (companies with more than \$10 million in annual revenue) On average, three quarters of firms that size count server management in their MSP practice. However, just more than half of the smallest firms do. The fact that many of the smallest channel companies also serve the smallest sized customers – many of whom have no need for a server farm or even a LAN -- may account for the lower incidence. But this appears to be changing; nearly 4 in 10 of the smallest MSPs said they plan to add server management to their offerings in the coming year, which might indicate an increasing complexity of IT infrastructure among their SMB customers.

When comparing dedicated MSPs (those deriving at least half their revenue from managed services) with hybrid MSPs, the former on average maintained a broader array of services options in their portfolio. For example, 80% of dedicated MSPs report selling network management services versus 65% of hybrid MSPs. That may change, however; another 3 in 10 hybrid firms plan to enter the network management services market in the next 12 months.

One of the highest future growth areas across all segments is the print/document management category, which nearly 4 in 10 MSPs of all sizes expect to add to their offerings in the coming year. CompTIA recently released a comprehensive study, [“Examining the Print and Document Management Market,”](#) that details this growing opportunity area for the channel.

Lastly, IT consulting ranks high across all respondents, which isn’t surprising. The nature of managed services is consultative if done right, with MSPs often providing and interpreting routine activity reports with their customers to show work done, but more importantly to forecast upcoming needs such as additional storage.

Top 10 Managed Services Being Offered

	Currently Offer	Plan to offer next 12 months	No plans to offer
Application monitoring	73%	19%	8%
IT consulting	72%	20%	8%
Network management	71%	23%	7%
Software deployment/support	71%	22%	7%
Desktop management	70%	28%	13%
Server management	68%	28%	5%
Database management	67%	26%	7%
Security	66%	26%	8%
Hardware deployment/support	63%	29%	9%
Help desk functions	62%	30%	10%

Source: CompTIA’s *Trends in Managed Services* study
 Base: 155 IT channel companies offering managed services

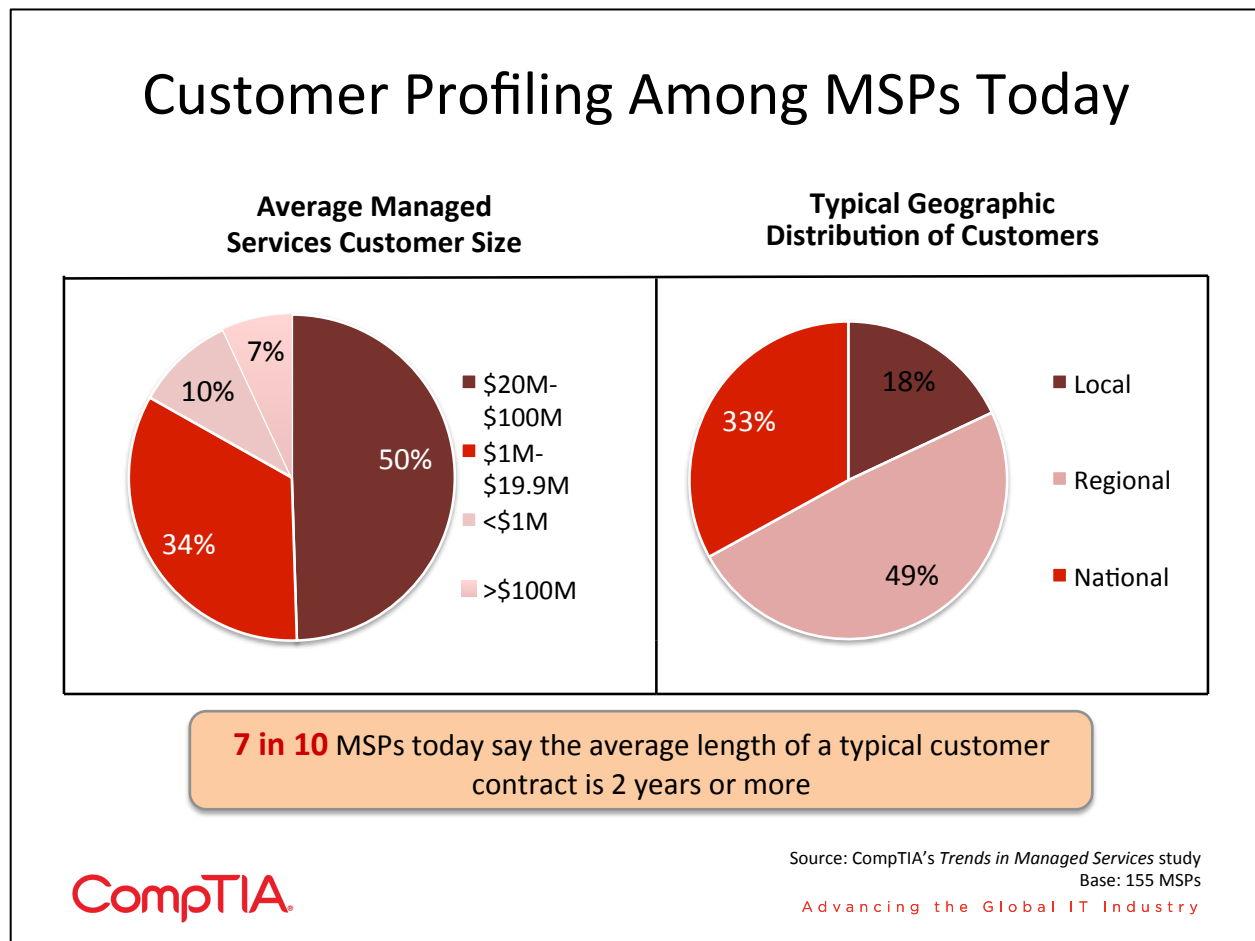


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Customer Demographics

The midmarket remains the sweet spot among MSP customers today. Fully half of respondents identified their average managed services customer as having between \$20M-\$100M in annual revenue,

while another third primarily serves smaller customers with between \$1M-\$19.9M in revenue. Mid-sized customers typically have their own internal IT staffs – some quite extensive – but in an effort to cut costs and free up their own technical personnel to work on revenue-generating projects, turn over some of their IT maintenance needs to MSPs. In the case of smaller customers, the MSP may serve as their literal IT department.



Among channel companies garnering more than half of their revenue from managed services engagements, nearly 6 in 10 do business with the mid-sized customer segment most of the time. The smaller the channel company, the more likely they are to work with the smallest customers. Two thirds of channel firms with less than \$10M in annual revenue worked on average with customers with less than \$20M in revenue. A quarter of that population sold managed services mainly to the very smallest, or micro-sized, customers.

In terms of geographic footprint, most MSPs are casting their net regionally, though a full third said the distribution of their customers spread nationally. Not surprisingly, the smallest MSPs tended to focus locally in the largest numbers (4 in 10), while the largest MSPs enjoyed the most sales penetration on a national scale (6 in 10).

Among dedicated MSPs, the average geographic distribution of customers presented a relatively balanced mix of those selling locally, regionally and nationally.

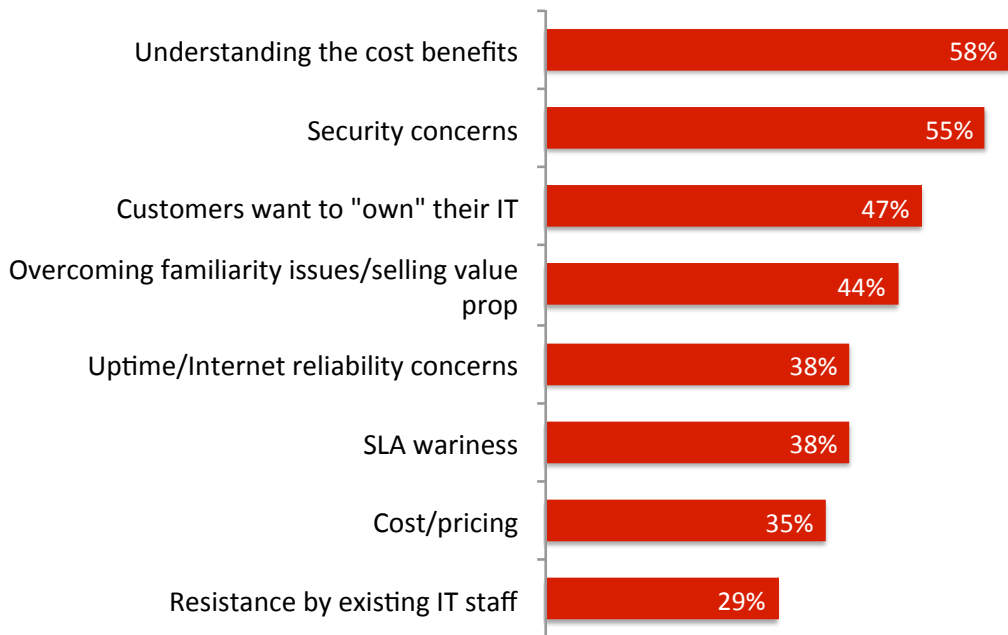
Primary Customer Objections to Managed Services

MSPs are no strangers to customer objections during the sales process. As with any outsourcing arrangement, end users are bound to express any number of concerns when considering the model. What's clear from the list of customer objections cited by channel companies is that most, if not all, can be overcome through greater education and awareness.

Take the primary objection: Understanding the cost benefits. Many customers may be confused as to why outsourcing is any less expensive than running their IT infrastructure in-house, missing the pluses of moving from cap-ex to op-ex IT spending and locking in predictable pricing, flat fee or based on usage. As part of the consultative selling process, MSPs can defuse this confusion.

The fact is, end users are saving money via managed services. As detailed in Section 2 of this report, among current users of managed services, 46% of firms have trimmed their annual IT expenditures by 25% or more as a result of their shift to managed services, including 13% that have slashed annual IT expenditures by 50% or more. An additional 50% of organizations have saved between 1% and 24% in IT costs annually. Those numbers arm MSPs with ample evidence to explain the cost benefits of the managed services model.

Main Customer Objections that MSPs Face in Selling



Source: CompTIA's *Trends in Managed Services* study
 Base: 155 MSPs
 Advancing the Global IT Industry



Security concerns may actually be waning based on findings from the study. While more than half of the channel says that security skittishness has led many customers to balk before buying, nearly 4 in 10 end users say security is the primary managed service they plan to add in the coming year. That's an obvious disconnect, but may reflect the fact that end users are beginning to get the message from MSPs that security is no greater a risk in a managed services model than it is on an internal network. As more adopt managed security services, MSPs will have more in-place deployments to illustrate as safety proof points for potential customers that remain wary or on the fence.

The effort to overcome initial obstacles to selling managed services is later followed by the task of retaining those customers. Customer retention rates are critical to the financial health and recurring revenue of a managed services business, as well as its reputation. But a job well done alone does not always a guarantee a contract renewal. In fact, one great irony about managed services high-level performance remains largely invisible to the customer.

Think about it: Unlike a conventional break/fix relationship where the engineer swoops into the customer site, spends the day troubleshooting and ultimately solving the problem and saving the day, the MSP does all of this work unseen and often preemptively from a remote location. As part of ensuring customer renewals, it's incumbent to make sure clients "see" the work that has been done. This best practice can take the form of routine activity reports or quarterly business reviews that demonstrate the value of the MSP arrangement.

As far as today, 4 in 10 channel companies offering managed services have customer retention rates above 70% on average. That includes 9% citing a 90% retention rate. Just 1 in 10 report holding onto customers less than half the time on average. Larger MSPs had the highest retention rates with 7 in 10 saying their customers renewed contracts at least 70% of the time. This compares with 59% of mid-sized MSPs and 40% of small MSPs.

One of the more interesting findings: Hybrid MSPs report slightly higher managed services customer retention rates than dedicated. Nearly 6 in 10 hybrids retain customers at least 70% of the time compared with 5 in 10 dedicated MSPs reporting the same rates. It's a small difference, but logic would suggest that companies for whom managed services is the primary business model would hold onto customers at greater rates than those for whom it's less relevant. But the fact is that hybrid MSPs have fewer customers to service may be the key to explaining the higher retention rates.

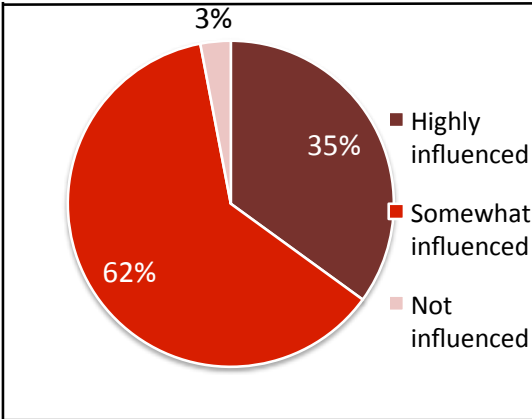
Vendor-MSP Relationships

Beyond the relationship an MSP must establish and maintain with customers is the one that must be forged with vendor partners. A vendor's capabilities and support for managed services-oriented channel partners is a factor in the decision to work with them in the first place, based on the study findings. Vendor support and services run the gamut from having a separate partner program for MSPs to a different compensation strategy to a commitment not to compete with partners in the field.

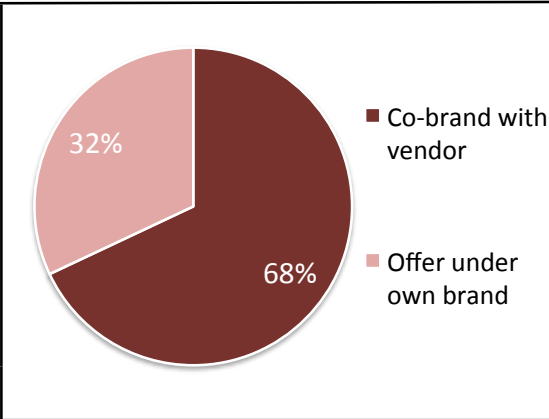
Nearly two thirds of channel companies cited vendor resources as at least somewhat a factor in influencing whom they work with. But for some segments it's even more critical. Among the largest channel companies offering managed services, for example, nearly two thirds cited the commitment and resources of the vendor as highly influential in whether they partner with a vendor or not.

How Vendors Factor into MSPs Decisions

Level that Vendor's Managed Services Support Influences Decision to Partner



Average Go-to-Market Strategy for MSPs



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