Whither Managed Service Providers?
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1. Introduction

Managed Service Providers (MSPs), aka *Service Providers* (SPs), were born out of *Application Service Providers* (ASPs) and have been in business since the late 1990s and really gained prominence when they put on various specialized hats as *Communications SPs*, *Managed Security SPs*, *Network SPs*, etc. Lately, with the increasing move to Cloud Computing and Software-Defined Datacenters (SDDCs)—comprising virtualization (hardware and software), SDS (storage), and SDN (networking)—and Software-Defined-WANs (SD-WANs), many SPs are being squeezed and are endangered, if not extinct. Smarter MSPs are positioning themselves as *Cloud Services Providers* or *Cloud Service Brokers* by polishing up their expertise in vertical industry-specific solutions.

2. Traditional MSP Business Model

MSPs normally manage customers' IT end-use systems and/or infrastructure on a proactive basis under a subscription model charging a flat monthly fee, thus guaranteeing a recurring revenue, under an SLA. This differs from conventional solution providers that pursue a break/fix model and engage on a time-and-materials basis with hourly billing rates, with no guarantee of a recurring revenue. The recurring revenue model is also attractive to VARs that additionally bring in vertical-industry expertise, but the T&M model is lucrative. Thus, some MSPs derive revenue from business lines other than managed services, such as IT project work and break/fix business.

In the past, MSPs' key ability lay in remote monitoring and management of servers and networks. In order to differentiate themselves, over time they expanded by offering remote support of clients' endpoint devices; mobile device management; managed print services; and managed security services such as remote firewall administration and other SaaS offerings.

Although pure-play MSPs are being challenged in the IT services industry, the MSP market itself is expected to grow from $107.17 billion in 2014 to $193.34 billion by 2019, at a CAGR of 12.5%.[1]

3. Threats to Traditional MSP Business Models

The traditional business model is being challenged by new industry trends such as the emergence of cloud computing and SD-WANs. As more of their customers move to the cloud and SD-WANs, do MSPs have a viable future?

Yes, if MSPs can:

- find ways to manage hybrid cloud environments,
- develop their own cloud services or resell others',
- find ways to compete with newcomers and established vendors, and
- offer cloud capabilities such as cloud-based backup services (BaaS), business continuity, and disaster recovery (DRaaS) as services.

It's important to note that Cloud Service Providers (CSPs) provide IT as a service (IaaS, PaaS, and SaaS), whereas MSPs mostly provide IT remote management services.

[1] "Managed Services Market by Managed Data Center, Managed Network, Managed Information, Managed Mobility, Managed Infrastructure, Managed Communications, Managed Security – Global Forecast to 2019", MarketsandMarkets, Report TC 3070, January 2015.

3.1 Cloud Computing

Public Cloud and CSPs are showing robust growth and this market is forecasted to grow from US$57 billion to US$175 billion by 2020. It is noteworthy that while many CSPs are MSPs, fewer MSPs are CSPs.

Tier 1 players (Figure 1) will play a major role and account for a big chunk of this market. Their main strengths are that they have established their leadership and they all have their own channel partners and program.[2]

Figure 1. Tier 1 Public Cloud Providers

Not to be left behind, Tier 2 players (Figure 2) are seeking for channel partners and figuring out programs and also happen to be customers of Tier 1 players. For instance, AT&T, CenturyLink, CSC, and Verizon are all customers of IBM.

Figure 2. Tier 2 Public Cloud Providers

The SP segment also includes vendors themselves that customers outsource their IT service to. This outsourcing spend is expected to grow from US$62 billion to US$155 billion by 2020. Figure 3 shows Tier 1 outsourcing leaders with enterprise market focus.

Figure 3. Tier 1 Outsourcing Leaders

Tier 2 and 3 (Figure 4) vendors, that include many legacy VARS, mostly focus on the SMB market.

Figure 4. Tier 2 and 3 Outsourcing Leaders

[2] "Service Provider Engagement: The Race for Cloud and Managed Services," Paul Edwards, IDC Webinar, March 2016.

3.2 SD-WAN

Gartner says[3] SD-WAN has four characteristics:

1. **Must support multiple connection types** including Internet, LTE, MPLS, etc.
2. **Can do dynamic path** selection allowing for load sharing across WAN connections
3. **Provides a simple interface for managing WAN** supporting zero-touch provisioning at a branch and should be as easy to set up as a home Wi-Fi
4. **Must support** VPNs as well as other third-party services, such as WAN optimization controllers, firewalls, and web gateways.

The SD-WAN market is expected to grow from 2015 to 2020 at a CAGR of 93% (Figure 5).[4]

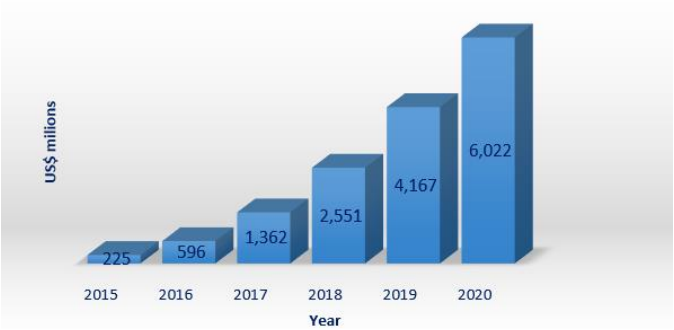

Figure 5. SD-WAN Growth Forecast

MSPs morphing into SD-WAN vendors should start thinking about bundling a variety of services, such as routing, WAN optimization, policy controller, and overlay network software, enabling applications to customize the network characteristics they need. It also helps MSPs prioritize workloads: an MPLS VPN, Unified Communications, high-bandwidth video, or social media?

There is a wide variety of startups and established vendors playing in this field that MSPs can co-opete with (Figure 6) to assert their presence and relevance.

Figure 6. SD-WAN Vendors

5. Conclusions

MSPs attempting to enter Cloud and SD-WAN markets can no longer afford to be passive bystanders. They need to retrain their staff in these areas and compete/co-opete with established vendors **and** startups that are agile, aggressive, lean and mean, and willing to sacrifice initial profits to enter the market and eventually gain market share.

[3] "IDC: SD-WAN market to hit $6B by 2020," Brandon Butler, *NetworkWorld*, March 24, 2016.
[4] *ibid*.