

## Channel partner opportunities and trends by region – an independent study by Canalys, commissioned by Cisco

### How and where are IT channel partners seeing opportunities in managed services regionally, and globally?

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- Channel partners selling managed services are seeing high growth, despite economic headwinds which are slowing other areas of the IT channel.
  - Key growth areas for managed services are cybersecurity and cloud infrastructure, which are in turn driving demand for networking and on-premises data center management.
  - Highest growth is likely to be seen in less mature managed services markets such as Asia-Pacific and Latin America, but North America and EMEA will see high single digit rises.
  - MSPs must prepare for the future – opportunities exist in artificial intelligence for network monitoring and MDR for cyber automation, and sustainability consulting on emissions data.
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### Executive summary

In 2023, channel partners are facing significant challenges. Record inflation, rising interest rates, geopolitical uncertainty, and increased business costs are all leading them to make difficult decisions regarding technology investments and cost reduction. Despite economic headwinds, there are opportunities for partners in the form of increased demand for managed services. Canalys forecasts show total IT spending is likely to grow 3.5% globally in 2023. Cybersecurity product spending is predicted to grow 11.1%, while IT managed services revenue will grow 12.7%.

Subscription and consumption business models offer stability and predictable revenue. However, accessing end-customer budgets for capital expenditure projects may be challenging – although IT hardware vendors are shifting towards flexible software-driven and hardware-as-a-service models, creating opportunities for partners who can provide flexibility during an economic crisis.

## Opportunities remain, but partners face challenges

Commonly cited challenges and opportunities from partner survey

### What do you see as the biggest growth opportunity for your business in 2023?

- 1 Cybersecurity solutions
- 2 Managed services
- 3 Cloud solutions (hybrid, migration)
- 4 XaaS (including SaaS/laaS/DaaS)

### What do you see as the biggest challenge to your business in 2023?

- 1 The economy: inflation/budgets
- 2 Recruitment and retention
- 3 Acquiring new customers
- 4 Operating expenses/profits
- 5 Supply volatility
- 6 Vendor cuts to support/direct

Source: Canalys, Candefero survey, 554 global respondents, March 2023 to April 2023



Managed services help partners diversify and differentiate their businesses, with key areas of demand including cybersecurity, on-premises and cloud infrastructure, data analytics, application performance management, cyber-insurance/risk, devices, and workplace solutions.

MSPs expect revenue growth in endpoint and network security, emphasizing the importance of detection and response capabilities. Meanwhile, networking is projected to become a larger business than servers for the channel, driven by the demand for cloud infrastructure services and the rollout of Wi-Fi 6, with the introduction of Wi-Fi 7 in the future creating further opportunities for partners.

Future positioning for partners also includes AI and sustainability, both of which will become vital to the MSP model due to automation and regulatory changes. AI, specifically in cybersecurity and network management, has been part of the technology landscape for decades but it is becoming clearer how partners can monetize its capabilities to improve detection and response, resource efficiency, staff retention, and profitability.

Even sustainability, which until now has been more prevalent in professional services, logistics, and device management specialists has become an immediate issue due to new regulations, particularly with the EU's

Corporate Sustainability Reporting Directive. This, and any further regulations in other regions around the world, are both a huge challenge and an opportunity for partners in managed services.

Despite the challenges, partners across all regions can find growth and profitability by adapting to market changes, specializing in key areas, and capitalizing on the demand for managed services and emerging technologies.

## MSP opportunities and trends by region – an independent study by Canalys, commissioned by Cisco

### How and where are IT channel partners seeing opportunities in managed services regionally, and globally?

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- Channel partners selling managed services are seeing highest growth in that space, despite economic headwinds which are slowing other areas of the IT channel.
  - Key growth areas for managed services include cybersecurity, networking, cloud infrastructure and datacenter.
  - Regional differences show highest growth is likely to be seen in less mature managed services markets such as Asia-Pacific and Latin America, but North America and EMEA will see high single digit rises.
  - MSPs must prepare for the future – opportunities exist in artificial intelligence for network monitoring and MDR for cyber automation, and sustainability consulting on emissions data.
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Channel partners today are growing their business against a backdrop of economic uncertainty. At the same time, post-pandemic IT spending is shifting, with a decline in device sales and an increase in subscription-based IT consumption. Across all regions customers are tightening their budgets, forcing partners to look for new revenue streams.

Channel partners will see opportunities in network and endpoint cybersecurity, networking, cloud infrastructure and data center – with managed services being a significant driver for their businesses. This is key: 90% of partners that sell managed services expect growth in that business in 2023, while 61% expect that growth to be above 10%. Canalys forecasts show total IT spending is likely to grow 3.5% globally in 2023. Cybersecurity product spending is predicted to grow 11.1%, while IT managed services revenue will grow 12.7%.

## Key channel partner trends in 2023\*



**Growth expected in 2023:** Despite economic fears, most partners expect revenue and profit growth in 2023. Backlog fulfillment and inflation are contributing factors, but new orders remain healthy in some areas. Growth drivers are shifting, particularly with the decline in client devices.



**The economy is the biggest challenge:** The effect of a weakening economy on customer confidence is the biggest concern, as it impacts IT spending and extends sales cycles (which threatens channel cash flow). US sentiment is weakest across the globe.



**Talent challenges:** Staff recruitment and retention remain top channel issues in 2023 as partners seek access to new skills, and struggle to hire and retain talent. This is fueling channel acquisitions and partner-to-partner collaboration.



**Cybersecurity leads growth:** Customers continue to prioritize security spending in the face of rapidly evolving threats (in cloud, AI and others) and compliance pressures. However, supplier consolidation and budget pressures are growing trends in cybersec.



**Managed services thrive:** Customer skills shortages, cost pressures and IT complexity are boosting demand for managed services. Partners in APAC, EMEA and LATAM expect most growth from managed services.



**Recurring revenue:** The shift towards recurring revenue is gathering pace, leading to new partner business models. However, product reselling remains a key driver of revenue for the channel.

(\* Global Partner Survey May 2023)

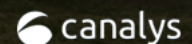


This report examines the key trends impacting channel partners and takes a deep dive into the opportunities particularly presented by managed services, as the most significant area where partners are seeing highest growth and finding ways to unlock some of the challenges presented by wider macro-economic issues, talent shortages, cybersecurity demand, and business model changes.

## Opportunities in managed services

Opportunities	<b>Cybersecurity</b> e.g., network, endpoint, and cloud security products and services such as MDR/XDR	→	Cybersecurity in MSP is about delivering a strategy for the customer across consulting, architecture, and risk management.
	<b>Cloud infrastructure</b> e.g., managed IaaS, PaaS, compliance, and cost control	→	Cloud infrastructure managed services require strong skills in cost management, data security, compliance, and DevOps
	<b>Endpoint management</b> e.g., remote monitoring and management of PCs and servers	→	Managing endpoints still forms the core of many MSPs' business models, from basic monitoring to patch and license management
	<b>Data center management</b> e.g., management of on-premises infrastructure environments	→	Managing the data center can allow partners to expand their hybrid infrastructure and disaster recovery solutions
	<b>Network managed services</b> e.g., observability, NaaS, and performance optimization	→	Network managed services can include DRaaS and basic network monitoring up to full-stack observability in enterprise.

Source: Canalys research, MSP Analysis, May 2023



### Introduction to the managed services landscape

Channel partners continue to face strong headwinds in 2023. Record inflation, rising interest rates and the cost of business are forcing partners to make tough decisions on how they balance their need to invest in the latest technology with reining in costs and consolidating operations. At the same time, ongoing conflicts and geopolitical uncertainty continue to cause concern for business leaders.

The pandemic saw a decoupling of technology spending from the overall economic situation, as evidenced by the massive growth seen in areas such as cloud software and infrastructure, PC and mobility demand, and managed services growth, all of which grew high double or even triple digits. That disruption also caused partners to re-think the strength of their business models, which had already been moving to greater levels of recurring revenue and services.

One route to resiliency is through leveraging the partner ecosystem. There has been an explosion in different partner types and new business models in recent years, and in 2023, partners can be involved in influencing, sourcing, selling, consulting implementing or any number of other touchpoints with the customer. At the same time, partners are increasingly working with one another to fulfil the customer's requirements. Staff recruitment and retention remain an issue in the channel with partners struggling to

hire and retain talent – and find themselves looking to plug gaps in their own expertise. This means a partner’s ability to be successful now depends not only on their ability to differentiate more clearly from their competitors, but also on their ability to co-partner with other specialists to deliver a more comprehensive solution.

Vendors are reorganizing their partner go-to-market approaches to accommodate this expanded partner ecosystem. Moreover, vendors are switching gears to help partners deliver value to the customer throughout the entirety of their lifecycle, developing programs that are based on the customer journey, and rethinking partner remuneration to reward co-innovation and co-selling. They want to recognize, monitor, measure and manage all the different points of value that partners deliver, as opposed to just the point of sale.

The landscape has shifted in other ways over the last couple of years. For example, there has been a decline in sales of client devices (desktops, notebooks, and workstations) after the massive growth we witnessed as organizations rushed to establish their remote workforces during the pandemic. Businesses are exhibiting greater caution by extending device refresh cycles as they weather the current uncertainty.

And while cloud remains one of the fastest-growing segments of the IT market, customer investments continue to slow in the face of persistent macroeconomic uncertainties, with growth falling below 20% for the first time. Enterprises are reducing cloud spend as part of overall cuts to IT budgets, with a clear emphasis on optimizing cloud costs, gaining control over cloud wastage, and improving the efficiency of cloud deployments. Some areas of opportunity are emerging from this that are primarily affecting larger channel partners, such as observability and managed networks. Today, observability is being used to re-architect network management and improve efficiency, but this is primarily an enterprise deployment. In the future, elements of these solutions may find themselves commonly deployed in the mid-market in more automated ways.

In this economic environment, many vendors have sought to reduce headcount in a bid to recalibrate their businesses after recruitment expanded during the pandemic. This is also an upside for the channel – downsizing their sales teams, vendors are leaning more on partners in 2023. Additionally, the layoffs open up a pool of specialist technology talent for the channel that is normally hard to find. According to a Canalys



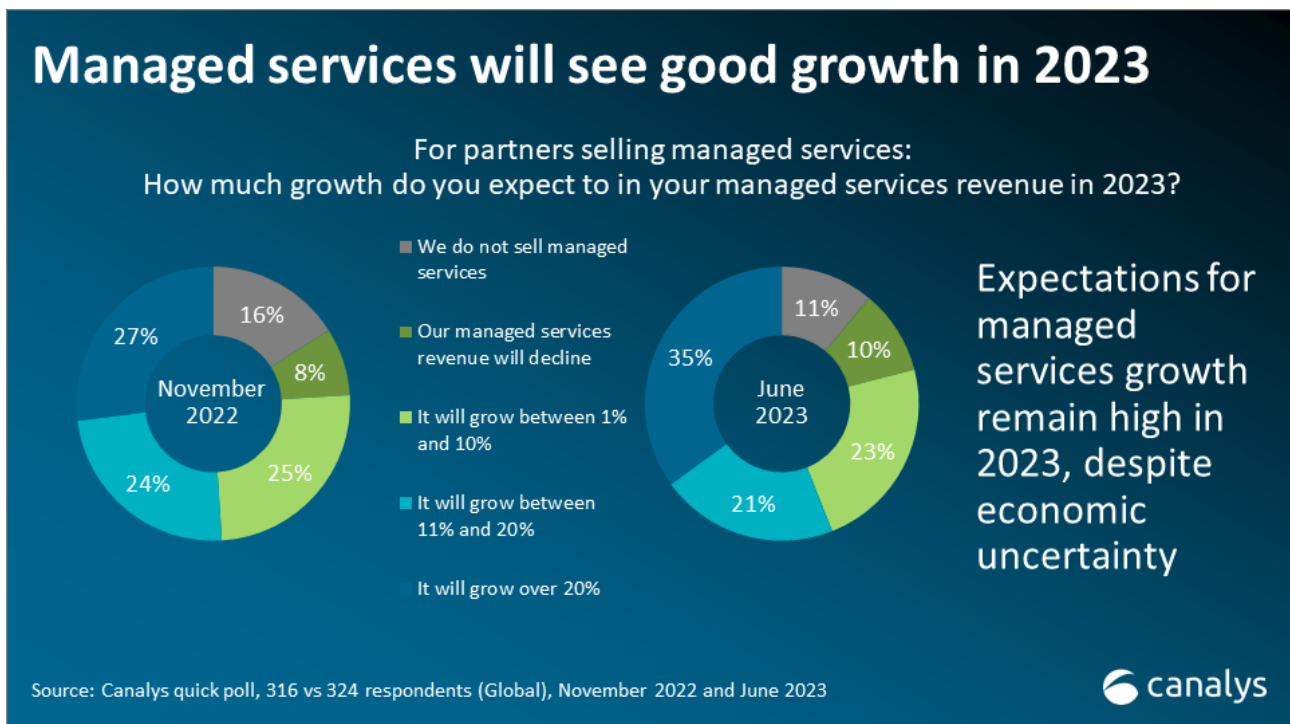
quick poll, 59% of channel partners are adding headcount in 2023, while 36% of partners are expecting revenue growth of more than 10% this year.

Meanwhile, both the surge in energy prices and climate change are driving a sustainability movement within the channel, especially in Europe, as customers urgently look to reduce energy consumption and improve efficiency. And to be credible to customers, partners themselves need to be more sustainable.

### Opportunities for partners differ by region

The good news is that there are plenty of opportunities for channel partners. Customer skills shortages, cost pressures and IT complexity are boosting demand for managed services.

There were double-digit rises in managed services through the IT channel in 2021 and 2022 and expectations remain the same for 2023.



Indeed, 79% of partners expect growth in that business in 2023, while 56% expect that growth to be above 10%. While prices are rising across the IT industry, most partners that sell managed services will see real growth in that area of their business despite economic headwinds. Top level growth forecasts for the regions show North America and EMEA managed services revenue is likely to experience a CAGR of 10-12%



between 2023 and 2025, while APAC and LATAM are likely to grow 11-12% and 12-14% year on year respectively to 2025.

However, there will be difficulties in accessing end-customer budgets for capital expenditure projects. This is important, as for many partners it is capital expenditure that drives some of the managed services opportunity further along the customer lifecycle.

This will also drive M&A activity in the channel as partners with growing levels of managed services take advantage of lower acquisition costs to buy managed services specialists and add capabilities. M&A activity will also rise globally in the channel in 2023, driven not only by the need to add greater technological capabilities to their end-customer offerings, but also in response to pressure by vendors placed on their channel partners to grow their managed services revenue. Managed services help partners diversify and differentiate their business, and to find greater profitability – but specialization is critical. Some key areas of demand for partners selling managed technology services include cybersecurity, on-premises and cloud infrastructure, data analytics and managed data, application performance, cyber-insurance/risk, devices, and workplace.

When asked which IT managed services are most important to their revenue, MSPs' top answers was data center management (servers, storage), managed endpoints (PCs, smartphones, device as a service), network managed services (routers, switches, LAN, WAN, etc) and cloud infrastructure management.

Additionally, MSPs expect most revenue growth in endpoint and network security. Here, it is the MSPs that are developing managed security practices faster than the resellers that have cybersecurity licensing capabilities.

Detection and response will be critical to growing these cybersecurity revenues. Currently, many customers' cybersecurity investments fail because too much focus is placed just on protection. Seventy-two percent of cybersecurity spending is on building and managing defenses to protect data, infrastructure, people, and other assets. It is vitally important channel partners learn from the actions of threat actors, particularly the ways in which they breach defenses and go undetected. The challenge is channel partners

know how to sell and deploy protection, but detection and response are areas that need significant resourcing and improvement.

Spending on cybersecurity products and services that provide protection will grow by 7% each year to US\$186 billion in 2026, driven by investment in areas such as cloud and identity security. But detection and response will grow by 34% each year to reach US\$112 billion in 2026.

Elsewhere, networking is set to become a bigger business than servers for the channel. Servers are currently the largest IT infrastructure category for the channel, driven by demand for cloud infrastructure services – more than half of all servers in 2022 were shipped to the hyper-scalers. However, this will change by 2027, as channel sales of networking products surpass servers for the first time.

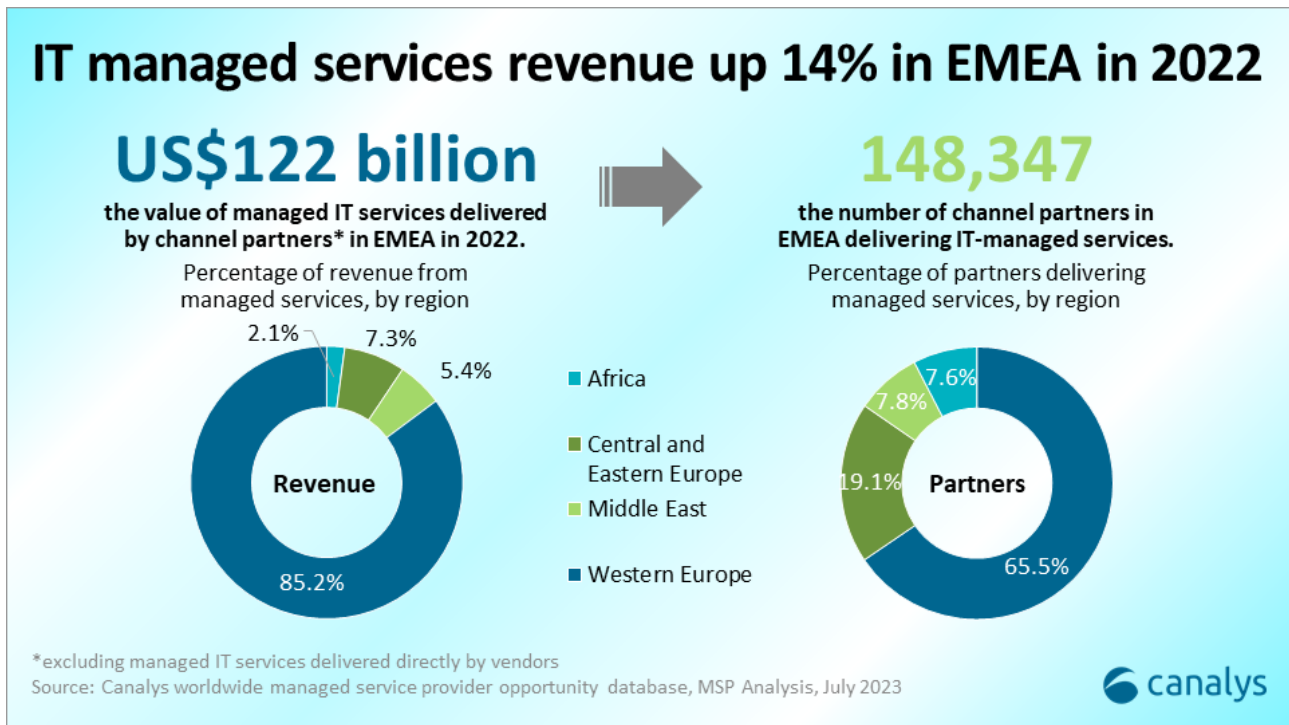
Today, the combined sales of switching, wireless LAN and routers account for 36% of infrastructure sales through the channel. This will grow to more than 40% in five years' time. Networking sales are booming, driven by Wi-Fi 6 rollout to support hybrid working in offices, as well as digital transformation across education, healthcare, retail, and manufacturing.

Additionally, campuses will undergo another major refresh cycle in three years' time, as Wi-Fi 7 becomes commercially available. The new standard promises to boost speeds by up to four times that of Wi-Fi 6, which will require networks to be re-architected with at least 50G access and 100G and even 400G core switches. Networking therefore offers a lot of opportunities for the channel.

## Regional breakdowns

### Cyber-resilience packages boost partners' revenue in EMEA

US\$122 billion in total managed services revenue was delivered by 148,347 channel partners in 2022 across EMEA. 75.2% of partners say up to 30% of their total revenue is generated by managed services.



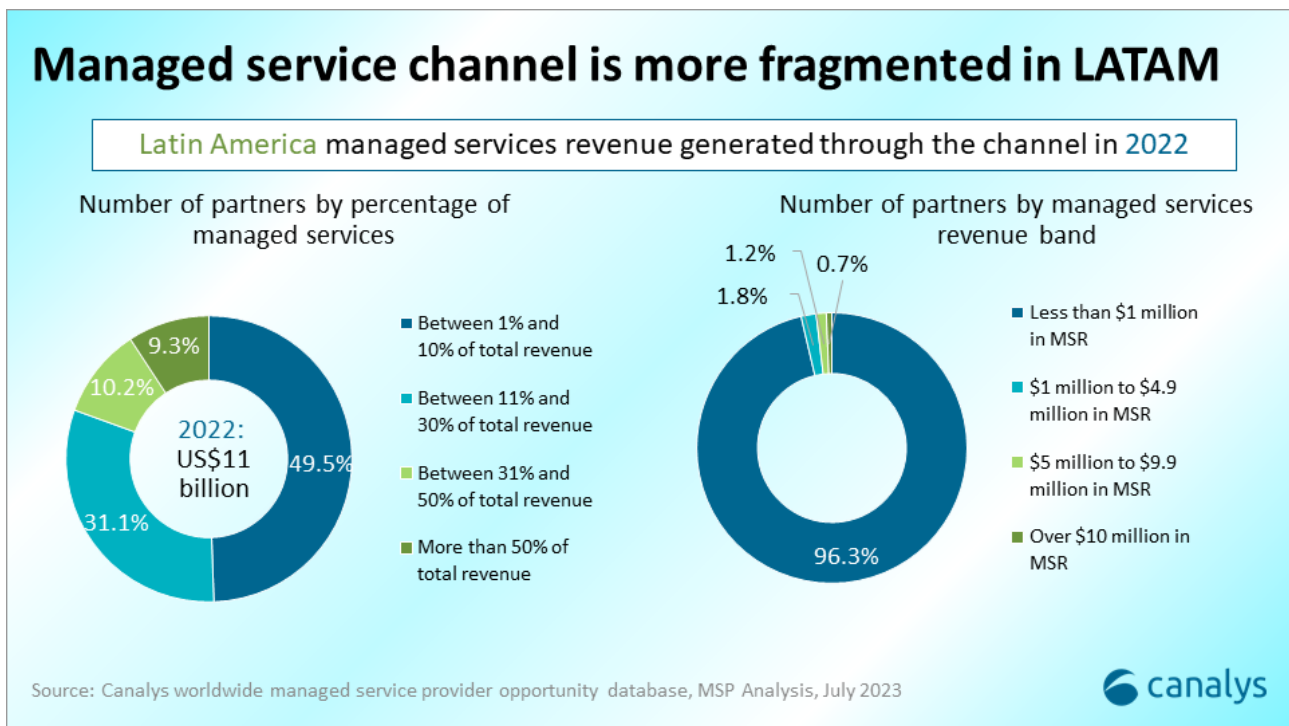
Managed cloud and data center solutions are growing, while cybersecurity demand has risen as regulations and vendor requirements have increased. Cyber-resilience packages are also on the rise as customers invest in email, backup, next generation firewalls and infrastructure.

The EMEA channel is also undergoing major M&A activity as specialists in managed services attract resellers, systems integrators and larger MSPs to invest in and acquire skills. However, the EMEA market is fragmented, and IT vendors struggle to look beyond the largest markets in the UK, Nordics, Germany, and the Netherlands. There are large opportunities in connecting with those partners that have the most ambitious managed services strategies, regardless of size, and enabling them with consulting and technical support, as well as co-marketing and joint sales functions.

Large numbers of customers in the region are still some way behind the US in cybersecurity and cyber insurance maturity. The intersection of cybersecurity, managed networks, and cyber risk assessments will be a massive opportunity for partners in the coming years.

#### LATAM: Cost control requirements drive the shift to OPEX

LATAM faces specific regional challenges, particularly currency issues and trade between borders. Despite this, there was US\$11 billion total managed services revenue delivered by 23,609 channel partners across LATAM in 2022. Almost half (49.5%) of the channel partners delivering managed services in the region were only making between 1% and 10% of their total revenue from managed services.

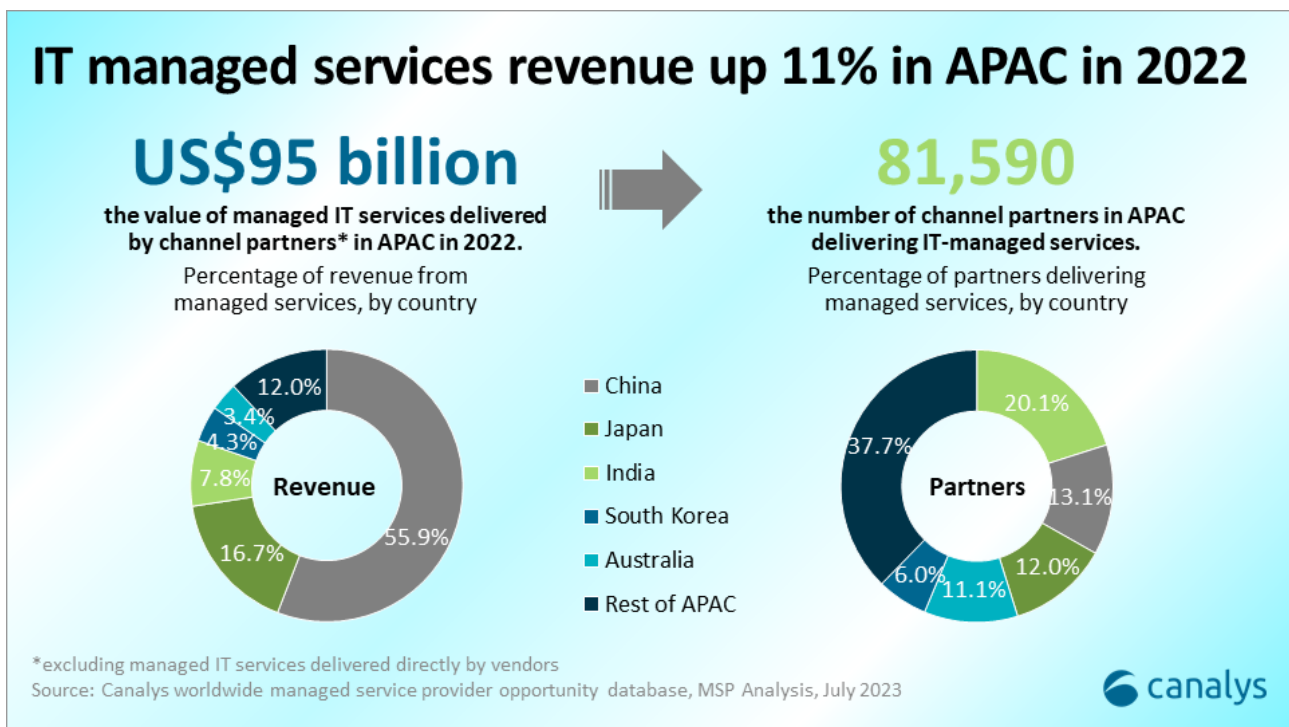


Brazil and Mexico currently lead the region on managed services by revenue, with Brazil seeing the highest growth in the number of partners delivering managed services in the region (7.3%). Of the two countries, Mexico saw the highest growth in managed services revenue at 15.7% in 2022.

There was increased demand for software licenses in the region, such as managed Microsoft environments. Additionally, customers are investing in cloud as they look to manage upfront costs, with partners finding cost controls one of the most important selling tools. As a result, partners should look to accommodate customer demand for cost efficiencies while continuing to grow their cloud businesses in the short and long term. In line with this, cloud observability is growing to be the key trend within the public cloud in 2023, and there is an opportunity for partners to drive the agenda across cloud operations: governance, financial management, monitoring and observability, compliance, and operations management.

**APAC: The decade of India**

US\$95 billion of managed services revenue was delivered by 81,590 channel partners across APAC in 2022. Of those partners delivering managed services in the region, more than half were making less than 10% of their revenue from these services. However, eighty-nine percent of those partners selling managed services are expecting growth in 2023, despite economic uncertainty and budget constrictions.



Vendors have traditionally focused much of their activities on Australia and New Zealand within APAC. And while there have been pockets of growth within ASEAN countries, investment has so far been skewed towards the likes of Vietnam and Singapore.

However, there is an opportunity for MSPs to benefit from as yet untapped potential in other countries such as Malaysia, Indonesia, and Singapore, helping customers with their digital transformations. They

require local partners on the ground, and there are opportunities for MSPs – particularly those serving SMBs – to build up managed services around basic monitoring, management, network services, backup, and cybersecurity.

But while cybersecurity risks in the region have increased significantly, relatively low IT budgets, limited awareness and a lack of skills are hampering sales growth. Additionally, customers may have lower expectations or understanding of what's possible from a managed service, so a challenge facing MSPs in the region will be the effective marketing of their services.

India is set to replace China at the forefront of economic growth in the region. India is one of the fastest-growing economies in the world, which is strategically positioned to connect APAC to the rest of the world. Some global technology companies are now moving toward India, paving the way for it to become a powerhouse in both the regional and global IT industries. Indeed, India is seeing the greatest growth in the number of MSPs in the region at 14.2%. As Asia enters a “decade of India”, there will be sizeable opportunities for channel partners and distributors, as vendors from all parts of the world seek to tap into this success.

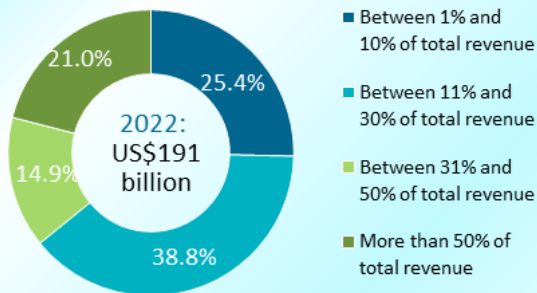
### **Cyber-resilience drives security services in North America**

North America saw US\$191 billion in total managed services revenue delivered by 81,655 channel partners in 2022. Data shows North American customers are investing in managed data analysis and databases, as well as cloud and cybersecurity. North America has continued to dwarf the other regions in overall cybersecurity spending, growing 16.3% to reach US\$10.2 billion in Q4 2022, representing more than half the global market.

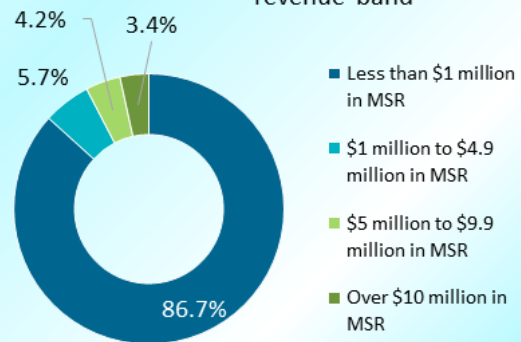
## The reach of managed services expands in the US

North America managed services revenue generated through the channel in 2022

Number of partners by percentage of managed services



Number of partners by managed services revenue band



Source: Canalys worldwide managed service provider opportunity database, MSP Analysis, July 2023



Similar to EMEA, managed services are being driven by cybersecurity concerns as customers aim for the next level of cyber readiness in light of increasingly frequent and sophisticated cyberattacks. Partners report cybersecurity insurance requirements are driving increased sales in MFA, MDR, next-generation firewalls and air gapped backup. Advising customers on technology selection remains an essential function for partners, given the hugely competitive and highly fragmented vendor landscape and the need for organizations to consolidate supplier relationships. Providing 24/7 monitoring, threat hunting and incident response, as well as other cybersecurity managed services, will be key for partner as threat levels rise and the skills shortage widens.

### Conclusions and recommendations

Customer skills shortages, cost pressures and IT complexity are boosting demand for managed services. Regional differences show highest growth is likely to be seen in less mature markets such as Asia-Pacific and Latin America, but North America and EMEA will see high single digit rises. As such, partners are amplifying their managed services investments, leveraging tailored offerings for sustainable growth.



On the other hand, the effects of a weakening economy on customer confidence and budget pressures remain major concerns, impacting IT spending and extending sales cycles.

Economic headwinds are being felt and end-customer budgets are under pressure, meaning partners must differentiate their offerings and be as flexible as possible. To stand out from the crowd and achieve profitability, MSPs need to specialize. That could be in technology, certain use cases, or business outcomes.

Key growth areas for managed services include network and endpoint cybersecurity, networking, cloud infrastructure and data center. However, capitalizing on these opportunities will present its own challenges to partners. For example, in cybersecurity, growth areas like detection and response require significant investment. Only partners with access to security operation centers (SOCs) will capture this opportunity, as these are critical to analyzing data, finding anomalies, and mitigating events. Today, fewer than 20% of cybersecurity partners have an SOC, but this will increase to more than 50% by 2026. For those without an SOC, and dealing mainly with smaller businesses, reselling a vendor's or another partner's managed service is a viable option.

There are also huge opportunities for MSPs around networking, as sales are driven by Wi-Fi 6 rollout to support hybrid working, as well as digital transformation across key verticals and infrastructure refreshes.

Elsewhere, co-partnering on customer deals is a strategic move for many partners aiming to fill skills gaps and boost customer value through collaboration. This is part of a wider pattern as partners realize that they need to adapt and evolve their business models in the face of disruption.

Looking into the future of the managed services model, areas such as AI (particularly for cybersecurity and networking) and sustainability present massive opportunities for partners. According to the Canalys polling, 60% of partners see good opportunities to drive business revenue using AI. In some cases, partners will be leveraging new technologies to improve automation, time to recovery, detection, and response, while in others the most tangible use cases may be around time saving measures using generative AI to improve scripting, coding, or even quote creation. For partners in sustainability, the picture is still being formed. 40% of partners say their customers would not be prepared to pay a premium for sustainable products or solutions. At the very least, consulting for sustainability measures and regulatory compliance will be needed in the coming years. As regulations increase, such as the EU's Corporate Sustainability Reporting Directive, many customers will be looking for ways to improve their supply chain emissions scores in one

way or another. Whatever the use case, partners must prepare for these latest developments and be ready to answer the needs of customers in these areas.

More generally, drivers for managed services fall into three distinct but interrelated areas. Budgets, talent/skills, and value creation. Customers are looking for ways to control costs, for example leveraging OPEX and automation wherever possible. They lack the specialization and the skills to manage increasingly complex IT environments. And ultimately, they are looking to create as much value using their technology as possible. As a result, managed services will continue to assume greater significance for partners as customers continue to navigate these choppy waters, enabling them to tap into valuable new revenue streams.

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