



# MSPs and BCDR Optimization: Growth in a Recession

October 2022



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## Methodology

Channelnomics surveyed 309 qualified managed service providers (MSPs) in the United States that offer business continuity and disaster recovery (BCDR) services, commonly known as backup, as a core part of their service portfolio or are highly familiar with the technology and its model. Nearly three-quarters (72%) offer BCDR, while the balance (28%) are familiar with or plan to offer BCDR as part of their service portfolio. The survey took place between Sept. 1 and Sept. 15, 2022. The survey results have a margin of error of +/-5.5% with a 95% confidence level. Channelnomics believes the data generated through the survey reflects current market conditions. The analysis and conclusions in this report, however, are subject to change.

## Introductory Note

Economic pressures on MSPs and their clients are growing. A looming recession and inflation that's raising all operating costs have focused MSPs on how to optimize their operations. At the same time, data protection has never been more challenging due to the growing sophistication of ransomware and other threats. Backup and disaster recovery use cases have multiplied due to factors like remote work, and many MSPs find they have several overlapping solutions that are costly to manage. At Axcient, our mission is to help MSPs Protect Everything™, but our BCDR solutions also need to help support the viability of thousands of MSPs and their millions of business clients in these uncertain economic times.

Axcient commissioned this report from Channelnomics, which is actively monitoring the economic situation and advising the technology community on coping with recessionary conditions, because we anticipate that many MSPs can benefit from insight on how to deal with a downturn. We've heard from our partners that they're challenged by labor costs, poorly performing products, and complicated processes that increase their operating expenses. Add to that persistent inflation and you have a recipe for a lot of sleepless nights.

This report isn't a message of fear, uncertainty, and doubt. It's a measure of the current conditions and operating perspectives of the managed service community and, specifically, those offering BCDR services. Our goal is to provide you with actionable insights from your peers on what's happening in the market and how others are coping with these economic and operational challenges.

We hope you find this report useful and thought-provoking in presenting options for ensuring your financial viability amid today's instability – and positioning you well for future growth. We want to help you weather whatever economic storm comes our way, become ever more effective BCDR service providers, meet your customers' high expectations, and reap the rewards of your efforts.

Sincerely,

*Andrew Wittman*

CMO, Axcient



# Executive Summary

Saying economic conditions are unstable and the outlook for 2023 is uncertain is an understatement. Inflation recently hit 40-year highs, CEO confidence is in the red, the stock market is in correction territory (more than 20% off previous highs), and macro-economic growth is declining. While the U.S. enjoys low unemployment, businesses are understandably nervous given the recessionary conditions in which we find ourselves.

As of this writing, the U.S. and North America are not technically in a recession. The traditional definition of a recession is two consecutive quarters of negative gross domestic product (GDP) growth. The U.S. has posted two consecutive quarters of contracting economic activity in the first half of 2022. Technically, the U.S. and large parts of the world are experiencing “recessionary conditions,” which doesn’t make many feel good.

No sector or business is immune to a negative economic climate. MSPs are thought to be recession-proof (at least recession-resistant) because they provide services that have a lower impact on customers’ bottom line. If managed services are more economical, end customers are less likely to reduce service consumption or cancel contracts. Nevertheless, the economic climate is negatively impacting some MSP business.

## ***MSPs are feeling the pinch of an uncertain economy:***

- ***30% are challenged in renewing existing accounts.***
- ***28% are seeing a general reduction in end-user demand for IT services.***
- ***23% are seeing declines in new sales and account acquisition.***
- ***21% report softening of expansion of existing service accounts.***

MSPs say the high inflation, technology talent challenges, and generally cloudy business climate are putting pressure on their fiscal health. Many are looking to reorient and recalibrate their organizational operations, technology stacks, and vendor relationships. As the macroeconomy cools off, MSPs are pivoting to optimize their businesses to remain financially viable – if not profitable and growing.

Axcient and Channelnomics collaborated on the research and analysis in this report to measure the impact that deteriorating economic conditions are having on the MSP segment – specifically, on those offering BCDR services. We sought to quantify how MSPs are coping with current conditions and preparing for what comes next.

Moreover, this report shows how optimization and consolidation of BCDR systems can open new opportunities for growing an MSP business. The average MSP operates multiple BCDR systems, which leads to higher operating costs and lower operational efficiency. Many MSPs surveyed are looking to consolidate their BCDR systems to lower their expenses, maximize resources, and focus on better service delivery. With faster processes and time to service delivery, MSPs can focus more of their resources on capturing new business and growing their revenue.

The report provides insights and guidance on how MSPs can adapt to remain viable and prosperous in these challenging times and set themselves up for greater growth in the future.

# Importance of BCDR Services

Business continuity and disaster recovery, or BCDR, services are a staple of the managed service community. They consistently rank as one of the most important revenue sources and growth drivers for MSPs.

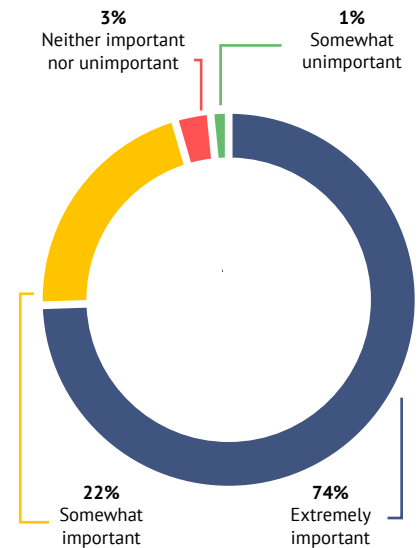
According to Channelnomics research conducted in September 2022, the average MSP earns 26% to 30% of its gross revenue from BCDR services, and one-third generate more than 40% of their revenue from managed backup. Considering that the average MSP reported generating between \$5 million and \$10 million annually, these figures translate into \$1 million to \$3 million attributable directly to BCDR.

Three-quarters of the surveyed MSPs (74%) said BCDR is extremely important to the future of their business, while only 4% are ambivalent or consider it unimportant. BCDR is a growth driver. Three in four MSPs expect their BCDR revenue to increase in the next 12 months. One in five said BCDR revenue will remain unchanged. Only 4% said their BCDR income will decrease in the coming year.

BCDR is and will remain a tentpole technology and a critical source of revenue for MSPs. In the annual Channelnomics Channel Forecast report, MSPs and other solution providers have listed BCDR as a top growth driver for their business for at least the past five years. Channelnomics sees no indications that BCDR will fall out of favor as a top growth driver. The open question is whether BCDR is efficient and effective for MSPs, and whether the current products used by MSPs are producing and will produce a maximum benefit.

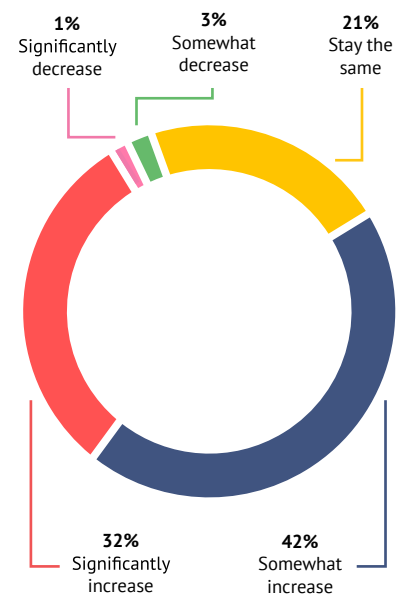
## BCDR Critical to MSPs' Business

74% of MSPs say business continuity and disaster recovery services are extremely important to their future success.



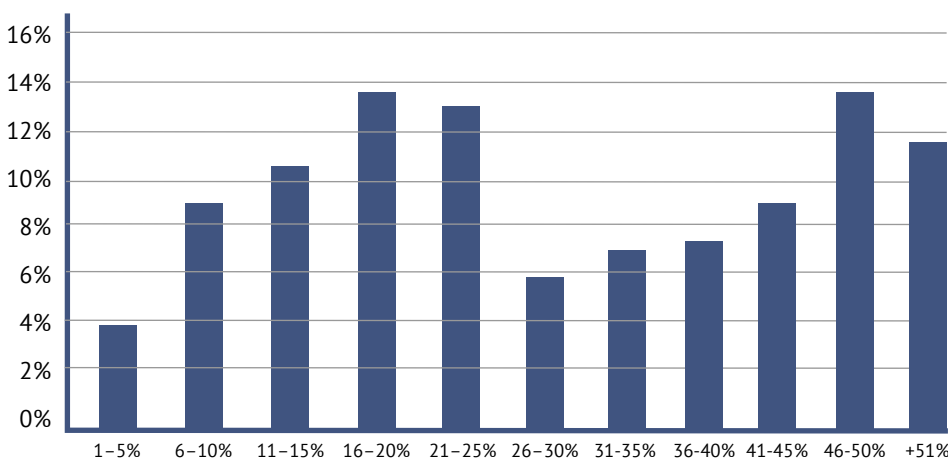
## High Expectations for BCDR Revenue

Three-quarters of MSPs expect BCDR sales and revenue to increase in the next 12 months.



## BCDR Revenue

Average percentage of revenue generated by MSPs from BCDR services



# Feeling the Economic Pinch

The MSPs we surveyed believe revenue from BCDR will increase in the short term, but that doesn't mean they're free from the negative effects of the economic downturn. Many MSPs report feeling the pressure as inflation remains high, the tight labor market creates staffing challenges, and customer spending declines.

Inflation is the chief pressure source, as 41% of MSPs said they're grappling with rising prices for everything from labor to general operating costs. Nearly one-third of survey participants (28%) said they're being hit with increasing software licensing costs, and 21% said they're seeing their vendor service and support costs increase.

## ***How MSPs are experiencing recessionary conditions:***

- ***41% challenged by rising operating costs***
- ***40% negatively impacted by disrupted supply chains***
- ***28% hit with higher licensing fees***
- ***28% facing declining end-user demand***
- ***21% seeing vendor support costs increase***
- ***14% dealing with rising labor costs***

While 13% of survey participants said they're not experiencing any negative economic impacts, they do indicate that their customers are feeling the pinch of uncertainty and declining commerce. Almost one-third of MSPs (30%) report trouble in renewing existing accounts, and nearly one-quarter (23%) said they see a decline in new sales. Meanwhile, 21% are seeing a softening in the expansion of existing accounts' service consumption. Overall, 28% are seeing a general reduction in end-user demand for IT products and services.

Most macroeconomic issues and their collateral impacts are beyond the control of MSPs and end customers. However, MSPs can exercise greater control over their operations by improving process efficiency and service delivery through a combination of technology optimization and reduced overhead costs.

# Impact of Inefficient Systems

BCDR is a significant source of MSP revenue, but it's often not the most efficient source. MSPs value well-designed, feature-rich, high-performing, and reliable systems. Efficiency directly correlates with productivity, costs, and profitability. MSPs say consistently building managed BCDR on these foundational must-haves is one of their biggest challenges and that failure to do so is one of their most significant sources of economic stress.

The average MSP uses three different BCDR systems or service providers. One-quarter (26%) use four or more BCDR systems. At the same time, 45% of MSPs said a consolidated platform that provides control over multiple tools with a single interface is the most efficient and best technical approach to delivering managed services.

The disparity between the desire for a more homogenized and integrated management platform and the diversity of BCDR systems creates a lack of system efficiency and efficacy. One-third of MSPs (36%) said their managed service portfolios are simply too inefficient to meet the demands of their service operations.

Nearly half of MSPs (46%) complain that their BCDR systems are too complex and too difficult to operate. They're compelled to operate overlapping, redundant systems for a variety of reasons – for example, to meet the needs of specific use cases, close feature and functionality gaps, and create price differentials to align with different customers' budgets.

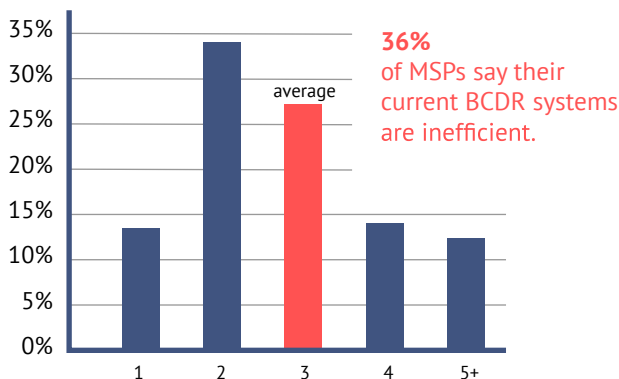
A significant amount of increased operating cost is a result of multiple redundant systems. The more BCDR in the portfolio, the higher the labor, training, and retention costs. Likewise, operating multiple competing systems with the same level of quality and valued outcomes for customers is challenging. And multiple BCDR services introduce an increased security risk. Nearly one-third of MSPs said inefficient systems create excessive process steps in their service delivery, and 27% said these inefficiencies lead to higher operating costs.

The price of inefficiency is high. Among respondents, 31% said inefficient, ineffective BCDR systems result in poor customer experience, and 22% attribute higher account attrition to inefficient systems and the poor service delivery that results.

In short, MSPs say inefficient systems cost more to operate, hamper sales, and lower revenue generation. In their experience, BCDR inefficiency is expensive. Unfortunately, 33% said they can't consolidate on a single BCDR platform because they can't find one that meets all of their needs or because they're unaware of their options.

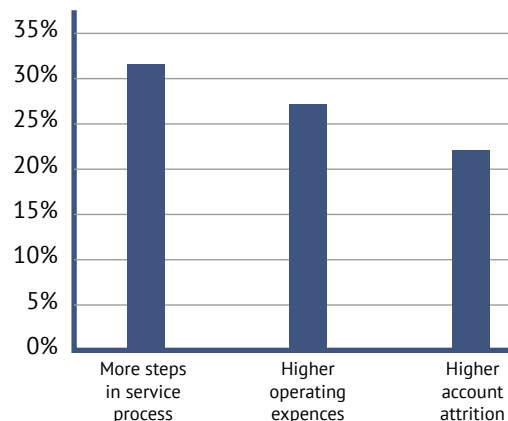
## Redundancy in BCDR

The average MSP uses three BCDR systems in its service portfolio; redundant tools are a source of operational inefficiency.

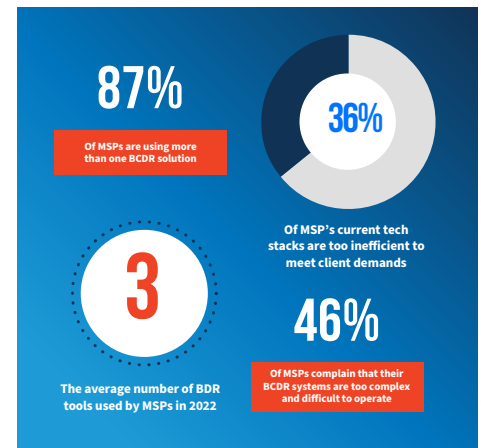


## Cost of Inefficient Systems

MSPs say inefficient systems cause them to work harder and lose money through cost and lost renewals.



**87% of MSPs are using more than one BCDR solution and, on average, three BCDR vendors.**



**36% of managed service portfolios are simply too inefficient to meet the demands of MSP service operations.**



# Costly Labor Challenges

A recurring theme in our survey is the impact of the tight labor market on MSP operations, service delivery, and costs. The U.S. economy is at near-full employment, and one of the tightest pools of available, qualified talent is in IT. MSPs are competing with thousands of other peer businesses, as well as their vendors and customers, for qualified personnel who can operate systems and respond to customer needs. The supply-and-demand issue, coupled with inflation, is creating a more costly labor equation for MSPs.

Yet surprisingly, few of the MSPs we surveyed reported difficulty in finding qualified people to fill jobs, and only 14% said increasing labor costs pose a challenge. While that may seem to contradict the prevailing trends, it's highly likely that a pivot away from bringing on new full-time regular employees explains why finding talent is less of a pain point. Among respondents, 45% are outsourcing services and support rather than trying to hire internal staff; 42% are working with contractors or temporary workers to offset staffing challenges.

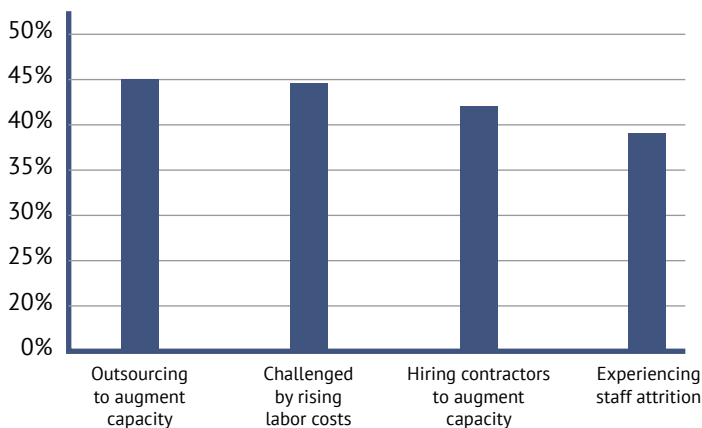
Where MSPs are investing is in staff retention. One-quarter of MSPs said they're taking steps to keep people from leaving their companies. Retaining staff pays dividends since these people are trained and experienced with their employers' technology stack and operations. Retention isn't an easy proposition, though, as 44% of MSPs said they're challenged in funding labor costs, and 38% said they're challenged by employee attrition.

Running multiple BCDR systems creates additional operational and expense challenges for MSPs. The need to develop and maintain expertise in multiple BCDR systems slows service delivery (39%), limits the value recognized by customers (29%), and dampens the overall value of the business (24%). Among MSPs, 39% said meeting their customers' service-level agreement (SLA) standards is a challenge, and one-third are limiting new sales to keep their service capacity and customer expectations in balance.

Despite the rising costs of labor, the demand for BCDR and other managed services remains high. Only 15% of MSPs are planning to downsize their teams, or exploring that option, to offset inflation and its economic impact on their businesses. The rest are exploring other proactive measures to improve their operational efficiency and reduce the service delivery burden on their teams.

## Challenging Labor Markets

*The high demand for IT talent is impacting MSP operations with rising costs, staff attrition, and increased spending on outsourcing and contractors.*



***44% of MSPs said they're challenged in funding labor costs, and 38% said they're challenged by employee attrition.***

# Switching & Consolidating

The path forward for financing stability, growth, and profitability in managed services is through optimization. The difficult economy is causing 42% of MSPs to consider replacing and consolidating their existing BCDR with better, more efficient systems, and 40% are looking for BCDR systems that have a lower total cost of ownership to reduce pressure on their labor expenses.

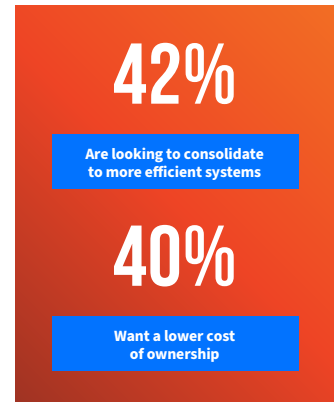
Labor factors heavily in the decision to switch BCDR solutions. Nearly one-third of MSPs said they're seeking a new BCDR vendor/solution with lower labor costs – and seeking a vendor partner that's more efficient and enables faster service delivery with higher quality and outcomes. The less time staff takes to deliver a service, and the higher the probability that a customer's issues are resolved on the first engagement, the lower the cost to serve.

Efficiency is another significant factor when considering consolidation. Nearly one-third of MSPs (31%) seek a BCDR vendor with better recovery time objective/recovery point objective (RTO/RPO) performance; 28% want superior ransomware protection and recovery capabilities; and 16% are looking for simpler management.

MSPs place tremendous value on BCDR performance, functionality, completeness of features, and vendor technical support. They're looking for solutions that provide cloud virtualization of backups (43%), unlimited cloud-based storage (31%), and quick and easy data recovery (27%). Again, better features and performance – particularly when an MSP can deliver BCDR services through a single platform – result in a more cost-effective solution.

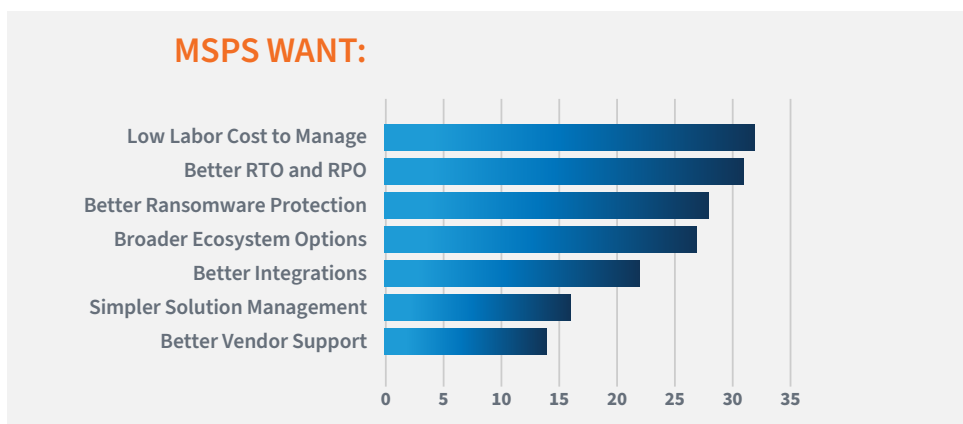
But features and performance aren't the only considerations when considering changing BCDR vendors and systems. MSPs are seeking BCDR platforms that provide better financial management and fiscal flexibility in their cost models. For instance, 44% of MSPs want to align with BCDR vendors that provide pay-as-you-go or month-to-month licensing terms. Another 35% seek vendors with low-cost or free training. Almost one-third (32%) seek BCDR vendors with competitive licensing fees, while others want to work with vendors that provide co-selling support and market development funds (MDF).

The survey results show that MSPs define BCDR effectiveness as a combination of technical features, performance and reliability, and economical cost structures. A contracting economy will likely compel many MSPs with inefficient, labor-intensive, and costly BCDR systems to seek out and consolidate on optimized alternatives.



## BCDR Switching Motivators

*Cost and performance are the chief drivers behind MSP consideration of new BCDR systems.*



# Optimizing for Growth & Profitability

BCDR is a lucrative revenue source and driver of growth. Our survey shows that MSPs aren't giving up on the idea of BCDR driving their fortunes. In fact, we could make an argument that MSPs will lean heavily on BCDR to offset other declines in clients' IT purchasing if and when a "real" recession hits.

The survey reveals that MSPs are experiencing significant challenges to their service delivery capabilities and capacities, sales productivity, and fiscal health. That negative pressure can be offset by optimizing processes, consolidating to one BCDR platform (or to a small number of platforms), and maximizing service delivery efficiency.

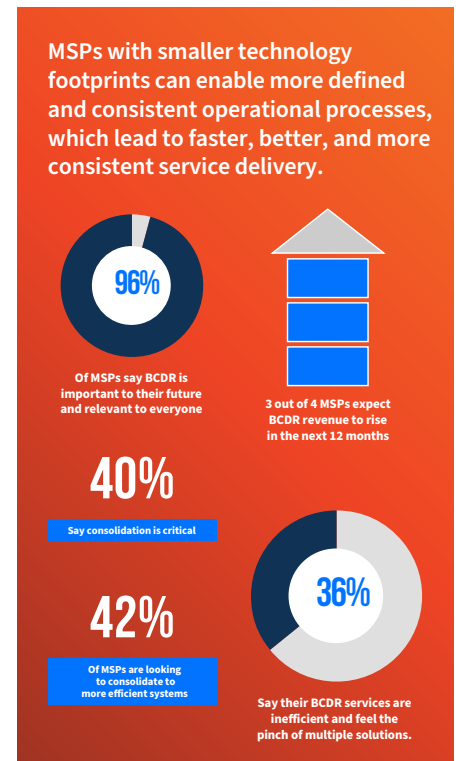
Even if the economy weren't declining, BCDR consolidation and optimization has many advantages. First, consolidation is a savings strategy, resulting in lower software licensing fees, decreased technical support costs, lower staffing requirements, and less training. Assuming MSPs seek solutions that are easier to manage, they'll gain by making service delivery simpler and increasing the time to resolution with customer support requests. And if systems have superior RTO/RPO and security, MSPs' operational effectiveness – or what some call "first time right" support fulfillment – will ensure customers recognize the value they deliver.

MSPs seeking to understand the state of their operational efficiency and potential return on consolidation should consider the following:

## Operational efficiency factors:

- **Licensing costs of operating multiple BCDR systems**
- **Staffing requirements for operating multiple BCDR systems**
- **Training requirements and cost of multiple BCDR systems**
- **Time to meet, and cost of meeting, service-level agreements**
- **Number of steps to address common customer support issues**
- **Time to resolve common and major BCDR events**
- **Ease of contracting, onboarding, and billing for BCDR services**
- **Requirements for effectively measuring and managing BCDR services**

By evaluating the data associated with these operational and expense issues, MSPs can determine the potential cost savings and income improvements associated with process optimization and system consolidation. In tough economic times, no one can afford ineffective or inefficient systems and processes. The survey shows that nearly one-half of MSPs already recognize that and are taking steps to get ahead of the economic downturn. Smart MSPs will follow suit.



## Additional Resources

Axcient offers MSPs market-leading solutions for business continuity and disaster recovery services. Axcient recommends reviewing these resources for more information and insights into MSP success with BCDR, the financial benefits of better BCDR performance, and demonstrating value to end customers.

Guide:

***How to Choose the Best BCDR Solution for Your MSP***

Case Study:

***Simplifying Vendors Provides MSP-Wide Benefits from Security to Profitability for LANAIR Group***

Case Study:

***Cygnus Systems Saves \$12,000 Every Month with Axcient***

White Paper:

***Making Recovery Fast, Reliable, Affordable, and Simple with Direct-to-Cloud BCDR***

For more insights and guides, check out Axcient's resources at [www.axcient.com/resources/](http://www.axcient.com/resources/).

## About Us

# Axcient

Axcient is an award-winning leader in business availability software for Managed Service Providers (MSPs). Axcient x360 empowers MSPs to Protect Everything™ by combining SaaS Backup, BCDR, and secure File Sync & Share into one platform and experience. Trusted by MSPs worldwide, Axcient protects business data and continuity from events such as security breaches, human error, and natural disasters. For more information, visit [www.axcient.com](http://www.axcient.com).



Channelnomics is a business strategy and research firm focused on connecting channel professionals with the people and insights they need to continually evolve and operationalize their strategy. Our industry experts work with clients to provide the evidence to validate and structure their strategy. Our clients, in turn, benefit from improved GTM performance, faster time to market, and better return on partner relationships. By looking at the technology market from the viewpoint of vendors, partners, and end users, Channelnomics is uniquely positioned to develop route-to-market strategies with an innovative, insightful, and inspired flair. For more information, visit [www.channelnomics.com](http://www.channelnomics.com).