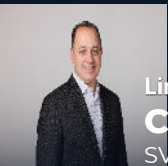# ADVANTAGES FOR SMALLER MSPS IN JOINING A LARGER PLATFORM

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WHITEPAPER

Advantages For Smaller MSPs In Joining a Larger Platform

Introduction

In the competitive landscape of Managed Service Providers (MSPs), smaller MSPs face unique challenges that can hinder growth and scalability. These challenges include limited resources, a narrow product and service portfolio, operational inefficiencies, and constrained access to capital and advanced technologies. As larger platforms backed by private equity emerge, smaller MSPs are increasingly considering joining these platforms to unlock growth opportunities. This white paper explores the strategic advantages that smaller MSPs can gain by partnering with larger platforms, from expanding service offerings to improving operational efficiency and accessing capital for growth. The ideas presented in this white paper were initially discussed on a podcast with Christian Fulmino, Head of Corporate Development at Dataprise.

Expanding Products and Services

One of the most significant benefits for smaller MSPs in joining a larger platform is the ability to offer a broader set of products and services. Smaller MSPs typically provide core IT services such as remote monitoring, patch management, and a basic helpdesk. However, they may lack the resources to provide more advanced services such as cybersecurity, disaster recovery, or in-house Network Operations Center (NOC) and Security Operations Center (SOC) functions. Larger platforms, with their scale and resources, can provide these services in-house, allowing the smaller MSP to offer more comprehensive solutions to their clients.

> "Many of the MSPs that I speak to do some subset of what we do here at Dataprise... they may have a service desk, but they likely don't have their own in-house SOC or NOC. These things require scale."
> – Christian Fulmino, Head of Corp. Dev., Dataprise

He emphasizes that by joining a larger platform, smaller MSPs can expand their service offerings and provide clients with more comprehensive IT solutions, enhancing both their value and competitiveness in the market.

This expansion not only enhances the service offerings but also allows the smaller MSP to become a one-stop-shop for their clients, which is increasingly becoming an expectation. Clients are looking for providers who can handle all their IT needs from basic support to advanced cybersecurity, and joining a larger platform allows smaller MSPs to meet these expectations without having to develop these capabilities from scratch.

Enhancing Sales and Marketing

For many smaller MSPs, sales and marketing are significant challenges. Often, the owner or a small team handles both sales and marketing functions, limiting their ability to generate leads and close deals. Larger platforms typically have well-established sales and marketing teams that can provide dedicated support to smaller MSPs. This includes everything from marketing automation tools and lead generation campaigns to a fully developed sales process.

> Most MSPs have very limited go-to-market resources. A fully built-out sales and marketing team is crucial.

This gap can be filled when smaller MSPs join a platform that can help them attract leads through targeted marketing and support their sales team in closing deals.

Operational Efficiency and Economies of Scale

Another critical advantage of joining a larger platform is the operational efficiencies gained through economies of scale. Smaller MSPs often face challenges in scaling their operations, particularly when it comes to helpdesk support, billing, HR, and other administrative functions. Larger platforms can provide centralized support for these functions, freeing up time and resources for smaller MSPs to focus on growth.

> Smaller MSPs don't have a 24/7 help desk. That's okay for some time, but it doesn't scale. Operational scaling is key to maintaining service quality as the MSP grows.

He explains how Dataprise can close this gap by moving calls to a national help desk, ensuring that clients get 24/7 support without exhausting internal staff. This kind of operational scaling is key to maintaining service quality as the MSP grows.

Another example Christian shares is the complexity of building out advanced security operations, which smaller MSPs often cannot achieve on their own. "A security operations center (SOC) requires scale. You have to staff it 24/7 with various skill sets, which is next to impossible for smaller MSPs," he says. By joining a larger platform, smaller MSPs gain access to these resources without needing to build and maintain them independently.

Access to Capital and Growth Opportunities

Access to capital is a significant barrier for smaller MSPs looking to grow through acquisitions or invest in new technologies. Larger platforms, particularly those backed by private equity, have access to the capital needed to fuel growth.

This can include funding for mergers and acquisitions, investments in new technologies, or hiring additional staff to support expansion.

Smaller MSPs joining a larger platform can tap into this capital to pursue growth opportunities that would otherwise be out of reach. Whether through acquiring a competitor or staffing up for future growth, access to capital makes scaling more feasible.

"Part of the advantage of having a private equity backer is access to capital that the entrepreneur likely doesn't have. That capital fuels the M&A engine, allowing us to acquire the best MSPs in key markets."
– Christian Fulmino, Head of Corp. Dev., Dataprise

Expertise in Regulatory Compliance

As the IT services industry becomes more regulated, particularly in sectors such as healthcare and finance, compliance with regulatory standards is increasingly important for MSPs. Smaller MSPs may lack the expertise or resources to stay on top of evolving regulatory requirements, such as HIPAA, CMMC, or ISO certifications. Larger platforms often have dedicated compliance teams that help smaller MSPs navigate these complex regulations, ensuring they remain competitive in highly regulated industries.

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Attracting and Retaining Talent

Talent acquisition and retention is a critical challenge for smaller MSPs. With limited career growth opportunities, top talent may leave smaller MSPs for larger organizations that can offer more advancement prospects. By joining a larger platform, smaller MSPs can provide their employees with more significant career opportunities, whether through vertical growth within the organization or lateral moves into specialized roles such as cybersecurity or disaster recovery.

He also highlights an interesting example of maintaining local culture while integrating into a larger entity, sharing a story of how a newly acquired MSP in Dallas retained their local tradition of hosting a crawfish boil for their clients. "The crawfish boil worked really well in Dallas, and we let them keep that local culture. In our Washington D.C. office, it wouldn't work, but finding the balance between corporate culture and local identity is essential."

With limited career growth opportunities, top talent may leave smaller MSPs for larger organizations that can offer more advancement prospects. Retaining top talent is challenging.

Equity Roll-Ups offer a way to monetize these benefits

One significant way MSP owners can benefit financially post-sale is through an equity roll-up, where they retain a portion of equity in the larger platform.

This allows the owner to benefit from the growth of the larger platform over time. As the platform expands and increases in value, the equity held by the MSP owner can appreciate significantly.

An equity roll-up allows the seller to benefit from the growth, stability and diversity of the larger platform which accrues in the form of greater multiple expansion and more robust and diversified cash flows.

The equity roll-up allows MSP owners to participate in the eventual "exit event" of the larger platform, such as an IPO or sale to another entity. Christian mentions that the owner's equity would be worth "far more than it was when they originally contributed" at the time of such an exit. This mechanism aligns the financial interests of the seller with the growth and success of the acquiring platform.

Conclusion

For smaller MSPs, joining a larger platform offers numerous strategic advantages that can help them grow and thrive in an increasingly competitive market. From expanding service offerings and improving operational efficiency to accessing capital and attracting top talent, the benefits of partnering with a larger platform are clear.

Ultimately, the decision to join a larger platform should be based on the MSP's growth objectives and the specific challenges they face. For many smaller MSPs, the advantages of joining a platform far outweigh the challenges, providing a clear path to sustainable growth and success.

MADHUR DUGGAR

Senior Advisor - M&A Advisory Excendio Advisors

Madhur Duggar brings over 20 years of experience in middle market related M&A, direct lending, financial valuation and networks with job experiences at Lehman Brothers, Citigroup, Barclays, New York Life, KPMG and KBRA.

Middle market businesses are personal and can often be someone's passion and life's work. As such, Madhur focuses not just on the specifics of the transaction, but also on how it fits into the life goals of the owner and the importance of career transition for them.

Madhur guides founders through a proven consultative process designed to attract the highest valuations by finding the right partners who can best leverage their unique strengths—including employees, clients, and IT. His communication style is personal, proactive, transparent and respectful as he believes that every successful M&A advisor must start as a student at the beginning of every transaction.

With his support, founders can confidently exit knowing they've maximized their business's value, gaining the clarity, confidence, and peace of mind they deserve.

Madhur has a PhD in Financial Economics from UC Berkeley, Haas School of Business. He lives with his wife and son in New Jersey.

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