Key trends shaping the cybersecurity channel in 2023

A Canalys report for WatchGuard

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Contents

Key findings for channel partners

1. **The global economic landscape is shifting.** Many companies are worried about what the future holds, and channel partners are feeling squeezed between vendor price rises and the increased cost of doing business. But demand for IT managed services remains high and expectations for growth in 2023 are healthy.

2. **Cybersecurity is still at the top of the executive agenda.** The global growth forecast for cybersecurity products in 2023 is 13%, with the highest demand being seen in endpoint and network security, and vulnerability and security analytics.

3. **As XDR platforms grow, vendors must work with channel partners to deliver better managed services**. XDR's current complexity means it is resource intensive and requires MSSP skills, but partners are looking for more automation and will work with third parties to deliver these services to SMBs.

"XDR is one of the hottest topics in cybersecurity. It is vital that vendors and partners work together to deliver on its true potential for customers."

Robin Ody, Senior Analyst, Canalys

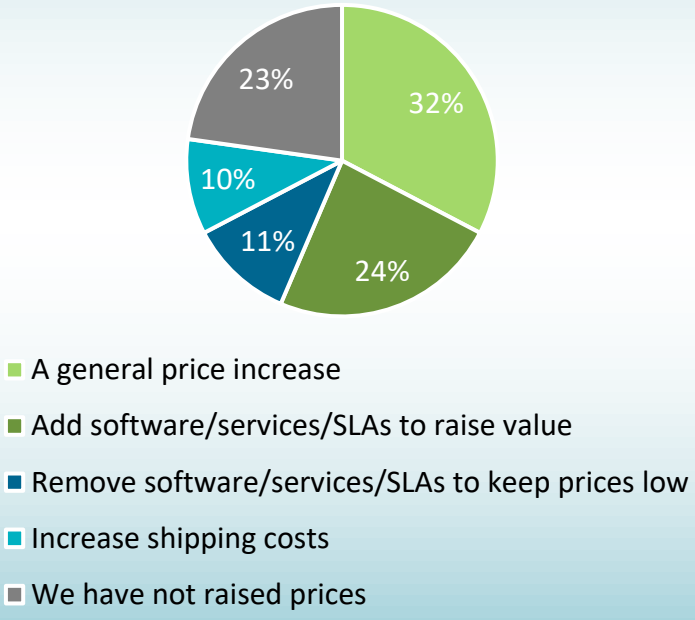
Source: Canalys estimates, Managed Services and Cybersecurity Analysis, February 2023

The economic landscape is shifting

Source: Canalys estimates, Managed Services Analysis, February 2023

Partners manage cost increases in different ways

What is your primary method of managing pricing strategies amid macroeconomic challenges?



Economic headwinds are affecting almost everyone today, but the most important effect on most businesses is increased costs. Energy price rises affect both the internal costs of channel partner businesses and their customers. They also drive higher prices from data center and cloud service providers.

Increased consumer costs have also driven greater demands for salary increases from employees; channel partners and their customers can feel squeezed on all sides.

How are partners managing their businesses through this difficult time? How are they passing on cost increases? And what are the expectations for recovery across markets, verticals and economies globally?

Source: Canalys polls, 257 responses (global), November 2022

A series of cost increases, from increased vendor pricing to energy and interest rate rises, has squeezed channel partners in the last 12 months. The outlook is for further economic slowdown in spending by consumers and businesses over the course of 2023 and 2024.

Channel partners, especially those delivering managed services, had been planning to raise prices on their own services for some time, realizing their profit models needed to be updated.

End customers are always evaluating their spending, but partners know the coming 24 months will mean further cost increases and lower customer budgets.

Many view cybersecurity as the one area where customers are less willing to cut spending. Channel partners expect managed services and cybersecurity to be two of the most important investments for customers and are ramping up spending on their capabilities in these areas.

24% of partners were planning to raise prices in **Q4 2022**

23% of partners were planning to raise prices in **H1 2023**

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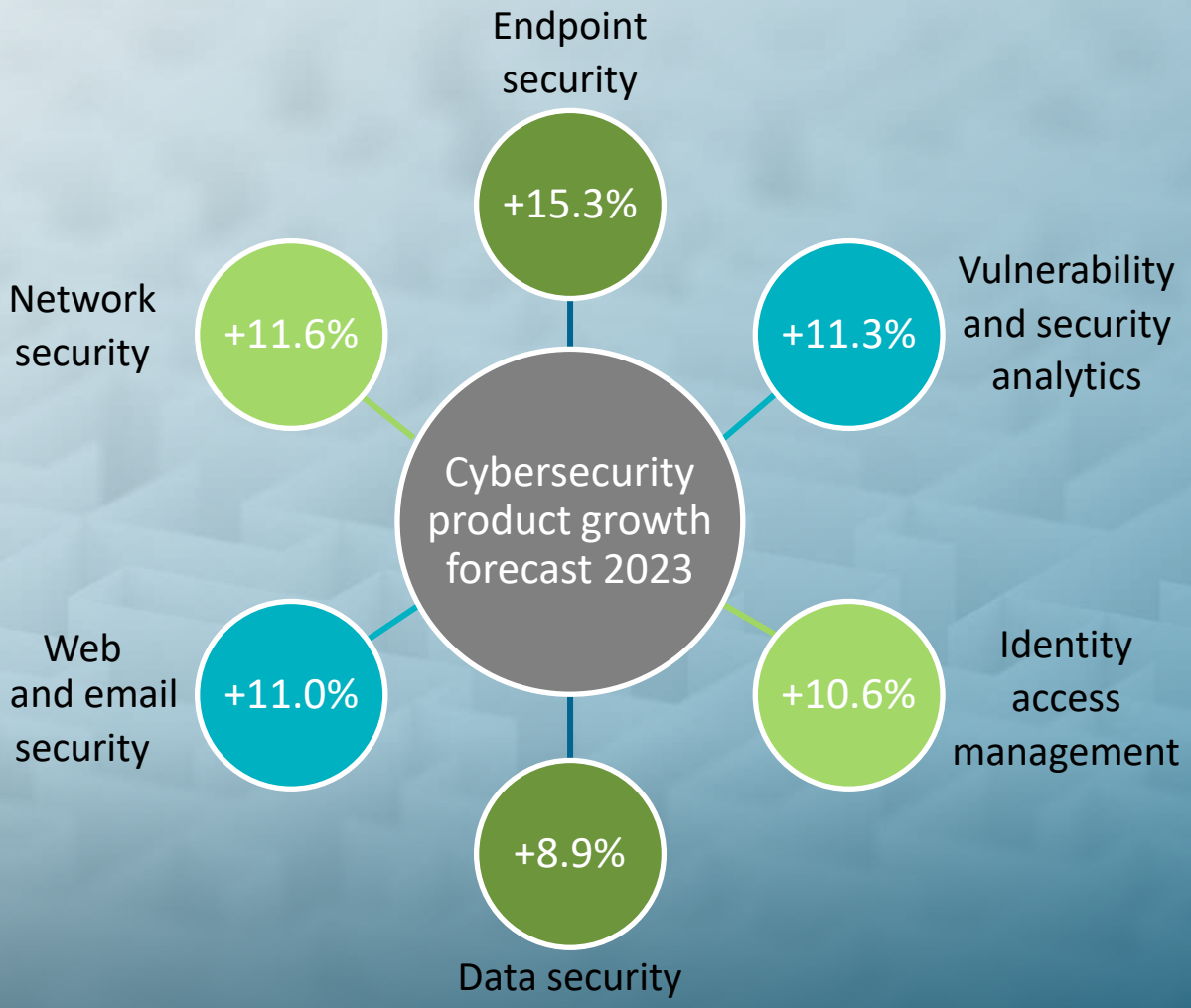
Source: Canalys polls, 257 responses (global), November 2022

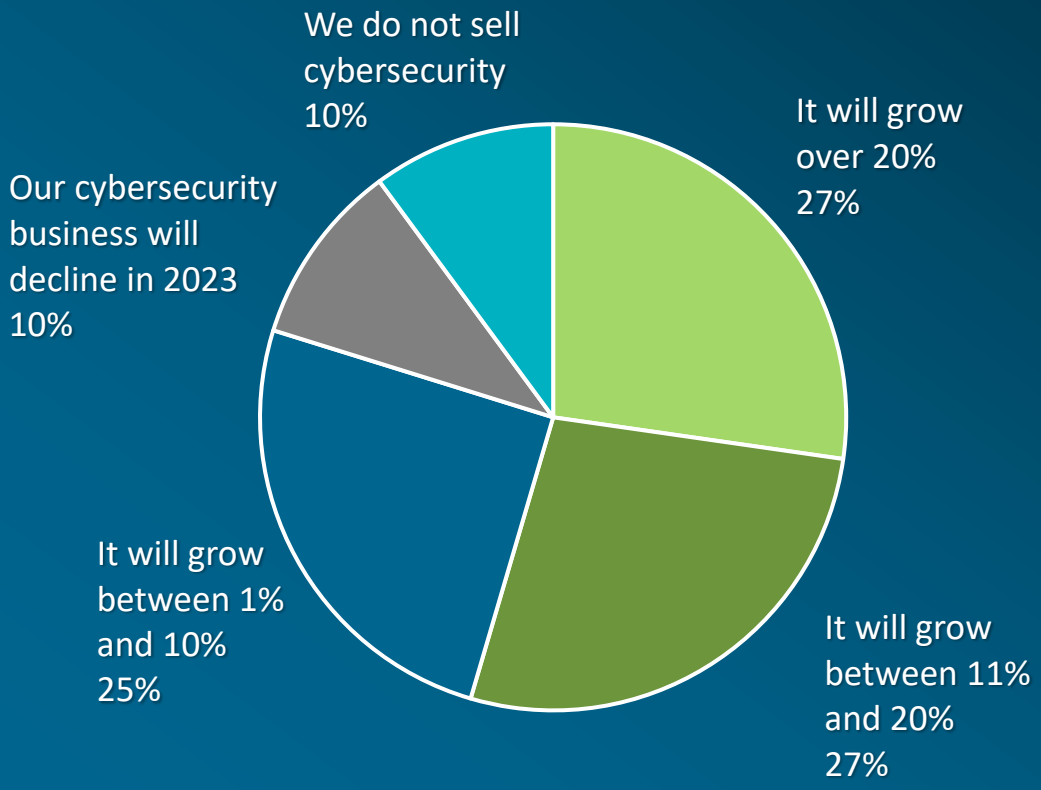
Cybersecurity remains top of the executive agenda



Source: Canalys estimates, Cybersecurity Analysis, February 2023

Channel partners will be vital to high growth in 2023

How much growth do you expect in your cybersecurity business in 2023, compared with 2022?



54%

of channel partners expect

growth

in cybersecurity to be

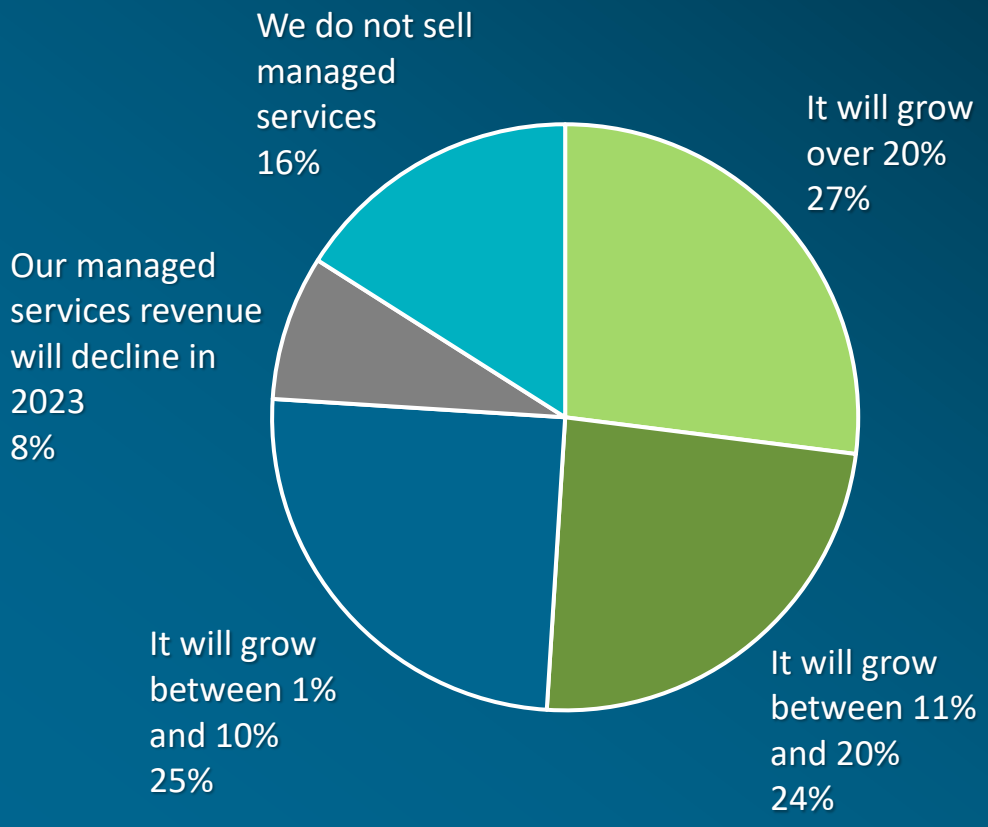
over 10%

in 2023

Source: Canalys polls, 393 responses (global), December 2022

Managed services growth to hit double digits in 2023

How much growth do you expect in your managed services revenue in 2023, compared with 2022?



51% of channel partners expect growth in managed services to be over 10% in 2023

Some key areas of growth will include:

XDR (extended detection and response)

Managed on-premises infrastructure for mid-market and enterprise customers

Identity and access control services

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Source: Canalys polls, 316 responses (global), December 2022

Partners develop new skills with existing resources

Managed services for cybersecurity will grow 16% in 2023.

Consulting services for cybersecurity will grow 10% in 2023.

Total cybersecurity-related services will grow 14% in 2023.

Complexity in the end-customer IT environment, as well as a need to reduce internal IT costs and the difficulty in finding specialist skills, has always been a key use case for partners and vendors in the managed cybersecurity space.

But it is important for partners to manage their ecosystem strategies. For example, one element is that some customers are looking for more control over their vulnerabilities, adopting a co-managed IT model with MSPs and MSSPs. Developing the skills to manage not just a customer but also to work hand in hand with their IT team will determine the success or failure of many partners driving managed cybersecurity in 2023.

Source: Canalys polls, 311 responses (global), December 2022

XDR can improve managed cybersecurity outcomes

- Centralized oversight
- Automation of alerts
- Faster time to recovery
- Cost savings
- Improved margins

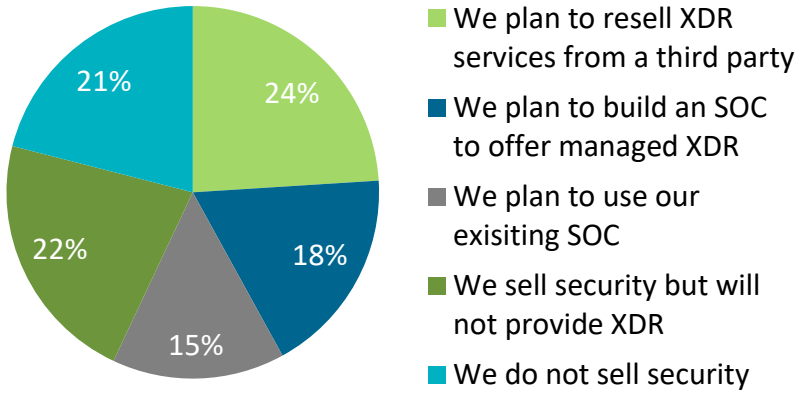
Source: Canalys estimates, Cybersecurity Analysis, February 2023

Vendors can help partners build XDR businesses without an SOC

"With nearly a quarter of channel partners in cybersecurity saying they will resell XDR services from a third party, vendors have an opportunity to grow revenue by offering XDR services to these partners or by collaborating with MSSPs that can build partner-to-partner ecosystems."

Robin Ody, Senior Analyst, MSP Analysis

How do you plan to provide managed XDR (extended detection and response)?



To do this, vendors must focus on certain key elements:

- Identify the right partners to build an XDR services resell channel.
- Build stronger integrations and marketing with other technology vendors in cybersecurity, RMM, PSA, backup, cloud, and infrastructure.
- Deliver training in sales and support at a local level.
- Define clear data sovereignty and data center location information for each region.
- Build the most appropriate use cases for each region, for example, is compliance a key sales driver in EMEA, or technological efficiency in North America, or cost control in APAC.

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Source: Canalys quick poll data (270 global responses), Cybersecurity Analysis, January 2023

Unified platforms simplify XDR and drive adoption

XDR in 2023

- Complex deployment and integration.
- Managed primarily by partners with SOCs.
- Ties together several different technologies to deliver telemetry and alerts to a unified platform.
- Requires strong consulting and technical resources to deploy.
- Requires significant technical resources to monitor and respond effectively.
- Suits a managed services strategy; strong use cases for MSSPs.

XDR in 2030

- Greater alert management automation.
- Improved features and unified platforms from vendors.
- Insight development for remediation and training.
- Licensing tools to bring in third-party vendors.
- Connection and messaging built-in for co-managed XDR.
- Easier deployment and better pricing for SMB customers.

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Source: Canalys estimates, Managed Services Analysis, February 2023

M&A trends in the cyber-channel

20% of today's pure-play MSPs in EMEA and North America will be acquired or exit the market by 2025.

In APAC and LATAM, the number of pure-play MSPs will grow 8% each year until 2025.

Valuations for MSPs have dipped slightly but their attractiveness is still high.

Venture capital and private equity funding is still active as MSPs attract further investment.

Resellers will continue to acquire MSPs and companies with strong managed services revenue.

New MSPs will enter the market to capitalize on customer demand, but differentiation will get harder.

Source: Canalys estimates, Managed Services Analysis, February 2023

Vendor and partner collaboration is key to better managed XDR services

Roles of vendors in the managed cybersecurity channel

Skills

- Partners are investing in consulting skills, technical managed services skills in detection and response, and sales.
- Vendors can help by providing access to resources and more cost-conscious training.

Business models

- MSPs are trying to build more differentiated cybersecurity solutions that are profitable and valuable for customers.
- Vendors that do business the way MSPs want will grow with them.

Technology

- Partners struggle with managing their vendors and their technology.
- Vendors can make it easier by improving their integrations (particularly for XDR), and automation in threat detection and response.

Support

- As XDR moves from an enterprise play into the mid-market, partners that do not have SOCs will look to hand off more of the technical resources to vendors and MSSPs.
- Vendors that enable this will benefit from a broader channel.

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Source: Canalys estimates, Managed Services Analysis, February 2023

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