

# Building the Future Customers Want with Managed Services

## Executive Summary

Over the past several years, we've noticed that the market for IT products and services is changing. With the heightened importance of IT across all industries, IT administrators are assuming a more strategic role to drive business forward. Yet, the amount of technology IT administrators need to support has also grown, increasing the need to purchase outcome-based solutions that can abstract complexity, deliver a relevant value proposition, and anticipate future needs over time. With growing frequency, customers have been taking a greater interest in managed services.

## Authors

**Alexandra Zagury**  
VP, Partner Managed and  
as-a-Service Sales

**Alex Foster**  
Director, Partner Innovation  
and Strategy

**Jeff Marusak**  
Director, Portfolio Development,  
Partner Managed and  
as-a-Service Sales

## Managed services deliver outcomes

Managed services used to be very operationally focused, in that a managed service provider (MSP) would deliver a set of customized services – often centered on help desk or outsourcing capabilities – around a product or set of products. Today, that has changed. In discussion with our customers and partners, we are hearing that IT administrators have largely taken on a more strategic role across every industry and are now less responsible for supporting the business and more responsible for the outcomes technology solutions can deliver. So, it comes as no surprise that managed services have also changed. Modern managed services are built for the agile enterprise – serving up hardware, software, and services at the time of purchase, with the pricing and delivery agility to support changing business requirements over time. These services offload the operational burden for a customer’s IT infrastructure, applications, and data with a cloud-like experience through a service level agreement (SLA) or service level objective (SLO). They have become quite popular.

However, we wanted to go beyond the hype and dig into the data behind this trend. We were looking to gain a deeper understanding of precisely how big the managed services opportunity is for each of our product categories based on where and how buyers purchase their IT solutions across all Cisco® top geographic regions.

## Research revealed insights

To unlock these new insights, we commissioned a rigorous study on the topic. Over 1000 buyers were surveyed in 18 different countries and regions around the world. The respondents were asked to identify what types of IT infrastructure hardware, software, and services they were purchasing, and which channels they were using to procure them. We also conducted follow-up customer interviews and expert validation to further refine the insights we uncovered.

The research revealed a massive US\$113 billion global managed services total addressable market (TAM) across Cisco addressable product markets by 2025. Forty-five percent of Cisco product TAM opportunity will be sold bundled with a managed service, making it the largest route to market (RTM) for Cisco and its partners, and key to the market shift to as-a-Service (aaS).

Three key insights also emerged from the study:

1. With a forecasted \$113 billion in TAM, managed services represent the most significant route to market for Cisco and our partners.
2. Customers believe that the digital buying experience is essential.
3. As the demand for Everything as a Service (XaaS) solutions accelerates, its growth will continue to rely on the channel.

In short, the global and regional managed services opportunities are tremendous, and highly motivated partners will be required to capitalize on them (see Figure 1).



Figure 1. The US\$113 billion managed services opportunity

## Uncovering new insights

### **Managed services are a significant route to market.**

At \$113 billion TAM, the managed services product opportunity represents the largest route to market for nearly all Cisco product categories and geographies. The underlying data from each of the Cisco main product categories tells the detailed story behind these top-level numbers. That data is presented later in this paper.

### **The digital buying experience is essential to customers.**

Cisco product TAM through an end-to-end web marketplace purchase process is about \$16 billion, but over \$70 billion is expected to “touch” a web marketplace during the digital buying journey. That means it’s more important than ever for Cisco and its partners to invest in digitally enabled buying experiences connected to customer insights. This will enable partners to successfully deliver outstanding outcomes to compete and win in today’s highly competitive markets.

### **XaaS offerings will drive growth while remaining reliant on the channel.**

Despite the unique delivery model, as-a-service offerings – like Secure Access Service Edge (SASE), Contact Center (CCaaS), Full Stack Observability (FSO), SD-WAN aaS, and Data Center (DCaaS) – will continue to attract significant buyer interest when bundled with managed services.

## Why managed services are so important

The strength and continued rise of managed services are driven by customer demand for outcome-centric value propositions that abstract the complexity and operational burden it takes to get solution value. This helps IT administrators accelerate their ability to deliver more technology in a world where IT is increasingly used to drive virtually every business forward. Administrators are overwhelmingly relying on channel partners, who understand their unique business models and cost structures, to help ensure that these managed services outcomes come to life.

The fact that buyers are also seeking to consolidate the number of their vendors is further driving the preference for vendors and partners that deliver services. The study found that even buyers not currently leveraging managed services still prefer services-enabled partners as part of their forward-looking IT strategies, which include adoption of services in the future.

In fact, over the next few years, buyers say they'll work with resell-focused partners less than with other partner types<sup>1</sup> that deliver services-centric value propositions. This means that skill building and enabling a services-focused practice are critical to long-term success in the partner ecosystem.

This trend is evident across the IT landscape. Managed services are creating opportunities for partners across major Cisco architectures.

## Managed services opportunities in each technology category



### Collaboration managed services

- Shift to cloud: Cloud-delivered telephony represents more than 45 percent of the total collaboration managed services product opportunity.<sup>2</sup>
- Super enterprise opportunity: Super enterprise organizations (20,000+ Full time equivalents [FTEs]) represent more than 50 percent of the total collaboration managed services opportunity. Hybrid work and complexity are driving growth in this segment.
- Marketplaces matter: Collaboration products purchased through web marketplaces represent 25 percent or more of the total web marketplace opportunity for Cisco partners across all Cisco product categories.



### Data center managed services<sup>3</sup>

- Services represent 82 percent of the total selling opportunity – not surprising, as application modernization ranks as a top priority among many companies today.
- With the massive services revenue opportunity, system integrators (SIs), and MSPs are expected to have their largest managed services market share opportunity in the data center category.
- With many large companies re-evaluating their public cloud strategy, large and super enterprises (5000+ FTEs) represent 70 percent or more of the data center managed services opportunity.
- Data center growth is accelerating 9.5 times faster in as-a-service delivery compared to the traditional capital expenditure model.

<sup>1</sup> Partner types include: cloud (hyperscalers and collocated Infrastructure aaS (IaaS) providers, managed service providers (MSPs), resellers/wholesalers, systems integrators (SIs), value-added resellers (VARs), and telephone companies (Telcos).

<sup>2</sup> Unless otherwise noted, TAM opportunity across all architectures measures total product (hardware and software) opportunity, excluding associated services TAM to ensure an accurate comparison with other RTMs.

<sup>3</sup> Data center TAM primarily measures the DCaaS market, which includes consumption-based, on-premise IaaS (compute and storage).



### Full stack observability managed services

- Managed observability will lead the way – the FSO managed services opportunity is 1.3 times larger than the resell opportunity.
- Small is big: Small and mid-size businesses (10-1000 FTEs) will drive almost one third of total FSO managed services revenue.
- Because FSO is closely related to data center, customer channel preference is correlated and MSPs are expected to lead the way with 36 percent of the market share among channel partner types.



### Network managed services

- The Managed SD-WAN opportunity is growing more than 9 times faster than the rest of network managed services and will drive double-digit growth (19 percent or more) for MSPs, SIs, telephone companies (Telcos), and value-added resellers (VARs).
- While Telcos will have their largest relative market share opportunity in network managed services, MSPs are expected to grow over 1.5 times faster than the rest of channel partner types through 2025 as offers become more accessible to non-service providers.
- Within the campus environment, steady growth is bolstered by WLAN access points projected to grow 5 percent or more due to adoption of Wi-Fi 6.
- Services represents 75 percent of the total selling opportunity in network managed services.



### Security managed services

- Small business, large share: Small and mid-sized businesses (10-1000 FTEs) will drive 25 percent or more of total security managed services revenue.
- \$6.5 billion managed SASE product opportunity is growing 2.7 times faster than the rest of security managed services and will drive double-digit growth (35 percent or more) for MSPs, SIs, Telcos, and VARs.
- VARs will have their largest market share opportunity in the security category, as many point security products are a good fit within the VAR operating model of sell and support.

Partners are attracted to the best technology and brands. Our strategy starts by making sure our platforms are capable of best-in-class managed services delivery for partners across Cisco architectures.

## Supporting our partners to lead this market

For Cisco, this opportunity can only happen with you, our partners. The study supports the fact that up to 80 percent of customers are looking to work with channel partners to purchase IT managed services. The Cisco approach to managed services is almost entirely channel led, making this your market to capture.

Therefore, we are investing, innovating, and collaborating with partners in new ways to grow this opportunity together. We will do this through our strategy for partner managed services success, adhering to our approach of delivering the best platform, preference, and performance capabilities to fuel your business.

Partners are attracted to the best technology and brands. Our strategy starts by making sure our platforms are capable of best-in-class managed services delivery for partners across Cisco architectures. Next, to drive Cisco preference over time, we have redefined what partnership means by delivering a new partner managed sales model and by improving our systems and operations to make them easier to do business with. Finally, we are incentivizing partners for performance in strategic areas through the provider role of the Cisco Partner Program by investing more as partners drive growth. We are also holding ourselves accountable to partner satisfaction through in-depth listening campaigns and rigorous measurement of key performance indicators.

Now is the time for Cisco, our partners, and our customers to come together and win a route to market opportunity that puts the partner at the center of success. There is nothing we can't do if we work smart, together. Whether you've built managed services with Cisco products before or you're just getting started, we can work together to build offerings that solve your customers' problems – within the go-to-market model your company prefers – so you can drive rapid service delivery and scale. In turn, you can increase your growth potential, profitability, and customer satisfaction. We're ready to #GoManaged. Are you?

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