

# *Navigating Growth, Exit & Legacy as an MSP Owner*



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# Whitepaper

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## Navigating Growth, Exit & Legacy as an MSP Owner: Perspectives from Arlin Sorensen at IT Nation ConnectWise<sup>1</sup>

### **The Changing MSP Landscape: A Market in Transition**

The Managed Service Provider (MSP) industry has undergone significant transformation over the past three decades. The sector saw rapid expansion in the 1990s and early 2000s, with thousands of firms founded to meet the growing demand for outsourced IT services. According to industry estimates, **there are now over 60,000 MSPs in North America alone**, many of which were started by entrepreneurial technologists who are now reaching retirement age.

**Many of these founders, now in their 50s or older, face a rapidly evolving market. The increasing complexity of cybersecurity threats, rising labor costs, and the pressures of maintaining operational efficiency have left many exhausted and considering exit strategies.** MSPs, in most instances, small businesses themselves with fewer than 20 employees, share many of the trial and tribulations of small businesses. A report by Teamshares in December 2023 highlighted that over two-thirds of small business owners intend to retire in the next two years, yet a substantial number have not adequately planned for a transition. **Indeed only 30% of small businesses successfully sell**, leaving 70% of small businesses without a buyer or a successful plan for what happens next. In addition to not having a clear plan for what happens next, small businesses that haven't begun planning for succession are at risk for devastating losses in unexpected circumstances like the sudden death of an owner or a fractured family relationship. According to the Small Business Administration (SBA), **only 30% of family-owned businesses in the U.S. survive into the second generation, 12% into the third, and 3% into the fourth and beyond.** With 50% of America's workforce employed by small businesses, the success of these long-standing fixtures is paramount to local and national economies. Unfortunately, today's small businesses face a succession problem that threatens their future in their respective communities.<sup>2</sup>

As the industry consolidates and private equity firms take a keen interest in MSP acquisitions, business owners must prepare for their next steps. Without proper planning, many risk undervaluing their life's work or struggling to transition into post-ownership life.

### **IT Nation's Role in the MSP Ecosystem and Future Developments**

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<sup>1</sup> This article draws from a recent podcast on with Arlin Sorensen. To listen to the full podcast and other podcasts with industry participants on similar themes please click [here](#).

<sup>2</sup> Succession planning statistics in 2024: preserving a legacy, Jessica Baker, December 22, 2023, Teamshares.

This is where IT Nation steps in. At its core, IT Nation's mission is to help MSP owners grow, evolve, and successfully exit their businesses while leaving behind a meaningful legacy that justifies their life's work. IT Nation achieves this through a combination of educational programs, peer groups, and industry events designed to equip MSPs with the tools they need for long-term success. With dedicated conferences like IT Nation Connect, IT Nation Grow, and IT Nation Secure, along with its peer group program IT Nation Evolve, the organization provides a structured pathway for business owners to prepare for their future transitions and optimize their businesses for sustainable growth.

IT Nation has been a crucial pillar in the MSP community, offering structured peer groups and targeted events to help business owners thrive. According to Arlin, the initiative is designed to provide accountability and knowledge-sharing that many business owners lack.

**“Today we’ve got almost a thousand different individuals involved in our programs”** Arlin shared. **“Every quarter you [must] set some goals, [and] you come back the next quarter and you must defend how you did on those goals. We use the survivor model, so people don't want to be sitting in a room with somebody that just creates goals and never does anything about them. They'll vote you off the island if you're not, [executing].”**

IT Nation has expanded its offerings to support distinct roles within MSP organizations, from owners and CFOs to sales leaders and service managers. In addition, its events, including IT Nation Connect, Secure, and Grow, provide essential education on cybersecurity, operational maturity, and business transitions.

**“The key to IT Nation is creating a [connected community of people] that helps one another,”** Arlin explained. **“We have an IT Nation Connect event coming up in London in March and then in APAC in the fall ahead of our big event in North America in November. So, we're continuing to just create more and more places for partners to come together and connect and help one another.”**

## **| Key Industry Challenges Driving MSPs to Exit**

For many MSP owners, the decision to sell isn't just about financial gain—it's often a necessity due to mounting challenges. Among the biggest factors prompting exits are cybersecurity threats and talent scarcity.

Cybersecurity is one of the biggest risks MSPs face today. A single breach can wipe out years of value overnight. IT Nation's Secure program exists to educate MSPs on how to protect their businesses.

Beyond cybersecurity, finding and retaining skilled talent has become an increasing hurdle.

**“Quality people are always a challenge [to find],”** Arlin notes. The ability to work remotely has [helped] expand the hiring pool especially around security [which is mostly managed] across the wire anyways.” However, finding good talent can be costly and time consuming and can hold an MSP back from expanding or having to refer business elsewhere. Peer groups can be a help in this instance, Arlin explains. **“Members in peer groups share their job descriptions and the postings that they're making, and [partners] can get some great ideas just by talking to the people and leveraging the tools that are out there.”**

Another key driver of exits is burnout. Many MSP owners simply reach a point where the daily grind becomes overwhelming. Arlin noted that he frequently hears from owners who are exhausted by the operational demands and constant technological changes.

MSPs start out with a passion for solving technology problems, but running a business is a different skill set. When they don't invest in operational maturity, the business becomes a burden instead of an opportunity.

These pressures have led many MSPs to consider selling or merging with larger firms that offer more stability and resources.

## Post-Exit Challenges MSP Owners Face

Selling an MSP is a significant milestone, but the transition isn't always seamless. Many owners find themselves unprepared for what comes next.

One of the biggest challenges is loss of identity. **“As founders and owners run their business, they get completely intertwined in terms of their purpose and identity with that business. And when they transition away from that business, they're somewhat lost out there”** says Arlin. He explains that many former owners assume they'll fill their time with golf, travel, or personal projects, only to realize within months that they lack a sense of purpose.

One particularly memorable story Arlin shared was about an MSP owner who sold his business and planned a world tour. However, just three months into his travels, he found himself restless and lacking direction. Eventually, he re-engaged with the MSP community, becoming an advisor for other owners preparing for their own exits.

Similarly, another former owner attempted to transition into a full-time investor but quickly realized that he missed the camaraderie and problem-solving aspects of running an MSP. He eventually started a new venture, this time focusing on mentorship and coaching for emerging IT entrepreneurs.

To address post-exit transition, Arlin created the Success to Significance (S2S) peer group which is designed for those who have exited their businesses and are looking for their next chapter. Arlin explains that the one thing founders don't want to do is to just retire from their business. Instead, he says founders should retire into something they feel excited about and very often this involves their giving something back to the IT community.

Many former MSP owners end up coaching, consulting, or even acquiring new businesses in different industries. However, the key is to plan for this transition before selling.

## Key Risks Facing MSPs

While cybersecurity and talent shortages are top concerns, Arlin pointed out other overlooked risks that can significantly impact MSPs.

A common concern is that many MSPs don't focus on profitability. MSP owners tend to be extremely focused on helping their customers but feel guilty about making money. Then, when they go to sell, they find out no one wants to buy a business that doesn't generate adequate EBITDA.



**“We've got a lot of partners in this industry that get up and work hard every day, believing that hard work is going to translate into some kind of value in the end. And what they find is that people don't pay for hard work. They pay for companies that generate profit. And that's a real problem in our space because people aren't really doing the things they need to do to create value”,** points out Arlin.

It is not unusual for MSPs to not have pushed any price increases for years onto their customers allowing inflation to eat into profits. Equally surprising is the absence of price inflators in MSA contracts.

Finding good talent is hard enough so when a client hires a great employee away from an MSP it can create a real void in an MSP's ability to serve its other clients, not to mention the additional cost they will now have to incur to hire and train a new employee.

MSPs should at a minimum work a finder's fee into their MSA contracts so they are at least able to receive reasonable compensation for the employee they just lost to their client.

Finally, most MSPs have month-to-month contracts with their clients. Even contracts that are annual tend to have 30-day notice cancellation features. Such contracts will be deemed to be less valuable by buyers and MSPs should make best efforts to re-negotiate such contracts to be annual with termination fees where the fees are aligned with revenues lost upon cancellation.

## **The Areas MSP Owners Must Plan Around & The Support System They Need**

Arlin emphasized that successful transitions require comprehensive planning across multiple areas. Without planning, MSP owners get stuck because they haven't built a business that's attractive to buyers. Key areas to plan around according to Arlin include:

- **Legacy Planning:** Start with your legacy. Know what you want to accomplish with your business and how you want to be remembered.
- **Life Planning:** What will you do post-sale? You need a plan beyond just stepping away and you need to build towards it before exiting.
- **Leadership Development:** Scaling requires leadership. Do you have a leadership development budget? Are you mentoring future leaders in a substantive way?
- **Operational Maturity:** Operational maturity and profitability should be intentional, not an afterthought.
- **Financial Readiness:** A lot of MSP owners don't think about the tax implications of a sale. Proper financial planning can mean the difference between a successful exit and a stressful one. Proper financial planning must start several years ahead of the sale.

A dedicated support system is critical for MSP owners to navigate towards and past exit successfully. Arlin encourages MSP owners to leverage mentors, financial advisors, and peer groups well before they begin the transition process.

**“The people who have the best exits are the ones who build a strong support system early,”** he said. **“Surround yourself with people who have been through it and can guide you through the emotional, operational, and financial aspects of a sale.”**

## **| M&A as an Important Part of Exit Planning**

Mergers and acquisitions (M&A) play a critical role in MSP exit strategies. We are increasingly finding MSPs turning to acquisitions to scale up quickly. Owners believe that scaling in this way will help them improve their valuation multiple. We believe this is a myth. Buyers pay higher multiples for businesses that have been able figure out a holistic strategy to grow organically. That is the hard bit and therefore commands a premium in the marketplace. Conversely, acquisitions of lower quality customers or acquisitions that have not been properly integrated can often subtract value and turn off buyers.

Arlin points out that it is important to understand your “why” when thinking of an acquisition. And once an MSP owner knows their “why” they need to put together a plan for how they plan to integrate the new company. Integration requires concerted effort, resources, and time. It also requires a “meeting of the minds” between the two owners. There should be complete clarity around what each person will be doing post-acquisition.

## **| Final Thoughts**

Succession and exit data from the past few decades suggest most MSP owners will face a transition at some point. Whether that transition is a success, or a struggle depends on the preparation MSPs do in advance. **“The big thing about transition,”** says Arlin, **“really is finding ways to take the emotion out of what's going on around you and that happens when you're prepared and [have a] plan.”** Key areas to plan for include legacy planning, life planning, operational maturity planning including leadership development, and financial and retirement planning. Doing all this will require MSP owners to connect with community members who can give them the right guidance and support. IT Nation, with its various programs, provides MSPs with an invaluable support network to plug into and plan with.

# MADHUR DUGGAR

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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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