What Does a Best-In-Class MSP Look Like?

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Whitepaper

What Does a Best-in-Class MSP Look Like? Insights from Peter Kujawa at Service Leadership

Service Leadership, Inc.®, a ConnectWise company, is one of the most important players in the world of managed services benchmarking and operational maturity . Founded in 2001 by Paul Dippell and later acquired by ConnectWise in 2020, the company has built the most comprehensive data repository of Technology services performance metrics worldwide. Its work has become foundational in helping MSPs scale sustainably, improve financial performance, and prepare for strategic exits.

Much of the content for this article is based on a recent podcast with Peter Kujawa titled “What does a Best-In-Class MSP Look Like.”

Peter is EVP and GM at Service Leadership and IT Nation. Prior to joining Service Leadership, Peter led an MSP for eleven years and for about ten of those years he benchmarked his MSP at Service Leadership. Service Leadership was instrumental in turning his MSP around.

What is Service Leadership and How is it Helping the MSP Community?

Service Leadership plays a unique role in the IT services ecosystem. It is an analytics platform built around deep, structured benchmarking data and operational improvement frameworks.

The organization has one of the deepest and most comprehensive sources of data on performance in the IT services industry. Every quarter, IT solution providers (TSPs) from all over the world put their financial and operational data into the Service Leadership benchmarking system and that data is used for benchmarking and deriving data analytics across ten different business models. TSPs who contribute to Service Leadership get a look at how they compare across sixty different KPIs to the best-in-class in their business model. They can get a granular breakdown of how they did compared to not only themselves, but to the best-in-class. Because Service Leadership has over 20 years of data and it runs that data every quarter, it has a comprehensive view of what is driving success today in the industry.

At a high-level Service Leadership provides three core services:

- **Quarterly Benchmarking:** Participating TSPs submit their financials aligned to a normalized Chart of Accounts in the Service Leadership Index secure web app. In return, they receive performance comparisons against top-performing peers in their business model.
- **Industry Reports:** Two major reports are published each year—one on profitability (a 350–400-page industry-wide analysis) and another on compensation data and trends (a 500+ page report).

- **SLIQ™:** An online operational maturity assessment and coaching tool designed to help TSPs understand their strengths and weaknesses across functional areas and guide them through their operational maturity journey.

How Does Service Leadership Benchmark TSPs?

At the core of Service Leadership's benchmarking process is the Normalized Solution Provider Chart of Accounts™ (NSPCoA™), a proprietary accounting framework that ensures all participants report their numbers consistently. This allows for true apples-to-apples comparisons across TSPs of varying sizes and geographies.

Thousands of TSP subscribe to the benchmarking dataset, including several hundred MSPs worldwide from peer groups like IT Nation Evolve, the Service Leadership Peer Groups and other regional and global communities. In addition, there is a much larger community of TSPs who subscribe directly to Service Leadership's platform that are also part of the benchmarking sample.

Participants include MSPs across the full revenue spectrum, from MSPs with 8-10 employees and about $1 million in revenue all the way up to MSPs with almost $1 billion in annual revenue and well over $100mn in EBITDA. As of Q1 2025, Service Leadership was benchmarking about $7 billion of revenue per quarter.

Each quarter, participating firms are evaluated across 60+ KPIs, ranging from service gross margin and sales productivity to EBITDA output and customer retention. Importantly, benchmarks are not arbitrary—they are based on the top twenty-five percentile of firms by profitability in each business model category. This "best-in-class" designation shifts every quarter, ensuring the benchmark stays current with evolving industry performance.

Does Size Matter When Becoming Best-in-Class?

One of the key insights from Service Leadership's data is that size does not guarantee success. Across all revenue tiers, from sub-$3 million MSPs to $50+ million platforms, at least 22% qualify for a best-in-class designation, i.e., belong to the top quartile of performers, while a roughly equal percentage drop to the bottom quartile.

Rather than size, what drives differentiation are fundamental execution disciplines: clear go-to-market strategy, disciplined staffing models, pricing alignment, and consistent service delivery. Whether a firm has a single salesperson, or an entire sales department segmented by role, the same KPI thresholds apply.

What Does Best-in-Class Look Like for Topline Growth, Sales and Marketing Productivity, Gross Margin, and EBITDA?

Service Leadership identifies a combination of financial and operational metrics to determine best-in-class performance. These benchmarks offer MSPs concrete targets to evaluate their own performance against industry leaders.

- **Revenue Growth Rates:** Service Leadership makes a distinction between total revenue growth and the growth rate of recurring revenue, such as managed services revenue. From Q3 2020 to Q3 2023, the MSP industry experienced unusually robust growth due to three factors: the widespread shift to remote work and the rapid adoption of cloud-based solutions by businesses adapting to the post-COVID environment, a strong post-Covid economy which resulted in strong growth for small and medium sized businesses, and finally MSPs pushing price increases to the clients to cover the rise in labor costs. This created a surge in demand for outsourced IT support, new client acquisitions, and expanded service delivery, particularly for firms positioned to deliver scalable, remote-friendly managed services.

  However, revenue growth rates have since begun to normalize. Post-pandemic, managed services revenue growth has returned to 10–12% annually, which is viewed as being in line with the long-term average for the sector. Total revenue growth—which includes project and product resale revenue—tends to hover around 15% for top performers.

- **Sales and Marketing Productivity:** Top-performing MSPs also demonstrate disciplined investment in sales and marketing. The benchmark spend is approximately 14.2% of gross margin dollars, a figure that holds whether the company has a solo founder-owner wearing many hats or a structured team with segmented sales roles. However, a frequent issue among founder-led MSPs is the failure to properly allocate the founder's time to sales and marketing expenses. In many cases, founders spend up to 50% of their time on lead generation, client meetings, or proposal development, yet none of that time is reflected in the P&L. This results in underreporting of sales and marketing costs and skews profitability metrics.

  In addition, most founders lack formal training in structured sales processes and modern marketing strategies. As a result, many would benefit from outsourcing marketing functions to specialists—whether fractional CMOs, outsourced SDR teams, or marketing agencies—who can bring expertise, rigor, and measurable ROI to their go-to-market efforts. What differentiates best-in-class firms is the output of their sales investment. Effective sales engines have teams that are often differentiated between “hunters” and “harvesters” are tightly managed, include performance tracking across sales representatives and campaigns, and ensure that every dollar spent on marketing yields a measurable return.

- **Gross Margin Performance:** Best-in-class MSPs consistently generate gross margins of approximately 50% on managed services. Service Leadership emphasizes that to properly calculate gross margin, it is critical to include all costs related to delivering services. This includes not only the tools needed to manage and deliver services and wages of front-line technicians, but also service managers and engineers, project managers and engineers and post-sale client account managers (such as VCIOs) needed to support services. These roles are all fundamental to service execution and should be treated as part of the cost of goods sold (COGS), not general and administrative expenses.

Many MSPs inflate gross margin figures by excluding these costs, but Service Leadership's model requires these to be accounted for to provide a realistic and comprehensive view of service profitability. For project-based services, where timelines are more constrained and scope can fluctuate, the best-in-class gross margin averages approximately 37.5%.

- **Service Productivity and Efficiency:** A critical metric tracked by Service Leadership is the Service Multiple of Wages, which captures how much service revenue is produced per dollar spent on service wages. Best-in-class firms achieve a ratio of 2.9x, indicating they generate nearly $3 in service revenue for every dollar spent on labor. By contrast, firms in the bottom quartile operate closer to 1.9x, revealing inefficiencies in technician utilization, poor ticketing workflows, or pricing misalignment.

- **EBITDA Output and Margins:** While EBITDA margins can vary depending on firm size and operating structure, Service Leadership associates best-in-class performance with firms that have reached Operational Maturity Level™ (OML™) four or higher. These organizations typically exhibit strong recurring revenue, disciplined cost controls, and operational scalability, which together drive robust EBITDA margins. Best-in-class EBITDA margins are currently running at about 17% for MSPs.

  What stands out in Service Leadership's model is the interdependence of these KPIs. High revenue growth without margin discipline or wage productivity often leads to bloated operations. Conversely, EBITDA improvements driven purely by cost-cutting, without reinvesting in sales or delivery, are rarely sustainable. The best-in-class MSP finds balance—growing efficiently, pricing services appropriately, and running a tight, high-velocity service delivery engine.

What Does it Mean to be Operationally Mature ?

Service Leadership trademarked the term "Operational Maturity Level" (OMLTM) in relation to technology service providers. Operational maturity assesses on a 1-to-5 scale how well run the business is including its ability to execute and to implement a business plan. The assessment looks at key functional areas of the business including finance, service, sales, strategy, and compensation. A new trait, security and compliance is likely soon to be added.

An MSP at OML1 is typically in startup mode. It is having to make many compromises to win business including bringing on different tech stacks and being much less discerning about the quality of the clients it onboards. Success in winning business brings MSPs to the next stage of operational maturity, viz. OML 2. This is a very difficult stage to operate in. Typically, MSPs at this stage are running a very inefficient business and are not as process- focused as they should be. They are working very hard for very little and are focused on staying afloat. The goal of an MSP in OML 2 should be to stabilize financial performance at which point they would have elevated themselves to OML 3. MSPs that are in OML 4, are often running best-in-class profitability and are in a much better position to make acquisitions and integrate them successfully. OML 5 is reserved for rare firms operating at elite performance levels across all departments. The goal for every MSP should be to climb the OML ladder quickly but ensure they pick up the learnings from each stage rather than trying to skip a rung. More recently, several MSPs have tried to build scale by making acquisitions before they have mastered the basics around running a stable business. This often leaves them worse off than before.

The SLIQ tool helps MSPs determine their OML by answering about 180+ questions. For example, it will ask an MSP how it is running pre-sales client assessments, who is conducting them, are they being conducted prior to the MSP quoting managed services and whether the MSP is charging for the assessment. SLIQ will then provide an OML for each criterion and provide a prioritized action plan that will tell an MSP what it should be working on first to get the best results. The SLIQ tool evaluates over forty OML traits that are weighted based on different ROI characteristics and will make recommendations on which OML traits to focus on based on its impact on ROI.

MSPs should take an incremental approach to improving their overall OML performance by focusing on two to four traits a quarter and working just on those before moving on to others in the next quarter.

Does Location Matter to Be Best-in-Class?

Geography does not appear to impact the likelihood of becoming best-in-class because top-line opportunities or challenges in a geography are often counterbalanced by operating costs and competition. Rural MSPs may have lower labor costs but also tend to have a lower density of businesses per MSP and a harder time finding talent. Metro MSPs have a higher density of businesses and greater access to a broad talent pool but also face higher competition and wages. These dynamics tend to balance out in the end.

Should You Run Your Business As If Preparing to Exit?

Peter Kujawa strongly endorses the philosophy that MSPs should run their businesses as if they are preparing for a future sale—or in case they are ever forced to sell under emergency circumstances. His reasoning is rooted not only in transaction readiness but also in long-term operational excellence.

The elements that make a business attractive to buyers—profitability, scalable operations, recurring revenue, low customer concentration, and strong retention—are also the exact same traits that make a business easier and more profitable to own. For instance, MSPs that operate with high EBITDA margins and larger absolute EBITDA outputs are not only positioned to command premium valuation multiples, but they are also more financially resilient and capable of reinvesting in growth, planning for downturns, and rewarding ownership.

Strategic pricing, contractual escalators, and efficient service delivery systems contribute to both higher valuations and smoother daily operations. Firms that invest in service quality, retention strategies, and scalable internal systems tend to experience both higher client loyalty and lower employee churn—critical traits valued during M&A but equally beneficial for day-to-day management.

Reducing customer concentration is another important example. If a business is overly dependent on a small number of clients, it presents risk to both buyer and owner. Spreading revenue across a more diverse base mitigates volatility and creates a more durable business model.

Ultimately, operating with an exit mindset introduces a level of discipline and foresight that serves the business owner well, regardless of whether a transaction ever occurs. As Peter references Arlin Sorensen's[1] insight, "100% of owners will transition their business—it's just a question of whether they do so by choice or by circumstance." Planning early and operating with a future buyer in mind ensures that when that time comes—expected or not—the business is ready, valuable, and desirable.

What Emerging Risks and Opportunities Should MSPs Consider?

Looking ahead, one topic that is frequently discussed as a potential risk—but is more accurately viewed as an opportunity—is the role of artificial intelligence (AI) and hyper-automation in the MSP sector. While some in the industry express concern about job displacement or automation threats, Peter Kujawa offers a clear-eyed view: AI is not a threat in the near term (3–5 years). In fact, it represents one of the most significant levers for improving efficiency and profitability for MSPs willing to adopt it.

The first and most immediate opportunity lies in the automation of Level 1 technical work. Many repetitive, high-volume support tasks—password resets, ticket triage, basic diagnostics—can be managed more efficiently through intelligent automation tools. This allows MSPs to reduce the number of entry-level technicians required without sacrificing service quality, effectively bolstering gross margin while maintaining client satisfaction. Over time, similar efficiency gains will be seen in project management, Level 2 support, and even administrative and back-office functions.

The second major opportunity is helping clients navigate their own AI transformation. Just as businesses once turned to MSPs to help manage their transition to cloud-based infrastructure, they are now looking for guidance on how to implement AI and automation in their own environments. This creates a consultative opportunity for MSPs to deliver new value, deepen relationships, and grow revenue through advisory services, assessments, and AI integration projects.

Peter notes that this is part of a broader trend. The job of an MSP has already evolved significantly over the past decade—from traditional break-fix to managed services, from on-premises services to the cloud, from basic IT to cybersecurity. AI is simply the next inflection point. Firms that embrace this evolution rather than resist it will find themselves increasingly indispensable to their clients.

The rise of AI is not a risk for the prepared. It is a forcing function for operational maturity, and an invitation for MSPs to elevate their value proposition from tactical support to strategic enablement. The firms that respond accordingly will not only remain competitive—they will lead the next era of managed services.

To learn more about how Service Leadership can help improve your business's financial and operational performance, please click here.

[1] Arlin Sorensen is the Vice President of Ecosystem Evangelism at ConnectWise. Listen to his insights on our podcast with him titled: "IT Nation Unplugged: Arlin Sorensen on Navigating Growth, Exit & Legacy as an MSP Owner."

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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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