

Europe Managed IT services market

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Interviewee

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How do sales cycles typically work for managed service providers? We understand customer acquisition costs are high, and some firms grow inorganically by acquiring smaller players to access specific clients or markets. Is this consistent with your view?

Answer: Sales cycles are generally long and depend on customer type. SME clients experience shorter cycles for simpler solutions, while mid-market and enterprise clients often require several months to secure and onboard due to the need for tailored offerings and relationship building.

The dominant approach is “land and expand” — winning an initial contract and then broadening the service scope through account management rather than continuous new client acquisition. This model is particularly effective with SMEs lacking internal IT capabilities. Given the high cost and time involved in winning new clients, M&A is a common growth route, enabling access to new markets, capabilities, and customer bases while delivering scale benefits in a fragmented industry. Sales models differ markedly by client size: SMBs rely more on digital marketing and shorter cycles, whereas enterprise and public sector clients require longer, relationship-driven sales processes. Consequently, most firms specialise by customer size, as serving both segments effectively demands distinct sales and service structures.

Even large firms such as Capgemini and Accenture appear to struggle to target smaller clients, focusing mainly on larger enterprises. Is that accurate?

Answer: Yes, that is correct. Large consultancies and IT service firms such as Accenture or IBM typically do not target small businesses. Their business models, pricing structures, and delivery capabilities are designed for large and complex enterprise clients, making the SME segment economically unattractive and operationally inefficient for them to serve.

While sales cycles are long, it seems that customer stickiness and recurring revenues are high. Larger firms often start with consulting or project-based services before moving into ongoing IT implementation and managed services. From what I have seen, this recurring element attracts significant private equity interest. Does this align with your observations?

Answer: Yes, that is correct. Leading players are effective at creating customer stickiness through managed services, which provide stable and recurring revenue streams.

Project-based professional services — such as consulting or implementation — are typically entry points used to onboard clients onto longer-term managed service contracts. These projects can be profitable but are less predictable and have higher churn.

In contrast, managed services contracts generate recurring, visible cash flows and are therefore particularly attractive to private equity investors, who value the predictability and scalability of these revenue models.

What does the typical cost structure look like for a general managed service provider (MSP)? I understand this may vary depending on firm size?

Answer: While cost structures differ by company scale and service mix, mid-market MSPs typically operate with gross margins of 40–50% and EBITDA margins of around 15–25%. The remaining costs primarily consist of operating expenses (OPEX), including personnel, sales, and administrative overhead.

Do some managed service providers achieve higher profitability than the typical range?

Answer: Yes, although less common, some service providers reach EBITDA margins of 30–40%. These tend to be well-run, scaled businesses with international operations. However, the general benchmark remains 40–50% gross margin and 15–25% EBITDA margin for most mid-market MSPs.

Apart from personnel costs, what are the other significant cost components for managed service providers?

Answer: Operating expenses are typically around two-thirds labour and one-third non-labour costs, such as rent, software licences, and general overheads. Depending on the business model, there may also be some capital expenditure (CapEx) below EBITDA, though this is usually a small share of revenue in most MSP.

What are the main structural drivers of growth for managed service providers? From our research, we see increasing IT complexity and digitalisation as key factors. Do you agree, and do you see any others?

Answer: Yes, those remain major growth drivers. The industry still faces 15–20 years of IT modernisation, as many organisations continue to migrate from legacy infrastructure and applications to modern, cloud-based systems. This long-term transition sustains high structural demand.

A second strong driver is data modernisation — including the creation of data lakes, APIs, and analytics platforms — which is expanding at double-digit rates (20–30% CAGR). These upgrades are essential to enable advanced technologies such as generative AI.

Cybersecurity is another key theme, though growth varies across subsegments. Traditional endpoint or firewall solutions are maturing, while cloud-based security and embedded protection within software ecosystems (e.g. Microsoft 365) continue to grow rapidly. Overall, the segment averages around 10% annual growth, with faster expansion in next-generation solutions.

Beyond complexity, a wider digital transformation across all industries continues to fuel demand. As more businesses become technology-enabled and reliant on data and digital interfaces, investment in IT and managed services consistently outpaces GDP growth.

What are the main headwinds or challenges to growth for managed service providers?

Answer: Overall demand remains strong, but pricing pressure is a key headwind. As companies adopt automation and AI, service delivery becomes more efficient, lowering costs — and some of those savings are passed to clients, compressing margins. This is particularly evident in professional services, where nearshoring and AI tools have reduced labour intensity and pricing.

Another challenge is product substitution. As software ecosystems evolve, certain legacy products or point solutions are replaced or absorbed by larger platforms — for example, Microsoft's integrated security tools reducing demand for standalone security providers.

Finally, macroeconomic uncertainty can delay discretionary spending, particularly project-based consulting and diagnostic work. However, recurring managed service revenues tend to be resilient, as businesses rarely cut essential IT operations even during downturns.

So, while large projects may be delayed during downturns, most revenues are recurring and therefore harder to cut, even when business conditions worsen. Is that correct?

Answer: Yes, that's right. Recurring revenues from managed services are generally resilient, as clients rarely reduce essential IT operations. However, smaller customers are more vulnerable in downturns — some may reduce spending or go out of business entirely — which can modestly affect providers focused on the SME segment.

Cloud adoption in Europe appears significantly lower than in the U.S., particularly for public cloud, partly due to concerns over security and data privacy. Do you view this as an opportunity, given that many companies still plan to migrate to the cloud?

Answer: It's partly true, but the picture across Europe is highly heterogeneous. The UK, and to some extent the Netherlands and Nordics, are already ahead of or on par with the U.S. in several measures of cloud adoption, driven by their large financial and professional services sectors.

By contrast, continental Europe — particularly Germany, France, Spain, and Italy — remains 20–40 percentage points behind in penetration, leaving clear catch-up opportunities within those markets.

Early concerns about security risks have largely faded, as hyperscalers now meet robust compliance and protection standards. The more relevant issue today is data sovereignty — ensuring data is stored within national borders, which remains particularly important for government and public sector clients.

Most European organisations now use some form of public cloud (often indirectly through services like Microsoft 365), but adoption remains hybrid — combining public cloud, private servers, and colocation.

Overall, while Europe may lag slightly, migration is inevitable and progressing steadily, presenting a long-term growth opportunity for service providers supporting hybrid and multi-cloud environments.

In our segmentation, we distinguish between MSPs that act as intermediaries between hyperscalers (e.g. AWS, Azure) and clients, and those that own infrastructure such as data centres — for example, Advania versus OVHcloud. The former are more asset-light, while the latter are capital-intensive. Do you agree with this distinction?

Answer: Yes, that distinction is broadly accurate. Firms like OVHcloud or IONOS are vertically integrated, owning and operating their own data centres and servers, and providing cloud services directly from that infrastructure. However, this asset-heavy model has become less common, as most of the market has shifted towards asset-light, service-oriented models. These asset-light players, such as Advania, do not operate their own data centres but instead build value-added services on top of hyperscaler infrastructure. They are not simple brokers — rather, they act as channel partners, managing customer relationships, providing integration, support, and software layers that enhance hyperscaler offerings. In practice, true brokerage or resale (i.e. pure pass-through of hyperscaler capacity) represents less than 10–15% of revenues for most providers. The majority of value creation now lies in professional and managed services built around public cloud environments, where gross margins can reach around 50%. Overall, the asset-light, service-focused model dominates the market, while the infrastructure-owning approach remains a small but capital-intensive niche.

So, for companies like OVHcloud, the outlook seems less favourable given their higher capex requirements and vertically integrated model. Is that correct?

Answer: Yes, that's correct. OVHcloud's model originated from hosting and managing servers, but the market has evolved significantly. The hyperscalers now operate more like software companies, offering extensive product suites — including databases, AI tools, and full development ecosystems. As a result, it is increasingly difficult for infrastructure-owning providers like OVHcloud to match the scale and R&D investment of hyperscalers. Their capital intensity and slower innovation cycle make the model less competitive compared to asset-light service providers that build on top of hyperscaler platforms.

Does OVHcloud compete directly with hyperscalers such as AWS, Azure, and Google Cloud, which already hold over 70% market share and continue to grow?

Answer: Not directly. OVHcloud's offerings differ in scope and positioning, focusing more on standardised, lower-cost hosting and infrastructure services. In contrast, hyperscalers provide broad, integrated software ecosystems with extensive product portfolios and global scale.

While OVHcloud technically competes in parts of the cloud infrastructure market, the competitive balance is heavily tilted towards hyperscalers, whose superior R&D capabilities and product depth enable faster growth. OVHcloud may remain viable in certain niches, but it is unlikely to expand at the same pace as the major global players.

Regarding MSSPs (Managed Security Service Providers), what are the main operational differences compared to general MSPs, and which types of players are entering this segment? Are large firms such as Accenture or Capgemini expanding into cybersecurity, and do telcos still play a role?

Answer: MSSPs differ mainly through their specialisation in cybersecurity services, such as operating Security Operations Centres (SOCs) that monitor and protect clients' IT environments from cyber threats. These services require dedicated expertise, technology, and real-time monitoring capabilities, making MSSPs generally more specialised and technically demanding than general MSPs. That said, the cybersecurity space is highly competitive. Many traditional MSPs now offer cybersecurity as part of their broader portfolio, while large consultancies — including Accenture, Capgemini, and Deloitte — have developed significant cybersecurity practices. Demand is strong, as most companies lack the internal skills to manage complex cyber risks. Telcos were historically active in network security, focusing on protecting network infrastructure and firewalls. However, modern cybersecurity now extends far beyond networks — into data protection, identity and access management, phishing prevention, and application security — areas where telcos are less competitive. As a result, the market is increasingly dominated by specialist MSSPs and diversified IT service providers expanding their cybersecurity offerings, while telcos have become less central to this segment.

Would you say the cybersecurity (MSSP) segment is more fragmented than the general MSP market, given the large number of specialist players and varying national regulations across Europe?

Answer: Both MSSPs and MSPs are highly fragmented, though MSPs remain the more fragmented segment overall, largely because they have existed longer and operate in every local market. Most players serve domestic clients, and pan-European providers are rare, aside from a few large groups serving international accounts.

The cybersecurity vendor landscape itself is even more dispersed, with hundreds of software and technology providers supporting MSSPs. In contrast, the infrastructure layer underpinning MSPs — dominated by a few hyperscalers and hardware manufacturers — is relatively consolidated.

In short, both markets are fragmented, but MSPs are more so, while cybersecurity vendors show the greatest degree of structural dispersion.