A CFOFORIT WHITEPAPER

Shifting Margins

3 impactful areas

Cloud, Security, and Professional Services

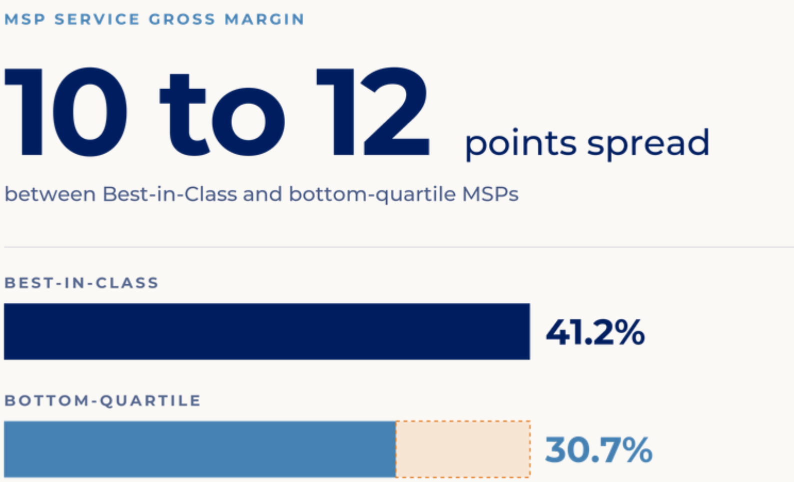
CFOforIT

Contents

Executive Summary

How MSPs can protect profitability through margin discipline, standardization, and service-line insight.

The margin landscape for MSPs is shifting. According to Service Leadership's most recent report, the strongest operators continue to outperform by 10 to 12 points of service gross margin (GM%), but not because of price. The spread is rooted in standardization, process discipline, and proactive margin management.



Best-in-Class (BIC) MSPs averaged 41.2% service gross margins, while bottom-quartile peers averaged 30.7%. Within that spread lies a deeper story: Cloud resale margins have compressed as hyperscalers tighten incentives: white-label cloud resale averaged 31.6% GM%, while third-party branded resale fell to 24.1%.

Managed security has emerged as a high-margin driver, reaching the high 40s in GM%, fueled by attach strategies and outcome-based selling.

Professional services margins vary widely--from the mid-20s in reactive models to the mid-40s in mature, utilization-focused organizations.

CFOforIT's analysis of industry data and field experience shows that MSPs who treat margin management as a financial discipline (measuring, segmenting, and governing margins by service line) consistently outperform those chasing top-line growth.

This white paper outlines how margin pressure across cloud, security, and professional services can be countered with operational maturity, financial visibility, and a deliberate margin-ops cadence.

Introduction

MSPs are evolving into multi-line service providers, offering managed services, cloud solutions, professional projects, security and compliance. While this diversification expands revenue opportunity, it also exposes a critical challenge: **margin volatility**.

Service Leadership's most recent industry report illustrates that margin strength depends less on growth and more on control. Top-quartile MSPs run with 18-22% adjusted EBITDA, driven by disciplined service-line management and standardization.

MSP MARGIN PERFORMANCE

18 to 22%

adjusted EBITDA, top-quartile MSPs

Margin strength depends less on growth and more on control.

DRIVERS · TOP-QUARTILE MSPs

- ▲ Disciplined service-line management.
- ▲ Standardization.

DRAGS · WITHOUT FINANCIAL INSTRUMENTATION

- ▼ Cloud resale compresses blended GM%.
- ▼ Poorly scoped projects and low utilization drag professional margins below sustainable levels.

Source: Service Leadership, most recent industry report

In contrast, firms without strong financial instrumentation see cloud resale compress their blended GM%, while poorly scoped projects and low utilization drag professional margins below sustainable levels.

CFOforIT's experience across multiple IT services firms reinforces the pattern: Firms that measure and manage margins weekly outperform those that review them quarterly.

Margins don't collapse overnight.

They erode silently when leadership lacks visibility into which customers, engineers, or services are creating (or consuming) profit.

Core Insights

01 Cloud

02 Security

03 Professional services

This paper breaks down the three most impactful areas: cloud, security, and professional services, and outlines how CFOs and CEOs can restore margin control through structure and measurement.

1. Cloud Resale Is Necessary but Insufficient

Cloud resale remains an essential component of the MSP model, but it is no longer a primary profit driver.

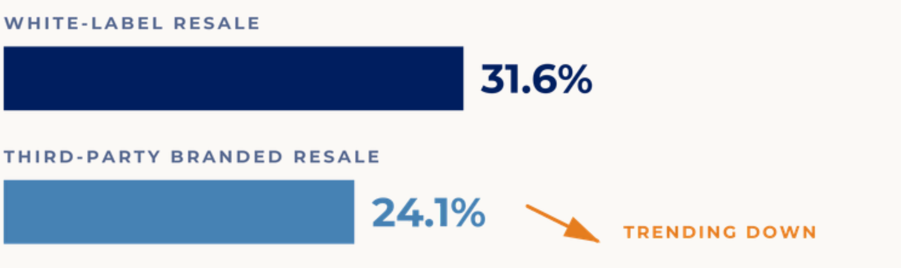
The margin delta is stark: Service Leadership's data shows white-label resale averaged 31.6% GM%, while third-party branded resale averaged 24.1%, and that figure continues to trend downward.

RESALE GROSS MARGIN

31.6%

white-label resale, average GM%

Third-party branded averaged 24.1%, and continues to trend downward.



Source: Service Leadership

The takeaway is not to abandon resale but to redefine its purpose. BIC MSPs treat cloud resale as a mechanism for governance and stickiness, not as a core profit center.

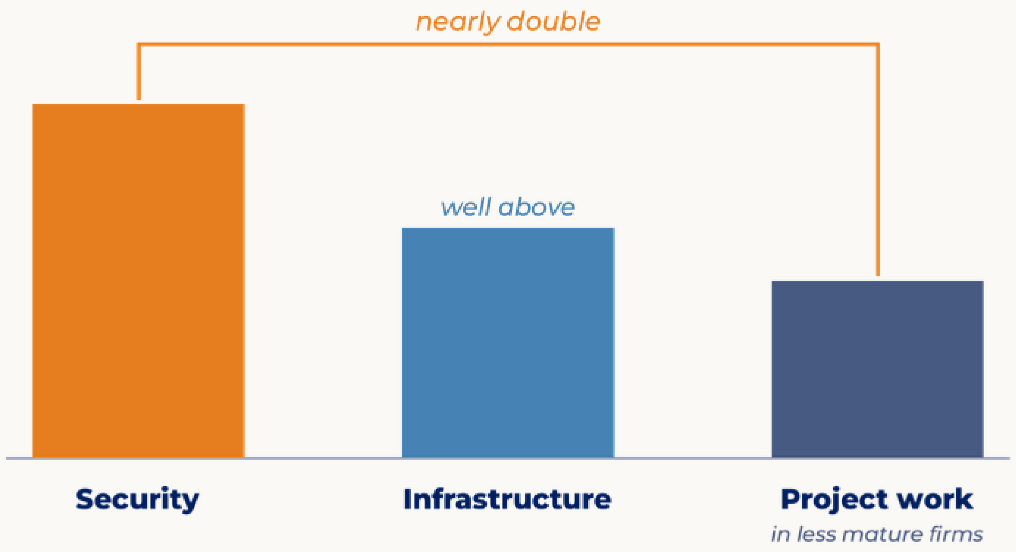
They monetize configuration, policy management, and compliance assurance rather than relying on pass-through margin.

CFOforIT recommends separating cloud GM% from services GM% in management reporting to reveal the true economics of the business. This clarity allows leadership to evaluate whether cloud operations are subsidizing services, or vice versa, and re-balance accordingly. Cloud resale isn't the margin engine; the governance and automation layered around it are.

2. Security Has Become the New Margin Engine

Security services now represent the most profitable growth segment in managed services.

Service Leadership's benchmarks show security GM% in the mid- to high-40s, well above infrastructure services and nearly double project work in less mature firms.



What separates the best from the rest is integration. BIC MSPs embed security into their "full meal deal" offering, selling it as a default component rather than an add-on.

These customers, "more outcome-focused than price-focused," deliver consistent, recurring margin because security is delivered through standardized stacks with repeatable processes.

CFOforIT helps leadership teams quantify and communicate the economics of security attach. By tracking attach rates, revenue per protected endpoint, and incremental product backlog from remediation work, MSPs turn security from a technical differentiator into a sustained financial engine.

Security margins thrive where standardization meets accountability; embed it, don't upsell it.

3. Professional Services: Scope Is Destiny

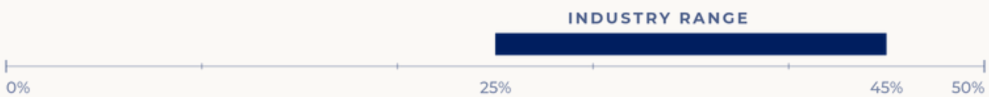
Professional services continue to present the widest margin variability in the MSP model. Across the industry, project gross margins range from 25% to 45%, depending on how tightly scope and utilization are managed.

The Service Leadership report attributes this spread primarily to inconsistency in pre-sales discovery and overreliance on external labor.

PROJECT GROSS MARGIN

25 to 45%

industry range, project gross margins



The driver:

how tightly scope and utilization are managed.

Source: Service Leadership, most recent industry report

At a prior organization we helped lead, the CFO team conducted a service-line profitability review that revealed professional services margins averaging just 27%, compared to 45% for recurring managed services.

The root cause was twofold: underutilized internal engineers and excessive dependence on external contractors.

By increasing internal utilization above 78% and shifting to 75% internal delivery, margins improved by 12 percentage points within two quarters without top-line growth.

Professional services are most valuable when they feed the managed services flywheel, modernizing environments and driving new recurring revenue.

CFOforIT encourages leaders to track professional margins separately and use project contribution analysis to ensure every engagement aligns with long-term profitability goals.

In projects, margin discipline begins at scope and survives only with utilization rigor.

4. Run Margin-Ops, Not Margin Hope

Margins aren't maintained through optimism; they're managed through rhythm.

most successful MSPs treat margin management as a cross-functional process and not a finance afterthought.

CFOforIT installs what we call a margin-ops cadence: a weekly review of key service-line metrics.

MARGIN-OPS CADENCE

01 Services GM% (core managed)

02 Cloud GM% (white-label vs. third-party)

03 Security GM%

04 Project GM%

05 Blended GM% variance and driver analysis

When margin metrics are visible, accountability shifts from postmortem analysis to proactive management.

Postmortem analysis → **Proactive management**

accountability shifts.

Engineers understand how utilization ties to gross margin; operations leaders see where contracts are underwater; finance can forecast EBITDA with confidence.

Margin-ops transforms profitability from a quarterly surprise into a weekly discipline.

Conclusion

Margin compression is not inevitable, it's managerial.

Service Leadership's data proves that the strongest MSPs actively govern margins through financial architecture, standardization, and leadership cadence. They treat margin as an operating metric, not an accounting result.

CFOforIT partners with MSPs to make that discipline operational.

By building dashboards, separating service-line reporting, and embedding financial rhythm into weekly management, we help firms convert complexity into clarity.

01 Dashboards.

02 Service-line reporting.

03 Weekly financial rhythm.

Profitability follows visibility.

Complexity into clarity.

Whether in cloud, security, or professional services, profitability follows visibility.

Margins don't erode because of markets, they erode because of management blind spots. The cure is measurement, accountability, and rhythm.

About CFOforIT

CFOforIT is a fractional CFO firm and finance-first advisory built exclusively for MSPs, VARs, and IT services firms that want to scale profitably, operate with confidence, and maximize enterprise value.

Led by executives who have helped grow multiple IT services companies from under $20 million to over $130 million in revenue and executed more than 20 acquisitions, CFOforIT combines deep industry insight with proven financial architecture.

Our approach turns finance into a strategic operating system: integrating cash management, pricing discipline, forecasting, and KPI governance into the daily rhythm of leadership.

Whether preparing for growth, pursuing acquisitions, or positioning for exit, we work directly with CEOs and leadership teams to build data-driven visibility, optimize EBITDA, and unlock valuation multiples that reflect the true strength of their business.

CFOforIT partners with leadership teams to build the systems, metrics, and cadence that drive operational maturity and value creation; because in IT services, sustainable profitability isn't a mystery; it's a discipline.

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