

Planning on Leaving the Dance With the One Who Brought You? A Look at MSSPs

By Kris Zupan

Kris.zupan@e-dmzsecurity.com

As of late, there have been numerous articles written with a focus on increasing Managed Security Service Provider (MSSP) adoption as well as tips on how to select the right MSSP for your organization. Interestingly enough, such articles focus on the following three criteria:

- ▲ Size
- ▲ Capabilities
- ▲ Viability

This article takes a different approach to the subject and will focus on an item that has not received much attention—*change of control*.

One only needs to read the media headlines over the past nine months to understand why this issue is important. RedSiren acquired by Getronics. NetSec acquired by MCI. Guarded Networks acquired by Perimeter. The level of merger and acquisition activity in the MSSP space has been astounding. This requires that companies add to their due diligence process a step to evaluate the likelihood of the MSSP having a change of control during the contracted period.

The Effects of Change of Control

Before we discuss how to gauge the likelihood of a change of control, we should first discuss what effects a change of control can produce. There are a number of potential effects, both positive and negative. First, the positive:

1. **Better Financial Viability**

The acquiring company will normally have a stronger financial position, which allows the acquisition to occur.

2. **More Capabilities**

As part of the larger company, additional capabilities may become available. This could mean better coverage, more staff, or a global presence.

3. **Stronger Brand**

The acquiring company could be a well recognized brand. However, there are also quite a few potential negatives:

1. **Loss of Personalization**

Many companies like the personal attention received by the smaller MSSP. As part of the larger company, this level of attention may not be possible. Also, as part of a larger customer base, the relative importance (or leverage) a customer wields may diminish.

2. **Loss of Key Staff**

Managed Security is a service, and service is performed by people. The key people providing service to a customer may not

stay with the new company. The knowledge and experience is then lost.

3. **Loss of Focus**

This is similar to the first issue, but this centers more around the company direction. The acquiring company may have a different focus than the original company. An example is an MSSP being purchased to provide an upsell opportunity for a product company, or a company acquiring an MSSP to be able to market its existing product as a service offering.

4. **Transition Issues**

The acquiring company may not know the details of every contract and may not be willing to provide service in the same manner as the original company.

5. **Contractual Issues**

While most companies will include language to protect them in the event of an acquisition, the company may be forced to execute provisions in the contract to ensure their service continues in the manner they desire. While this is possible in any situation, this is an area that most companies would like to avoid.

6. **Reason Why You Didn't Choose the Other Company in the First Place**

At the end of the day, if the acquiring company already provides Managed Service, then they were also an option when you made your MSSP selection. There is obviously a reason you selected who you did, and conversely, reasons why you didn't select the company in question.

7. **Potential for Further Turmoil if Part of Acquisition Play**

The other problem is if the acquisition is part of a larger roll-up strategy. NetSec was bought by MCI who was then bought by Sprint. There are companies and Venture Capital (VC) out there trying to acquire MSSP business just to make themselves more attractive as MSSP acquisition targets. Unfortunately, a customer gets no voice when these deals are being considered.

So how do you evaluate the potential for a change of control? While there are no guarantees, the following factors seem to play a part:

1. Ownership
2. Company Direction
3. Company Results

Ownership

This is typically the most important criteria in any Merger and Acquisition (M&A) situation. Some of the options follow:

Public Companies

(Symantec, ISS, Verisign, CSC). Though there have been some major mergers over the past years, typically the public company is the acquirer. Shareholder value will drive the transactions, and no matter what size the company, if a business is determined to not be strategic, it could be eliminated (i.e. IBM selling the PC business).

VC-Funded Private Companies

(SecureWorks, Perimeter, SecurePipe). This category contains the majority of the acquired MSSPs (NetSec, Guardent, RedSiren) and therefore the category most likely to have a change of control. Venture Capital groups will actively pursue deals, as the VC makes the majority of their profit through M & A activity. When evaluating the potential for a change of control, special attention should be given to companies where the VC holds a majority position.

Non-VC Funded Private Companies

This covers a broad range of companies, ranging from large established MSSPs (like e-DMZ Security) to "two guys and a dog." Since ownership is in the hands of people materially involved in the company, the decisions are less often driven by short-term conditions.


Company Direction

This is hard to accurately gauge without inside information, but if a company indicates that its strategic direction is changing, a change of control may follow for either the company or the business.

Company Results

Companies that are struggling or companies that have had exponential growth both have a higher likelihood for change of control, though for different reasons. A struggling company may require a change of control to avoid total collapse, while a company with stellar growth may look to capitalize on the trend instead of trying to maintain this level of growth.

Summary

There is no guarantee that any level of research will allow you to know definitively what direction a company will take, and we have yet to see any major backlash from the acquisitions that have occurred this year. I am merely reflecting that given the significance of the decision to outsource, the analyst belief that MSSP outsourcing will continue to grow, and the continuing M&A activity—a company should take this factor into consideration when selecting an MSSP. After all, everyone would like to believe they are going to leave the dance with the one who brought them. 

Kris Zupan, CISSP, is the CEO/CTO, e-DMZ Security (www.e-dmzsecurity.com).