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Frost Radar™: Managed Detection and Response, 2024

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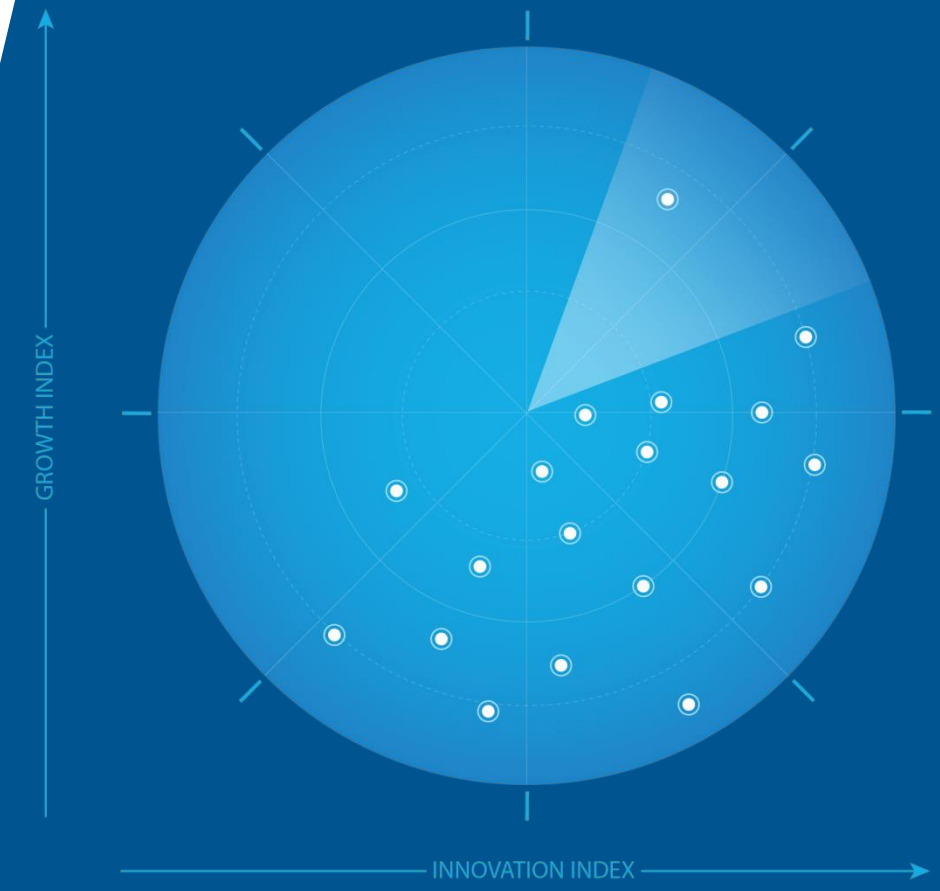

A Benchmarking System to Spark Companies to Action - Innovation That Fuels New Deal Flow and Growth Pipelines

March 2024

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Strategic Imperative and Growth Environment

Strategic Imperative

Factors Creating Pressure on Growth

- The dearth of cybersecurity professionals continues to shape the industry, becoming a thorn in global organizations' side as they try to secure their growing environments.
- Faced with a lack of access to professionals and an inability to protect their business-critical data effectively, organizations are outsourcing to alleviate the issue.
- MDR service providers can offer top-tier security across the environment, delivered by experienced professional teams that partner with and support organizations in establishing effective security perimeters.
- In the next three years, organizations will continue investing in outsourced security through MDR services as it enables them to focus personnel on the core business instead of building internal security operations centers (SOCs).
- AI, ML, and automation have become increasingly integral to cybersecurity solutions. These technologies enhance detection and response and allow SOC analysts to focus on what's important instead of chasing down false alerts.

Source: Frost & Sullivan

Strategic Imperative

Factors Creating Pressure on Growth

- But automation cannot replace human analysts just yet, as organizations cannot trust AI to handle complex decision-making beyond detection and response.
- As organizations seek alternative ways to cope with the shortage of security analysts, they will adopt solutions that leverage ML and AI in combination with the ever-important human factor.
- As a result, security services such as MDR will continue to thrive in the next three years while security providers invest in developing and enhancing automated security assistants.
- Due to the sophisticated nature of the latest cyberattacks, the growing incidence of nation-state-sponsored threats, and the increasing number of cybersecurity incidents, there's an arms race between threat actors, security solutions, and service providers.
- Organizations are caught in the middle, with the pressure to understand, invest in, and keep up with the latest developments in the cybersecurity industry to protect their environments.
- As digital transformation continues and geopolitical conflicts around the globe progress, organizations will continue to be targeted by complex cyberattacks and data breaches.

Source: Frost & Sullivan

Strategic Imperative

Factors Creating Pressure on Growth

- MDR's promise to bolster an organization's security posture with 24/7 monitoring, state-of-the-art detection and response, and incident response capabilities will resonate with global organizations for the foreseeable future.

Source: Frost & Sullivan

Growth Environment

- According to Frost & Sullivan's 2023 Voice of the Enterprise Security Customer survey, 36% of global organizations were using MDR at the beginning of 2023, with a further 26% of them planning to invest in the service by 2024.
- MDR has witnessed widespread adoption in 2023, with a growth rate of 35.2% and a compound annual growth rate (CAGR) of 25.3% expected from 2023 to 2026. MDR has made significant waves in the cybersecurity industry thanks to its ability to address many of global organizations' most pressing pain points.
- The dearth of security talent and the rapid increase in the number and sophistication of threats generate the perfect conditions for MDR to thrive. These driving factors are not expected to diminish soon and will continue to push organizations to outsource their security, either partially or completely.
- The growth rate and customer adoption of MDR services will remain high for the foreseeable future, as the platform's drivers far outweigh its restraints and limitations.

Source: Frost & Sullivan

Growth Environment

- The lion’s share of MDR revenue and adoption comes from North America, but Europe, the Middle East, and Africa (EMEA) is a close second. These regions' higher maturity and cybersecurity focus and increased government involvement in guiding organizations toward effective security strategies and compliance make MDR a great option for businesses in both regions. They will continue growing rapidly for the next three years and remain high-priority investments for MDR providers.
- As with most high-end cybersecurity solutions and services, Latin America (LATAM) and Asia-Pacific (APAC) account for smaller contributions to MDR revenue. Nonetheless, these regions have a higher potential for growth, as the CAGR is higher for the 2023–2026 period, showing that adoption is expected to ramp up for local organizations. The new MDR message, with extended incident response and adjacent services that increase maturity and awareness, resonates with regional companies. Highly involved MDR partners could leverage their competitive differentiators to expand into these regions in the next few years.

Source: Frost & Sullivan

Growth Environment

- Organizations across various company sizes consider MDR a worthwhile option to secure their business-critical assets. While enterprises with more than 10,000 employees account for less revenue and growth, it is to be expected from companies that have already invested in their SOCs and have experienced analysts working with them.
- The highest-spending industry verticals for MDR are finance, government, manufacturing, and technology & telecommunications. Overall, adoption is high across every sector, with every MDR provider focusing on different integrations, providing visibility into distinct environments, and delivering multiple adjacent services. Such specialization means most organizations can find an MDR partner that meets their needs and use cases.

Source: Frost & Sullivan

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Frost Radar™ Managed Detection and Response, 2024

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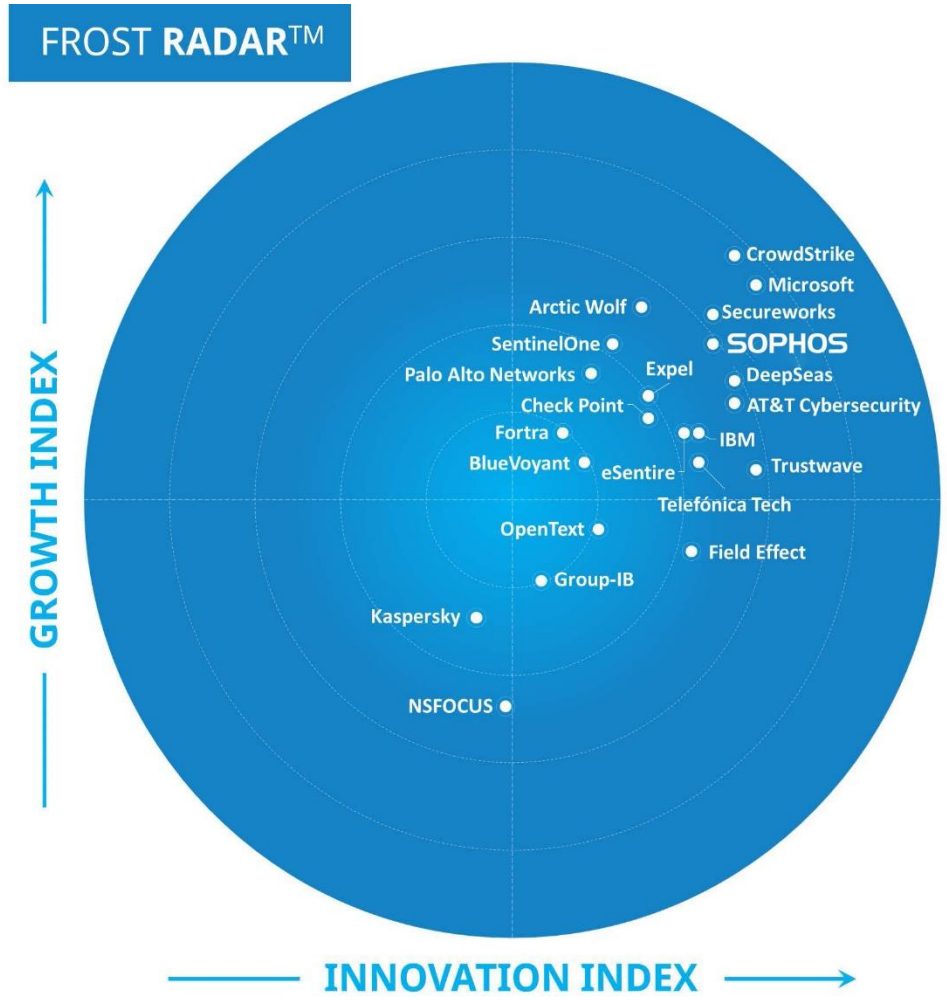

Source: Frost & Sullivan

Frost Radar™
Competitive Environment

- In a rapidly growing field of more than 150 industry participants with revenue greater than $1 million, Frost & Sullivan independently plotted 22 growth and innovation leaders in the MDR space in this Frost Radar analysis.
- Over the last few years, MDR providers have developed solutions to deliver extensive visibility over the environment, advanced detection of the most pervasive threats, and a veteran team of expert security analysts supported by AI, ML, and automation capabilities. MDR has become the primary way of delivering SOC services, unifying capabilities such as detection and response, investigation, threat hunting, and more under a single platform.
- Because of this, the MDR sector will continue to see an influx of new competitors from very different spaces, including endpoint detection and response (EDR) and extended detection and response (XDR) vendors, players with extensive coverage and portfolios, and managed security services providers (MSSPs) wanting to leverage their ample service offerings.

Source: Frost & Sullivan

Frost Radar™
Competitive Environment

- MDR providers will face fierce competition from XDR vendors and MSSPs that do not provide managed XDR or an MDR platform. These spaces seek to provide organizations with comprehensive and centralized security that enables and empowers the customers' analysts via many of the same features.
- The most significant innovations of highly successful MDR platforms and services include implementing threat detection across a wide range of environments to address multiple use cases, leveraging world-class threat intelligence and ML features to empower analysts, providing a synergistic portfolio of complementary managed and professional services to multiply the value of the MDR service; integrating third-party telemetry sources to augment flexibility; and developing and implementing large language models (LLM) tools and generative AI security assistants to ramp up the effectiveness of new analysts and facilitate the lives of experienced ones.
- Sophos leverage their experience in the space with world-class platforms and services and exceptional growth strategies to position themselves as leaders. Sophos is among the innovation leaders thanks to their keen understanding of the MDR sector's most important trends, innovations, and growth opportunities.

Source: Frost & Sullivan

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Companies to Action:

Companies to Be Considered First for Investment, Partnerships, or Benchmarking

Company to Action: Sophos

Innovation

- Sophos MDR integrates native and third-party technology to provide 24/7 monitoring, detection and response, threat hunting, and other capabilities across the endpoint, network, cloud, identity, email, and workplace productivity environments. Leveraging its XDR technology, Sophos' platform ingests data from disparate telemetry sources to correlate, analyze, enrich, and provide context to grant analysts vital support in securing the customer environment.
- Since July 2023, thanks to Sophos' MDR for Microsoft Defender, it can also deliver its MDR services for Microsoft environments to investigate and respond to Microsoft Security alerts across endpoint, cloud, and identity sources, among others.
- To go beyond MDR platforms' traditional functionalities and responsibilities, Sophos delivers unmetered incident response services as part of its core offering. Response modes have the flexibility to address different customer use cases, including notification (providing details for the customer on prioritization and response), collaboration (working together with the customer's security team to deal with incidents), and authorization (isolating, containing, and neutralizing threats).

Source: Frost & Sullivan

Company to Action: Sophos

Innovation

- Sophos delivers flexibility into the environment with Sophos Central, a cloud-based portal where customers can manage their MDR deployment and entire Sophos portfolio. It includes configuring settings and policies, customization for administration, detailed reporting, endpoint protection, server protection, zero-trust network access (ZTNA), and more.
- Sophos' roadmap, underpinned by the company's significant investments in R&D activities, includes improving detection and response in cloud environments, increasing the customizability of reports and dashboards, and launching a synergistic managed risk solution. Additionally, the vendor is leveraging LLM technology to provide analysts with the ability to create queries with natural language, enhancing the capabilities of the most experienced analysts and smoothing the learning curve for junior analysts.

Source: Frost & Sullivan

Company to Action: Sophos

Growth

- In the already fast-growing MDR market, Sophos is growing faster than average. The company targets businesses of different sizes and maturity levels across the globe with a different approach, leveraging various distribution channels such as MSPs, MSSPs, direct sales, and other resources, depending on situational needs. Sophos also participates in events, performs regional and industry campaigns, and creates thought leadership content to increase brand awareness and reach a wider audience.
- The company's recent acquisitions of Refactr (now Sophos Factory, focused on DevSecOps) and SOC.OS (a security operations and automation platform) and the addition of Sophos MDR for Microsoft Defender show a track record of success and inorganic growth, which the vendor capitalizes on to develop its portfolio and MDR features.
- Sophos provides pricing flexibility with two tiers of service: Sophos MDR Essentials and Sophos MDR Complete. Customers can purchase the service as user-based subscription licenses or monthly consumption-based pricing. Add-on licenses are available for third-party integrations, additional incident response, and extended data retention options.
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Source: Frost & Sullivan

Company to Action: Sophos

Frost Perspective

- Sophos' hybrid take on MDR telemetry and data sources follows the company's evolution path for its XDR solution and fits the MDR space exceedingly well. Global organizations of all sizes and maturity levels need the flexibility to secure their environments where insidious cyber threats are increasing in volume and straining budgets. Combined with Sophos' response modes to address distinct use cases and its versatility in solving the needs of organizations in different industry verticals, this will open many growth opportunities for the provider. Sophos should continue to bet on this comprehensive growth and innovation strategy, as it will enable it to maintain its competitive differentiators and retain its position as one of the leading MDR providers.

- Sophos should continue its significant investments in AI and LLM-based technology, as they are essential to its continued success as one of the top innovators in the MDR sector. As the cybersecurity workforce gap widens, MDR providers will have to leverage all tools at their disposal to train analysts effectively and rapidly and reduce the time the experts must spend on menial tasks. Writing queries in natural language can serve this dual purpose, and AI assistants can also provide additional support for all analyst levels.

Source: Frost & Sullivan

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Key Takeaways

Key Takeaways

1

MDR can benefit any organization and enjoys high adoption across many industry verticals; it caters to the needs of diverse global organizations with different use cases and maturity levels.

2

Frost & Sullivan's 2023 Voice of the Enterprise Security Customer survey revealed that 1in 2 organizations that spend money on security services, such as managed security services (MSS), professional security services (PSS), MDR, threat intelligence services, and SOC monitoring, used MDR in early 2023. A further 36% of these enterprises plan to add MDR by 2024.

3

The percentage of MDR adopters out of all organizations is also significant, with 36% using it by 2023 and 26% planning to deploy it by 2024.

Source: Frost & Sullivan

Key Takeaways

4

Collaboration or outsourcing: MDR providers have different approaches as to how the service should be delivered. Some are at their best when collaborating with customer security teams, increasing their maturity over time and performing threat hunting and investigations as a unified group. Other providers prefer to take care of everything themselves, sending periodic reports to customers and allowing them to focus their resources elsewhere. MDR can completely replace or assist and empower your cybersecurity team and everything.

5

Environment visibility: Top-tier MDR players can provide visibility across various environments, from the classic trio of endpoint, network, and cloud to email, identity, containers, OT and IoT devices, and others. However, focus can also be a good choice. If your organization only needs to cover a few specific environments, looking for a specialized vendor that provides the deepest visibility across fewer security controls is better.

Source: Frost & Sullivan

Key Takeaways

6

Adjacent service offering: A comprehensive portfolio of additional synergistic tools and services will make MDR a more flexible solution than it already is, empowering your organization with additional capabilities at a fraction of the cost. Those tools, however, are as varied as MDR providers. MSSPs with cutting-edge MDR solutions can usually provide a wider set of adjacent managed tools and professional services. However, leading pure-play vendors are heavily investing in providing these as well. If you seek to advance your organization's security maturity and develop your security team, consulting engagements, assessments, and penetration tests can be a worthy addition to MDR.

Source: Frost & Sullivan

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Frost Radar™ Analytics

Frost Radar™: Benchmarking Future Growth Potential

2 Major Indices, 10 Analytical Ingredients, 1 Platform

VERTICAL AXIS

Growth Index (GI) is a measure of a company's growth performance and track record, along with its ability to develop and execute a fully aligned growth strategy and vision; a robust growth pipeline system; and effective market, competitor, and end-user focused sales and marketing strategies.

GROWTH INDEX ELEMENTS

- **GI1: MARKET SHARE (PREVIOUS 3 YEARS)**
  This is a comparison of a company's market share relative to its competitors in a given market space for the previous 3 years.
- **GI2: REVENUE GROWTH (PREVIOUS 3 YEARS)**
  This is a look at a company's revenue growth rate for the previous 3 years in the market/industry/category that forms the context for the given Frost Radar™.
- **GI3: GROWTH PIPELINE**
  This is an evaluation of the strength and leverage of a company's growth pipeline system to continuously capture, analyze, and prioritize its universe of growth opportunities.
- **GI4: VISION AND STRATEGY**
  This is an assessment of how well a company's growth strategy is aligned with its vision. Are the investments that a company is making in new products and markets consistent with the stated vision?
- **GI5: SALES AND MARKETING**
- This is a measure of the effectiveness of a company's sales and marketing efforts in helping it drive demand and achieve its growth objectives.

Frost Radar™: Benchmarking Future Growth Potential

2 Major Indices, 10 Analytical Ingredients, 1 Platform

HORIZONTAL AXIS

Innovation Index (II) is a measure of a company's ability to develop products/services/solutions (with a clear understanding of disruptive Mega Trends) that are globally applicable, are able to evolve and expand to serve multiple markets, and are aligned to customers' changing needs.

INNOVATION INDEX ELEMENTS

- **II1: INNOVATION SCALABILITY**
  This determines whether an organization's innovations are globally scalable and applicable in both developing and mature markets, and also in adjacent and non-adjacent industry verticals.
- **II2: RESEARCH AND DEVELOPMENT**
  This is a measure of the efficacy of a company's R&D strategy, as determined by the size of its R&D investment and how it feeds the innovation pipeline.
- **II3: PRODUCT PORTFOLIO**
  This is a measure of a company's product portfolio, focusing on the relative contribution of new products to its annual revenue.
- **II4: MEGA TRENDS LEVERAGE**
  This is an assessment of a company's proactive leverage of evolving, long-term opportunities and new business models, as the foundation of its innovation pipeline. An explanation of Mega Trends can be found here.
- **II5: CUSTOMER ALIGNMENT**
  This evaluates the applicability of a company's products/services/solutions to current and potential customers, as well as how its innovation strategy is influenced by evolving customer needs.

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