MSPeasy Series

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Pricing Made MSPeasy

Learn How to Implement an MSP Pricing Model

Introduction

Many managed service providers (MSPs) struggle to develop a pricing strategy that works. Many don't even realise their pricing model isn't up to the standard required. As a result, many MSPs fail to invest the time and energy necessary to develop a proper pricing strategy. As we noted in Sales Made MSPeasy, this is likely because most MSPs have a background in technology and engineering rather than in business and sales. However, relying on an outdated pricing structure, or worse, not having one, can limit your ability to maximise profits. Delivering managed services is all about making the margins you want on the services you deliver. So it is important to take a hard look at your costs first when developing a pricing strategy. Once you understand your costs, you can begin to think about what you will charge for services. MSPs use a variety of pricing strategies today, and yours will ultimately be dictated by your business's specific needs. Per-user or per-device pricing are the most popular methods, while others opt for fixed-price models or a hybrid. Regardless of the structure you choose, there are many factors to consider. The good news is that developing a pricing model doesn't have to be an exercise in trial and error. In this eBook, we'll go through the various options for pricing models that successful MSPs have designed to drive profits.

> Having a holistic view of your costs is the first step.
>
> Joe Wright Jr.
> President, Central PA Technologies



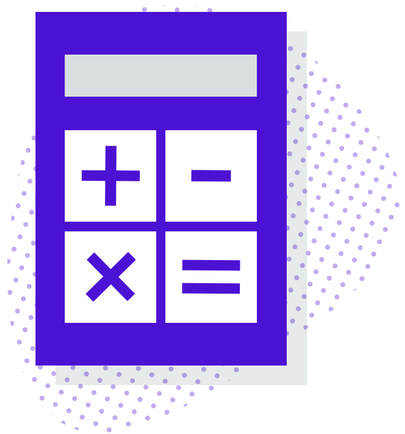
Start With Your Costs

Most mature MSPs charge about the same amount per person/device per month for services. A good baseline range for a cost-per-user billing model, which includes the monthly fee for network monitoring and technical support, is typically around $99 to $250 per user. The monthly fee for network monitoring and technical support in a per-device model is typically around $25 to $100 per workstation and $75 to $400 per server. Some MSPs also charge for other managed devices such as firewalls, routers, and access points. With this in mind, how does an MSP determine the right price to charge a client?

Joe Wright Jr., President at Central PA Technologies, suggests starting with your business's monthly costs. First, look at the recurring costs for the technologies you use to deliver services to clients. Next, review your other monthly expenses. Your fees should be based on those numbers. "Having a holistic view of your costs is the first step," says Wright. "Start with what it costs you to run the business with the staff and technology needed to operate."

Recurring costs and overheads

MSPs' expenses typically fall into three categories: technology costs, staffing costs, and overheads. Your technology costs, of course, will vary based on the services you provide and the vendors you partner with. When calculating those costs, look first at monthly recurring costs associated with the technologies you use to deliver services. Most vendors catering for managed service providers structure their pricing on a monthly subscription basis because it matches the way MSPs bill
their clients.



If possible, review your previous years' expenses as well to help estimate technology costs beyond your monthly expenses. Staffing costs are another important consideration. When calculating monthly staffing costs, employee salaries or hourly wages are the largest expense. However, don't neglect to factor in the following additional costs:

- Health and dental insurance
- Paid time off
- Unemployment insurance
- Disability/workers' compensation
- 401k and other retirement plans

Finally, look at the rest of your business expenses. These costs might include your rent/mortgage, utilities, taxes, travel expenses, marketing costs, office supplies, etc. Some of these costs are not monthly so you'll have to calculate for that. To help simplify the process, use our pricing tables below to help you better understand the costs to run your business and calculate pricing.

Per-user calculation

Services	No. of users with desktop	Hours per month	Hourly tech cost	Hard cost per unit, device, service	Per-device cost	Desired mark-up	Service event profit	Per-device price
Help desk/ service desk	250	12.5	$61	$7	$10	7	$7	$17
Email box/ cloud service	250	4	$61	$5	$6	7	$4	$10
Monthly totals	**250**	**16.9**	**$61**	**$12**	**$16**	**7**	**$14**	**$27**

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MSP per-desktop pricing model

Services	No. of desktop machines to be transitioned	Hours spent per managed service per month	Hourly MS tech cost from Table 3	Managed service event cost	Desired mark-up	Per-device service monthly price	Estimated revenue per month
Asset inventory	250	8	$61	$1.95	7	$3.32	$830
Software package	250	8	$61	$1.95	7	$3.32	$830
Anti-virus/ spyware	250	16	$61	$3.90	7	$63.63	$1,658
Patch & service pack	250	40	$61	$9.75	7	$16.58	$4,145
IT policy	250	8	$61	$1.95	7	$3.32	$830
Scheduled machine maintenance	250	16	$61	$3.90	7	$6.63	$1,658
Service desk access	250	0	$61	—	7	—	—
Monthly totals	**250**	**96**	**$61**	**$23**	**7**	**$40**	**$9,951**

Note: These are examples. Please check with your accountant or a financial adviser to ensure your pricing works for your business.

Carefully Consider Client Needs

Once you understand your expenses, look at costs associated with particular clients. This, of course, starts with the number of users, amount of data, and the number of servers. Support costs can vary widely from client to client depending on their specific needs.



Tim Taylor, Founder and CEO at Florida-based MSP TaylorWorks says, "We charge either by the PC/server/firewall or by the user. We charge the going rate for managed services in our area. If a company has a lot of devices per user, then they would probably prefer the per-user pricing and we usually accommodate that. If they mostly have one device per user, with a few users having two, we charge per device."

It's important to remember that the goal is to get the client and charge a fair fee for our services. One of our mottos is, 'You never go wrong by doing what's right for the customer'. We will accommodate our customers as much as we possibly can, but we won't cut our rates to the point where we aren't making money. That does not help them or you. Remember, your goal is to profitably serve the customer as long as you can. If you can keep a profitable client for 10 years then you have a big win. If they feel like you are charging too much, then they will be looking to replace you as soon as their initial contract runs out. It is much easier to keep a client than to try and find a new one to replace that income. Do what's right for them, and they will stay with you long term."

Many MSPs offer discounted pricing on new technology as a way to get in the door with the client and establish a relationship. On the surface, this may sound like a good idea, but when you offer a discount at the outset some clients may expect discounted pricing in the future. Discounts should probably be reserved for trusted, long-time clients, and even then, need to be considered with caution. One-off projects outside of a monthly agreement with a client, such as installing new technology, should be billed separately.

Depending on your clients, you may even be able to plan for/predict after-hours work.



SLA- and Value-Based Pricing

To offer prices based on service level agreements (SLAs) and values is another option. The SLA-based model offers different levels of support tiers at different price points. For example, client A may have higher availability requirements than client B. Let's say client A has very little tolerance for downtime, while client B can be offline for a couple of hours with little impact on business. Since client A's network must be more closely monitored than client B's, they would require the support level offered by a higher tier plan with a larger monthly price tag - think, gold level, silver level and so forth.

As in the example above, pricing tiers are usually based on tech support availability. For example, bronze-level clients might have 9-to-5 support Monday to Friday as part of their monthly fee. Tech support outside of those hours would come with an additional fee.

In the value-based model, the MSP essentially becomes an outsourced IT department for its clients. When determining pricing for services, a managed service provider calculates what an in-house IT function would cost the client and selects the pricing accordingly. For example, if the MSP determines that it would cost a company $150,000 annually to cover an IT department (staff and technology costs), they would price their service at $100,000 per year. To be certain, this model requires more effort upfront than traditional MSP pricing methods, but proponents of this approach say that it can yield larger margins and protect against price undercutting from competitors.

Ultimately, it's all going to come down to the quality of the services you deliver and your ability to communicate their value to potential customers.

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Deliver Services That Drive Profit

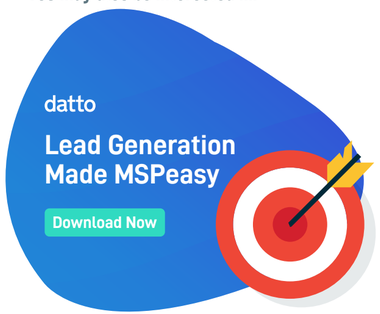
Basing your pricing structure on the rates offered by your competitors is dangerous because it doesn't consider your costs. Your costs may be higher than a competitor's, requiring you to charge more for your services to make a profit. If two MSPs offer the same services, many clients will compare the two and choose the cheaper option. So you also need to carefully consider how to differentiate your business from your competition and be able to demonstrate the value of your services. Ultimately, it's all going to come down to the quality of the services you deliver and your ability to communicate their value to potential clients. Firstly, this means partnering with vendors that offer high-quality technology and excellent client service. Secondly, it means building a team that knows the technologies you use inside and out and are committed to client support above all else.

Another tip: Jessica Smith, Sales Director at River Run Computers, says it's important to bring a human element to the technology you're delivering to clients. "Managed services is a human-first business," she says. "Relationships are everything."

Finally, not all services yield the same margins. In other words, remote monitoring of a client's network might be more profitable than hardware sales or security as a service. This is something worth considering, especially if you allow your clients to choose services à la carte.

Pricing should be straightforward and easy for customers to understand. You don't need to standardise a single set of services to accomplish this, but you should look for opportunities to bundle services in order to simplify your offerings and reduce complexities.

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À la carte vs. bundled

Bundling services can help clients quickly understand how they'll benefit from your service without needing to evaluate each piece. While service bundles have many benefits, there are plenty of reasons to offer services à la carte as well. With à la carte pricing, clients may be able to cut costs and incorporate the services they need into their budget. MSPs who choose to offer services à la carte say that it allows them to pursue clients that they would not be able to with a bundle of services. Pricing should be straightforward and easy for clients to understand. You don't need to standardise a single set of services to accomplish this, but you should look for opportunities to bundle services to simplify your offerings and reduce complexities.

Conclusion

For MSPs, prices need to be high enough to drive profit while still being competitive in the market. Do not shy away from setting the price high. You can always come down in negotiations with clients if necessary, but it's a lot harder to ask for more money if you come in too low. On the flip side of that, do not be afraid to lose a deal over pricing. If the client doesn't see the value in your services or doesn't have the budget to afford them, they are probably not a good fit for your business. Delivering managed services is all about making margins on the services you deliver. Looking at your costs is the best place to begin when developing your pricing strategy. Once you understand your costs, you can begin to think about what you can charge clients for services. The pricing model you choose will ultimately depend on what you feel most comfortable with. What works for one company may not for another, so don't try to force a pricing model that doesn't make sense for their business or yours. It's much better to use a strategy you understand than an emerging pricing model that promises returns but is largely unproven in the market. Finally, it is essential to measure the profitability of client relationships over time. Doing so can identify pricing mistakes so you can avoid them in the future.