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 MSpEasy Series

PRICING MADE MSpEasy

Discover the Best Pricing Model for Your Needs



Introduction

Start with your costs

Recurring costs and overhead

Carefully consider client needs

SLA- and Value-based pricing

Deliver services that drive profit

À la carte vs. bundled

Number of bundles or tiers
of managed service offerings
(% of respondents)

Conclusion

INTRODUCTION

Many managed service providers (MSP) struggle to develop a pricing strategy that works. In fact, many don't even realize their pricing model isn't up to snuff. As a result, many shops fail to invest the time and energy necessary to develop a proper pricing strategy. As we noted in our recent [Sales Made MSPeasy](#) ebook, this is likely due to the fact that most MSPs have a background in technology and engineering rather than in business and sales. However, relying on a janky pricing structure can really limit your ability to maximize profit in the MSP game.

Delivering managed services is all about making the margins you want/need on the services you deliver. So, it is important to take a hard look at your own costs when developing your pricing strategy. Once you understand your own 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' specific needs. Per-user or per-device pricing is the most popular method, while others opt for fixed-price models or a hybrid of the two. There are also some newer pricing models emerging that may make sense for your company. 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 available that have been designed to drive profits from successful MSPs. Nice and *MSPeasy*.



START WITH YOUR COSTS

New MSPs often price services based on their competitors' rates. However, rates vary widely, as data from RMM vendor Kaseya's 2016 [Global Pricing Survey](#) shows:

Average monthly fee for ongoing server support and maintenance per month per device? (US\$)

Year	Up to \$125	\$126-150	\$151-175	\$176-200	\$200-250	\$250+
2014	40%	17%	4%	13%	26%	26%
2015	24%	19%	11%	10%	13%	13%

Jordi Tejero, President of Cape Coral, FL-based [CRS Technology Consultants](#) said it's better to start with your business' monthly costs. Look at your recurring costs for the technologies you use to deliver services to your customers. Then, look at the rest of your expenses on a monthly basis. Your fees should be based on those numbers. "Understanding your own costs is essential," said Tejero. "Start with technology and staffing costs."

Recurring costs and overhead

MSP's expenses typically fall into three categories: technology costs, staffing costs and overhead.

Your technology costs, of course, will vary based on the services you provide and the vendors with whom you partner. When calculating those costs, look first at monthly recurring costs associated with the technologies you use to deliver services. Most vendors catering to managed service providers structure pricing on a monthly subscription basis because it matches the way MSPs bill their clients. If possible, look



Understanding your own costs is essential.

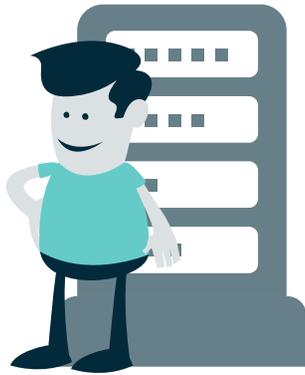
Jordi Tejero
President
CRS Technology Consultants

back to previous years' expenses as well to help estimate technology costs beyond your monthly expenses.

Staffing costs are another essential consideration. When calculating your monthly staffing costs, employee salaries or hourly wages are obviously the largest expense. However, don't neglect to factor in the following additional costs:

- Health/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: rent/mortgage, utilities, taxes, travel expenses, marketing costs, office supplies, etc. Some of these costs, of course, are not monthly so you'll have to calculate for that. RMM software provider Labtech offers a cool [Overhead Burden Calculator](#) that can help you better understand the costs to run your business.



CAREFULLY CONSIDER CLIENT NEEDS

Once you understand your own expenses, look at costs associated with particular clients. This, of course, starts with number of users, amount of data, number of servers. But, support costs can vary widely from client to client depending on their specific needs. Tejero said this is one of the factors he considers when determining markup over hard costs.

“Our pricing starts with a fixed rate of \$62 an hour, which is 1/22 of our total operating cost—the total cost per hour per CRS employee,” Tejero said. “From there, prices are marked up between 30% and 50%.” To determine the exact markup rate, Tejero said that he considers a variety of factors. “Non-profits and low-risk customers that have been with us for a long time might get a 30% markup,” he said. “New clients represent a higher risk because so much is unknown. Or clients that have very complex IT needs. These represent a higher risk to CRS, so the markup is higher.”

The technology a customer has in place also has an impact on the effort it takes to support them. “Performing a network assessment when evaluating a client can help you determine costs associated with older technology,” said Jeff Cohn, President of [Sage Computer Associates](#). “It also presents an opportunity to recommend more appropriate technology.”

Many shops offer discounted pricing on new technology as a way to get in the door with the customer and establish a relationship. On the surface this may sound like a good idea, but when you offer a discount at the outset some customers may expect discounted pricing in the future. Discounts should probably be reserved for trusted, long-time customers, and even then should be approached with caution.





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Jordi Tejero
President
CRS Technology Consultants



Tejero said that one-off projects outside of a monthly agreement with a customer, such as installing new technology, are billed separately. “Capital projects, which are projects that require more than eight consecutive hours of CRS time, are billed separately, as is after-hours support,” he said. “After hours is billed at a flat rate of \$195 an hour. This is split equally between each employee to incentivize people to work additional hours when necessary.”

Depending on your clients, you may even be able to plan for/predict after-hours work. For example, Cohn said that Sage has a number of clients in the accounting field that require additional support during tax season. Finally, both Tejero and Cohn noted the importance of clearly stating what is and is *not* covered in your customer agreement to ensure that discussions about additional fees are straightforward.

SLA- and Value-based pricing

Pricing based on service level agreements (SLAs) and values are emerging concepts in the MSP space. The SLA-based model offers different levels of support tiers at different price points. For example, Customer A may have higher availability requirements than Customer B. Let’s say Customer A has very little tolerance for downtime, while Customer B can be offline for a couple of hours with little impact on business. Since Customer A’s network must be more closely monitored than Customer 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.



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Jeff Cohn
President
Sage Computer Associates



As in the example above, pricing tiers are usually based on tech support availability. For example, bronze-level customers might have 9-to-5 support Monday through Friday as part of their monthly fee. Tech support outside of those hours would be come with an additional fee. Cohn said that Sage’s customers choose to opt into one of two different support levels: on-site support vs. strictly remote support, the latter of which is less expensive. Meanwhile, Tejero said that CRS’s support model is flat; every customer receives the same level of support. “I don’t want to be forced to neglect one client’s needs to support another [on a higher support tier],” he said.

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 customer 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 efforts up-front than traditional MSP pricing methods, but proponents of this approach say that it can yield larger margins and protect against price undercutting from competitors.

However, not everyone is convinced. “To be honest, that approach gives me the willies,” said Tejero. “We don’t consider a potential customer’s budget at all when calculating pricing. When you do that, you can wind up backing into a low price for services just to pick up a client. That’s not worth it.” Cohn said that regardless of what you call it, services are always value-based. “Whether that compares to [the cost to deliver IT in-house] will depend on the client,” he said.



DELIVER SERVICES THAT DRIVE PROFIT

Basing your pricing structure on the rates offered by your competitors is dangerous because it doesn't take your own personal costs into consideration. Your costs may be higher than a competitor's, requiring you to charge more for your services in order to make a profit. If two MSPs offer the same services, many customers will compare the two and choose the service that is cheaper. 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 customers. First, this means partnering with vendors that offer high-quality technology and excellent customer service. Second, it means building a staff that know the technologies you use inside and out and that are committed to customer support above all else. Another tip? Tejero said you have to "humanize" the technology. "Your engineers have to develop relationships with your clients and be willing to collaborate," he said. "Attitude is everything." He went on to say that CRS is one of the higher priced shops in the region it serves, but their customers understand that they are getting premium service. 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.



À la carte vs. bundled

Kaseya's pricing survey showed that bundling services continues to be popular among MSPs. In fact, in 2015, 69% of respondents said that they offer some form of bundled service option. The option to offer services à la carte was up 12 percentage points from the previous year.

Number of bundles or tiers of managed service offerings (% of respondents)

Year	À la carte	Three or more	Two	One
2014	19%	32%	34%	15%
2015	31%	27%	24%	18%

Cohn said that Sage sometimes bundles services, but also allows for customization based on client needs. CRS offers a single bundle of services. "We used to allow clients to customize their environment, but that was a nightmare to maintain," Tejero said. "But, in some cases, we'll allow small tweaks to the services."

Pricing should be straightforward and easy for customers to understand. You don't need to standardize on 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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CONCLUSION

For MSPs, prices need to be high enough to drive profits while still being competitive in the market. Do not be afraid to set 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 customer 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 you anyways.

Delivering managed services is all about making margins on the services you deliver. Looking at your own costs is the best place to begin when developing your pricing strategy. Once you understand your own costs, you can begin to think about what you can charge customers for services. The pricing model you choose will ultimately depend on the 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 your business. 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 customer relationships over time. Doing so can identify pricing mistakes, so you can avoid them in the future.



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