POWERED SERVICES PRO

TruMethods

FRAMEWORK

TRACK 3

TAKING COMMAND OF YOUR BUSINESS

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STEP 5 | The MSP Turning Point

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POWERED SERVICES PRO

INTRODUCTION

As a company owner, understanding the MSP Turning Point is how you achieve world-class margins, make better decisions and gain command of your business.

We will explore the turning point for your business, including how it affects your decision-making and priorities, and delve into the factors contributing to the MSP Turning Point, such as revenue, Picanomics and reactive service. Furthermore, we will provide practical tips on evaluating your client base, understanding Macro and Micro Picanomics, pricing your offering correctly and prioritizing technology success for the right clients.

By the end of this guide, you will have a comprehensive understanding of the MSP Turning Point and how it helps you succeed tremendously in your managed services business.

WHAT IS THE MSP TURNING POINT?

The MSP Turning Point is a concept that describes the point at which a business sustainably covers all its operating expenses and overheads using its recurring revenue. When a company has reached the turning point, its monthly employee expense, owner's compensation, overheads and all other expenses are fully covered by its recurring revenue, without relying on additional revenue streams.

Monthly employee expense

Owner's compensation

Overhead

All other expenses

Excludes product cost of goods sold

It is important to note that the turning point excludes the product cost of goods sold because it is offset by product revenue. As a rule, the product is sold for more than its cost. Your MSP operates more sustainably and makes better decisions about its pricing and offerings when you reach the turning point.

WHAT IT MEANS TO US

The turning point is a metric that every MSP must understand to take their business from merely best-in-class to world-class status. Reaching this point is a step towards achieving sustainable profitability and growth, enabling MSPs to go above and beyond in providing exceptional services to their clients.

You cannot achieve world-class margins when you are below the turning point

Once you reach this level, every dollar of non-recurring service and hardware margin goes directly to your bottom line. However, it would help if you had that revenue to show a profit — the monthly and quarterly profit percentage begins to even out. With margin, one lousy month makes a bad quarter, and that bad quarter makes a bad year.

We make better decisions about what is suitable for us and our clients

Priorities do not become skewed because you must do certain things only to make a profit after you do your managed services work. Reaching the turning point enables your MSP to add revenue without additional expenses.

If you do not understand it, you cannot gain command of your business

It is critical to look at what allows you to find the shortest distance to the turning point.

"Horizon effect"

A phenomenon where MSPs think they need additional revenue, but other factors become issues in their business — adding that additional revenue forces them to add more expenses and pushes out the turning point. Understanding this helps MSPs avoid this pitfall and make smarter business decisions.

When your expenses exceed MRR, you need product margin and NRR to cover these costs. In such cases, priorities shift away from what is necessary to become a world-class MSP that prioritizes clients and their interests. Therefore, you must understand why getting to this point aligns with your priorities and achieves world-class margins.

BE SURE TO CONSIDER THE FOLLOWING

Impact of "one-time expenses"

Estimate the average impact of "one-time expenses" on your business. To properly budget for margins, it is essential to look back over several months or quarters and include these expenses in your calculations.

Expenses vs. capital expenditure

Understand the difference between expenses and capital expenditure and consult your accountant if necessary. Identify purchases that do not appear on your profit & loss (P&L) statement but affect your balance sheet, such as amortized and depreciated assets.

The concept of net profit seems promising but can be deceptive. Making a profit in a quarter is great, but it is not enough to sustain your business in the long run. You must build a profit engine based on solid fundamentals to achieve consistency and stability. Relying on net profit alone is like chasing fool's gold.

GETTING TO YOUR TURNING POINT

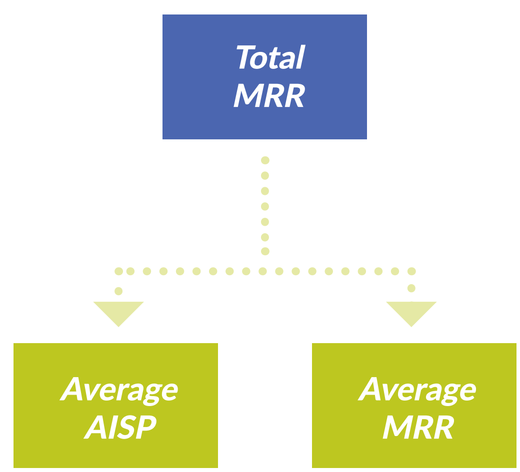
Achieving your turning point involves many factors when determining what impacts your ability to get there.

1 Revenue: AISP, average MRR, total MRR
There are several factors to consider involving revenue, including your average MRR, total MRR and all-in seat price (AISP). Having enough revenue is essential since seat price and moderate MRR impact leverage.

2 Picanomics: Roles to revenue, cost/seat
Understanding the roles to revenue and cost per seat helps you maximize leverage in each delivery area. You increase profitability and reach the turning point faster when adding more revenue with fewer expenses.

3 Reactive service: Tickets, time, % reactive
Focus on the number of tickets, time spent and percentage of reactive work to ensure efficiency. If you have too much reactive time, it increases your expenses and prevents you from becoming profitable.

REVENUE FACTORS



To consider revenue factors, the average AISP and MRR show how adding revenue impacts your ability to reach the turning point more directly.

PICANOMICS FACTORS

Centralized Services

- # of endpoints
- AISP

Network Administration

- # of clients managed
- Average MRR

Virtual CIO

- # of clients managed
- Average MRR

Support

- Tickets / Endpoint / Mo
- Average Resolution Time
- AISP

Consider the Picanomics perspective: Examine each delivery area and focus on the labor and tools component of centralized services. Additionally, consider the average number of clients managed and the average MRR in vCIO and TAM. When identifying the efficiency factors, you effectively add revenue and approach the turning point with incredible speed and efficacy.

The impact of NRR and professional services significantly affects your approach. Inefficient support and poor handling of professional services are two significant areas that hold an MSP back. When customers no longer get the best experience and reject recommendations, it leads to less MRR and decreased margins, creating noise and reducing value.

Picanomics highlights that there is no capacity for professional services, only inefficiency. Efficiently billing NRR drives margin, positively impacts MRR and moves your MSP closer to the turning point. If NRR must make up for bills at the end of the month, it is disliked and ineffective.

REACTIVE SERVICE FACTORS

The more time you spend on reactive service, the less you can get to things that help you get out of your turning point. The more tickets and time spent on the reactive side leads to fewer users you can support on the support desk, creating less value because your seat cost no longer commands the value as intended.

The question of how many reactive support technicians an MSP would need often arises. The answer depends on how many tickets you receive and the type of support requested. How you influence the number of tickets depends on a handful of factors:

Establish standards

Continuous technical alignment

vCIO services

Centralized services

Training and upskilling

Reactive service analysis

Low leverage is one of the biggest obstacles to reaching your turning point. If you are not generating enough revenue per service delivery person or employee annually, you add too many expenses relative to revenue. Doing so makes it nearly impossible to achieve profitability. When you increase leverage, you increase revenue without adding a corresponding rise in expenses.

Establish standards

Create a technology success process and develop company-wide standards and best practices to align your customers' IT environments.

Continuous technical alignment

Conduct on-site reviews and continuously align your customers' technology with your standards and best practices.

vCIO services

Provide budget development, technology improvement recommendations and create a strategic roadmap for your customers.

Centralized services

Maximize the use of your tools to automate and streamline ticket closure to deliver services more efficiently.

Training and upskilling

Reduce time spent on problem-solving and upskill staff to prevent service delivery bottlenecks.

Reactive service analysis

Analyze the types of reactive service tickets you receive and take proactive measures to reduce the time needed to resolve or reduce their number.

WHAT ARE YOUR PRIORITIES?

Understanding the concept of leverage and its importance should lead you to ask more questions about your business model and the efficiency of your operations. You may need to re-prioritize certain areas, such as improving revenue per service delivery person or generating more annually per employee. Diving deeper into the framework and asking the right questions identifies areas of improvement as you make the necessary changes to reach your turning point more efficiently.

Evaluate your revenue base

- ☐ Prioritize clients | **VIDEO:** Not All MRR Is Good MRR
- ☐ Review average MRR | **FILE:** MRR Evaluator
- ☐ Review service offering | **VIDEOS:** Service Offering Workshop & Micro Picanomics

Evaluate each service delivery area

- ☐ Review efficiencies | **VIDEO:** Macro Picanomics
- ☐ Determine service delivery priorities
- ☐ Determine process improvement initiatives for this quarter
- ☐ Evaluate your technology success process
  VIDEO: Introduction to Technology Success

Establishing a solid foundation and putting in the initial effort improves your MSP's performance and becomes easier over time. While it may require some work, the rewards of a more efficient and successful MSP make it worthwhile. The goal is to prioritize the necessary steps to achieve this success and guide you on the most direct path to reaching your goals.

REACH YOUR TURNING POINT

Calculate your turning point

Understanding this concept helps you determine your profitability and how much revenue you need to generate. Knowing this, you can make data-driven decisions to consistently create more MRR and ORR than your expenses.

Review your client base MRR Evaluator

Your client base is the backbone of your business, and it is essential to evaluate their contribution to your MRR. With the MRR Evaluator, you identify the most valuable clients and assess whether your offering aligns with their needs, improving service delivery to generate more revenue.

Have command of Macro and Micro Picanomics

Picanomics helps you understand how to generate revenue efficiently. Macro Picanomics ties service delivery roles to top-line revenue while Micro Picanomics gives you an accurate view of your managed services' gross margins.

Price your offering properly

Pricing your offering is one of the most critical aspects of your MSP's profitability. If you underprice, you risk generating insufficient revenue to reach your turning point. On the other hand, if you overprice without providing value, you may lose valuable clients. Pricing your offering requires a deep understanding of your business's costs and your services' value to clients.

Prioritize technology success for the right clients

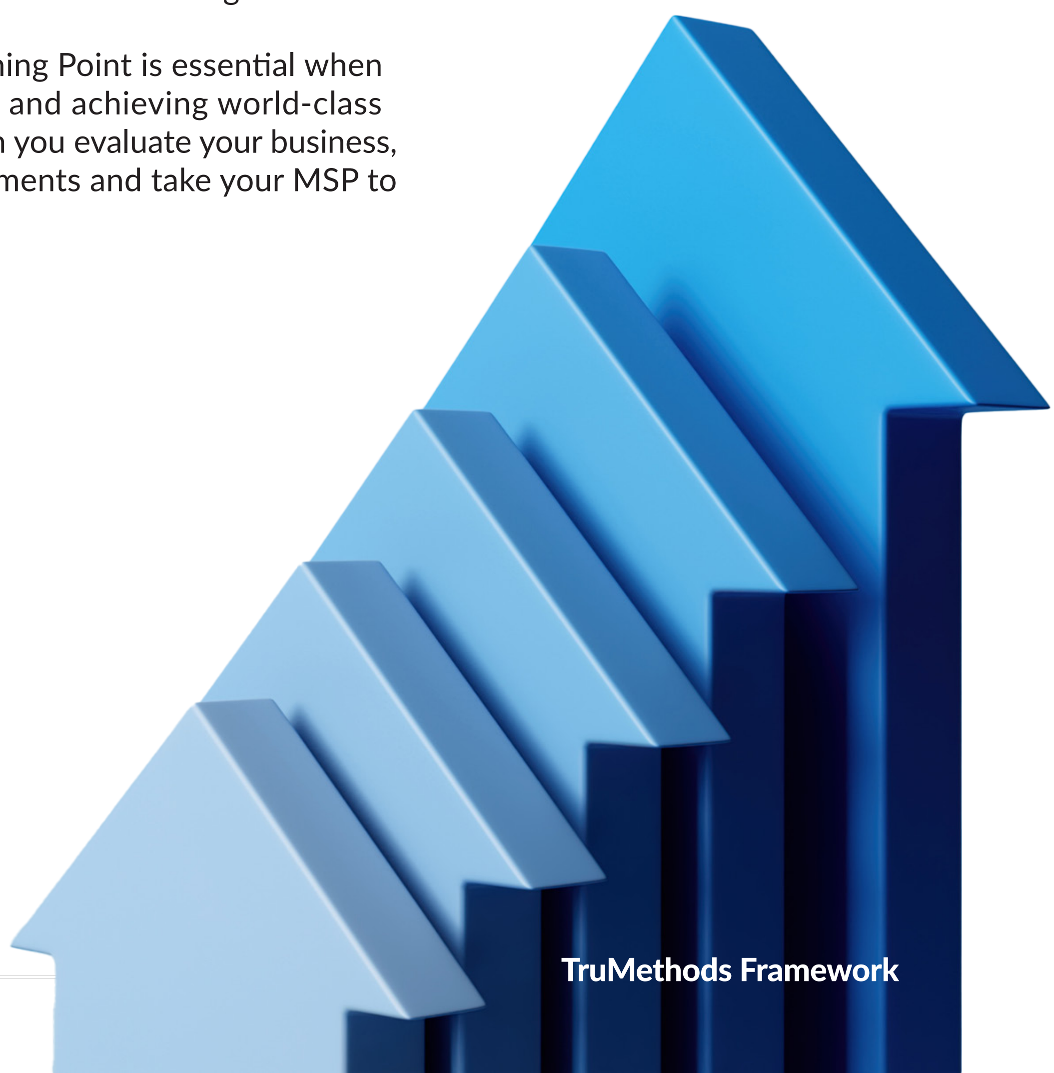
Technology success is aligning your clients' technology with your company standards and best practices. With the right clients, you succeed faster and more efficiently, making the most of your resources.

SUMMARY

The MSP Turning Point is a concept your MSP must understand to achieve sustainable profitability and growth. Reaching the turning point is a significant milestone toward achieving world-class margins, enabling your MSP to provide valuable service to your clients. You reach this point when you sustainably cover all your operating expenses and overheads using recurring revenue, excluding the product cost of goods sold. You make better decisions, prioritize technology success for the right clients, evaluate your client base and price your offering correctly when you apply these concepts.

Remember, to get to your turning point, there are several factors to consider, including revenue, Picanomics and reactive service. Additionally, you need to understand the impact of one-time expenses, differentiate between costs and capital expenditures and focus on building a profit engine based on solid fundamentals. Relying on net profit alone is deceptive and unsustainable in the long run.

Reaching the MSP Turning Point is essential when aligning your priorities and achieving world-class margins, primarily when you evaluate your business, make necessary adjustments and take your MSP to new heights.



NEXT STEPS

Continue your journey towards world class and check out more resources to help you along the way.

~~**STEP 1** | Understanding Operational SMART Numbers~~

~~**STEP 2** | Converting Existing Clients~~

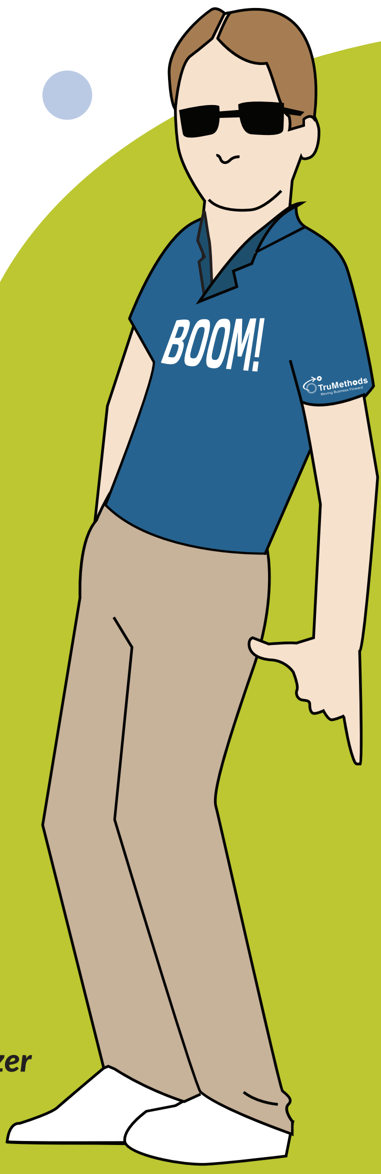
~~**STEP 3** | Not All MRR is Good MRR~~

~~**STEP 4** | Service Delivery Capacity~~

~~**STEP 5** | The MSP Turning Point~~
TRACK COMPLETED

TRACK 4

If you have any questions about what you've read here, please contact your Channel Enablement Manager (CEM) for more information about the TruMethods Framework.



Stanley Schnizzer