POWERED SERVICES PRO

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FRAMEWORK
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INTRODUCTION

Micro Picanomics is a concept with a transformative impact on several aspects of your business, including pricing, margins, command, and service delivery. However, making mistakes in this area can create resistance in all business areas. While errors are unintentional, this concept is the key to achieving your goals in life and business. Therefore, it is vital to understand Micro Picanomics and master it to ensure success in your MSP business.

The TruMethods Framework revolves around delivery areas, and at least one of those areas is billable: Professional Services. The remaining four areas in your monthly fee are Centralized Services, Technology Alignment, Virtual CIO, and Support. We connect each of those five delivery areas to the service revenue they can impact. Conversely, we transform the four included areas into an accurate average cost per seat. This simple framework allows us to determine the real drivers and metrics required to increase margins, understand pricing correctly, and deliver the best possible service. Although it seems straightforward, an MSP is a complex business; you must work hard to simplify it.

Getting a handle on fixed costs and understanding how to allocate revenue across various services can be challenging. With Micro Picanomics, we hope to provide you with a workable framework. It is a crucial aspect of your MSP business—understanding it is vital to ensure success. By grasping the core principles of Micro Picanomics, you can make informed decisions about pricing, margins, and service delivery, enabling you to offer the best possible services to your clients while achieving your business goals.

MICRO VERSUS MACRO

Picanomics is a concept for any MSP owner who wants to gain command and control of their business. To do this, you need to understand your business's key cost drivers from a macro and micro perspective. By clearly understanding the costs, you can make informed decisions and create effective strategies to drive your business toward success.

SMART NUMBERS

One of the essential aspects of Picanomics is SMART Numbers—defining and tracking specific metrics relevant to your business goals. These metrics could be anything from revenue growth to customer acquisition costs, but the key is to focus on numbers that matter and track them consistently. This way, you can hold yourself accountable and measure progress toward your goals.

FANATIC DISCIPLINE

Another critical component of Picanomics is fanatic discipline, meaning you create a culture of discipline within your business where everyone focuses on achieving similar goals. Everyone must be accountable, have a strong work ethic, and be committed to achieving the company's objectives.

One essential part of Picanomics is managing monthly recurring revenue (MRR). It involves understanding MRR versus other recurring revenue (ORR) and driving core managed services revenue. You need to know your managed services revenue to drive your business and increase your margins.

Splitting your revenue and costs is how you achieve financial stability and success.

Picanomics is a topic that you should review every quarter. Focusing on SMART numbers, accountability, fanatic discipline, and understanding MRR and ORR, you can drive your business towards success and achieve your goals. By keeping a close eye on the key cost drivers in your business and being disciplined in your approach, you can create a culture of success and achieve sustainable growth.

RECAP: MACRO VIEW

Macro Picanomics is a business concept that aims to align top-line revenue with a company's service delivery areas. It is achievable by using the macro view to evaluate service delivery and identify areas of inefficiency and capacity. The goal is to uncover the revenue impact of each service delivery area and find ways to optimize them. Let us give a quick recap of the macro view:

» Macro Picanomics is a concept that focuses on understanding the big picture of your business's revenue streams. It focuses on two types of revenue: MRR and non-recurring revenue (NRR).
  - The goal is to match roles to revenue streams and find ways to get project resources to increase revenue by identifying key factors contributing to that revenue and optimizing them.

» Comparing targets against the current organization helps to identify areas of inefficiency, evaluate whether the business is meeting its revenue goals, and identify areas where it falls short.

» Identifying areas of capacity is one major factor of Macro Picanomics. It involves understanding where the business has extra resources or capacity to increase revenue streams.

» Macro Picanomics aims to find the "hole in the bucket"—the areas where revenue is leaking out of your business. This concept is achievable by understanding revenue streams, identifying inefficiencies, and maximizing areas of capacity.

» The *Macro Picanomics lesson* provides more information on implementing these concepts effectively and driving business growth.

Macro Picanomics—when used with the right All-in Seat Price (AISP) and average MRR—can significantly boost business profitability. Understanding the cost drivers of your business through Micro Picanomics determines the appropriate AISP. By viewing your business through this framework, you can make informed decisions that will allow you to build your business and achieve the margins required to be best-in-class.

MICRO PICANOMICS

Micro Picanomics is the most accurate method of viewing your managed services' gross margins. MSPs who fail to follow the TruMethods Framework often struggle to create a unit of measure to relate costs to price, making it difficult to determine the right price to charge their customers. Matching costs becomes even more challenging without a solid framework, leading to inaccurate and potentially damaging pricing strategies.

To keep your MSP on the right track, you must pay close attention to gross margins.

Average AISP – Average Cost per Seat = **GROSS MARGIN PER SEAT**

To achieve optimal profitability, you should aim for a 70% gross margin on managed agreements, considering factors such as revenue make-up, margins in other areas, industry averages, and market conditions. By delivering exceptional value for every dollar of seat cost, you can demand higher prices and stay ahead of the competition.

Billable	Fixed	Fixed	Fixed	Variable
Professional Services	**Centralized Services**	**Technology Alignment**	**vCIO**	**Support**
Not included in seat cost	» Seats » Labor » Tools cost	» Seats » Labor	» Seats » Labor	» Seats » Labor

When discussing Micro Picanomics, it is beneficial to understand the various delivery areas involved:

PROFESSIONAL SERVICES

- Typically, this is not included in most MSPs' seat cost and is instead a billable delivery area. Some larger MSPs with better command over their averages may bundle professional services in their service offering, but their average cost per seat is over $230.

The other four delivery areas are part of your seat costs: Centralized Services, Technology Alignment, virtual Chief Information Officer (vCIO), and Support. Each delivery area defines several factors that affect the cost per seat:

CENTRALIZED SERVICES

- Includes the costs of managing centralized services such as your RMM, BDR, and NOC services. The cost of seats, labor, and tools are the main components of this fixed cost. The number of seats equals the number of end users you manage for each client, is a consistent fixed cost, and is known going into any given month.

TECHNOLOGY ALIGNMENT

- Includes the cost of aligning your client's technology with their business goals, including the time and labor required for consulting with clients to ensure their technology infrastructure aligns with their business objectives. Like centralized services, this is a fixed cost for the next month.

VCIO

- Includes the cost of providing vCIO services to your clients, including the cost of seats and labor.

  The vCIO helps clients with strategic technology decisions to improve their business operations. Like the previous two delivery areas, this is a fixed cost that you know from month to month.

SUPPORT

- Includes the cost of providing support to your clients. The support cost per seat is a variable cost that changes monthly and across many clients.

  The goal is to keep the cost per seat as low as possible while maintaining high-quality support. You can minimize the time and labor required to resolve issues by implementing automation and using efficient support processes.

Remember, Micro Picanomics is a system for determining the cost per seat for your MSP service offering. One key point is that a specific delivery area, such as centralized services, technology alignment, vCIO, and support, affects this cost. The cost per seat can vary depending on the specific services provided.

Another point is that the cost per seat is the basis for your AISP, which determines your gross margin. You must carefully consider your pricing strategies to maintain profitability.

It is worth noting that Micro Picanomics is a modeling exercise rather than a point-in-time analysis—you should use this system to continually evaluate and refine your pricing strategies over time rather than relying on a single snapshot of your costs and pricing.

MICRO PICANOMICS CALCULATOR

The *calculator* serves the purpose of streamlining the logic behind understanding your averages. You can quickly and accurately assess your support, technology alignment, and vCIO costs by inputting your employee costs and the number of seats managed for each delivery area. On the other hand, centralized services add to the cost of your tools.

COMMAND: MICRO PICANOMICS

	Monthly Cost per Employee	Clients Managed	Average Seats	Seats Managed	Cost per Month per Seat
Support	$5,400.00			360	$15.00
Centralized Services					
per Employee	$5,800.00			1000	$5.80
Tools (total)	$14,200.00			1000	$14.20
Technology Alignment Manager	$5,500.00	20	25	500	$11.00
vCIO	$6,750.00	45	25	1125	$6.00
TOTAL COST PER MONTH PER SEAT					**$52**

Gross Margin Calculation: AISP

All-In Seat Price	Total Cost per Seat	Gross Margin	Gross Margin %
$173.16	$52.00	$121.16	70.0%

The figures displayed in the calculator are estimations intended solely for illustrative purposes. Your numbers may differ, but we will use these figures as examples for this guide. The calculator is user-friendly, requiring you to input your monthly employee costs, tool expenses, and the number of managed seats to obtain a total cost per resource. Use these figures to calculate your gross margin percentage and determine the appropriate AISP to charge your clients.

A question often arises: why does the number of seats managed differ across categories? Should not all 1000 seats be the same? The answer is no because the calculator is not a time point but a modeling exercise. The first step is to assess your support needs and the total number of seats managed (1000).

Next, evaluate the number of seats each resource manages and determine if you have reached capacity. For instance, adding resources may be necessary if you have three support employees managing 360 seats each and struggle to keep up. This example is per delivery area, so the focus is not on the number of seats currently being managed but on determining how many seats one resource can handle.

We can look at each delivery area in the calculator and break down the costs.
But first, what is:

MONTHLY COST PER EMPLOYEE

The amount of money you spend each month on average to compensate an individual employee, including wages or salary, benefits, taxes, and other associated expenses. The monthly cost per employee measures the overall labor cost and evaluates the financial impact of changes in staffing levels or compensation structures.

SEATS MANAGED

The number of users your MSP is responsible for managing, monitoring, and maintaining. For example, if a company has 100 employees, then the IT service provider may be responsible for managing and maintaining 100 "seats."

The number of seats managed is an important metric as it helps you determine the scope and scale of your services and the level of resources required to support your clients.

TOOLS (TOTAL)

The "total cost of tools" refers to the expenses incurred in acquiring and maintaining the software, hardware, and other technological resources necessary to deliver client services. Tools can include Remote Monitoring & Management (RMM), Endpoint Detection & Response (EDR), documentation management, and your security stack. Understanding the total cost of tools allows you to accurately price your services and ensure you deliver value to clients while maintaining a profitable business model.

CLIENTS MANAGED PER EMPLOYEE

A metric measuring your MSP's productivity and efficiency refers to the average number of clients or accounts a single employee manages and supports. It helps determine how effectively you use your resources, identify process improvement or optimization opportunities, and evaluate staffing levels to determine whether additional resources are necessary to support the existing client base.

AVERAGE SEATS PER CLIENT

The average number of users a resource manages in their role. It determines the resources required to support clients with varying degrees of complexity or scale.

The metrics used for each role use the following calculations:

Monthly cost per employee

» Total Cost / Number of Employees (in that role)

Seats managed

» Total Seats Managed / Number of Employees (in that role)

Tools (total)

» The total cost of tools used to service your clients

Clients managed per employee

» Total clients / Number of Employees (in that role)

Average seats per client

» Total seats / Total number of clients

THE GUT CHECK

Perform a simple gut check to understand your total labor and tool costs. The gut check calculations will not be exact, but if it is off by a few dollars, find out why.

TOOLS COST GUT CHECK
Divide your total tools cost (monthly) included in your MSP offering by the number of seats managed.

LABOR COST GUT CHECK
Divide your total labor for managed roles by the number of seats managed.

ALL IN SEAT PRICE
Multiply the total tools and labor costs by 3.33.

	Cost per Seat/Month
Support	$15
Centralized Services	$20
Technology Alignment	$11
vCIO	$6
TOTAL	**$52 per Seat/Month**

Using the table above as an example, every $1.00 of seat cost requires $3.33 of seat price to achieve a 70% gross margin. If your tools and labor costs equal $52/seat/month, your AISP is $174.

SUPPORT COST GUT CHECK

As previously stated, reducing noise levels results in the ability to support a more significant number of seats per resource. Failing to address support issues will lead to increased resistance and risks. Moreover, if the cost of keeping each seat becomes too burdensome, it will negatively impact your AISP, as you will not be able to charge enough to provide value.

To calculate the monthly cost per seat, divide your monthly cost per employee by the seats they manage. The result is a dollar amount that shows the average cost per seat managed by that resource.

Monthly Cost per Employee

# of Seats Managed

= COST PER MONTH PER SEAT

	A	B	C
Seats/Support Resource	160	320	640
Cost/Seat for Support	$30	$15	$8

Let us take our example further and assume that a support resource costs $4,800 monthly. As the number of seats per support resource increases, the cost decreases, keeping the support cost per seat at less than $10. However, the number of devices serviced should not be the focus, but rather the number of tickets received per end user. MSPs who try to align their numbers per device tend to have lower margins in the industry. Therefore, focusing on the right metrics is the pathway to success.

To become a world-class MSP, you must start at the top of the stack. This approach allows for a process-driven and strategic relationship with every customer. Rather than focusing on competitors and beginning at the bottom of the stack, the framework recommends a top-down approach. MSPs who start at the bottom tend to struggle to reach the top, whereas those who begin at the top can establish a solid foundation for success.

	A	B
Seat Cost	$52	$52
Support Cost	$25	$15
Available	$27	$37

Consider two MSPs, A and B, which have a seat cost of $52. However, MSP A incurs a higher support cost of $25 per seat, while MSP B's support cost is only $15 per seat. Company A has less revenue and can only offer low-value services to its customers. In contrast, company B generates additional profit per seat due to its lower support cost. This example highlights the importance of reducing support costs to improve the value of customer service.

A lower support cost per seat translates to more significant benefits for proactive roles, such as technology alignment and vCIO. Every dollar not spent on support reduces reactive noise, allowing MSPs to implement more aggressive measures that keep reactive tickets to a minimum. These measures create a lower support cost and provide high value to customers. It enables MSPs to offer more proactive solutions to address potential issues before they become significant problems.

The three simple numbers need every decision, priority, person, role, and process aimed at it to move up the stack. Once you drive the process of moving up the stack, you see actual, tangible results.

To tie the support gut check back to technology success, remember the three simple numbers:

1. AVERAGE AISP
2. AVERAGE MRR
3. SEATS PER SUPPORT RESOURCE

FOR TECHNOLOGY ALIGNMENT & VCIO

Roles like TAM and vCIO are core to your Technology Success process. However, if you are newer to the process or do not have these roles, you can still use the valuable assumptions in this guide for managing your clients. Choose a target for the average number of seats per client, input those numbers into the calculator, and use that as your starting point. It will help you establish a solid foundation for your business and set yourself up for success.

COMMON MISTAKES

Like any other process, there is always the possibility of errors. To help you avoid such missteps when working with your costs, here are some common mistakes to avoid:

Not accounting for all costs

Every technical resource should fall into one of the five delivery areas. Anything outside of these areas is unaccounted costs, and you must track service delivery costs and exclude sales and administrative expenses. When calculating gross margins, only include the tools and labor directly contributing to delivering your service.

Not using the average fully burdened full-time equivalent (FTE) cost for each delivery area

Use the average fully burdened FTE cost for each delivery area to ensure accurate costing. Include all costs associated with an FTE, such as salary, benefits, overhead, and other expenses.

Not using average metrics; using point in time

When tracking metrics, use average metrics over time rather than a point-in-time approach. It helps identify trends and changes over time to make more informed decisions.

Accounting for moves, adds, and changes (MACs)

If you include new workstations, refreshes, and other moves, adds, and changes in your monthly fee, account for this. It will increase the cost per seat for support if you do not have it. To avoid this, include it in your cost per seat but calculate it accurately.

Improper project definition

When defining projects, have clear edges and ensure that the professional services team is not performing tasks included in your managed service offering—your outcome is effectively allocated resources and properly scoped projects.

Under-estimating backup costs

If you use cloud backup and include it in your fee, your 70% gross margin is inaccurate—have cloud backup as part of your tools cost. An option is to remove backup from your MRR and consider it as ORR with a lower gross margin.

Adding new tools at lower margins

Understand how you impact your margins when you add new tools or processes. Adding new tools at lower margins can significantly impact your profitability, so consider any new additions carefully.

Bundling "product" type recurring services

Products like cloud email are recurring services to roll into your ORR. Be careful about bundling these products into your MRR, as it can limit your pricing flexibility. Separate these services and treat them appropriately for accurate costing and profitability.

SUMMARY

This guide discussed the importance of accurately accounting for costs and using average metrics when managing your MSP. The information applies to a micro and macro level to help align your business with top-line revenue and manage key cost drivers using SMART numbers.

On a micro level, calculating the cost per seat provides a detailed understanding of the gross margin based on the AISP. Perform calculations by delivery area and include only the tools and labor that directly contribute to delivering the service. It will help account for all costs and assess profitability accurately.

On a macro level, use a framework to align people with top-line revenue, such as tracking key performance indicators (KPIs) to manage cost drivers. SMART numbers can help identify areas of improvement and provide a roadmap for achieving profitability and leverage goals.

To apply this information, you should calculate your cost per seat by delivery area and use this information to determine your current gross margin based on your pricing. From there, you should identify any changes or adjustments needed to achieve your desired gross margin and leverage goals. Using micro and macro-level strategies can make you better manage your costs and drive profitability.