POWERED SERVICES PRO

TruMethods

FRAMEWORK

TRACK 2

PACKAGING AND PRICE

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STEP 3 | Pricing Your Service Offering

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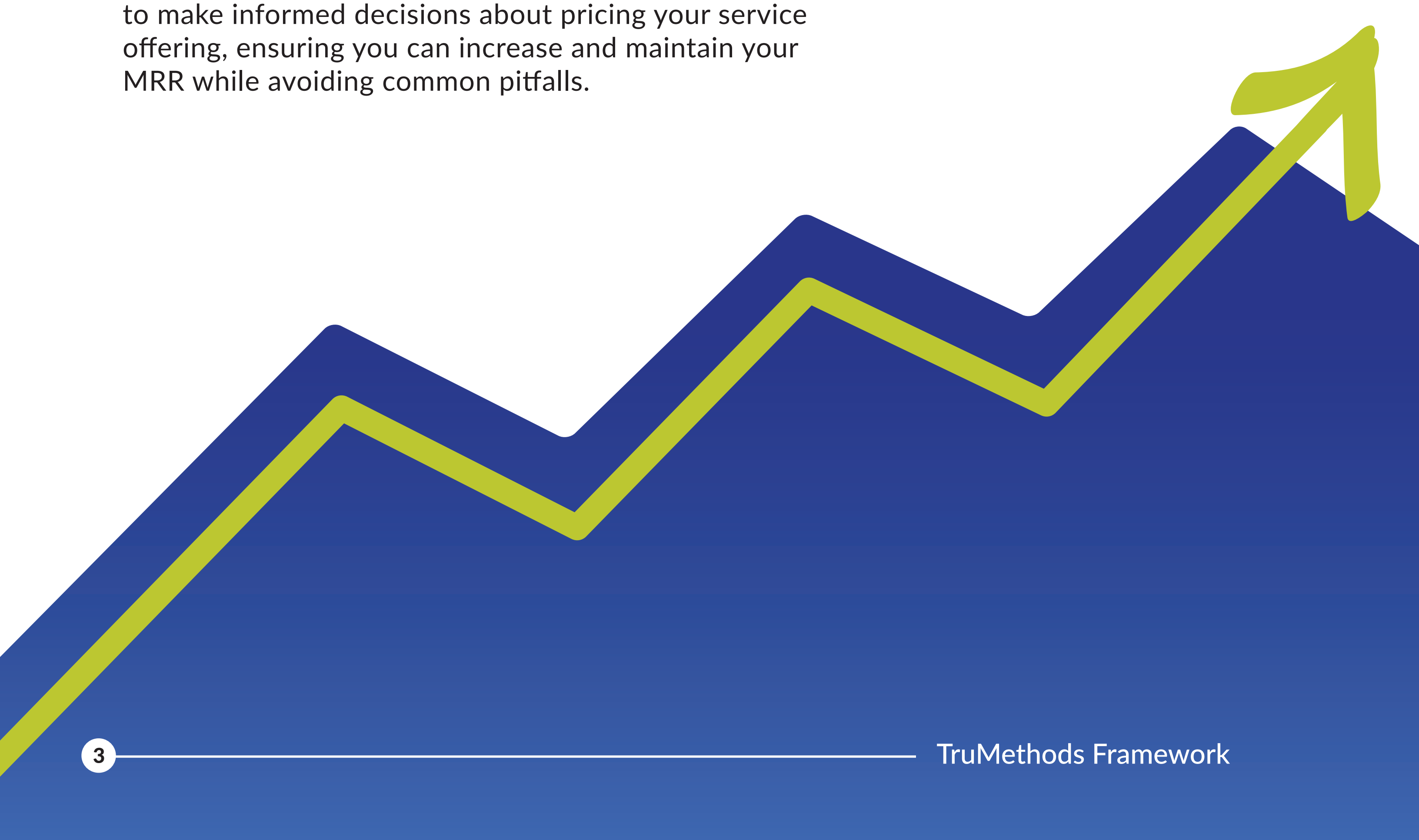
INTRODUCTION

Whether you are a seasoned business owner or just starting, pricing is a complex and challenging aspect of your business. In this guide, we will introduce you to Picanomics, a system with techniques that can help you increase and maintain your monthly recurring revenue (MRR).

We introduce the fundamental concepts of Picanomics — a method to help you learn how to price your service offering and understand the considerations that allow you to price your offering effectively. Additionally, we will highlight what not to do regarding your pricing strategy and delve into the TruMethods Pricing System and its relevance to your business.

To sum up, we will cover critical terms you need to understand to make informed decisions, the Picanomics system, the pricing calculator, pricing considerations and how to avoid the lousy packaging of your services. By the end of this guide, you will have the knowledge and tools to make informed decisions about pricing your service offering, ensuring you can increase and maintain your MRR while avoiding common pitfalls.



TERMINOLOGY AND THE TRUMETHODS PRICING SYSTEM

Throughout this guide, we use different pricing models and pricing terms to help you understand the various approaches to pricing your service offering. We provide examples of each pricing model and term to explain how they can impact MRR and profitability, giving you the knowledge to make informed decisions about pricing your service offering.

PRICING SYSTEMS

Full fixed fee (FFF)
A pricing model where a client pays a fixed price for remote or on-site support services.

Partial fixed fee (PFF)
A pricing model where a client pays a fixed price for remote support services with additional fees for on-site resources.

Co-managed services (CMS)
A partnership between a company's internal IT department and an MSP to share responsibilities and collaborate on IT tasks, with the MSP providing additional support, expertise and resources.

PRICING TERMS

All-in seat price (AISP)
The total cost per user includes all fees and services associated with your managed services agreement (MSA).

Monthly recurring revenue (MRR)
The amount of revenue you can expect to receive each month from MSAs, regardless of one-time transactions, projects and additional fees.

	FFF	PFF	CMS
Support	Unlimited Remote & Onsite	Unlimited Remote	Unlimited Remote (designated contact)
Centralized Services	Included	Included	Included
Technology Alignment	Included	Included	Included
vCIO	Included	Included	Included
Professional Services	Not Included	Not Included	Not Included
AISP RANGE	$150-$250+ / month	$125-$200+ / month	$90+ / month

All three pricing systems — FFF, PFF and CMS — include centralized services, technology alignment and vCIO — your company way— because this is how you impact the results of your clients.

However, the delivery of support varies between the systems. The FFF includes unlimited remote and on-site support, the PFF offers unlimited remote support with billable on-site visits and CMS provides unlimited remote support as an escalation point for the on-site help desk. Additionally, CMS is ideal for organizations with internal IT for first-line support since you can charge them less on average because you are not handling the first-level support.

The AISP is a metric that calculates the average monthly fee for the seats you support. It is not a pricing calculation but rather a way to gauge how much a client will pay on average per user and not per device. For example, in an FFF pricing system, the AISP average is $150-$250 monthly, excluding projects. For PFF, the AISP ranges from $125-$200 per month and includes unlimited remote support with billable on-site visits while excluding projects. In the case of CMS, the AISP is $90 or more per month and offers unlimited remote support through a designated point of contact without including projects. Note that these AISP values increase over time.

When deciding on a pricing system for your MSP service offering, consider the type of support you offer, what you include in your service offering and the AISP. Understanding the different types of pricing systems and what they offer can help you tailor your pricing to best fit your client's needs while ensuring your business is profitable.

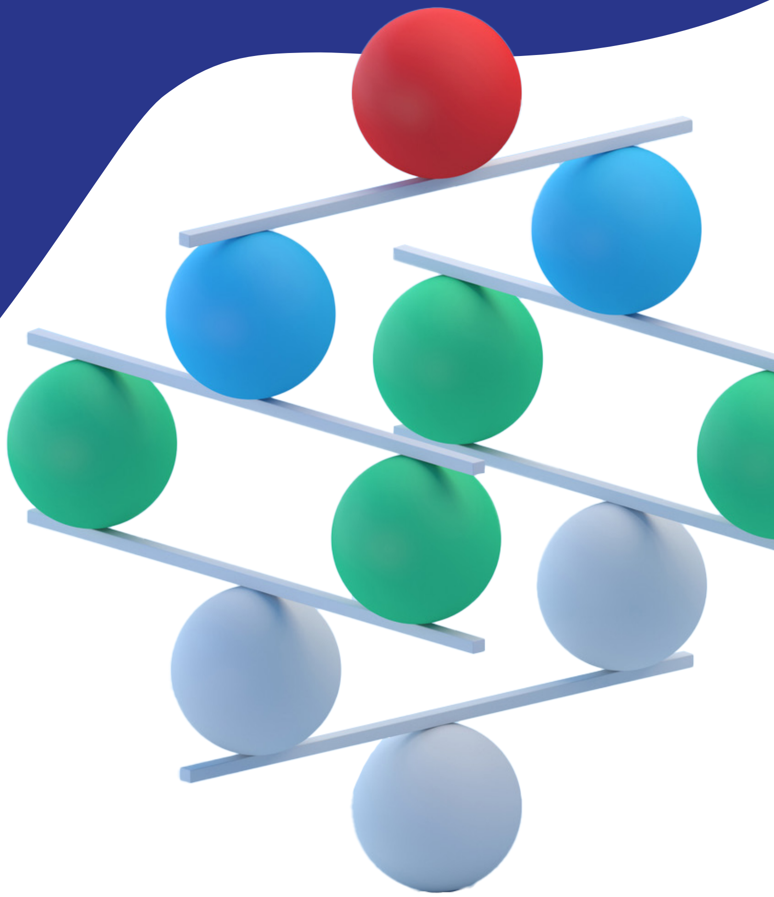
While it is possible to include projects in an FFF pricing model, it is highly discouraged. Your MSP must charge at least $50 per user monthly to make margins. It would require extreme discipline between the vCIO, technology alignment and project management team to accurately scope projects within the monthly cost billed to clients.

OTHER PRICING CONSIDERATIONS

Other considerations include services or technology offered to clients outside your standard offering. For example, offering backup and disaster recovery services or a range of cloud services could push up the AISP range.

Suppose you offer an extensive line of business application support. In that case, you may need to charge more for your services since these applications may require more tickets and specific training to support them effectively. You should also factor in these additional services when determining your pricing strategy since they can impact the overall value you provide to your clients and the costs associated with providing those services.

When pricing your service, consider all the services and technology you offer and the value they bring to your clients. By factoring in these considerations and choosing a pricing system that aligns with your service delivery approach, you can set competitive and sustainable prices for your business.



WHICH PRICING SYSTEM SHOULD YOU CHOOSE?

Selecting the appropriate pricing system is daunting due to the abundance of available options. The pricing structure you choose for your MSP service offering is influenced by various factors, such as the type of clients you cater to and the industry you operate in. As such, give careful thought and care to the following factors when determining the pricing and service offerings you provide:

Your offering should consistently deliver the end result
Your service offering should focus on showing results that meet the needs and expectations of your clients. Your clients are looking for specific outcomes, such as improved efficiency, increased productivity and better security, and you should design your services to achieve those goals.

The end result is the same: the difference is a matter of billing
Regardless of how you structure your pricing, the end result for your clients should be the same. The main difference is how you bill for your services. You may offer different pricing options based on factors such as the level of support, the number of seats or the types of services included.

What are you comfortable with?
When deciding on your pricing strategy, consider your comfort level. You need to feel confident in your pricing and be able to explain the value of your services to your clients. If you're uncomfortable with your pricing strategy, selling your services to potential clients will be difficult.

What are your clients comfortable with?
Your pricing strategy should also consider your client's needs and preferences. Some clients prefer a fixed fee pricing structure, while others may be more comfortable with a usage-based or co-managed pricing model. Understand your client's needs and preferences, so you can structure your pricing to meet their needs.

What can you sell?
Finally, base your pricing strategy on what you can realistically sell — understanding your capabilities, the types of services you offer and the market demand for those services. You need to be able to sell your services at a competitive and profitable price.

REMEMBER
CHARGING CLIENTS LESS DOES NOT SAVE THEM MONEY!

This statement highlights the importance of offering a comprehensive and effective service rather than simply charging clients less for fewer services. While it may seem like a lower price is a better deal for the client, cutting corners on services can lead to more problems in future.

When you offer a well-rounded service that addresses a client's needs, you can provide them with more value, leading to greater productivity and less risk. By dismantling "your company way" or reducing the overall cost of your services to meet a client's budget, you may compromise the quality of your service, resulting in more noise and less productivity for the client.

It is essential to believe in the value of your service and understand the long-term benefits of a comprehensive service offering. While it may be tempting to offer a lower price to win over clients, communicate the actual value of your services and how they can positively impact a client's business. Ultimately, charging clients less is not the goal; it is to provide a service that effectively meets their needs and delivers a return on investment over time.

IT IS ESSENTIAL TO BELIEVE IN THE VALUE OF YOUR SERVICE AND UNDERSTAND THE LONG-TERM BENEFITS OF A COMPREHENSIVE SERVICE OFFERING.

PRICING YOUR OFFERING

A pricing calculator is an essential tool for pricing your MSP service offering. To effectively find and set your AISP, consider the following:

CALCULATION COMPONENTS

Determine how you will calculate your AISP, such as asking how many servers, workstations and backup requirements are needed. It is essential to have a clear and straightforward way to determine your price.

USE AS FEW COMPONENTS AS POSSIBLE

Keep the number of components used to calculate AISP as low as possible. Getting into pricing things like routers, printers or other minor items is unnecessary.

IT IS ALL ABOUT AVERAGES

Do not worry too much about the components used to get your pricing; it is all about getting to that average seat price. Whether you use components or charge by the user, as long as you meet your averages, you are on the right track.

DO NOT SHARE YOUR PRICING PSYCHOSIS

There is no need to share and explain your calculations in the beginning. Once the customer signs up, you can explain how you bill them and how adding/removing users affects their cost. It is better to focus on the value of your service offering and how it can benefit the customer rather than getting too bogged down in your pricing details.

PRICING CONSIDERATIONS

Base fees
Base fees are an effective way to get smaller clients to the right average price point. Remember that supporting more users is often less expensive than fewer, so smaller clients may pay a higher average AISP than larger clients. As you scale up, expecting more prominent clients to pay less per user is more reasonable than for smaller clients.

Protect yourself with minimum MRR
You should set a minimum amount for services to protect your business. Establish this minimum through a base fee or a minimum MRR requirement. It helps you cover your costs and not take on unprofitable clients.

Bundled services based on averages
When you bundle services, base them on averages. For example, you could include a built-in amount for backup services or figure out the cost to back up every client the same way. Doing things consistently for all clients ensures everything is included and avoids unexpected costs or surprises. It can provide a more standardized service across your client base.

AVERAGE MRR

Defining average MRR

- Average MRR is an essential metric for an MSP to measure the financial health of their business. It is calculated by dividing the total MRR by the number of MSAs.
- By monitoring the average MRR, an MSP can identify trends and make informed decisions about pricing, service offerings and resource allocation.

Fixed costs that do not change

- Some services, such as vCIO and technology alignment, have fixed costs that do not vary much with the size of the client, meaning that the cost of providing these services is similar for a small client as it is for a large one.
- By identifying fixed costs, an MSP can more accurately calculate its profit margins and determine the optimal pricing for its services.

Decreased margins threshold

- As the average MRR decreases below a certain threshold (typically around $1,800 per month), your margins decrease due to the fixed costs associated with providing the above services (vCIO and technology alignment).
- An MSP should maintain its average MRR above this threshold to maintain profitability.

Set a minimum MRR

- To ensure profitability and avoid taking on non-financially viable clients, you should set a minimum MRR threshold for their services.
- As you build a better sales engine and get more prospects, you can increase the minimum MRR and the average.

PROJECT YOUR MODEL

When you develop a pricing model, test the pricing with hypothetical clients. This will help understand how the pricing may work when applied to actual clients. By testing the pricing with 25, 50 or 100 clients, you can determine the potential of your average AISP and average MRR and get an idea of your margins and service delivery. Zoom out and look at the details, then zoom back in and adjust — you can create a profitable, scalable pricing model that meets your client's needs.

PICANOMICS

Example	Avg. Seats	Avg. AISP	Avg. MRR	MRR with 50 clients	Seats
A	20	220	4,400	$220,000	1,000
B	20	150	3,000	$150,000	1,000
C	10	220	2,200	$110,000	500
D	10	150	1,500	$75,000	500

Let us look closer at the table with four companies (A, B, C and D) and examine how average AISP and MRR impact a business's margins. Company A has 20 seats and an AISP of $220, resulting in an average MRR of $4,400 and a total MRR of $220,000 with 1,000 seats. Company B has the same customer base and number of seats as Company A but with an AISP of $150, resulting in a monthly billing of $150,000 instead of $220,000.

Company C has the right AISP but smaller accounts, so they support half the seats at $2,200 a month or $110,000 total, while Company D has the wrong proportion of customers and AISP, resulting in a total MRR of only $75,000. By analyzing the impact of AISP and MRR on these four companies, one can understand how to maximize profits and service revenue per employee.

Picanomics explains the importance of understanding the two levers of maximizing average AISP and MRR. When these two levers work together in the right direction, it can significantly impact your business's margins and service revenue generated per employee. By mastering these two levers, your company can achieve not just best-in-class performance but surpass what is traditionally considered best-in-class in the industry, potentially achieving twice the performance.

As you progress through packaging and pricing, you will see more content on Picanomics. For example, you will learn more about Micro Picanomics and Macro Picanomics, then combine it with Understanding Picanomics.

BAD PACKAGING

	RMM Only	Bronze	Silver	Gold
Monitoring	X	X	X	X
Automated Maintenance	X	X	X	X
Remote Support	Billable	Up to 1 hour per incident	Not to exceed 25 hours / month	Unlimited
On-site Support	Billable	Billable (5% discount)	Billable (10% discount)	Unlimited
Remote Backup	$25 / system +$1 / GB	$25 / system +$0.90 / GB	$25 / system +$0.80 / GB	50 GB / system +$0.75 / GB
Anti-Virus	$2 / system	$2 / system	Included	Included
Mobile Device Support	$15 / device	$10 / device	Included	Included

THINGS TO KNOW ABOUT BAD PACKAGING

The example given above serves as a cautionary tale of what not to do when pricing your service offering. Avoid these mistakes!

It does not make sense to have a package that only deploys tools (RMM only) because the customer does not learn “your company way” if you only offer the same tools as everyone else.

Offering different service levels can make it difficult for customers to choose, but choosing the one that allows you to deliver your company's unique approach and reduces overall cost points you in the right direction.

It may be tempting to offer a variety of service levels to appeal to different customers, but this is not a cost-effective option.

To make your customers feel genuinely awesome, do not sell them things that would make them less awesome.

THINGS TO REMEMBER

1 Pricing is important, but do not get stuck on it. Look at your average AISP and average MRR and do some simple pricing calculations to get a fair average. You can always tweak it later. The goal is to sell your service at the highest price possible.

2 Please do not ask your clients or their employees what you should charge. They will likely recommend that you charge less, which is not the best decision for your packaging and pricing model.

3 Your price is not necessarily too high, and it is not the main issue. It is more about how you package and present your services to customers. When you communicate the impact your services can have on their business and present them in a way that aligns with “your company way,” customers are more likely to understand and be willing to pay for them.

SUMMARY

When pricing your service offering, there are a few points to remember. One of the first steps is to set a minimum MRR that you are willing to accept to ensure your pricing aligns with your goals and you are not underselling your services. Additionally, it can be helpful to project the mode of your pricing to see if it is in line with industry standards and that you are not pricing yourself out of the market.

Another critical step in pricing your service offering is to develop a simple pricing calculator to determine the optimal pricing. It can involve checking your average AISP and MRR to ensure you are pricing your services appropriately. However, do not get too caught up in the process, and remember that your price is not necessarily the issue. By building "your company way" and creating a unique value proposition for your customers, you can help them understand your services' impact on their business and ultimately sell your services at the highest possible price.

NEXT STEPS

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

~~STEP 1 | Packaging Your Service Offering~~

~~STEP 2 | Defining Your Edges~~

~~STEP 3 | Pricing Your Service Offering~~

STEP 4 | Packaging & Pricing Workshop

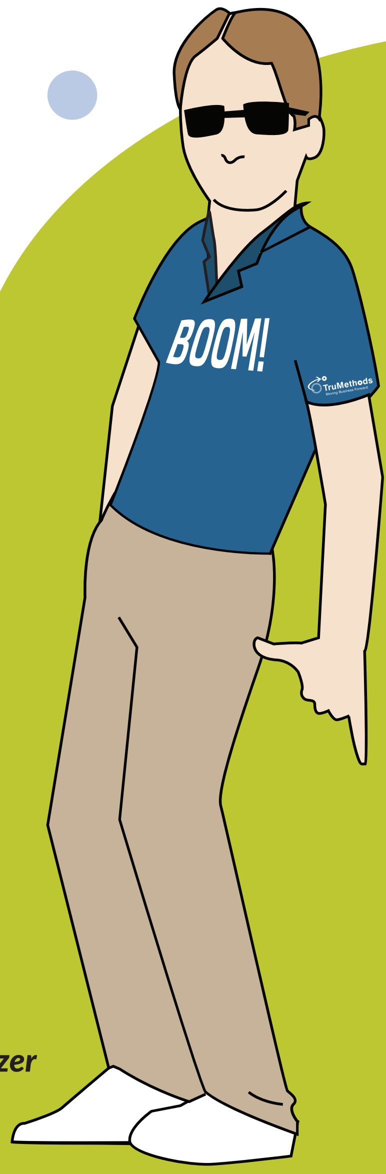
STEP 5 | MSP Agreements

STEP 6 | Micro Picanomics

STEP 7 | Macro Picanomics

STEP 8 | Understanding Picanomics

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