

POWERED
SERVICES PRO



FRAMEWORK FOUNDATIONS

STEP 2
Anatomy of a
World Class MSP

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Stanley
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INTRODUCTION

Now that you have a general understanding of the TruMethods Framework, you are ready to dive deeper into the qualities of a world class MSP. Throughout this guide, you will come across new terminology—while reiterating some from the earlier module—to help you understand the next steps.

First, you will review the qualities of a world class MSP, such as 2-4x industry-average margins and consistently adding new Monthly Recurring Revenue (MRR)—all while learning how to gain command of your business.

Then we will discuss the reality of the average MSP: setting prices too low leads to lower margins, more reactive noise, and eventually, lower leverage.

And finally, we will define leverage, show you how it is measured, and how to calculate it on your own. We will look at unrealized profitability by using the example of an average MSP and a TruMethods Benchmark MSP. Using a set of preconfigured variables, we discuss how to figure out your revenue per employee per month and what this means for your business. We will end by showing the areas of your MSP from which hidden profits occur.



QUALITIES OF A WORLD CLASS MSP

TruMethods methodologies are the foundation of a Technology Success practice and explore the development of a World Class MSP. A World Class MSP does not form overnight and developing “your company way” takes time, challenging work, and dedication. There are qualities an MSP must adopt to become World Class.

A WORLD CLASS MSP

-  2-4x industry-average margins
-  50% more service revenue per employee
-  Consistently adding new Monthly Recurring Revenue (MRR)
-  Delivering only high-quality support
-  Setting & achieving financial goals

There are five essential qualities that every World Class MSP has in common. Unlocking these secrets proves how any MSP can become a Technology Success leader.

- 1 - BUSINESS PLANNING**
- 2 - PACKAGING & PRICING**
- 3 - SALES FOCUS**
- 4 - PROCESS-DRIVEN**
- 5 - COMMAND**

To build a World Class MSP, you need total command of your business. You gain command and have a 360-degree view of your business by implementing these techniques and practices.

1 BUSINESS PLANNING

Staying afloat in a sea of tickets and buried in reactive work has become an overwhelming task. These factors prevent an MSP from creating a more effective business plan. This is the exact reason a better process needs to be in place.

Business planning is the leading indicator of success for a profitable company. IT providers need more than a plan to increase monthly recurring revenue; they need a process to turn those goals into reality. Service delivery and customer retention rates suffer without an efficient process. An effective process is necessary for all MSPs regardless of size.

Most IT providers do not know how to create a business plan, or they do not have a system in place to serve as a framework. TruMethods offers the tools and resources to increase profit margins through business planning and other methods.

LEARNING THE RIGHT BUSINESS PLANNING PROCESS:

- Turns a vision into an actionable plan
- Aligns actions with goals
- Ensures that the team has clear priorities
- Supplies a framework for discipline



2 PACKAGING AND PRICING

Without the right strategy for packaging and pricing, the business suffers in areas including sales, service, and finance.

Packaging and pricing are the reflection of a company's valued offering. When pricing matches the quality of services offered, it is easier to generate leads, make sales, and maximize profit margins.

Packaging and pricing should help define "your company way." In other words, what is your key value proposition? How are customer businesses affected? These questions relate to the organization.

The worry of not generating enough monthly recurring revenue due to an overload of IT tickets and a rigid market is expected. What is needed is an IT process that decreases reactive costs while delivering rave-worthy client results, like:

- More productive employees**
- Better morale**
- Increased functionality**
- Reduced risk**
- Enhanced security**

Only then can services be priced competitively. Most MSPs miss the core concepts of effective packaging and pricing. It is important to understand what clients:

NEEDED FIVE YEARS AGO | NEED TODAY | WILL NEED IN FIVE YEARS

3 SALES FOCUS

Most IT providers struggle to add recurring revenue to their business and are unable to charge enough for their services. To grow the company, a steady flow of monthly recurring revenue is necessary. With the right pricing, this revenue is the lifeblood of technology success providers.

Expert sales coaching helps decrease the cost of reactive services and supplies the results that keep clients coming back. When clients welcome extra services, the ability to command higher prices is common. In this way, a reputation is built for quality service, which changes the potential for IT leads and MSP sales.

There is a difference between being sales-focused and being sales-interested. Most MSPs are interested in growing their sales, but to maximize monthly recurring revenue, it is necessary to have the right process.

An organization does not require prior sales experience, a huge sales team, or a substantial marketing investment to increase monthly recurring revenue—it requires a disciplined approach. Gain a greater understanding of the key factors involved in growing sales, including:

- A repeatable process**
- Focused resources**
- Accountability**

PROCESS-DRIVEN

World Class MSPs are process-driven in all areas of their business. Are you concerned your organization needs a better system for managing clients or improving sales?

SUCCESSFUL MSPS EXECUTE AN EFFICIENT IT PROCESS IN THE FOLLOWING AREAS:

BUSINESS AND PLANNING
SALES
FINANCE
SERVICE DELIVERY

To become a top-performing IT services provider, you must encourage a process-driven culture. Bring team members into the discussion and set up a process for making improvements within the organization.

A strong process has a positive impact on every aspect of the company, including profitability. Whether it is aligning clients' technology with your company standards or responding to IT tickets more efficiently, the process affects the bottom line.

One of the most vital goals is achieving a rhythm. Daily huddles involving team member discussions help the company develop this rhythm and implement effective processes.

TruMethods offers MSP training, equipping anyone with the information, guidance, and resources needed to create an individualized process that works.

GET TIPS ON:

*Establishing a culture of process
Institutionalizing processes within the organization
Developing processes for documentation*

5 COMMAND

Having control of key metrics and Key Performance Indicators (KPIs) grants empowerment to reduce IT tickets and deliver high-quality services for clients. Reactive tasks will not bog down service delivery and prevent growth in profits. To gain control of the business, you must gain command.

Command is a 360-degree view of packaging, pricing, service delivery, sales, and accountability. As command over metrics and KPIs increases, the business moves closer to becoming a World Class MSP.

Packaging and pricing—what is sold, how much it is sold for and who it is sold to—impact service delivery. When packaging, pricing and service delivery function cohesively within the right business model, it increases the MSP sales and profit margins.

LEARN MORE ABOUT:

- » **What's necessary to achieve a 360-degree view of the business.**
- » **The benefits of gaining command over the organization.**
- » **The difference between generating \$100,000 and \$150,000 in annual revenue per employee.**
- » **How to find the company's unrealized profitability.**

REALITY FOR THE AVERAGE MSP

The average MSP has trouble tackling the important aspects of becoming a world class leader. Implementing TruMethods methodologies and the five essential qualities of a World Class MSP prevent issues with pricing, margins, or sales results.

Prices and effective rates are too low

Charging customers a low All in Seat Price (AISP) leads to low revenue, reducing your customers' perception of good service, and being outpriced by your competitors.

Margins are too low

Low pricing prevents your MSP from achieving 70% gross margins.

More reactive

Leads to more time being reactive because you cannot spend the right time doing proactive work.

Inconsistent sales results

Not adding new Monthly Recurring Revenue (MRR).

Downward price pressure

Lowering the price of IT services exerts downward price pressure on the services you offer.

Low leverage

Low leverage prevents you from commanding a higher AISP.

As we venture through this guide, we will look more into leverage. The average margins of the MSP business have not changed dramatically, but what has changed is the gap between average and what is possible. You will gain a level of command that looks at every aspect of your business and what you need to do to turn that command into extraordinarily different results.

WHAT IS LEVERAGE?

Leverage is the relationship between hours worked and dollars earned. In other words, how much service revenue is generated for every employee in the company and not only service revenue per technician. The goal is to generate the most amount of service revenue with the fewest number of employees.

Service revenue generated and number of employees it takes to operate is the ratio that decides your profitability. This concept is central—and the most powerful—to the TruMethods program. Understanding leverage is an important piece of grasping the TruMethods process. As you move further into the program—from an operations and delivery standpoint—putting the pieces together shows what is behind this leverage number. Leverage changes your perspective to see what is possible.



MEASURING LEVERAGE

Leverage is the main governor that keeps most MSPs from achieving their financial goals. From treating customers to creating opportunities for their employees, leverage is how you invest in tools, your people, and what ends up in your bank account.

	Average MSP	TruMethods Target
Number of Employees	6	6
Annual Service \$	\$600,000	\$900,000
Leverage	\$100,000/EE	\$150,000/EE
Unrealized Profitability = \$300,000		

Let us look at leverage using an exercise. In this example, we have two companies: an Average MSP and a TruMethods Target MSP. Each have the same number of employees (6), but the average MSP is generating \$600,000 in annual service revenue while the TruMethods Target MSP generates \$900,000 in annual service revenue. Leverage is calculated using a simple math equation:

$$\text{LEVERAGE} = \frac{\text{Annual Service Revenue}}{\# \text{ of Employees}}$$

The Average MSP has \$100,000/year in service revenue leverage while the TruMethods Target MSP has \$150,000/year—our benchmark—in service revenue leverage. This presents the problem of \$300,000 in unrealized profitability.

A common mistake is to make up the difference in volume as you grow. But based on your efficiencies and everything you learn about leverage, as soon as you add roughly \$8,000 of MRR, you need to hire another employee. As a result, your margins will not increase and if you want to increase percentage of margin, you need to find the unrealized profitability.

WHAT IS YOUR UNREALIZED PROFITABILITY?

To calculate unrealized profitability for your MSP, multiply your number of employees (total employees, not only technicians) by \$150,000, then subtract your annual service revenue. The result is your unrealized profitability.



BUILDING A WORLD CLASS MSP

Hidden profits are spread among various areas of your MSP. Using the right areas will effectively reveal where hidden profits come from and why they occur.

ROLES AND RESPONSIBILITIES

Everyone having a set of tasks they oversee and focusing on improving the completion of those tasks quickly and efficiently.

DELIVERY PROCESS

Everything—from onboarding to your support process to your vCIO and proactive services—must have an efficient process behind it.

REVENUE BASE

What kind of clients do you have and how much noise do they generate? Are they good clients? Are you charging them the correct amount?

NEW RECURRING REVENUE (MRR) AT THE RIGHT PRICE

As a business, you must grow and add the right kind of revenue as you make changes and adjustments to becoming more efficient.

