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FRAMEWORK
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Macro Picanomics

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INTRODUCTION

Macro Picanomics is a framework that plays a central role in achieving a 360-degree view of your business, which is essential for success in the Managed Services Provider (MSP) industry. Your MSP is a complex business with many moving parts, making it crucial to have a framework that can help you understand how your customers connect to your packaging, pricing and what you deliver. Macro Picanomics provides a simple yet powerful way to achieve this understanding by focusing on the few metrics moving the levers of industry success.

The Macro Picanomics framework helps your MSP achieve efficiencies in the delivery areas of your business. It emphasizes the importance of understanding how these delivery areas work together to drive success, including the packaging and pricing of services, finance, sales, service delivery, process, SMART numbers, KPIs and company culture. With Macro Picanomics, your MSP can quickly identify inefficiencies and make data-driven decisions to help you achieve desired outcomes.

Understanding Macro Picanomics is critical to your success as an MSP. It provides a simple yet powerful framework to achieve command and make accurate decisions that can drive efficiencies and success in the delivery areas of your business. With Macro Picanomics, your MSP can simplify the complexity of your business and gain a competitive edge in the industry.

MACRO VS MICRO

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. However, 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 — creating 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. Keeping a close eye on the key cost drivers in your business and being disciplined in your approach creates a culture of success and sustainable growth.

RECAP: MICRO VIEW

Micro Picanomics is a framework that focuses on the micro view of the business and how to do costing that determines the gross margin based on the costs of delivery areas. Many MSPs struggle to accurately calculate the cost per seat, leading to difficulty in determining the appropriate price based on a target gross margin. Additionally, MSPs often miss several costs when calculating prices, resulting in further complications.

To overcome these challenges, MSPs must focus on several elements within the Micro Picanomics framework. These include:

Calculating costs per user per month
This calculation involves determining the cost associated with each user per month, including hardware, software, labor and other related expenses. Your MSP can set a price to cover all your costs and achieve a target gross margin when you accurately calculate them.

Calculating gross margin per user based on all-in seat price (AISP)
This one involves determining the gross margin for each user based on the all-in seat price. When you consider all associated costs, you can evaluate the gross margin per user, making data-driven decisions about pricing and profitability.

Understanding the impact of packaging and pricing
Packaging and pricing are critical elements that can significantly impact the profitability of your MSP. Understanding the impact of these elements makes you adjust your pricing to optimize profitability.

Ability to add new features profitably
It would help if you considered the profitability of adding new features, especially determining the costs associated with adding them and assessing their impact on profitability.

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

Micro Picanomics is a critical framework for MSPs to determine costs, set pricing and optimize profitability accurately. Focusing on calculating costs per user per month, gross margin per user based on all-in seat price, understanding the impact of packaging and pricing, and the ability to add new features profitably means you make data-driven decisions and achieve success in the industry.

LEVERAGE

Leverage is the relationship between hours worked and dollars earned, significantly impacting profitability. In the context of Macro Picanomics, leverage is a tool to analyze the efficiency and profitability of your service delivery operations. Tying service delivery roles to top-line revenue and developing KPIs for each delivery area leverages areas to improve efficiency, increase profitability and ensure you charge enough.

As a critical concept, leverage determines whether you are charging enough for your services, efficiently sufficient with your resources and have the correct number of people in your organization.

HERE ARE SOME KEY POINTS TO CONSIDER REGARDING LEVERAGE

The relationship between hours and dollars is the definition of leverage, meaning the more revenue you can generate per hour worked, the more leverage you have.

Service revenue per employee is a critical benchmark to determine leverage — every employee in your organization should generate at least $150,000 per year in service revenue.

Service revenue per technical employee is even more critical since they are the ones who provide the technical services. Every technical employee in your organization should generate at least $250,000 per year in service revenue.

Understanding leverage lets you determine whether your business is profitable and sustainable. You can use this information to decide whether to charge more for your services, hire more staff or streamline your processes.

Leverage has more than one meaning than net profit. For example, you can have a high net profit but low leverage, meaning you are not generating enough revenue per hour worked. Conversely, you can have a low net profit but high leverage, which means you are developing a lot of revenue per hour worked.

Relating leverage to how you deliver services and run your business is relative. When you increase your leverage, your profit margins increase, making it a critical factor to monitor over time.

MACRO PICANOMICS

Macro Picanomics is a methodology developed by TruMethods to help MSPs improve their profitability and scalability. Here are some points to consider regarding Macro Picanomics:

Tie service delivery roles to top-line revenue to understand how much revenue a person in a particular role touches monthly. For example, you can calculate how much revenue a person in support touches in a month. If one person touches more revenue, they should generate more margins, which means they are more valuable to your organization.

Developing key performance indicators (KPIs) for each delivery area can help you improve or understand where you stand and the key levers driving efficiencies. For example, you can track the percentage of tickets closed within a specific timeframe or the percentage of revenue generated from each service offering.

TruMethods SMART numbers is a framework for developing KPIs that align with your business goals and values. SMART stands for Specific, Measurable, Achievable, Relevant and Timely. Using this framework, you can develop meaningful and actionable KPIs. For example, you can track the percentage of sales meetings that result in closed deals or the portion of remotely resolved tickets.

Choosing KPIs that are pertinent to your business goals, easily measured and possible with your available resources would be best.

***S**pecific*
***M**easurable*
***A**chievable*
***R**elevant*
***T**imely*

WHAT IS YOUR UNREALIZED PROFITABILITY?

A straightforward method for estimating unrealized profitability is by using a simple equation that involves plugging in a few key variables:

(Number of employees x $150,000) – Annual service revenue = Unrealized profitability

NOTE: Annual service revenue includes only MRR and not NRR.

Suppose there is leftover money at the end of the day. In that case, it is a sign that you have some work to do to maximize your profitability — the unaccounted money is unrealized profit locked away in your business. To unlock this potential, you must understand the framework and the drivers that impact each delivery area, along with your pricing strategy at both the micro and macro levels. For instance, if an MSP should be generating $2,000,000 in annual revenue but only showing around $1,400,000, that is a significant amount of unrealized profit.

FINDING THE HOLE IN THE BUCKET

When it comes to finding the hole in the bucket or identifying areas of unrealized profitability, there are three areas to examine.

ROLES & RESPONSIBILITIES → DELIVERY PROCESS → REVENUE BASE

Roles and responsibilities
Includes the definitions of everyone's job functions within the organization to ensure that each employee is in the correct position and performing tasks that align with their skills and expertise. It identifies areas where responsibilities duplicate or overlap, leading to inefficiencies and wasted resources.

Delivery process
It involves looking at the various delivery areas within the organization and understanding how they function and deliver their services. It includes examining the metrics used to measure their performance and identifying improvement areas that increase efficiency and reduce costs.

Revenue base
Focuses on correctly billing clients and that they receive the appropriate level of service. It involves examining whether clients value your organization's services and whether opportunities exist to expand or diversify the revenue base.

Macro Picanomics focuses on the first area, roles and responsibilities, since this is the foundation upon which you build the other two areas. Everyone in the organization is in the proper position and performing tasks that align with their skills and expertise, making it easier to develop a solid delivery process and revenue base.

PROFESSIONAL SERVICES | CENTRALIZED SERVICES | TECHNOLOGY ALIGNMENT | vCIO | SUPPORT

Whether you're seeking a quick refresher on the five delivery areas or are new to the TruMethods Framework and Macro Picanomics, here is a quick rundown:

Professional services
Handles high-level technical tasks, such as implementing new technology, and acts as a SWAT team for escalations.

Centralized services
Provides proactive maintenance from a central location across clients, administering event monitoring, patch management, security services, backup & DR, and cloud services.

Support desk
Serves as a point of contact for reactive support and sets client expectations for quality of service, handling remote help desk, onsite service and how-to questions.

Virtual chief information officer (vCIO)
Creates a business relationship with a decision maker and provides strategic technology planning, including designing a strategic roadmap and budget planning.

Technology alignment manager (TAM)
Performs assessments to align clients with defined standards and best practices for proactive technology management, alignment and compliance.

Macro Picanomics centers on leverage guidelines, which involve determining a specific leverage number per resource within each delivery area. The generated revenue determines and manages the number of individuals in each area.

Professional Services	**1 per 22K+ Month NRR**
Centralized Service	**1 per 5k+ Endpoints**
Technology Alignment	**1 per 70k+ in MRR**
vCIO	**1 per 140k+ in MRR**
Support Desk	**1 per 60k+ in MRR**

PROFESSIONAL SERVICES

How much can you bill and how much do you charge per hour?

The framework recommends one person dedicated to the role for every $22,000 or more billed monthly in non-recurring revenue (NRR). However, if your NRR is less than this, assigning a portion of a resource to billable work is advisable.

LEVERS

Utilization

- The amount of time a resource spends working on billable projects compared to the total amount of time available for work.
- Expressed as a percentage: Billed time/available time per resource.

Hourly rate

- The amount of money a resource charges for each hour of work they perform on a project.

	Company A	Company B
Hourly Rate	$150	$175
Utilization	85%	90%
NRR per recource	$20,400	$25,200

For example, Company A has an hourly rate of $150 with an 85% utilization rate, only netting them $20,400 per month in NRR per resource. Company B charges $175 per hour at 90% utilization, earning them $25,200. These outcomes for Company A can mean two things:

- Their hourly rate is too low
- Their utilization rate is too low

To achieve its NRR per resource target, Company A must either increase its hourly rate or increase the number of billable hours. How did we determine this target? The calculations are based on two formulas, assuming a 160-hour work month per resource:

Utilization rate = Billed hours/Available hours per resource

NRR per resource = (Hourly rate x 160) x Utilization rate

If Company A had only one project resource, its utilization rate would be 85% (136 billed hours per month/160 resource hours per month). Using this rate, they could compute an NRR per resource of $20,400 per month ($150 x 136).

CENTRALIZED SERVICES

This role offers excellent scalability and is not entirely dependent on the effort invested for each endpoint.

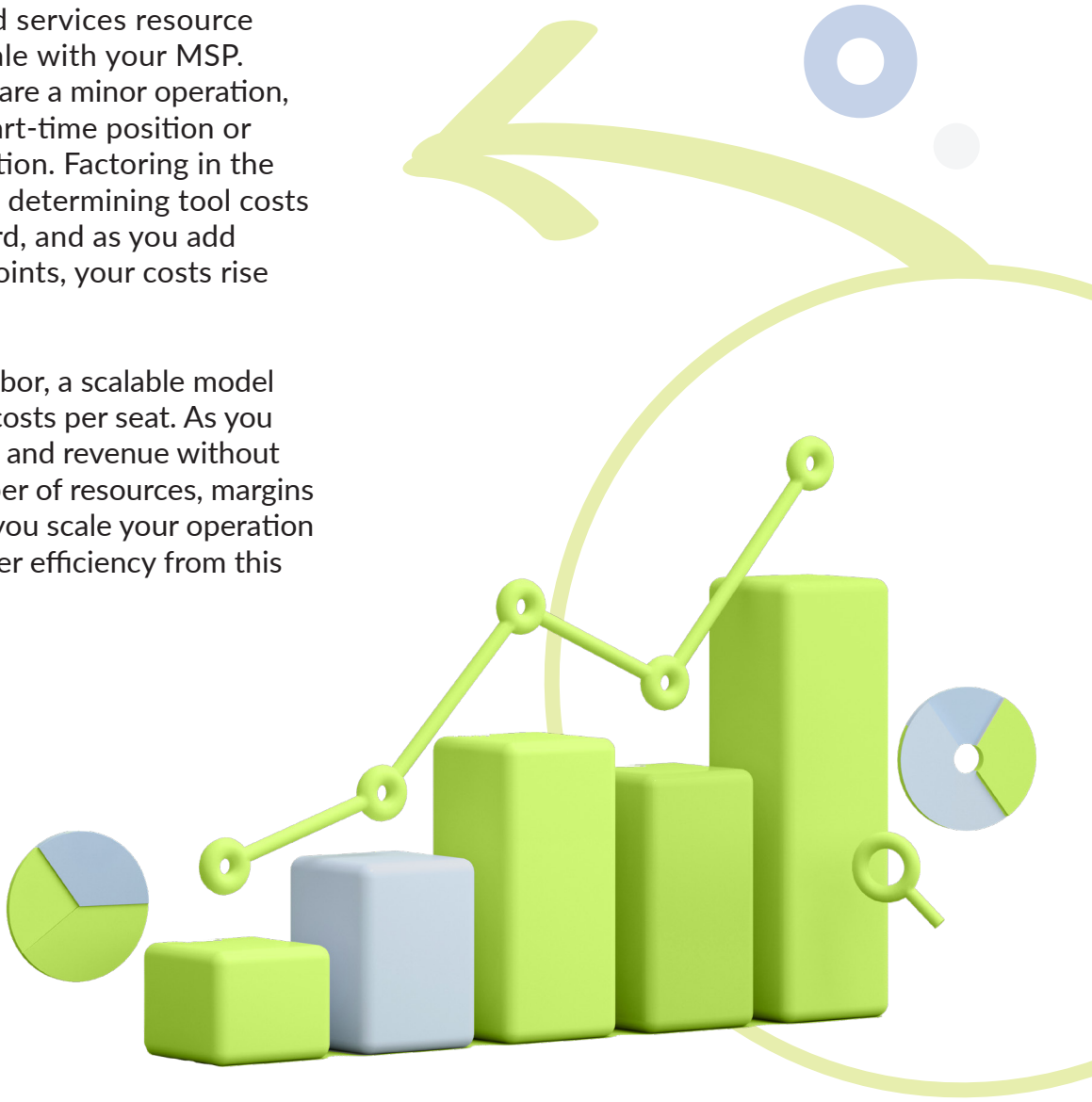
One resource per 5,000+ endpoints

LEVERS

- Leverage increases with scale
- Consider tool cost in your Micro Picanomics math

If you have over 1,000 endpoints, consider having a centralized services resource that can quickly scale with your MSP. Alternatively, if you are a minor operation, you can opt for a part-time position or outsource this function. Factoring in the cost per seat makes determining tool costs more straightforward, and as you add more seats or endpoints, your costs rise proportionately.

When it comes to labor, a scalable model can decrease labor costs per seat. As you add more endpoints and revenue without increasing the number of resources, margins tend to increase as you scale your operation since you gain greater efficiency from this delivery area.



TECHNOLOGY ALIGNMENT

The primary constraint of a Technology alignment manager (TAM) is the number of available days, which is a fundamental limitation to scheduling onsite visits. To maximize efficiency, it is recommended to schedule full-day onsite visits one year in advance.

The goal is to achieve a utilization rate as close to 100% to optimize your resources. Implementing this strategy achieves maximum productivity and ensures a booked schedule with valuable appointments.

One resource per $70,000 in MRR

LEVERS

- Number of accounts managed
- Average MRR

The amount of MRR you charge on average will tell you how many clients a TAM can support.

	Company A	Company B
Average MRR	$2,000	$3,500
Accounts managed	20	20
Total MRR per TAM	$40,000	$70,000

The factor to consider is your average monthly recurring revenue (MRR), directly impacting the number of clients a TAM can handle. For instance, Company A has an average MRR of $2,000, and their TAM supports about 20 clients per month based on available working days. At this rate, that resource can only touch $40,000 of MRR.

On the other hand, Company B has a higher average MRR but still manages the same number of clients, which translates to an average MRR managed of $70,000 per month. While Company A could potentially handle a few additional accounts at a $2,000 average MRR, handling 30 or 40 accounts would result in a noisy, overwhelming situation.

In today's market, MSPs should aim to have an average MRR higher than $2,000. The above example highlights the impact of MRR on the number of clients that a TAM can manage — the higher the amount charged per seat, the more revenue the role can generate while still managing the same number of seats. Maximizing MRR means your MSP drives more revenue, increases profitability, and optimizes your TAM operations.

VIRTUAL CIO

The principles that apply to a TAM extend to the virtual chief information officer (vCIO). However, the vCIO's work differs from a TAM's, allowing them to manage more clients per resource. As the vCIO primarily handles strategic positions, they spend their time more efficiently, delivering higher value with less of it than a TAM spends with clients.

Due to the strategic nature of their work, vCIOs can support more clients than a TAM, while each client receives the best possible service. Optimizing their workload and leveraging their expertise makes vCIOs drive greater efficiency, improve productivity and deliver superior results, all while supporting a more extensive client base.

One resource per $140,000 in MRR

LEVERS

- Number of accounts managed
- Average MRR

	Company A	Company B
Average MRR	$2,000	$3,500
Accounts managed	40	40
Total MRR per vCIO	$80,000	$140,000

When applying the same methodology used for TAMs, we see the impact of average MRR on the number of clients a vCIO can effectively manage. For instance, if Company A manages 40 accounts with an average MRR of $2,000, their vCIO can only touch $80,000 in MRR. In contrast, with an average MRR of $3,500 per client, Company B can handle 40 clients and touch $140,000 in MRR per vCIO.

It is in your best interest to get to the right average MRR range to afford a vCIO with the proper skills, allowing you to invest in them even further. Attempting to have a vCIO manage 20 accounts at an average MRR of $2,000 simply will not work. They must touch the right amount of revenue since high costs per seat will erode your margins. Optimizing your MRR per client will maximize the effectiveness and value of your vCIO resources.

SUPPORT

Regarding delivery areas in MSPs, four of the five areas are fixed and predictable. For example, the hourly rate and utilization of professional services can be calculated beforehand based on the backlog, allowing for predictable leverage. Similarly, in centralized services, technology alignment and vCIO, leverage is fixed since the factors are within the control of the MSP, allowing for efficient control over leverage in these four areas.

However, the support delivery area is variable, making it a significant challenge for MSPs. The reactive nature of support makes it difficult to predict, and it becomes like solving a math equation with multiple unknowns. The variability can affect the cost per seat and revenue per employee, making it crucial to have a solid support delivery model.

One resource per $60,000 in MRR
Levers

- Average AISP
- End users per technician
- Reactive hours per end user per month (RHEM)

HOW TO CALCULATE RHEM

RHEM = Tickets per end user per month x Average resolution time

	Company A	Company B
RHEM	0.5 hours	0.25 hours
AISP	$150	$125
Total MRR per resource	$48,000	$80,000

How much time do you spend on reactive support per end user? For example, Company A spends 0.5 RHEM (30 minutes) per end user on reactive services at $150 per seat. A fully utilized support resource would touch $48,000 MRR monthly, which is below the $60,000 threshold. On the other hand, Company B has a RHEM of 0.25 (15 minutes) with an AISP of $125.

While this is lower than the previous company, their MRR per resource is $80,000, illustrating how a small change can make a significant impact.

The impact of reactive noise is a struggle for every business. You can better understand RHEM once you identify and quantify how it affects your business, then take steps to minimize its impact.

LOOKING BACK: PUTTING RHEM INTO PERSPECTIVE

To provide context to RHEM, let us examine three scenarios (A, B and C) through an example MSP. We will establish the following variables as we explore each scenario:

SCENARIO	A	B	C
Tickets/User/Month	1	0.5	0.5
Average Resolution Time	1 hour	1 hour	0.5 hours
RHEM	1 hour	0.5 hours	0.25 hours
Support Resources	6.25	3.1	1.55
Seats Managed/Resource	160	320	640
AISP	$100	$140	$174
Support Desk Leverage	$16,000	$45,000	$112,000

- Each company supports 1,000 seats.
- A full-time resource is in the support role at 160 hours/month.
- Our baseline (scenario C) assumes the AISP of $174, as shown earlier ($52 seat cost at 70% gross margin).
- An efficient support resource should support at least 250 seats/per month.

  NOTE: This value is more of a guideline than an actual rule. It does not matter how many seats a support resource can support if you achieve your 70% gross margin.

Below is a list of the mathematical equations used to calculate the values in the scenario table. While some of these equations automatically calculate in the MSP Seat Price Calculator, these references provide insight into the methodology employed to derive the final values.

Average Resolution Time

$$\text{Average Resolution Time} = \frac{\text{Total Time}}{\text{Total Number of Tickets}}$$

RHEM

$$\text{RHEM} = \text{Tickets per End User per Month} \times \text{Average Resolution Time}$$

Support Resources

$$\text{Support Resources} = \frac{\text{Total Supported Seats}}{160}$$

Seats Managed per Resource

$$\text{Seats Managed per Resource} = \frac{\text{Total Supported Seats}}{\text{Number of Support Resources}}$$

AISP

$$\text{AISP} = \text{Total Cost per Month per Seat} \times 3.33$$

Support Desk Leverage

$$\text{Support Desk Leverage} = \text{Seats Managed per Resource} \times \text{AISP}$$

Let us look at three scenarios, A, B and C, to see how they affect our example MSP. In scenario A, the MSP receives one ticket per user per month, and the average resolution time for each ticket is one hour. It produces a RHEM value of one hour, which means supporting 1,000 users would require 6.25 support resources. In scenario B, the MSP experiences half the monthly tickets per user (0.5) but with the same resolution time. This reduction halves their RHEM and support resources to 0.5 hours and 3.1 respectively. In scenario C, the MSP reduces its average resolution time by half, resulting in a RHEM value of 0.25 hours, with only 1.55 support resources needed.

Reducing the number of people needed to solve reactive tickets means the MSP has more time to focus on proactive work. We use the average time per user to provide a relative comparison. Although the example shows 1,000 users, the relative number of noise is relevant for higher numbers. Compared to the MSP's charge, this relative number is how they get their Macro Picanomics numbers.

In scenario A, the MSP charges $100 per seat, and each support resource manages 160 seats per month. The low leverage per resource is $16,000. In scenario B, the support desk leverage is higher at $45,000 due to the lower RHEM value and increased seats managed per resource, creating more value by reducing reactive noise and commanding a higher seat price of $140. In scenario C, although the MSP retains the same number of tickets per user per month (0.5), reducing the average resolution time to 15 minutes means a support resource can handle 640 seats per month, generating $112,000 in support desk leverage. The reduced reactive work allows the MSP to focus on technology alignment and vCIO, driving down the monthly cost per seat and commanding an even higher seat price.

When evaluating support, you may question what defines a good ticket per user value or a good resolution time. It is essential to consider the tickets per user and average resolution time to achieve your goal RHEM. There's no difference between a higher ticket count with a lower resolution time or vice versa. If your RHEM is at your target, your MRR and leverage are correct.

MOVE UP THE STACK

The Value Stack is a pyramid representing the different levels of an MSP's operations. However, the traditional MSP model is no longer at the bottom of the pyramid. The top of the stack represents World Class, which is unattainable if an MSP uses an outdated model without the necessary components. The top of the pyramid includes vCIO, strategic planning, roadmap and customer relationship — all aimed at achieving technology success.

You must start at the top of the stack to achieve World Class, evaluating your results and customer relationships, which is a crucial part of working downward. This approach ensures all the pieces are in place to attain World Class.

If you are not getting the desired results or think you could do better, focusing on tactical items at the bottom of the stack may not be the best approach. These items do not produce tangible results in terms of growth and profitability. Instead, focusing on the top of the stack is essential, where you can make the most significant impact. Doing so can create a strategy that will lead to success, starting from the top and working your way down the pyramid.

THREE SIMPLE NUMBERS

There are more pieces to the puzzle. Becoming a top-performing MSP is a beautiful, simple math problem. Solving a math problem with one variable is easy:

10–X = 5

(hint: x equals 5)

However, solving a math problem with multiple variables is impossible. There are infinite possibilities:

X–Y = 5

The MSP industry is rife with questions about profitability. Many MSPs barely break even, while others see 25-30% net profit margins. So, what accounts for this disparity? Unfortunately, the industry has made the process of understanding profitability more complex than it needs to be. Balance sheets, income statements, service level agreements (SLAs), earnings before interest, taxes, depreciation and amortization (EBITDA), and other financial jargon can make it difficult for MSPs to get a clear picture of their financial health.

There are three simple numbers used as underlying drivers for your business.

1 **AVERAGE ALL IN SEAT PRICE**
(you decide price and value)
What you charge your clients.

2 **AVERAGE MONTHLY RECURRING REVENUE**
(you decide your target clients)
Across your client base, your average MRR.

3 **SEATS / SUPPORT RESOURCE**
(lowering noise)
Lower noise allows you to support more seats.

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

These three simple numbers are essential in understanding the five delivery areas. Professional services is excluded from the seat cost since it's billable and invoiced separately as non-recurring revenue. Using Picanomics, you can determine the cost per seat as you scale since three of the four delivery areas have fixed costs.

Centralized services have fixed costs, including labor and tool costs, and a manageable number of seats per month. Similarly, technology alignment and vCIO roles have fixed labor costs and the number of seats each role can handle monthly. The only variable area is support, which depends on the labor costs and the number of seats they can manage.

Reducing variable costs and increasing fixed costs can make margins predictable and help you determine the right price, but this is impossible if all delivery areas are variable. Due to variable costs, low prices and gross margins below 70% are typical in the industry.

SUMMARY

Macro Picanomics provides a comprehensive framework for evaluating service delivery by matching roles to revenue, comparing targets against the current organization, and identifying inefficiencies and capacity. A macro view lets organizations get a bird's eye view of their operations and uncover the revenue impact of their current structure. This approach helps identify areas of improvement and reallocate resources to areas where they are needed most.

The resulting picture becomes complete when combined with a micro view, which focuses on specific operational details. The projections created from a Macro Picanomics evaluation create a framework for organizational change and growth, allowing businesses to protect their organization based on their goals. The framework can help companies make strategic decisions about allocating resources, which areas to expand, and which to streamline.

Overall, the Macro Picanomics approach provides businesses with a clear understanding of their operations and how to optimize them for greater efficiency and profitability. Using the regular evaluation of your service delivery through this framework, you can ensure your organization always works towards its goals and maximizes its revenue potential.