POWERED SERVICES PRO

TruMethods

FRAMEWORK

TRACK 3

TAKING COMMAND OF YOUR BUSINESS

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STEP 3 | Not All MRR Is Good MRR

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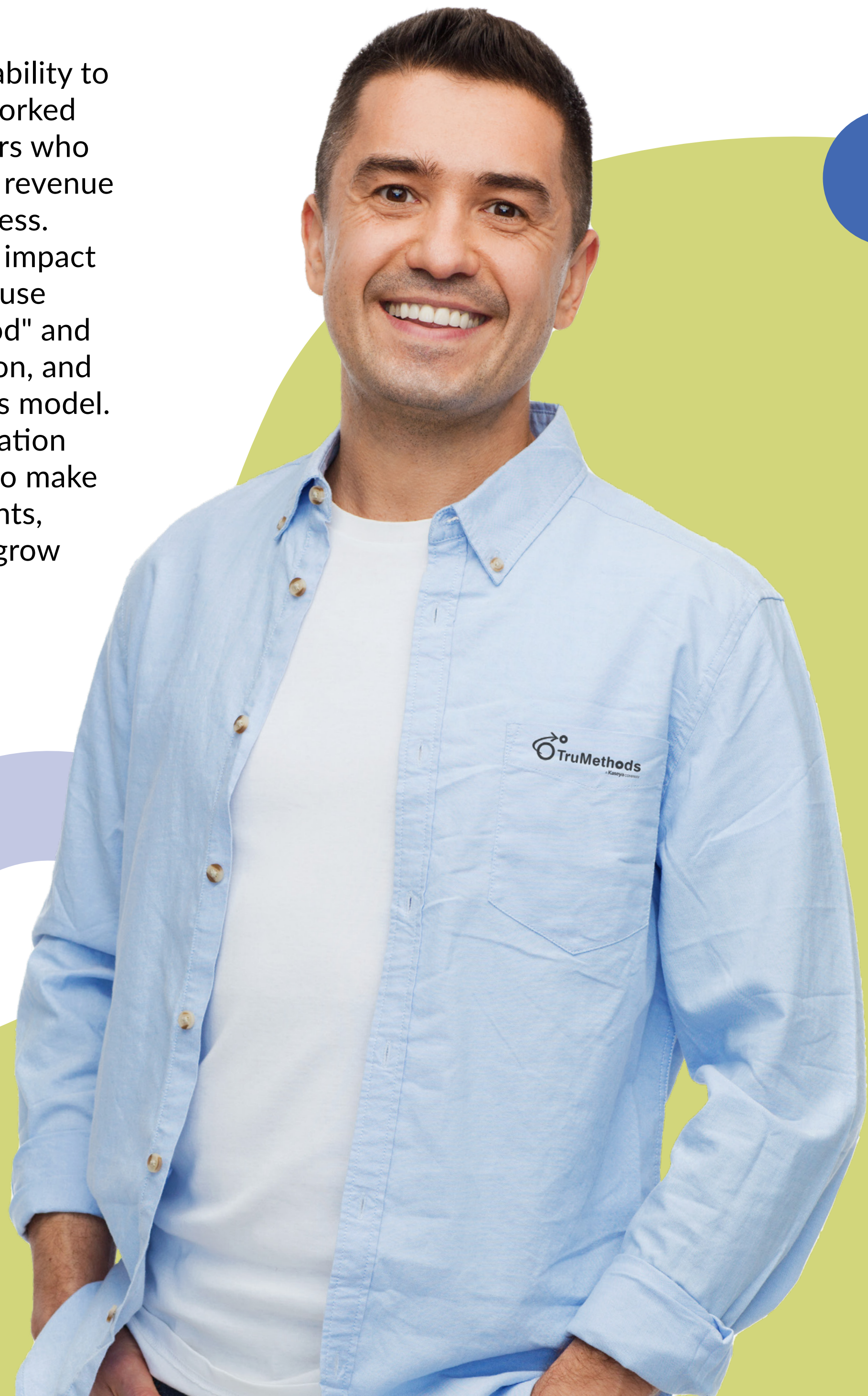
INTRODUCTION

As an MSP, monthly recurring revenue (MRR) is the lifeblood of your business. However, not all MRR is created equally. Understanding which clients are contributing to "good" MRR and which clients are hindering your business is essential knowledge. The MRR Evaluator is a tool that can help you evaluate your clients and determine which ones are worth your time and resources.

Different factors impact an MSP's ability to generate MRR. People who have worked with TruMethods content and others who haven't reached different recurring revenue levels often get stuck in their progress. This guide focuses on one of these impact zones and explores how MSPs can use the ***MRR Evaluator*** to discover "good" and "bad" MRR, which clients to focus on, and which ones may not fit the business model. Using the evaluator and the information in this guide gives MSPs the tools to make informed decisions about their clients, increase their MRR and ultimately grow their business.



FINDING THE HOLE IN THE BUCKET

This part focuses on the revenue base — specifically how revenue per employee determines customer leverage and pricing.

1	2	3
ROLES AND RESPONSIBILITIES	DELIVERY PROCESS	REVENUE BASE

- We identify unrealized profitability by determining the appropriate leverage based on the number of employees and service revenue.
- The difference between potential leverage and current revenue is unrealized profitability.
- Finding the hole in the bucket lets businesses examine the five service delivery areas and match them against ***Macro Picanomics.***
- One consideration is whether the business has defined roles in place.

If there is misalignment, it could be due to a delivery process problem that requires increased efficiency, or a revenue-based problem, such as managing enough seats but having high reactive noise or inefficient pricing.

NOT ALL MRR IS GOOD MRR

A lot goes into understanding the quality of your MRR and evaluating certain factors that impact profitability and efficiency. In this regard, assessing the percentage of revenue from services, the percentage of service revenue from MRR and the average all-in seat price (AISP) all factor into deciding between good and bad revenue.

THE THINGS WE MUST LOOK AT ARE:

Percentage (%) of revenue from services
Percentage (%) of service revenue from MRR
Quality of your MRR
Average AISP
Average MRR

The percentage of revenue from services and service revenue from MRR factor into your average AISP, impacting profitability and removing friction. Additionally, looking at the average MRR and comparing it to your clients can help determine the costs for those customers.

If the support delivery area varies too much, it can affect the quality average MRR. We will continue to explore these factors in more detail and help you evaluate your MRR to ensure you generate "good" MRR that will contribute to sustainable business growth.

The type of customers you sell to and the services you offer will impact your profitability.

You must focus on adding the right MRR instead of just any MRR.

Identify and target clients that align with your business model and can generate profitable, recurring revenue.

Evaluate clients based on their noise level, including the number of tickets, alerts and time spent on reactive tasks relative to the seats you support.

If your noise level grows faster than your MRR, you may be in the reactive spiral of death — the failure to account for all reactive hours and the inability to control the actual value of service.

Bad clients generate too much reactive noise to be considered good revenue.

Avoid bad clients that can generate too much reactive noise and focus on generating revenue from good clients.

The reactive spiral is detrimental to your MSP, taking precedence over proactive tasks and leading to a decline in profitability.

MRR VERSUS ORR

1 OTHER RECURRING REVENUE (ORR)

» Includes any revenue generated outside managed services, such as monitoring only, backup only, cloud features, Office 365, website hosting and anything billed a la carte. These services are add-ons or upgrades to existing managed services.

» Typically has a lower gross margin than MRR, with margins aimed at around 30-40%. ORR is per-client, with the services' costs tied directly to the revenue generated.

» May not be as profitable as MRR, but it can still provide a steady stream of recurring revenue that helps offset fixed costs and improve cash flow. Additionally, ORR services may help to build stronger relationships with clients and increase the overall value of the services provided.

2 MONTHLY RECURRING REVENUE (MRR)

» Refers to the revenue generated by providing managed services to clients regularly. These services may include hardware and software management, security, network monitoring and other IT-related support.

» Typically has a higher gross margin than ORR, with margins aimed at around 70%. MRR is often a bundled service offering and it is common to spread the cost over a more extensive client base.

» Has many factors impact it, including managing clients effectively, delivering technology solutions that work, building strong business relationships, choosing the right AISP and maintaining the right average MRR per client.

THE MRR EVALUATION PROCESS

Evaluating your current agreements lets you determine the impact of large, small and sweet-spot clients on your revenue, profitability and ability to provide quality services. Your MSP can optimize pricing, services and client mix for better growth and success when assessing the percentage of revenue, technology complexity and base cost per client.

WHY IS THIS IMPORTANT?

The average monthly recurring revenue (MRR) has as much of an impact on your growth and profitability as your seat price.

Looking at Picanomics, your costs for vCIO and TAM are based more on how many customers they handle and not so much on seats.

Use a higher MRR when planning and see how this works out.

1

LARGE CLIENTS

Clients that are a large part of your MRR could control many aspects of operating your MSP — having considerable monthly revenue from a single customer is challenging.

Larger clients require more support, and when problems arise, you may need to use your most expensive resource to resolve those issues.

2

SMALL CLIENTS

Base cost per client is a hidden cost that most MSPs are unaware of.

While they do not contact you often for issues, a single problem could cost you your entire profitability with that small client for a year.

Small clients create resistance to your gross margins.

They may not see technology as a strategic advantage and feel it is not worth the investment.

3

SWEET-SPOT ACCOUNTS

Pay the right seat price, usually between $3,000 and $7,000 monthly.

Able to implement your technology success process.

They buy into the process and are good to work with.

Fall into your technical sweet spot, meaning they fall into your capabilities to deliver exemplary service and provide the best value.

REMEMBER THAT REVENUE IS GOOD IN ANY FORM IF IT IS IN THE RIGHT PROPORTION AND YOUR COSTS ARE KNOWN.

ZOOM OUT FOR A BETTER VIEW

Zooming out and looking at the big picture is a requirement for the growth and profitability of your MSP.

Identifying the sweet spot — the number of employees and clients that help you achieve the right balance of revenue and margins — lets you build a better company within your company. More importantly, it would help if you evaluated who your ideal employees and clients are, and focused on delivering technology success to those clients.

However, it is essential to acknowledge that not all clients are created equal. Some MSPs may fight against bad clients for years, which can significantly drain resources and profitability. Instead of wasting time and energy trying to salvage relationships with bad clients, cutting ties and focusing on delivering exceptional service to your ideal clients may be more effective.

HOW DO YOU PRIORITIZE?

Prioritizing clients is how you grow and maintain a successful MSP. Here are some ways to prioritize clients effectively:

Identify those clients

Determine your good clients based on math and your team's feelings about them. While not every client will perfectly align with your company way, focus on clients who are receptive to change. Be realistic about which clients are worth the investment of time and resources.

Communicate with your team

Communicating your prioritization process with your team is essential. Your team members are in this industry because they enjoy helping people and fixing things. By explaining why you prioritize specific clients, they will understand the value of the process and be more willing to buy in.

Support

Give customers who accept your service method the highest priority since they are more likely to be satisfied with the outcome. For those who do not follow your process, provide best-effort support and follow-up to get them to reframe their thinking.

Assign a TAM

Assign an alignment manager to customers and begin the alignment process, ensuring clients stay on track and achieve their goals.

Schedule alignment reviews

Schedule alignment reviews one year in advance on a set frequency so the client understands the value of on-site assessments and keeps them accountable and committed to the process.

Communicate with the client

Communicate how technology success achieves better results and get clients to accept accountability for their end, including their role in the process. accountable and committed to the process.

Complete strategy roadmaps

Presenting strategic roadmaps is essential for delivering high-value service. Roadmaps are the conduit of value, and they allow you to show clients how you plan to help them achieve their goals.

BUT WHAT IS THE ALTERNATIVE?

Prioritize clients based on their commitment to your company's values and the potential for growth and profitability rather than providing the same results to all clients.

Failing to prioritize clients results in disappointing the wrong clients, leading to lost business and damaged reputation.

Adding more clients without addressing the root issues in your service delivery process increases stress and decreases team morale.

Consistently rolling out your technology success process ensures clients see the value in your services and trust you for repeat business.

Regularly evaluating and adjusting your company's values and goals to align with clients' needs and expectations improves service delivery and motivates your team.

Providing exceptional service that meets each client's unique needs and goals makes satisfied clients more likely to provide repeat business and refer others to your services.

OTHER THINGS TO CONSIDER

Can you fix the relationship?

» When a client is not getting the appropriate service they pay for, it's essential to identify if you can fix the relationship. Moving them to a different service plan that aligns better with their expectations and budget is sometimes possible. However, it's not always possible to meet their expectations based on what they are spending.

Should you walk away from some?

» Walking away from clients may be necessary for some situations. For instance, a customer can be a culture problem by treating your employees in a way that goes against your company's core values. Additionally, having too many ORR-only clients (one-time or occasional revenue) can hinder business growth. It's also beneficial to free up resources by eliminating a certain number of clients at the bottom to spend more on high-value clients.

Can you raise prices (value)?

» Raising prices to reflect the value provided to clients can be a viable option. You can increase your costs by offering better quality services to align with your value proposition.

Selling better MRR gives you options

» Focusing on selling better monthly recurring revenue (MRR) gives you options to grow your business. For instance, when you need to hire someone on your support desk, you can look at the MRR Evaluator and consider getting rid of low-value clients to free up resources. Additionally, closing a deal for a higher MRR can enable you to break even on cash flow and consider letting go of customers that don't align with your business's values and goals.

Project the model

» Projecting your business model can help you visualize how your business would look if you had more high-value clients. It's transformational because removing low-value clients can help MSPs add good revenue to the top.

It would be best to prioritize clients based on their commitment to your company's values and potential for growth and profitability.

Evaluate your business model regularly and make changes that align with your clients' needs and expectations.

COMMON OBJECTIONS

> *We have too many tickets!*
> *We have too many projects!*
> *We have other more important stuff to do!*
> *Our clients won't go for that!*
> *We don't want to upset our clients!*
> *It is too much work!*
> *I just lost a person!*

Investing time in optimizing your business operations may seem like too much work, but staying competitive in a rapidly changing industry is necessary. Adapting to new challenges and opportunities leads to decreased revenue and loss of valuable employees.

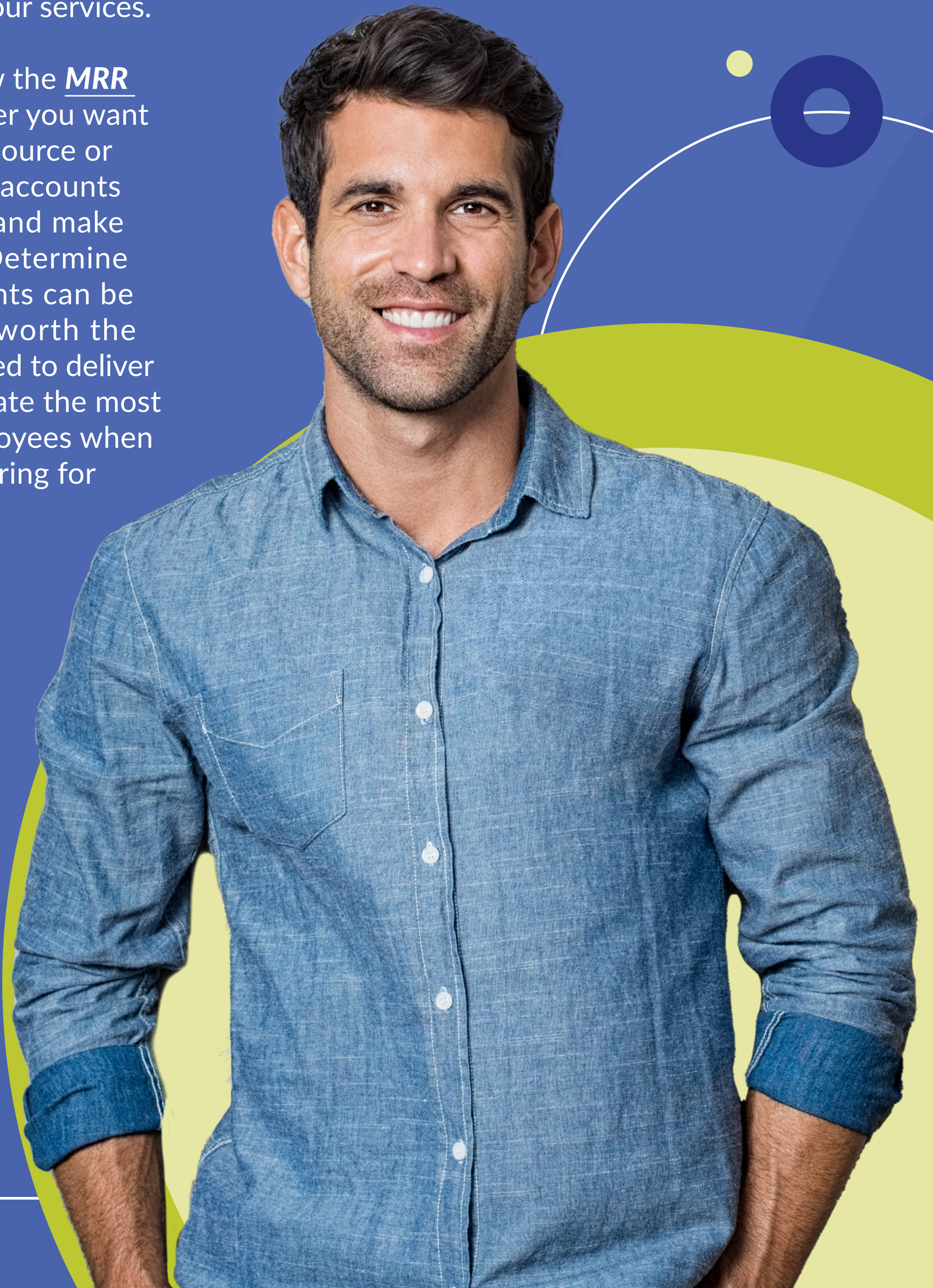
Attracting and retaining top talent has become more challenging than ever as the competition for skilled professionals extends beyond your local area. You can differentiate yourself from other providers by motivating your team and providing a supportive work environment.

Ultimately, you have a *finite amount of time* to invest in your business, and choosing how you spend it wisely is essential. Although you will lose revenue and employees in the short term, you will generate more revenue with fewer employees and ensure the long-term success of your business when you focus on optimizing your service delivery process, prioritizing your workload and adapting to new challenges.

SUMMARY

Be sure to evaluate your MRR each quarter and decide what new deals should look like so you do not accept bad deals to bring in revenue. This process should be ongoing, and you should prioritize clients building your business. The goal is to deliver your technology success process to those clients so that they see the value of your services.

Before hiring new staff, review the ***MRR Evaluator*** and consider whether you want to spend more money on a resource or you can trim non-sweet-spot accounts to free up the same amount and make more profitable customers. Determine if any non-sweet-spot accounts can be fixed and whether they are worth the effort. It would help if you aimed to deliver exceptional service and generate the most revenue with the fewest employees when prioritizing your clients and caring for those growing your business.



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~~

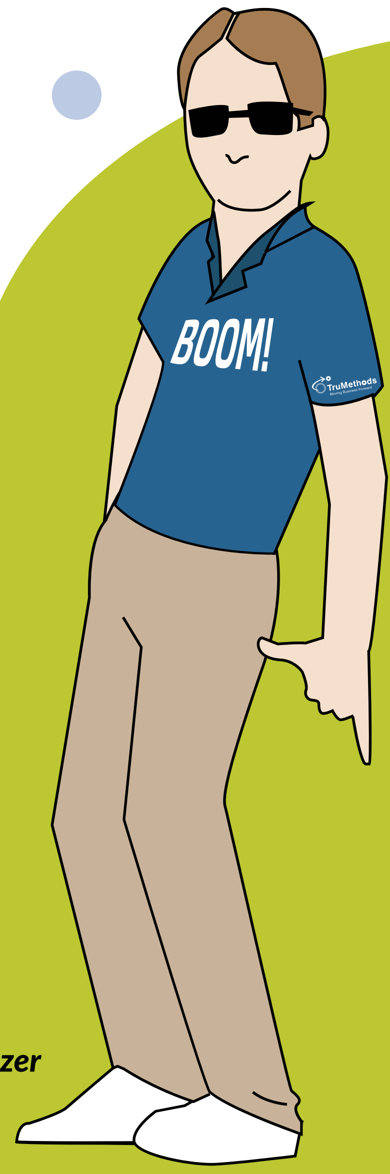
~~**STEP 2** | Converting Existing Clients~~

STEP 3 | Not All MRR is Good MRR

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

STEP 5 | ***The MSP Turning Point***

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