

The MSP Profitability Playbook: Your Guide to Generating More Revenue and Making Your Business More Successful

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Introduction

Many MSPs suffer from something I call the “around the corner” mentality. I meet business owners who have been in business for many years. They run a successful company but never really achieve the results they had imagined. They always tell me all the reasons why they haven’t fulfilled their potential and how they believe things will be different soon. They just need to start “working on the business instead of in it,” hire the right sales person, or replace an employee that’s a bad seed.

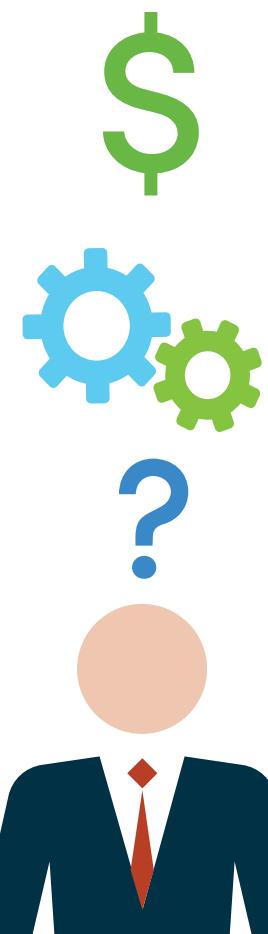
There always seems to be something that will change everything soon. But when I see them six months or a year later, guess where success is ... still around the corner.

I’ve studied this mentality over my 20 years as a business owner and have found one key factor that contributes to it: **Things are always great in the future.**

In the future, you’ll have time to work on the business. In the future, you’ll focus on sales or spend more time on process. The problem is every business owner is busy in the present. When next week or next month comes along, you’re still just as busy working on urgent things, and the important tasks never get done.

Business owners are hoping to come into work one day and find that there are no emails, no service tickets, and no client issues or employee issues. In my 20 years as a MSP, that day has never come. The first step toward success is to understand this reality and plan for it.

That means if you want to make your MSP more profitable, you need to take action today.



How Profitable Is Your MSP?

For MSPs, it's often difficult to gauge your profitability levels. There's no one-size-fits-all answer for increasing your profitability because there are multiple measurements to be considered. **Before you can increase your MSP profitability, you first need to understand the critical MSP profitability indicators: leverage and all-in seat price.**



Leverage

Leverage is the amount of annual service revenue you generate in relation to the total number of employees in your business. To put it simply, leverage is the relationship between an hour worked and a dollar billed to your clients.

By generating more service revenue per employee, you'll see a dramatic increase in your profitability. Set a target of \$150,000 of annual service revenue per employee. **Top providers reach leverage targets that are upward of \$170,000.** If your annual service revenue is under \$125,000, you fall into a low-leverage category and should make it a priority to optimize your efforts.



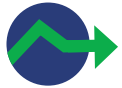
All-in Seat Price (AISP)

Are your clients paying you enough to support their IT needs? Your AISP gives you this answer. Calculate your AISP by adding up your average amount of monthly recurring revenue and then dividing that number by the seats you support.

“Only top MSPs –which make up about 10% of the industry–have profit margins two to three times higher than average.”

MSPs charge anywhere from \$50 to \$200 per seat. The key to increasing your AISP is using your unique selling points as a competitive advantage to increase the value you bring to your customers. What sets your MSP apart?

How to Escape the Profitability Plateau



Are your monthly recurring revenue numbers plateauing at \$75,000 to \$100,000 a month? Is your profitability stagnant while you struggle to increase sales?

Often, this is where MSPs get stuck. You've nailed down your processes and made a few sales, but there's still something missing. You're working hard, but you can't break through that barrier to increase monthly recurring revenue.

So, what's the answer? Hire more people? Rework your service offerings? Focus more on sales?

Unfortunately, the answer isn't as simple as "sell more."

How Did You Get Stuck in the First Place?

To break through the profitability barrier, IT service providers often start adding new clients. But, with every new client, the number of IT tickets for user requests and monitoring alerts starts to climb. Employees focus solely on [getting those tickets closed each day](#), but they still continue to pile up.

I call this the "reactive spiral of death." In it, you have no time to spend on improving your business or [addressing proactive efforts](#), like IT system alignment and optimization of your clients' operations.



The Numbers Behind Your Struggle

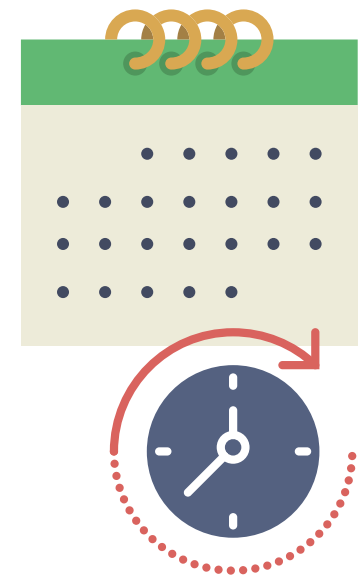
To start your journey toward wiping out your reactive habits, look at two numbers:

- Tickets per endpoint per month
- Average ticket resolution time

The average MSP stuck below the \$100,000 barrier generates 0.75 to 1.0 ticket per month per endpoint. This includes all reactive tickets from end users, system and monitoring alerts, system failures, and any unexpected issues that arise.

Top-performing MSPs, in comparison, only generate between 0.2 and 0.5 tickets per month per endpoint. That's a significant difference.

Evaluate your average resolution time. How much time do employees typically spend on resolving and closing IT tickets? **MSPs that are stuck below the barrier usually spend a full hour closing one ticket. Top MSPs, however, spend under 30 minutes per ticket.**



“To break through the profitability barrier, IT service providers often start adding new clients. But, with every new client, the number of IT tickets for user requests and monitoring alerts starts to climb.”

Breaking Bad, Reactive IT Service Habits



Employ the following five tactics to increase your productivity and monthly recurring revenue.

1. Standardization and Alignment

Most providers only implement standards two times: when they install something new and when something needs to be fixed. Every firewall, cloud service, and IT system is secure and working properly the day it's installed — but what happens when employees actually start using it? That's where your IT tickets come from. **Alignment with technology standards should be an ongoing, continuous process.**



2. Implementation of Network Administrator

Without resources dedicated to making standardization happen, you won't see any improvement. That's where the network administrator comes in. It's this person's job to align each client's IT system with your company standards.

With the network administrator's focus on standardization, you're able to eliminate many IT tickets generated from systems that are out of alignment. This frees up other employees who are drowning in IT tickets — and it frees you up to focus on improving your business model.



3. Be process driven

MSP processes should fuel your business. The more efficiently you're using your processes, the more profitable you'll be. To effectively develop a process-driven company culture, it's critical to take the following actions.

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4. Engage Your Entire Team

If you want to see real change in your team's view of MSP processes, you have to set the example yourself.

Communicate that defining, aligning, and optimizing processes is a top priority. Then make time for your team members to evaluate the processes they use daily, identifying where changes could be made.

Your entire team should have a hand in creating the business' processes. You don't want your employees to feel like they're simply cogs in the machine, and the best ideas come from the people implementing processes daily. So, get everyone involved and listen to what your team has to say.



5. Optimize Regularly

A huge mistake many MSPs make is establishing processes and then sticking to them for too long. Processes should be a living part of your organization, regularly evaluated and adjusted.

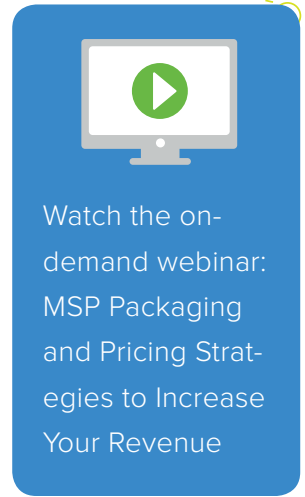
Ensure that your processes grow and change as your business grows and changes. Small MSPs operate very differently than mid-size or large MSPs. The larger your company gets, the more complex its processes tend to become. To keep up with your team's growth and the needs of your clients, set a regular schedule for process evaluation and improvement.

While new ideas and suggestions from your team are always welcome, you should designate a specific time on a quarterly or annual basis to review your playbooks and speak with team members about what changes could benefit the company.

Conclusion

If you want to make your MSP more profitable, the time to take action is now. Don't fall into the trap of thinking that it will be easier to make changes in the future—otherwise success will always be “around the corner.”

Take an honest look at your current profitability and the barriers that are holding you back from increasing your monthly recurring revenue. Identifying these factors will help you lay the groundwork for moving ahead. Put the advice in this playbook into action and address the five areas you need to improve to become more profitable – leverage, all-in-seat-price, tickets per endpoint per month, average ticket resolution time, and service processes. Making these changes won't be easy, but it will be well worth the time and effort when you break out of the profitability plateau and start reaping the benefits.



About the Author: Gary Pica is a pioneer in the managed services field. He is one of ChannelPro's 20 industry visionaries and MSP Mentor's most influential leaders. He has already built two top performing MSP's.



Today, Gary is the President of TruMethods, a training, peer and accountability firm aimed at helping IT solution providers reach their full potential as MSPs and cloud providers. Gary shares the key ingredients that transformed his business and his life through his training process. Today, hundreds of IT providers around the world utilize the TruMethods business transformation framework. Learn more at www.trumethods.com.

About Barracuda MSP:

As the MSP-dedicated business unit of Barracuda Networks, Barracuda MSP enables IT managed service providers to offer multi-layered security and data protection services to their customers through our award-winning products and purpose-built MSP platform. Barracuda MSP's partners-first approach focuses on providing enablement resources, channel expertise, and robust, scalable MSP solutions designed around the way managed service providers create solutions and do business. Visit barracudamsp.com for additional information.