Acronis

Pricing, packaging, and margins:

How MSPs can solve for profit

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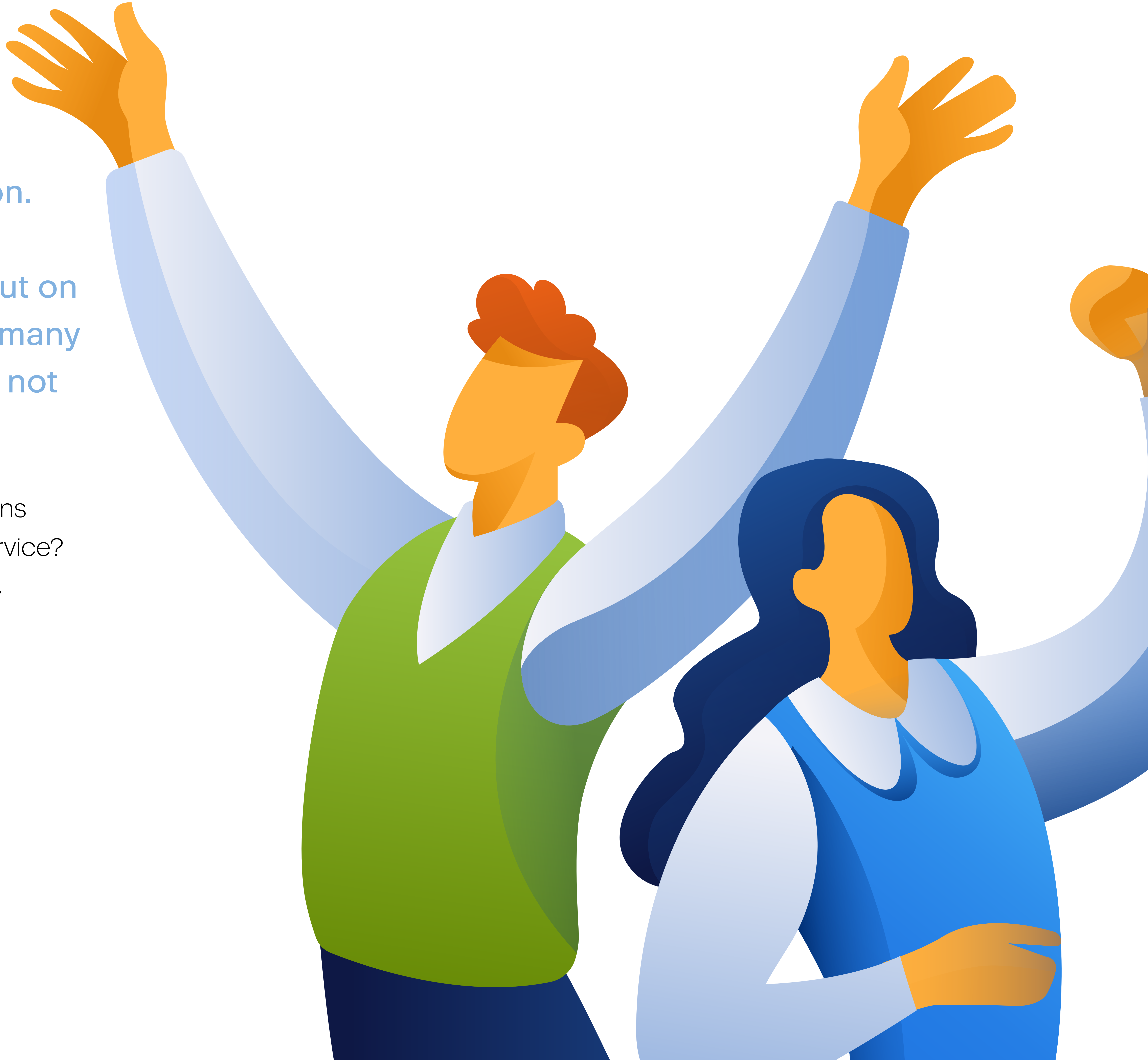
Introduction

Today's technological and business landscape puts managed service providers (MSPs) in a unique position. While the services that MSPs provide are in greater demand than ever, the complexities those demands put on the MSPs themselves are increasing. This means that many MSPs are walking a fine line between profitability and not meeting their business goals.



Where is your income coming from? How do you manage your operations more efficiently and keep profitability in mind while delivering a quality service?

In this guide, we'll look at how MSPs can find a path toward profitability by optimizing the way that pricing is calculated and applied.

Today's challenges for MSPs

It's no secret that there are more vectors for vulnerability than ever before — especially since the global pandemic gave rise to remote work trends. Since the onslaught of COVID-19, cybercrime has spiked by a staggering 300% and MSPs are hard pressed to make sure their clients are protected.

What is making it more difficult for MSPs to do that? For one, data is everywhere now, and that makes it harder to secure. This undermines the effectiveness of the usual MSP security tools, with 57% of attacks missed by traditional methods.

The manual workload involved is also increasing due to the sheer number of vendors and workloads involved in trying to orchestrate this new, more distributed landscape. As much as 69% of security professionals spend more time managing their tools than they do managing threats.

This isn't all bad news, though. There is an opportunity here for MSPs because clients are more dependent on finding solutions that can help secure and control their environments. Your business clients are increasingly aware of the importance of cybersecurity. Plus, most companies lack sufficient expertise to deal with these increasingly complex threats.

In short, MSPs need to reduce client risk and build trust while they simultaneously fight complexity, security, and costs.

More workloads, more devices, and more remote work mean MSPs face the following challenges:

- Advanced threats and attacks that push security infrastructure to its limits
- Increasingly exposed perimeters and disparate or fragmented remote work and security instances
- Shortage of security talent

And MSP clients have their own list of challenges and goals that they demand from their service providers:

- They see digital trust as enabler of innovation
- SMB leaders are demanding that security become a predictive operational expense
- Ensure employees are productive and can recover from data loss or downtime

In the past, many organizations perceived security as an obstacle to innovation; now they see digital trust as a valuable trait for their businesses. This shift in thinking presents a real opportunity for MSPs to grow their profitability by building better digital trust. Security needs to become a predictable operational expense that can fit a business budget. “Geek speak” and ever-increasing security expenses aren’t going to cut it.

Now is the time to modernize your security services so your clients are protected — diminishing both their risks and yours in the process.

The cyberthreat landscape is becoming more complex

300% spike in cybercrime during the COVID-19 pandemic

57% of attacks are missed by traditional antivirus solutions

69% spend more time managing tools than defending against the threats

***Sources:** Acronis Cyberthreats Report 2020, Acronis Cyber Readiness Report 2020, FBI

What MSPs are missing

No organization can ever fully safeguard from a security breach, but the essential security solutions are readily available today. Unfortunately, they tend to be very specific in their function or category, and rarely integrate or talk to each other. This is true for vulnerability assessments, patch management, health and performance monitoring, or backup and disaster recovery.

Also, vendor sprawl is an issue. Mismatching of solutions leaves perilous gaps or inefficient overlaps in security and places a resource burden on your personnel and processes. Just think of the number of different security and management procedures, hours of training, and volume of documentation that are needed for each vendor's solution. It adds costs, complexity, and vulnerabilities.

Between administering numerous consoles, setting up billing, and onboarding and offboarding, these tasks add up fast. It's the kind of situation that no business wants for itself, and neither should their MSP.

Your MSP stack and processes

When looking at the average MSP's stack and processes, it's easy to see why vendor sprawl has become the biggest threat to scalability in the business today.

Health and performance monitoring

Backup and disaster recovery

Anti-ransomware/ malware

Reporting

Remote management and assistance

Patch management

Vulnerability assessments

People / Processes

- Security and management procedures
- Training
- Documentation

Administration overhead

- Consoles
- Billing
- Onboarding / offboarding

Technology

- Licensing
- Maintenance and change management

In this glut of services, tools might be mismatched and the responsibility for carrying all of these solutions falls on your teams. This kind of vendor sprawl — where it saps your internal resources — is called endpoint bloat.

Endpoint bloat refers to the ballooning resources your company has to expend in order to juggle multiple vendor technologies. Consider that each client you have may run a different solution. If you have ten clients, each one of your workstations will need to be occupied by those ten different vendor solutions. This is a dangerous situation because those multiple systems each have their own — and often contradictory — system requirements and demands.

That can open the door to vulnerabilities. According to Absolute's 2021 Endpoint Risk Report, 70% of breaches originate on the endpoint, and due to numerous security tools colliding and competing for your machine's resources, there is a high likelihood that devices will experience an encryption failure within a year.

It should be noted that this problem is unique to MSPs. Enterprises have the luxury of using a single vendor and an in-house team to handle all of their operations from a single pane of glass. This makes it easier for those organizations to meet their compliance and audit requirements.

MSPs have to manage with a lot less. They may not have the extensive security team that enterprises employ, and they definitely don't have the same kind of budget. This makes auditing and compliance much more complex. The kind of small business clients that MSPs serve rarely have an annual cybersecurity budget that exceeds $5,000. That is a considerable challenge for MSPs.

MSPs need a clearer path to success.

Understanding profits

MSPs can solve these challenges by optimizing the way their service pricing works. First, let's consider the different types of pricing plans that MSPs can offer:

À la carte pricing:

This lets your clients choose individual, relevant services without an obligation to pay for services they won't use.

Per-user pricing:

This includes a flat fee for each user. All of a user's multiple devices are covered, no matter how many devices they have.

Flat-fee pricing:

This "all-you-can-eat" value-based, standardized model is sometimes abbreviated as AYCE. Flat-fee pricing bundles all the services you provide for a client for a single charge — regardless of how many services are used.

Bundled or portfolio-tiered pricing:

Also known as SLA-based pricing, this model provides different levels of support packages. Some services are better than others, and this structure gives your client a choice of how much of any service they'll purchase.

Bundled or portfolio pricing can vary depending on the level of services required. An MSP's client might have someone working in a warehouse who only needs email security and basic file backup, whereas someone in finance, HR, or legal will need a much bigger packaged service that also includes disaster recovery.

Different MSPs make different choices regarding how to make their services available to their clients. Some may offer only one or two pricing options, while others may offer them all. Ultimately, what you can offer while remaining profitable will determine which of these are the most applicable for your business.

Margin vs. markup

It will also help to have some clarity around the terms that will affect how to drive profitability through pricing.

Gross margin is the percentage of your total revenue that is purely profit. You can calculate your gross margin by subtracting the total cost of goods sold (also known as COGS or direct costs) from your total revenue, and then dividing that number by your total revenue. The quotient you receive is your gross margin. This percentage represents how much you profit on your total revenue.

$$\text{Gross Margin} = \frac{\text{Revenue - COGS}}{\text{Revenue}}$$

Markup is the setting of prices of goods and services higher than the cost of those services to the company, and it's a common way for any business to make a profit. Basically, the markup is the additional amount clients pay above cost. To find your markup, take your total profit and divide it by your total costs.

$$\text{Markup} = \frac{\text{Profit}}{\text{Cost x 100\%}}$$

Are you earning your preferred margins?

Since services are the primary source of revenue for MSPs, it's crucial that these are as profitable as possible. Using the recurring revenue model, the average MSP can expect a gross margin that reaches 40% for the services they provide. But can they possibly do better?

Carefully consider how you choose to markup a service. Markup is a simple reality of doing business. If you sell goods at cost, you aren't making any money. In fact, you're likely losing it. If you decide to mark up by 150% of the base costs, you're probably just breaking even.

A markup beyond 150% is where you'll see your first real returns. But if you can mark up to between 175% and 200% of your base costs, you'll reach the range of high profitability.

200% to 20% of base cost	Street	Highly profitable
150% to 200% of base cost	Strike	Adequate profitability
100% to 150% of base cost	Floor	Cover costs
100% of 150% of base cost	Cost	Losing money

Common pricing questions

It's become clear that MSPs face two primary challenges:

- Building and maintaining optimal service delivery platforms
- Creating a balanced cost and price framework that's equitable for both themselves and their customers

An optimal service platform lets your clients feel they are getting a great service for the price while enabling you to maintain profitability for your company. Both of these points are important.

A poor service platform will leave clients dissatisfied unless you discount rates accordingly — though that will come at the expense of your profitability and long-term success. Likewise, if you have a great service but overcharge for it, your clients may look for a less expensive option. This will also negatively affect your profitability.

Here are some common questions that MSPs can ask themselves to determine whether their services are being priced adequately:

How can we tell if we are making money?

Are there parts of our service that could be monetized?

How can we justify charging our clients more?

Pricing for profit

Pricing correctly in order to make a profit is one of the easiest ways to run a successful MSP. There are three components to pricing your services that need to be considered in order to do this:

- Labor costs
- Product costs
- Desired margin

Determining the proper price to charge is a multi-step process. Here's how to use these numbers to calculate your best rate:

Step one: Calculating labor costs

The first step is to calculate your labor costs. Labor costs aren't just the salary or rate at which your employees are paid. For example, an employee making $25 an hour has a base annual salary of around $52,000; but the costs for that employee on a yearly basis are actually much higher.

The total labor costs of each employee include:

- Base salary
- Other earnings
- Payroll taxes
- Overhead
- Training and education
- Benefits

As you can see in the table on the right, that $25-per-hour employee does not cost you the annual base salary of $52,000, but rather much closer to $72,000 per year. This is the **actual** cost of your employee.

There's also another, simpler method to calculate these total labor costs. If you multiply your employee's base salary by 1.3 (which is a 30% markup), you'll get a number that is much closer to the actual cost of the employee.

Some locations with higher-than-average costs of living (such as San Francisco or New York) will require that you multiply by a higher markup rate — one that is closer to 35% — to reflect a more accurate simplified cost. In more rural areas, that markup can be lowered to a more realistic 25%. What's most important is that it reflects the conditions in which your business operates.

Based on the calculations in the table to the right, your $25-an-hour employee is actually costing you closer to $34 an hour. This is a more reliable number that you can use to determine how to price your services profitably.

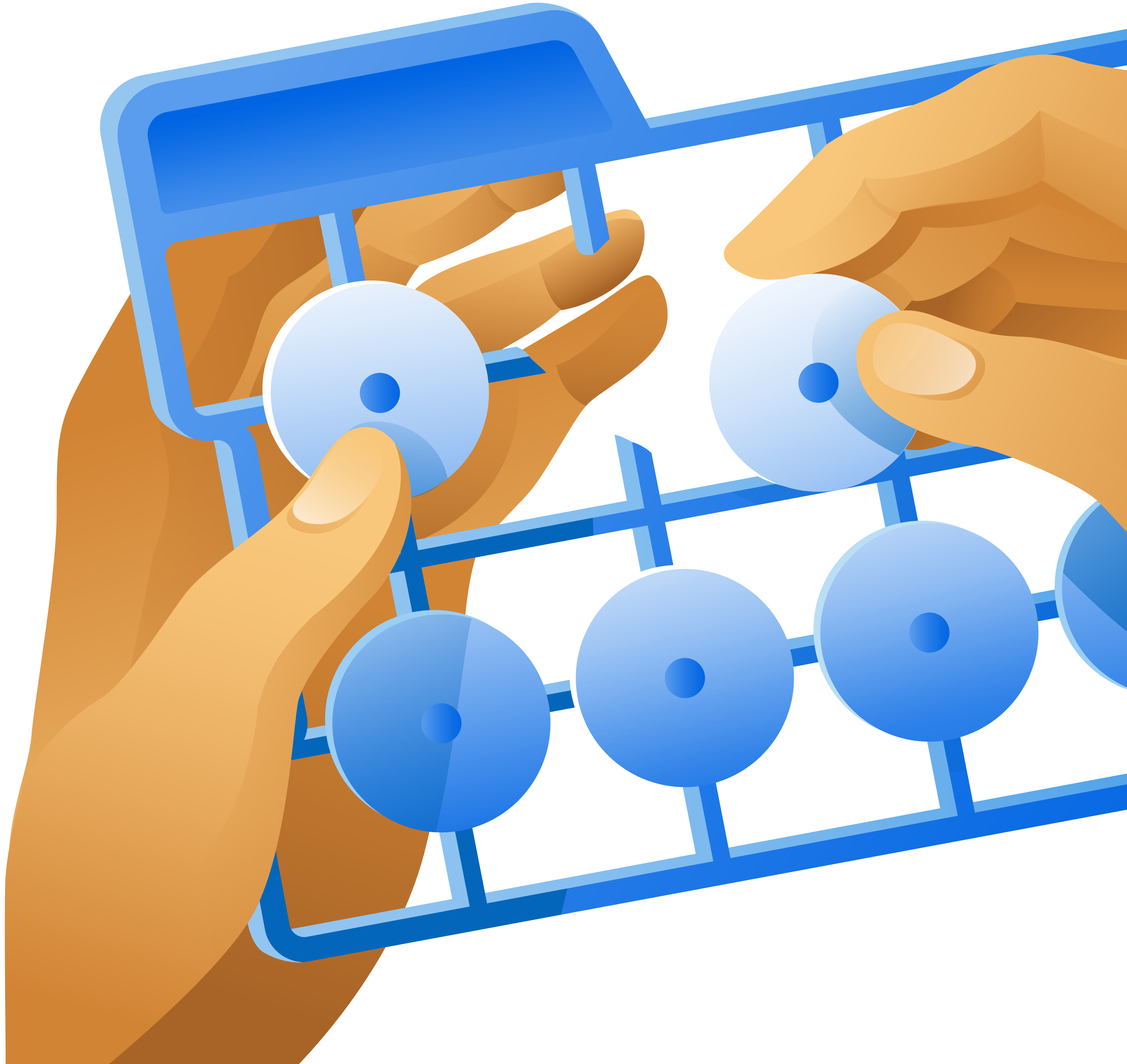
		Monthly	Annual	Simplified
Total earnings		**4,333.33**	**51,999.96**	**70,199.95**
Benefits	**Rate**			
Employer taxes — Social Security	6.200%	268.67	3,224.00	
Employer taxes — Medicare	1.450%	62.83	754.00	
Employer taxes — FUTA	0.600%	26.00	42.00	
Employer taxes — SUTA	1.000%	43.33	80.00	
Overhead expenses	5.000%	216.67	2,600.00	
Worker's compensation premium	5.600%	242.67	2,912.00	
Medical / dental premium		750.00	9,000.00	
Pension / retirement	3%	130.00	1,560.00	
Total benefits		**1,740.17**	**20,171.99**	
Total fully-burdened cost		**6,073.50**	**72,171.95**	**70,199.95**
Working hours per year			**2,080**	**2,080**
Hourly burden rate			**34.70**	**33.75**

Step two: Calculating product costs

How much do your services cost you? Help desk services, Microsoft 365, endpoint monitoring, tax management, backup protection, and the many other services that come together to provide your customers with the capabilities they depend on.

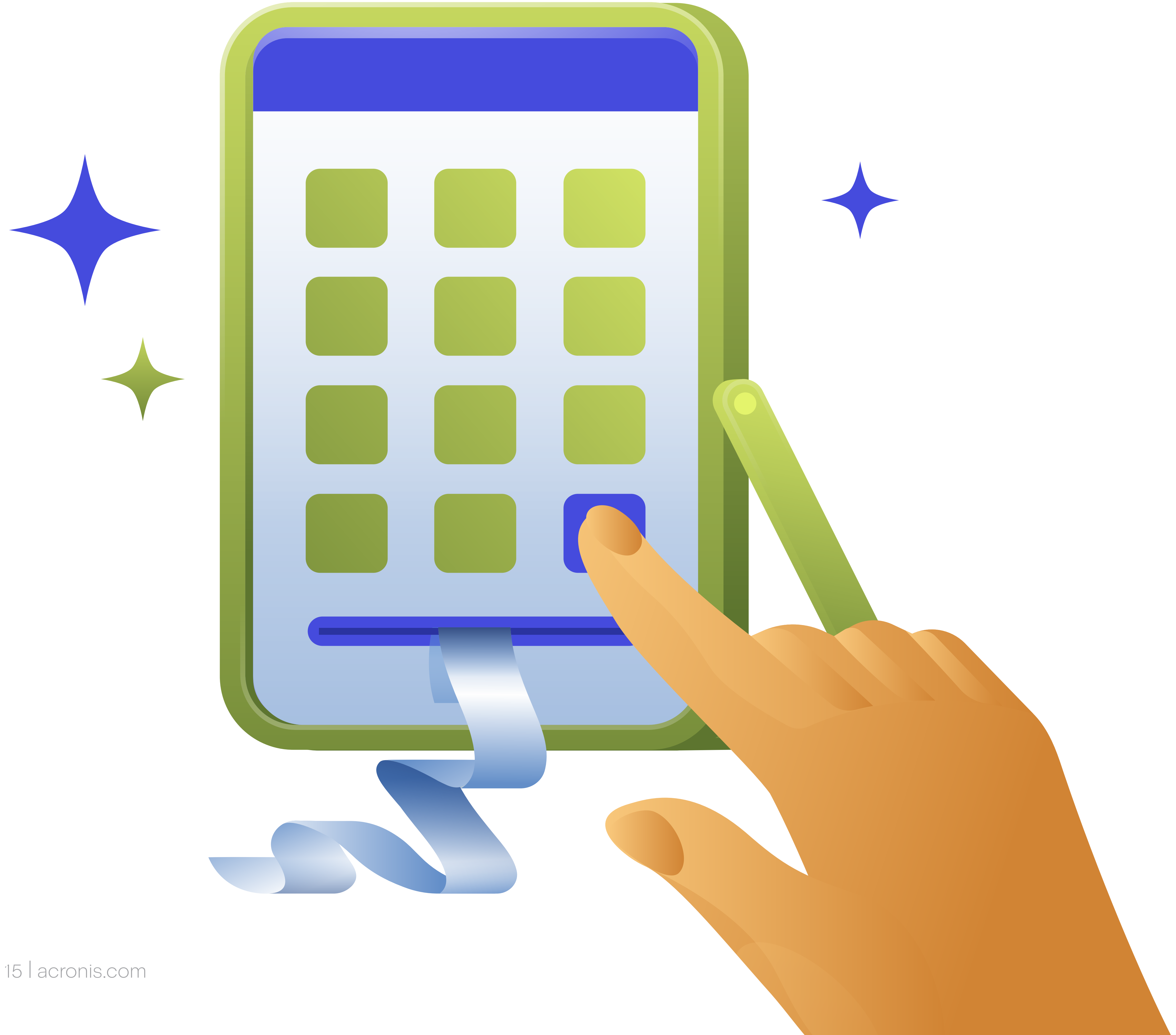
These costs can add up, but Acronis' suite of services gives MSPs a competitive advantage when it comes to covering the price of those services.

Current pricing and services schedule	Cover those services with Acronis
Help desk services	—
Microsoft 365 license	Acronis Cyber Protect Cloud with Advanced Email Security, Microsoft 365 Backup
Windows license	—
Backup license	Acronis Cyber Protect Cloud with Advanced Backup
Endpoint protection license	Acronis Cyber Protect Cloud with Advanced Security
Network monitoring and management license	—
Device and patch management license	Acronis Cyber Protect Cloud with Advanced Management
Training costs	Acronis #CyberFit Academy



Step three: Calculating service pricing

Using the simple service pricing calculator provided in the chart below will help you better determine your service pricing.



Constants	Rate	Multiplier				
Company gross profit margin	40%	1.40				
Desired margin	50%	1.50				
Labor multiplier		3.50				
Per unit or device	**Units**	**Unit cost**	**Total cost**	**Unit price**	**Minimum price**	**Margin**
Acronis bundled services	15	25.47	382.05	38.21	573.08	
Physical server	1	–	–	–	–	
Advanced backup server	1	–	–	–	–	
Virtual machines	4	–	–	–	–	
Labor hours per unit per month	0.25	32.50	121.88	28.44	426.56	
Totals			**$503.93**	**$66.64**	**$999.64**	**49.6%**
Recommended bundled price				$99.00	$1,485.00	66.1%

If your goal is to earn a 50% margin on your services, you need to use a labor multiplier, which you will have determined in step one. In this case, that labor multiplier is 3.5, which falls exactly in the Cinderella zone of 3.5–4. This is the range that ensures your overhead expenses are covered and your profit margins are acceptable.

Next, detail the services you'll provide for your clients (the example in the previous paragraph includes a number of Acronis services). For each of these services, enter the number of units in use, your total cost for each service, and the price you will ask the client to pay for that service. This will automatically return the minimum price that you can charge for those services and still return a profit.

In this example, the minimum that the customer can be charged to maintain a 49.6% profit margin is $999.64. However, you'll notice that in the final line of the calculator, we have a recommended bundled price that is somewhat higher than that initial result. In this case, charging a bundled price of $1,485 yields a profit of 66.1%.

This is a much better profit margin for an MSP to operate in, as it ensures that the business costs are covered while returning more than double the initial outlay. This is how MSPs reach the next level of profitability.

Constants

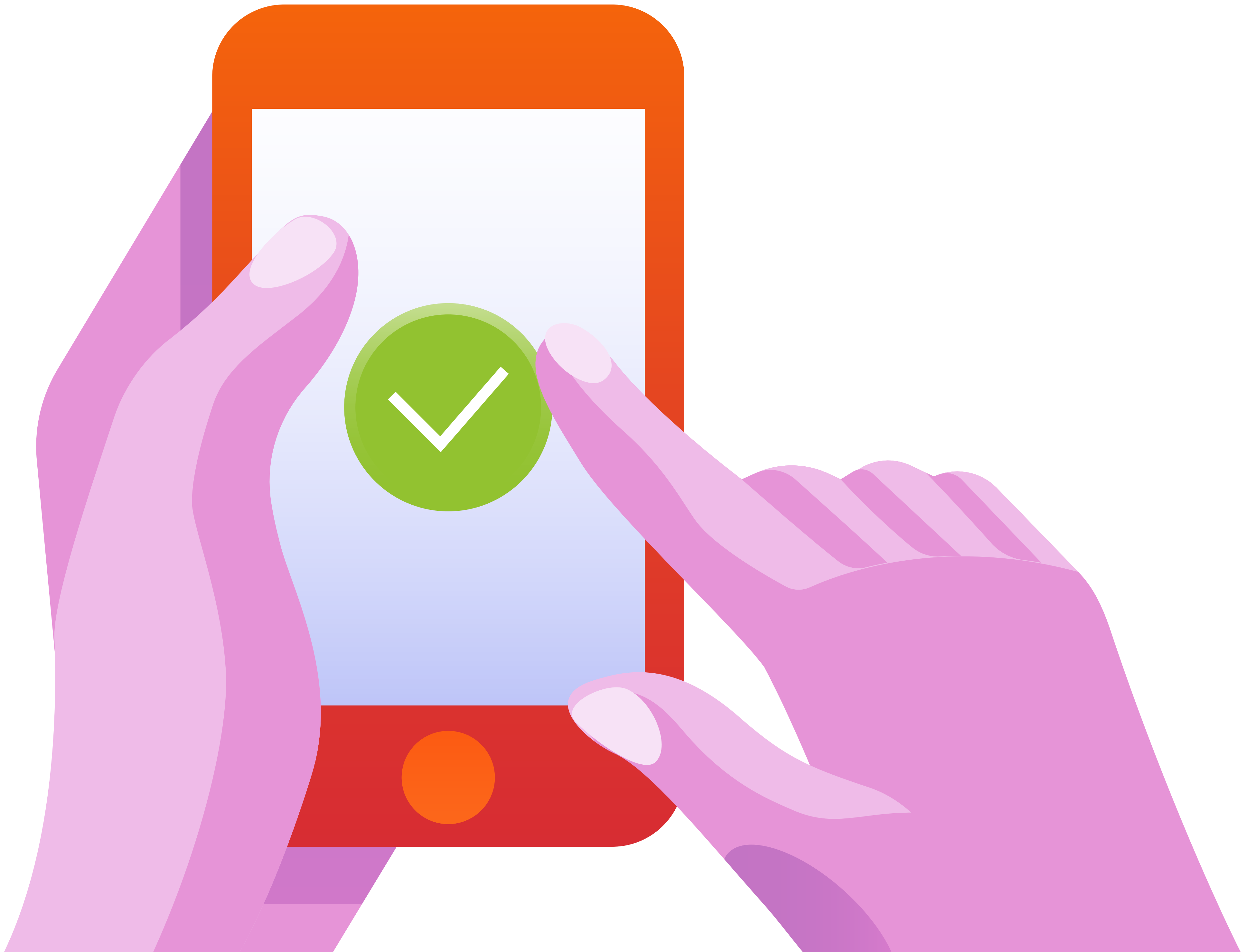
- Company overall gross margin
- Desired product margin
- Labor multiplier for billing rate

Pricing calculation

- Per unit
- Extended

What solutions can help MSPs change their approach?

It's clear that rising complexity and changing demands have put MSPs in a delicate position. Recent Forrester findings have shown that on average, an MSP's profit margin now stands at just 17%. A core issue with this drop in profitability has been the inability of MSPs to shift to business models that offer more flexibility.



With typical per-device or per-user pricing models, your client has a simple "yes" or "no" decision to make. If you offer separate service options instead — basically good, better, and best — it changes the client's buying decision from "Should I or shouldn't I?" into "Which of these solutions works best for us?" The availability of these additional options also gives you the opportunity to upsell to clients over time.

This represents a better go-to-market strategy. This strategy assumes that 15% of customers will engage in the lowest option; 60% will engage in the middle option; and 25% in the top option. This pattern maps directly to the business scale of your clients:

Startup:

Best for businesses with less than $1 million in annual recurring revenue (ARR)

Rapid growth:

Best for businesses with $1–$10 million in ARR

Enterprise:

Best for businesses with greater than $10 million in ARR

Different needs, different plans

Consider how Acronis pricing works for three different business models:

$69

Kiosk employee:

- Email security
- Antivirus and malware protection
- VoIP (OmniVoice)

$99

Administrative office staff:

- Email security
- Antivirus and malware protection
- VoIP (OmniVoice)
- URL filtering

Network security

Hardware and software management

firewall

- Password management
- Upgrades and patching

$159

Administrative office staff:

- Email security
- Antivirus and malware protection
- VoIP (OmniVoice)
- URL-filtering

Network security

Hardware and software management

firewall

- Password management
- Upgrades and patching

2FA

- Drive health monitoring
- Continuous data protection
- Reporting
- File sync and share with e-signatures
- Disaster recovery

These need not be mutually exclusive plans. There may be situations where all of these options will be both viable and cost effective for a single client.

Selecting the right vendor

It's important to review your clients' vendor partners against your service offerings. This should be a regular review process. For instance, if you've been in business for over ten years, you're likely using different vendors now than when you started.

Here are some of the questions you should ask during your vendor review process:

- What tools do you have now?
- Are they doing what you need them to do?
- How do you utilize them?
- Does your current stack protect you from cyberthreats?

What you need to do, based on the answers above:

- Choose a pricing model to hit your margin sweet spot
- Select the right array of services
- Package your new services as a standalone or upsell offer
- Prospect for promising leads
- Craft a winning sales pitch

Manage unexpected workloads and eliminate unplanned work

It's no secret that greater efficiency brings greater profitability. The key to efficiency today is automation.

To reduce the possibility — and inefficiency — of human error, your MSP should automate as many tasks as possible. PSAs, RMA tools, and even security tools can all be automated. When you deploy policy-based automation with proactive remediation, you'll increase productivity. Automate deployment of software, manage patches, and proactively resolve issues across your complete environment.

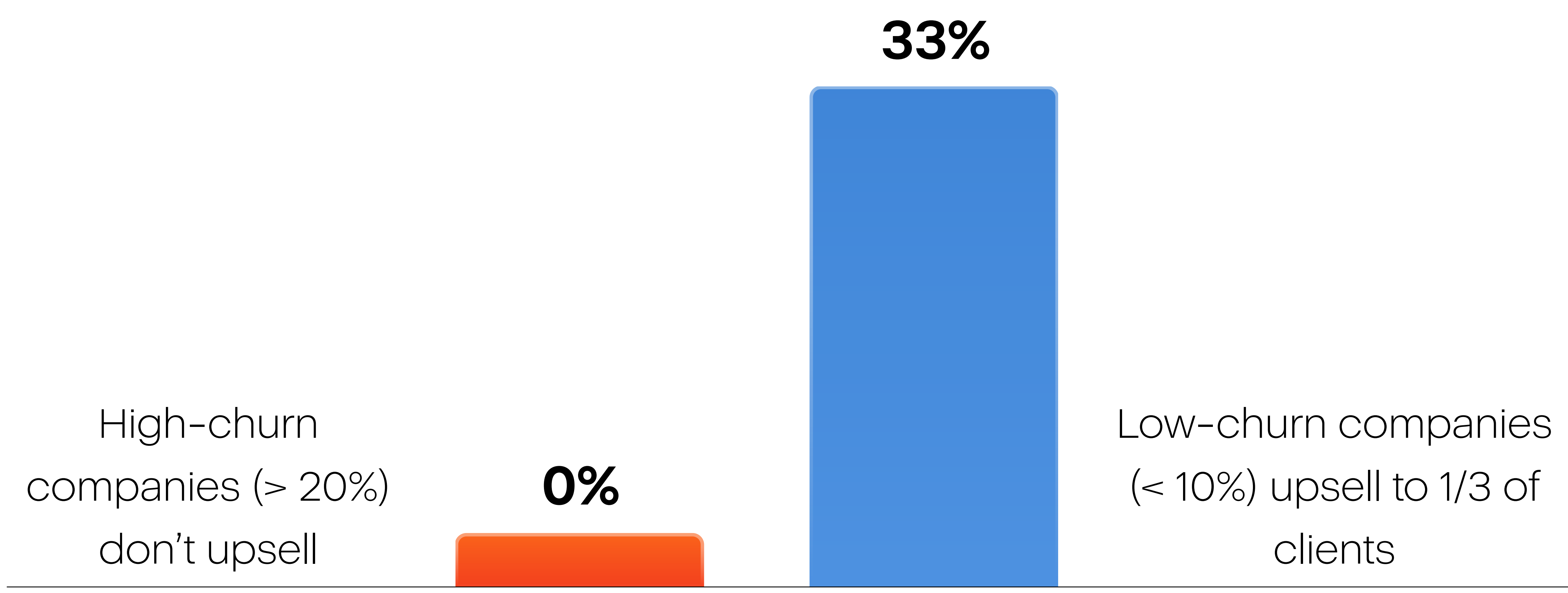
Deliver lower risk and better services for higher profits

Service option upselling is a key to growth. For most organizations, acquiring new customers is seen as the key driver to expanding your business. But that's not necessarily true if you're using a subscription model.

In a subscription model, you're not only looking at the number of new sign ups, but also the customer churn rate and the cost per acquisition. These latter two points will play an even bigger role in your business growth than new customers. Upsell in particular is how growing companies hack their churn rate — the turnover between new customers coming on and those deciding to leave. Providing a customer with a higher service level, rather than telling them you have nothing more to offer, helps to retain them and takes the pressure off of having to replace them.

As you can see in the graph below, it's four times more expensive to find and sign up a new customer than it is to upsell an existing one. This makes defining the benefits of the next service tier pivotal, so that you're prepared to appeal to customers who may be thinking of moving on.

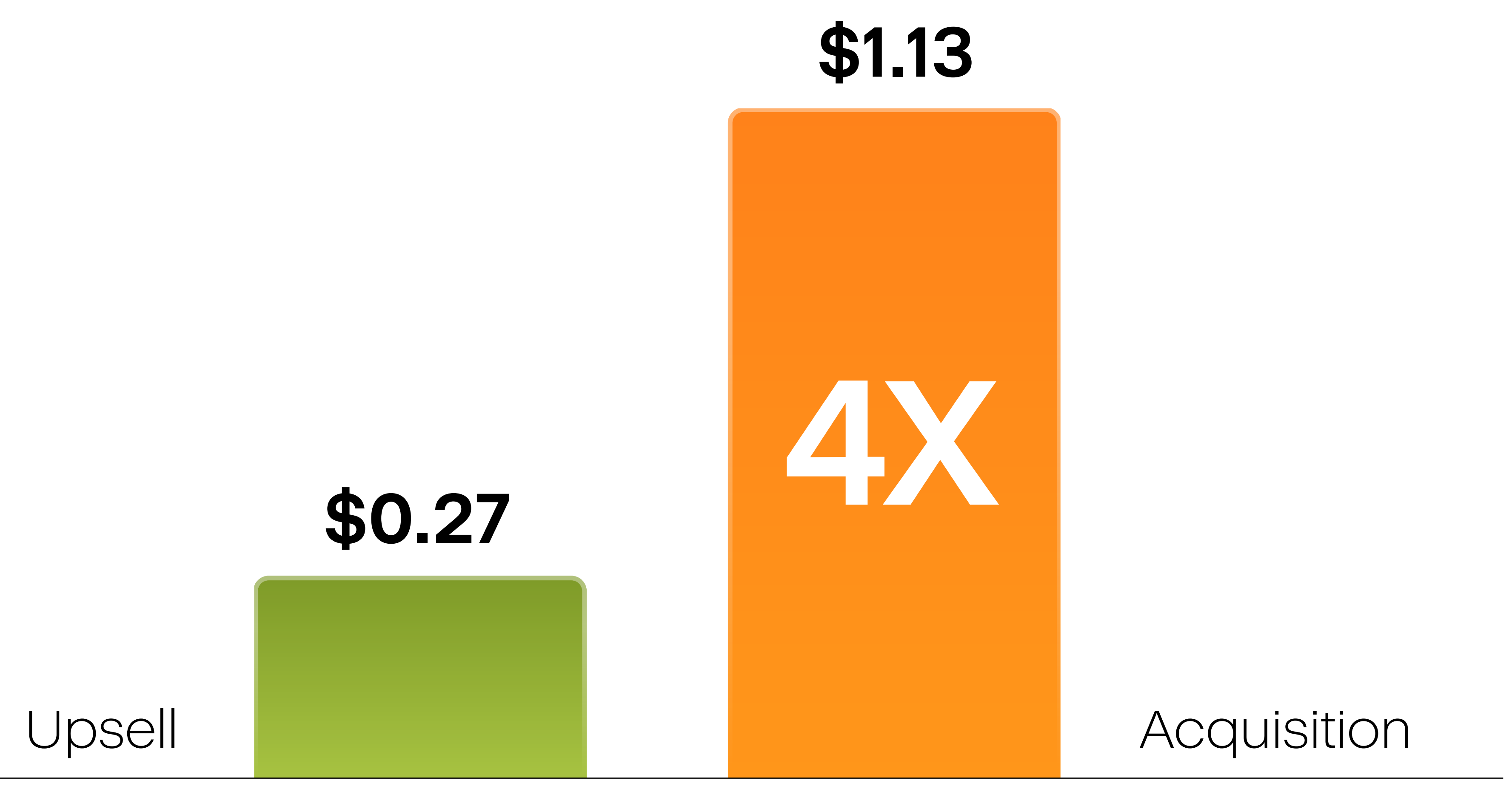
Lower churn rate



Percent of customers that buy more than one service

4x cheaper

to offer higher service levels than new client acquisition

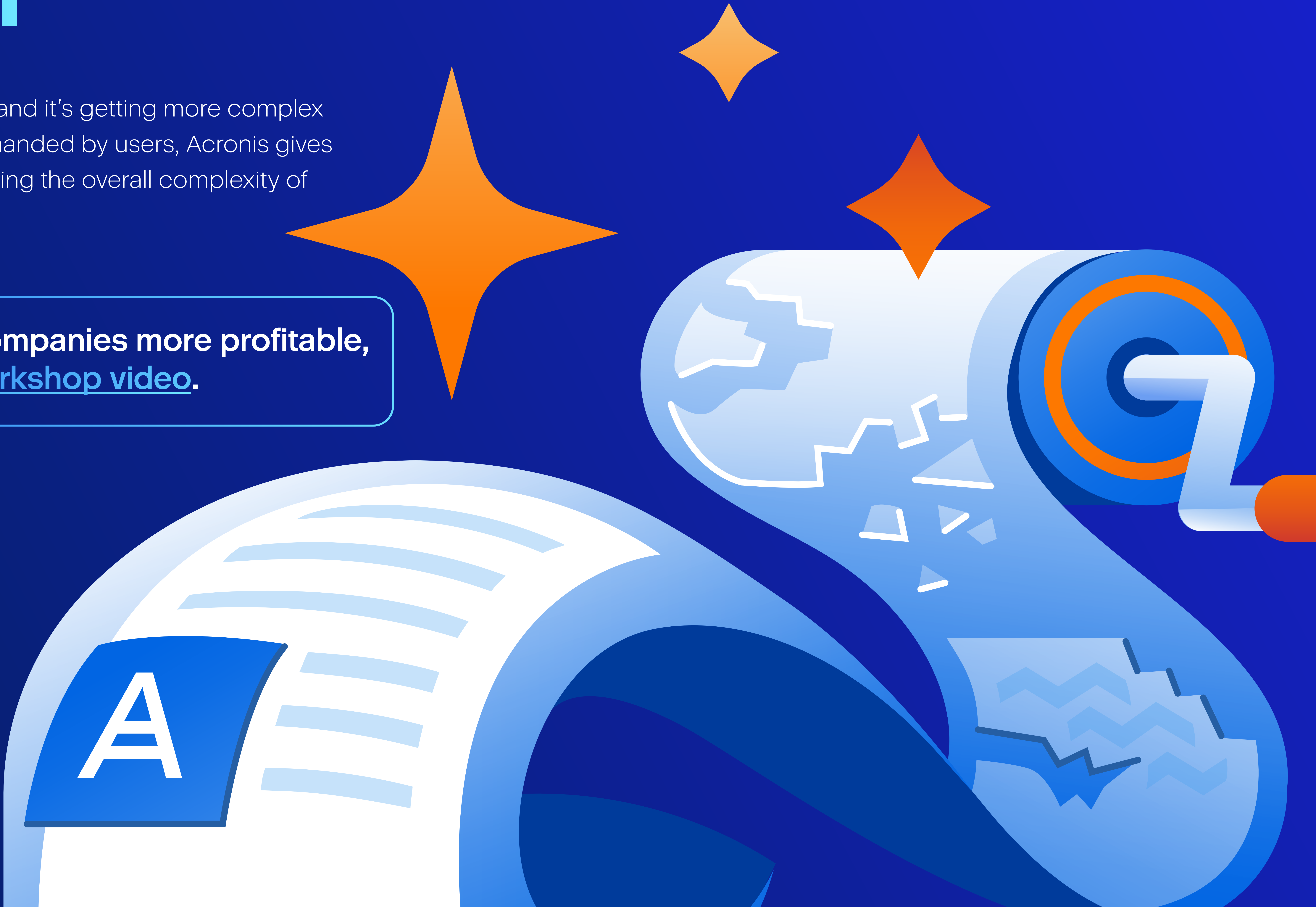


Cost to acquire $1 of annual contract value

Conclusion

The path to profitability is difficult for MSPs, and it's getting more complex all the time. To stay on top of the changes demanded by users, Acronis gives MSPs a clear way to maximize profits by reducing the overall complexity of your clients' deployments.

To see how Acronis is making companies more profitable, learn more in our Profitability Workshop video.



Acronis

About Acronis

Acronis unifies data protection and cybersecurity to deliver integrated, automated cyber protection that solves the safety, accessibility, privacy, authenticity, and security (SAPAS) challenges of the modern digital world. With flexible deployment models that fit the demands of service providers and IT professionals, Acronis provides superior cyber protection for data, applications, and systems with innovative next-generation antivirus, backup, disaster recovery, and endpoint protection management solutions powered by AI. With advanced anti-malware powered by cutting-edge machine intelligence and blockchain based data authentication technologies, Acronis protects any environment – from cloud to hybrid to on premises – at a low and predictable cost.

Founded in Singapore in 2003 and incorporated in Switzerland in 2008, Acronis now has more than 1,700 employees in 34 locations in 19 countries. Its solutions are trusted by more than 5.5 million home users and 500,000 companies, and top-tier professional sports teams. Acronis products are available through over 50,000 partners and service providers in over 150 countries and 25 languages. For more information, visit www.acronis.com