



**Industry Survey:
How Most MSPs Are Structuring
Their Service Offering And
Charging For Their Managed
Services Contracts**

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MSP Success Magazine
www.MSPSuccessMagazine.com**



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Published by:

Technology Marketing Toolkit, Inc.
751 Cool Springs Blvd., Suite 104
Franklin, TN 37067
USA

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Industry Survey:

How Most MSPs Are Structuring Their Service Offering And Charging For Their Managed Services Contracts

Your personal prosperity – and the success, growth and stability of your company – starts with how you price your services.

Yet one of the toughest, most emotional and bedeviling decisions every MSP struggles with is how to set their prices. Most grossly undercharge and willingly accept making a lot less money because of their emotional, often irrational fears about pricing themselves out of the marketplace, losing clients and appearing to be greedy, and their unreasonable and unspoken insecurities about the value they offer. Oddly, that fear is much greater than the more appropriate fear of not making money.

But when you start talking about pricing with most MSPs, the conversation centers on the mechanics of pricing and model. How or what you're charging by the device, user, site or some other factor, along with what you are including, charging extra for, etc. And while that certainly IS good data to have (and information we'll cover in this report), a more important discussion should be around what you need to do to command fees higher than your competition and still consistently win clients and keep them long-term.

So, let's start by scratching the itch of what and how 329 of the MSPs in our survey stated they are charging for their services, and then discuss the five biggest reasons MSPs get fee resistance (and what they can do about it).

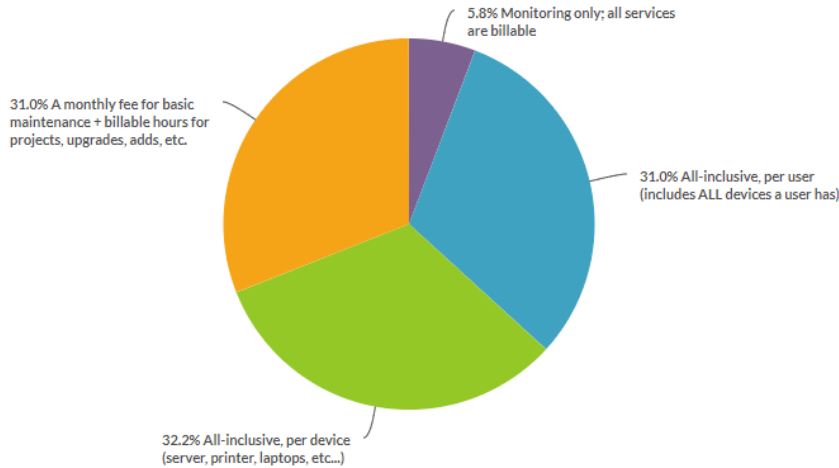
What Managed Services Model Is Most Common Among MSPs?

Interestingly, the response to how the MSPs in our survey stated they were charging was almost evenly distributed by per user, per device or a monthly maintenance fee plus billable hours (see Question 2 in this report). Essentially, this reveals that there is no one "industry norm" to charge for your services. However, from my experience in working with thousands of MSPs, the ones that tend to have the highest gross margins are those that do NOT sell an "all-inclusive" service and instead charge a basic maintenance fee with all other services billable.

The problem with "all-inclusive" models is that it uncouples the hours your techs (or you) invest in resolving problems from what you're billing a client. When you know a client is going to get a bill, you tend to not waste time fixing and resolving issues, and you are (obviously) ensuring you get paid for situations, problems and projects that arise that require an above-average number of hours to resolve. Another problem with "all-inclusive" models is that the client's expectation is that EVERYTHING is included, and that is not always the case.

I coach my clients to NOT do a blanket “all-you-can-eat” model because 1) you’re not a buffet, and comparing yourself to this lowers the professionalism and value you deliver, and 2) it’s a bad precedent to set with any client. Instead, it’s smart to have a clear, agreed-upon set of services you are going to deliver every month for maintenance, support, etc., but then charge for projects and other services that are not normal and regular maintenance.

2. Which managed services model is MOST similar to yours?



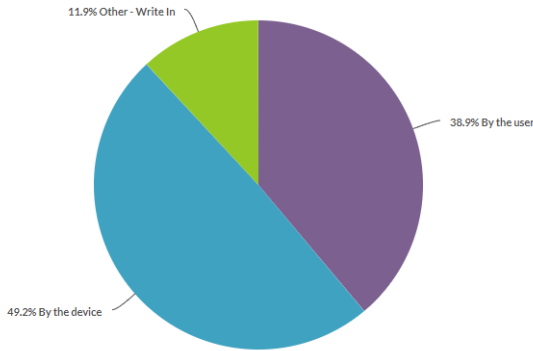
Value	Percent	Responses
Monitoring only; all services are billable	5.8%	19
All-inclusive, per user (includes ALL devices a user has)	31.0%	102
All-inclusive, per device (server, printer, laptops, etc...)	32.2%	106
A monthly fee for basic maintenance + billable hours for projects, upgrades, adds, etc.	31.0%	102

Totals: 329

Following that question, the most common way of pricing is by DEVICE, not by user (see the image below, Question 4). This makes sense, given each device creates a certain amount of work and tasks for your team, and each user may have multiple devices, from desktop PCs to travel laptops, tablets, smartphones, etc.

The most common answer for “Other,” which accounted for nearly 12% of the responses, was “a combination” or “both.” Other common answers were “custom by client,” meaning they didn’t have a standard way of charging and would determine which model to use (by device, by user, hourly, etc.) based on the specific situation and needs of the client.

4. How do you typically price your services? Please pick the one that is MOST appropriate.



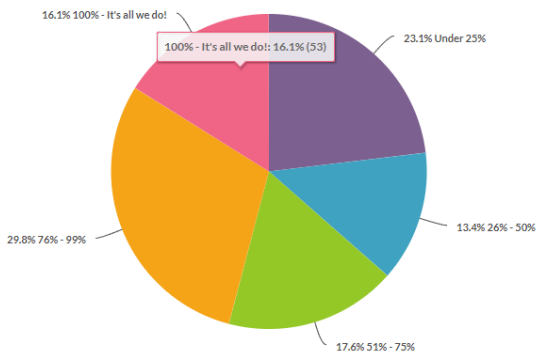
Value	Percent	Responses
By the user	38.9%	128
By the device	49.2%	162
Other - Write In (click to view)	11.9%	39

Totals: 329

What % Of Your Clients Are On A Managed Services Contract?

Another surprising result of the survey was the percentage of clients on a managed services agreement. Other than the 16% who said they only take managed services clients, there’s a lot of room for increasing sales and MRR by going back to other clients and figuring out how to get them on some type of recurring revenue agreement (a shameless plug: my program, the Million-Dollar Managed Services Blueprint, is a VERY effective program to help you convert break-fix, time-and-materials and project clients to managed services: www.managedservicesmarketing.com).

3. What % of your clients are on a managed services contract?



Value	Percent	Responses
Under 25%	23.1%	76
26% - 50%	13.4%	44
51% - 75%	17.6%	58
76% - 99%	29.8%	98
100% - It's all we do!	16.1%	53

Totals: 329

Fee Resistance: The MOST DIFFICULT Aspect Of Selling Managed IT Services And Support

Not too surprisingly, the MSPs who completed our survey said that “showing value” or getting prospects to accept higher monthly fees when they have gotten the services previously from cheaper MSPs (even though the “cheaper” services delivered exactly what they paid for – cheap services), or IT companies that still deliver break-fix services, was the most difficult aspect of selling managed services. Yep, the good old price bugaboo.

To be clear, ALL companies will, to some degree, deal with price resistance, so “zero” fee resistance isn’t a goal you should shoot for. If you aren’t getting any price resistance, then you definitely need to raise your fees. That said, there are a lot of ways you can invite fee resistance and price objections that can make it damned difficult to close deals. Here are a few:

1. **Pricing based on industry norms and what your competition is charging.** The most dangerous price position is in the middle – not the lowest (which is not a strategy I recommend anyway) or the highest. The middle gives no differentiation. If you’re the highest, you get the advantage of the belief that “higher price” is associated with better quality or more exclusivity, even if that’s not necessarily the case. If you’re the lowest, that IS attractive to a select group, but your business model has to be correct and the target audience one you can live with to make it work (WalMart). Personally, I’m NOT a fan of the cheapest-price strategy, but there are certain scenarios where “lower price” is a viable approach to gaining market share.
2. **Anxiety, weirdness and discomfort talking about and presenting price.** Tony Robbins taught me a long time ago that selling is a “transfer of emotion.” If you’ve ever talked to someone who is a raving fan about a hobby, their natural passion and love for it automatically gets you more interested. When someone is scared, uneasy or uncomfortable talking about price, OR if they lack confidence in their abilities and value, it sets off alarm bells in the prospect’s head that something isn’t right, quickly bringing them to a sense that you’re hiding something or lying to them. NOT ALL PROSPECTS BUY ON PRICE, and many use that as a scapegoat excuse. Price is one consideration, but most prospects will pay more for a product or service PROVIDED there is a high level of trust that the service, product or company they are hiring will deliver on their promises. Getting a prospect to trust you is mostly based on how confident and comfortable you appear in discussing their project and your fees.
3. **No differentiation.** Most price objections are not about the price, but based on the simple fact your prospect has been given no logical reason why they should pay more or spend more on YOUR services vs. other, cheaper competitors (and there’s ALWAYS someone who will do the job cheaper). If you want to experience less fee resistance, then you must work on developing a good USP, or unique selling proposition, that details at least one or more relevant, logical and compelling reasons why buying from YOU is the smarter, safer decision. Using platitudes and catchphrases won’t cut it.

Everyone can say they are more professional, proactive, responsive, etc.

4. **A hardwired belief that “they won’t pay that.”** So many MSPs suffer from low margins simply because they stoutly believe they cannot get their clients to pay more. We routinely get calls to the office from MSPs looking for marketing help who will convey this belief to us, even though we can often point to half a dozen or more MSPs in their market who are charging significantly more than they are and are routinely getting new clients.
5. **Poor targeting.** There are some kinds of clients who will not pay top dollar for IT services; to that end, if you’re getting a LOT of fee resistance, you might consider targeting a different kind of client. One who invests in IT services and is willing to outsource IT support. One who has a flexible wallet and does not have “price” as one of their top considerations when selecting an IT company. One who is more reliant on IT and system uptime, or who is under regulatory compliance.

In most cases, fee resistance is not a “market” problem where your competition is undercutting you or where you live in a bubble where EVERYONE shops on price. In 99% of the cases where I’ve addressed this with clients, it’s either a sales and marketing problem (you aren’t explaining the value or gaining trust) or it’s a mindset problem (you firmly believe it’s impossible to raise your fees). The other 1% could be due to not understanding business math or they are priced properly but are operationally dysfunctional, which is eating all their profits.

For more details on how to build a sales and marketing system to overcome fee resistance, go to www.Managed-Services-Marketing.com to get more information about our Million-Dollar Managed Services Blueprint – a system that will give you a step-by-step, field-tested, proven process for converting break-fix clients and attracting more high-dollar MSP clients.

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