The Secret to Achieving 20%-Plus EBITDA In Your Managed IT Business

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Achieving 20%-Plus EBITDA In Your Managed IT Business

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Who is TAG?

- **Association of Managed Technology Services Providers (MTSPs)**
  - Founded in 1998
  - Managed IT, cloud-based technologies, cybersecurity, telecommunications, AV, video surveillance, access control, connectivity, and managed print / copiers

- **Members throughout the U.S. & Canada**
  - Presence in more than 136 marketplaces
  - $600 million in products and services annually
  - Serving 600,000+ SMBs

- **TAG Members benefit from programs that drive…**
  - Profitability & Sales Growth
  - Recurring Revenue Streams

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TAG's Services

- Sales Training & Sales Management

- Financial Analysis & Industry Benchmarking

- Budgeting

- Operations Management

- Marketing & Lead Generation

- Interview Employees, Personality Analysis, & Aptitude Testing

- Mergers & Acquisitions

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TAG's Services

- Professionally Led Peer Groups

- Public Relations

- Strategic Planning

- Customer Experience & Management

- Mentoring/Coaching

- Exit Strategies & Succession

- Cooperative Purchasing (Buying Group)

www.tagnational.com

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TAG Owns a Leading MTSP

i-NETT received the Channel Partners 360 Award 3 years in row for providing a holistic approach to Managed IT Services, Network Security, Disaster Recovery, Voice, SIP and Surveillance technology solutions for their customers

i-NETT received the Channel Partners Innovation Award for Cloud Services 2 years in a row

i-NETT sells to SMBs throughout Southern California!

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Agenda

- True benefits of recurring revenue

- How to price in a manner that allows us to achieve 20% EBITDA

- Productivity of technical staff

- Pricing example

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Recurring Revenue

- Why is recurring revenue so beneficial?

- Stable, dependable revenues

- Allows us to achieve a breakthrough in profitability – We call this "Nirvana"

- Nirvana occurs when recurring revenue <u>exceeds all costs</u> in the business, except for product purchases.

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Nirvana = When Recurring Revenue Covers All Costs

- What if we bill just one additional hour of billed time? How much drops to the bottom line?
  - *Everything, unless we are perfectly absorbed then only the overtime cost of a tech*

- How much of a new MSP contract?
  - *Everything but the cost of outsource and sales expense*

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This Is The #1 Metric For Enduring Financial Success

- The 80/20 Rule
- The Top 20% of TAG Members Do 25%+ EBITDA Overall
- Top Record, 38.8% EBITDA
- Every Single TAG Member Above 25% Has Achieved Nirvana
- Industry average runs 5-7% EBITDA

- *Recurring revenue, as a factor of total costs in the business, should be regularly tracked*

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MSP Bundled Services

What Services Should We Include?

- We include our own technician labor

- Any services that we outsource

- Services such as outsource help desk, server support, anti-spam/malware, backup solutions, cyber security, etc

- We price in a manner that allows us to achieve 20% EBITDA after we pay for both our own labor, and hard costs of outside services

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How Much Should MSP Services Contribute?

MSP Sales Should Contribute 35%

Before Overhead

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How Much Should MSP Services Contribute?

MSP Sales Should Yield 20% EBITDA After Overhead

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Primary Metrics For Managed Services Sector

Pricing Our Managed IT "Bundled Service"

Proper Staffing Levels, And Productivity of That Technical Staff

Build Recurring Revenue In Excess Of All Costs In The Business, But For Product Purchases - Nirvana

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Primary Metrics For Managed Services Sector

Pricing Our Managed IT "Bundled Service"

- Proper pricing is key

- Difficult (if not impossible) to overcome underpricing through cost cutting or efficient service delivery

- Given hard product costs and conservative labor cost estimate, we must price properly to allow for 20% EBITDA

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When we sell our labor by the hour we set a fixed price

We know how many hours we sold, as we bill for each hour incurred by our staff

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When we sell our labor as part of our Managed IT Service Bundle

We sell an *unknown* number of hours for a fixed price

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MSP
With
Outsourced Services

How do we achieve our

Anticipated 35% Contribution?

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Here we first determine which functions we will outsource

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In most cases it will be both Server Management and Help Desk

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… but also includes services such as O365, spam/malware protection, BCDR solutions, cyber security
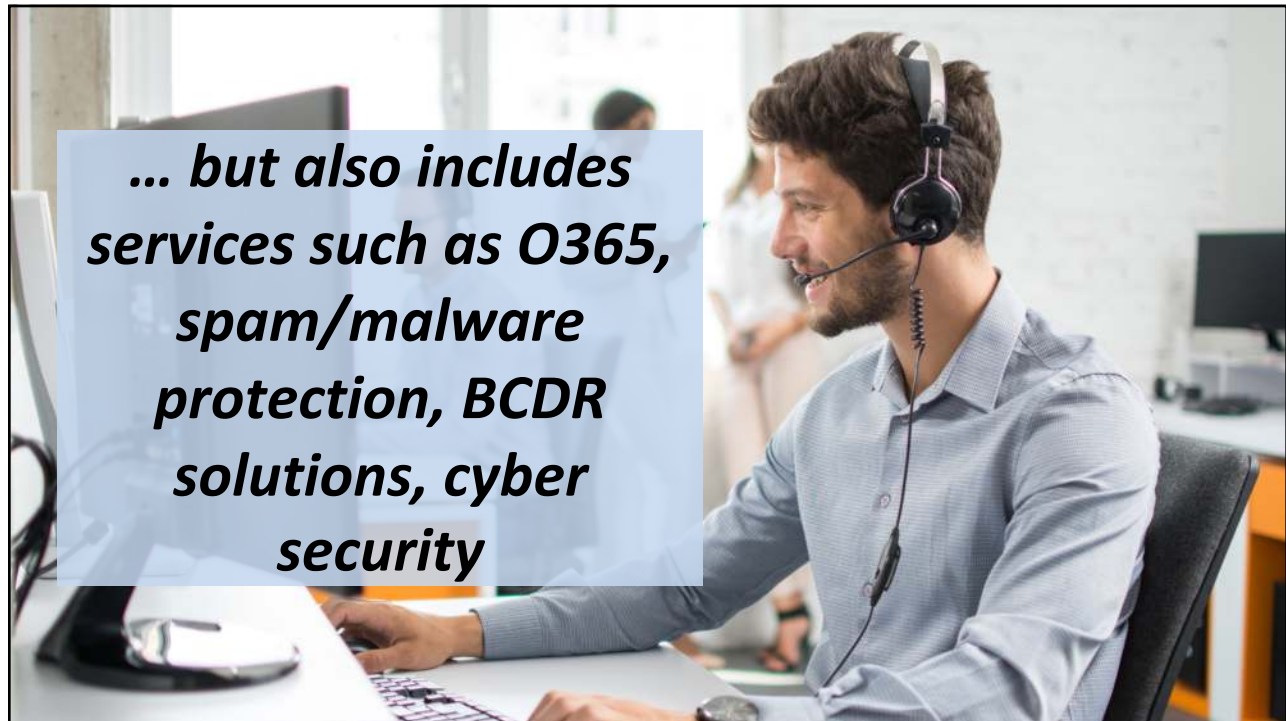
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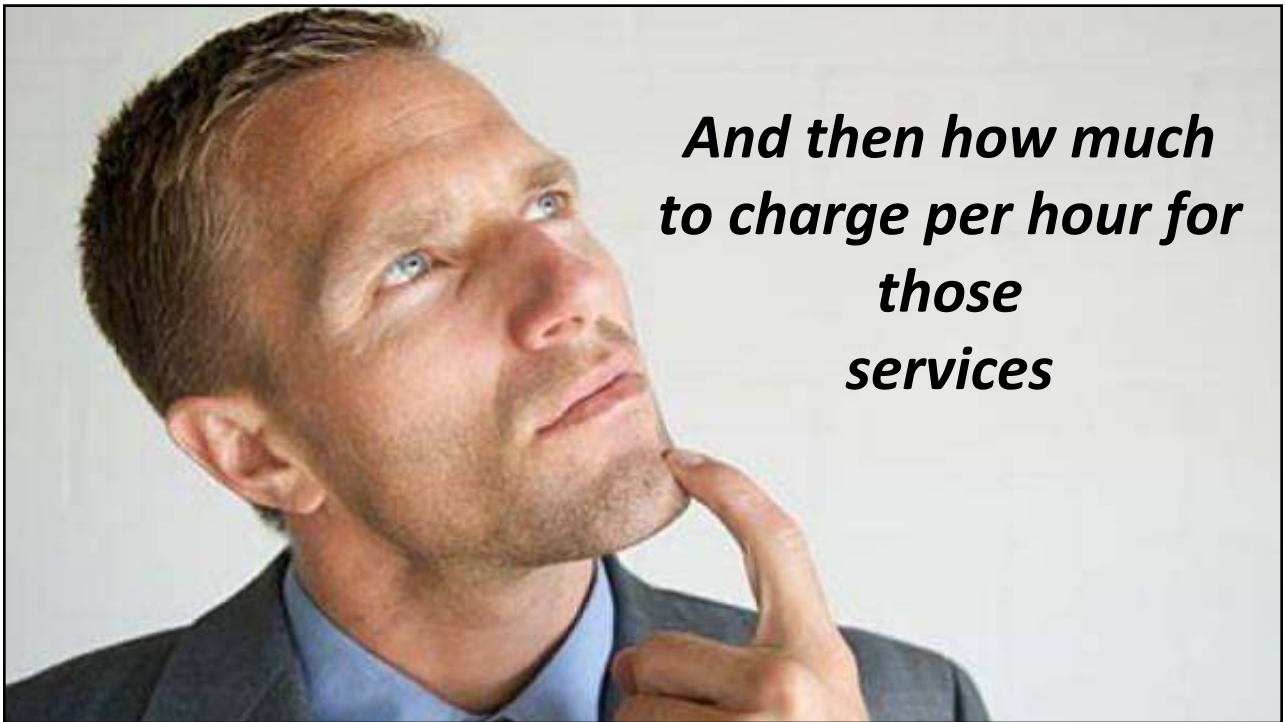*We must markup those outsource services at a 2.0 mark to attain 50% gross margin*

X

2.0

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Then we must try to predetermine how many hours we need to spend to service the MSP customer

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And then how much to charge per hour for those services

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If outsourcing, we should budget 10 minutes per month for each PC we will manage under the MSP arrangement

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We should budget 1/2 hour per month for each server we manage under the MSP arrangement

Plus, we must budget an hour a month for a QBR

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If our budgeted hours are correct, we must include them at a rate of $140 per hour to realize a gross margin of 50%

Assumes Avg Technician Rate Of ~$30

X

$140

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Hourly Labor Margin

If our Sales Price	=	$140
Technician Wage Rate	=	$30
Downtime Cost	=	$10
Cost Of Dispatch Engineering & Management	=	$20
Labor Load for all plus Vehicles and Perks	=	$10
Costs of Goods Should Be	=	$70

This gives us 50% Gross Margin

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MSP Services – OutSource

- Key Metric: *Get a 50% gross margin on both our own labor and outsource services*
- *Do it by getting a 2.0 on outsource services, and by realizing $140 minimum rate on properly budgeted manpower hours*
- Then we can achieve:
  - 35% Contribution after 15% Sales Costs and
  - 20% EBITDA after G&A Costs of 15%

Our Services Plus Outsouce

Sequel Storage Firewalls Routers

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Technician Productivity

- How much time should our technicians be productive?

- Productive defined as "Deployed", actively engaged with a paying customer

  - On Site
  - Working Remotely
  - Prep/Material Gathering
  - Travel To/From

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Technician Productivity

- All other time is Downtime

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Technician Productivity

We are able to measure time spent by technician

Total time deployed:

At Least 75% of total time paid

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This means...

→ for every 1000 hours we pay

→ Only 750 hours actually "deployed" in service of paying customers

How realistic is managing individual productivity in this manner?

Technician Productivity

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What Can We Control?

Headcount

Plus, or Minus, 2080 Hours Annually

Sales Volume

Additional Sales Volume to Fill Available Time

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Technician Productivity

- We can only really manage headcount not hours

- We really must pay all productive technicians at least 40 hours per week, or 2080 hours per year

- Managing individual productivity really means measuring "potential productivity" against realized revenue per hour in T&M and MSP

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Measure Deployed vs Non-Deployed Time

- Ratio of 75% (or better) Deployed Time

- Manage by increasing sales or decreasing headcount

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Recurring Revenue
Build Recurring To Cover
100% of Business Costs
Reduction in Reliance on
Product Sales

**Pricing of Bundled
Services**
Achieve 50% Gross Margins
On Internal Manpower
And Outsourced Services

Productivity
Achieve 75% or Better Uptime
Realized Labor Rate

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Pricing Example
20 Employee, 2 Servers, Full-Service MSP With Cybersecurity

First let's estimate the number of hours of internal technician time that must be included:

20 PC's X 10 Minutes Per PC	=	3.33 Hours
2 Servers X 30 Minutes Per Server	=	1.00 Hours
1 Hour budgeted monthly for QBR (3 Hrs Quarterly)	=	1.00 Hour
TOTAL	=	5.33 Hours/Month

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Pricing Example
20 Employee, 2 Servers, Full-Service MSP With Cybersecurity

First let's estimate the number of hours of internal technician time that must be included:

	5.33	Hours
X	$140	Per Hour
	$746	*To be included in our monthly bundle to cover internal tech time*

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Pricing Example
20 Employee, 2 Servers, Full-Service MSP With Cybersecurity

Next let's price up our outsourced service with ~50% gross margin:

Service	Quantity	Cost	Price	Extended Price
Help Desk (US 8x5)	20	$21	$ 42	$840
Command Servers (Elite)	2	$48	$175	$350
Command For Networks	3		$ 30	$ 90
Dark Web Monitoring	20		$ 40	$ 75
Fortify For Protection	23	$ 7	$ 14	$322
Fortify For Endpoint (EDR)	23	$ 6	$ 12	$276
Office 365 Premium	20	$17	$ 20	$400
Total:		$1,217		$2,353/mo

More Than 50% GM, Going Rate Is $150-$200 Per Server Per Month Router/Switch/Firewall

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Pricing Example
20 Employee, 2 Servers, Full-Service MSP With Cybersecurity

Our "Out-The-Door" price to the customer:

Outsourced services @ ~50% gross margin	$2,353
Internal technician time estimate	$ 746
Total Quote	$3,100

.... Or $155 Per User/Employee, Per Month

Continuity Backup would be additional, based on customer configuration needs.

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Pricing Example
20 Employee, 3 Servers, Full-Service MSP With Cybersecurity

If you price in this manner, you **will** achieve:

- 50% Gross Margins
  - On average over time, each month depends on remediation time utilized

- 35% Contribution
  - After 15% estimated sales cost
  - Salesperson base, commission, sales management, labor load/benefits, advertising, marketing

- 20% EBITDA
  - After ~15% overhead, including all admin costs and owner's salary

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Packaging And Pricing
MSP Bundle

Recap & Discussion

- Successful MSP's should yield 35% contribution and 20-25% EBITDA

- With proper pricing, cost issues can be overcome. Underpricing can prevent us from achieving profitability no matter how efficient we are.

- Key Metric: Price in a manner that allows us to obtain 50% gross margins

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Packaging And Pricing
MSP Bundle

Recap & Discussion

- Obtain average of 50% gross margin on outsourced products by marking up by 2.0 and properly budgeted internal hours at proper price (min $140/hr)

- Present quote to customer as a total monthly price, no line-item pricing

- Maintain 75% deployed time in our technical staff

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Q&A ?

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