An MSP's Guide to Pricing and Packaging

Introduction

How do you create MSP packages that suit your business and at the right price point for your clients? You've probably asked this question lots of times already but just like all things related to IT, the answer to this question is always evolving.

Given the fact that almost all MSPs have similar services, the competition revolves around how you give your customers the perfect pricing and packaging options. As MSPs serve a diverse group of clients, building plans and packages are a common headache.

Some MSPs might say a standardised offering is more effective in terms of selling, implementation and monitoring, some opt to do an a la carte strategy as this gives freedom to their clients and think as if they still have a say in coming up with the right solution and some mix both.

No matter how different the views on packaging and pricing are, this e-book serves to guide you on the different options and will hopefully give you some inspiration for what will work within your own MSP.

What are managed service bundles or packages?

The overall goal of building out a bundle or package for your managed service offering is to simplify your offering and make it easier for you to position and sell it to customers and for them to understand your offering. While at the same time not exposing all of your individual costs to avoid clients nit picking your pricing apart.

When building your offering, you must set a definitive line between your inclusions and exclusions. A lot of MSPs have struggled with customers asking why they were billed for a certain task when it wasn't even mentioned in the agreement. This causes frustrations and can put a strain on the relationship between the MSP and the client, not to mention wasted administration time.

To avoid this, it's a good idea to create an inclusion list and clearly outline to the client what's included and anything that isn't on the list is automatically excluded.

Setting this expectation from the start will avoid unnecessary headache down the line. As we like to say here at Hosted Network "expectations fail without communication".

You can always offer optional or once-off services as needed and if required you can negotiate them to be included in your future contracts. If you hold regular meetings with your clients such as Quarterly Business Reviews then these are fantastic opportunities to revisit your clients requirements and expectations and ensure you align them with.

TIP: No matter how you create your bundles, always make sure that all of them bring in the right profit. Customers rarely shift from one plan to another so it's best to stay in the safe zone.

The secret to the right pricing

Ok, so maybe there isn't anything secret behind your pricing, but here are a few ideas to get you thinking.

Firstly, you have to stop copying your competitors' prices. The best way to ace great pricing models is by focusing on your value. Remember that your offering is very different to your competitors, not to mention your overheads and costs aren't going to be the same either. As MSPs don't work around a commoditised environment, you can explore lots of ways in structuring your services, positioning your offerings and pricing your packages.

There is no standard formula in creating pricing schemes and as the market continues to evolve, we recommend that your MSP treats your pricing strategies as a work in progress. As you go along your journey and deal with different sorts of clients, you will identify the pricing structure that works and the ones that don't for different verticals.

Here are some factors you can consider in coming up with your pricing models:

Flexibility

As your MSP and customers grow, your pricing model must remain effective and profitable. Consider creating a pricing framework that is easy to adjust to be prepared for potential market cost increase. This can help you shorten the sales journey and make the process seamless and repeatable for you and your customers.

Competition

Cheap is not always good. Key an eye on the competitive landscape, but not to the extent of lowering your prices just to keep up with the price trend. You don't want to get stuck in a race to the bottom. Instead, focus on the strategies you can use in adding more value to your offerings to justify your rates. A good example is adding network security, backup and disaster recovery plans or free training to stand out.

Technology

As the main element of all the MSPs offering, it's imperative to be always in the know of all things IT. This can help you plan your strategies for the future, staying ahead of the competition and ensuring you are delivering value to your clients. It will also help you charge more for your services! If your value is heavily focused on areas such as security then this is even more important.

Finally when it comes to pricing, ensure that your contracts allow you to renegotiate on a regular basis such as quarterly. You need to ensure that your pricing is always profitable for your business and as clients requirements regularly change your contracts also need to account for it.

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"When we created our bundles we took a two-fold approach. We wanted to standardise certain areas like backup and security but we also wanted to decrease our costs so we looked at things that we could include that had the best of both."

– Paul Ditrih, Superior IT

Selecting your Pricing Strategy

If you're still in the process of figuring out a pricing strategy that works for you, here are some pricing schemes that you have probably heard about but never really had the chance to try.

Cost + Margin

This is a pretty straightforward way of deciding on your prices. This might work if you are hardware-focused but you might fail to include good margins from intangible services which are measured by value and other elements unique to your MSP.

- Work backwards, look at your costs first, then add margin.
- Include all your costs and overheads
- Consider adding up all of the users you currently support and then averaging the number of hours you spend to get a raw man hour baseline.
- This model is typically done as a flat rate to the client billed on a monthly basis where you supply unlimited support. Onsite maintenance may be excluded and billed hourly or you may charge a premium to include either unlimited hours or a set amount per month.

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Value-Based Pricing

Value based pricing is charging what the client can actually afford. This means you are tailoring your pricing to the customer rather than fitting the customer into a particular box. This works well for larger customers but has inherent risks for the smaller end of town. Value based pricing is often a model that is used by enterprise size MSPs dealing with large multinational clients.

Before taking the path of value-based pricing, you must first make sure that your services are unique enough to stand out from the competition. If beauty is in the eye of the beholder, then your value is in the eye of your buyers. With this in mind it is just as important to know when to walk away from a value based deal if the risk is too high or you just can't justify the value.

The cost of sale is also normally higher with this model as more research and effort goes into your bid as you're tailoring your pricing entirely to the customers needs.

Remember that when setting up prices based on value, make sure that your services justify your rates greatly enough. Though value-based pricing often gives MSPs high margins, you must be confident enough that you will be able to pull off all your commitments to your customers. Some of these commitments might be in the form of strict SLAs so you need to ensure you can meet them.

Per-User or Per-Device

These are the easiest pricing models and likely the most popular pricing approach in the market. While Per User is charged "Per User", Per Device is charged well "Per Device" for example.

The popularity of this approach is really driven from the simplicity of it and the fact that it's one of the easiest methods for clients to understand.

When looking at a Per User or Per Device approach you should really consider additional items to add into your offering, this will help differentiate your offering from your competitors.

Typically we see the "Good, Better, Best" approach taken to this pricing model. Because having too many choices seems good at first but could eventually be a cause of confusion. Being unique doesn't mean you have to create lots of packages which only makes it harder for your customer to compare and decide.

Consider the old saying "Less is more".

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"Too much choice not only reduces sales, it can also demotivate the customer and affect the entire buying experience—which can often set bad expectations that last for the rest of their time working with you."

- Nigel Moore, Package Price Profit

Good things come in threes, as they say. And we believe in the same approach when it comes to creating your plans. You can never go wrong with Good, Better and Best (Bronze Silver or Gold) technique. How you design each bundle depends on your client's needs:

Good	Includes all the essentials – implementation, support, monitoring.
Better	Add more value to the good offering such as onsite support, trainings.
Best	Offered at a premium price compared with the previous offerings. Chances are that there will only be a few customers who will choose this plan, but your best offering's price helps your customers realize that there's still good value with Good and Better plans.

Remember, clients don't typically shift between options so make sure that all of your offerings have a suitable level of margin in all of them.

A la Carte

Admit it, sometimes you think that what you paid for a buffet restaurant isn't worth it. You don't expect yourself to try all dishes in one sitting, and there are times that you're just not into some of the cuisines available there.

Although this strategy gives freedom to your customers to select the customised packages that they think is suitable for them, there is a possibility that they may not fully understand the options leading to creation of mediocre packages that your MSP may not be even able to provide.

Closing the deal can become harder because of the long discussions about each a la carte service.

Lastly, if going down the a la carte route then you need to ensure that your team is able to easily understand what each customer is entitled to. Otherwise you'll risk your team providing support when they shouldn't be. So ensure your processes and PSA can make this nice and clear to your team.

Know Your Costs

Whatever route you choose to go down, it's critical that you make sure that all your costs are accounted for and whichever route you choose will be profitable and sustainable for your MSP in the long run. We're not just talking about the labor costs of the team members that will be assigned to that particular customer but the product costs and business overheads that are included in your pricing. Remember - you still need to pay rent!

Here are a few tips to ensure your final price covers all your costs

- Speak with your accountant and get them to help you understand your operational costs to ensure you're covering them correctly.
- If you run a PSA then look at the amount of support you provide per customer on average and if its a per device or per user then calculate this as your base line.
- Track and measure the profitability of each of your contracts regularly. You need to have the guts to either renegotiate or walk away from business that is dragging you down.

Get your invoicing right

No matter which road you take- per-user, per-device, value based or even a la carte, you need a system that will easily track and invoice your customers as they grow. Many MSPs lose a lot of money by forgetting to increase their charges to their customers as they add on new users or devices.

There are tons of great Professional Services Automation (PSA) software that can help your MSP automate invoicing based on the pricing models you decide on. You might want to check and compare the following PSA tools and see what's the perfect fit for your MSP and the bundling model you're going to use.

Checkout a few such as:

- Autotask (Datto)
- Connectwise
- Kasera
- Atera
- Accelo

Key Takeaways

Having that competitive edge isn't easy but there are lots of ways you can explore to stand out from a crowd of providers. Be watchful of the competitive landscape but never be a copycat. Instead, focus more on your MSP's development goals and build strategies on how you can drive more value and profitability to your offerings.

So to wrap up, here's a famous line from the great Don Corleone to fuel your MSP in building your packages:

I'M GONNA MAKE HIM AN OFFER HE CAN'T REFUSE.

DON VITO CORLEONE

About Hosted Network

Everything we do is based around building solutions for our partners to enable them to grow and succeed.

Starting off as a traditional MSP in 2003 and launching a number of direct to market cloud offerings, we quickly gained traction in the SMB market and were approached by a number of other MSPs asking if we could provide our services at a wholesale level.

We quickly realised a gap in the market for wholesale cloud services designed for MSPs to grow their service offering and reach new markets.

In 2013, Hosted Network transitioned to an entirely channel-only model, working hand-in-hand with MSPs to grow their business and win new deals.

Since then, our success is credited to and driven by the success of our partners. This has led to us adopting a simple mantra of **BUILD – GROW – SUCCEED**. Building successful partnerships and solutions, growing together, succeeding together.

Got a Question? We are Here to Help

Call our friendly team on
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