

 LEVEL 1

Operational Fundamentals

Determining Your True Cost of Service Delivery And Profit

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MSP Mastered® Methodology



The Only Formula That Matters



There's Only 2 Ways to Increase Net Profit



Increase Gross Profit



Reduce Expenses

What Margins Do High Performing MSPs Target?

High Performer Gross Margin Targets



Services Gross Margin Goal

Target = >60%
for Services & Subscriptions
Report by Business Unit/Line
of Business

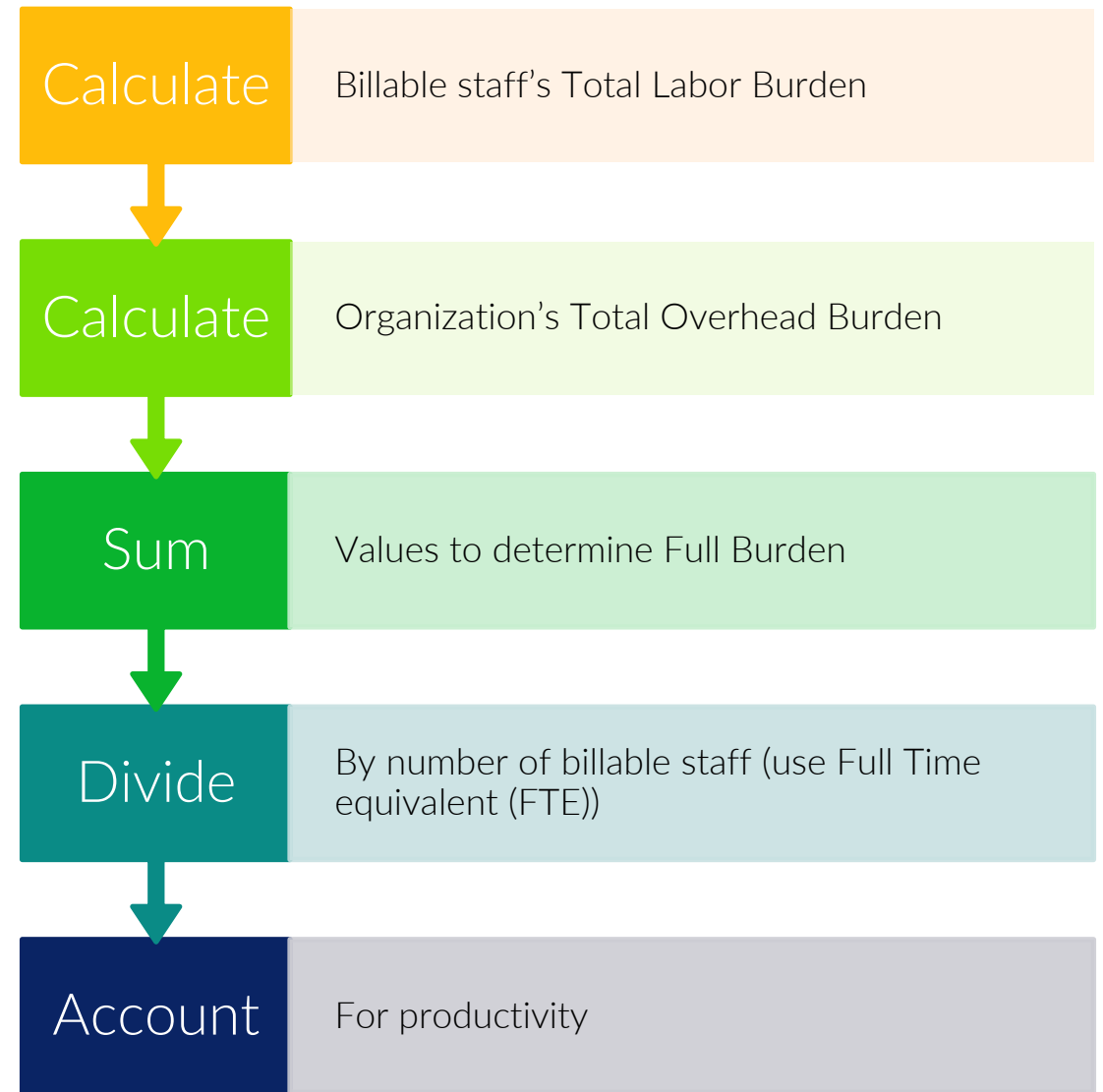


Hardware Gross Margin Goal

Target = >30%
for Hardware
Report by Business Unit/Line
of Business

Calculating Your Burden Rate

Calculating Labor Burden



Calculating Labor Burden for Billable Staff

The yearly amount of all labor costs
(including costs above and beyond gross compensation)

- Total Compensation
- FICA
- FUTA
- SUTA
- Disability
- Workers' Comp
- Healthcare
- Sick Leave
- PTO
- Vacation
- Holiday
- Profit Share/Pension/401k
- Retirement
- Additional Bonus

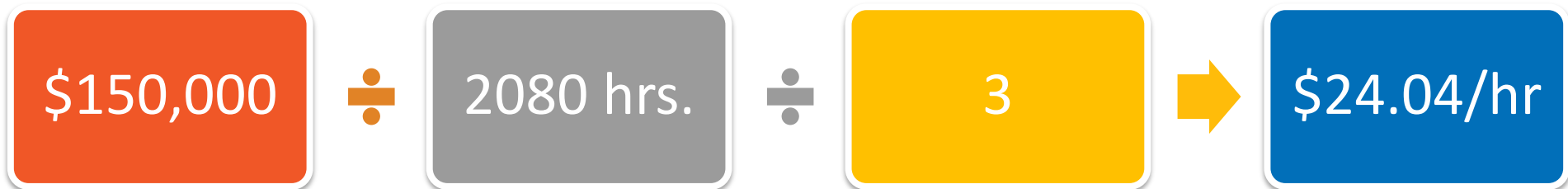
Calculating Labor Burden Example



Scenario –
3 billable staff



Total Labor Burden =
\$150,000 yearly



Calculating Overhead Burden (SG&A)

The yearly amount of all company overhead costs (*including indirect labor costs*)

- Total Non-Billable Staff (indirect labor costs)
- G/L Insurance
- Picnics, Parties
- Tool/Gas/Vehicle
- Company Meetings
- Training/Education
- Cell/Mobile/Internet
- Vehicle Fuel/Maintenance/Insurance
- Miscellaneous
- Electricity
- Gas
- Heating Fuel Oil
- Water & Sewage
- Rent
- Equipment and Maintenance
- Clothing
- Telecom
- Office Supplies
- Postage
- Cleaning & Maintenance
- Bank Charges
- Payroll Taxes
- Property Taxes

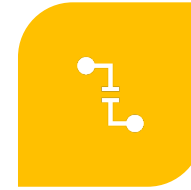
Calculating Overhead Burden Example



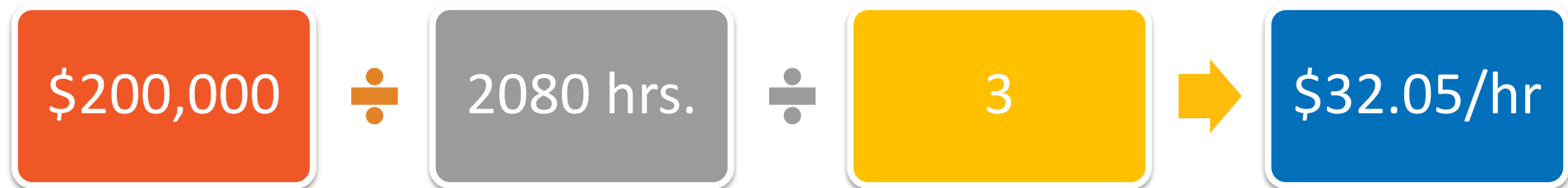
SCENARIO – 4 NON-BILLABLE STAFF



TOTAL OVERHEAD BURDEN = \$200,000 YEARLY



DIVIDE BY BILLABLE PEOPLE (OR FTE)



Calculate Full Hourly Burden

Add billable staff's hourly Labor Burden to organization's hourly Overhead Burden

$$\boxed{\$24.04} + \boxed{\$32.05} = \boxed{\$56.09/\text{hr}}$$

Determining Your Cost of Service Delivery

Cost of Service Formula (COGS)



Hourly Cost of Service
Delivery (HCSD)

\$56.09



Forecasted Support Hours
Per Month

4



Cost of 3rd Party Cloud
Services and Subscriptions

\$1,000.00



Total Cost of Service
Delivery

\$1,224.36

Determine Target
Margin and Price
to Determine
"Stop-Loss",

***Then Price and Sell
On Value!***



Total Cost of
Service Delivery \$1,224.36

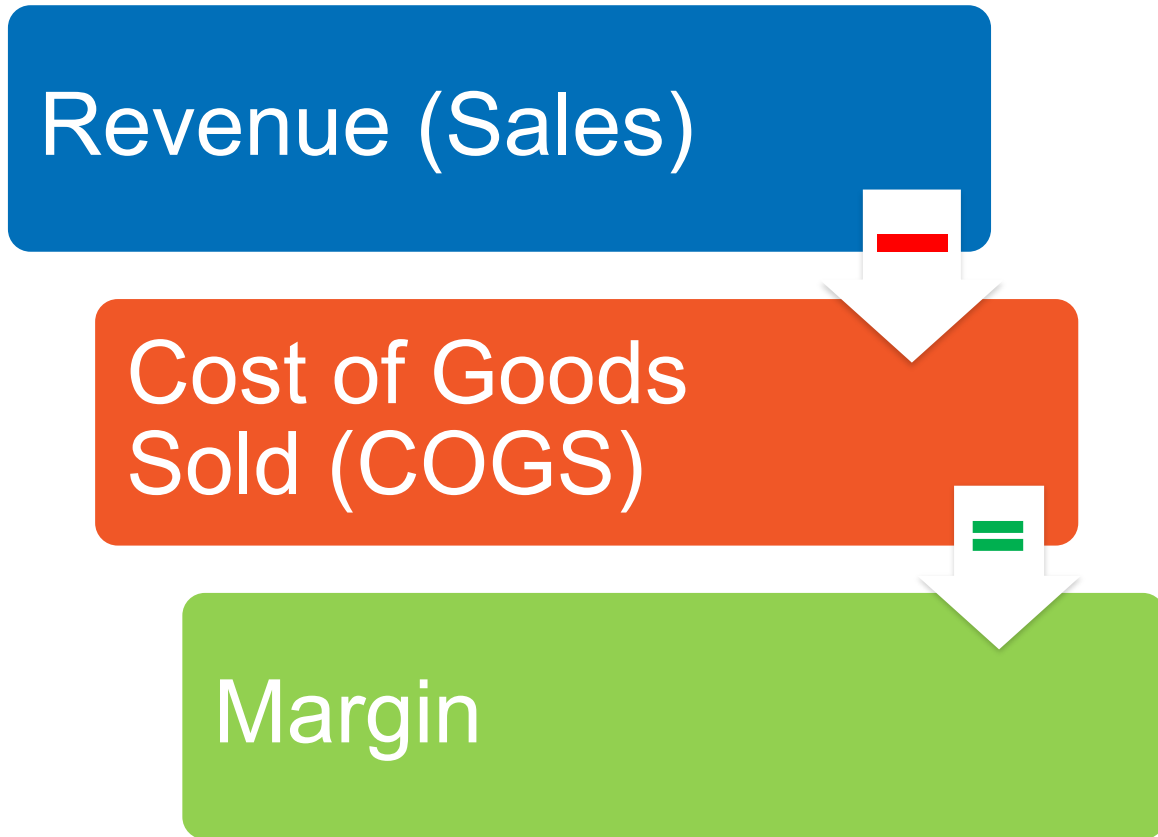


+ 60% Margin \$1,836.54

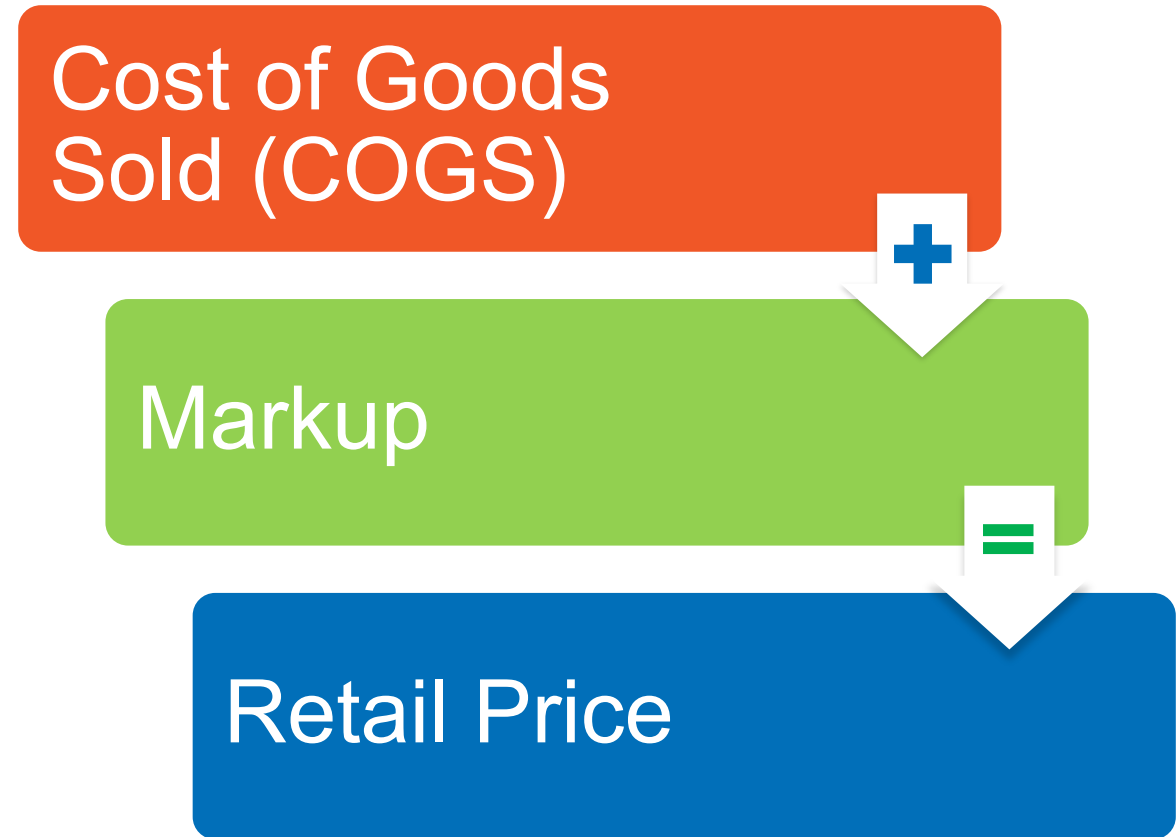


Retail Price -
Monthly \$3,060.54

Margin vs. Markup





Margin refers to the revenue a company makes after paying COGS.





Markup is the amount by which cost is increased to derive the sale price.

Margin vs. Markup Example

60% Margin

	Cost of Service Delivery	\$1,224.36
	+ 60% Margin	\$1,836.54
	Retail Price - Monthly	\$3,060.54

150% Markup

	Cost of Service Delivery	\$1,224.36
	+ 150% Markup	\$1,836.54
	Retail Price - Monthly	\$3,060.54

Determining Service Desk, Technician, Agreement, Client and Project Profitability



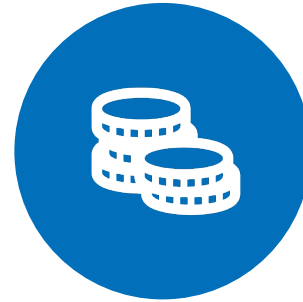
Calculate organization's Full Burden



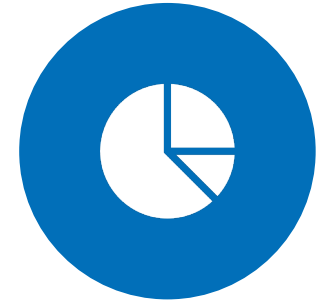
Determine monthly Managed Services and all other Labor billing



Calculate total labor hours delivered against all Services by billable staff



Calculate Total Cost Of Service Delivery (TCSD)



Do the math to determine margin and profitability!

What About Efficiency?

Productivity	100%	75%	50%
True Cost Per Hour	\$56.09	\$74.79	\$112.18

100% is based on 2,080 hours in a working year – this assumes no vacations, sick days, holidays, training days

Higher Efficiencies and Automation Result In Competitive Advantage

- Lower Costs
- Pricing Flexibility
- Increased Margins
- Greater Scalability

Glossary of terms - partner financials

KPIs – Key Performance Indicators

A Key Performance Indicator (KPI) is a measurable value that demonstrates how effectively a company is achieving key business objectives

EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization

A measure of a company's financial performance, acting as an alternative to other metrics like revenue, earnings or net income. In its simplest form, EBITDA equals a company's Net Profit + Interest + Taxes + Depreciation + Amortization.

COGS – Cost of Goods Sold

The direct costs of producing the goods sold by a company. This amount includes the cost of the materials and labor directly used to create the good. It excludes indirect expenses, such as distribution costs and sales force costs.

Marketing ROI

A way of measuring the return on investment from the amount a company spends on marketing

SG&A – Sales, General & Admin Expenses

The operating expenses incurred to promote, sell, and deliver a company's products and services, and manage the overall company.

Gross Margin

A company's product or service's net profit minus its cost of goods sold

GP – Gross Profit

The total sales of a company, product or service minus the total cost of goods sold

Net Profit

A company's product or service's total revenue minus operating expenses and cost of goods sold

MQL – Marketing Qualified Lead

A lead who has indicated interest in what a brand has to offer based on marketing efforts or is otherwise more likely to become a customer than other leads

SQL

A prospect that has been researched and vetted — first by an organization's marketing department and then by its sales team – and is deemed ready for the next stage in the sales process

CPL – Cost Per Lead

The cost to generate a marketing or sales qualified lead

CAC – Customer Acquisition Cost

The cost related to acquiring a new customer

CLV - Customer Lifetime Value

The total amount of money a customer is expected to spend in a brand's products or services during the lifetime of their business relationship.

Chart of Accounts

An organizational tool that makes it easy to understand the financial performance of a company. It lists all the financial accounts included in the company's financial statements and provides a breakdown of all the financial transactions conducted during a specific accounting period, broken down into subcategories.

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