

 **LEVEL 1**

# Operational Fundamentals

*Presented by :*

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# Understanding Your Financials – Key Performance Metrics That Lead To Improved Profitability

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# There's Only 2 Ways to Increase Net Profit

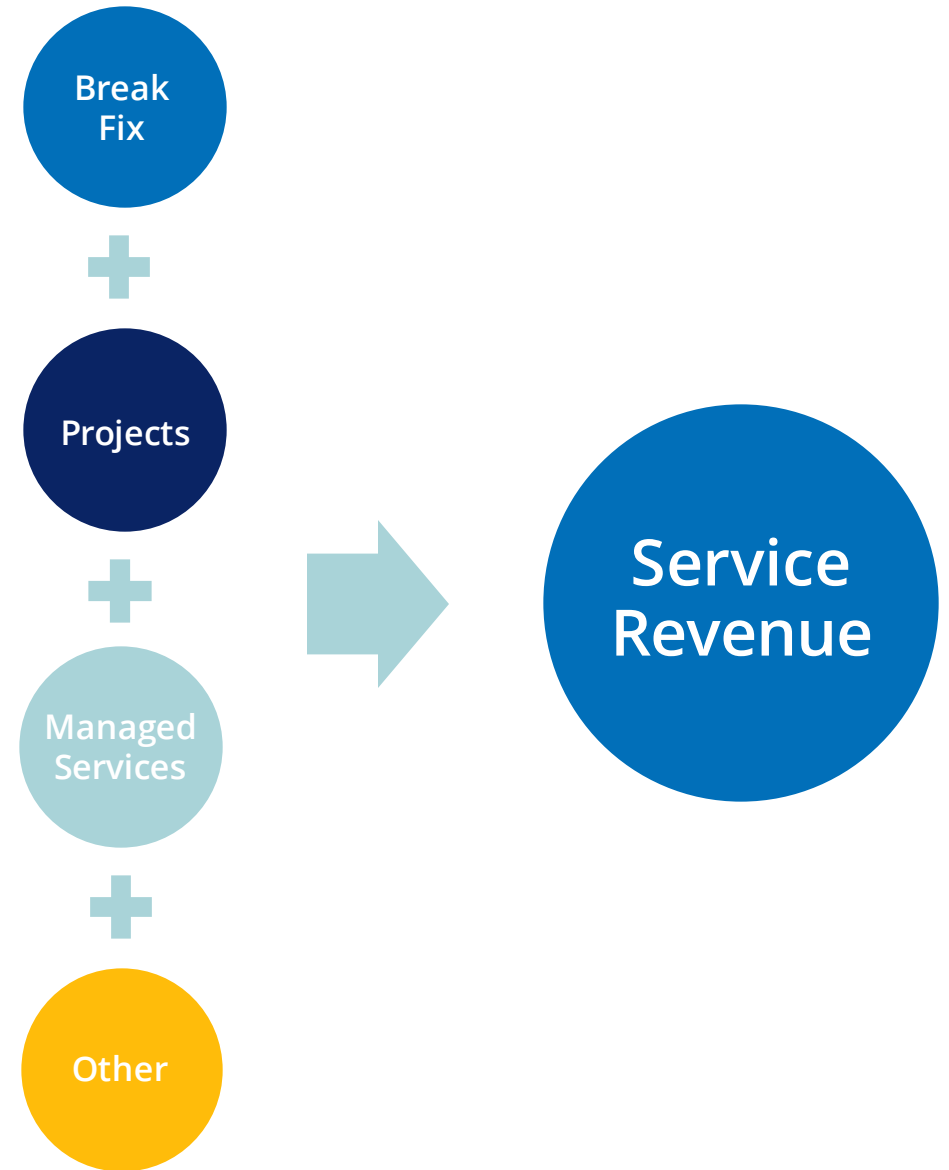


Increase Gross Profit



Reduce Expenses

# Many Service Providers Blend Service Revenue and Margin Measurement



# Measuring Financial Performance by Revenue Stream

Break Fix Revenue	—	COGS	=	GM	—	SG&A	=	NET \$
Projects Revenue	—	COGS	=	GM	—	SG&A	=	NET \$
Managed Services Revenue	—	COGS	=	GM	—	SG&A	=	NET \$
Other Revenue	—	COGS	=	GM	—	SG&A	=	NET \$

# Normalized P&L

Account Description	Amount
Sales	
Product Sales	
Hardware Sales - Cabling	\$60,107.57
Hardware Sales - Computers & Networks	\$1,027,026.23
Hardware Sales - Other	\$9,291.82
Hardware Sales - Telecommunications	\$138,474.36
Software & Licensing Sales - Computers & Networks	\$18,769.49
Freight & Handling - Computers & Networks	\$2,837.58
Freight & Handling - Cabling	\$30.00
Freight & Handling - Other	\$12.00
Freight & Handling - Telecommunications	\$218.78
Service Fees - Cabling	\$41.00
Service Fees - Computers & Networks	\$4,161.00
Service Fees - Other	\$80.00
Sales Discount - Cabling	-\$1,120.79
Sales Discount - Computers & Networks	-\$40,671.86
Sales Discount - Telecommunications	-\$3,262.21
Sales Returns - Cabling	-\$17,089.60
Sales Returns - Computers & Networks	-\$94,767.61
Sales Returns - Other	-\$107.87
Gain On Return - Cabling	\$70.00
Gain On Return - Computers & Networks	\$128.57
Rental & Training Sales - Cabling	\$200.00
Rental & Training Sales - Computers & Networks	\$8,668.68
<b>TOTAL PRODUCT SALES</b>	<b>\$1,113,097.14</b>

Labor Sales	
Comp/Net Labor - Computers & Networks	\$327,961.37
Comp/Net Labor - Other	\$3,057.45
Telecom Labor - Computers & Networks	\$0.00
Telecom Labor - Telecommunications	\$80,880.00
Cabling Labor - Cabling	\$172,798.29
Cabling Labor - Computers & Networks	\$0.00
Labor Returns - Computers & Networks	-\$1,295.00
Labor Returns - Telecommunications	-\$3,500.00
<b>TOTAL LABOR SALES</b>	<b>\$579,902.11</b>
Contract Sales	
MSP Agreements - Computers & Networks	\$1,414,496.14
MSP Agreements - Other	\$2,247.20
MSP Agreements - Telecommunications	\$2,250.00
MSP Agreements - Cabling	\$2,400.00
<b>TOTAL CONTRACT SALES</b>	<b>\$1,421,393.34</b>
Other Income	
Finance Charge Income - Computers & Networks	\$13.51
Commission Income - Computers & Networks	\$12,203.80
Commission Income - Telecommunications	\$325.60
Other Income - Computers & Networks	-\$20.00
<b>TOTAL OTHER INCOME</b>	<b>\$12,522.91</b>



# Establish Your KPIs

# A Look at 5 Critical Areas & KPIs



Financial



Marketing



Sales



Service Desk



Projects

# Establish Your Financial KPIs



## Gross Margin Goal

Target = >60% for Services  
& Subscriptions

Target = >30% Hardware

Report by Business Unit/Line  
of Business



## SG&A Goal

Target = <30% - Lower is  
Better



## EBITDA Goal

Target = >20% - Higher is Better

Valuations are based on a  
Multiple of EBITDA

*(Earnings Before Interest, Taxes,  
Depreciation and Amortization)*

# Marketing KPIs



Marketing Activities



Marketing Qualified Leads (MQLs) Generated



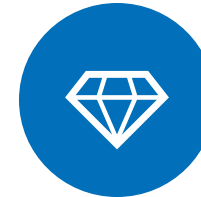
Sales Qualified Leads (SQLs) Generated



Cost Per Lead (CPL)



Customer Acquisition Costs (CAC)



Customer Lifetime Value (CLV)



Marketing Return on Investment (ROI)

# Sales KPIs



Revenue  
Goal



Profit Goal



Sales  
Activities

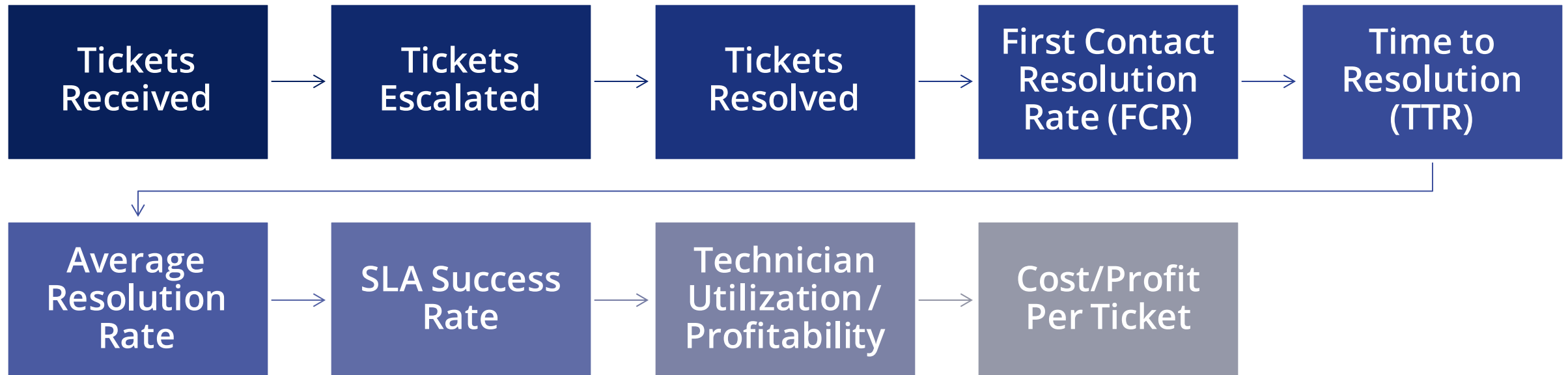


Conversion  
Rate



Sales Cycle  
Length

# Service Desk KPIs



# Project KPIs



Active & Scheduled Projects



Projects/Phases Under / Over Budget



Task/Phases Overdue / Completed



Changes Pending / Approved



Technician Utilization / Profit



Actual Project Cost / Profitability



Customer Satisfaction

# Improve Your Performance



# Factors That Affect Top Line Revenue & Net Profit



1. Business Model



2. Offering/Bundling



3. Cost of Service Delivery



4. Service Delivery Efficiency



5. Sales Sophistication

# What Is Your Predominant Business Model?



## Product-Centric

Product sales > 50% of gross revenue & clients are encouraged to buy more products



## Time & Materials

Majority of service revenue is from billing clients on time to repair issues as they arise



## Project Driven

Majority of service revenue is derived from projects and clients are encouraged to upgrade often



## MSP/MSSP/Cloud

Majority of service revenue is derived from recurring flat-fee based services

# Determine Your Hourly Cost of Service Delivery



**Hourly Cost of Service  
Delivery (HCSD)**

Labor + Overhead  
Burden per Hour



**Forecasted Support  
Hours Per Month**

Number of Hours  
Per Month To  
Support Client



**Cost of Licensing,  
Services and  
Subscriptions**

Cost For 3<sup>rd</sup> Party  
Services



**Total Cost of Service  
Delivery**

= HCSD x Projected  
Support Hours +  
Cost of Subscription

The Final Step In  
Establishing Your  
Pricing...

Add Your Desired  
Markup and Price  
to Your Cost of  
Service Delivery

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

# How Efficiently Do You Deliver Services?

Productivity	100%	75%	50%
True Cost Per Hour	\$100	\$150	\$200

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

# How Would You Rate Your Team's Sales Sophistication?

*We've developed a great new service to convert your money into our money!*



# Analyze Your Data

# Analyze Your Billing Performance

- **Utilization**
  - How much time technicians work
- **Realization**
  - How much time technicians work that is billable
  - Activity vs. Productivity
- **Billing Goal**
  - $>2.5 \times W2$  – Higher is Better
- **Review Weekly**

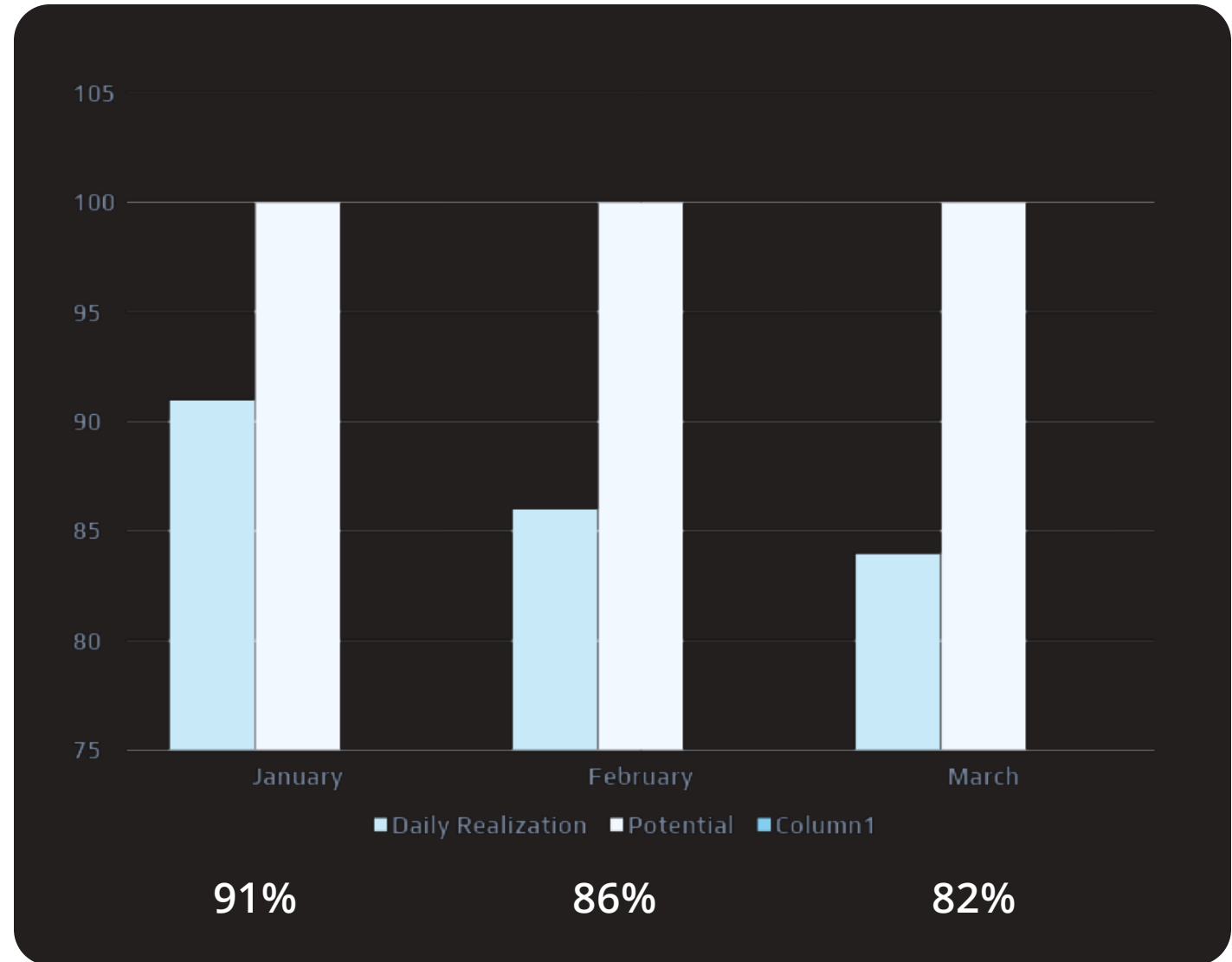
*\*Incent through bonuses and commissions to achieve/exceed*





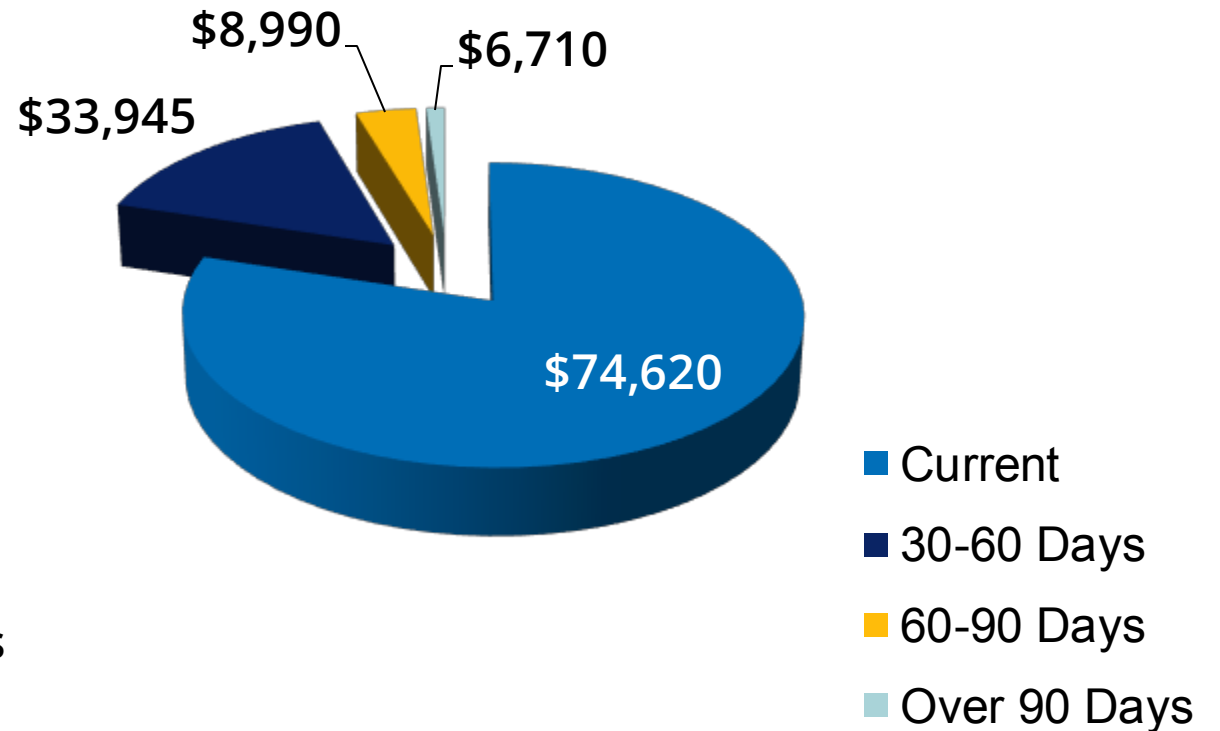
# Analyze Your Daily Realization Rate

- Can Exceed 100%
- Target >80%
- Review Weekly



# Analyze Your Accounts Receivable Performance

- Total Amount Outstanding
  - Is it higher than this month's sales?
- Aging – What Amount Is
  - >30 Days Outstanding?
  - 30-60 Days Outstanding?
  - 60-90 Days Outstanding?
  - >90 Days Outstanding?
  - Who are these customers?
- Institute late fees when possible
- Consider cutting off clients >90 if you can't negotiate reasonable payment arrangements
- Review Weekly



# Analyze Your Sales Pipeline

- Where are all of your sales opportunities?
- What is the value of each?
- What phase of the sales process/funnel are they in?
- Which ones are stuck in a phase longer than expected and why?
- What needs to be done to keep the pipeline healthy?
- Review Weekly



# Analyze Your Sales Performance

- Activity vs. Productivity
- Sales Goal
- >4.5 X W2 in Gross Profit
- >12 X W2 in Gross Sales
- Are you consistently conducting the activities that lead to sales?
- Review Weekly

*\*Incent through bonuses and commissions to achieve/exceed*

# Analyze Your NOC/Service Desk Performance

- Ticket load
- Average time to response
- Average time to resolution
- Total tickets closed
- Adherence to SLA
- Total cost of service delivery
- Utilization/realization
- 2.5 X W2 – Higher is Better
- Client satisfaction
- Profitability

*\*Measure per day, week, month, quarter, year*

# Final Thoughts

# MRR Impact on Business Valuation

Valuation Basis	Non-MRR/ARR Business Model	MRR/ARR Business Model
Revenue Multiple	0.2-1.5x	2-6x
EBITDA Multiple	2-2.5x	5-14x

# Best in Class KPIs to Keep in Mind

- **Marketing Budget Allocation as a Percent of Revenue:** Best in Class MSPs allocate 10% or more of total revenue towards marketing
- **Work Pipeline:** target 120 days worth of booked project and service work
- **Daily Technician Realization Rate:** >80%
- **MSP Customer Ratio:** build to a 70% balance of total customers as MSP subscribers
- **Recurring Revenue as a Percent of Total Revenue:** double this percentage year over year
- **MSP Gross Margin Target:** Best in Class MSPs target a minimum of 60% for their MRR agreements
- **Technician Billing:** Best in Class partners establish billing goals of a minimum of 2.5 times a technician's yearly compensation
- **Sales Performance:** Best in Class partners establish GP sales quotas of a minimum of 4.5 times a sales professional's yearly compensation



# 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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# Thanks for Attending!