

How to Price, Market, and Sell Your Managed Services Offerings

An MSPAlliance White Paper sponsored by Kaseya

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There are many fundamentals of being a successful managed service provider. You need a solid service, which is scalable, efficient, and lucrative. You have to be able to sell that service to customers. And last, you need to be able to keep those existing customers when it comes time to renew the contract.

Pricing, marketing, and selling speak directly to your ability to attract, win, and maintain customers. And yet, pricing, marketing, and sales tactics are still widely debated and confusing topics for many Managed Service Providers (MSPs).

Pricing

Pricing your managed services is rather like the oil in your car. You should check it often and update it no less than every couple of years. There are many MSPs currently reviewing their existing pricing models, looking to adopt more current models. I believe this is a real trend, which all MSPs should consider.

Our profession has, for too long, been rooted in outdated pricing models, largely inherited from the days of Value Added Resellers (VARs). VARs built their pricing models (similar to their business models) off of the products they represented. Pricing strategies, therefore, were largely influenced from the vendors they worked with and the products they were selling. MSPs do not operate in such a fashion and should not rely on those old-fashioned pricing models any longer.

For example, as a VAR, you would commonly take a product, add a consulting or “value added” service, and then sell it to customers. This model relied upon two pricing elements: one for the product and one for the service. The product’s price would almost always come from the vendor. The VAR then only needed to add a simple project or hourly based pricing element to complete the offering.

MSPs, on the other hand, have had to integrate many different technologies and deliver numerous “original” services. These original services all have to be priced in such a manner that addresses the unique and complex elements that go into the creation of those managed offerings.

Per user and per device models were easy, primarily for the sales staff, which wanted a widget or a SKU product. This is very similar to how they sold hardware and software, and that is how many MSP sales people wanted to sell managed services. This could be why MSP owners and managers have had so much trouble in developing effective sales techniques for their services.

Furthermore, many MSPs have expressed concern over competitive MSPs price cutting on managed services just to win deals or steal customers. This type of behavior will always exist as long as MSPs continue to use per device or per user pricing schemes. This may be hard to take for some, but there it is. MSPs who want to remain competitive in the future need to develop a new pricing model. But, what are the options?

In order to be effective in your MSP practice, your pricing model should include the following characteristics:

- You should know your cost of delivering services
- Understand the risks your customers place on you
- Don’t treat each managed service the same
- Don’t treat each managed customer the same
- Be willing to charge more for customers who expose your business to more risk
- Ensure any new customer fits your culture and the service you are offering

Risk Based Pricing

Risk based pricing is not new. It has been practiced by some of the more advanced MSPs going back as many as 10 years or more. This pricing model can be used for virtually every type of MSP, regardless of their geography, service or market vertical. You don’t have to be in the enterprise market to make good use of this pricing philosophy.

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Risk based pricing is one part conception, one part implementation. What I mean by this is you must first come up with your internal cost for delivering the service. This may be different for each service product you deliver. In fact, don't be surprised if you have multiple pricing options within a single service deliverable. Once you've arrived at your service delivery cost, then you move to the implementation part, which is arriving at a risk price. What is a risk price?

Risk price is the value you assign to the risk your MSP business is taking with the customer and that particular service. Each customer and each service product may be different. Hence, you're potentially going to arrive at a different price point not only for each customer, but for each customer and each service line. Sounds confusing? It isn't.

All you do is take your existing pricing model and start adding a risk variable. This variable can change. Yes, you will no longer be able to treat your services like a widget. However, you will be able to make a significantly higher margin (in many cases) because you are now considering risk when you assign a price.

One example of a risk variable could be uptime or availability. Often, customers will forecast their needs to the MSP, especially if there are any regulatory fines or concerns associated with the customer's data. Another, perhaps more vague, risk variable is customer expectations. Customer frequently will tell the MSP of their expectations around a particular service they are purchasing. These expectations can range from data privacy requirements to security concerns. Whatever they may be, these expectations can add significant cost to the service delivery. The MSP needs to factor in these costs before they price it to the customer.

Marketing

Ask most MSPs what their notion of marketing is and they'd probably tell you it's about lead generation. This is true. Good marketing should ultimately yield new business opportunities. However, there has been much debate within the MSP community about what techniques are most effective when it comes to generating leads.

The first fundamental truth about managed services marketing is that the old way of generating leads as a VAR no longer apply to MSP businesses. Many MSPs have believed that traditional lead generation activities like cold calling, email campaigns, and advertising are enough to generate sufficient new business. In reality, these models are no longer effective tools for generating trust and credibility with customers.

Marketing and lead generation practices for VARs really didn't have to focus on trust since the types of transactions taking place didn't rely upon trust. Buying a piece of hardware or software was primarily a matter of price and convenience. Customers did not have to trust the VAR.

Customers buying managed services (including cloud), on the other hand, do have to have a significant amount of trust in the provider before initiating a relationship. Therefore, the types of marketing and recruitment tactics must be adapted to this type of relationship. How can a MSP achieve this?

1. Stop wasting money on marketing efforts which only focus on immediate conversation points with customers. Customers are becoming more sophisticated. Especially with the internet and social media tools, more customers are researching and making buying decisions before they ever initiate contact with the MSP.
2. Search relevance is important. Because most customers are doing their research online, if they can't find you, that's bad. Invest in solid performing tools to help your customers find you more easily.
3. Become the expert. Easier said than done, but most MSPs have good advice and knowledge on at least a few areas. Demonstrating expertise in a particular area is important to helping customers generate trust in your capabilities. Marketing campaigns designed to promote your company's expertise would be advised.
4. Create effective referral networks. It may be right under our noses, but MSPs can learn a lot by studying how other professions address marketing and lead generation. Almost all the professions in existence today thrive due to compelling referral practices. This means

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the provider both makes referrals and accepts referral customers and understands the value of a productive referral network.

Sales

Finally, when it comes to selling managed services, MSPs need to adapt their sales techniques just as they have to change the way they market and generate leads. Selling managed services is probably the wrong term. Education and networking are probably more appropriate terms to describe how the majority of MSPs generate leads and actually close new business.

If your sales team is spending the majority of its time cold calling, they're probably not being very effective. Sales staff need to be generating conversations, which means they need to be somewhat knowledgeable about the MSP's business model. This includes both the technical and business issues related to the managed services being offered.

An effective marketing strategy should create opportunities for the sales staff to be able to talk to customer prospects and develop relationships. These relationships won't always result in immediate sales. But, over time, an effective sales person can simultaneously build credibility with the customer and educate them about the value of the MSP's services.

Sales people should also focus on cultivating referral networks. Existing customers can be powerful salespeople, they just don't know it. Sales professionals need to learn how to turn existing customers into effective advocates for the MSP business. Referrals made by peers are far more persuasive precisely because trust already exists. Nurturing customers so they will be happy to refer your managed services to another person or organization is the supreme testament of satisfaction and trust. Good salespeople should spend a lot of time turning existing customers into revenue generating opportunities.

Summary

There are many other aspects to generating managed services revenue, but it all starts with price. Once you have developed a solid pricing model which properly recognizes and accounts for risk, then you can be assured that your managed services prices will always protect your business.

With a properly priced managed services offering, your business is now ready to actively market and recruit customers. Your MSP practice will also be protected against customers and other providers who wish to use your pricing models against you.

And, finally, with the properly trained sales staff, your inbound leads should start to turn into revenue-generating customers. The right sales person can not only cultivate new leads by identifying the right prospects, but they can also turn existing customers into multipliers for the MSP business.

There are no short cuts or gimmicks in managed services. Especially not with lead generation or selling. But, if you can develop a solid reputation and broadcast your message effectively, you should have no problem in bringing in new business and reaching the pinnacle of managed services success.

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Rev 111016

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