# FLEXIBLE PRICING AND BILLING

## FOR MSPs

## Introduction

Managed Service Providers (MSPs) often use a few different pricing models for their IT services. These include value-based, device- or endpoint-based, user-based and project-based billing models. Their Professional Services Automation (PSA) tool should support all of these pricing models in the billing process. In addition to this, the PSA solution should also provide automated billing proration.

## MSP Pricing and Billing Model Details

### Value-Based Pricing

The value-based pricing model focusses on a flat fee for the complete range of services offered to a customer. Instead of billing the client for individual services, the value-based pricing model is concerned with providing the full range of MSP services at one cost. The flat fee includes all the IT support provided to the customer each month.

This model is generally sold as a monthly or annual subscription, which has a number of advantages for the MSP. First, it provides a predictable revenue stream. Second, it drives higher gross margins as compared to other models. And finally, it makes staffing and technician utilization easier to manage.

In this model, the MSP typically handles the entire IT function for the customer—in essence becoming their outsourced IT department. Customers are charged for the value those services bring to their business, as the name suggests.

Usually, value-based pricing is more complex compared to other pricing models. The bottom-line price is decided based on per-user cost and the MSP can often achieve greater margins over time. Under this model, the individual costs of the services are not usually disclosed to the client.

As such, the actual price for the complete solution varies from one client to another based on several factors including levels of service and support (based on Service Level Agreements), vertical markets and so on. While the MSP can customize the price of the solutions in each service agreement for maximum profitability, the customers enjoy the simplicity of a complete solution for all their IT needs at one price.

## Tiered Pricing

One of the most popular pricing models among MSPs, tiered pricing involves offering several different bundled packages of services to the customer at different price points. These service packages might be characterized as Bronze, Silver, Gold and Platinum levels, for example, with prices increasing as more services are added to the packages.

Each of these levels offers a specific set of services and support. For example, a bronze desktop management package might include patch management, remote management, antivirus and business hour phone support at an entry-level price. Moving higher, advanced silver or gold packages might provide the customer with additional services such as on-site visits, 24/7/365 support and more.

In essence, the tiered pricing model gives clients the flexibility to choose a package tier that best suits their needs and budget parameters. Each of these tiers is structured around resources and costs at a price point that ensures profitability for the MSP and provides the promised services to the client.

As with the value-based model, the tiered model is sold as a monthly or annual subscription and provides the same advantages mentioned above.

## Device-Based Pricing

Also known as the per-device pricing model, the device-based model requires the customer to pay a flat fee for each device that is managed by the MSP, billed on a regular schedule. Under this model, the MSP does not need to keep track of how many users there are in the customer's organization. It is a fairly straightforward and easy-to-implement model for MSPs wherein the prices may vary based on the types of devices (e.g. server, desktop, laptop, tablet, mobile device) under management. It's common for MSPs to charge one per-device price for servers and a lower price for end-user devices, for example. The MSP can easily quote prices for its prospects. Typically, the customer is billed per device every month.

The device-based model is very flexible since customers can easily add or remove devices based on their changing needs and the billing is adjusted accordingly. If integrated well, your PSA solution can pull updated asset information from your RMM tool on a daily basis and automatically prorate the monthly billing according to the changing number of devices under management. (See section on prorated billing below). According to the 2020 MSP Benchmark Survey, nearly 24 percent of MSPs charged more than 50 percent of their total clientele based on the per-device pricing model.

However, there are certain drawbacks to this pricing model as well. The model may be less attractive to SMBs that have many users that each have multiple devices—for example, a desktop, laptop, tablet and/or smartphone. In this case, the "per user" model may be a good alternative (see below). In addition, since the MSP offers multiple services for each device, the flat fee structure can fail to accurately determine the total cost of service delivery and hinder profits.

## User-Based Pricing

As the name suggests, under the user-based pricing model, the customer is charged a flat price per user every month, regardless of the number of devices they use. In essence, this model covers the IT needs of each user and all the devices they use.

This pricing model is a good offering for MSPs serving businesses that have lots of individual users using multiple devices. According to the 2020 MSP Benchmark Survey, 25 percent of MSPs charge more than 50 percent of their customers using the user-based pricing model. This model is very flexible and easily understood by clients, similar to the per-device model.

To use the user-based model, MSPs need to first determine the all-in seat price inclusive of the total cost of delivering all the services for a single user. Once that is done, the MSP can then determine a bottom-line price, a break-even price and the profit margin. Some of the key factors that the MSP needs to consider while defining the final user-based price for a client include:

- Customer's computer literacy
- Technical complexity of the network
- Age of the technology/devices

## Project-Based Pricing

Oftentimes, MSPs will provide services on a project basis to their clients. The statement of work (SOW) for the project defines all of the milestones and deliverables and sets the fee. They then bill the client accordingly.

## Hourly Labor Rate (Time and Materials)

Under the hourly labor rate pricing model, MSPs need to calculate the time and materials invested in managing their clients' IT environments. This model is typically used in the "break-fix" model where the MSP provides services on demand and as needed by the client. In order to determine a reasonable and profitable rate when it comes to billing clients, MSPs must have a clear understanding of their own labor costs.

There are several variables that influence the determination of the labor rate for break-fix IT services, with the calculation of potential billable hours in a year being the most important. In addition to this, MSPs must also determine the average utilization rate for their technicians— the percent of billable time a technician would spend working with the customer.

One of the key considerations for an MSP to be profitable in the choice of pricing is calculating their full hourly burden rate. This includes the following two components:

- The full billable labor burden - The total billable staff labor costs.
- The full overhead burden - The sum of all the overhead costs of the MSP, which includes non-billable staff and other costs such as training, rent, fuel, telecom services, utilities and so on.

The main difficulty with the break-fix MSP services model that uses time and material billing is the lack of predictability of the revenue stream for the MSP. This is why many MSPs have moved away from this model to subscription-based models that smooth out the revenue stream.

## How a PSA Solution Supports These Models in the Billing Process

A robust Professional Services Automation (PSA) solution can help streamline your customer billing process and make it easier for you to manage your finances more efficiently and accurately. The right PSA solution will support all the aforementioned pricing models and help MSPs build loyal and lasting relationships with customers.

Here are a few key considerations for how a PSA solution should help manage the billing process:

### Device-based billing considerations

Your PSA solution should integrate with your Remote Monitoring and Management (RMM) tool to pull in the latest IT asset information through a daily asset synchronization process. With this up-to-date asset information, your PSA tool can generate accurate device-based billing invoices. Every time your client adds or removes devices from their managed services subscription, your PSA solution can use the updated asset information from your RMM tool and automatically prorate the monthly billing according to the changing number of devices under management.

### User-based billing considerations

Like the device-based billing model, the user-based billing model is also easy to implement with the help of integrations to other sources of user data. The PSA solution can get user information from Active Directory and use this to calculate your clients' monthly bills. As your clients' businesses grow and they keep adding users to their MSP services subscription, your PSA solution can utilize the updated user information from Active Directory and automatically prorate the monthly billing based on the changing number of users under management. The integration between your PSA solution and Active Directory also makes onboarding of new users faster and easier.

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## Prorated billing for users and devices

Prorated billing simply means that the bill reflects any changes made in the middle of a billing cycle. In other words, you would bill your customers for new users or devices that were added in the middle of the month, for the portion of the month they are under management, if you are billing on a monthly basis. Whenever there are any modifications to the service effective dates or service units within a billing period, the invoices are adjusted accordingly. With prorated billing, you aren't missing out on payments for service units that are billable for a portion of the billing cycle.

The provision for prorated billing is indispensable for a comprehensive PSA solution. The right PSA solution automates proration to save time and ensures that you are billing your customers accurately for partial months.

## Hourly rate-based billing considerations

Under the hourly-based pricing model, it is imperative that an MSP captures all billable hours to accurately calculate the payment due from the client. When billing under this model, your technicians should make sure to create a new service ticket for every issue that is addressed and resolved for the customer, even if it only takes 10 minutes. With the help of your PSA solution, you can easily capture all billable time to ensure accurate billing and gain insights into technician utilization rates.

For your technicians to stay on top of tickets for every service provided to the customer, a PSA solution that can be accessed and managed with a mobile app is a real advantage. A mobile app streamlines management of service tickets when techs are onsite at the customer's location.

## Key PSA Features Required to Streamline Billing
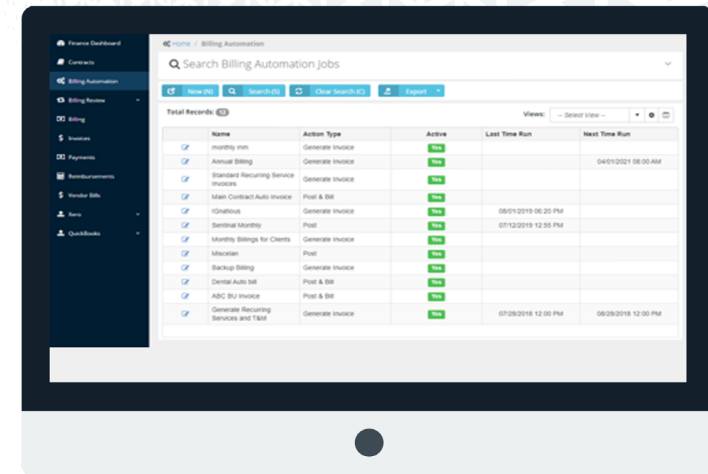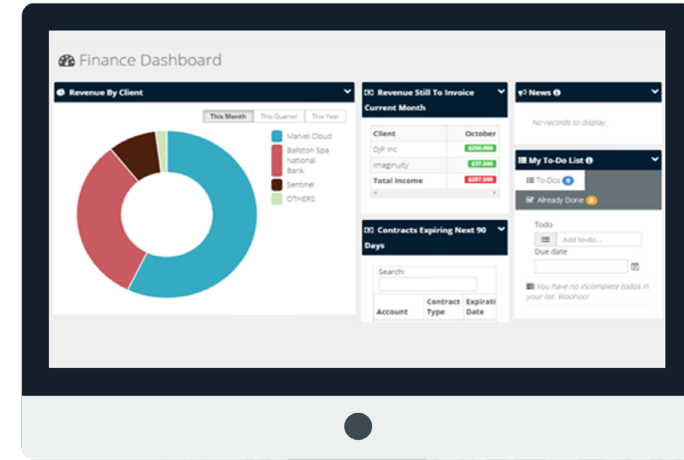
### Financial Dashboard

In order to streamline your billing process, your PSA solution should provide you with a dashboard view of the various details associated with client billing. It should provide insights into important information, such as the revenue by client, contracts that are close to expiration, the services that need to be invoiced every month, your to-do list and so on, in one complete view.

### Billing Automation

Billing your clients every month can be a cumbersome task for your services team. However, a PSA solution that automates your billing process can be a game changer. With the right PSA solution, you can automate your entire billing process for everything from managed services to fixed price projects. Billing automation not only saves time but also ensures accuracy.

### Billing Review

The right PSA solution should not only help with automating the billing process but also allow you to review the invoices for any errors. The billing review feature of your PSA solution helps you maintain the trust and confidence of your clients in your MSP.

**Invoices**

A comprehensive PSA solution can simplify invoicing by automatically generating invoices based on your time and expense tracking records.

**Integrations**

The billing and invoicing module in your PSA solution should support seamless integration with third-party accounting software, such as QuickBooks, for fast and easy management of business payments.

## Kaseya BMS Meets All Your MSP Billing Needs

Kaseya BMS helps simplify IT billing and invoicing for you and your customers. Some of its key features that enable you to stay on top of your MSP billing include:

- Financial dashboard
- Prorated billing
- Automated billing
- Management of invoices
- Capturing billable hours
- Integration with common financial applications such as QuickBooks and Xero
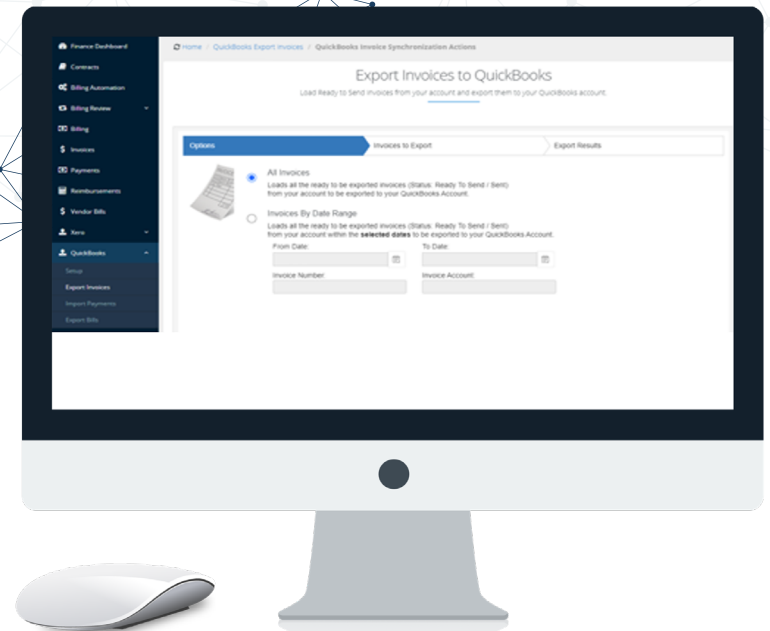
With the Kaseya Fusion Mobile App, you can create, manage and update BMS service tickets every time you address an issue for your clients, anytime, anywhere. This helps accurately track and calculate total billable hours for each of your clients and ensures that you get paid for all the effort you invest in managing IT for them.

## MAKE THE RIGHT DECISION TODAY

With a plethora of options out there, choosing the right PSA solution can be a daunting task. But, now that you have a better idea of what you need to look for while shopping for a PSA solution, you are better equipped to make a well-informed decision based on your pricing and billing needs.

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**About Kaseya**

Kaseya® is the leading provider of complete IT infrastructure management solutions for managed service providers (MSPs) and internal IT organizations. Through its open platform and customer-centric approach, Kaseya delivers best in breed technologies that allow organizations to efficiently manage, secure, automate and backup IT. Kaseya IT Complete is the most comprehensive, integrated IT management platform comprised of industry leading solutions from Kaseya, Unitrends, Rapidfire Tools, Spanning Cloud Apps, IT Glue and ID Agent. The platform empowers businesses to: command all of IT centrally; easily manage remote and distributed environments; simplify backup and disaster recovery; safeguard against cybersecurity attacks; effectively manage compliance and network assets; streamline IT documentation; and automate across IT management functions. Headquartered in Dublin, Ireland, Kaseya is privately held with a presence in over 20 countries. To learn more, visit www.kaseya.com.

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