



Five revenue metrics
every MSP should track

Introduction

Managed service providers (MSPs) have their work cut out for them. Besides managing the help desks of their clients—the number of which can vary depending on the size of the business—MSPs also need to make sure they keep their head above water and make a decent profit. Keeping tabs on revenue can be quite a challenge given the sheer workload MSPs deal with every day. So we've come up with a list of important revenue KPIs that make it easy to see how profitable your MSP business really is.

Using the KPIs discussed in this e-book, you'll be able to:

- Gain insight into your revenue streams.
- Understand your revenue breakdown.
- Visually track your revenue growth.
- Assess the overall profitability of your business.
- Make educated decisions regarding your business' future.

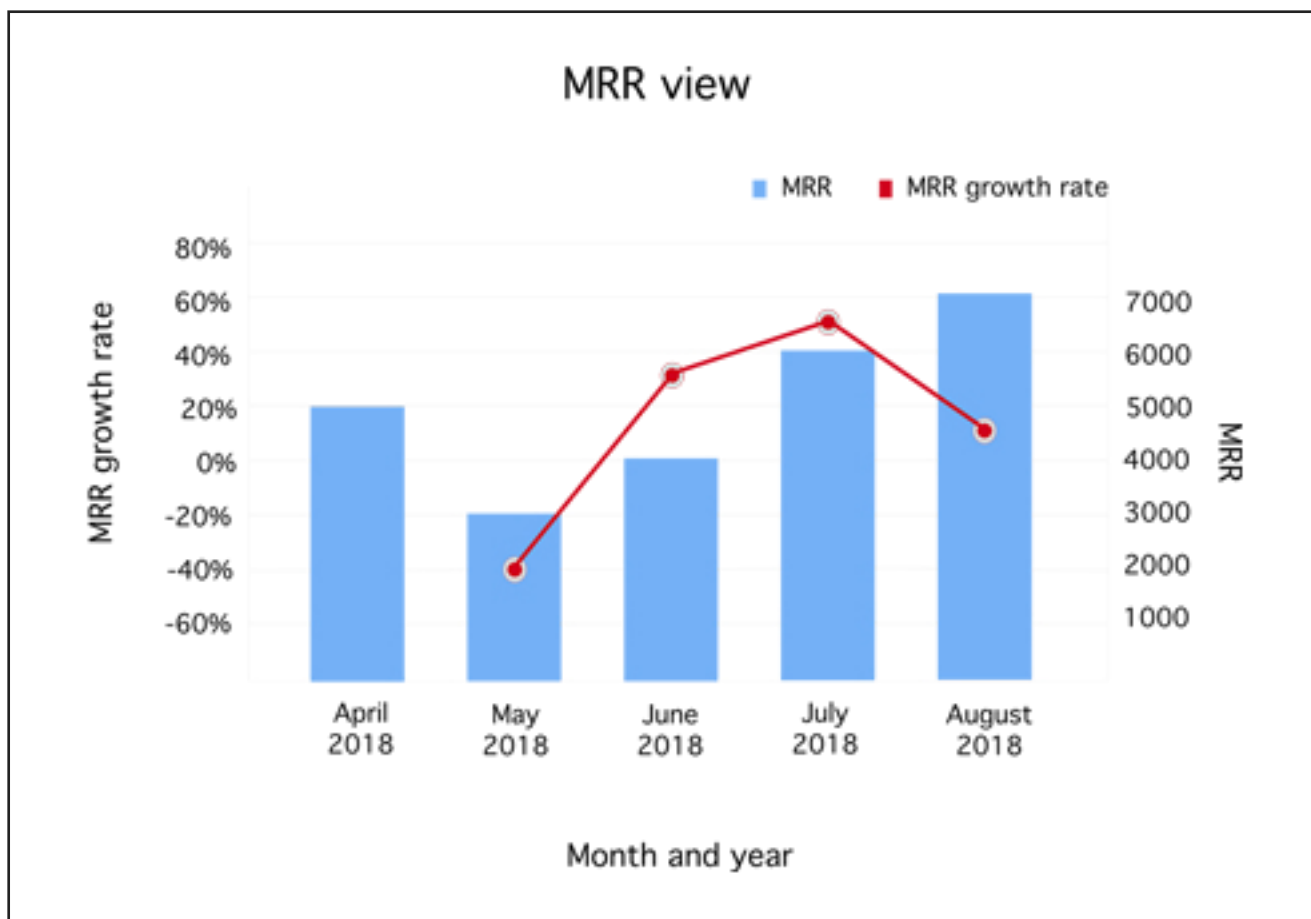
1. Monthly recurring revenue

Monthly recurring revenue (MRR) is the normalized revenue your service is making each month. It's composed of four components:

- Revenue from signing on new clients.
- Expansion revenue from existing customers subscribing to new services or products.
- Revenue loss from existing customers unsubscribing from services or products.
- Revenue loss from customers leaving your business.

MRR is calculated by adding these values to your expected revenue from existing customers.

Given below is a graphical representation of MRR created using Analytics Plus, a business intelligence and self-service analytics tool from ManageEngine. It also shows the growth rate by comparing the net recurring revenue of subsequent months.

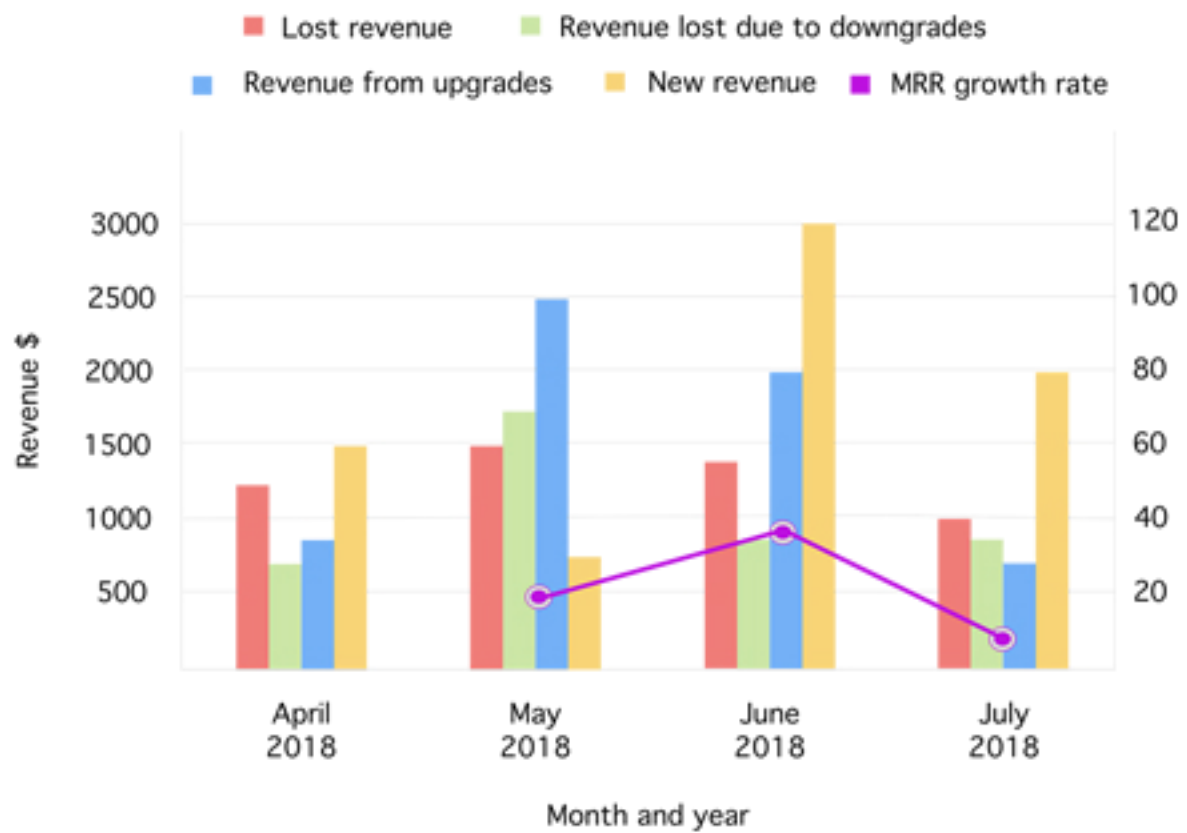


While the MRR report can tell you when your revenue has increased or decreased, it can't tell you why. For this, you need to see how recurring revenue is split among the four components discussed above. This breakdown tells you exactly which component contributed to an increase in revenue so you can focus on that component.

For instance, if you notice new revenue starting to decline each month, you can ramp up marketing initiatives to bring on new clients. Likewise, if more customers are unsubscribing from a specific service, it might be time to re-evaluate whether you need to continue offering that service.

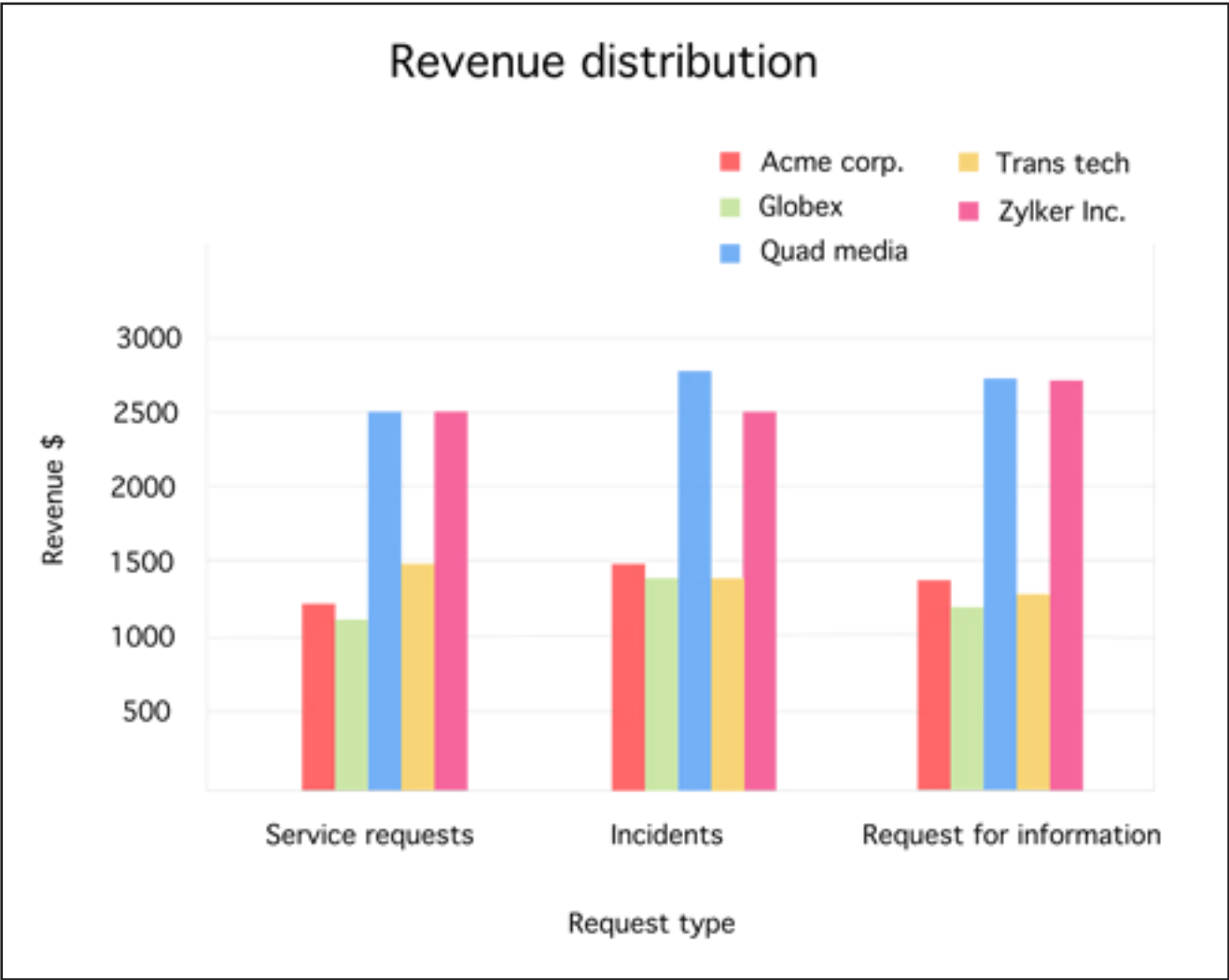
Here's a sample report that shows how monthly recurring revenue is split.

MRR split report



2. Revenue distribution

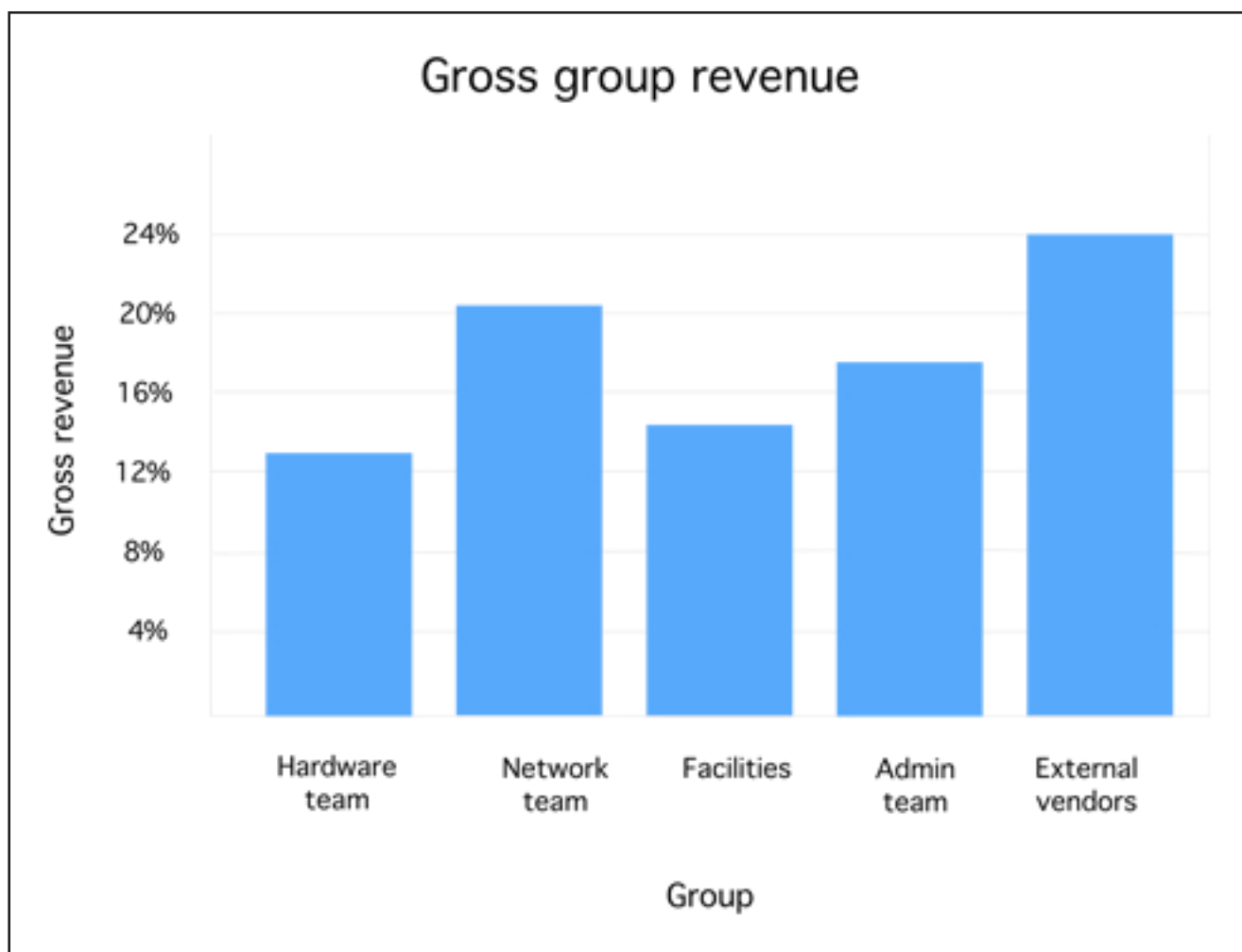
Ever heard the quote, "Don't store all your eggs in one basket?" Well, this old adage perfectly sums up how an MSP business should be run. Many service providers tend to overlook how their revenue is distributed, and end up focusing only on one or two big customers who bring in a lot of revenue. While it's great to have high revenue customers, it's important to ensure that no more than 60 to 70 percent of your total revenue depends entirely on just one or two customers. Should these customers find business elsewhere, it could spell trouble for you.



3. Gross group revenue

Just as no two customers are alike, neither are two support groups. While some support groups bring in the lion's share of revenue, others barely hit the monthly average, which is why it's important to review how much each support group is making. In an organization with a dozen support groups, the groups that handle hardware, upgrades, and network-related requests will likely be the top revenue generating groups while others lag behind. A healthy help desk should have balanced revenue streams from all support groups to provide overall stability to your revenue structure.

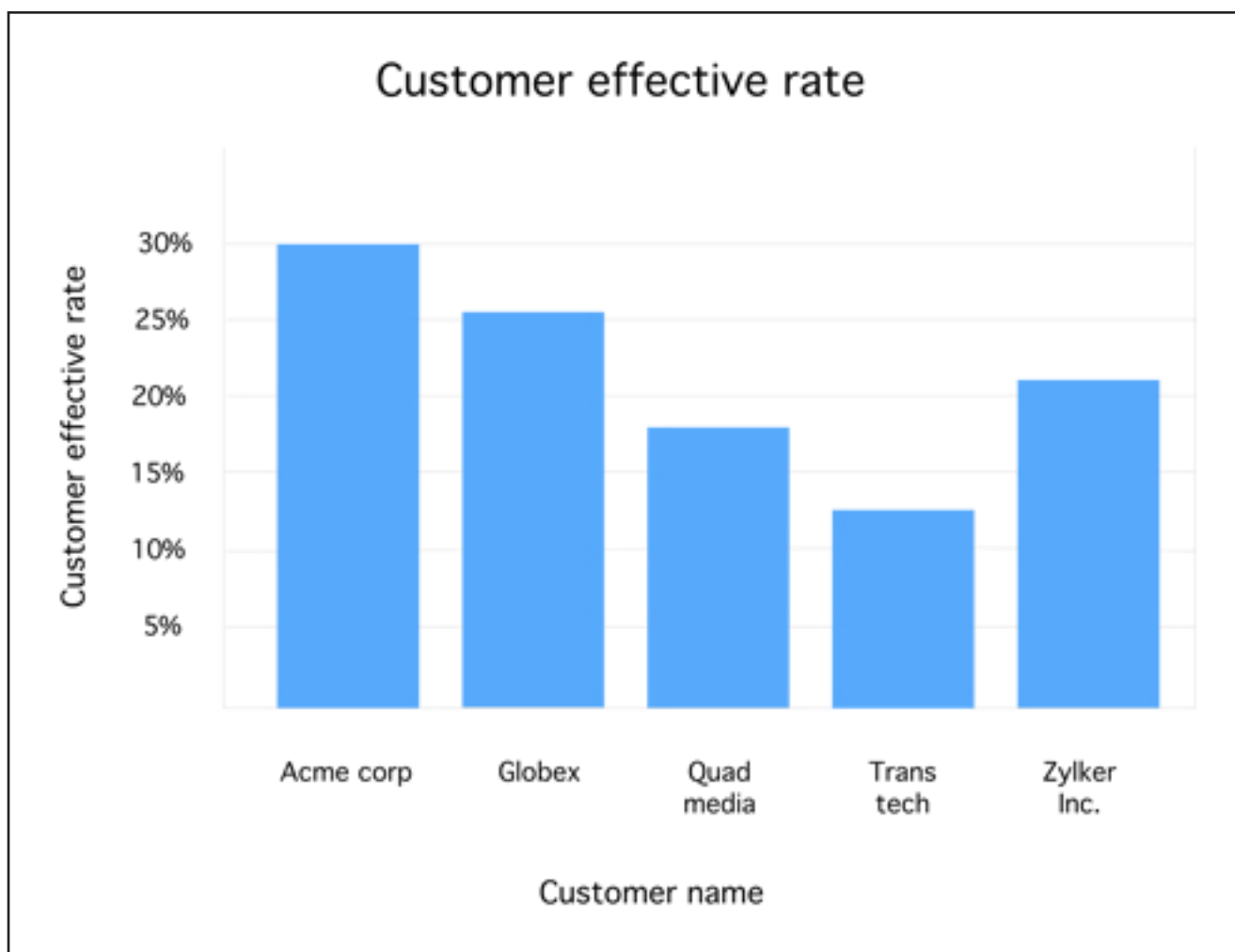
A quick note about measuring gross group revenue: This metric is by no means an indication of your team's competency or skill level. It's more of a yardstick to estimate who makes the most money so that technicians can be assigned to work in more profitable service groups as needed.



4. Customer effective rate

One of the serious pitfalls of being an MSP is that you're practically invisible when you do a good job. Customers come to you with requests, you resolve them in no time, and it's soon forgotten. So when it's time to renew contracts or pitch new products and services, you may feel unprepared to face the flood of questions like "Why do we need this service?" or "Are we even using this service?" or the most important question, " Why are we still paying for this service?"

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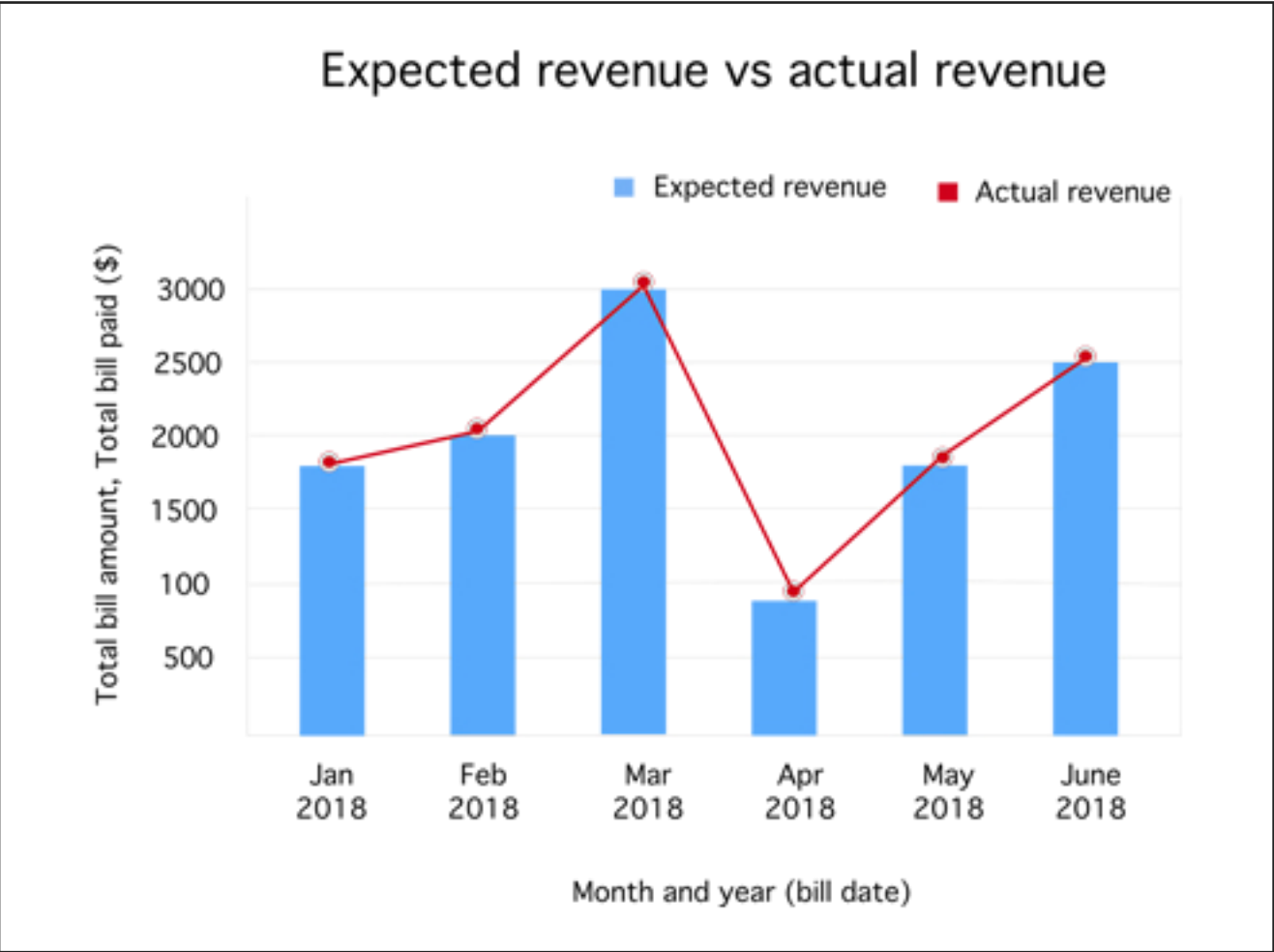
Thankfully, there's a way to answer all these questions with one simple KPI—customer effective rate. The customer effective rate is the total amount invoiced per customer divided by the total man-hours logged towards resolving the respective customer's requests. This metric helps your customers get a good idea of how effectively they're using your services and also helps you see who your most profitable customers are.

Customers with low customer effective rates are the ones getting the most bang for their buck, while customers with high customer effective rates are the most profitable ones for you as a service provider. To ensure smooth sailing, you should keep a healthy mix of customers with both high and low customer effective rates.

5. Expected revenue vs. actual revenue

The terms expected revenue and actual revenue are important when you're tracking your business' earnings. Expected revenue is calculated based on the total amount customers owe you for that month, as specified in your generated invoices, and actual revenue is the amount you receive from your customers.

Comparing expected and actual revenue is a good way to get to the bottom of things when the books don't quite add up. So any time you notice a discrepancy in the monthly revenue you receive, you can check the expected vs. actual revenue report to see which customers paid in full, which customers underpaid, and which customers haven't paid at all.



Conclusion

Running a profitable MSP business doesn't have to be difficult if you know the right metrics to watch. These essential revenue metrics will not only help you determine exactly how much return you're getting from customers, but will also help you spot areas of trouble so you can make necessary adjustments to your business strategy to ensure profitability and sustainability.

Analytics Plus offers 100+ out-of-the-box reports and dashboards for ServiceDesk Plus MSP integrations. Check us out to explore more benefits of integrating ServiceDesk Plus MSP and Analytics Plus.

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