



ManageEngine
Analytics Plus

A guide to tracking **MSP profitability**

The handbook for MSPs to achieve profitability
in troubling economic times

Introduction

Running a business is daunting, even in the best of situations, and with the troubling economic times ahead, the MSP world is getting more competitive than ever. Some challenges MSPs face include: the high expectations of customers, constantly evolving technologies, intense pressure from clients to deliver services, and a pressing need to slash operational costs to increase profit margins. For these reasons, it's critical to streamline your business processes, track the portfolio of services provided against profitability, and identify opportunities to eliminate costly inefficiencies. Only by looking at revenue from multiple perspectives can you get the insight needed to increase revenue.

In this e-book, we've put together nine critical metrics for MSPs to track revenue and a few tips to increase profitability.

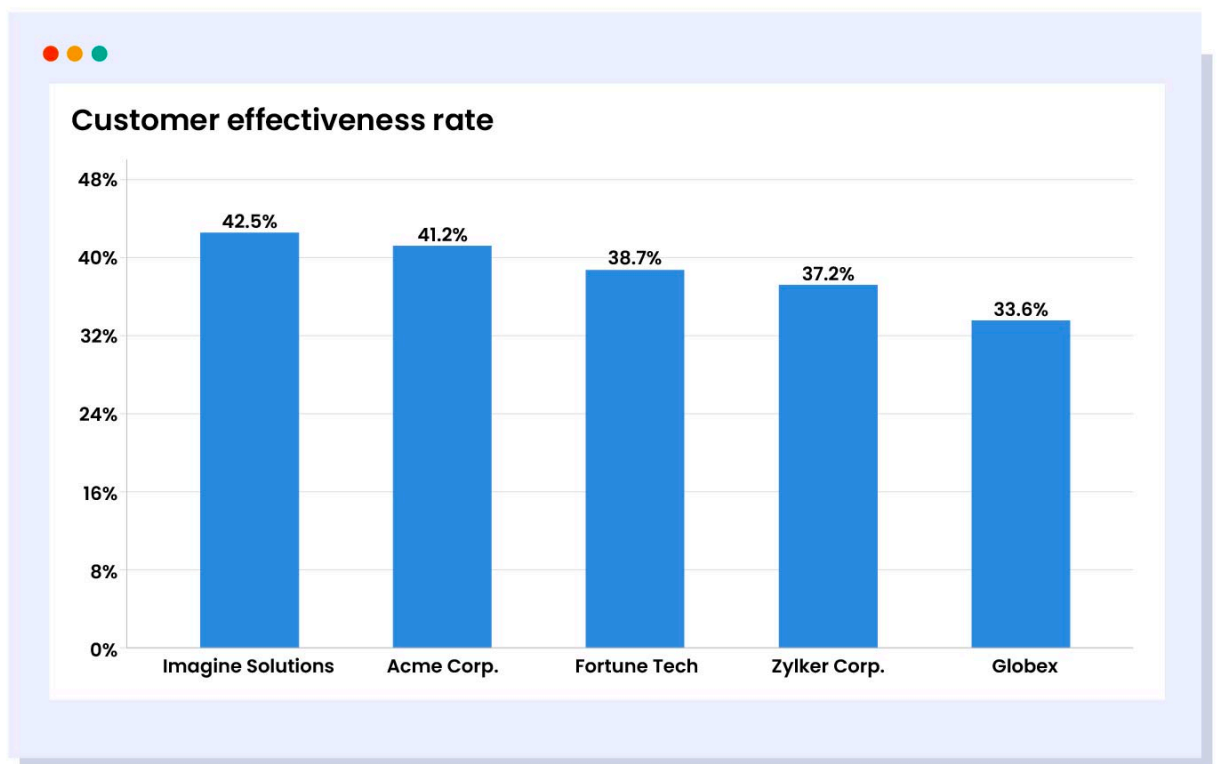
Customer effectiveness rate

Customer effectiveness rate, also known as contract profitability rate or effective hourly rate, compares the profitability of customers against the value of services delivered to them.

Customer effectiveness rate is a ratio of revenue against hours worked on a customer, producing a revenue-per-hour result. Tracking this metric helps establish how profitable your customers are against the number of hours you're spending on each customer. A high customer effectiveness rate means higher profitability for the MSP, while a lower effectiveness rate means that the customer is getting more hours for the money paid. MSPs need to pay attention to customers with lower effectiveness rates and look for ways to improve it, either by increasing the cost of services offered or by streamlining operations and reducing the hours of service provided. Here's how to calculate the customer effectiveness rate:

$$\text{Customer effectiveness rate} = \frac{\text{Total cost of contract or Total revenue from a customer}}{\text{Hours worked on the contract}} \times 100$$

The sample report below illustrates the customer effectiveness rate of a fictional MSP. If your effectiveness rate is low, your customers are receiving bang for their buck. If not, it means customers get more service hours for a lower price.



Here are a few tips to improve customer effectiveness rate:

- Focus on ways to deliver excellent services to gain customer trust and reputation.
- Customers initially adopt only critical services like connectivity, hardware, software, and networks. However, as their business expands, so do their service needs, including storage, multi-level server management and infrastructure management, etc. In this case, observe the service consumption trend and cross-sell more services.
- Leverage automation for mundane and repetitive tasks—this not only allows you to provide better support to customer needs, but it can also help drive growth across the business and improve cost alignment to revenue.
- Provide faster services and reduce the wait time of your customers, ensuring customer retention.

Account profitability

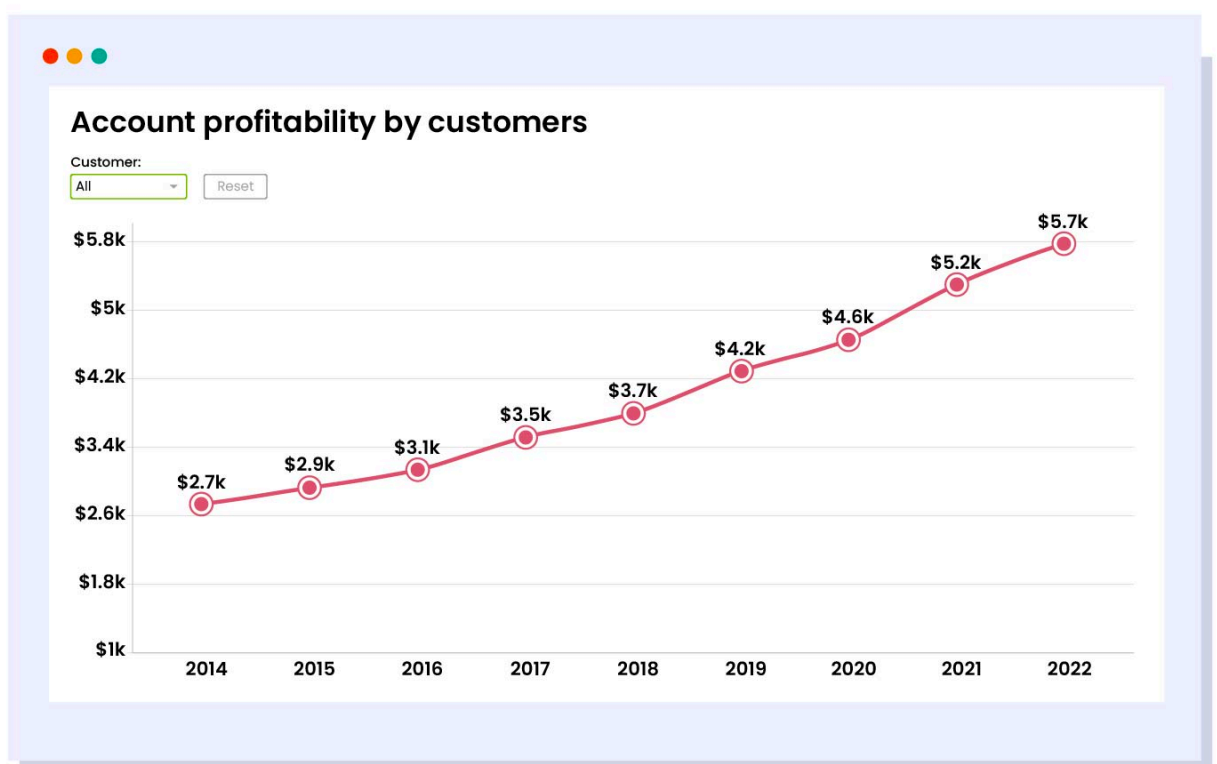
Understanding the profitability of your business is critical to keep it operational. This requires 360-degree vision into who your customers are, what their requirements are, and how much they cost you. However, business leaders fail to notice the fact that not all customers are profitable—a few customers may even cost you more money to service and not generate much revenue. In such scenarios, keeping track of account profitability certainly helps. This metric helps to gauge the cost of services delivered and the profits gained in return for each customer. Account profitability is a critical metric that tells you the cost of operating an MSP business by each customer—it is a measure that identifies the golden customers, or most profitable customers, for the business. To calculate the account profitability of your customers:

$$\textbf{Account profitability} = \textit{Revenue} - \textit{Cost to service}$$

Here's a report that shows how much each customer has contributed to the business.



Here's another report that shows the lifetime account contribution of a customer over the years.



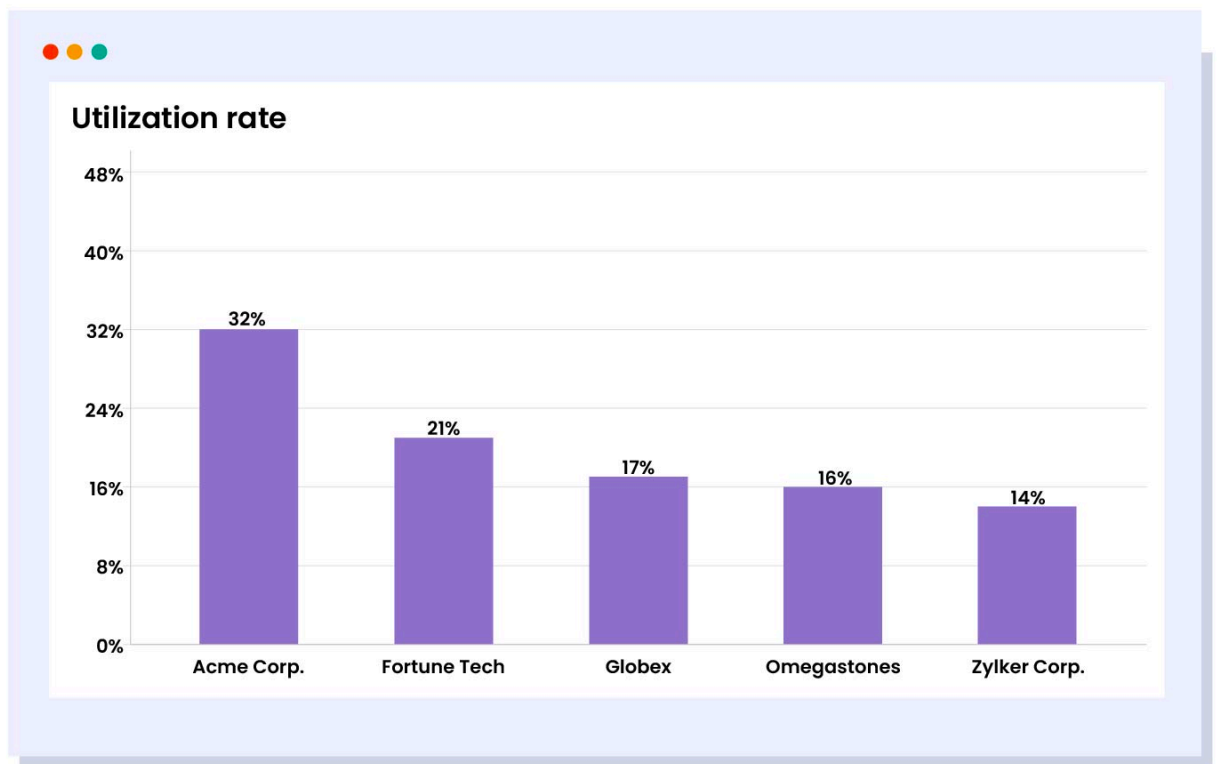
In the first report, one of the customers seems to have negative profitability; this means the cost to service this customer is more than the revenue obtained from them. This is just for illustration purposes; your actual customers may not fall into this bucket. However, calculating profitability by customers keeps costs and revenue in check.

Utilization rate

Utilization rate measures how efficiently your customers are using your services and technician hours. Consider this scenario: A fictional MSP serves two customers who pay \$40,000 and \$60,000. In this case, their utilization rates should be 40% and 60% respectively. However, if it's 50% each, then it means that the customer paying \$40,000 is using more of your services and time. This metric is more effective when measured with client concentration (discussed below). Here's how you can calculate the utilization rate:

$$\text{Utilization rate} = \frac{\text{Hours spent on a customer (in a year)}}{\text{Total hours worked}} \times 100$$

The sample report below shows the utilization rate for five customers.



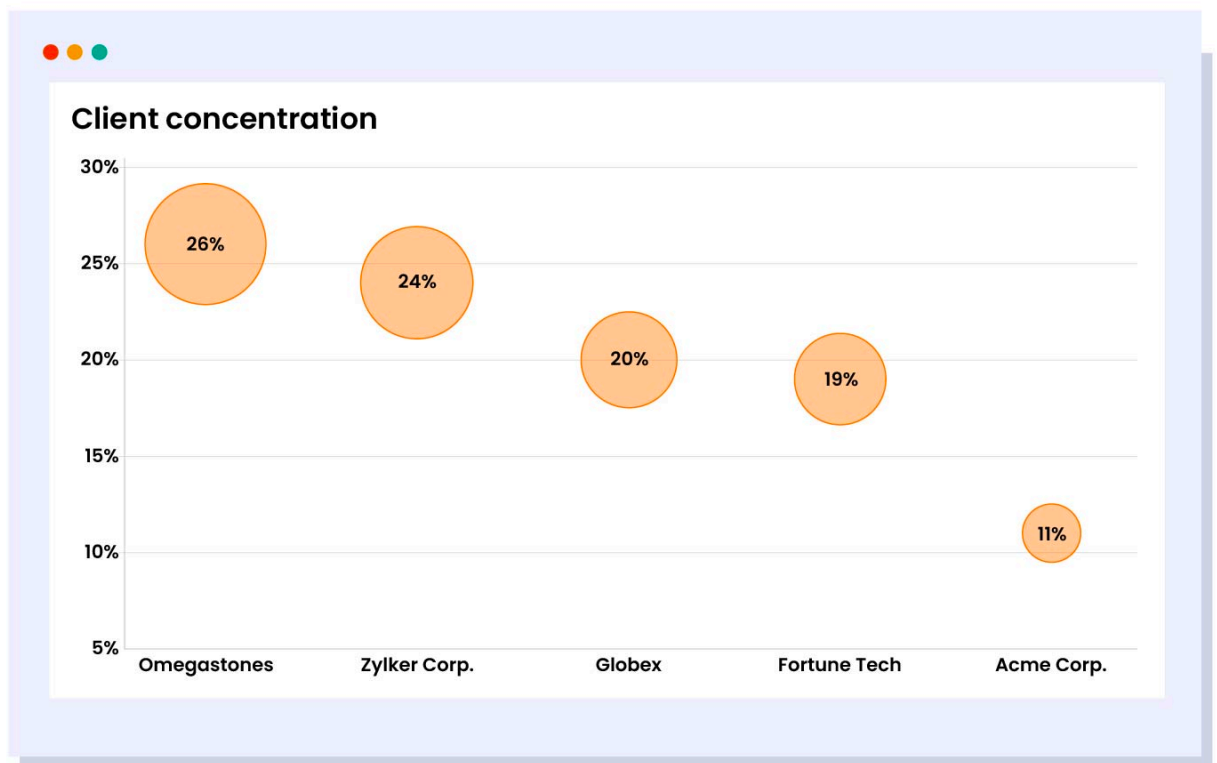
Client concentration

Client concentration tells you the contribution percentage of each customer towards your total revenue. Your client concentration needs to be varied and diversified to ensure your business isn't reliant on the success of a single customer or a small group of customers. So, it's critical to avoid a "having all your eggs in one basket" scenario where losing even one customer would be catastrophic for your organization.

Identifying the clients who are contributing the most revenue to you is simplified with this metric. To know your client concentration:

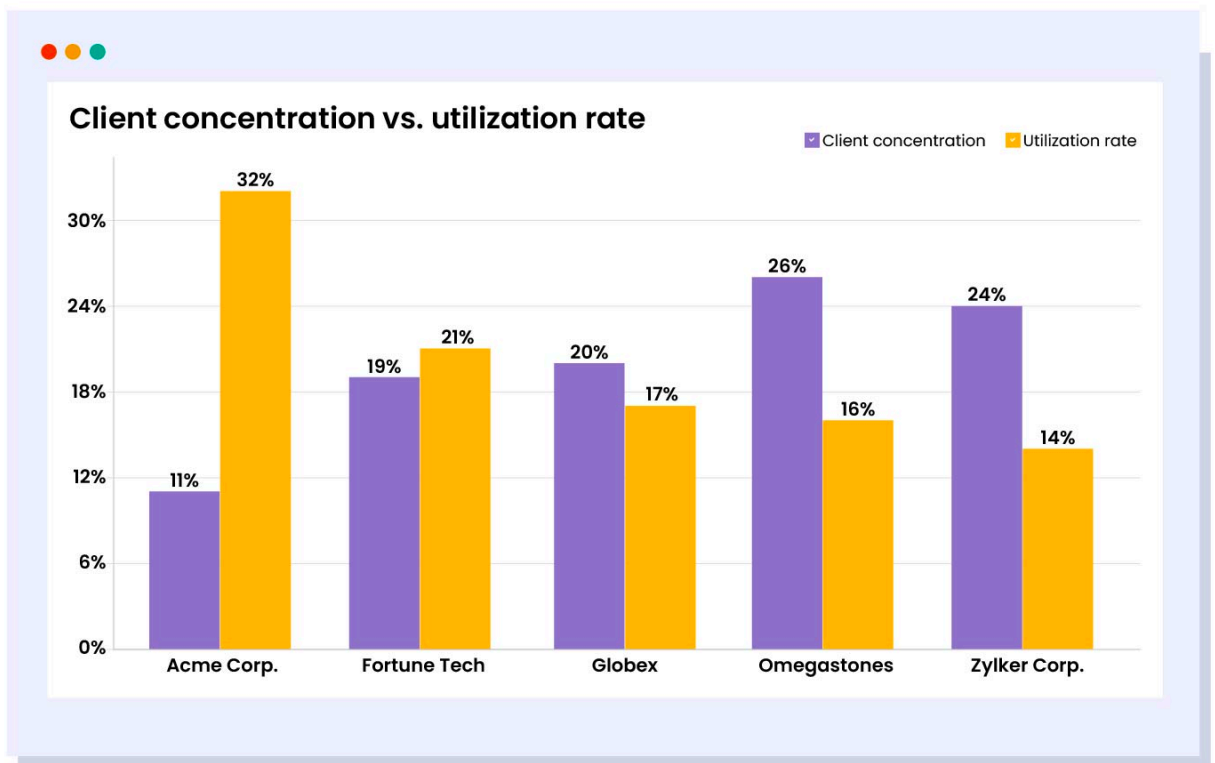
$$\text{Client concentration} = \frac{\text{Revenue by account}}{\text{Total revenue}} \times 100$$

The sample report below shows the client concentration for an MSP business. According to the report, Omegastones makes a greater contribution to the fictional MSP's revenue than others.



Client concentration should be measured against utilization rate (described above). Together, these metrics tell you the contribution of each customer and the value they derive for their dollars. Client concentration and utilization rate should have a direct relationship.

An inverse relationship between the two metrics means you are spending more time on a customer who is paying less. Here's a sample report that illustrates both these scenarios. Acme Corp. has a higher utilization rate as compared to its client concentration rate, meaning it is utilizing your services more but contributing less towards the overall revenue, while Omegastones and Zylker Corp. have a more favorable relationship wherein they're using more MSP service optimally while contributing more to the revenue.



Your business has a high client concentration when:

1. One customer accounts for more than 10-20% of total revenue, or
2. Your five largest customers account for more than 25% of total revenue.

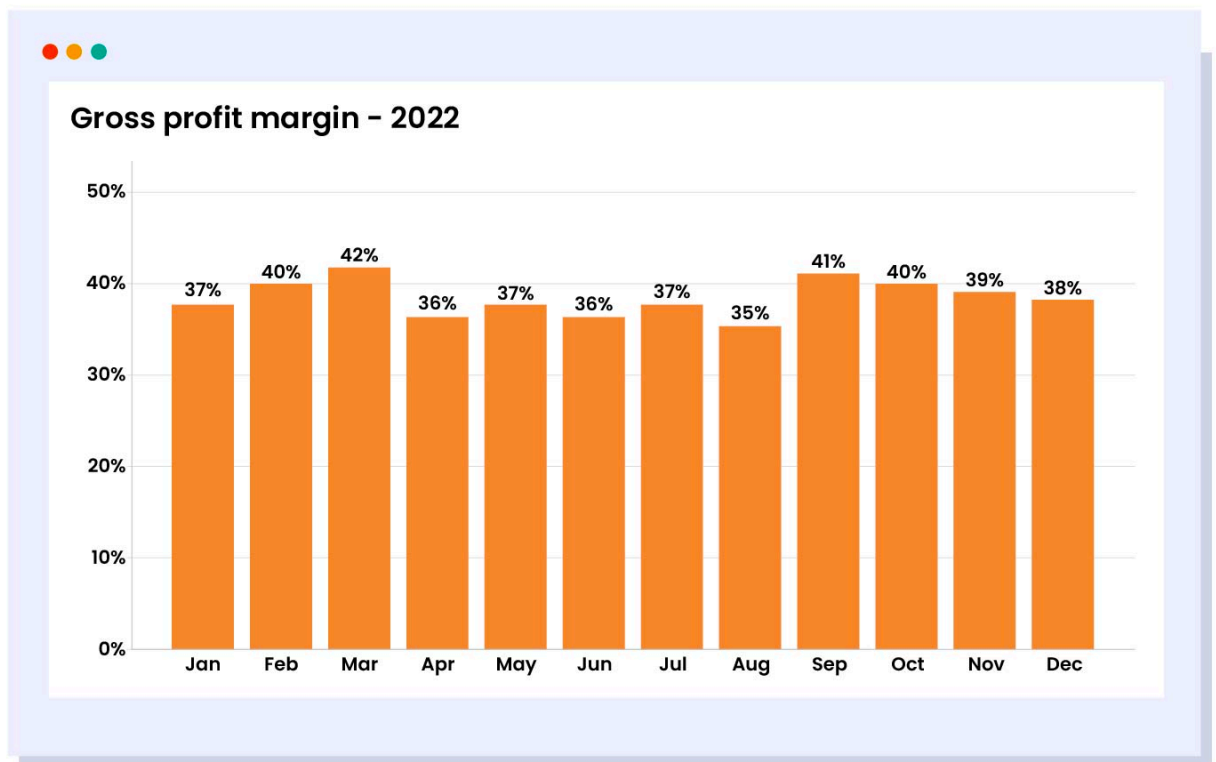
When one of these two conditions is satisfied, your business is over-reliant on one or a small group of customers. This means you need to look for options to diversify.

Gross profit margin

How much money is left after eliminating the costs of providing services? Are the expenses worth the revenue that you get? Can you optimize both workforce and expenses that are used to provide a service? Monitoring gross profit margins across services will help you answer all these questions. Gross profit margin serves as an organization's health analyzer metric. Keeping track of this metric will help you assess whether your organization is financially healthy. While revenue may fluctuate month to month, gross profit should remain steady. Here's how you calculate your organization's gross profit margin:

$$\text{Gross profit margin} = \frac{\text{Total revenue} - \text{Cost of services}}{\text{Total services}} \times 100$$

The sample report below shows the gross profit margin of a fictional organization.



Revenue per customer

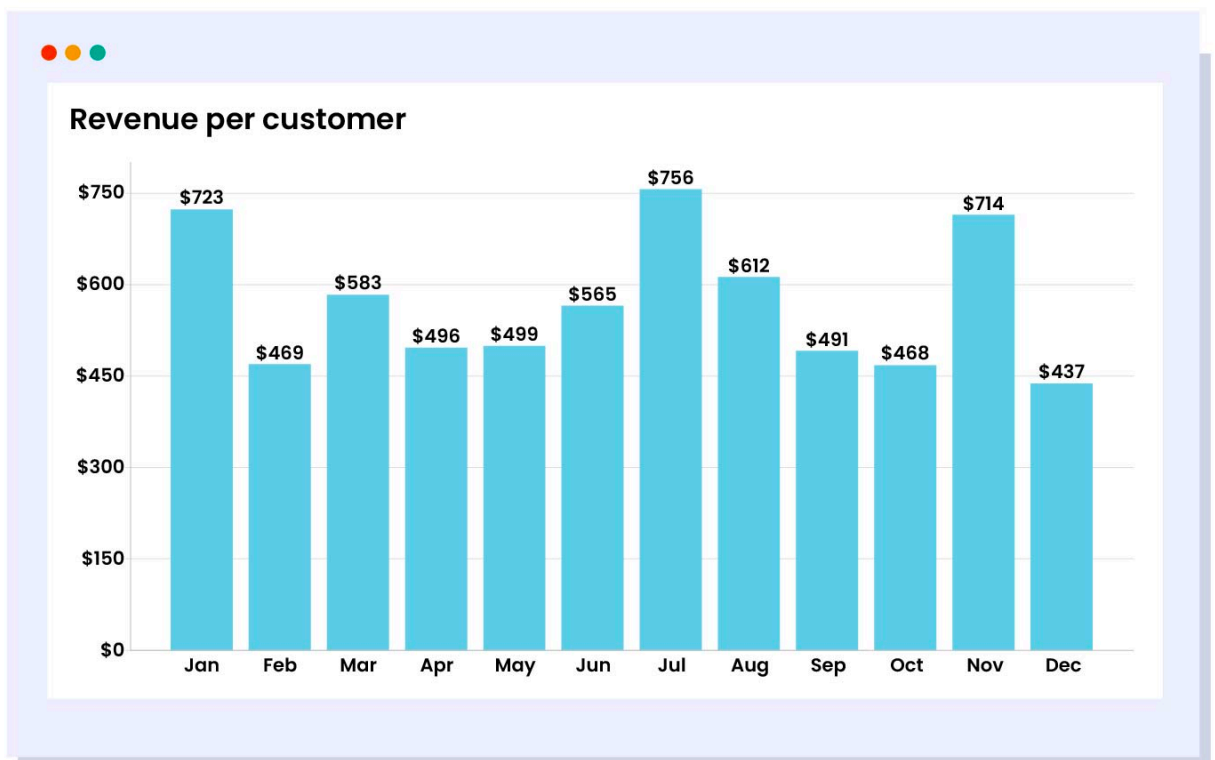
Knowing all your customers inside and out is what brings success to an organization. When you assess a successful service, you will notice that 99.9% of the time, the service provider has a good grasp of who their consumers are and an even deeper understanding of how their customers value the service provided.

Revenue per customer is a powerful but often overlooked metric that helps you to understand your consumers. This metric enables you to gauge how efficiently your organization and customers are using your resources and employees' time.

Revenue per customer also lets you identify trends and implement changes that will shift the trajectory of your service toward the bigger and more positive side. Granted that not all customers are billed equally, this metric attempts to equalize revenue against all paying customers to help quantify business operations by revenue from customers. To calculate your revenue per customer:

$$\text{Revenue per customer} = \frac{\text{Total revenue}}{\text{No. of customers (dollar value)}}$$

The report below shows the trend of revenue per customer for the last year.



To boost your revenue per customer:

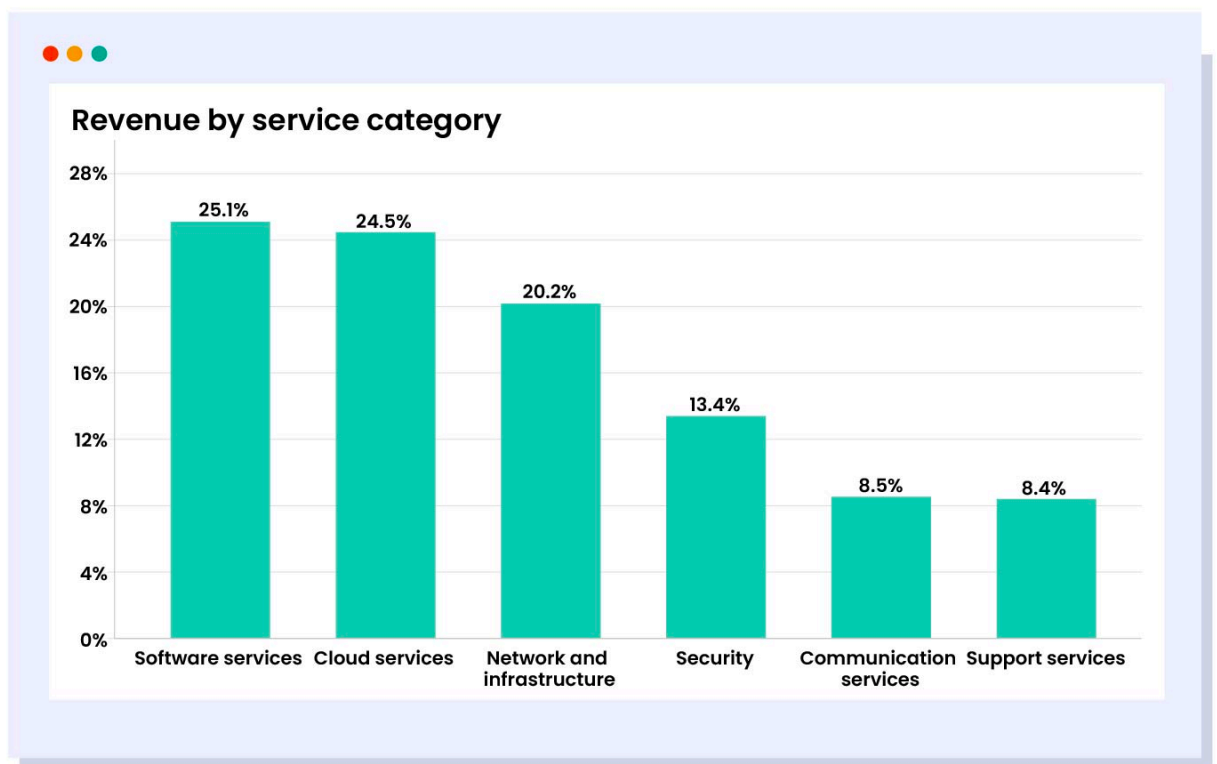
- Ask for reviews from your customers to improve services and implement changes.
- Personalize your service offering by analyzing customers' needs.
- Proactively reduce customer churn to keep them around longer.

Revenue by service category

Knowing what makes your business successful helps you to optimize strategies and focus on areas that need more attention. Breaking down revenue by category is a nifty way to identify whether you need to diversify your sources of profit or not. This metric also helps you identify the service categories that bring in the most revenue, which can be used to expand your business and identify areas where more services are needed.

$$\text{Revenue by service category} = \frac{\text{Revenue for each service category}}{\text{Total revenue}} \times 100$$

The sample report below shows the revenue generated by the various service categories of an MSP.



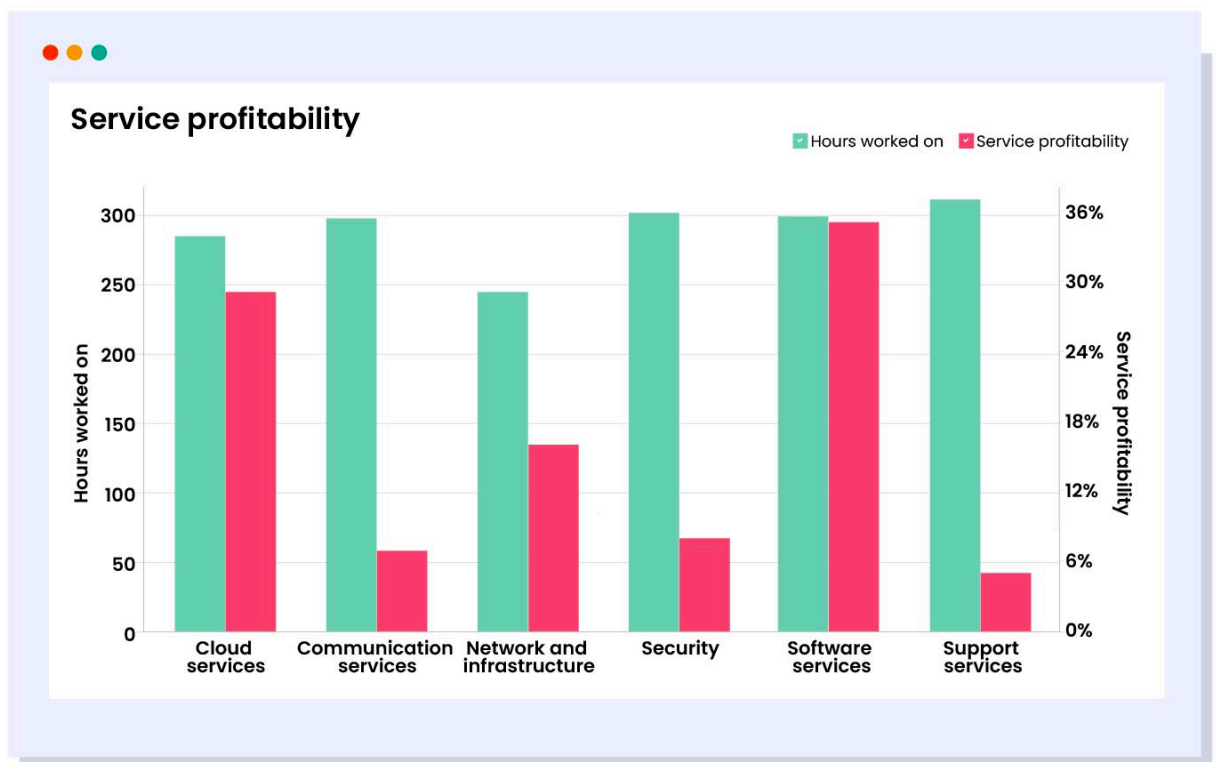
According to the report, software, cloud services, and network and infrastructure categories bring in the most revenue, whereas support services do not. This information can be used to identify why a service isn't bringing in money and to improve the service provided in that category to increase the revenue that's brought in.

Service profitability

Service profitability is the margin derived from each customer agreement. It is a critical tracking metric for MSP business leaders who need to ensure the revenue generated from a customer provides a good return on their investments.

Service profitability also tells you how successful a particular service team is. Comparing this metric with the hours your technicians spend each month rendering that particular service tells you whether the service is profitable or not.

$$\text{Service profitability} = \frac{\text{Service revenue}}{\text{Service team expenses}}$$



According to the report, software and cloud services have high service profitability. It means they are successful, whereas communication and support services have lesser numbers. This information can be leveraged to improve services offered to the customers.

A few tips to improve your service profitability:

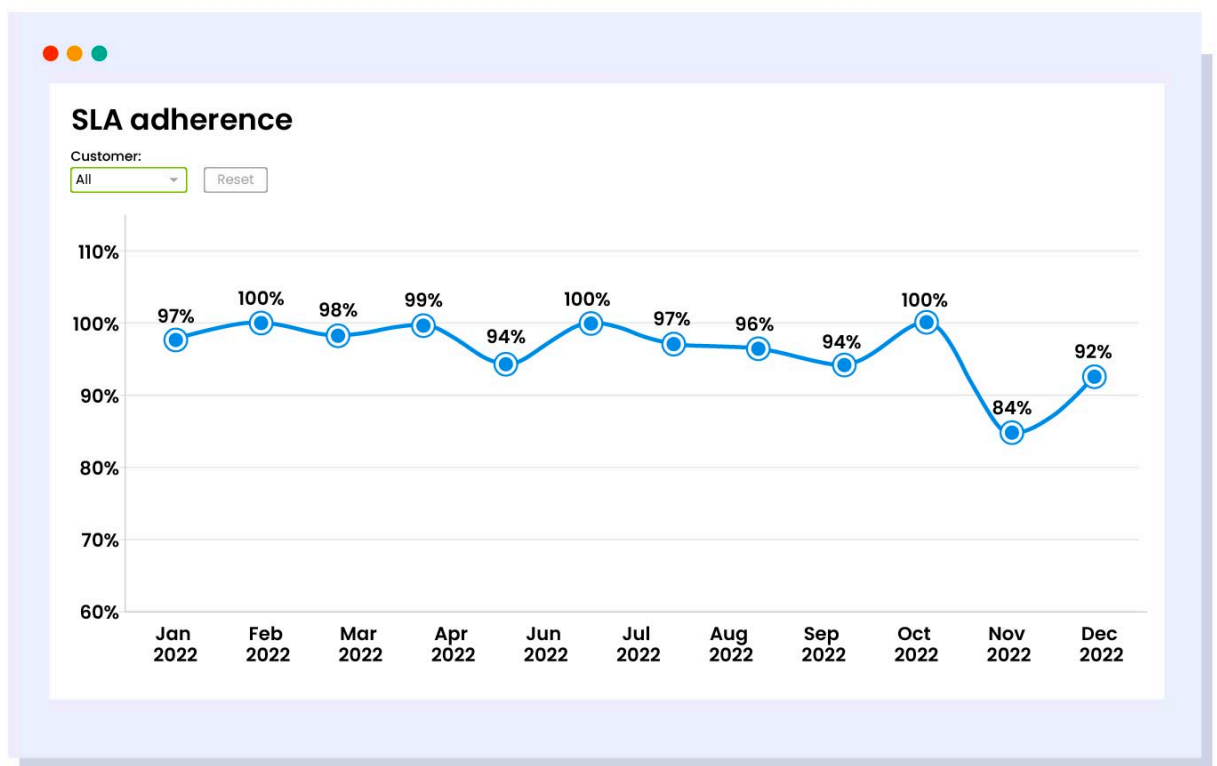
- Examine your current vendor base. You should periodically review current vendor contracts and assess possible new partners. It's critical to ensure you're paying the appropriate price for the best service, solution, and support for your customers.
- Wherever possible, white label a technology platform to assist you with entering a new market seamlessly, and add offerings to the line-up to distinguish yourself.
- Often, redefining or bidding goodbye to unprofitable customers is the simplest way to boost profitability.

SLA adherence

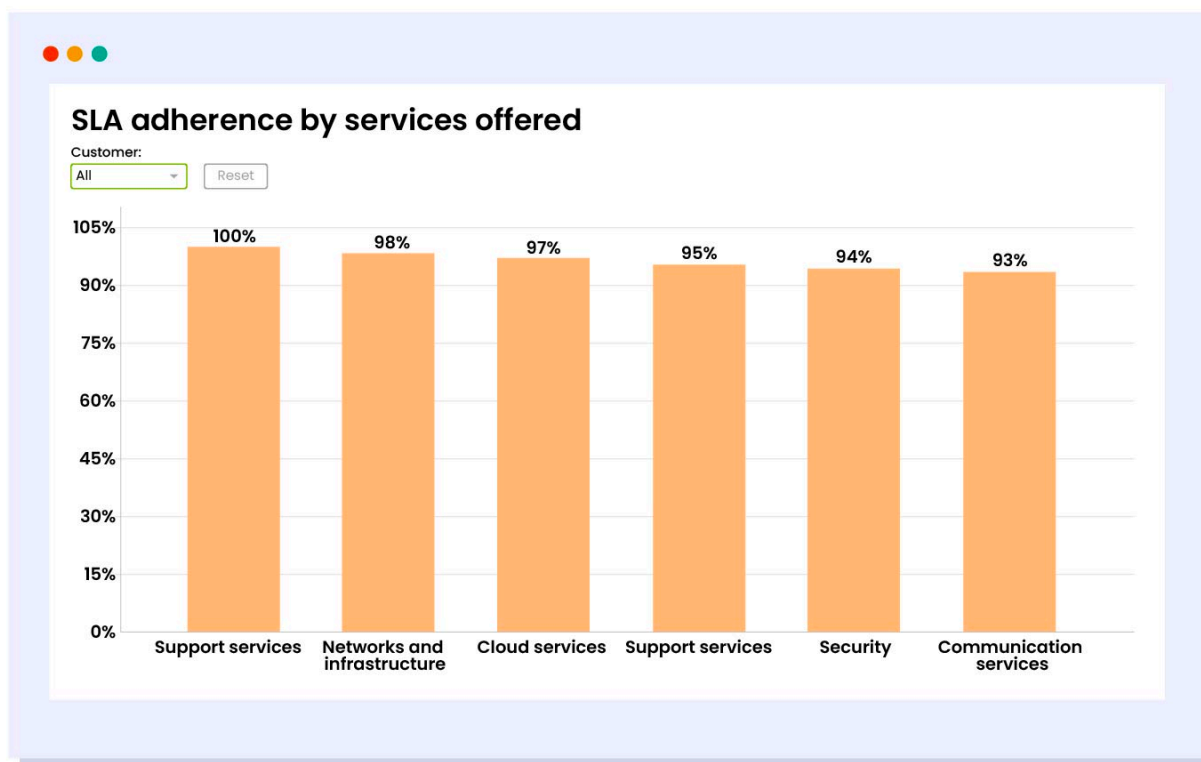
Every MSP faces this question from its customers at some point: "Why should we renew the service or service offering?" At that time, it's beneficial to produce a report that shows the customers what kind of SLAs they've been getting from the MSP. To help with that, keeping track of SLA adherence is useful. SLA adherence is a helpful metric to level up your operations as it enables you to define your performance and identify areas for improvement from the standpoint of your business. On the other side, you will be able to show your customers the results of your efforts when you make the SLA adherence rate a customer-facing metric. And by consistently fulfilling (and exceeding) those expectations, you can boost customer satisfaction and reduce turnover by tracking SLA adherence. Here's how you calculate this metric:

$$\text{SLA adherence} = \frac{\text{Total number of incidents resolved within SLA}}{\text{Total incidents}} \times 100$$

Here's a sample report generated with the SLA adherence trend for every customer of a fictional MSP business. This report can also be used to drill down further and see the SLA rates that are offered to customers by different service groups. SLA adherence also shows how successful you are at providing services within the contract parameters, and proves your accountability.



Here's another report that shows the detailed split of SLA adherence of different services offered to each customer.



Conclusion

To boost your profitability, it is critical to streamline your business processes, monitor the profitability of your service portfolio, and explore ways to cut back on costly inefficiencies. This can be achieved by analyzing your revenue from multiple aspects to gain in-depth insight into increasing revenue. We hope this e-book has highlighted a few critical metrics that will help you with keeping track of profitability, and provided tips on enhancing profitability seamlessly.

If you're looking to create these metrics yourself, [talk to our experts today.](#)

About

ManageEngine Analytics Plus is a self-service business intelligence and IT analytics solution that integrates with several popular IT service management applications, such as ServiceDesk Plus, ServiceNow, Zendesk, Teamwork Desk, BMC, Splunk, SolarWinds, and Ivanti. Analytics Plus also integrates with other IT applications used for network and application management, project management, endpoint security management, and more. Powered by AI, ML, and NLP, Analytics Plus features an AI assistant that can display stunning visual responses to voice and text comments. Analytics Plus can also import data from multiple sources and perform advanced analytical functions, such as data blending and trend forecasting.

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