A Guide to Understanding MSP Pricing Models for Cost-Efficient IT

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Introduction

Navigating Managed IT Pricing for Cost Savings

Information technology (IT) is now central to the success of any modern business. Strategic utilization of technological resources is critical in building competitive advantage and market success. Without tech, companies struggle to keep up with continuously evolving industry trends, leaving them behind.

As the one in-charge of managing the company budget, you are responsible for ensuring effective and cost-efficient technological adoption. It is a challenging but pivotal task, especially when technology costs are ambiguous and unpredicatable.

Managed IT services, a popular way of effectively adopting technology while saving costs, suffer from the same problem. Managed IT service providers (MSPs) are rarely upfront with pricing. Prospects often wonder how much is necessary to invest in expert solutions, diminishing their ability to determine return on investment (ROI) and cost efficiency.

Intelligent Technical Solutions (ITS) is an MSP with 20 years of experience, and we prioritize clarifying the costs and returns of our services. We believe this is essential in building a solid and long-lasting partnership with our clients.

For this eBook, we spoke with Dan Izydorek, Chief Revenue Officer (CRO) at ITS. His role as CRO puts him on the front lines, interacting with clients and giving strategic advice on improving the technology of businesses. He is dedicated to helping them make smart and informed investments that will lead to the success of their business. A crucial part is making prospects understand how managed IT is priced.

With his expert insight, we will look at the different MSP pricing models, the factors that affect cost, the importance of transparency and predictability, and finally, leave you with a few IT budgeting tips. All this should help you make cost-effective decisions regarding your tech.

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Chapter 1

7 Common Managed IT Service Pricing Models

One of the main steps in budgeting and cost saving is knowing how much you need to spend. In this first chapter, we've listed the most common MSP pricing models and included their pros and cons to help you understand which is the best fit for your business.

1. Per-device

Starting off the list with one of the simplest pricing models among MSPs, **which ITS used in previous years**. "In [its] infancy, [our pricing] model was about how many workstations and servers [you have]," shares Izydorek. There could be **varying rates per device depending on complexity**. For example, servers are much harder to maintain than laptops, making them cost more.

The **price range for this model is $50 to $300 per device**. With a clear understanding of your device count, it's **easy to predict costs and budget for your tech**. However, inefficiencies arise when devices are underutilized and when there is no transparency regarding the type of services you're getting.

There are many benefits to having an MSP manage all your devices, but to make the most out of your investment, you must know how exactly your hardware is being handled.

2. Per-user

According to Izydorek, continuous contention regarding fess for both laptops and desktops urged him to change pricing models. His search led him to the per-user approach where you are charged per member, regardless of the number of devices they have.

On average, a person uses 2.5 devices to complete their work, and this model covers support for all of those. The typical cost per user is **between $125 and $150 per month**, calculated by capturing all expenses needed to manage multiple devices. However, you may have users that only work with a single device. In this case, **it's up to you to determine whether the per-user fee is fair when applied across your organization**.

Businesses with a dispersed workface have the most to gain here because it **allows for greater flexibility and support experience**. It also easily accommodates the bring-your-own-device (BYOD) policy. On the other hand, if your members use less than the average number of devices, you might be better off looking at other pricing models.

3. Tiered

Tiered pricing is one of the most popular models among businesses and MSPs. It's **a versatile approach that caters to a wide range of clients with unique needs and budgets**.

MSPs typically have three tiers: basic, advanced, and premium. They could name it differently, but the concept remains the same. **Each level comes at a flat price and includes specific services**. It's safe to assume that all **basic tiers offer the bare minimum** necessary to maintain and secure your operations. More complex and specialized solutions are available as you climb the pricing ladder, allowing for scalability.

The challenge for decision-makers is choosing the appropriate plan instead of defaulting on the lowest-priced option. While you may be able to cut costs, you may not get adequate management and security. **Look into your business needs, goals, and budget and choose the package that is best aligned with them.**

4. Monitoring-only

The monitoring-only service is on the lowest end of the MSP pricing model, usually priced at around **$300 to $600 per month**.

As the name suggests, **you only get monitoring and alerting services**, which are important aspects of <u>cybersecurity</u>. System vulnerabilities, hacking attempts, and other disruptions in your IT environment will be detected and relayed to you as soon as they happen. You can then remediate them or have your MSP take over and provide a solution.
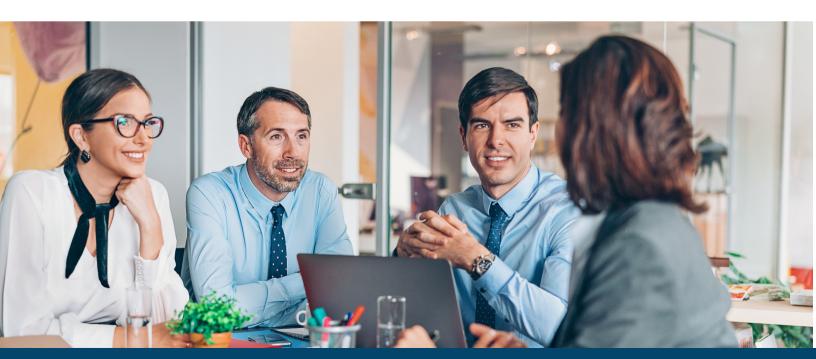
Expect extra fees if you decide on the latter. **Additional services are often priced by the hour at rates ranging from $175 to $350**. Overall costs will then depend on how complicated the issue is and the services necessary for solution.

5. A la carte

The a la carte pricing model is perfect for your business if you want to create a customized solution. In this option, you get to choose services individually instead of being locked into a package. Say you only need <u>data analytics</u> or <u>cloud computing</u> services, you have the option to choose and pay just for those.

This flexibility gives you more control over your IT solutions and prevents you from paying for unnecessary services. It also helps achieve transparency regarding what your provider is doing and how your money is spent.

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6．Set free

Also called all-you-can-eat and the direct opposite of the a la carte option, **set free pricing requires a single and flat payment that covers all the services your MSP has to offer**. Some exceptions may exist, such as support outside of business hours, which should be stated in the <u>service level agreement (SLA)</u>.

An all-or-nothing approach like this could be seen as a double-edged sword. On the one hand, you're getting a comprehensive set of services and solutions that could greatly benefit your business. Conversely, you could be paying for services you don't need and won't use, which fails to maximize returns.

To avoid wasted investments, **study your MSP's offering and see whether you can utilize all or most of them**. You could also ask them how certain services, particularly those you aren't familiar with, can help elevate your business.

7．Value-based

The final and most complex among the list is the value-based model. It's gaining traction in the industry as an innovative way to align MSP and client interest.

What makes it complex is the way pricing is determined. Like the previous one, you have a flat fee, but the **cost is based on the perceived value the IT services deliver to your business**. A precise setting of key performance indicators (KPIs) and other IT metrics is crucial to this model.

There are many upsides to this complicated strategy/ It **established a results-driven partnership where you pay for tangible outcomes and improvements**. It also ensures that both parties are equally invested in achieving success. And with a focus on delivered value, you can expect your MSP to demonstrate their expertise and dedication to your cause.

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4 Other Factors that Affect MSP Price

We've mentioned some of the <u>common cost factors for MSP pricing</u>, such as the number of hardware and users, the range of services and support, and service hours and availability.

Here, we've listed lesser-known factors that could affect service costs, which should **help you understand how fees are calculated and determine whether they are fairly set**.

Costs

MSPs need to keep themselves afloat just as much as you do, so the **costs of their technology and tools** are greatly reflected in their pricing. Some can afford to lower their prices because the cost is divided between several clients, but others don't have that luxury.

Industry

Every industry has different tech needs and threat landscapes that could heavily impact pricing. There are <u>industries that are more vulnerable to cyberattacks</u>, requiring tighter security measures and stricter compliance. Then, there are those that use specialized software or hardware that need higher-level expertise and effort to manage.

Contract length

Long-term contracts often offer cost savings compared to monthly or a la carte agreements that could be cut at anytime. Such is the case because longer partnerships help MSPs ensure positive returns on their investments.

Existing IT

An existing internal IT team could work with your MSP in a <u>co-managed IT setup,</u> affecting the level of support and training needed to manage your infrastructure. It could impact pricing in both ways, depending on how these teams collaborate.

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Chapter 3

The Importance of Transparent and Predictable IT Costs

When it comes to investing in managed IT services, **costs must be transparent and predictable**.

Transparency is one of the <u>qualities of the best MSPs,</u> which you should look for immediately. It is an encompassing trait that **refers to their ability to be completely honest** about their culture, processes, tools, environment, and, most importantly, pricing.

Most MSPs hide behind the phrase "it depends" when asked about costs. They fail to give clients a ballpark figure. **An estimate helps <u>determine the return on investment (ROI)</u> or gauge if you can afford their services**.

It is also a fundamental component in achieving predictable IT costs. By understanding total expenses for services, you can budget accurately and allocate resources appropriately. Well-defined SLAs also reduce uncertainties and mitigate financial risks associated with unexpected IT emergencies.

Dan recalls what a client said many years ago that highlights the importance of predictable costs. The same words urged him to change ITS' pricing model. What the law firm client said was, "We can't stand having the ups and downs of billings and would like to have some sort of fixed fee going from here."

Transparency and predictability lead to proper resource allocation and optimization, improved financial health, strategic planning, and IT and business alignment.

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Chapter 4

10 Tips for IT Budgeting

Understanding MSP pricing models is one step in budgeting for IT and managed services. Here are some other tips that could help you out:

1. Gain a thorough understanding of your own tech needs so you won't be forced to buy into services you can't use.
2. Dedicate ample time and thought into creating an IT budget that maximizes your resources and leverages tech to your advantage.
3. Gather input from executives, management, and other areas of your business affected by these IT services.
4. Your IT budget is not something you file once and then forget. Review your budget regularly, preferably monthly, and update it as needed.
5. If you need help setting a baseline, investigate past and present IT expenses to understand how variable revenue and costs fluctuate over time.
6. Spending 4% to 6% of overall revenue for IT is another great guideline you could follow.
7. To be even more specific, it is reported that businesses spend <u>17% to 20% of their IT budget</u> on managed services.
8. Remember that you're only estimating your IT expenses, so allow yourself to make marginal errors, and don't be surprised if projections are wrong.
9. Allocate a separate fund for replacements and upgrades, which are inevitable in the fast-growing tech market.
10. Be bold and approach multiple providers and compare their prices to help you find the best deal.

Outro: Embrace Cost Transparency with ITS!

It should now be clear how much is necessary to invest in managed IT services. More than that, you should have a better idea of how it helps you save costs by reducing tech and staffing expenses.

If you're looking for a tech partner that lets you maximize your financial resources, then look no further than ITS. We've been in the market for 20 years and have helped several businesses effectively and efficiently leverage tech within their budget.

As mentioned, ITS has adopted the per-user pricing model, but with its own spin to it. "The core cost drivers are around users, and workstations are a subset of it. If you have a similar number of workstations and users, it doesn't affect the pricing. But, we still [include] servers in the configuration because they're one of the more expensive portions of managed services," Izydorek explained.

We're very transparent <u>about our prices</u>, so you can rest assured that every penny is tracked, and nothing will be wasted.

Learn how we can help manage your tech and resources by meeting with one of our consultants today!

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