The MSPs Guide to Maximizing Profit Margins

Practical Tips for Breaking Through Barriers and Maximizing Profits

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MSPs are riding on strong tailwinds, driven by complex technology rollouts, rising IT spending, and ongoing IT staffing shortages.Service Leadership's recent Q3 Index revealed that MSP profitability is near historic highs, even with revenue growth returning to pre-Covid levels.

"Despite the deceleration in revenue growth, MSP profitability has shown resilience," says Service Leadership. "The average adjusted EBITDA for MSPs worldwide decreased slightly to 13.2% but this was the third consecutive quarter it was higher than 13%. Private equity (PE) backed MSPs also decreased slightly to 17.3%, with an impressive fourth straight quarter over 17%."But while profits are soaring across the industry, many MSPs are struggling to meet their financial targets due to several factors. According to Kaseya, customer acquisition is the leading challenge for MSPs, increasing from 24% to 36% year-over-year.

MSPs face growing competition, market saturation and rising customer expectations. Market factors aside, MSPs also tend to struggle with a lack of time and control over their business. Many MSPs are still relying on outdated agency models that offer low commissions and limited flexibility, which limits their growth.

By the numbers

90%	The amount of MSPs who expect to expand in 2025 (Syncro)
$5.74 trillion	Gartner's prediction for worldwide IT spending in 2025 – a 9.3% increase from 2024 (Gartner)
12.8%	CAGR for the U.S. managed services market (2023-2030) (Grandview)
9 out of 10 companies	The number of global organizations that will be impacted by the IT skills shortage (IDC)

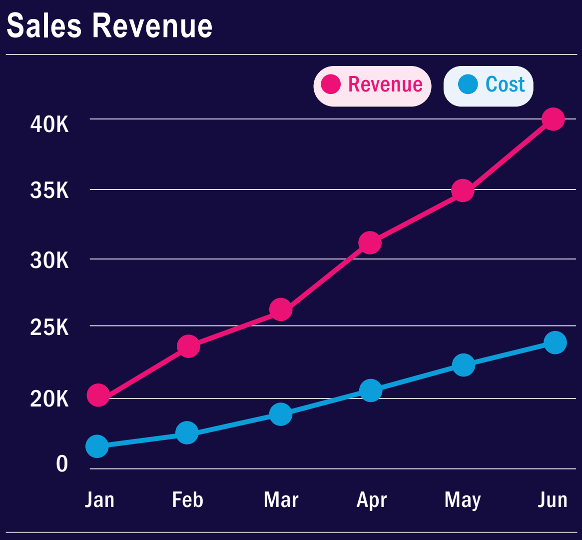
The good news is that profitability is always around the corner. MSPs that are struggling to make ends meet need to stop settling for small gains, and start looking for new opportunities to unlock opportunities. By making small adjustments, MSPs can overcome revenue barriers and capitalize on growing demand for managed services.

Read ahead to learn:

- How profit margins work, and why they are important
- Top challenges that impact profitability
- Strategies for boosting profit margins
- The benefits of offering white label VoIP
- How RingLogix empowers MSPs with its RingOS platform

Profit margin: A top KPI for MSPs

Just as the name suggests, profit margin is a financial performance indicator for profitability. Simply put, it represents the total percentage of revenue that remains after accounting for the costs of providing services.



Here is a simple way to calculate profit margins, courtesy of MSP360:

Profit margin = (net income / revenue) x 100

To illustrate, an MSP with a net income of $500,000 and $5 million in revenue would have a profit margin of 10% which is in line with what most MSPs are generating.

According to MSP360, the average profit margin for MSPs is 8%, while best-in-class MSPs typically have margins of around 18%. That said, some MSPs are achieving profit margins of 25% to 30% or higher, while others are struggling to reach double digits.

It's important to keep in mind that profit margins can be significantly lower at times. As with all KPIs, it's important to understand deeper influencing factors.

"If you are in a period of growth and are reinvesting earnings in your business, your profit margin may be minimal or even negative," MSP360 says. "As long as there is a good business reason behind the margin, this is not a bad thing."

Problems tend to arise when profit margins are consistently in the red zone. Low profit margins can make it challenging to maintain financial stability, hire top talent, sustain operations and invest in growth.

Moreover, buyers typically prioritize profitability and revenue growth when vetting MSPs before a merger or acquisition. For example, holding company Evergreen Services recently revealed that they look for $500k-plus in trailing 12-month EBITDA and 50%-plus recurring revenue, among other factors.

Top challenges that impact profitability

While profitability is critical for MSPs, it can be elusive at times – especially for organizations that lack deep sales and marketing expertise or have limited-service portfolios.

Here are some challenges that impact MSPs and contribute to low profit margins.

Revenue leakage

Revenue leakage refers to money that a business earns but fails to collect. This often happens when MSPs use disparate service and billing platforms, and fail to update them correctly.

As it turns out, the average MSP spends upwards of a week per month reconciling because of disconnected systems. Not only does this waste time, but it also leads to costly mistakes.

Limited control

To win customers and maximize profits, MSPs require full control over the services they are selling. But when acting as an agent or reseller, MSPs can't control important elements like pricing, marketing, or installations.

As a result, it becomes difficult for MSPs to respond to changing market conditions and deliver exceptional customer experience. It's common for MSPs to wind up being a middleman between the end-customer and the vendor, instead of a single trusted source.

Low commissions

Traditional agency models typically offer modest commissions that run anywhere from 12% to 20%.

Despite shouldering most of the work and generating significant value, MSPs are left with slim margins while vendors pocket the bulk share of revenue.

Resource constraints

MSPs must manage IT services for multiple clients, each with unique needs that require around-the-clock attention. Deploying, monitoring and maintaining services can consume a significant amount of time, making it difficult to take on new clients and scale operations.

Most MSPs reach a point where they need to invest in more resources to achieve growth. However, hiring and expanding can be expensive and introduce new operational challenges.

Tech fatigue

MSPs are tasked with managing an ever-growing number of disjointed systems and platforms which require multiple logins and interfaces.

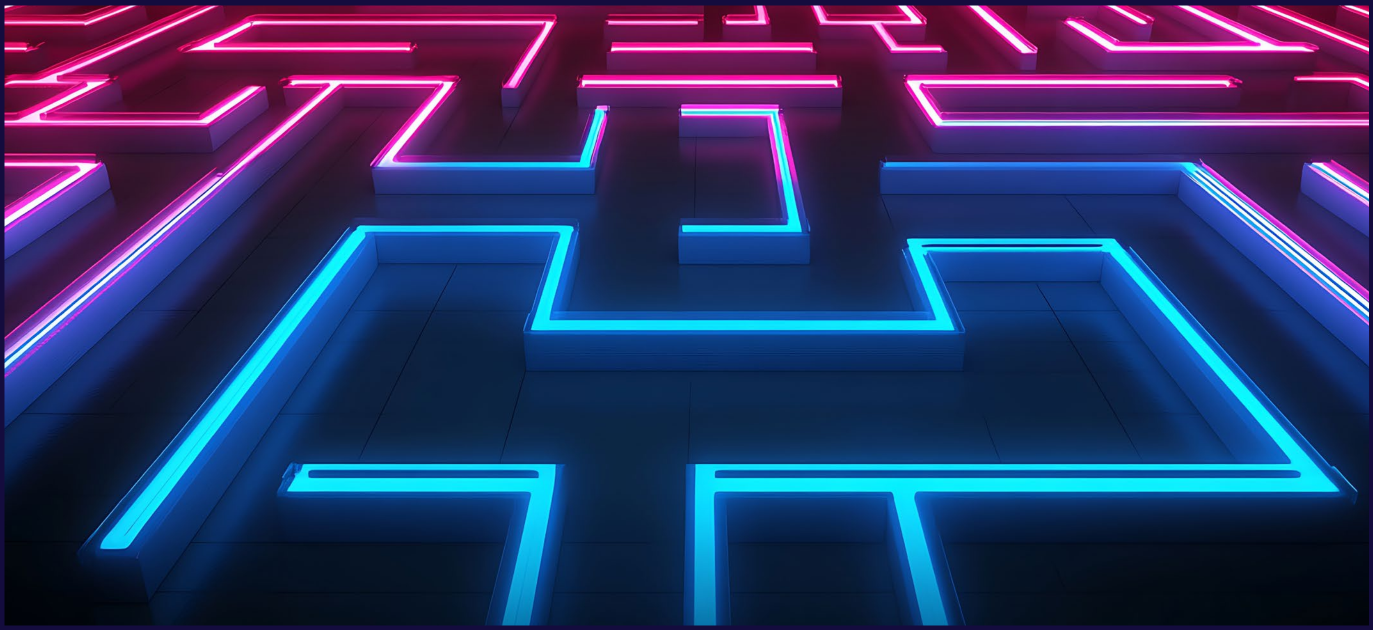
While platforms often promise seamless integration, they often fall short of expectations. This leads to "swivel-chair ops," where employees need to constantly switch between platforms throughout the day.

Complex tech stacks can lead to higher training costs, while impeding production and contributing to burnout and employee turnover – all which harm profitability.

Customer churn

Acquiring new customers can be exceedingly difficult and resource-intensive, especially with clients becoming more discerning and selective when choosing MSPs.

For MSPs, it's often more cost-effective to focus on retaining existing customers and increasing their lifetime value than constantly pursuing new business.



Practical tips for boosting profits

Small to medium-sized MSPs spend most of their time preoccupied with day-to-day operations and trying to keep the lights on. But while maintaining daily client satisfaction is crucial, it's just as important to keep the bigger picture in mind and carve out some time to focus on growth and development.

To improve profitability, MSPs can implement the following strategies:

- **Seek market development funds (MDFs):** Many vendors provide MDFs and co-op funds to help partners cover marketing expenses. These funds can help generate leads and drive customer acquisition, but they often go unused. By tapping into these funds, MSPs can discover new opportunities without additional out-of-pocket costs.

- **Target specific verticals:** Companies in sectors like construction, finance and healthcare value providers who understand their unique challenges and technologies. Targeting specific verticals and generating referrals can help build trust and attract more clients.

- **Offer roadmapping:** Customers leverage MSPs not just for daily IT support, but for their ability to solve problems, improve business outcomes and improve their bottom line. By providing strategic roadmaps that address future challenges, MSPs can enhance client retention and create long-term value.

- **Apply the Pareto Principle:** This principle states that 20% of your efforts typically yield 80% of the results. Identifying high-impact areas – like top-tier clients and core services – and focusing on them can maximize productivity while reducing wasted time.

- **Scour service contracts:** Renewals are a great time to revisit contracts and ensure that customers are leveraging the right offerings and services. This process can open the door to valuable upselling and cross-selling opportunities.

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Additional ways to make money

Here are 10 proven money-making services that MSPs can use to improve customer stickiness and drive revenue.

1. **Cybersecurity services:** According to Canalys, cybersecurity remains the single biggest priority for most organizations due to specialization and compliance requirements. MSPs should look for opportunities to engage customers around security opportunities related to network monitoring, phishing, security training and ransomware protection, among other areas.

2. **Advanced AI integration:** Companies are increasingly looking for ways to integrate AI into their operations. MSPs have a growing opportunity to act as advisors and help customers navigate the rapidly evolving AI landscape and leverage emerging technologies.

3. **Data privacy compliance:** Organizations must adhere to a growing list of federal, state and international data protection laws and frameworks. MSPs can help customers understand different frameworks and avoid fines and penalties.

4. **CRM and Microsoft Teams integration:** Integrating customer relationship management (CRM) tools with Microsoft Teams enables clients to access, collaborate on, and manage customer insights seamlessly, improving productivity and decision-making.

5. **Call analytics and reporting tools:** Offering call analytics can provide clients with valuable insights into the customer experience and agent performance.

6. **Call recording and compliance services:** Companies often must record calls while adhering to complex compliance requirements. MSPs can simplify this process and help reduce risk.

7. **Customer training programs:** Companies are dealing with rising IT complexity and evolving security challenges. MSPs can help customers adapt to changing needs through ongoing customer training.

8. **Premium support and SLA guarantees:** Network outages and performance issues are becoming increasingly dangerous, as companies become more interconnected and AI-driven. MSPs can offer premium support packages to address these needs.

9. **VoIP fax services:** Switching to internet-based fax services improves security and efficiency, while lowering costs. Customers can also leverage VoIP faxing to reduce paper consumption.

10. **Business texting (SMS/MMS):** Businesses increasingly need SMS, but face challenges like 10-digit long code (10DLC) TCR compliance. MSPs can help clients implement business texting solutions to enhance communication and customer engagement.

"I used to resell other telecom solutions and would earn 15-20% maybe even 25% commissions. But it felt like we were the ones doing most of the work. Selling, supporting and with no access to troubleshoot or help. Now that I am offering my own branded telecom services with RingLogix, I earn 70% gross profit margins and I am doubling my revenue on my existing customer base." ***- CEO/ RingLogix partner***

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White label VoIP: The secret sauce for MSPs

One of the easiest and most effective ways for MSPs to boost revenue is to offer white label voice over internet protocol (VoIP) as an alternative to traditional phone lines or wireless connections.

Agent programs can seem like an attractive way for MSPs to sell VoIP, since they usually provide training, sales tools and support. But switching to a white label VoIP model will come with the same benefits, while letting you own the entire VoIP service.

What is white label VoIP?

A white label VoIP offering gives MSPs the flexibility to deliver the product under their own brand. MSPs gain full access to a developed VoIP platform, which they can rebrand and sell to their customers.

By leveraging a white label VoIP platform, MSPs can provide flexible and cost-effective VoIP services without developing the service from scratch – saving significant time, money and risk.

Further, a white label offering typically allows the MSP to own the customer relationship while maintaining control over pricing and support.

Introducing RingOS: A powerful MSP growth platform

RingLogix offers RingOS, which is an all-in-one, white label VoJP platform that allows MSPs to achieve industry-leading profit margins of 70% or more. RingOS aims to create a repeatable stream of business, without any of the headaches that come with it.

Here are some of the reasons why MSPs choose to build their business around RingOS:

- **All-in-one platform:** RingOS is a one-stop-shop for quoting, activating, billing and supporting unified communications and voice services.
- **Easy scalability:** By leveraging RingOS, MSPs can have an easier time scaling and taking on new customers. Each partner is all assigned a dedicated partner growth manager to help them scale their MSP.
- **End-to-end support:** With RingOS, MSPs can avoid the middleman effect and instantly address customer issues when they arise. MSPs gain full access to customer settings, logs, tools, and resources over a user-friendly portal. Plus, RingLogix provides technical support for Tier 2 partners and up.
- **Flexible pricing:** RingLogix gives the MSPs the freedom to set their own pricing. MSPs can purchase RingOS, and then determine pricing.

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What's new with RingOS 2.0?

RingOS recently received a major product update. RingOS 2.0 makes it easier than ever to manage customers and sell white label VoIP.

Here are some of the top features that you can expect in RingOS 2.0:

- An upgraded commercial billing engine with new features and APIs.
- A new macro service architecture that enables more integrations and feature updates with quicker time frames and less QA regression testing.
- A new framework and design to the GUI that makes it more modern looking and offers tools for faster development and engaging experiences.
- A new marketplace framework, that enables us to bring more third-party services and integrations designed to help you succeed and bring more services to RingOS beyond UCaaS.

Grow your VoIP revenue with RingOS

Businesses are increasingly realizing that it makes more sense to leverage MSPs than to build IT programs and services from scratch or keep them in-house. As such, there is a growing opportunity for MSPs to expand into new markets and establish recurring revenue.

By partnering with RingLogix, MSPs can sell a highly lucrative white label VoIP offering to existing customers, while maintaining full ownership at every step. RingLogix empowers MSPs to build their own business, instead of an agent partner's.

This leads to:

- *More control*
- *More time*
- *More profits*

To discover how RingLogix can boost profitability and streamline operations, visit ringlogix.com or check out this five-minute demo.

ABOUT RINGLOGIX

RingLogix is a leading provider of quote to cash software for the delivery of white label VoIP & UCaaS solutions, empowering MSPs to offer reliable, feature-rich communication services. With a focus on innovation and exceptional customer experience, RingLogix offers a comprehensive suite of software solutions that drive growth and success for MSPs in the telecommunications industry.

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This white paper was produced by ChannelVision, a media company dedicated to serving channel partners selling all manner of voice, data, access, IT and managed services – both on-premises and in the cloud. ChannelVision is a highly focused and efficient way for service providers and hardware and software companies to market to experienced channel partners targeting the small/medium business and enterprises spaces. For more information, visit channelvisionmag.com.