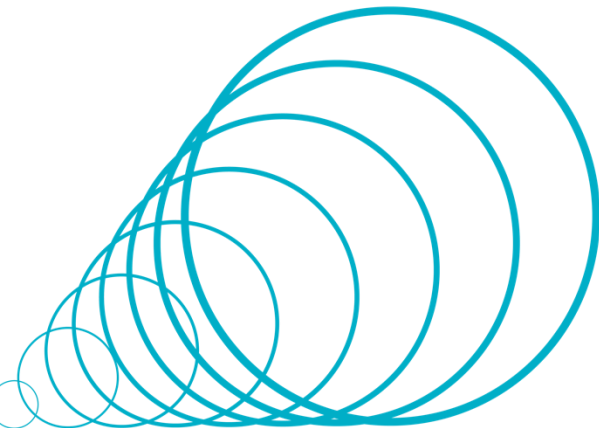




Managed Services

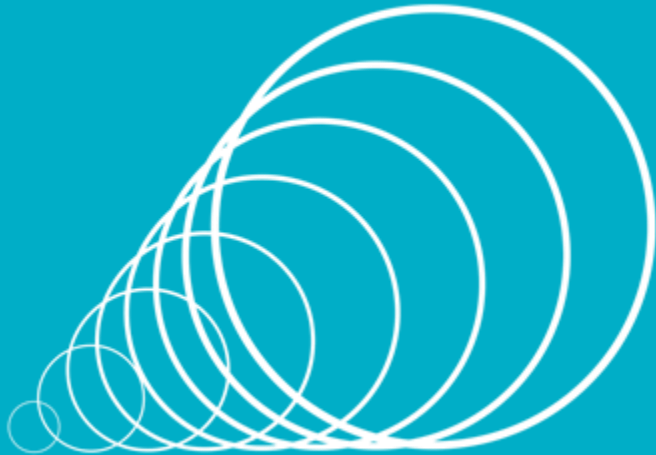
PRICING & BILLING

Whitepaper



Read this whitepaper if you:

- ✓ Are interested in how pricing aligns with customer value.
- ✓ Want to verify impact of pricing & billing capabilities on top-line growth & bottom-line efficiency.
- ✓ Are curious about how other MSPs approach pricing & billing architecture.
- ✓ Seek clarification on necessary pricing, billing & accounting capabilities for MSPs.



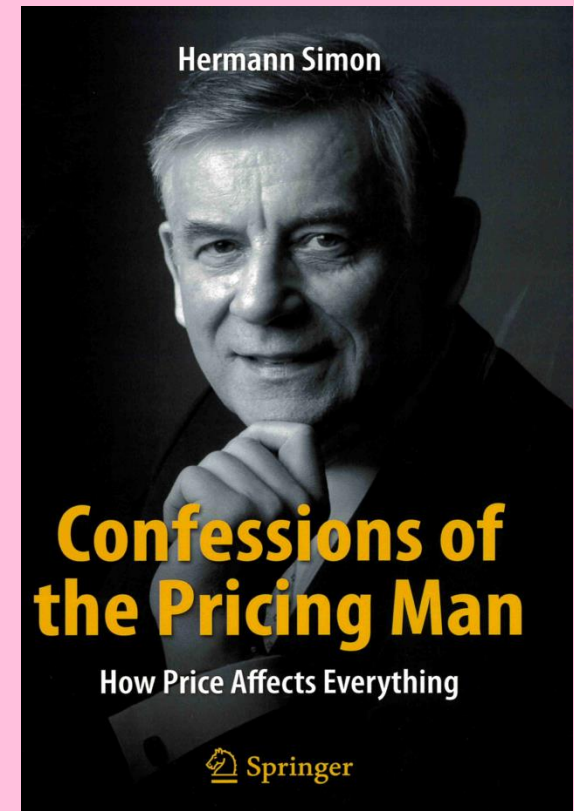
Why do
pricing and billing
capabilities matter?

Hermann Simon, an expert in strategy, marketing & pricing, says:

Price is also the most effective profit driver. $\text{Profit} = \text{Price} * \text{Volume} - \text{Cost}$.

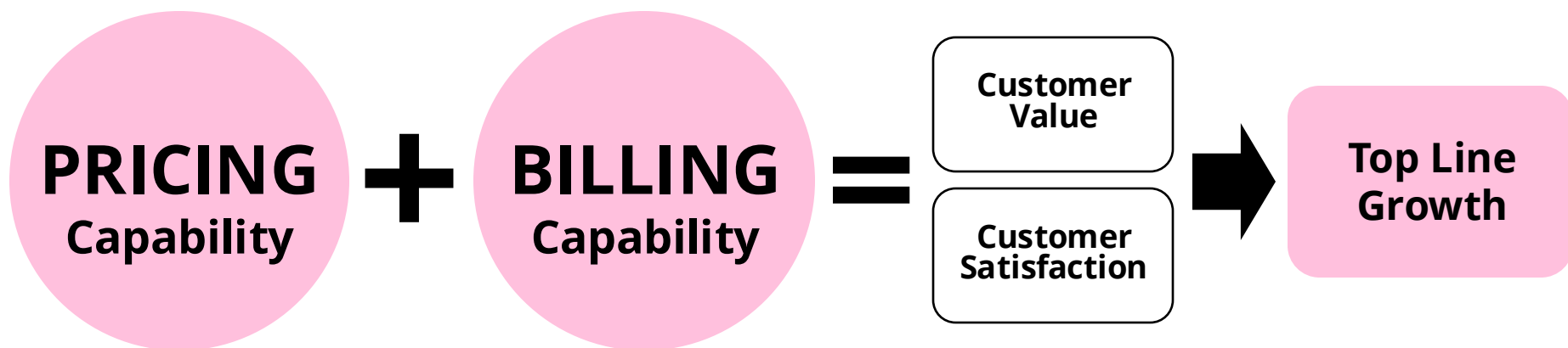
Yet, managers allocate an estimated 70% of their time to cost issues, 20% to volume, and only 10% to price.

Source: Key-note presentation of Professor Hermann Simon at Good Sign Customer Event in March 2023



Unlocking a Business Advantage.

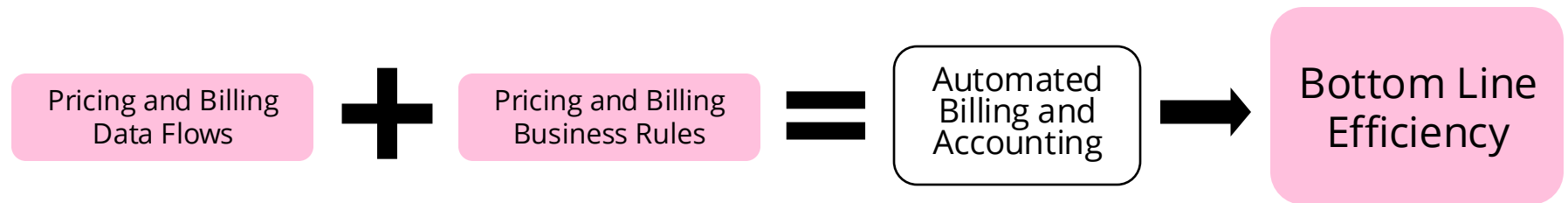
Pricing and billing capabilities **enhance customer value and satisfaction**, driving competitiveness and top-line growth.



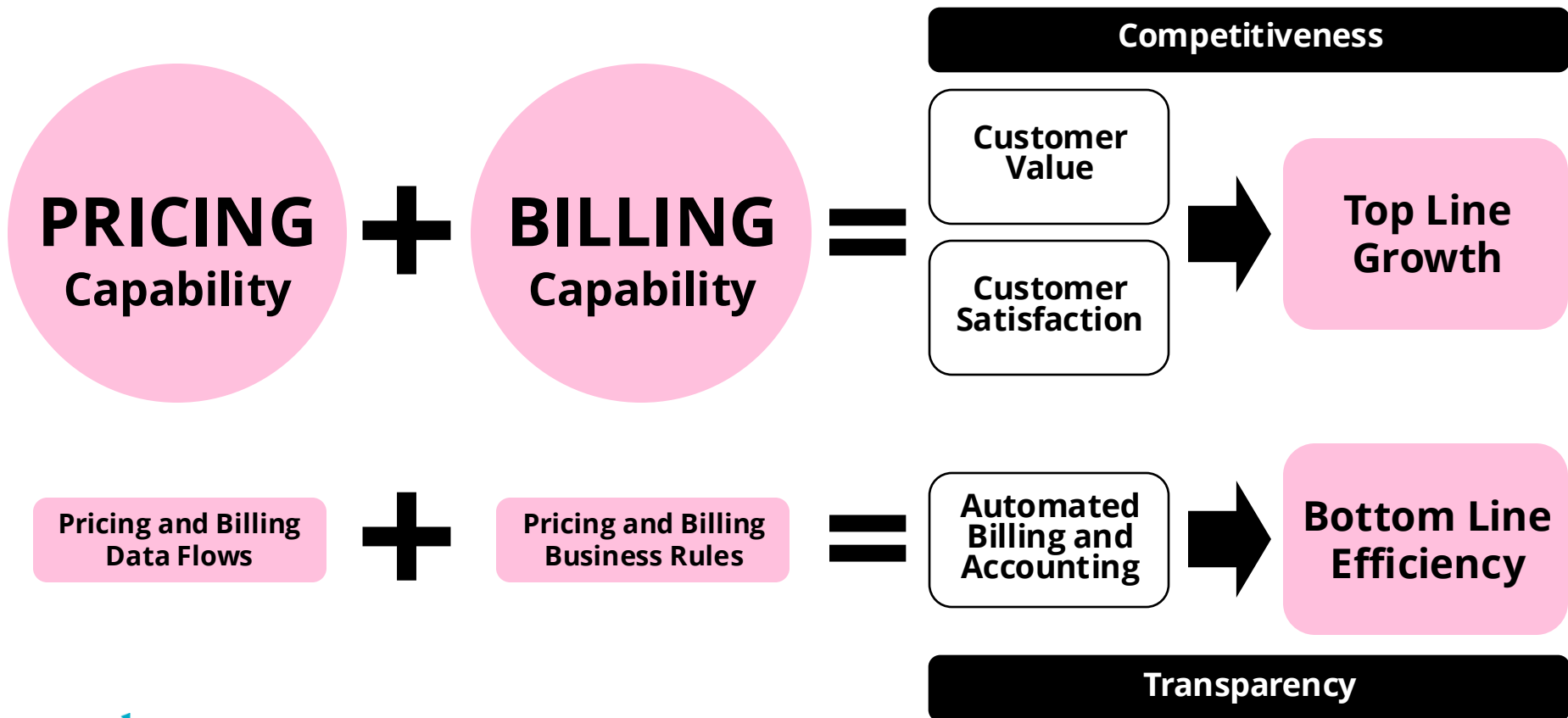
Data-driven automation of pricing and billing rules is a superpower.

Pricing and billing capabilities:

- Enhance MSP's customer value and satisfaction,
- driving competitiveness and top-line growth,
- lead to automated billing and accounting,
- yielding bottom-line efficiency for a business advantage.

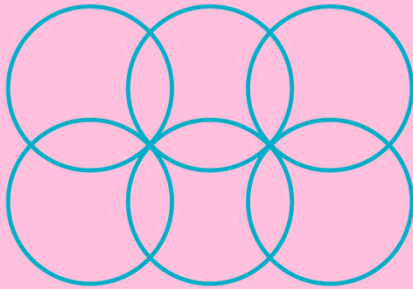


This is how the equation works:



Is MSP pricing and billing hard?

Handling usage-based billing is a consistent pain point:



“I still haven’t seen a great company on the finance operations side of things, to be honest. Consumption-based billing is really tough. **I’ve now been at three companies where billing is usually one of the biggest negatives in the model** around the customer experience because it’s really hard to explain the bill to a customer. And usually if you dig in hard enough, it’s not 100% accurate. And it’s not that you’re ripping them off, they’re usually getting a lot of free things... My advice is to invest in a robust billing system. Don’t try to hack something together with manual invoices or you’ll lose trust very fast.”

–Commercial Leader

The large managed services portfolios, with interdependencies and constant changes, demand robust capabilities for handling complex pricing and billing requirements.

Various Service Elements

Digital Assets

Physical Assets

Transactions

Large Service Catalogs

Access management, backup, capacity, cloud, collaboration tools, data center, firewall, leasing, lifecycle, monitoring, network services, professional services, security, service desk, service management, software, storage, telecommunications, workplace services,...

Many Technologies

Azure, AWS, Cisco, Citrix, ConnectWise, Commvault, Dell, Efecte, F-Secure, Jira, Juniper, Google, Nutanix, Okta, ServiceNow, Symantec, VMware, Zendesk, Zoom,...

MSP billing requires complex capabilities also because pricing strategies often contain usage-based elements.

This picture illustrates a usage-based subscription pricing model, wherein the monthly bill varies according to the number of users and data usage. The end customer not only expects an accurate bill, but also demands transparent reporting of usage to uphold trust.





Unlimited data	\$ 3.000 p/m	\$ 3.400 p/m	\$ 3.700 p/m	\$ 4.000 p/m
25GB	\$ 2.500 p/m	\$ 2.950 p/m	\$ 3.300 p/m	\$ 3.500 p/m
10GB	\$ 1.500 p/m	\$ 2.000 p/m	\$ 2.400 p/m	\$ 2.900 p/m
	1 -10 users	11-25 users	26-50 users	50-100 users

Callouts for bills:

- January bill: 11-25 users, 10GB (\$2.000 p/m)
- February bill: 11-25 users, 25GB (\$2.950 p/m)
- March bill: 26-50 users, 25GB (\$3.300 p/m)
- April bill: 26-50 users, Unlimited data (\$3.700 p/m)

You are not alone.

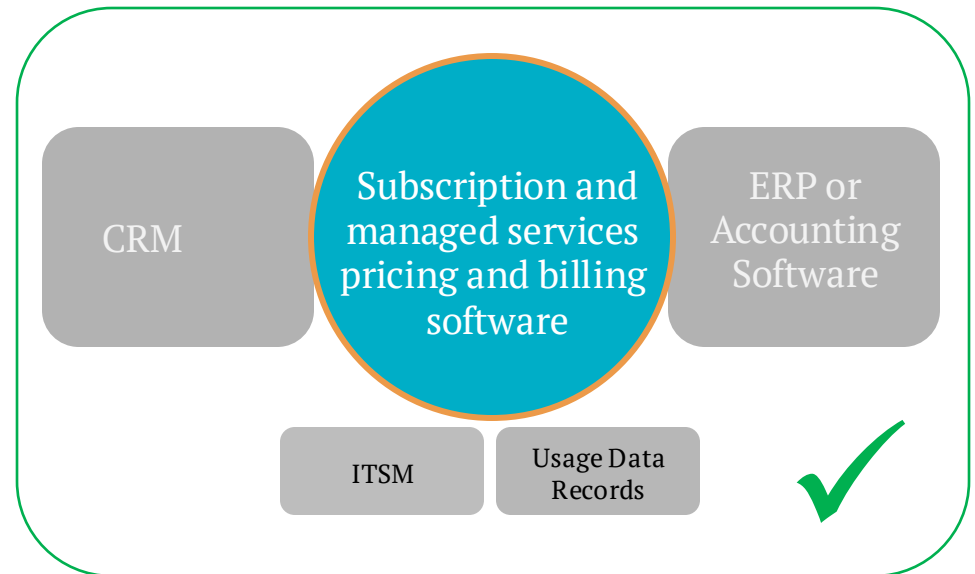
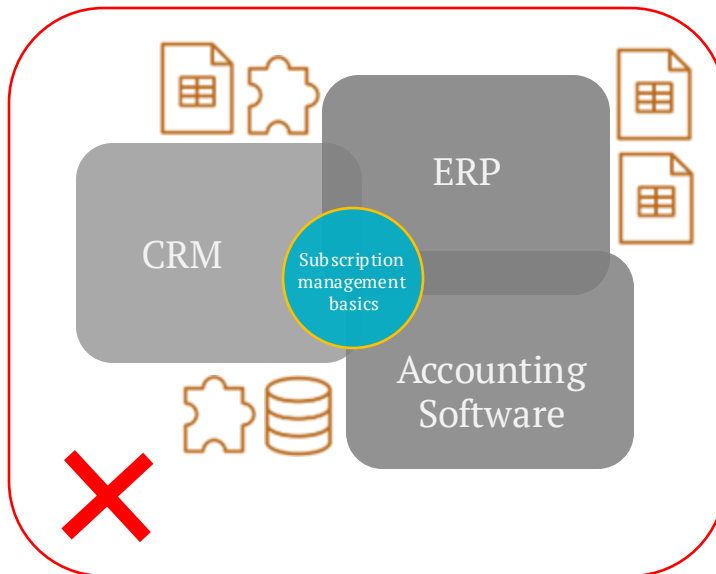
Most Managed Service Providers have resorted to one of the following tactics to operate their pricing and billing today:

Approach	Example	Main Pros	Main Cons
Excel spreadsheets 	Collect data of new entitlements and service usage to spreadsheets. Consolidate billing data to factor in how volume affects pricing. Update any changes to fees. Split invoices as agreed. Provide for billing.	Flexibility to price and bill as required for winning and keeping customers.	Leads to errors causing revenue leakage and dissatisfied customers.
In-house tools 	Collect data on of new entitlements and service usage to a database. Earlier, e.g., in-house SQL database systems and procedures or RPA tools. Lately, e.g., Azure/ AWS cloud and low-code processes to mediate data and process raw billing data for verification.	Low investment to deliver quick improvements compared to manual processes.	Business professionals find difficult to operate. Requires constant development and maintenance resource with also the risk of knowledge loss.
Customized extensions 	The existing CRM, CPQ, ITSM, ERP, or FINANCIAL tools often offer basic elements related to services pricing or billing processes. If the system platform also contains process automation tools, partners may offer to build e.g., a CPQ extension, some billing data mediation, or enhancements to the inadequate recurring billing functionality.	Can utilize data within the current system. Trained development resources readily available, and likely an existing integration partner.	Extensions often hinder overall solution upgrades and new versions.
Cloud billing or subscription billing tools 	Cloud billing tools offer packaged data flow procedures for common cloud services, and capability to aggregate consumption per customer for the billing process. Basic subscription billing tools handle many subscription business pricing and billing requirements where usage-related elements are limited and there are no dependencies across contracts/ subscriptions.	Likely to address the specific limited problem area sufficiently, particularly if end-customer billing expectations are not a primary focus.	Weaknesses related to supporting pricing exceptions and improving the entire customer pricing, billing and accounting process.

Your pain is recognized. But you need more.

As the as-a-service business model becomes increasingly common in many industries, also most CRM, ERP, and accounting software have introduced capabilities to manage basic subscriptions, typically in a simple fixed and flat-fee style.

Managed service providers usually discover such add-on capabilities restricting and inadequate. As the offering contains usage-based services and hybrid pricing, and pricing is influenced by customer purchasing power, you will find great value in introducing purpose-built capability.



What pricing capabilities your MSP needs?

You and your competition are likely using many of these flat, hybrid, and usage-based pricing models.

FLAT FEES	
Pricing Model	Descriptions & Examples
One-time Fee	A fixed fee invoiced only once, with no recurrence.
Recurring Fixed Fee	A fixed fee for a predefined usage, billed periodically e.g., monthly, quarterly, or annually. For example, a SaaS subscription fee granting entitlement to 50 “professional plan” users.
Recurring Flat Fee	A fixed recurring fee that remains constant regardless of the quantity or level of services used. Billed periodically for a predefined term, such as monthly, quarterly, or annually. For example, service fee covers all remote support.

STANDARD HYBRID OR USAGE-BASED FEES	
Pricing Model	Descriptions & Examples
Unit	Typical pay-as-you-go charging model. Fee is based on a standard unit of measurement, such as per user, per device, per hour, or another measurable quantity. For example, 20€ per user per month. Another example, \$50 per workstation per month.
Overage	Package of units is included in the base price, and overage fee is charged for any higher usage. For example, a SaaS subscription includes 10 “professional” users for 900 \$/month, overage fee for any additional users is 100€. Another example, SMS messages with a packet of 500 included in the subscription and 0,20€ to be charged for each SMS exceeding 500.
Mark-up	Charging based on unit cost and predefined markup, either % or monetary value.
Tiered Usage, Steps	Increments based on usage. For example, first 50 units of the service is included in tier 1 with a price of 0,50€ per unit. The second tier is for the next 100 units with a price of 0,40€ per unit, and the third from 151 units to 300 units with a price of 0,30€. A customer consumes 212 units and is billed $50 \times 0,50 + 100 \times 0,40 + 62 \times 0,30 = 25 + 40 + 18,60 = 83,60\text{€}$
Tiered Usage, Volume	Variation of tiered usage pricing: The customer pays according to the highest tier reached. Example: Using the numbers of the tiered usage pricing example, a customer pays $212 \times 0,30 = 63,60\text{€}$
Block or Stairstep	<p>Block pricing or stairstep pricing sets a flat rate for distinct pricing “blocks” or “steps”.</p> <p>Distinction is sometimes made that in block pricing, each block size and fee may remain the same while in stairstep pricing different prices are set for different steps of usage and as customers move to higher levels, the pricing steps may increase or decrease.</p> <p>In both cases each step represents a tier of volume, with the price remaining the same within that tier, regardless of the exact consumption within the tier. Using the numbers from the tiered usage pricing example, a customer consuming 212 units, is billed also for the full third block/step, and the customer pays $50 \times 0,50 + 100 \times 0,40 + 150 \times 0,30 = 25 + 40 + 45 = 110\text{€}$. Another example where stairsteps are not used in the block pricing: Software SaaS subscription is sold in blocks of 10 users, where customers pay a fixed price for each block of 10 user entitlements.</p>

But. Successful managed services pricing tactics are more complex than that.

Most Managed Service Providers employ pricing tactics that involve combining consumption over a defined period and calculating peak values or averages.

Additionally, for capacity services, the price may be determined based on a combination of components, and so forth.

Pricing capability serves as both a revenue and margin catalyst.



EXAMPLES OF ADVANCED CHARGING RULES	
Charging Rules	Descriptive Examples
Period Duration Rules:	
Daily	Prorating to the daily level
Hourly	Prorating to the level of 60-minutes
Second	Prorating to the level of a second
Period Consumption Rules:	
Peak	Highest usage of the period
Average	Average usage of the period
Binary Rules:	
One per user	One charge per user if usage. Binary one or nothing. An example: a user uses 4 units per month but only one is charged
One per asset	One charge per assets per month if used
One per day	One charge per day if used
Relationship Rules:	
One to many	Usage triggers multiple charges
Many to one	One charge for several assets used combined
Other Examples of Advanced Rules:	
Rounded	Rounding to time / quota
Cut	Upper limit to charge independent of usage
Fixed Pool	Several users share a defined pool
Flexible Pool	Several users share a pool, size of which changes with new or leaving users
Charge splitting	One charge split to many parts

And. Managed services pricing requires still more than that.

Product-Led Growth

Sales-Led Growth

Price management

Pricing the offering

Price segments or exceptions

Customer-specific pricing

Flat fees, hybrid and usage-based pricing models and advanced charging rules

Service item relationships such as bundles and pools

Decimal values and rounding calculations

Uplifts and markups

Price validity period management

Currency management

Sales taxes management

Price exception and change management

Price list -based discounting

Customer-specific discounting

Price list -based price increase rules

Customer contract -based price increase rules

Indexes

Price validity period management, and campaigns

Digitalizing customer contract pricing terms

Collecting and mediating subscription, usage, entitlement, transaction, event, and asset data

Rating and creating charges

Simulating price scenarios

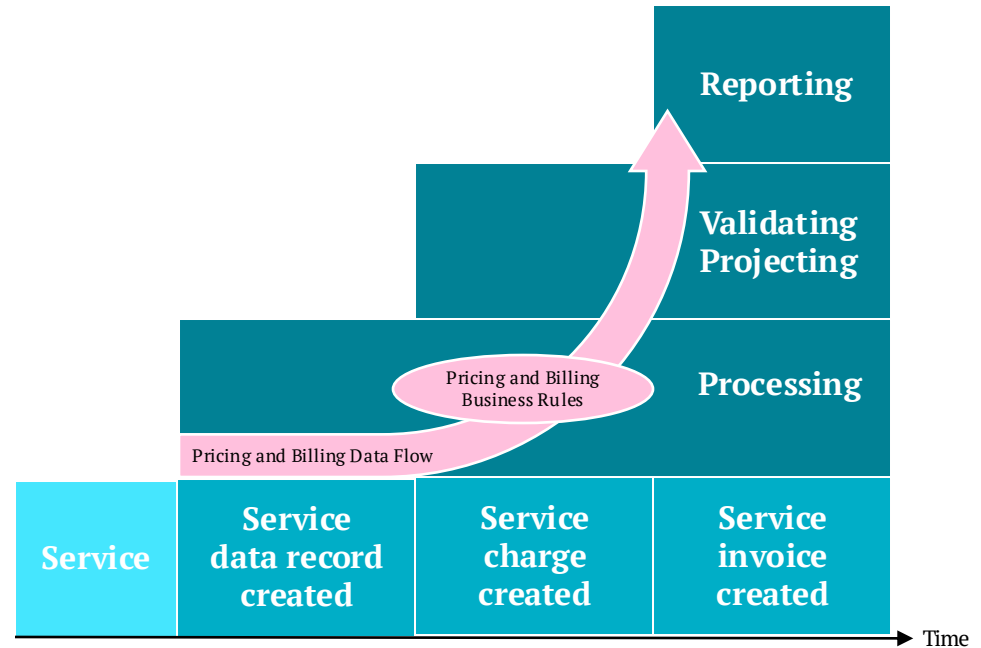
What billing capabilities your MSP needs?

Managed services billing starts long before a bill is cut.

Managed services billing usually starts when a service is activated or delivered.

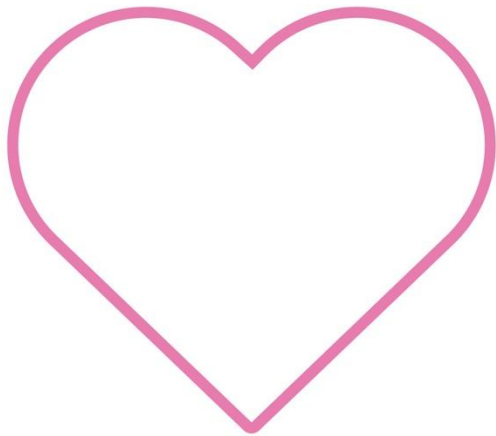
For example, the time of delivery, or the starting and ending time of the recurring period, guides the valid pricing.

On the other hand, some MSP services are billed in advance for a defined period. This requires keeping record of deferred revenue as part of the billing process.



Operational excellence and process control capability can be improved by separating creation of data records, charges and invoices. When charges are created as soon as the basis for service billing arises, you can, for example, validate invoices or follow up gap to close in your billing target during the month instead of only at the point of invoicing.

Customers love bills that are timely and correct, and the correctness is easy to verify. So does your organization.



Lovability of your invoice, in the eyes of the customer, starts with an invoice line linked to the charges, which are in turn connected to the service data records. Adequate information is shared. No questions needed. No questions asked.

While it's natural for your service operations and delivery systems to contain the currently active services for end customers, the MSP billing system should serve as the system of record for all past service history.

Another key aspect of traceability and financial transparency: You mustn't be obliged to create new service product codes to manage different pricing or cost accounting values for a new segment, customer, project, cost center, year, etc. You must have pricing freedom and decouple that connection.

MSP billing capability not only responds to the end-customers' expectations but also prevents significant revenue leakage.

MSP's requirements

End-customers' requirements

Billing management

Billing schedules management

Organizations in scope of a schedule

End-customer invoice splitting to cost center requirements

Charges in scope of a schedule

End-customer consolidation requirements across contracts

Layout, invoice line-item grouping and visibility management

Invoice initiation rules such as minimum/ trigger value

Language management

Currency conversion date rules

Sales taxes

Billing output management

Billing setup via ERP/finance system or direct channels

Accounts Receivable (AR) and General Ledger (GL) entries

End-customer invoice line-item data delivery or access

End-customer purchase order number management

Unbillable item reconciliation

Alert management and resolution

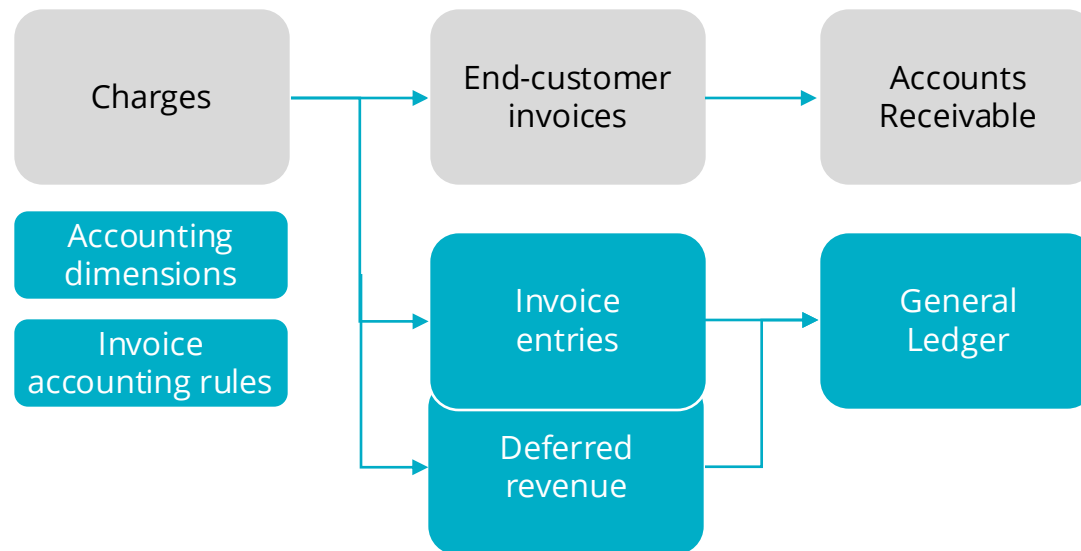
Automated or manual invoice validation

Data for projecting and reporting

What accounting automation your MSP needs?

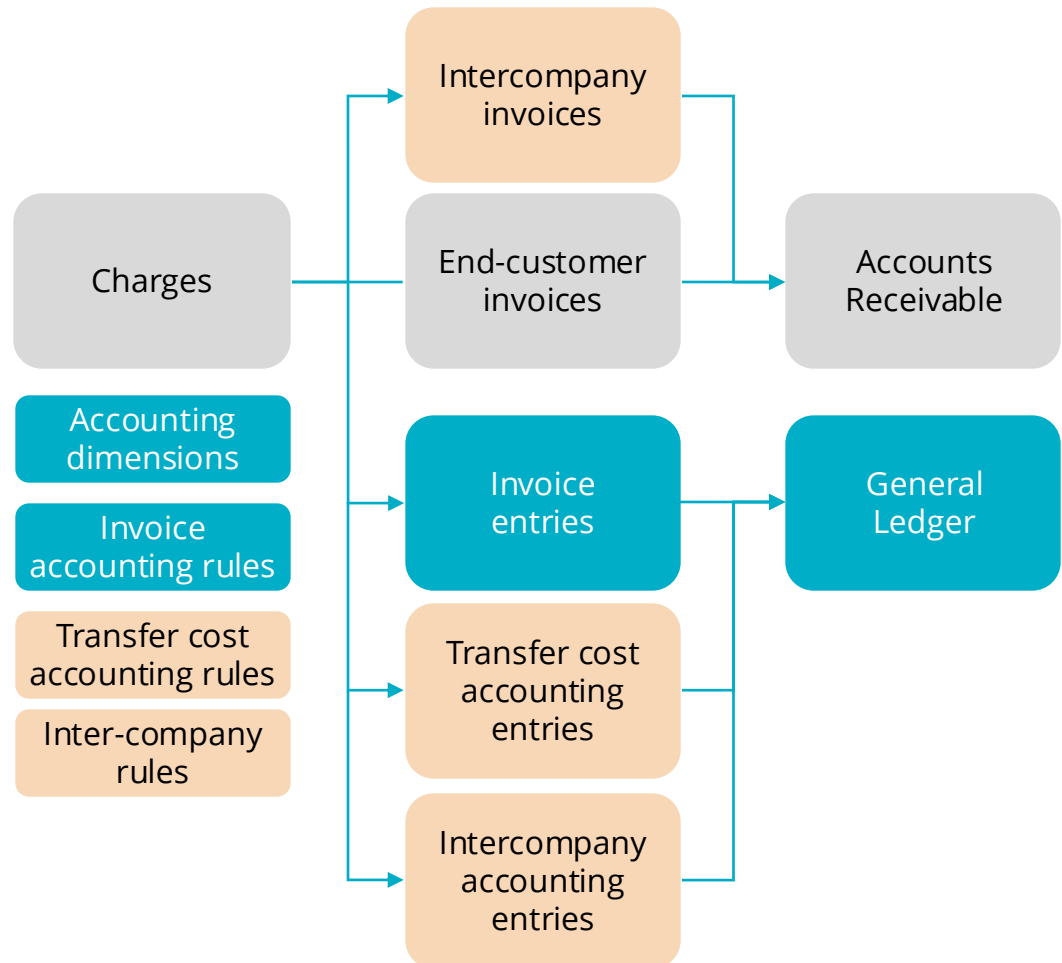
Firstly, your MSP needs accounting automation for the end-customer billing flow.

You need automatic entries for both Accounts Receivable (AR) and General Ledger (GL), including data for revenue recognition, particularly for any deferred revenue. Also, you must be able to manage multiple legal company sales entities and geographies, of course.



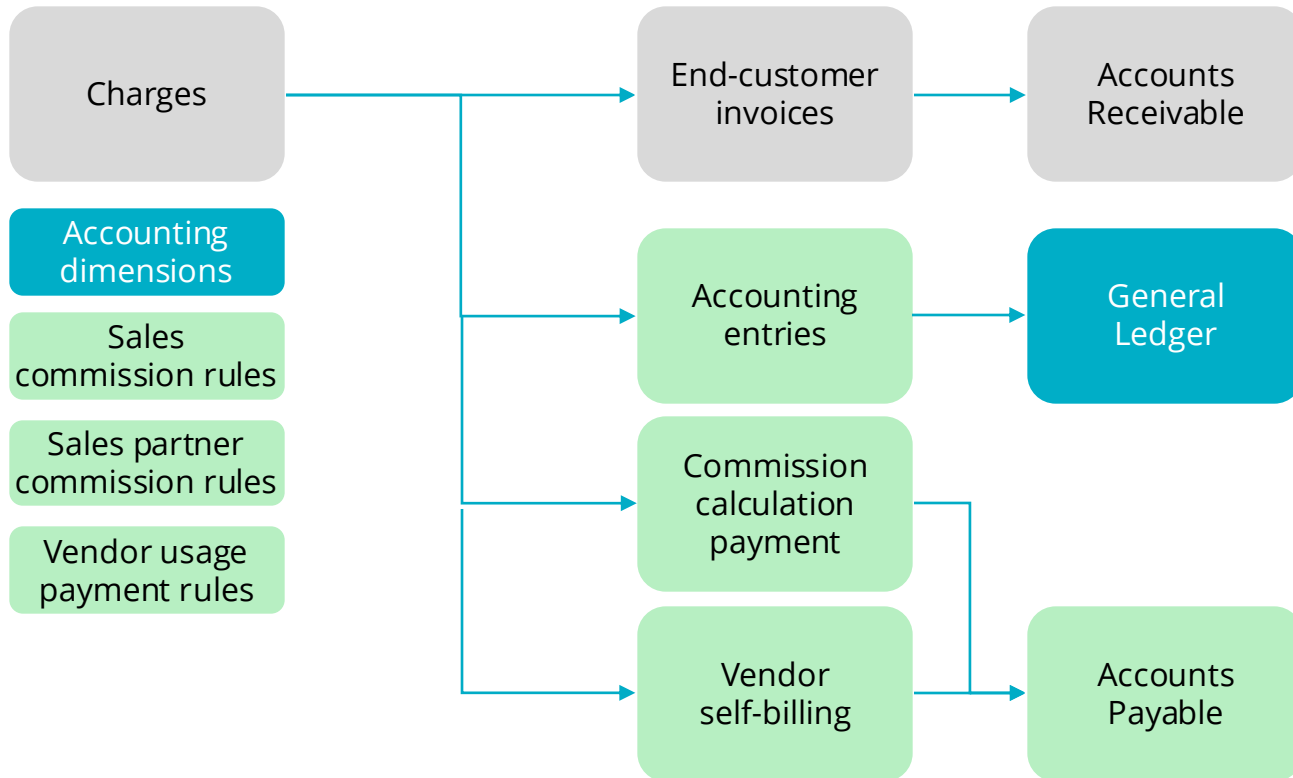
Secondly, automation for transfer costs and intercompany billing flows.

Depending on your internal cost and profit center accounting principles, as well as the roles of co-operation across geographic locations within the business, you may need to generate several accounting entries for a single “item” of service delivered including cost transfers, inter-company invoices and additional accounting entries. In addition to the end-customer billing flow.



Thirdly, your MSP deserves accounting automation throughout the ecosystem.

If a customer charge also serves as a driver for commissions or self-billing, it makes sense to set rules for automatically creating also those accounting entries, when invoicing a customer.



**MSP pricing
and billing can
be like a walk
in the park.**



(Almost)

Discover our capabilities, at your service.



Designed to meet and exceed the MSP pricing and billing expectations.

Manage
products

Master
pricing &
costs

Create
business
ecosystems

Manage
contract
lifecycle

Set
charging
rules

Automate
recurring
billing

Provision &
orchestrate
services

Use any
source
data

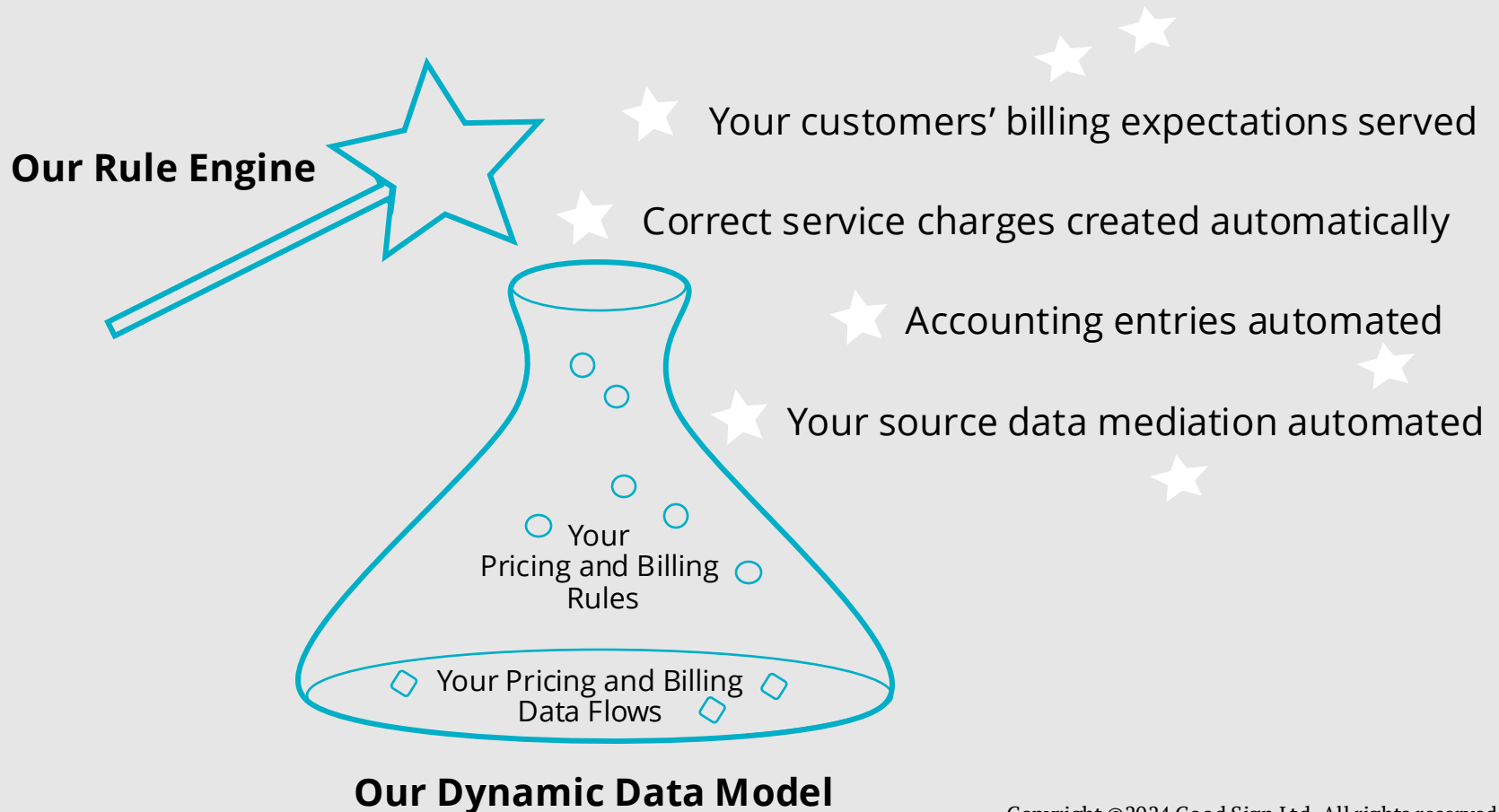
Automatic
accounting &
reporting

**good
sign**

And complex is taken care of with our magic potion and fairy dust. Sssh...

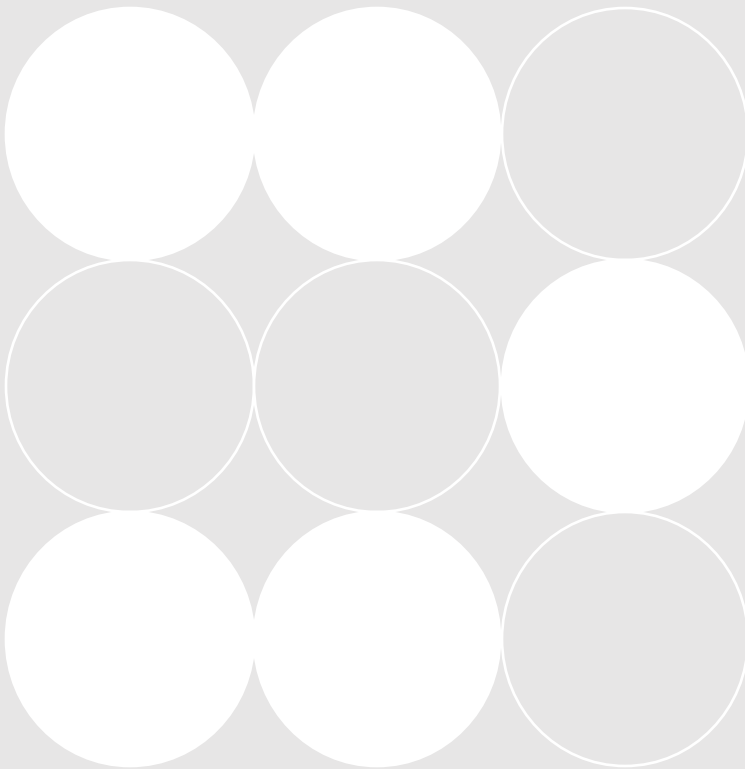
good
sign

Designed to power your competitiveness and top line growth,
with bottom line efficiency and transparency.



When you manage complexity, it is...

good
sign



a pain killer for

Recurring **revenue leakage** of up to 5-10%.

Unnecessary **manual work**.

Slow response times in supporting the required new price models.

Billing problems **hurting customer satisfaction**.

Challenges in transparency of contracts and billing for the customers and IFRS/GAAP compliance.

Good Sign Intro



Good Sign removes pain points in pricing, billing, and monetization of service contracts, subscriptions, entitlements, usage, transactions, events and assets.

Good Sign empowers managed services and as-a-service business models.

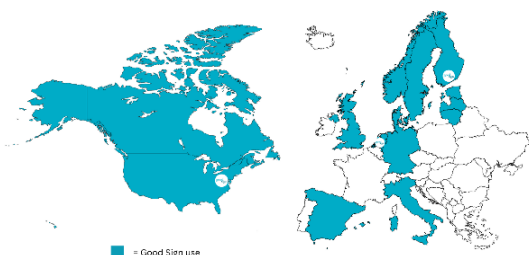
goodsign.com

We handle 2 billion monthly data transactions and manage customer billing worth €1 billion annually.

Focused offering for IT Managed Service Providers.



Good Sign HQ in Finland, known for its tech capabilities for data-driven businesses. Used by customers across 14 countries in Europe and North America.



Full API connectivity and pre-built connectors.

