



Kyle
Christensen
K7 Leadership

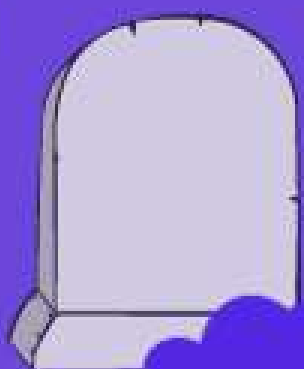


Alex Farling
Empath

FISCAL FRIGHTS AND DELIGHTS

TUESDAY, OCTOBER 10, 2 PM ET

Navigating the Shadows of
MSP Budgeting for FY2024



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CHARTING A COURSE

NAVIGATING BUDGETING WITH YOUR MSP CLIENTS



ALEX FARLING
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KYLE CHRISTENSEN
K7 LEADERSHIP

REGISTER
WEDNESDAY, OCTOBER 10
2 PM ET



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AGENDA

- Introduction to the Hosts
- The Importance of FY2024
- Growth Strategies
- Sales Alignment with Budgeting
- Navigating Business Uncertainties
- Harnessing the Power of Data
- Q&A Session





ALEX FARLING



empath

- **Co-Founder, Empath**
- **Partner and Community Lead at Lifecycle Insights, a ScalePad company.**
- **Over 20 years of experience in the MSP industry.**
- **Focused on optimizing vCIO and Account Manager functions for MSPs.**
- **Serial entrepreneur with a passion for solving hard problems and building better mouse traps.**
- **MSP Channel Angel Investor/Advisor**

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KYLE CHRISTENSEN

- I've been helping MSPs and MSP Vendors grow exponentially for 20 years.
- Built an MSP Consulting firm that helped 1000+ growing MSPs
- Has added over \$30M in revenue to MSPs
- Increased, on average, margins >15%
- Certified in EOS, Scaling Up, and Pinnacle and stripped them for their source code to help MSPs thrive
- I believe in a community-forward approach for best practices and a brighter future.



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WHAT IS A BUDGET?

- **Budget:**

- A budget is like a financial roadmap for your MSP. It's a plan that outlines how much money you expect to bring in (revenues) and how much you plan to spend (expenses) over a specific period, usually a year.
- Think of it as your financial blueprint, helping you allocate resources, control costs, and ensure your business remains profitable.

- **Forecast:**

- A forecast is like the weather prediction for your MSP's finances. Based on current and past financial data, it's an estimate of how much money you'll make and spend in the near future, often updated monthly or quarterly.
- Use it throughout the year to check how you're doing against your budget and adjust to any surprises. It's like checking the weather updates to adjust your plans.



WHY DO WE BUDGET?

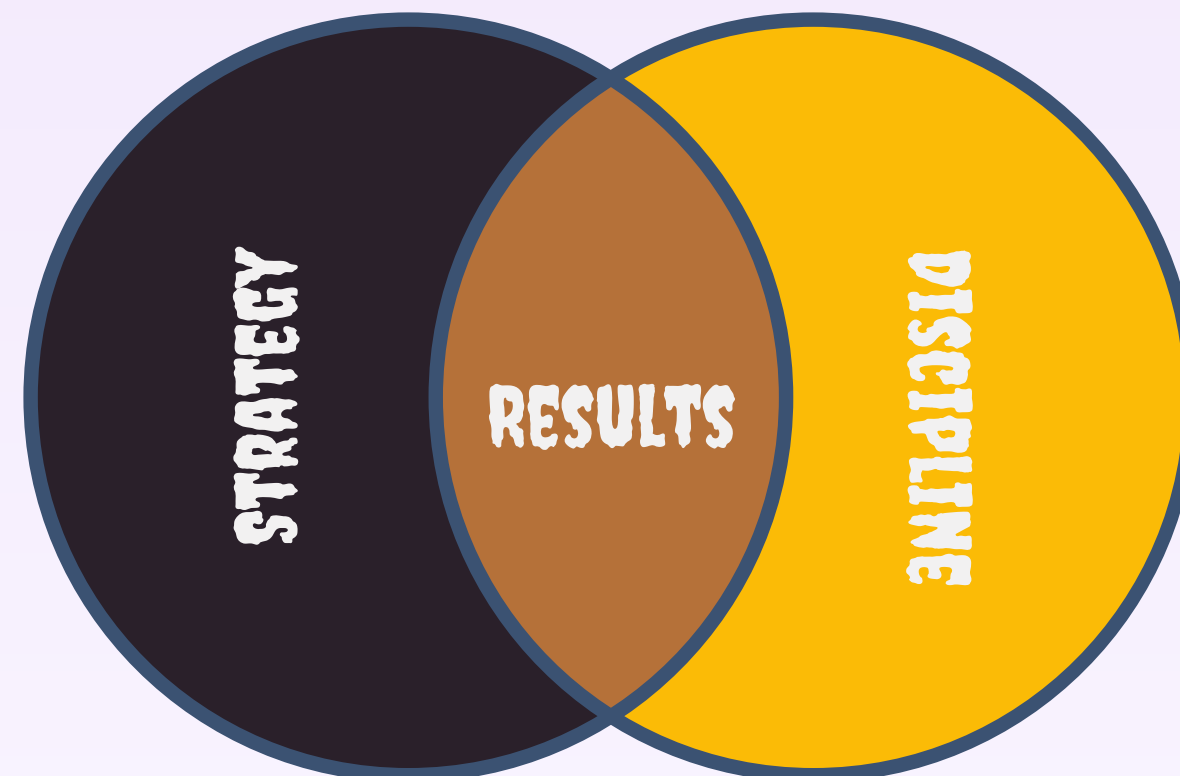


- All shareholders have an expectation on the valuation their investment should net them in a given time frame
 - e.g. \$x /share or % in 5 years
- This expectation is to be driven by the CEO/President and their leadership team to hit these goals
- Once written, that budget is then presented to the shareholders for their approval
- A budget is the method of roadmapping how long and by what means an organization will deliver on those expectations
- That budget will be the compass for the leadership team to work within
- Any performance outside of the budget that will impact spending, net profit, or cash flow will need presentation to the shareholders
 - Or to be handled through other means of accountability...

WHY DO WE BUDGET?



**AKA we all want growth,
accountability, and profit
but need a budget to set the
expectation.**



QUESTIONS THAT NEED TO BE ANSWERED

How much in top line do we need to grow next year?

Is there enough TAM to reach that?

How much in sales and marketing will that take to get there?

Do our current gross margins support that spend?

Does that all get us to our target share price/ Net Income?



PITFALLS TO AVOID

- **Over-use of benchmarks**
 - Just because others are doing it, doesn't mean you should, can, or will
- **Bottom Up Logic**
 - Your forecasts show you what zero change will net you.
 - Time to move the goal post!
- **Crafting it alone**
 - if your team is going to be accountable, have them weigh-in!
- **Perfection**
 - if this is year one, it's going to be 'ok'
- **Set it & Forget it**
 - This will need to be reviewed **OFTEN**
 - Wins and Opportunities need to be discussed
- **No reward for victory**
 - 110% effort deserves 110% earnings



REVENUE ATTAINMENT (QUOTA)

- We need revenue to grow or plateau as we all have churn
 - Saying you want '15% growth' is more like 15% (growth) + 5% (replace churn)
- Be reasonable in your goals
 - if you are owner lead sales, you probably won't close 20 new logos
- Revenue Mix is just as important as Revenue Growth
 - \$1M of a 10% Margin product won't keep the lights on
- Growth Comes from many places like increases, add-ons, logo growth, etc

HELPFUL BENCHMARKS:

- REV GROWTH RATES: 16%–19%
- REV CHURN RATES: 2.5%–5%
- NEW LOGOS PER YEAR: 15–20
- TOTAL REV MIX:
 - MSP 48% PRODUCT 21% SAAS 13.5% PS 8%



TARGET ADRESSABLE MARKET

- **Competitive landscape**
 - Do we have new competitors causing an increase in CAC
- **Pricing Strategy**
 - Will our prices need to increase or decrease
- **Segmentation Limits**
 - will our niche or geography limit our success and opportunity rates?
- **Product Penetration**
 - Will we need a new product developed (cyber security)

HELPFUL BENCHMARKS:

- **AVERAGE USER PRICE: \$160-\$205**
- **CAC: \$26K-\$27.5K**
- **FULLY MANAGED CONTRACT MIX: 67%**
- **G&A: 16%-19%**



SALES AND MARKETING NEEDS

- It takes money to make money!
- Your growth and profit will hinge on bringing in enough deals at the right price
- If you haven't matured your sales and marketing, you may need to invest **MORE** to get it going
 - which will result in growing pains
- Is your current sales and marketing tools and resources enough to remain accountable
 - if not, is this the year to make that investment?
- Will your comp plans encourage your teams to work their quota

HELPFUL BENCHMARKS:

- **SALES: 5%-6% OF REV**
- **MARKETING: 1%-2%**
- **REV TO SALES EMPLOYEE: \$1.5M-\$2M PER REP**
- **CONTRACTS PER REP: 1.5-1.7 PER QUARTER**
- **QBR COMPLIANCE: ~17% GM INCREASE**



CAN SERVICE PROTECT THE FARM?



- Once we know our revenue growth and investment needs, we are then able to ask, what gross margins, therefore COGs, will our service team have to service our clients?
- If our current gross margins are not sufficient, than they will need a plan to increase the margins through efficiencies
 - outside of increased pricing needs
- Gross Margin Expectations that are beyond budget can be utilized for service employee profit sharing
- ...and please, get your service employees in COGs already!

HELPFUL BENCHMARKS:

- **BLENDED GROSS MARGIN: 34%-37%**
- **MSP GROSS MARGIN: 45%-50%**
- **MSP MIX: 48%**
- **SERVICE REV PER BILLABLE STAFF: \$190K-\$230K**
- **REV PER PROSERVICE EMPLOYEE: \$175K-\$200K**

THE BOTTOM LINE

- Just like the top-line, the Net Income performance of your MSP needs to be decided early, and the ultimate deciding factor if your budget is complete.
- While ending at the bottom line can 'feel' like a result, it will be your guiding compass to your budget needing more adjustment
 - If your budget doesn't have enough left over, someone will need to pick up the slack
- Do not set your EBITDA goals too high if you are going to need a 'maturity' or 'growth' year
 - remember, it's about our long term goal, not the short term

HELPFUL BENCHMARKS:

- **EBITDA: 10%-20%**
- **G&A: ~18%-20%**
- **REV PER EMPLOYEE: \$215K-\$230K**
- **HR, IT, AND ADMIN EMPLOYEE MIX: 13%-15%**
- **BUDGET ATTAINMENT: 102%-104%**



PROPER REVIEW DEMO

**What does this all look like
during the year?**



Q&A SESSION

Ask the Warlock & Sorcerer!





THANK YOU FOR ATTENDING!

– Alex, Kyle

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IS THERE A TOPIC YOU WANT US TO
COVER? LET US KNOW!



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