



# Easy Steps to Improving the Valuation of Your MSP Practice

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# Objectives

- Identify key business, technical, and operational changes you can make to drastically improve the business valuation of your managed services practice
- This exercise will be useful for any MSP of any size, regardless of what your near or long term plans are
- These changes are relatively easy to make and should pose no significant challenge to any MSP operator/owner
- Even if you are unsure of what you want to do in the future, implementing these concepts will make your MSP practice more valuable, more appealing to your clients, more desirable to your employees, and more envious to your colleagues.



# What has brought us to this point?

- Last 10 years has been mainly focused on selling the business case of managed services to the channel
- Only last 2 years has education really become widespread and effective
- Even with all the resources available to us not all companies have made the transition to managed services completely
- 2009 was hard on a lot of companies
- Survivors are left with some crucial choices moving forward



## 4 Types of Companies

1. Looking for Funding
2. Looking for Acquisitions
3. Looking to Merge
4. Looking to Sell

- A majority of the IT solution providers will fit into at least one of these categories
- You can be in any one of these categories
- You can even be in multiple categories at the same time
- The important point is no matter which category you're in...improving your company valuation is very important to obtaining your objectives



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# Let's Begin!

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# Run your business as if it were for sale

- Don't wait until you want to sell/raise capital/merge to get your business in shape
- Running the business like it was under constant inspection is a good business practice
- There should be no difference between a company for sale and a company operating normally. The daily operations should be the same!
- Always be in sale mode!



# Keep Good Financials

- Many small MSPs don't have access to professional financial advice
- Having a bookkeeper is not enough
- Consider an outsourced CFO service
- You need financial expertise while you focus on doing what you do best
- Financial data is just as important as technical data



## Bottom Line

- Don't be afraid to show a little net income...in fact, the more the better
- Investors/buyers/partners do not look favorably on razor thin margins...even if done on purpose
- Your ability to raise capital or command a good cash component during a sale or investment round will be critically tied to your net income/EBITDA
- It's best to have a few years of trending data, not just profitability for the last few months



# Documentation!!!

- No matter how small or big you are, documentation should be ingrained in your corporate culture
- It's not enough to practice it, you must write it down
- Documentation will help you
  - Train new employees
  - Discipline existing employees
  - Demonstrate your capabilities to clients and prospects
  - Optimize your service delivery process
  - Get more margin from your services
  - Prepare you for many different IT audits, including the MSAP audit



# SLAs Matter

- SLAs are very important to the valuation of your practice
- The longer the term the better
- Assignable agreements are a plus
- Helps demonstrate you have your house in order
- Month to month have value, but only if you can demonstrate a decent trend



# How to deal with hardware

Hardware can be important for your MSP practice, but there are some key things you should do to avoid problems in the future

- Separate hardware from other offerings
- Hardware as a Service might be an effective tool instead of traditional hardware sales
- Consider selling hardware only to existing clients or those who will be buying a managed services contract
- Beware of the tax implications of your hardware sales, especially when mixing them with services in the same invoice



# Build Your Brand

- It's not just advertising and event sponsoring
- Building your brand beyond your existing clients
- Become subject matter experts and get the word out!
  - Newspapers
  - Magazines
  - TV
  - Radio
- Hire a PR firm or do it yourself, but do it!
- Social networking sites
- Local business clubs
- Vertical market groups



# Conclusions

- There are many opportunities for MSPs in the next 5-10 years; make sure you are prepared to take advantage of them
- Always be prepared to discuss a strategic transaction with another party; better to turn it down for another reason other than you weren't prepared!
- For those MSPs who intend to stay around, improving your valuation now will prepare you to stay in front of the pack, not behind



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# Questions?

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