BACS

HOW DO YOU CALCULATE ROI ON THE MANAGED IT SERVICES YOU BUY FOR YOUR BUSINESS?

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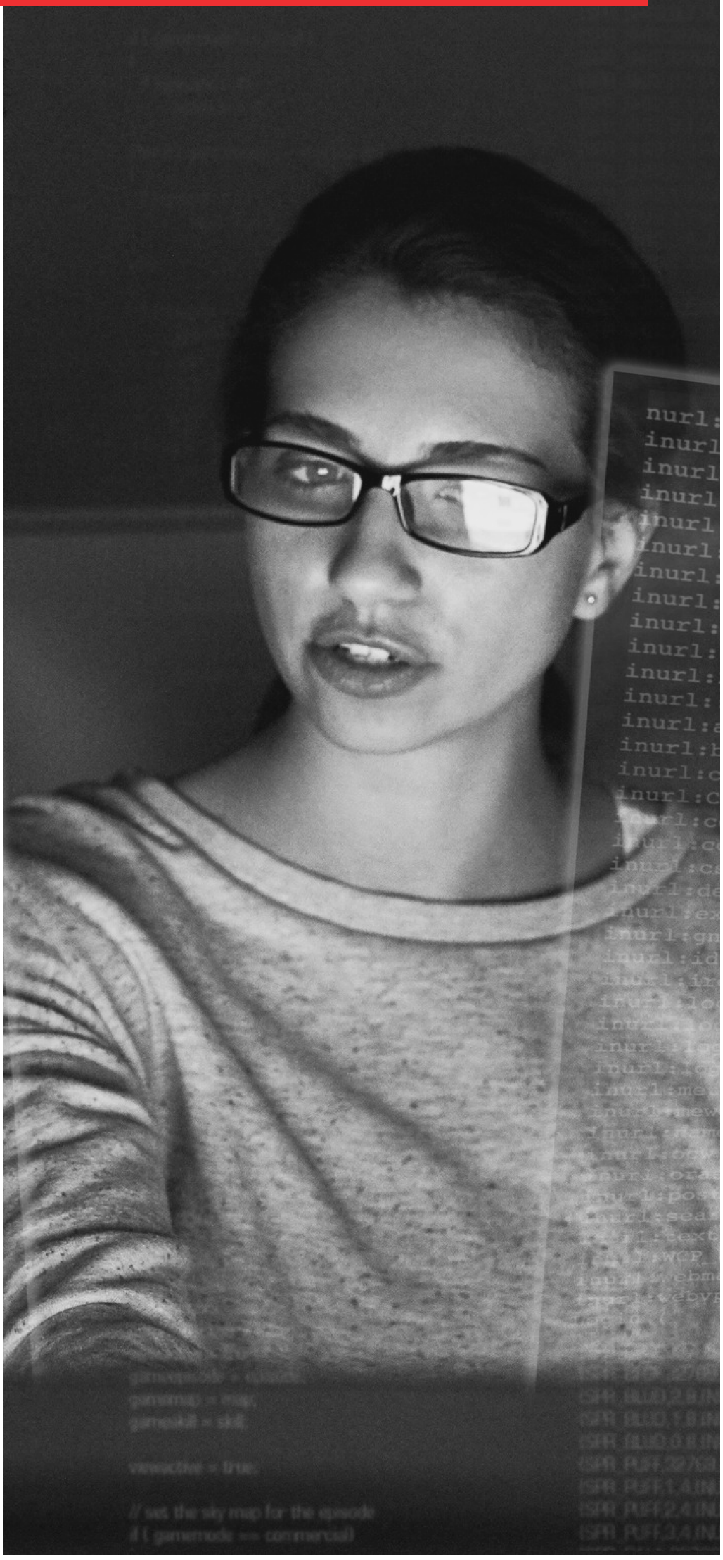
CALCULATING ROI IS IMPORTANT

Successful businesses—small, medium, and large—are successful because they pay close attention to their return on investments (ROI). Unfortunately, because many factors change between businesses, there are no tried-and-true business models on which business owners can model themselves.

The result of this is that business owners do the best that they can, choosing from their immediate, available options. The problem that occurs in doing business in this manner is that it often results in a net loss. Take the time to calculate the ROI on your IT services as they presently stand, and you'll find paths to more monetary gains, as well as better services holistically.

WHAT IS ROI?



What Exactly is ROI?

Generally, as stated before, ROI refers to a business' 'return on investments.' It is only one way in relating profits to capital invested, but it also can be used to estimate performance measurements.

For example, a business owner could look at the ROI of a particular employee; their training time, damages caused, work produced, and other factors, which change their estimated ROI concerning the owner. There are many aspects of ROI that can be factored into an estimate, but the general rule of thumb for ROI is this formula[1]:

$$\textbf{ROI} = \frac{\textbf{(Current Value of Investment - Cost of Investment)}}{\textbf{(Cost of Investment)}}$$

POSITIVE & NEGATIVE ROI

A high ROI percentage refers to a highly favorable investment gain, while lower percentages indicate a need for adjustment or change. Despite this simplistic formula, it can be difficult to judge whether or not a particular percentage result is ‘good/positive’ or ‘bad/negative’. For situations like this, ROI can also be considered in terms of performance. In the IT service world, this means “if, by the end of [your services], you have [a] better understanding [of your devices] along with working more efficiently [with them], then the ROI is positive. However, if you are still struggling to [sic] get to grips with things, and you have spent [more] money trying to understand, then your ROI is negative.”[2]

Negative ROI is not indicative of failure, but it should be a warning sign to those that have it. Consistently positive ROI is the only path to success and growth for businesses, and having a negative ROI means there needs to be a change in how the business model is operating. In sitting down to calculate your ROI, Forbes suggests that “to give a full assessment of your [business’] ROI, you may want to prepare two or more estimates: a pessimistic estimate that assumes the lowest reasonable gain, and the highest reasonable cost, and an optimistic one with high gain and low cost. Your actual result will fall between the two, but this way you’ll have modeled a reasonable range of possibilities.”[3]

WHAT IS ROI?

What is the ROI on Managed IT Services?

ROI can easily be spoken about in terms of time and money versus recuperated costs, it can also be applied to performative statistics; what does it look like in regard to IT servicing? Calculating the ROI on managed IT services includes five components to consider when making your ROI calculation; being aware of these secondary components can greatly change how the ROI of a business is viewed.

Five Additional Components for Your ROI Calculation

Here are five additional components that help determine your company's ROI for managed IT services.

1-STARTING COSTS

[4] The first additional component that needs to be considered when you calculate your business' ROI, is that of your starting overall cost of IT, as a percent of your business' revenue. Picturing your current IT costs as being percentages helps to provide you with a foundation through which you can pick the best option for your IT services. For example, if you find that you've spent $2,000 out of your $10,000 revenue, this is a different feeling than saying you've spent 1/5th of your revenue or 20% of it.

The ideal percentage of revenue for IT services (for small businesses) is usually a 6.9% 'loss.'[5] Granted, some businesses will operate under the premise that a smaller percentage is better monetarily speaking; those temporary gains are potential for a large loss of revenue in the future, as equipment breaks down and technology is always advancing. Thus, 6.9 0.5% should be the goal for every small business' IT services. Those who have a few individuals filling in as their IT staff often see a need to reduce this percentage. However, "according to a survey conducted by CompTIA, 50% of companies involved with [managed service providers], saved 1-24% of their annual IT costs".[6]

2-CURRENT IT STAFF

The second additional component to consider is your current IT staffing situation. Managed IT service companies will normally take one of two approaches to working with your business. In the first case they will provide auxiliary support to your current staff; in the second, they will overtake all aspects of the technology for your company. A combination of these approaches is sometimes helpful as well, but the biggest benefit normally comes as the result of a full switch.

In the first case--where an IT service provides assistance to your current IT staff—the benefits are numerous. One of these includes the ability to hire IT professionals within specialized fields, like system administration or cybersecurity. To assess if this would be a beneficial move for your business, you need only to calculate:

(Cost of an Employee + Annual Cost of IT)= X

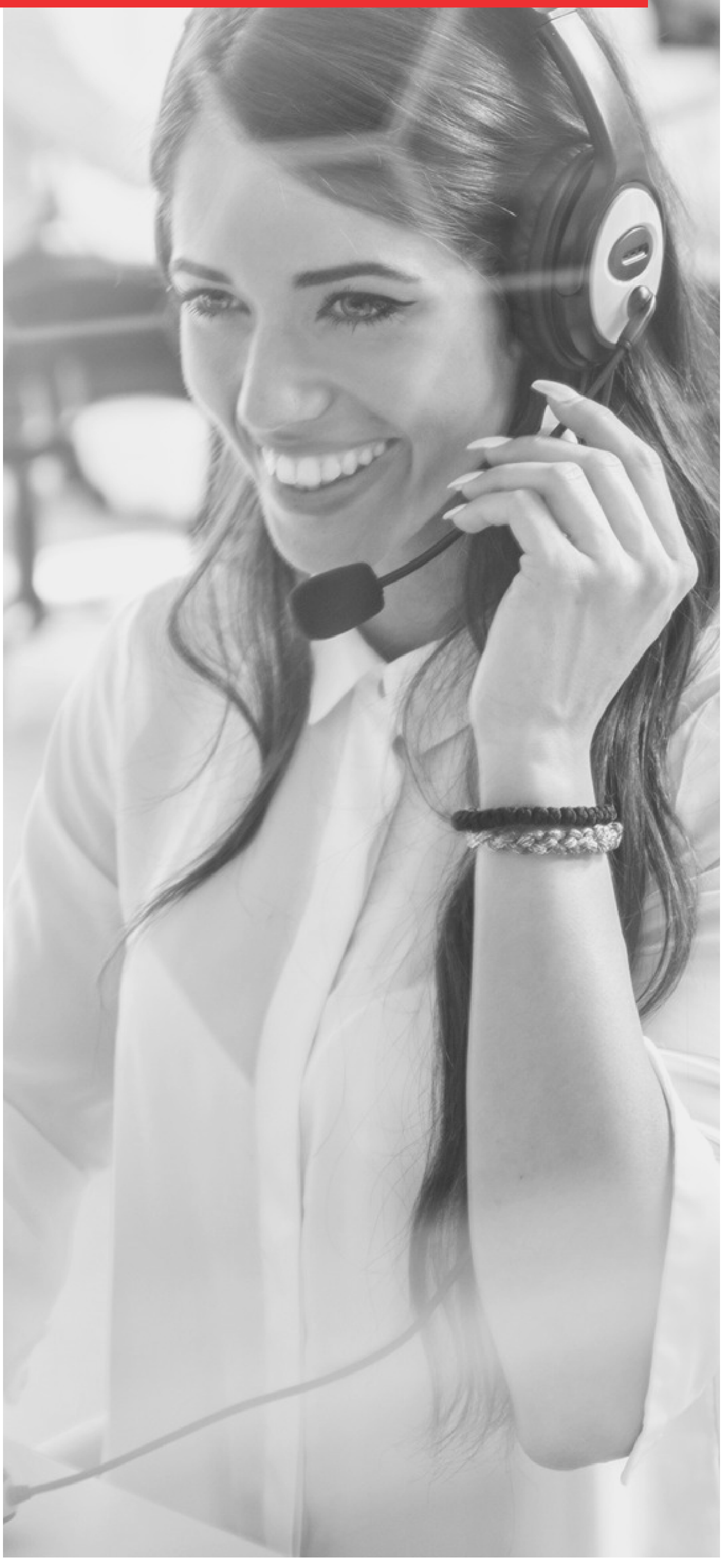
Verses

(Managed IT Service Payment x 12) = X

To the cost of an employee, we can count various factors which cost the business owner money; hourly/salary pay, vacation pay, overtime pay, workplace pension, income protection, holiday bonuses—then, there are the costs of things like hiring process fees, training costs, or potentially damaged tech and the resulting loss of revenue due to uncontrolled outages.[7]

In comparison, the small business owner is able to pay a monthly flat rate for all of their IT needs, including a team of administrators, and a help desk person. To see the potential savings here consider the (Cost of Employee) and apply that to a help desk person, a network administrator, a database administrator, a security administrator, and a leader for them, so the (Cost of Employee) x 5, assuming you desire a modest team of IT staff. You can then compare that number to your yearly managed IT servicing costs and see significant savings.

3-CURRENT IT SUPPORT



The third aspect you want to consider for calculating your ROI for your IT services, is the amount of support you receive from your current IT staff. Many small businesses end up utilizing one or two of their current employees as interim IT support in conjunction with their occupational responsibilities.

In situations like this, it can be helpful to consider how much employee time and labor is being used (monetarily speaking), in comparison with a monthly IT servicing fee. The calculation for this is simple:

(The Interim IT Person's Hourly Pay x The Average Hourly Rate of Each Employee)

Versus

(Monthly Managed IT Services Payment)

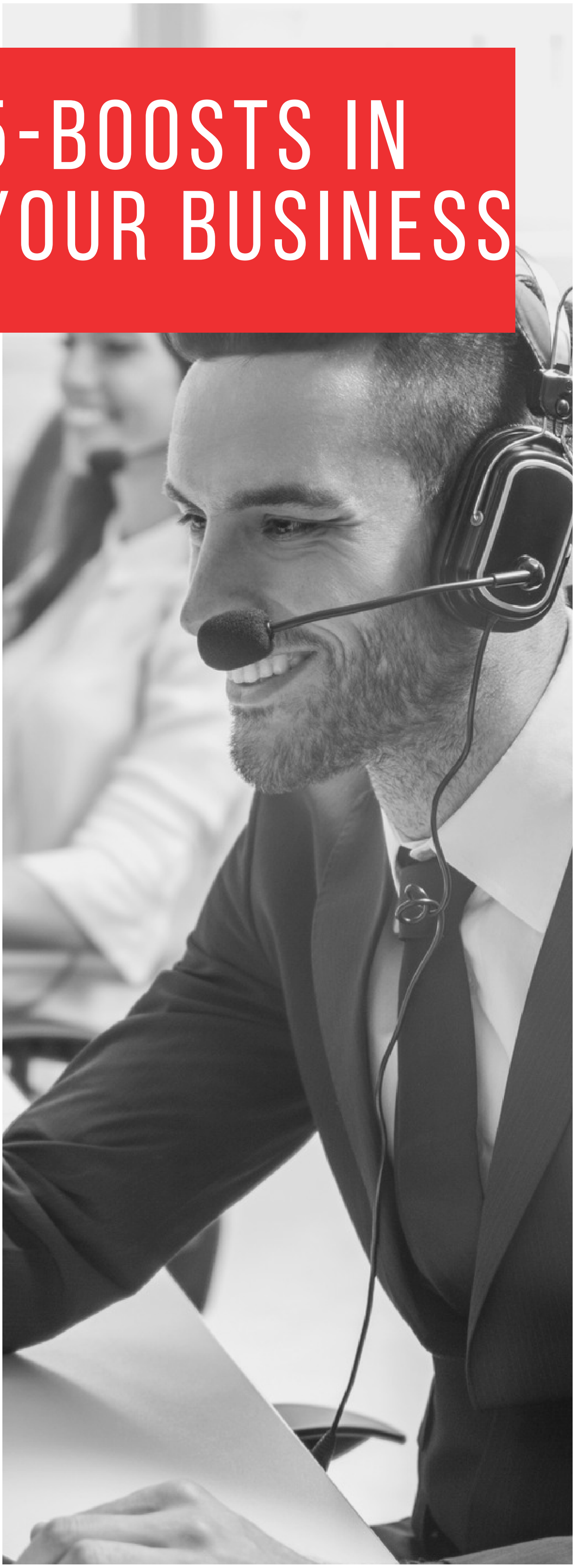
4-BUSINESS DOWNTIME

The fourth component to consider when thinking about your ROI is the amount of downtime your business incurs, costing you profits. In fact, downtime is some of the costliest time periods of any small business' workday. When calculating downtime, consider periods of zero network connection, non-working technology, updates, hardware issues, and any other IT-related halts during the business day. You can also consider the costs of out-of-warranty support for old technology, spare parts being needed, or any repair expenses.[8] In order to calculate exactly how much a small business has lost to downtime, you'll need to use this calculation:

$$\frac{\textbf{(Total Annual Revenue Per Hour x Estimated Number of Outage Hours)}}{\textbf{Business Hours in a Year}} \textbf{ = X}$$

In this calculation, 'X' is the cost of each hour of downtime. Compare this again with the cost of hiring a managed IT service to handle your downtime periods, and you'll be surprised by the potential gains. When estimating the amount of yearly outage hours, be generous as it is difficult to overestimate them. 98% of organizations that did this calculation themselves, said a single hour of downtime typically cost them over $100,000.[9]

5-BOOSTS IN YOUR BUSINESS



Customer service is one of the most important avenues when considering ROI. [10] Managed IT services include many opportunities for customer service interactions.

If your managed IT services improve your production, allow you to cross-sell current clients more effectively, increase your retention rates because you can be more responsive, and encourage both growth and business expansion due to word of mouth from happy clients, this boon will come back as a higher ROI.

When your business has managed IT services, you can confidently answer questions, respond more quickly, and show your customers that your attention is focused on their needs, which can all come back to your business as higher ROI.

BACS IS HERE TO HELP

BACS is Your Best Choice for Technology Solutions

BACS isn't your average IT provider; our services provide the best technology solutions for every business. If you'd like to find out more about your IT solutions, **schedule a call** to speak with our professional IT consultants today.

RESOURCES

[1] Some contradiction between sources—some add another (x100) on the end, but this is the one supported by Investopedia: https://www.investopedia.com/terms/r/returnoninvestment.asp. Sources which do use the (x100) version are more comparable to the formula of rate of return (RoR) rather than ROI.

[2] https://www.purpleguys.com/2021/07/how-to-measure-managed-services-roi-and-or-it-support/

[3] https://www.forbes.com/sites/forbestechcouncil/2018/05/31/determining-the-return-on-investment-on-a-new-software-purchase/?sh=589cd6b54054

[4] The first four of these are topics and most calculations are from https://www.oitc.ca/blog/managed-it-services-roi-how-much-can-you-really-save/.

[5] 'Loss' instead of loss because you supposedly recoup those costs via the utilization of those items in the workplace. In reference to paying more time and labor: https://www.insight.com/en_US/content-and-resources/2018/05082018-4-factors-to-consider-when-calculating-roi-for-a-technology-upgrade.html

[6] https://www.itsasap.com/blog/how-msp-profit-help-roi

[7] https://www.probrand.co.uk/blog/pb/october-2020/how-to-calculate-roi-on-a-managed-it-services-cont

[8] https://www.insight.com/en_US/content-and-resources/2018/05082018-4-factors-to-consider-when-calculating-roi-for-a-technology-upgrade.html

[9] https://www.itsasap.com/blog/how-msp-profit-help-roi

[10] https://www.helpscout.com/helpu/customer-service-roi/