HOW TO SET UP
CONTRACTS IN
5 EASY STEPS

MAXIMIZE ROI & PROFITABILITY WITH SERVICE CONTRACTS

Tigerpaw®

Service contracts have been a long-standing option for technology service small- to medium-sized businesses (SMBs) to create a steady stream of revenue and maximize ROI. But how does that work?

A service contract is an agreement to provide a specific level of service and support in exchange for a fixed fee. Instead of guessing when a customer is going to call for service or new parts and sending an invoice after each separate occurrence, you can anticipate how many hours you will dedicate to a customer and how much revenue that will generate over a set period of time.

Contracts also allow your dispatch and field techs to prioritize service tickets and make it easy to track the profitability of each contract. The goal, of course, is to generate a consistent profit while providing your customers with the same great service they've come to expect at a standard rate.

Here is how to set up service contracts in 5 easy steps:

1. GATHER SIX MONTHS' WORTH OF DATA

The best practice is to gather at least six months (but longer is better) of data to calculate what you should charge to ensure profitability. The easiest way to gather data is to use a service ticketing and IT help desk software.

Be sure to include all the necessary costs, such as:

- Number of service tickets
- Total technician time spent resolving issues
- Travel time and other necessary downtime
- Overtime and on-call rates

Once you have collected all of that data for each customer, add up the costs and compare that to how much you were paid. Set the contract rate above your costs to ensure ROI.

2. SET THE PRIORITY LEVEL

All customers are not created equal. Consider the varying levels of service your clients may need, and then offer faster response and resolution times at a higher rate.

Create your own internal identifiers for levels of accounts, such as different colors of a fire like Yellow, Orange or Red or something more fun like Spark, Burning, Blazing, Molting and Inferno.

Ensure your service ticketing and IT help desk software can track response times by priority and allow you to create a report, analyze and make sure you're hitting your metrics. The priorities should mean something and not just be a label.

3. DETERMINE WHAT IS COVERED

Service contracts can cover everything or any number of individual items or services and a dizzying amount of combinations. For example, it can include labor at no charge or at a discounted rate, it can limit coverage to specific products or services or it can be pure preventative maintenance.

If a contract covers specific items, you will want to get into the habit of creating service orders in your service ticketing and IT help desk software that are tied to your customer assets to make sure the correct contract is applied and time and cost is accurately logged.

4. SELECT THE PROPER CONTRACT BASIS

The contract basis is a contract's heart or core metric you wish to track while this contract is in force. What is the design or the contract? What is its purpose?

Standard options for IT services companies are:

- **Time period:** No matter what is done under the contract, it is covered
- **Hourly:** Specific amount of hours
- **Hourly usage:** Specific amount of hours refreshed per period
- **Prepaid:** Specific dollar amount
- **Metered:** Specific metric like copies or gigabytes
- **Metered usage:** Specific metric like copies, gigabytes, etc. refreshed per period
- **Incidents:** Specific number of service requests per contract term
- **Units:** Custom metric created by the service provider deducted based on hours but different than an hourly rate because activities may have a different per hour unit rate.

5. CHOOSE A CONTRACT BILLING CYCLE

Expected revenue then comes into play when you set the contract billing cycle.

Parameters in most service ticketing and IT help desk software can be set to one of several different cycles:

- Annually (calendar or fiscal year)
- Semi-annually
- Weekly
- Monthly
- Prepaid (one-time and up front)

At the end of each year, it is important to go back to Step 1 and use your service ticketing and IT help desk software to help you recalculate your ROI for each contract and make adjustments accordingly. This will allow you to keep track of which accounts have good ROI and which ones are costing you money on an ongoing basis.

GETTING STARTED

The first step to setting up service contracts that maximize ROI is to implement a complete service ticketing and IT help desk automation solution, such as a PSA software or ERP platform.

Download this PSA Checklist that outlines key features to look for in a software solution.