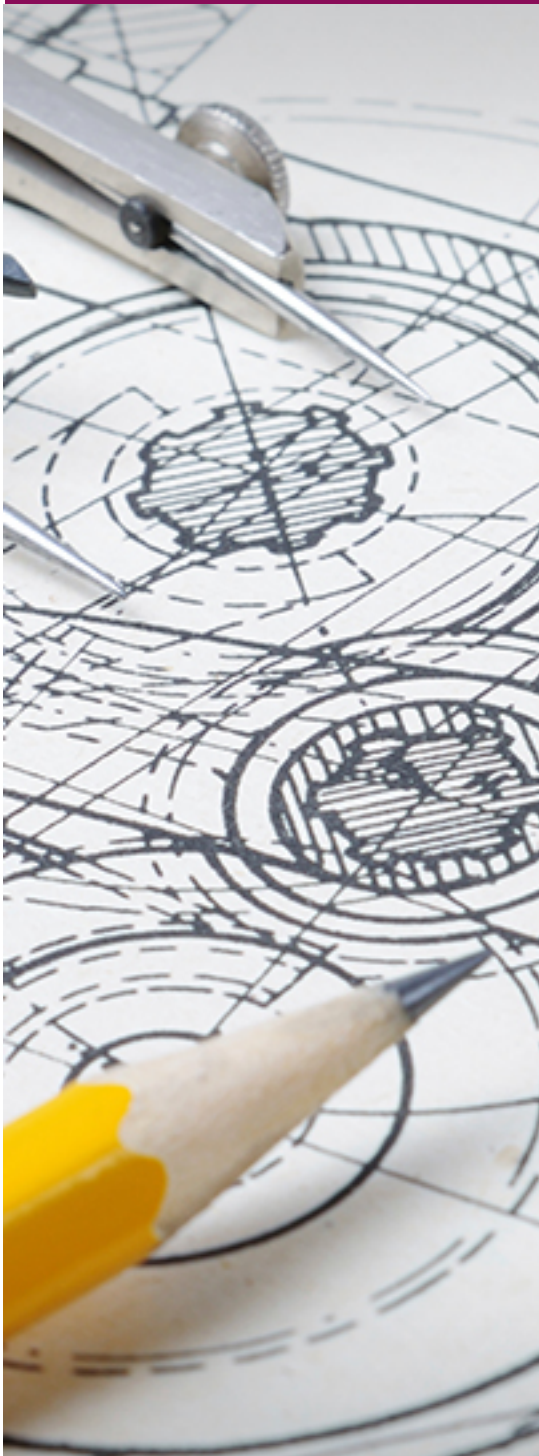


Recurring revenue



An important part of the 8 Key drivers in the Value Builder System is recurring revenue. The value of your business ultimately depends on its ability to make and sustain profits over an extended period of time. Finding a way to increase the amount of revenue that comes to you on a recurring basis can benefit you in a number of ways. If your cash flow becomes more reliable, you as the owner can enjoy greater peace of mind and your time would be freed up from working “in” the business to working “on” the business. This time can be used for creating additional products or services that may compliment your existing offering, or for value added face time or services to your important customers. Either can add value to your business. A more reliable source of future cash flow certain can also make your business more valuable to a potential buyer.

Not all revenues are equal. There are six forms of recurring revenue ranging from basic to the most desirable. The best example of a basic form of recurring revenue is Tim Hortons. Every day, millions of Canadians stop by Tim’s to pick up their morning coffee. (Fun fact - it is estimated that 15% of Canadians visit a Tim Hortons each day) Tim’s offers a terrific product, but there is nothing ensuring their customers return other than habit. A higher level of recurring revenue would involve your customer incurring some sunk cost to deal with you. The product may still be a consumable, but the capital investment increases the odds that the customer will continue to buy your product or service. Taking the Tim Horton’s example one step further, if the customer buys a Keurig coffee maker he or she has made a modest capital investment and will use the machine to pay for the sunk cost. Tim Horton’s has been quick to provide Keurig compatible pods so that they may capture this portion of the recurring revenue market.

Subscription revenue is a higher form of recurring revenue. It may be an interesting exercise to consider the various forms of subscription services consumers may consume. The obvious model for subscription revenue is a magazine service. The customer pays in advance (good cash flow) and receives the product over a one or two year period. Creative business owners can look for ways to apply this model to their own customers. More than one plumbing company in Calgary has created a yearly “Gold Member” subscription. For an annual fee, the customer receives a yearly inspection and is given priority on calls for service. This subscription provides the plumbing company another modest source of income and also ensures that they are the firm that the customers call when they need any work done. Subscription with a sunk cost is an even higher form of the subscription model. Shaw Cable sells digital boxes and HD PVRs to their customers and then charges a monthly fee for the service. Shaw is also a great example of the next highest form of recurring revenue; the auto renewal model. Once you register with Shaw you have no stop date. Customers are largely victims of inertia and the effort to cancel this service often is greater than the modest benefit that can be had by switching.

The most valuable form of recurring revenue is one in which your customer has entered a legal obligation to buy from you in the future. Cell phone contracts are the best example of this business model but small business owners may be able to find ways to incorporate this into their business model as well. GDI Integrated Services is Canada's largest janitorial and cleaning services. All their big corporate cleaning relationships with universities, office buildings and shopping centers are under long term contract. Incidentally, GDI has used those long term contracts to establish strong relationships with their customers and then offer ancillary services such as disaster recovery services HVAC and energy maintenance, and sale of cleaning supplies.

An important note is that recurring revenue does not need to be an exclusive part of your cash flow. You may look for ways to incorporate recurring revenue into parts of your business so that it may cover the fixed costs of running all the business. Ski hills often view the revenue from season passes as cash that covers the cost to run the business. If they sell enough passes to cover their costs, they are not at the mercy of weather to determine the viability of the operations. Good snow years with lots of guests result in much larger profits. Perhaps there is a service or consumable product offering you may be able to offer under subscription or contract. Increasing your recurring revenue is time consuming and may be difficult, but it can definitely lead to a more rewarding experience as a business owner and add value to your business.