ConnectWise

D&H

A VAR's Guide to Recurring Revenue:

Making it Easier to Consistently Earn More

ConnectWise eBook Series

Contents

Introduction

Relying on big, upfront sales to keep your cash flow running every month isn't just stressful, it's risky. There is an easier way to meet your business goals, whether you're focused on increasing business growth or profit.

How? Recurring revenue. We know you don't want to lose the large deals that have built the foundation of your growth up to this point. And you may not be ready to make the move to managed services. Recurring revenue doesn't mean changing everything. Instead, it's the key to a strong financial future for your business, creating a steady stream of revenue that helps your business establish stronger profits right now—and making your business more attractive when it comes to acquisitions.

The math is simple. Monthly recurring revenue adds up to benefits for you and your customers. In fact, according to CRN, recurring revenue represented 32% of total revenue in the third quarter of 2018. That's a pretty big chunk of opportunity out there, waiting for you to capitalize on it. Now it's up to you to jump on this opportunity and let it propel you further, faster.

The Benefits of Recurring Revenue

Recurring revenue is what happens when services are charged on a recurring basis, typically monthly or yearly (like your cell phone bill), and it can mean a lot of good things for your business. Not only will it deliver a consistent stream of revenue that you can (literally) bank on, but when it comes time to think about legacy planning and selling your business, a company built on recurring revenue will be more attractive to potential buyers.

With recurring revenue, you'll be able to:

- Count on a more reliable and predictable revenue source
- Determine the value of your business in multiple ways with more stable metrics
- Sell additional products and services to your existing customers by upselling or cross-selling
- Keep your business aligned to your customers' changing needs, offering better service
- Better determine your ideal customer by focusing on long-term relationships instead of quick sales
- Determine your pricing based on the value you're providing, instead of undercutting to win constant price wars
- Make your company more valuable, better positioning you for a merger or acquisition

That all sounds pretty fantastic, right? So why isn't everyone already on board? Let's talk about some common concerns and why they shouldn't be a barrier for your move to recurring revenue.

Concerns (and Solutions) for Business Owners

If you're already considering a recurring revenue model for your business, there are a few things you might be worried about. We're here to cover some of the most common objections and help you get a clearer picture of how to overcome them.

The Issue: Cashflow

If you're relying on high volume sales each month to keep your business profitable, you're probably worried about what the impact will be as your business makes the move from gross upfront capital to cashflow coming in over a long period of time.

The Answer: Conservation

Conserving cash while creating income is essential when transitioning to a recurring revenue model. Here are five tips to handle cash flow and take the risk out of the equation:

1. Slash Expenses: Look at everything you're spending through a critical eye. Closely examine your list of monthly expenses to find places to cut. To tackle this model successfully, you must be lean and efficient.

2. Seek Better Payment Terms: Even if financial strain isn't overwhelming, talk to your vendors. Many will allow some flexibility, especially if you have an excellent credit history with them. You'll never know unless you ask.

3. Get Tough About Receivables: Be proactive about invoicing as soon as work is performed. Offer incentives for early payment.

4. Create the Right Pricing: When setting pricing agreements with your customers, be aware that you're locking in pricing for a long-term agreement, yet be flexible about adjusting your pricing as your practice matures. Take the time to review your profitability and break-even point for each client agreement—so you can refine as you go.

5. Explore Financing Options: In addition to the obvious routes such as bank loans and credit cards, consider earmarking an up-front payment from a traditional sales opportunity to finance a new recurring revenue deal.

The Issue: Your Sales Team

Your sales team is used to being rewarded for closing on those big deals, so it's hard to incentivize them to focus on recurring revenue and ongoing payouts instead.

The Answer: Choose Wisely

Not every sales person is well suited for the recurring revenue approach. Identify the reps that are able to sell in this model early, and reward them accordingly. Set up a commission system that pays based on monthly recurring revenue (MRR) to incentivize your team to add more recurring revenue and grow their commissions every month. You can also consider a higher commission rate for recurring revenue contracts, especially as you transition from one model to another, to incentivize your reps to make the switch faster.

The Issue: Internal Objections

Everyone from your senior leadership to your finance and operations teams needs to buy into this new model to really make it work. Otherwise, you'll run up against constant roadblocks that make it harder and harder to get the job done.

Concerns (and Solutions) for Business Owners Continued

The Answer: Overcommunicate

Buy-in may seem like a huge challenge, but communicating—early and often—about the benefits to the entire business will help bring doubters on board faster. Make sure everyone understands the benefits we've described, and help them see how those benefits will impact them directly. Your finance team will have an easier time streamlining the accounts payable/receivable process as one-off payments become predictable monthly revenue. Your leadership team will have a better story to tell for potential investors, partners, and customers. When every team understands how they benefit, they'll be ready to carry the banner of recurring revenue.

The Issue: Billing Implications

Speaking of your finance team, the transition from upfront payment to recurring revenue can be a bumpy one for them. They have the upfront process down already, and they can probably come up with a streamlined process for handling recurring revenue too. But what do they do in the meantime, when they might have to worry about both?

The Answer: Reassure & Redirect

The truth is, the transition to recurring revenue is going to be a bumpy time for your finance team, and you'll want to take extra care of them while they're slogging through it. But you can help ease the hassle by helping them understand more about what they're working toward. In the long run, recurring revenue will:

- Create a Tighter Budget – What finance team doesn't want that? Predictable streams of recurring revenue allow your team to budget time and expenses accordingly, letting them keep expenses and profitability in line.
- Keep Resource Costs Manageable – With upfront payments, it can be hard to maintain any consistency. One month might bring in the biggest deal on record, and the next might be lean as paid staff sits idle. Recurring revenue means knowing exactly what you're earning (and what you can afford to pay) every month.

Getting Started with Recurring Revenue

There are a lot of ways that you can get started adding recurring revenue into your business model, so your first step is going to be about identifying the best approach for your current business needs and your longer-term goals.

First, you'll want to identify the right people to start out your recurring revenue model with, both internally with your staff and then with your clients. Look for customers who are already working with you, but not on an annual contract. Entice them into the deal a little faster with a pricing freeze if they commit to an annual agreement versus ad hoc purchases.

Second, you'll need to decide on the kind of services you want to include in your recurring revenue model. Do you want to offer:

- Maintenance contracts
- Annual license agreements
- Warranties
- Fee-based support and software upgrades
- Software-as-a-Service (SaaS)

Any (or all) of these could work for you, but the SaaS model offers a consistent source of opportunity as more applications move to the cloud. Selling cloud services on top of hardware purchases can be a simple way to transition to recurring revenue and SaaS, so let's take a closer look at what SaaS could mean for your business.

SaaS Tips and Considerations

1. When it comes to SaaS, it's important to maintain a variety of software to capture larger portions of market share. If you're only selling one product as a CRM option, for example, you lose a giant share of the market that may be interested in another CRM option. Don't pigeonhole yourself—or your customers—with too few options. Now is the time to take a closer look at the services you're adding on top of the products you sell. If those services aren't adding clear, definable value for your customers, it might be time to shape them up or replace them with something more in demand.

2. You'll also want to aim for **negative churn** to support your SaaS success. Reducing client churn is a key foundation for future revenue growth, and it starts with a focus on upselling your current clients on these new cloud solutions. You'll also want to make sure your sales team isn't overselling product capabilities. Churn increases when customers see product performance falling short of what they were promised. Make sure you're training your sales team on a deep-dive understanding of the products they're offering, otherwise an increase in churn could sabotage your recurring revenue plans.

3. Your customers' success is your success in a SaaS model. The more they benefit from your products, services, and the business relationship you offer, the more you'll benefit from them in return as they turn to you for additional licenses and business needs over the lifetime of their business. Offering great customer service and enhancing those customer relationships is imperative to succeeding with a recurring revenue model, and every month after you've earned back the customer acquisition cost is pure profit to fuel your business growth.

Conclusion

When it comes down to it, recurring revenue is all about offering your business a consistent path to serious growth. Recurring revenue is predictable, stable, and can be counted on in the future with a high degree of certainty. Recurring revenue can be calculated with metrics like churn rate and user growth rate for a realistic view of your company's future income.

According to a recent Aria research study, only 11% of businesses are planning to rely on one-off sales as a major point of revenue moving into the future. Adding a recurring revenue model is the key to staying ahead of technology and moving your business forward. Don't miss out on the predictable and measurable revenue, higher levels of customer retention, access to growth, and increasing sales and profit margins that come along with recurring revenue.

For more information, contact D&H at Cloudsolutions@dandh.com or 800.877.1200.

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