

# SedonaOffice

The #1 Financial Software for Security Companies

## **10 Ways to Grow Your Recurring Revenue**

Your recurring revenue directly affects your company's profitability, cash flow and value. Whether your goal is to grow your business over the next decade or position it for sale within the next year, focusing on your recurring revenue will have positive effects on your business. Each one of the *10 Ways to Grow your Recurring Revenue* will impact your profitability, cash flow or value, if not all three.

### **1. Annual Rate Increases**

Performing annual rate increases is a sure way to increase your recurring revenue. If you already have a rate increase program in effect, "good for you". If you don't, "get with it". A customer base that is used to an annual rate increase is more valuable. A buyer is looking for a customer base that has been increased previously so a future rate increase will not be a shock to them. Increasing the recurring revenue after a purchase lowers the effective purchase multiple, and in effect gives you greater bargaining power.

A rate increase will also have a positive effect on your profitability and cash flow. For example a \$1.00 monthly increase for 250 account company will generate \$45,000 over 5 years, while increasing the value of the business at least \$37,500. If you have 1000 accounts that would equate to \$180,000 and an increase in business value of \$150,000. That's \$320,000 in total!

Here's a little secret... the largest alarm companies annually perform a rate increase. Don't be afraid to raise your rates. If you provide good service your customers will be loyal and gladly pay the increase.

### **2. Identify New Recurring Revenue Sources**

Stop giving away services. Begin selling your services ala-carte. When was the last time you bought a pizza? The mushrooms were extra, so was the pepperoni, and so was the sausage... get the point? Each service you provide your customers is of value to them; begin charging for each of your services.

Think of all the different monitoring services you offer: burglar, fire, holdup, medical, panic, water flow, opening & closings, 24 hour tests, the list goes on and on. Each of these services is a revenue opportunity for you. Just like selling pizza, you can create a

“Supreme” package of bundled services. The point is to evaluate all the services you’re providing your customers and make sure to charge for them.

### **3. Attrition Management**

The cost of doing business is directly proportional to the new customers you gain. Simply stated each new client you add to your customer base costs you money. Maintaining your customer base should be as high on your priority list as anything else. So why is it you cannot tell how many accounts you’ve lost over the past year, and more importantly why did you lose them?

Putting in place an effective attrition management program will allow you to truly understand your customer base. There are two sides to attrition management, knowing where you are adding new customers, and second knowing why your customers cancelled. An attrition management program needs to answer these basic questions: what is your recurring revenue, what was your recurring revenue, how has it changed; and why, and what revenue types were effected.

While many cancellations may be out of your control, such as customer moving or going out of business, an effective customer service program can immediately identify these, and turn them over to the sales department. Sometimes a cancellation is nothing more than a new sales opportunity. Additionally, if the reason is because of poor service or cost, knowing this information will allow you to take proactive steps to reduce these types of cancellations.

The value of your business will be greatly increased if you can reduce your attrition. An effective attrition management program will allow you to analyze why accounts are canceling so you can take positive steps to reduce it. It will also allow you to analyze where you’re gaining new business so you can focus on the key areas to maximize your new opportunities. Improving your attrition by 20% can be worth tens of thousands of dollars when you sell your business, not to mention the increased cash flow you’ll enjoy along the way.

### **4. Collections**

Managing your accounts receivable has a profound effect on your recurring revenue. The longer an account goes past due, the less likely you are to collect the money. In fact once an account goes 120 days past due, the chances are greater than 40% you will never collect those funds. If the account has recurring revenue chance are you’ll end up canceling that account. In effect you’re losing profits, hurting your cash flow and decreasing the value of your business.

By staying on top of your collections, with statements, past due

notices and telephone calls, all in a timely manner, you can lower your past due accounts, and minimize your bad debts. Make sure your company has implemented a method for the field technician to collect for installation and service calls at the time the service is performed. This not only saves your billing of the service, but also acts as a check with the customer that the services are satisfactory. Unhappy customers will state their problem at this time and not wait until the bill arrives in the mail. This is also a good time to pick up past due amounts that are open on the customers account.

As a side note look towards alternative payment options such as ACH and Credit Card payments to collect your recurring revenues. Automatic payments make it easy for your customers, and ensure timely payment of service to you.

## **5.Audit Your Services**

Imagine going on a treasure hunt and finding buried treasures. Well then what's stopping you? The treasure hunt is your customer base and the buried treasures are all the services you're not properly billing your customers. If you're like most alarm companies, then over the past 5 or 10 years some things have slipped through the cracks. Begin with a thorough review of all your customers and make sure you are billing them for the services you are providing them. An audit can turn up hundreds maybe even thousands of dollars in unbilled services you are performing; just think of the cash flow and profits you are going to find.

## **6.Communicate With Your Customers**

You worked hard to capture that new customer. You wined and dined them, and did all the right things to make the sale. Then the correspondence stops! That's a big mistake. Customer loyalty will reap benefits throughout your organization, and it begins with communication. Customer loyalty will help you gain new business through referrals and lower your attrition rate, as your clients will be more satisfied with your services.

Initiate an after sales program; immediately begin communicating with your new client about their upcoming installation and who to contact if they have any questions. Once the system is installed, continue with newsletters and/or email letters so your name and services are constantly in front of your customer. After every service call and alarm send your customer a follow up letter to ensure the event was handled to their satisfaction. Be sure to keep the communications going on a steady basis. Don't let the only correspondence with your customers be invoices, statements and initiated requests for service.

## **7.Create Partnerships**

Obviously you want to increase your recurring revenue. If you're like most alarm companies you have a sales force that's out pounding the pavement bringing in new clients. Today, more than ever, businesses are changing the way they market their products and services. Creating strategic relationships with other businesses and associations can create new opportunities to increase your sales.

Don't just think of the traditional relationships; begin thinking "out of the box". The benefit of security can help other businesses bring value to their sales process. For example take the real estate industry. A typical real estate office might have 10 to 20 agents, each trying to bring a value added service to their clients. What if each house they sold included a security system, or one year free monitoring? Take a good look at other industries such as home improvement, electricians, insurance agents, car dealerships, this list goes on and on.

Remember a good partnership is quid pro quo, as these companies are promoting your business, you should be promoting theirs. It would make a good article in your newsletter.

## **8. Service Contracts**

Service contracts are becoming more popular as consumers want to reduce their exposure to the high cost of maintenance and repair. Service contracts add a significant amount of recurring revenue to your base as well as help improve cash flow.

Before you begin selling service contracts do a thorough review of your current customer base, and identify all the different types of systems and clients you are servicing. Review the service patterns, and then build a pricing scheme that makes sense. Also look to add different levels of service agreements, such as 24-hour service, normal business hours, guaranteed response time or parts only.

## **9. Deferred Revenues**

Your deferred revenues are the recurring charges you have invoiced to your customers for future service you have an obligation to perform. Your financial system should track your deferred revenues so you have a true and accurate knowledge of your revenues for each accounting period. Once you have an understanding of your deferred revenue, you can then review the pattern of your recurring billings to ease the cycle of cash flow based on the different cycles you invoice your customers. Many alarm companies that do not properly report their deferred revenues overstate their profits and under-estimate their cash flow. Additionally, when crediting recurring revenue, the deferred revenue must be properly offset; otherwise future revenue will be incorrect. Getting a handle on your deferred revenue will allow you to make better business decisions as you grow your business.

## 10. Profitability First

The bottom line is profits. Are you making money on the services you are offering? Many alarm companies are selling services with no margins and are in effect losing money. When evaluating the services you are offering, make sure all your costs are being covered, both fixed and variable expenses. Also don't forget to calculate in the costs to acquire the business, as you need to allocate funds to pay this back. Review all the different recurring revenues you currently charge to your clients, and determine the gross margin on each of those services. Concentrate your sales efforts on the highest margin services, that's where you'll increase your profits, cash flow and business value.

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