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Recurring Revenue & Rate Increases

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About this Track

This track will discuss recurring revenue and its many facets. This track assumes you already have knowledge of how recurring revenue is setup and created within SedonaOffice. This tracks purpose is to understand the data and how you can best report on it to gain insight into the recurring revenue trends in your business.

The Basics

Before we begin, let us discuss some terms and vocabulary that's important to know. *All these definitions are based on their usage within SedonaOffice.*

Recurring Revenue

Recurring Revenue is any revenue that is scheduled to be invoiced to a Customer on an ongoing basis.

RMR – "Recurring Monthly Revenue"

RMR is the Recurring Revenue invoiced on a Monthly basis. RMR is the standard measurement used by SedonaOffice to manage Recurring Revenue.

RAR – "Recurring Annual Revenue"

RAR is the Recurring Revenue invoiced on an Annual basis. It's the RMR multiplied by 12.

RMR in Force

The RMR in Force is the RMR that is or was active at any given period of time. The RMR in Force is inclusive of its start date and its end date.

For example, if you had a Recurring Item, scheduled to start on Jan. 1 and end on Jan. 31, the RMR in Force would be in affect from the 1st through the 31st. Even though the Recurring Item is cancelling on the 31st, it is still in force on the 31st because the Recurring Item was invoiced through this date.

Recurring Item

A Recurring Item is the actual Recurring Revenue setup for a Customer. The Recurring Item is maintained in the ***AR_Customer_Recurring*** SQL table. Key elements of a Recurring Item include:

Recurring Start Date – (Cycle Start Date)

This is the Date the Recurring Item first started. This is the Activation date of the Recurring Revenue.

Recurring End Date – (Cycle End Date)

This is the Date the Recurring Item stops being invoiced. This is the Cancel date of the Recurring Revenue.

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Next Cycle Date

This is the next date the Recurring Item will be Cycled (an invoice created for the Customer).

Cycle

Either; Monthly, Quarterly, Semi-Annual or Annual. The period for which the recurring charges will be invoiced to the Customer.

Monthly Amount

The RMR, this is the monthly amount that will be invoiced for the Recurring Item. *This is the amount that will be used for RMR Auditing.*

Cycle Amount

This is normally the Monthly Amount times its Cycle. This can be overwritten if the Cycle amount is not equally divisible, for example if you are invoicing $100 per quarter.

RMR Tracking

RMR Tracking (History) is the net change of the Recurring Revenue for a Customer. The RMR Tracking is maintained in the ***AR_RMR_Tracking*** SQL table.

RMR is tracked so you can report on the history and changes to your recurring revenue.

There are two very important data elements to every RMR Tracking record.

Effective Date

The date the change in Recurring Revenue actually takes place. This date is very important as it has an effect on the RMR Auditing.

RMR Reason

The reason code why the Recurring Revenue amount actually changed. Every change to RMR requires a RMR Reason.

Adding/Creating New Recurring Revenue

There are two means to adding Recurring Revenue.
- New Recurring Revenue – Creating RMR that did not exist prior.
- Increasing an existing Recurring Item – This is commonly known as a Rate Increase

Cancelling/Decreasing Recurring Revenue

There are two means to lower Recurring Revenue.
- Full Cancellation – This would be a full reduction of the RMR
- Partial Cancellation – This would be a partial decrease of the RMR, commonly known as a Rate Decrease.

RMR Tracking Effective Date

The effective date is the date the RMR change occurred. Based on the above 4 types of rate changes the table below identifies the RMR Tracking Effective Date.

Transaction Type	Change Amount	New RMR	Effective Date
New RMR	$25.00	$25.00	2/1/2014
Increase RMR	$5.00	$30.00	3/1/2014
Partial Decrease RMR	-$5.00	$25.00	3/31/2014
Full Cancellation	-$25.00	0	4/30/2014

NOTE: Best Practices Suggestions
- When increasing RMR it is best to use the first of the Month (generally the Next Cycle Date)
- It's not a good idea to rate increase in the middle of a Cycle or the Customer will see two line items, one with the old rate the other with the new rate.
- When cancelling RMR it is best to use the last day of the month, or the day before the Next Cycle Date

FYI: If the Next Cycle Date is equal to the Cancel Date the RMR will not be invoiced (except if you are using Bill on Day feature)

Effects on RMR Rate Increases

Active RMR	Change Amount Date	Active RMR Date	Active RMR Date
$25.00	$5.00	$25.00	$30.00
2/1/2014	3/1/2014	2/29/2014	3/1/2014

Effects on RMR Rate Decreases (Partial)

Active RMR	Change Amount Date	Active RMR Date	Active RMR Date
$25.00	-$5.00	$25.00	$20.00
2/1/2014	2/29/2014	2/29/2014	3/1/2014

Effects on RMR Rate Cancellation

Active RMR	Change Amount Date	Active RMR Date	Active RMR Date
$25.00	-$25.00	$25.00	$0.00
2/1/2014	2/29/2014	2/29/2014	3/1/2014

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Understanding the Next Cycle Date and Recurring Start Date

The usage of the Next Cycle Date and the Recurring Start Date are very important, and will affect how the first invoice is generated for a Customer. Be sure to understand this fully before just entering dates randomly.

In the table below are examples of setting up Recurring Revenue, and how the revenue will be invoiced when the first cycle is processed (assumes a Date of 2/1/2014 when running the Cycle Invoice process).

Next Cycle Date	Cycle Start Date	Cycle	RMR	First Cycle (2/1/2014)
2/1/2014	2/1/2014	Q	25.00	**2/1/2014 – 4/30/2014 $75.00**
2/1/2014	2/15/2014	Q	25.00	**2/15/2014 – 4/30/2014 $62.50**
2/1/2014	1/15/2014	Q	25.00	**2/1/2014 – 4/30/2014 $75.00**
1/1/2014	1/15/2014	Q	25.00	**1/15/2014 – 3/31/2014 $62.50**
11/1/2014	1/15/2014	Q	25.00	**1/15/2014 – 4/30/2014 $87.50**

What to Know about RMR Reporting

One question that comes up over and over is why doesn't my RMR in Force at the end of a month equal my RMR in Force at the beginning of the next month? (Great question!)

Remember RMR in Force is a snapshot of the actual recurring revenue created for a specific day. So, any RMR cancelled on the last day of the month will report as being in Force on that day, but not in Force on the first day of the next month. This is just one example, there are others (but you should get the picture now).

RMR 12 Month Roll-Forward Report

We created a special report specifically to handle the month-to-month rolling of RMR in Force. The Recurring Revenue 12 Month Roll-Forward Report. This report will display your active recurring revenue over 13 monthly periods. It is actually the growth of your RMR over any year (12 months).

When this report is run, you select a month, and the report will roll-forward to the month selected by looking back over the past year. For example, if you run the report for February 1, 2014, it will roll-forward from February 1, 2013 through February 1, 2014.

This report can only be run as of the 1st of the month or the End of the Month.
Different rules apply based on this selection to determine how to roll the RMR for each month.
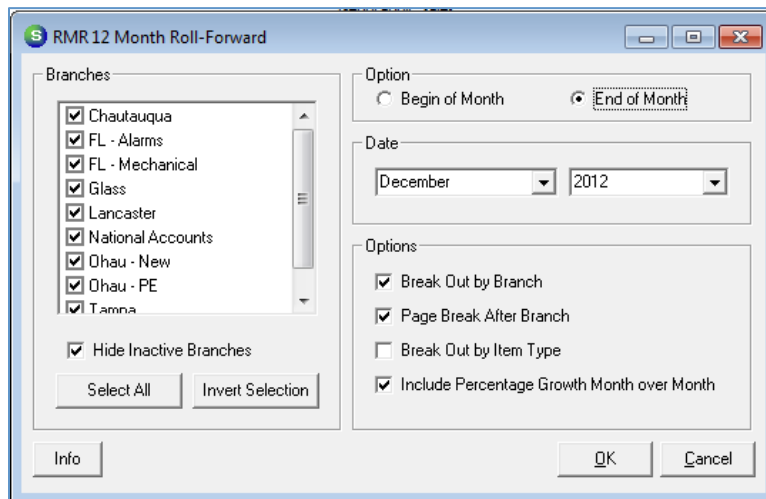
RMR on the 1st of the Month

RMR for the purposes of this report is RMR that is active as of the 1st of the month. Any RMR that cancels prior to, or on the 1st will not be included. Any RMR that starts prior to, or on the 1st will be included. Any RMR starting on the 2nd or greater within a month will not be included in that month and will start in the next month. Any RMR cancelling on the 2nd or greater within a month will be reflected as cancelled in the next month.

RMR on the End of the Month

End of the Month reports the RMR that is active based on the last day of the month. Any RMR that cancels on the last day of the month will not be included as active on that day.

The 1st of the Month option will show you how you start a new month, while the End of the Month option will show you how you finished the month.

Use the RMR Detail Report to report on the Net Changes

To analyze the net change from any monthly period use the RMR Detail Report.

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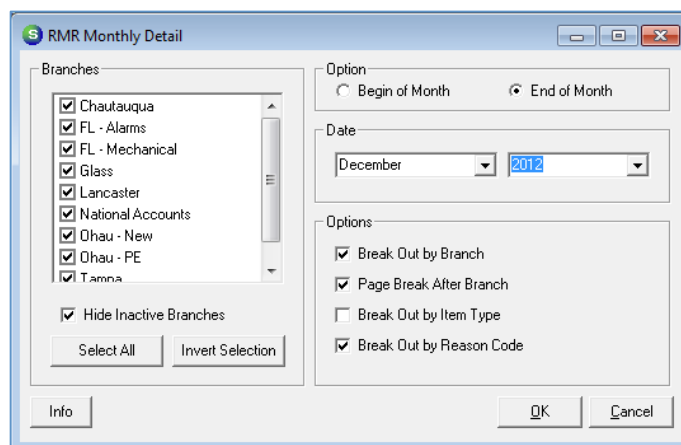
RMR vs. Actual Revenue

One question that resurfaces over and over is "Why doesn't my RMR equal my Actual Revenue?" There are many reasons for this; here are the most obvious.

New Activations

Most companies activate new recurring revenue within a month. Let's for example say you activate a new monitored account on the 15th of a month. The RMR was created on the 15th, but you only invoiced the customer for that month for a prorated amount.

In this case the Revenue may be less than the RMR. If for example the RMR was $50, that would represent $50 in added RMR during the month, yet you may have only invoiced $25 within the monthly period.

Cancellations

Based on how you evaluate your RMR, a cancellation in a monthly period or at the end of the month, may reflect that at the end of the month the RMR is no longer active, although you may have invoiced the customer for either part of or the entire month.

Credits

Any Credits applied to a customer is an adjustment to your revenue. These Credits will lower your Revenue but will not have an effect on your RMR.

Sub-Item Of Feature

Let's have a quick discussion of this feature and whether or not you should use it.

Rate Increases

There are two kinds of security companies.

1. _____

2. _____

The Value Proposition

$100,000.00	60	$6,000,000.00	36	$3,600,000.00	$9,600,000.00
100,000.00	12	1,200,000.00			
103,000.00	12	1,236,000.00			
106,090.00	12	1,273,080.00			
109,272.70	12	1,311,272.40			
112,550.88	12	1,350,610.57			
		6,370,962.97	36	$4,051,831.72	$10,422,794.69
				Diff	$822,794.69

* Assumes a 3% Annual Rate Increase

Pro's and Con's of Rate Increases

Pro's		Con's

Rate Increases FAQ's

How often should we perform Rate Increases?

How much should we increase our Customers?

Should we notify our Customers?

What if a Customer complains?

Is it easy to perform in SedonaOffice?