Recurring Revenue

Your Revenue. Simplified.

Increase your cash flow and your profitability

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Meeting Customer Needs

Customers today expect a broad range of simple choices to purchase products and services. Think about how people used to buy and pay for music, home insurance, or even software in the last century compared to the options available now. "All-you-can-eat" subscription offerings have won the hearts and wallets of consumers versus one-off transactions, providing new found convenience. E-commerce has levelled the playing field for businesses – it's no longer about where you sell your products, but how.

> "The reality is that if you don't keep your customers happy with easy buying options and recurring excellent customer service, those customers will take their business elsewhere."

Setting up your recurring revenue allows you to forecast your cash flow, set your customer's payments on autopilot and focus on recurring relationships, not managing transactions.

Types of recurring revenue

Recurring revenue creates an accurate cash flow forecast for your business. This means you are not relying on your sales resources to resell existing customers that are already happy with your product or service. Six key types of recurring revenue are available to most businesses:

1. **Consumables**
   (FMCG and quick service food companies are particularly good at helping embed a buying habit into your life, such as your morning coffee)
2. **Sunk money consumables**
   (Think about how Nespresso sell coffee machines: You buy the coffee machine and continue to buy the pods)
3. **Subscription revenue**
   (Just like your favourite magazine, or monthly iPad news app)
4. **Sunk money subscription**
   (Think Bloomberg: Buy the hardware, then subscribe to the software)
5. **Evergreen Recurring Revenue**
   (Your offsite document storage is a continual subscription)
6. **Contract revenue**
   (Just like your mobile phone or Pay TV)

Which of these models could your business adopt to create a consistent income stream? Streamline the buying and repurchasing process, and then focus on delivering outstanding customer service to these customers.

A real world example: Adobe Creative Suite

Why you need recurring revenue

Consider Adobe and their market leading product Creative Suite.

In 2013 Adobe moved from a traditional "one off purchase" perpetual model to a "subscription revenue" model.

This change increased sales by replacing a larger upfront lump sum payment with affordable monthly amounts. As a 'pay as you go' system, users are comforted by having the flexibility to adapt the service as their needs change.

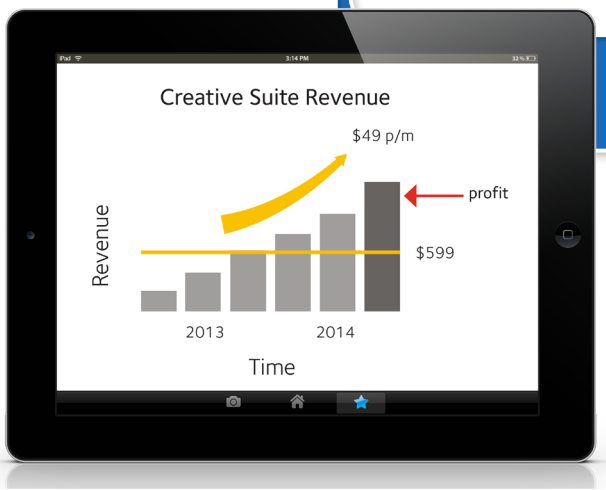
Whilst consumers are aware that their total outlay will go up, the positive benefits on their cash flow with the subscription model far outweighs any cost increases.

"Our customers are overwhelmingly choosing subscriptions instead of perpetual model licenses which is accelerating our business model transition," said Mark Garrett, executive vice president and chief financial officer, Adobe.

Adobe now reports that slightly over half of the company's revenue is now recurring from subscriptions and that the move to this model has opened up new market segments. "These results are building a stronger, more predictable revenue model for Adobe which will drive higher long-term growth."

Adobe Success

- 2.3 million subscribers, up almost half a million on previous year
- Consumers are more apt to purchase the entire suite rather than subscribing to only one or two apps
- Average subscription length is a respectable 18 months



Cash Flow Optimisation

It has never been more important for a business to predict, manage and optimise cash flow. Recurring revenue models can give your business the clarity you need about your future revenue projections and cash flow.

Cash flow management is about planning upfront and tying it back to your business' strategic plan. What are you trying to achieve and how are you going to do it? Every business needs to fund their growth plans with cash.

> "Cash is still king according to McKinsey, Bessemer, the AFR and any other leading business commentator."

There is competitive advantage in unlocking what is not working in your financial infrastructure. Understanding how cash flows in and out of your business in real-time is critical. Your competitors are already doing it, and doing it well. Your business can too.

Forecast your cash needs

Planning your cash needs for the next quarter, year or several years is an important step that many businesses take for granted. Which segment of your customers are repeat buyers? Can you forecast their spending with you to help you plan your future?

It is critically important that you plan equity and debt financing needs in advance. Growth is great. Profitable growth is even better. Knowing how much working capital you need to fund your growth strategies means you are planning ahead. The forward cash flow projection should show your cash availability, or working capital.

Could your business survive a period of negative cash availability? If you foresee problems achieving your business goals, look into recurring plans and contracts for your top clients to minimise the chasm between your payment terms and receivables.

Diversification is critical to stabilising your business. Relying on one major client for your revenue is a concern. Relying on one client for your cash flow needs is an even bigger concern.

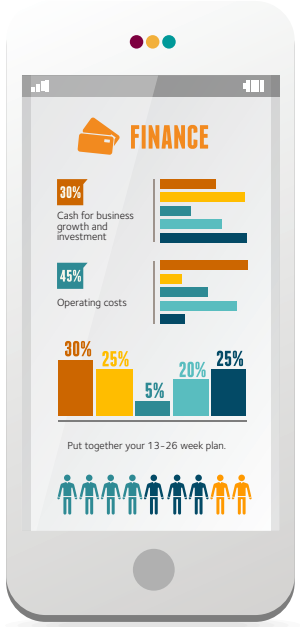
Determine what makes that client a successful business partner and look to replicate that in other clients. It might be in the way you work with them, or the speed at which they pay you. Whatever that bonus is, find it and replicate it.

Start by creating a detailed 13-26 week cash flow in and out projection to understand your future position. This will give you the perspective you need ahead of identifying ways to generate more cash from your balance sheet.

Increase efficiencies

Improve processes related to your accounts receivable collections and inventory management to increase cash efficiency. This means automating the payments you can automate, and manually processing the ones you can't. If you are processing recurring accounts receivables from a set of your customers manually, there are time savings embedded in that inefficient process.

Payment plans and direct debits are common-place in a variety of industries. Most individuals have paid by direct debit for another high value service such as a telco or insurance service. Automate recurring customer payments, and streamline the rest.



Grow customer relationships, not just transactions

A successful recurring revenue business uses technology that automates much of the day to day transaction management, allowing them to focus on growing customer relationships.

Many businesses do not execute recurring revenue business models because they are afraid of the implementation costs. The truth is, recurring revenue business models can be implemented for any sized business.

> "A cloud-based integrated payments platform will handle all of your recurring revenue payments in a variety of payment methods, with minimal to no data-handling by you and your finance team."

The flexibility, integration and user experience are all critical components you need to consider when choosing a payments solution. A recurring revenue platform is designed to manage and automate the buying experience, enabling faster customer acquisition, service delivery, financial interactions and customer management. When evaluating a solution, look for granular flexibility, fast customer support and enterprise technology. Tick these three things off first, then focus on the features and processes that eliminate manual handling of data in your business.

The organisations enjoying the most benefits of these models are the ones that are customer centric, focussing on recurring relationships, not just recurring transactions.

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Calculate the impact of recurring revenue on your business.

You'll be surprised how this simple change can have dramatic improvements to your cash flow.

CALCULATE

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