Standard Business Model vs. Recurring Revenue Model

Most business models require the owner to generate new revenue each month. That means you start out every month with $0 revenue. You then need to go out and sell your product or service to generate revenue for that month. The problem is, even if you are successful in generating sales for the month, you start the next month back with $0 revenue. Every Month You must reinvent yourself by chasing the sale. The only thing that is constant for you from month to month is your expenses. This may include payroll, rent, insurance, inventory, etc. You need to generate X dollars each and every month, just to break even, let alone hope to make a profit. This is the game you play each and every month.

When I discuss this type of model with associates they tell me about the stress involved in running their businesses. Among others, these are entrepreneurs who own a management recruiting company and a mortgage business. They are quick to explain the struggle associated with maintaining their sales volume day to day along with running their businesses.

I suggest there is a more sustainable model, one where revenue is recurring month after month. A recurring revenue business is one that generates revenue from clients on a regular basis without having to continually sell products or services. They create a revenue stream for the owner from ongoing business. Examples of recurring revenue businesses include:

- Insurance
- Mobile Phones
- Subscription Magazines
- Warranties
- Office Products (Service Contracts)

To better explain the differences between a standard business model and a recurring business model, see the chart below.

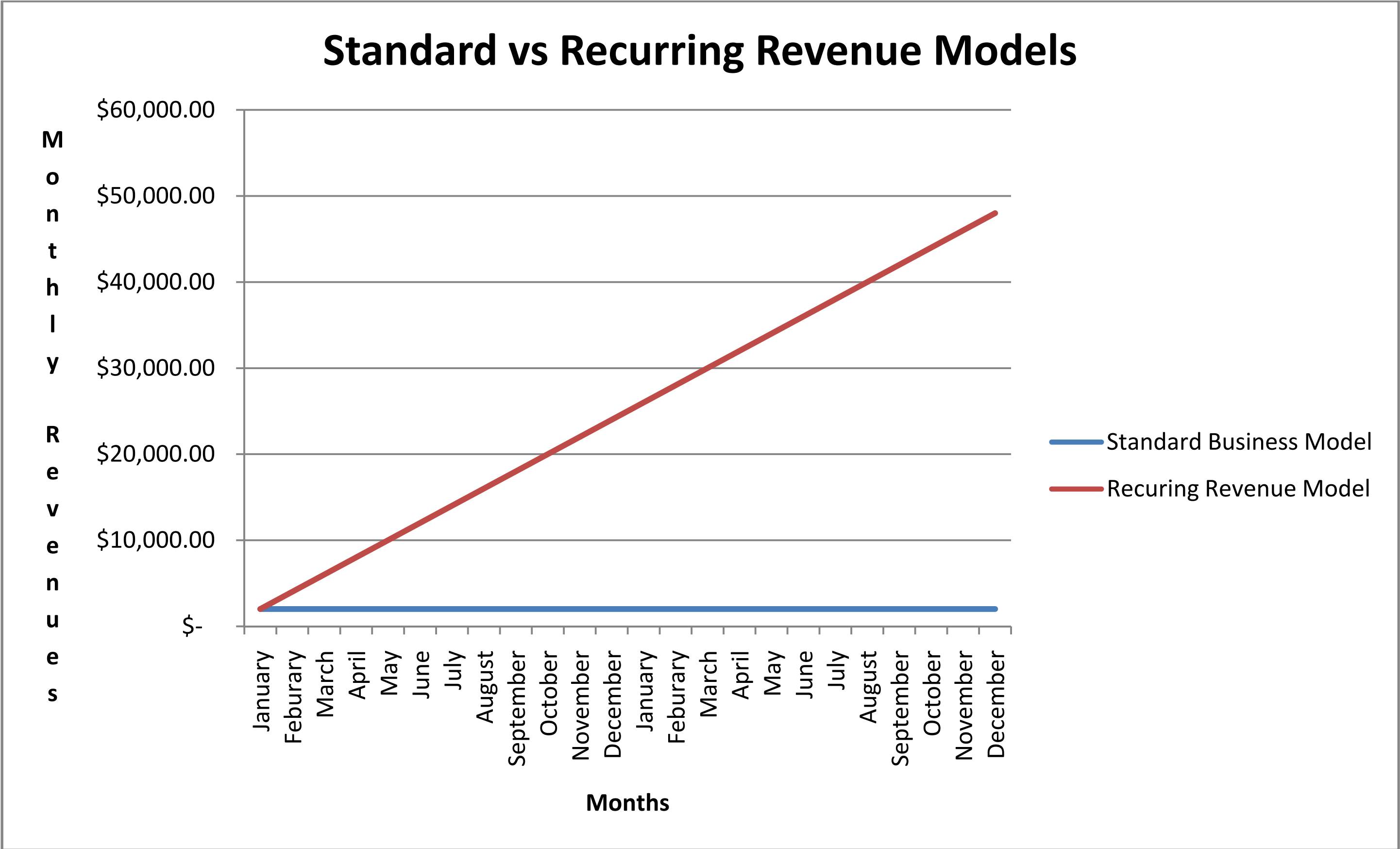
For example purposes, let's assume a standard business generates $2000/month in revenue from the sale of their product each month. At the end of the year they have sold ($2000/month X 12 months) $24,000 in annual revenue.

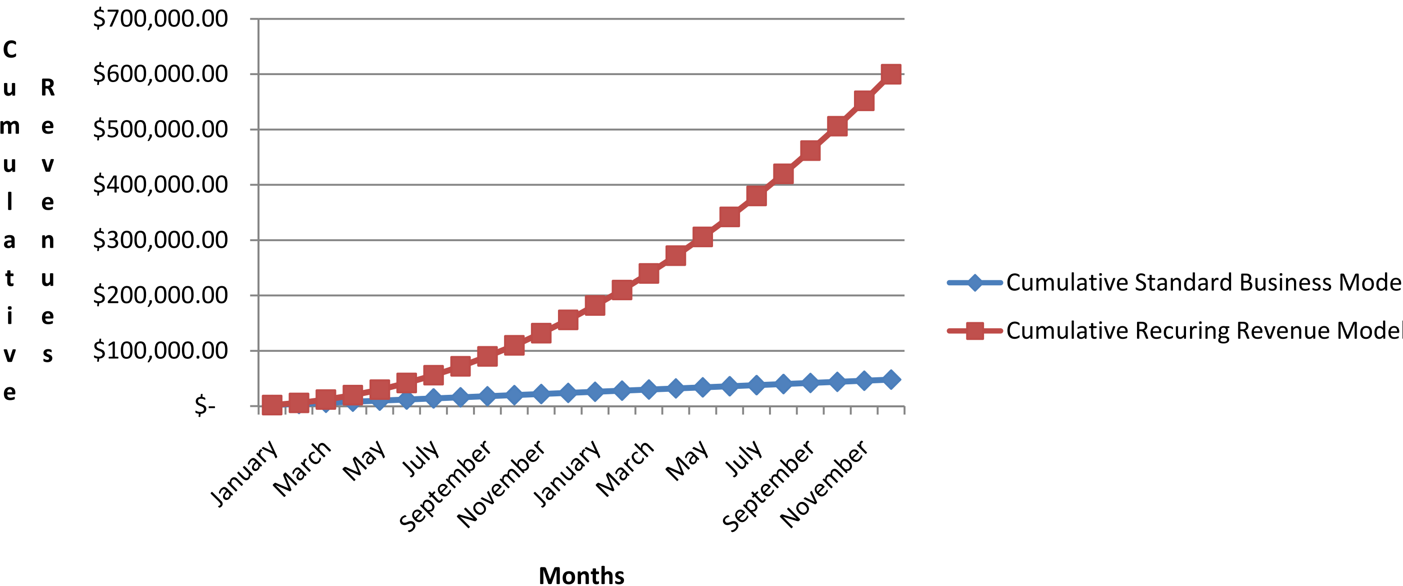
Using this same example, with our recurring revenue model, you sell $2000 per month in monthly cleaning contracts. Your revenue in January is $2000, with your revenue increasing in February to $4000. This includes the sales you made in January (remembering that you bill this customer at the beginning of each month), plus the $2000 in February. Your revenue continues to grow each month by $2000, so March is $6000 in revenue, and so on. At the end of the first year, you have billed out $156,000 in annual revenue.

It gets even better. At the end of the first year, you are billing $24,000 in December. As illustrated in Chart B, you carry this billing over to the beginning of Year 2 with $24,000 in monthly revenue times (x) 12 months = $288,000 in annual revenue. This is before any new sales have been generated.

Let's assume you generate $2000 per month in new service contracts, just like you accomplished in Year 1. The base of revenue for Year 2 is $288,000 in annual revenue plus $156,000 in annual revenue from new sales (just like Year 1) equals $444,000 in annual revenue for Year 2. If you took this model out a 3rd year, using the same assumptions, your annual revenue would be $732,000.

Examples of businesses with recurring revenue included insurance, mobile phones, magazine subscriptions warranties and Office Products. Our model is the commercial cleaning industry and one of the big advantages of our business model is the average monthly revenue for one of our customers is significantly higher compared to other recurring revenue models. This allows you to build your business with fewer customers to achieve the same revenue.




Cumulative Revenues Standard vs Recurring Revenue Models
Cumulative Revenues
$700,000.00
$600,000.00
$500,000.00
$400,000.00
$300,000.00
$200,000.00
$100,000.00
$-
January
March
May
July
September
November
January
March
May
July
September
November
Months
Cumulative Standard Business Model
Cumulative Recuring Revenue Model