MAXIMIZE BUSINESS VALUE PODCAST - EPISODE 89 Transcript

1 (5s):
Welcome to the maximize business value podcast. This podcast is brought to you by mastery partners, where our mission is to equip business owners, to maximize business value so they can transition their business on their terms. Our mission was born from the lessons we've learned from over 100 business transactions, which fuels our desire to share our experiences and wisdom. So you can succeed. Now, here's your host, the CEO of mastery partners, Tom Bronson.

2 (35s):
Hi, this is Tom Bronson. Welcome to maximize business value. A podcast for business owners who are passionate about building long-term sustainable value in your business. This episode is part of our series on getting your business ready for next year. Bring on 2022 business planning is something that too often takes a back seat to the day-to-day of running a business, particularly in small businesses. So in this series, we've already talked about budgeting, succession planning and building your green box. Today. I'd like to talk about growth, not just revenue growth, but determining the right kind of revenue and leveraging that knowledge to build growth and long-term value in your business.

2 (1m 28s):
You might recall that a few months back, we had my good friend, David Wible a member of the 17% club on this podcast, and he offered a slice of wisdom that should not be overlooked by any business owner. David went through a process in his business to determine exactly what his value creation revenue value creation revenue or VCR was. And then relentlessly grew that revenue in his business building amazing value and

ultimately exiting that business based on the value that he and his team created for his business, the VCR was recurring revenue.

2 (2m 15s):
Ironically, it also turned out to be the magic bullet for my last business, a business, by the way, that no one believed could deploy a recurring revenue model. When we started in 2004, we hunkered down and found a way to do it. And it changed our industry forever. In fact, today recurring revenue is the prevalent sales model in that industry. So for any of you naysayers who think that you're in an industry that can't be converted to recurring revenue. Let me tell you a little story.

2 (2m 56s):
I bought a little restaurant technology company in 2001. When I bought the business, they were doing a measly 4% of their half million dollars in annual revenue as recurring revenue. That 4% was almost entirely for help desk support for our software. Let me put this into perspective for you. We had four people at the time working full time, 24 hours a day, taking support calls from our customers. Now 4% of $500,000 in revenue was about $20,000 a year.

2 (3m 38s):
That revenue didn't even pay for one support engineer. Let, let alone four of them. Now mind you the business before I bought it had a long and distinguished history of supporting any customer who had our product, whether or not they had a support agreement in place. If they did not, we would just bill them for the time and hope that they would pay for it. Later. The day I bought the business, we wrote off over $300,000 in bad debt for unpaid support calls.

2 (4m 19s):
Something had to change within a month of buying the business. We launched a campaign to get our customers on a support agreement. We offered annual and monthly plans, but we gave incentives to go with the monthly support plan. In addition, we informed our customers that, that we would no longer accept after hour calls from our customers who did not have an agreement in place. And then we changed the way

we took non-support customer calls rather than billing them for the time to resolve the issue.

2 (4m 59s):
We started charging them a $250 flat fee per call. Now, despite the grumbling from our customers, most of them paid for that support call. And afterward we offered to credit that back. If they decided to get onto a support plan within 30 days, did we get pushback? You bet. We did those customers who are used to calling and then getting a $25 invoice that they would never pay, screamed the loudest, but we held our ground. And in less than three months, we had nearly 40% of our customers on a long-term support agreement in the support department started paying for itself immediately.

2 (5m 49s):
Now that little exercise only whet my appetite for recurring revenue. Next, I started looking for other ways to build recurring revenue because I knew that recurring revenue was one of the biggest drivers of business value. Why? Because recurring revenue is predictable and virtually guarantees a buyer that their revenue will be sustainable long into the future. Now that's an over-generalize statement because there are best practices when it comes to building recurring revenue, but for now just take it at face value. So slowly one by one, we started adding additional products or services that would be charged on a monthly recurring basis.

2 (6m 37s):
Over the next few years, we added online ordering merchant services, loyalty programs, and other recurring services, but our core business was still selling hardware and software upfront, and then hoping to add those additional services on the backend. Now I knew I could convert software to a monthly SAS or software as a service model, but I struggled to find a way to do the same thing with hardware. It was just too expensive to deploy without getting it paid for upfront.

2 (7m 18s):
When I finally set my mind to it, it took me months to develop a formula that made sense, one that balanced, not only the risk, but also the reward for the business. We

ultimately had our breakthrough moment and never looked back. Our breakthrough was to find ways to partner with our suppliers, to extend payment terms on the hardware to match the terms we have given to our customers. That way we were able to reduce our cash outlay at the beginning of the agreement with our customers and then cheap cashflow faster than if we had paid for the hardware up front.

2 (8m 1s):
Now mind you converting to a recurring revenue model is going to impact your cashflow and profitability initially. So it's really important to develop a model that ensures that you won't run out of cash before the recurring revenue can contribute to cashflow. But once it does, it's like Warren buffet describes compounding interest. Buffet said that compound interest is an investor's best friend and compared building wealth through interest to rolling a snowball down a hill, he advises to start early.

2 (8m 44s):
Well, it's the same principle with recurring revenue, which compounds over time and can exponentially increase the value of your business. Now let me caution that you need to run your models. So you know exactly when you'll cross the cashflow and profitability targets and to ensure that you won't run out of cash quickly, running out of cash is a small business disaster. So what's the tail of the tape on when we were able to convert our business to a recurring revenue model. Remember at the beginning, when I bought that company in 2001, we were doing 4% recurring revenue.

2 (9m 28s):
By the time we sold it in 2018, we were, I don't even know how much exponentially larger. We were a solid middle company that was doing nearly 80% of our business as recurring revenue, 80%. Imagine if you will, 80% of your business as recurring revenue. Now that is longterm and predictable for any buyer. And it helped us maximize the value of the business. Now, before I go, let's address those businesses, that claim to have no way to build recurring revenue.

2 (10m 9s):

For example, let me, let me give you a great example of that. A distribution company now, a wonderful alternative to recurring revenue is securing long-term contracts with your customers. Long-term contracts can be your VCR or value creation revenue, having long-term contracts like recurring revenue guarantees, future buyers, that your revenue is sticky and will be predictable into the future. In fact, long before I was able to crack the recurring revenue code, it was the long-term contracts with my distribution customers that gave me the inspiration for recurring revenue.

2 (10m 57s):
In the 1980s and nineties, I was in a distribution business, selling radiology products to hospitals and doctor's offices. Over time, we were able to secure long-term distribution agreements with our customers that provided just in time delivery and guaranteed best pricing for them. And long-term revenue for us. Let's face it. If you can secure a million dollars a month in long-term contracts and revenue, even at the razor thin margins of distributors, that it becomes a matter of managing expenses and cashflow. It was the lessons I learned from these experiences that taught me the value of cashflow management.

2 (11m 44s):
And later inspired me to convert my future businesses to recurring revenue. So let's recap as you build your business, figure out what your value creation revenue is. Perhaps it's creatively developing a recurring revenue model, or maybe it's finding ways to secure long-term agreements with your customers, whatever it is, find ways to build that value creation revenue that will guarantee the future revenue of your business. Having that long-term predictable revenue stream will dramatically improve the long-term value of your business.

2 (12m 32s):
So go to work on it today, and if you're stuck or you don't know where to start, just go to our website, masterypartners.com and click the link to schedule a free consultation with me. I promise you. Won't be disappointed now, before we sign off this week, I want to let you know that for the first time in 89 weeks, we're taking next week off from the podcast, but I can't wait to share with you all the amazing things we have in store for

2022. This is the maximize business value podcast, where we give practical advice to business owners on how to build long-term sustainable value in your business.

2 (13m 16s):
Be sure to tune in each week and follow us wherever you found this podcast. Give us a comment or a suggestion for a future podcast topic. I promise we'll get to it eventually. So until next time, this is Tom Bronson, reminding you to define your VCR and build that term revenue while you maximize business rounder,

1 (13m 45s):
Thank you for tuning in to the maximize business value podcast with Tom Bronson. This podcast is brought to you by mastery partners, where our mission is to equip business owners to maximize business value so they can transition on their terms more on how to build long-term sustainable business value. Get free value building tools by visiting our website, www.masterypartners.com that's master with a Y masterypartners.com. Check it out.

2 (14m 31s):
That was perfect. I wouldn't make any changes.