



“Fixed Revenue Streams – A More Marketable Business”

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Suppose you own a plumbing business and you decide to offer annual service contracts to your customers. After a year or so of hit and miss with annual service contracts, you identify the correct pricing matrix and a good line of products. After a few years of selling these contracts, suppose that you have 327 contracts and the average revenue per contract is \$225.

What this translates to is \$73,575 dollars in gross revenue per year. Since you have been doing this for several years, you have found that the cost to service each contract is on average \$125 per household.

This means that your business is turning a profit of \$100 per contract or a total of \$32,700 per year. All you have to do is take calls and dispatch your plumbers to the locations.

You can still take calls from those without annual service contracts, and that revenue will be in addition to the fixed revenue from the service contracts.

Suppose you also sell plumbing products. This is another revenue stream, so you have three revenue streams: (1) the annual service agreements, (2) the sporadic phone calls that come in for unscheduled service, and (3) your product sales.

In order to stabilize your revenue flows, think of it this way. What can you do to make your business more marketable?

In other words, what would make your business more attractive to a potential buyer?



To answer this question, put yourself in the place of the buyer. Suppose you are a plumber moving to a new city. You have the option of buying a plumbing company that gets all of its revenues from the above revenue streams (2) and (3) or a plumbing company that had all three revenue streams.

Clearly, you would take the latter. The reason is predictability. You don't have to worry about a stretch of bad business when, against all probability, no one has a plumbing problem so no one calls and in the meantime you go broke.