



“Revenue Stability – An Example of Good Revenue Stability”

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I will illustrate the concept of good “revenue stability” with an example of a business. If you understand this concept, you will have a better chance of stabilizing your business.

The Story of Maria, Computer Aficionado

In high school, Maria had very few friends. Instead of spending all her time chasing boys or partying at all the weekend beer parties, she stayed home and played video games and learned to program her personal computer.

She preferred sitting in front of her computer, designing a software program or competing furiously against the characters inhabiting her Xbox games. Her computers were never mean to her like her fellow high schoolers sometimes were, never whimsical and full of emotion. Instead they were always predictable, and this is what she liked most.

Maria’s father was a simple laborer who worked in the vegetable fields of Southern California. He did not make very much money at his job—and hardly enough to finance the four-year education at UCLA, the university Maria wanted to attend.

So when Maria graduated from high school, she decided to work for a few years to save up money for college and possibly help her father with the expenses around the house.

Since the economy was bad, the only job she could find was a part time evening position working the counter at Pizza Hut. Before work each day she fixed computers in the neighborhood, and spent some time working for the farm owner who employed her father. She installed software and hardware, and fixed his computers when they broke.



Time passed and before long, she had several customers. She worked for them on an hourly basis for the first year or so, and then decided to offer them an annual service agreement—they could pay a fixed amount instead of an hourly rate.

Her customers liked this arrangement because their expenses were more predictable, and no matter how many problems they encountered with their computers, the price was always the same. A single severe outage, caused by a virus or a persistent software glitch, could never break their business, and since they knew how much the cost for computer maintenance was, they could more easily pass this fixed expense on to their customers.

When six years had passed, Maria had several employees—and many service agreements for her customer base, which had grown steadily. She had discovered that the service agreements were good for her business.

She had been fixing computers long enough to know how often they might break, so she could always charge enough on the service agreements to ensure that her business made a profit. And with each service agreement, depending on the size, she could increase her workforce accordingly. Everything was mathematical, and very predictable, including her annual revenues.

The best thing about the service agreements was this: when there were no problems at all, the money kept coming in, all the while her business had done nothing at all to maintain the computers. Everyone was happy.

Maria had always dreamed of going to college, but she had never been



able to do so because she spent so much time running her business.

And then one day Maria had a revelation. Her business had grown large enough that she seldom visited a customer location physically. Her sales manager handled most of the customer calls, and if she ever made a customer call herself, it was usually by telephone. In fact, the customers really didn't care much about personal visits; they only wanted their computers to keep working.

Her employees handled the service calls and her sales managers took care of the service agreements. She really didn't need to be there anymore. She could just as easily run the business from home, or from a college campus—or from anywhere at all.

Revenue Predictability = Value

Maria's revenue stream is very consistent, and very predictable.

Maria does not have to be present at all. In fact, she could easily go off to college and could likely run the business from the dormitory, if she had to do anything at all. If she hired a general manager, she could disconnect herself from the business almost entirely. If any of her service technicians leave her employment for any reason, the general manager could easily hire another one. All of the workers are expendable. The service they provide is a sort of commodity.

If any part of Maria's business is lost, for almost any reason, it can easily be replaced. And here is the best thing about Maria's business: it has much more value to a potential buyer. When contemplating an acquisition, a purchasing company will consider the revenue streams as one of



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the most important features. Another service company can acquire Maria's business and the revenue generated by her customers will hardly change. The customers will likely not even notice a difference. If a computer breaks, someone will come to fix it.