



### **“Revenue Stability and Business Turnarounds”**

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**W**ith respect to business failures and business turnarounds, certain concepts are very important. If you own a distressed business, you should take the time to understand them. Revenue stability is one of them.

I have coined a phrase, “stable revenue,” to identify sources of revenue that make your business more valuable and more stable. In essence, stable revenue is related to revenue derived from contracts like service agreements that repeat automatically or revenue that is related to a market where you have very little competition and you can tip the forces of supply and demand to your favor.

I believe this concept is central to the topic of turnaround because, in my opinion, if you build your business more around stable revenue sources than unstable revenue sources, you will likely never get into a situation where you need to perform a turnaround. For this reason, if you are not familiar with this concept and thinking about it proactively, then you should begin to do so.

In my experience, I have found that companies that need turnaround help more often rely on unstable revenue sources than stable ones. Thus it is worth it to discuss this topic here, early on in the book, because it is so important to your business.

Stable revenue relates directly to the topic of this section, sheltering relationships and customer (and vendor) contracts, so I need to introduce it now, even though it is somewhat of a digression.

To illustrate revenue stability, if you sell some sort of service like fixing refrigerators, you can do it two ways: (1) you can wait for a phone call



and then go out and fix the problem refrigerator, or (2) you can sell annual service agreements for a low price and collect all the money in advance. If anything breaks, then you fix it and you charge enough to make a profit.

The nice thing about the second option is that the revenue is much more predictable, and if everything works according to probability, you will make a profit and you can scale your resources and operations in accordance with the number of service agreements.

Option 1 suffers from much more uncertainty. The market could go bad because of increased competition, or the economy could take a downturn, or other things could happen.

Operating with more of option 1 does not completely immunize you from these adverse business conditions, but it does provide you some amount of revenue “shelter,” which may protect your business enough to avoid the necessity of a turnaround.