



“The Higher Value of Fixed Revenue Streams”

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If you own a business that receives all of its new business from sporadic, unpredictable telephone calls, then you have no predictability with respect to revenues. Just the opposite is true when you sell and service annual service agreements. Suppose you are a plumber. If you are contract-based rather than telephone-based, if there is a stretch of time when no one in town has a plumbing problem, you make a killing in your business because you have no expenses and the revenue still rolls in from the service agreements.

If you understand this concept, you can now understand why the medical business is so large and why all the players associated with it make so much money. The reason is because this revenue stream is highly predictable. Everyone buys insurance policies and these are simply annual service agreements.

The same is true for any other type of insurance business, as with auto or life insurance. Insurance companies make huge profits, and their businesses are stable because of the predictability inherent in their revenue streams.

So if you are purchasing a business, you will want to have some amount of predictability in the revenue stream. This makes the business more stable. If you already own a business, it should also make sense to build as much predictability into the revenue streams as possible. The reason for this is simple: you make more money in BOTH good times and bad.

Also, if you chose to sell your business, you are going to get a much higher price from the purchaser. Traditionally, contracts can be viewed as assets of a business, thus they increase the value.