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RMR By The Numbers

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Everybody Is Talking About It!

RMR

Commercial INTEGRATOR   AV   Digital Signage   Networks   Control   Business   Projects   Resources   Free Subscription

Hear From 3 Integrators Making the Whole RMR Thing a Success

Integrators still trying to get rich selling products must understand the value of recurring revenue and help their customers understand it too.

There's an "RMR" for Everything

December 11, 2018

NSCA Success Story: Boosting Cashflow with RMR

December 25, 2018

3 Steps to Build RMR without Drastically Changing Your Business

February 20, 2018

Project Backlog and Revenue Up ... But RMR Down?

September 25, 2018

What Is RMR?

Recurring Monthly Revenue (RMR) is income that a business expects to receive every single month - a predictable revenue! It's normally based upon a financial agreement or contract.

Why RMR? - Pros

- Predictable revenue
- Helps with resource planning
- Evens out cash flow
- Growth may be funded by RMR cash flow depending on billing frequency
- May dramatically increase the value of your company

Why RMR? - Cons

- Sales commission plans may be challenging
- Cash flow is different from project based work
- Deferred revenue may affect your borrowing against AR

Typical RMR Services

Inspections	Preventative Maintenance	Break/Fix	Training	Consulting	S/H/X as a Service	On-Site support	Warranty / Upgrades	Digital content (Music, video, news feeds etc.)
								

Cash vs. Accrual Accounting

Cash

- Revenue occurs when you get paid
- Expenses occur when you pay for something
- Cash is a leading indicator

Accrual

- Revenue occurs when expenses are incurred
- Invoicing is not required to earn revenue
- Cash is a lagging indicator

Billings Do Not Equal Revenues

Billing/Invoicing

- Billings are amounts invoiced to a customer
- Invoicing can be done ahead of the services
- Invoicing can be done upon delivery of services
- Invoicing can be done after services are delivered

Revenue

- Revenue is an accounting calculation
- There are formal rules for those calculations

How Is Revenue Calculated?

RMR Contracts Generally Are Time Based or Performance Based

Time

- A contract will have a coverage period
  - Jan 1st – Dec 31st
  - 12 financial periods
  - A portion of revenue is recognized each period
  - In this case 1/12th of the contract each month

Performance

- A contract will have deliverables
  - An inspection
  - Hours of training
- Revenue is recognized when the service is performed

What is Deferred Revenue?

- Money you have invoiced that you have not earned
- You may not have the cash in your bank yet
- When you first invoice it, you have an asset (AR) and a liability (deferred revenue)
- When you receive the cash, you have an asset (cash) and a liability (deferred revenue)

Even A One Month Invoice May Be Deferred

- Create and post an invoice on Jan 1st
- The invoice covers services for the period Feb 1st to Feb 28th
- The value of that invoice is deferred revenue, until we are posting into Feb
- You may not have received the cash by Feb 1st
- It’s important to manage the payment terms

How Can Deferred Revenue Be A Liability?

Deferred revenue is a liability on your balance sheet.

- You receive cash up front
- The contract is based upon services to be delivered in the future
- You have money in the bank (or AR)
- You have not delivered the services yet
- Cash (or AR) is your asset, undelivered services are your liability

Deferred Revenue – Projects vs. RMR

- Project deferred revenue – over / under billing
  - Billings can be predictable but often are affected by outside influences
  - May be under billings, negative cash flow
- RMR deferred revenue – advanced billing
  - Very predictable
  - Normally positive cash flow

Aligning Revenue and Expense

- Revenues are recognized by time or performance
- Expenses work the same way, but in reverse
- Prepaid expenses are an asset
- Direct labor is expensed at time of work

Aligning Revenue and Expense - Example

- Annual monitoring and support contract for $3,000
- Monitoring is sub-contracted and costs $150 per quarter
- Labor is variable – this is a risk

Aligning Revenue and Expense - Example

Item	Per Contract Duration	Per Period Budget	Per Period (January)
Revenue	$3,000	$250	$250
Fixed expense – monitoring	$600	$50	$50
Variable expense – labor	$1,000	$83	$100
Gross Profit	$1,400	$117	$100
Gross Margin	46.7%	46.7%	40.00%

Moving Pieces

Successful RMR Requires Balancing

- Revenue
- Expense
- Cash flow

Financial Models For RMR Contracts

RMR Contracts Can Take Many Forms

- 100% financed
- Financed with on-going support revenue
- Services / equipment with capital investment
- 3rd party pass through
- 3rd party with added value
- Services only

Financed

In this model, a 3rd party finances the entire solution. This will not represent RMR to the vendor, but can be viewed “As A Service” from the customer’s point of view.

PROS

- Cash up front or installments
- More appealing for customer cash flow
- Can be a critical piece of a balanced portfolio

CONS

- Not really RMR
- Does not even out cash flow

Financed With Support Revenue

In this model, the installation, equipment and setup are a lump sum from a 3rd party, and the ongoing maintenance payments are made by the 3rd party of the customer directly.

Pros

- Good transition model, with recurring revenue
- Also provides an initial cash injection

Cons

- Smaller RMR component

Services and/or Equipment With Capital Investment

In this model, you fund the installation, equipment and setup directly.

Pros

- Full recurring revenue
- More options for customer solutions
- Option to finance capital investment

Cons

- Initial cash investment required
- Complexity of amortizing and matching expense

3rd Party Pass Through

In this model, you are reselling a product or service from someone else.

Pros

- Pre-built solutions
- Sometimes a simpler sales cycle
- Sometimes tied to equipment software and maintenance

Cons

- May require up front cash investment
- Dates of 3rd party coverage may not line up with customer agreement
- Relationship between customer and 3rd party?

3rd Party With Added Value

In this model, you add services to a 3rd party service or product.

Pros

- Higher margin than straight 3rd party
- Creates a stickier solution for you customers

Cons

- May require up front cash investment
- Dates of 3rd party coverage may not line up with customer agreement

Services Only

In this model, your primary product is labor.

Pros

- May provide highest possible margin
- Lower up front cash investment

Cons

- Self funded (training and support for direct labor)
- May have a higher risk for labor overruns

Creating A Balanced Portfolio

- Financing with recurring component is a great start
- Pure service contracts have a low start up cost, but may represent risk depending on type of agreement
- Finance capital investments if possible
- Just like any financial portfolio, spread your risk out

KPI's and Reports

- Contract schedule
- Revenue projection
- GP projection
- Invoicing projection
- Contract profitability
- Customer profitability

Report Examples

Administration of RMR

Cost per invoice / support call etc.

- Automation for volume invoicing
- Analyze and understand your admin costs
  - What does it cost to create and send an invoice
  - What does it cost to collect on invoices
- Wherever possible, longer billing periods
  - $25 / invoice, $300 overhead for monthly, $25 for annual

Administration of RMR

Cost per invoice / support call etc.

Item	Annual Invoice	Quarterly Invoice	Monthly Invoice
Revenue	$3,000	$3,000	$3,000
Fixed expense – monitoring	$600	$600	$600
Variable expense – labor	$1,000	$1,000	$1,000
Admin costs	$25	$100	$300
Gross Profit	$1,375	$1,300	$1,100
Gross Margin	45.8%	43.3%	36.7%

Managing Invoice Dates

- Coverage period – Jan 1/20 – Mar 31/20
- Set your invoicing schedule to create the invoice Dec 1/19
- Set your terms so you are paid before the coverage date to maximize cash flow

Precision – Spending Dollars to Track Nickels

As much as we talk about tracking expenses to measure RMR performance, don't over do it.

- Be wary of tracking small expenses to a contract
- Use cost based allocation to spread out cost

Managing Deferred Revenue

- #1 maintain the accuracy of your contracts!
- Review forecasts each and every month
- Review profitability each and every month

Where Do I Go From Here?

- Forecast first! - Model your revenue / GP / cash flow projections
- Build a strong portfolio to support your projections
- Review forecasts regularly
- Measure profitability
- Continually work to reduce overhead

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THANK YOU!

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