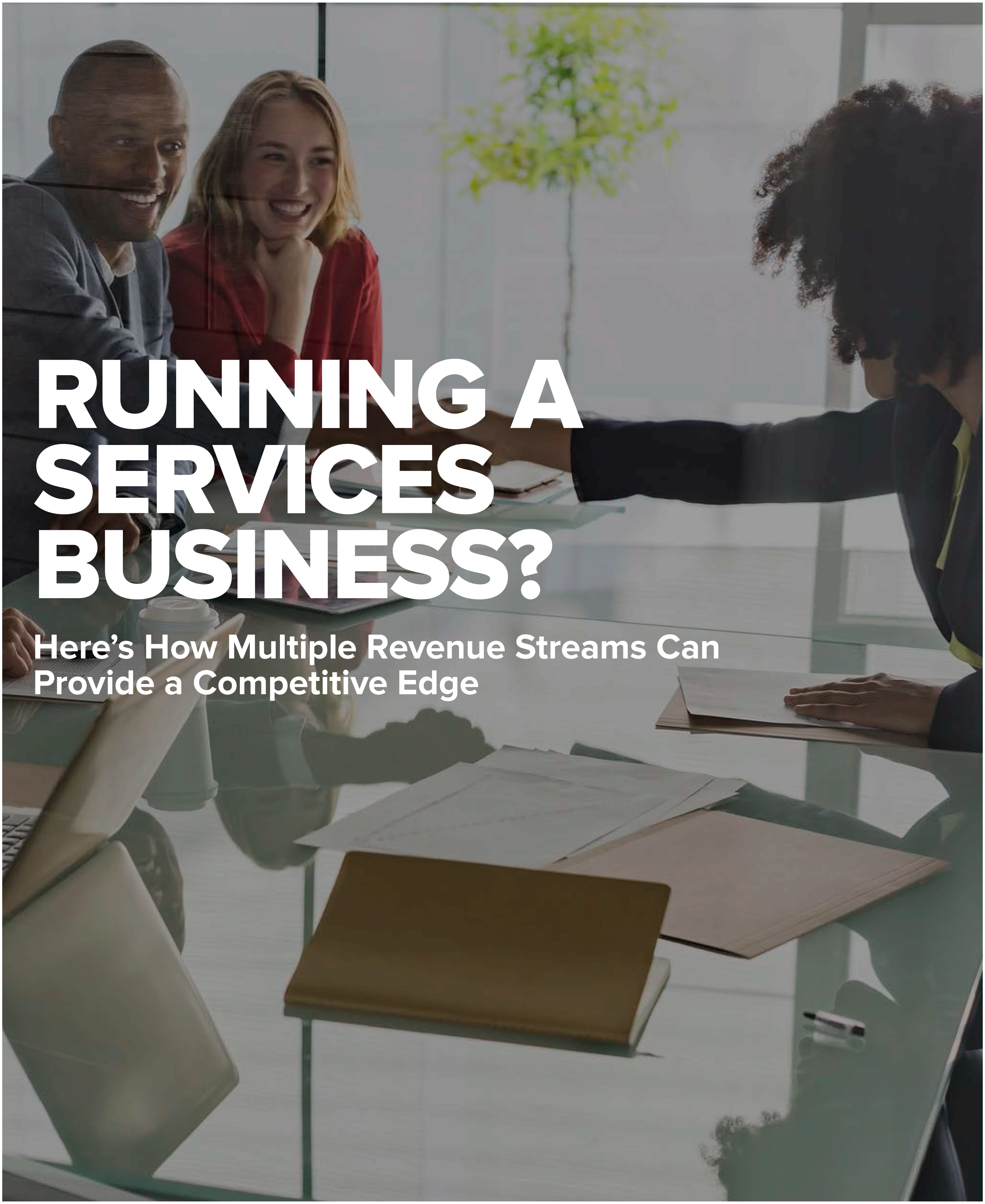

RUNNING A SERVICES BUSINESS?

Here’s How Multiple Revenue Streams Can Provide a Competitive Edge

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RUNNING A SERVICES BUSINESS?

Here's How Multiple Revenue Streams Can Provide a Competitive Edge

Adding multiple revenue streams to a services business need not be complicated expensive, but it does require a well thought out approach supported by a core technology system. Here's how to do it while reaping the many rewards of diversification in any business environment.

Introduction

Few would argue the value of income diversification. Whether it's a company, a career or an investment portfolio, having multiple revenue streams is a smart approach. For a services business, diversifying can be as obvious as identifying gaps between what customers want or need and what you're actually giving them. Or it can be as complex as figuring out what your clients should be doing—and what they're actually doing on a day-to-day basis—and helping them achieve their higher goals.

Multiple revenue streams sound straightforward enough but not all companies are willing to put time, effort and money into identifying them when business is booming, clients are plentiful and bottom lines are healthy. Instead, they opt to rely on a fixed income stream and let potential opportunities fall by the wayside, never to be explored.

To complicate the issue, adding new services, finding new customers, hiring new employees and scaling technological systems to accommodate the diversification can all place new pressures on already constrained resources. For example, the small to midsized firm that's historically focused on working with one or two customer groups—and providing them with a few defined services—may ignore the need for multiple revenue streams specifically for this reason.

This white paper will explore the concept of multiple revenue streams for services businesses, explain the challenges of scaling up and demonstrate how a core technology platform can make the difference between success and failure.

Revenue can be uneven in the services business. The problem is that when business is brisk, there's no time to get out and find new customers or revenue streams. When sales slow, everyone springs into "emergency mode" in an attempt to close revenue gaps, attract new customers and increase sales.

These fluctuations make the continued scaling of existing business models (i.e., hiring, adopting new technology, signing on new customers, etc.) mandatory for services businesses. When the sales pipeline runs dry, for example, everyone scrambles to get as much as they can out of existing clients and customer verticals. This is a natural reaction to a slump in business but for best effect at least some of that energy should go to branching out and diversifying into new revenue-generation strategies.

"No one wants to get stuck with a legacy revenue stream that's going to die out at some point," said Jeff Smith, Founder of Catalyst, a NetSuite consulting firm. "The biggest hurdle is acknowledging that your bread and butter business may be in jeopardy of decline due to up-and-coming business models."

An IT VAR that's historically focused on reselling computer hardware and software, for example, could transition over to a managed infrastructure service provider model. A VAR may purchase the hardware and software that its customers need, and then offer it on a subscription basis via the cloud or in the customer's data center.

"This is basically a pay-as-you-go model that's very different from the traditional VAR model," Smith said, "and that finds the reseller/managed service provider owning the assets that the customer is using."

This is similar to Amazon Web Services or Google Cloud but on a much smaller scale and possibly hosted at the customer's site. This model not only serves clients on a more holistic level but it also tends to attract more private equity and other types of investment funding.

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Chapter **1**

INTRODUCING THE SUBSCRIPTION-BASED MODEL

Subscription-based business models can provide higher repeat business, more predictable revenue and more loyal customers. This predictability leads to more accurate forecasts and better inventory management. Fulfillment can be planned further ahead, thereby lowering fulfillment/shipping costs, especially with same-day "I must have it right now" buying patterns becoming commonplace.

The VAR that reshapes its business model into one that's focused on managed services can more effectively compete in smaller markets without having to make a large investment in technology, people or processes.

"The VAR that has customers that have relied on them for providing straight hardware and software for years," Smith explained, "can now offer up both hardware and software in one package and say, 'Here's all of your storage and servers; just pay us per-gigabyte or per-compute cycle and only pay for what you use. We can also guarantee your desired outcomes from the equipment or software.'"

The same approach can be applied in just about any services business.

The key is to identify which additional services will be most valuable to both existing and prospective clients, and then develop an approach to leverage that additional revenue stream.

A public accounting firm that earns most of its revenue in the months leading up to April 15th, for example, can effectively spread its efforts across the entire year by going beyond tax and financial report preparation. Additional services could include helping clients implement growth strategies, assisting the development of good hiring policies or providing guidance on important business decisions.

Here's the good news: adding multiple revenue streams at a software, advertising, media, publishing, professional services, IT services, managed services or value-added reseller company need not be complicated or expensive. Done properly, it can be a financially-beneficial way to not only to boost a company's revenue growth in a healthy economy but also help shield it from the negative impacts of an industry or economic downturn.

Chapter **2**

7 SIGNS THAT IT'S TIME TO DIVERSIFY INTO MULTIPLE REVENUE STREAMS

If you want to future-proof your services business but aren't quite sure if now is the time to do it, here are seven clear signs that it may be time to add multiple revenue streams to your business model:

You've been doing the same thing the same way for a really long time.

If your business has been around for decades, it's clearly doing something right. However, that doesn't mean that model will sustain itself. Poll your customers and talk to your team to see what changes are in order.

Your firm is dealing with growing margin and revenue challenges.

When services become commoditized and markets become saturated, it puts downward pressure on margins. By providing a new crop of differentiated services, you can avoid this problem while also boosting profits. Creating new revenue sources also helps to even out financial fluctuations (i.e., an accounting firm that brings in most of its traditional income during the first four months of the years), gain better revenue predictability and cultivate more loyal customers.

Your customer roster hasn't changed much in the last 5-10 years.

Your company is doing a great job for that list of clients, but could it be doing even more for them—and for a new crop of prospective customers? That's the question that you need to ask yourself as you consider adding new services to your menu.

Clients are asking for more, and you can provide it.

Vertical integration doesn't just apply to huge conglomerates; it's also very relevant for smaller, services-based firms whose knowledge, expertise, credentials and experience can be spread across a wider swath of offerings. The advertising firm focused on digital strategies, for example, can add content production as an adjunct service, knowing that such services are in high demand.

You're highly leveraged in one business area or customer segment.

This is the "too many eggs in one basket" syndrome and it's usually most prevalent during good economic times when everyone is too busy to notice. But as many companies learned the hard way during the last recession, being highly leveraged in one customer segment is just bad business.

Those big-picture, strategic goals are getting put on the backburner.

If your team is too busy to focus on strategic goals, it could be missing out on some major opportunities to expand into multiple revenue streams. Solve this problem by keeping your firm's values and mission at the forefront, even when putting out daily fires is taking up all of its energy and focus.

You want to add a product, a piece of hardware or other offering to support your current business.

Adding a new revenue stream to a services business doesn't have to rely solely on services. Maybe you want to resell another company's technology or perhaps you want to start selling one or more products. When you expand into multiple revenue streams, these windows of opportunity will open up for you.

As you can see, relying on just one or two types of revenue doesn't make good fiscal sense. Expanding revenue streams not only improve both top- and bottom-line revenues but they also help services firms expand market share and augment streams that are prone to seasonal, economic or other fluctuations.

Chapter **3**

GETTING OVER THE SPEED BUMPS

Adding a new business model to a firm's current mix is not to be taken lightly. It can introduce new challenges that companies aren't prepared to address. As they scale up, services businesses need to think about:

- The current competitive landscape (i.e., is there a profitable niche to fill?).
- The financial investment required to achieve success in the new segment.
- Are there any synergies with, or conflicts/cannibalization of, the company's existing business model(s).
- New capabilities that the company will need to be able to successfully implement the model.
- Cultural impacts of shifting the business focus.

The journey to a multifaceted business model could also mean: acquiring new people and skillsets, developing new relationships with customers and vendors, implementing new processes, and deploying new technology/systems (both product IP and enterprise IT). Corporate culture shifts may also be in order.

For example, traditional sales culture and methodology is typically based on winning deals. To extract the biggest value out of multiple revenue streams, the cultural mindset may need to pivot to nurturing and growing customer relationships. This may drive changes in the company's metrics and compensation approach—not just for sales but across the organization—to align more closely with achieving the customer's desired outcomes.

Moving to or adding a new model (e.g., subscription business, network-based business, Internet of Things (IoT) and product-as-a-service, and outcome-based business offerings), will also require new technologies and systems. For IT service providers, for example, these new systems may include: more IoT technology integrated into products, subscription management systems and billing capabilities, network-architected software platforms, and more advanced field service and service level agreement (SLA) management systems.

One advertising firm that Smith worked with recently wanted to add new retainer-based clients for services that were outside of its traditional wheelhouse. "Its core business focused on creating highly impactful, engaging websites," said Smith, "but it also wanted to start managing the content on those websites and getting involved with more ecommerce."

> “They’re trying to see if they can step outside of their core business, and they’re confident about it because they know they can operationalize those efforts. That takes some of the risk out of just saying, ‘Hey, let’s go jump into this other line of business because it sounds like a good idea.’”
>
> — **Jeff Smith,** Founder, Catalyst

To make that happen, the firm sought out influencers that would help it create more traffic for the websites it had built. “They’re thinking outside of their normal business model,” said Smith, “knowing that managing an influencer portfolio is much different than managing a website for a client.”

Knowing that its cloud-based enterprise system will provide the support structure for this “branding out,” the advertising company—once laser-focused on building websites—can now confidently add multiple revenue streams.

Chapter **4**

MEASURING THE BENEFITS

In the new knowledge-based economy, the services industry is experiencing both tremendous growth and significant change. To keep their legacy customers happy and to remain relevant, more companies are adding new service lines to their portfolios. These new services provide a path to differentiation for product companies while also creating more customer value. Concurrently, service providers are building their enterprise value by adding more recurring revenue, making their companies more relevant and valuable.

For decades, services firms have relied on billable hours as the primary source of revenue. With many service-based businesses beginning to diversify, they're creating additional offerings to support multiple, complimentary and more predictable sources of revenue. For example, companies in Software-as-a-Service (SaaS), IT services, and managed service providers and IT VARs are expanding their revenue streams by:

- Reselling hardware or software.
- Developing their own software.
- Packaging and licensing their intellectual property.
- Building new recurring revenue based on managed and subscription services (bundling hardware, software, hosting, support and consulting or full-blown managed services revenue).

Regardless of the business in question, building out new services usually involves a whole new way of doing business. This can require an entirely new skill set, new competencies and/or a fundamental shift in your company's mission. Objectively evaluate your leadership and all of your personnel, and ask yourself candid questions like:

- Who will embrace and support the new service line?
- Who won't be able to make the change?
- Which skills will translate, and which ones must be acquired?
- How can we effectively coordinate the creation, sale and delivery of a new service line?
- Which core competencies will this expansion require?
- Which new capabilities will we have to build out?

Smith said the best approach is to get team members on board with the new initiative as quickly as possible.

“If you don’t have the right level of buy-in, and if your corporate culture isn’t built to manage this kind of change, then you’re definitely going to run into some issues when adding multiple revenue streams,” Smith pointed out. “A company where employees and managers have been holding onto ‘traditional roles,’ for example, may not understand or embrace the changes that need to take place. They just don’t get it.”

Expanding into new types of business offerings brings both risks and rewards. It should be done with prudence but also with a realization that the risk of continuing with “business as usual” might be greater than the risks you’ll take while trying to expand your business model. If the competition is forging ahead with new offerings and approaches or if there are bold new entrants gaining market share, then your firm’s very survival may be at stake.

Chapter **5**

READY, SET, GO!

Any financial advisor will tell you that diversification is a key component of building long-term wealth and that accumulating and growing wealth relies heavily on the right combination of risk and return strategies. Building a services business for the long-term is no different and also requires a menu comprising the right mix of advisory, consulting, managed and other services.

Creating a future-proof services company based on new service lines requires a tremendous amount of focus.

It can't be done in an ad hoc way; it requires a clear growth strategy that's backed by executive sponsorship and investment. It also requires a solid business plan, objective exploration, the evaluation of growth alternatives and an accurate stock of core competencies.

The most important step is to listen to customers, understand what they really need and then determine how to best support them. It is all too easy to get into the "shiny object" syndrome, chasing each great idea without objectively appraising competencies and the repeatability and profitability of new solutions.

Successful services business expansion also requires a cross-disciplinary team comprising sales, product management and service delivery—all of which ensure that you're building something customers need and value, while also investing in building a repeatable, scalable delivery framework.

Learn more about building multiple streams of revenue, with Service Performance Insight's Report: "Building Multi-Revenue Stream Services."

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