

How to Turn Repeat Customers into Subscribers

Many people mix up re-occurring and recurring revenue, but one is much more valuable than the other.

Re-occurring Revenue

Re-occurring revenue comes from customers that have a re-occurring need for whatever you sell and buy from you on an unpredictable yet regular basis.

Imagine a health food store. Customers come in to replenish their supply of vitamins when they run out. The owner is never quite sure when a customer will be back, but she's pretty sure they will return when they run low on a critical supplement.

Recurring Revenue

Recurring revenue comes from sales to customers that buy from you on a *predictable*, automatic cadence, for example, a subscription or service contract.

Let's take the same health food store owner. She recognizes her customer comes in every month or so to buy Vitamin C. She decides to offer a subscription for Vitamin C capsules, where she ships a new bottle to her subscribers each month automatically. The customer doesn't need to make a dedicated trip to her store, and the owner automatically gets repeat sales.

Compared to one-off transaction revenue, both re-occurring and recurring revenue contribute positively to your company's value, but one is much more valuable than the other.

For example, Mike Malatesta created Advanced Waste Services (AWS), which helped businesses dispose of their industrial waste. Energy giant Covanta (NYSE: CVA) saw acquiring AWS as the perfect way to enter the industrial waste industry and sent Malatesta a Letter of Intent to acquire AWS for \$54.5 million.

Covanta liked that AWS had repeat business from loyal customers that they assumed were on recurring contracts. However, when Covanta started their diligence before closing their acquisition of AWS, they realized some of AWS's revenue was re-occurring, not recurring, and used that as justification to lower their offer by \$4 million.

To convert re-occurring revenue into recurring revenue:

1. Start by segmenting your customers that buy on a re-occurring basis.
2. Look for a segment whose purchase cadence is relatively predictable.
3. Design an offer for your regular, re-occurring customers that makes it more convenient for them to buy on a subscription or service contract rather than on a transactional business model.
4. Aim to give re-occurring customers three compelling reasons to subscribe.

For example, in the case of the vitamin store owner, she could make the case that subscribing to a regular shipment of vitamins is 1) more convenient for the customer because there is no need to drive to the store, 2) more reliable because subscribers would be given priority on available stock, and 3) safer because vitamin subscribers would be given a newsletter describing new clinical trial results of emerging vitamin therapies.

Re-occurring and recurring revenue may sound similar, but when it comes to your company's value, recurring revenue is far better. Consider converting your re-occurring customers into subscribers, and you'll build a more predictable—and valuable—business.