

# Boost Profits With Recurring Monthly Revenue

Four Steps To Start Selling



# What Is RMR And How To Set It Up

Recurring monthly revenue (RMR) offers many benefits for integrators, including more consistent cash flow, a higher valuation, better ROI, lower total cost to serve (TCS), and higher customer retention. Alone any of these benefits would be a reason to consider adding a subscription model. Together, this decision should be a priority for any business looking to improve their bottom line.

Security industry M&A expert John Mack of Imperial Capital says that RMR companies sell at four to five times annual recurring revenue, and integrators who've migrated to the subscription model have "created wealth that has changed their family's life."

Still many integrators are hesitant to make the leap. A 2022 poll of security integrators conducted by Eagle Eye Networks identified the biggest hurdles to adding RMR solutions to their businesses:

<b>Changing company structure and mindset</b>	45%
<b>Financing challenges</b>	22%
<b>No experience with RMR products</b>	25%
<b>No solution sales skills</b>	6%

This guide provides a road map to creating a new business plan and simplifies the process of adding additional revenue with RMR to your business portfolio, plus tips from industry insiders and integrators who have already made this move.

## Four steps to adding RMR Revenue:

### 1. DETERMINATION

Changing the company mindset and structure

### 2. FINANCIAL PLANNING

Covering new upfront costs

### 3. RESEARCH

Selecting a technology partner

### 4. EDUCATION

Effective "solutions" sales

#### RMR VS. ARR

ARR (Annual Recurring Revenue) is simply the yearly value of the monthly revenue. Some plans are paid annually to reduce billing and often an annual or multiyear plan is offered at a discounted rate for an up front payment.

# 1. Change The Company Mindset

## KEY TAKEAWAY

Short term pain for long term gain. You will need top down leadership, a game plan, good communication, and an incentive to start selling RMR.

The first step to successfully adding RMR to help grow your business is a commitment to change mentality from the top down. Executive leadership needs to effectively communicate the vision for the change to managers, rally colleagues and employees to buy-in to the new plan, and then execute the change. Communication should include the benefits of RMR, including higher profit margins and better customer retention, but also acknowledge the growing pains of adding a new sales model.

Security Pros, LLC, a reseller based in Indiana, has created a business culture that is focused on recurring revenue. President Chris Gilbert says communicating the value of RMR is key to keep everyone focused on their goal of selling subscriptions “We talk about it almost every day. We have a couple of calls a week with our sales team and they know from the day they start every service and every product we supply carries some kind of monthly fee.”

Gilbert says knowing the benefits of RMR also goes beyond the sales team. “I do calls with our install team, our service team, our internal staff, and recurring revenue is a piece of all of those sessions in some way, shape, or form.”

The hosted video component of Security Pros’ business has more than doubled in recent years, which Gilbert credits to their dedication to the RMR

model. “We want to ensure our clients’ needs are met with hosted video by being a more flexible solution to meet their unique challenges,” Gilbert said.

## Establishing New Commission Structure

To achieve the goal of selling more RMR, the sales team needs to be properly incentivized. If it is more profitable for a sales rep to continue selling project-based installations, they will be hesitant to sell RMR instead.

RMR generally provides higher gross profit margins than standard physical security installations, so there is some flexibility to adjust commission rates for RMR to a higher percentage than a project-based sale. This is one way to motivate the sales team to sell RMR. Bonus payments for selling RMR components in a new business sale are another option. To set the tone early in the shift to RMR, and to acknowledge the learning curve, businesses may want to consider extra incentives for early sales as further motivation.

For commissions on contracts or service agreements, a standard commission is based on one year of the contract with a higher multiplier for multiyear agreements – for example 1X for one year/1.5X for three year/1.8X for five year. RMR commissions can be paid up front if financing allows it, half up front and half at six months, or monthly over the course of the first year.

RMR covers a wide range of products in the security industry, and not all profit margins are the same. Sliding commission scales have been used depending on the size of a client, and the same sliding scale can be applied to different RMR products depending on the profit margin.

## RMR Product Experts

Remember the poll from the introduction? One in four integrators said a lack of product experience was an obstacle for them to start selling RMR. Company leadership will need to identify a person within your organization to be the subject matter expert or product leader who can help educate, lead by example, train, and troubleshoot the new processes.

### FINDING RMR PRODUCT EXPERTS

- Will the entire team focus on RMR?
- Current employee as RMR expert?
- Consider new hire with RMR experience?

### CHOOSING A CURRENT EMPLOYEE AS RMR EXPERT

- Good with IT-based solutions
- Not afraid to learn new subjects or try new things
- Hungry for new opportunities
- Can easily explain technical topics

World Cinema, Inc. is a property technology services provider based in Houston that launched its ImpruviX surveillance solution in 2020. This service added cloud video surveillance and access control as recurring revenue streams to their portfolio of services.

Kyle Beauchamp, Vice President of ImpruviX, says every WCI sales representative is encouraged to sell the video surveillance solution to customers. In addition, WCI has a designated subject matter expert to oversee the product and solution offerings. “The product manager is the point of contact internally

and externally as it relates to the surveillance products we sell,” Beauchamp said. “They are responsible for keeping our sales team up to date on all product updates and changes.”

## Establish A Road Map And Set Goals

The final step to change the company mentality is to clearly establish a road map and set attainable goals that the team, including managers, can target and accomplish.

The road map to start selling RMR will need to be a solid business plan that will achieve the end result. Moving to an RMR model is not a get rich quick scheme. It is a long game. Companies should not expect to see an immediate increase in revenue; this is more akin to compounding interest generated over time. The point is to add connections and grow gradually.

In order to create change, it is important to have clear goals and identify key success factors. Once these elements are in place, you can then lead the charge and begin implementing the changes. By taking these steps, you increase the likelihood of achieving your desired outcome.

### Goals To Launch RMR Sales



## 2. Financing

### KEY TAKEAWAY

Financing can be a legitimate challenge for some integrators but the benefits are worth it. There are three models to shift from upfront to recurring revenue.

Arguably financing the move to RMR is the most important step to success. But without the leadership mentality and goals in place, financing complications could potentially derail the plan to sell subscriptions.

Bill Bozeman, former president of PSA Security, pointed to financing as a legitimate challenge for integrators, but clarified that it should not be a barrier to entry. In 2021 Bozeman founded Bozeman Strategic Solutions, LLC, to provide strategic planning and positioning for security integrators and

manufacturers. "Don't use financing as an excuse," He said. "All integrators need to participate in the recurring business model."

The challenge for financing the switch from CapEx to OpEx sales is the required liquidity to cover the creation cost of the RMR account, including equipment, labor, and overhead, that will be rolled into a subscription and paid at a greater value over the life of a contract.

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It should be noted that as clients become familiar with new services they may agree to pay up front for future annual or multiyear agreements if it means better rates. These upfront payments can help balance liquidity.

	Traditional Model	Break Even Model	Financing Model
<b>Project Creation Cost</b>	\$5,000	\$5,000	\$5,000
<b>Upfront Payment</b>	\$10,000	\$5,000	\$0
<b>Monthly Subscription</b>	\$200/mo	\$400/mo	\$600/mo
<b>Immediate Value</b>	\$5,000	\$0	-\$5,000
<b>Gross margin over 5 year contract</b>	\$17,000	\$24,000	\$31,000 Profitable in month 8

## Three Approaches To Financing RMR

### 1. Traditional Sales Model with Added Contract

This conservative approach keeps the existing sales structures in place, with an added contract portion of the deal to establish RMR. The RMR can be in the form of a maintenance contract or monthly subscription service. "This is very safe for the integrator, you get your regular margin," Bozeman said, but warned these deals are hard to sell because of the added monthly cost on top of the typical CapEx expenditure. "It's like selling a regular job, except by the way you have to pay more for monitoring."

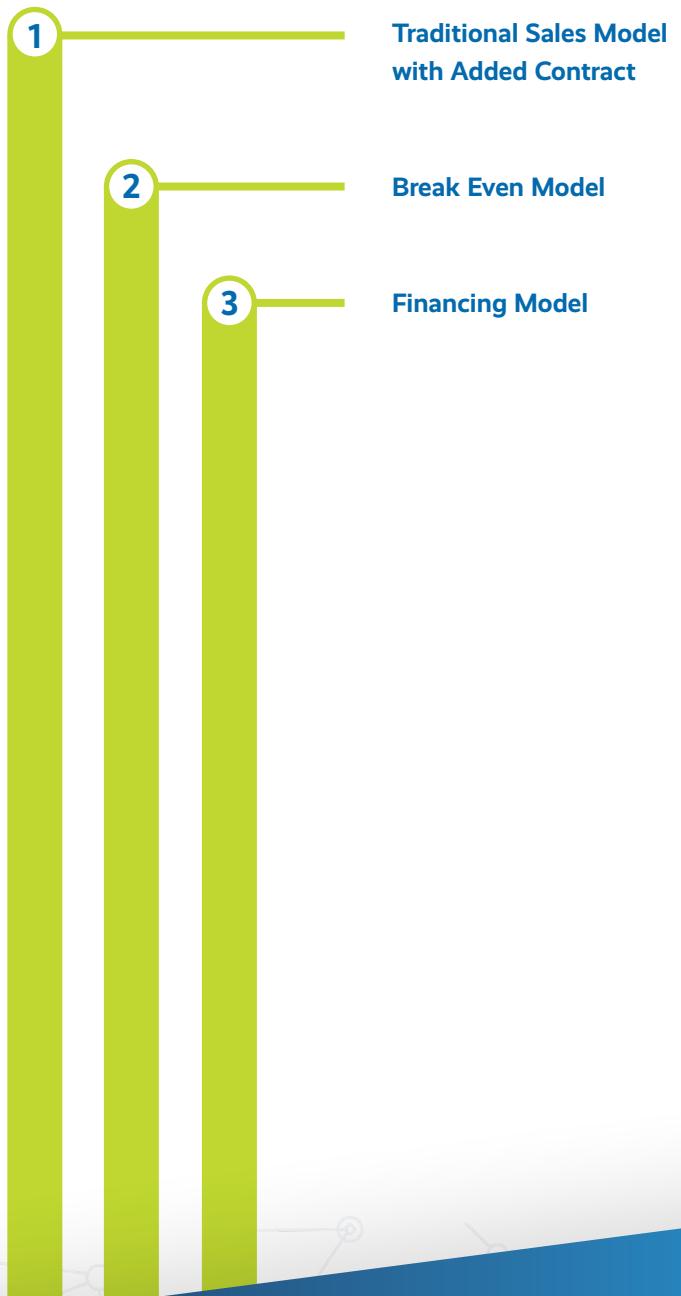
### 2. Break Even Model

The second strategy is to subsidize the upfront creation costs of RMR contracts with reduced margins from traditional sales. "You're subsidizing it," Bozeman said, "But you're not going in the hole for every system that you put in." Consider a lower upfront margin, 10% or possibly just breaking even on the creation cost with a higher RMR. For example, instead of a \$10,000 installation, it's \$5,000, and the monthly subscription goes from \$200/month to \$500/month.

### 3. Financing Model

The financing model is the trickiest and covers the creation cost for the RMR account with either outside funding or money from other divisions of the company. With this model there is a greater ROI over the life of a contract but the project will not break even for some time. Bozeman points out that most integrators are not able to cover these costs without outside funding because

traditional business margins are not high enough. He added that traditional banks won't finance this and that while there is investor funding available to integrators, this is tough to secure. "The economy has really impacted this lately, a lot of the financing that's available for recurring revenue in the security business has dried up," he said.



# 3. Selecting A Partner

## KEY TAKEAWAY

The right RMR product should help you generate profits, increase your customer base, and diversify business for multiple industries.

RMR covers a broad range of products and services in the security industry from managed services contracts for traditional on-premises systems to alarm monitoring to advanced cloud-based software as a service (SaaS) products like video surveillance and access control.

When creating your RMR business plan it is important to choose what solutions you would like to sell. There are a lot of solutions in the market and you want to be sure to choose products that:

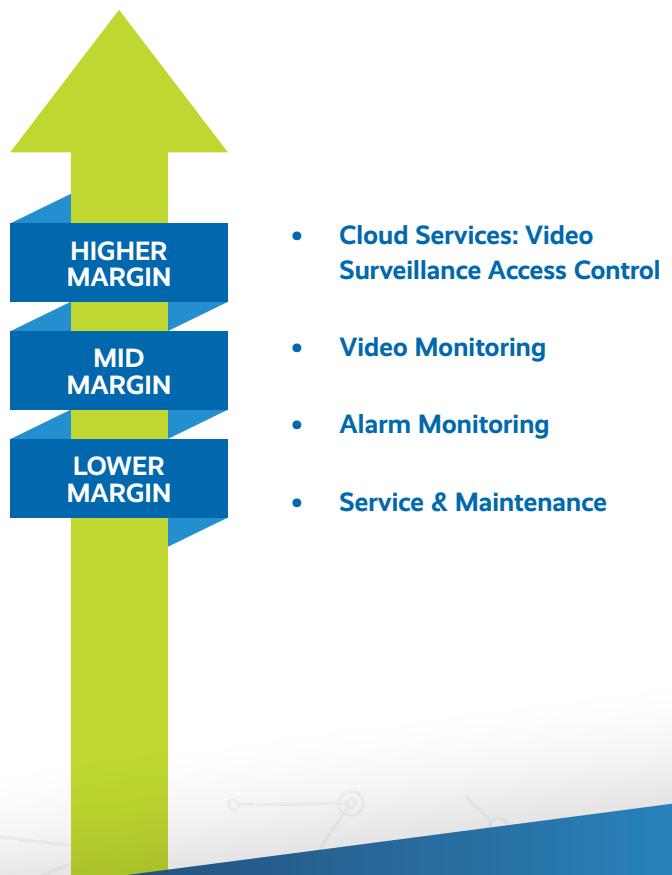
- Have a high gross margin to maximize your ROI.
- Offer potential for growth within the market.
- Provide benefits to your company through training and support programs.

Technology driven subscription security services like cloud based video surveillance and access control do not have the tenure of alarm monitoring, but are a quickly growing sector in the security industry. The Security Industry Association identified “service models and the cloud” as a major trend in its 2022 Security Megatrends report.

## High Margin RMR

Not all RMR is created equal and some offer much higher margins than others. John Mack, EVP of Imperial Capital, explains that gross margins for different RMR services are reflected over time in the valuation of a business. “There are clearly much higher valuations for companies with high-margin recurring revenue models. Witness those security integrators with mostly one-time install revenues will trade for <1 to 1.5x revenue, while recurring-revenue-focused commercial alarm companies will trade for 4 to 5 times annual recurring revenue or ARR,” Mack said. “And then in the high technology SaaS businesses which are heavily recurring revenue focused, you can see revenue multiples of over 10x ARR.”

## Understanding RMR Margins



## Partner Benefits

Ultimately, your business goal is to serve your customer as best you can, and the right partner must support this goal. The right partner should offer clear benefits for both your team and your customers.



### Product Development

One of the benefits of the subscription model is it establishes an ongoing relationship with the customer. The right partner should provide new products and a roadmap to grow RMR with each customer through added products and services to enhance their existing accounts.



### Training

The ideal partner should offer in-depth training, not just on their products and services but also technical specifications and installations. Training should also be available on how to sell the product and provide marketing help.



### Tech Support

Manufacturers will always know their product best and their customer support should reflect that. Some partners even offer 24/7/365 direct customer support which allows your customers to call them to troubleshoot potential issues.



### Flexibility

Your selected RMR product should be flexible enough to work for multiple types of customers from different industries and for businesses of different sizes. It should also integrate with other RMR products and offer flexible pricing and payment options to meet your customers' needs.



### Lead Sharing

Product sales teams should have experience working with integrators that are new to RMR and be a helpful resource moving forward. Integrator onboarding could even include lead sharing where the company hands off prospective customers to help you get started.

# 4. Selling RMR To Customers

## KEY TAKEAWAY

Effective RMR sales strategies solve customer problems, not the lowest bid mindset. Multiyear agreements mean guaranteed future revenue.

As discussed in section three, the right partner should help your team understand how to market and sell their product to your potential customers. But there is a fundamental difference in how RMR is sold versus project-based sales. Successful RMR sales are based on selling solutions, not systems. With RMR services, you will be selling the “why”, not the “what”.

## Selling Solutions

Selling a project requires an RFP and the mindset of competing for the lowest bid. This is different from selling a service. SaaS is a solution that alleviates a pain point, and the key to sales and marketing of RMR services is determining and solving the pain points for business owners and decision makers for their business and industry.

The premise for selling solutions is pretty straightforward. The sales person identifies the prospective customer's needs and recommends the right product/service to solve that need.

Educating potential customers is a large part of selling solutions, teaching them about the solution to solve their problem and how that will add value to their operation.

Selling a solution does represent a deeper level of understanding of the customer's needs based on their industry and the challenges they face. But, as your sales team learns the new RMR product, they will identify repeated ways that the new product provides value to customers and can hone their message and quickly identify the pain points.

Ultimately you want to serve multiple different industries, but to begin it might make sense for your team to focus on the pain points and solutions for particular industries—focusing on the ones where you already have a strong customer base and existing relationships.

World Cinema's business is centered on delivering innovative technology solutions that enhance the resident, guest, and staff experience and their ImpruviX surveillance solutions are tailored to properties like hotels, student residence halls, senior communities, and multi-family units.

VP of ImpruviX Kyle Beauchamp pointed to two early challenges when his team added cloud video surveillance as a new service: Informing customers of new security services and teaching them the benefits. Beauchamp says success came with “training, marketing, and repetition.”

## SUBSCRIPTION SALES MYTH

- Customers do not want to sign contracts: The truth is customers are familiar with contracts on both a personal and business level. Subscription models for business expenses are not new and many businesses are already using subscriptions for much of their IT needs.
- Contracts mean paying more: While a customer may pay more over time for hardware compared to an upfront purchase, a subscription can be less expensive when looking at the TCO (total cost of ownership) which considers other associated costs such as service and maintenance.

## Contracts & Service Agreements

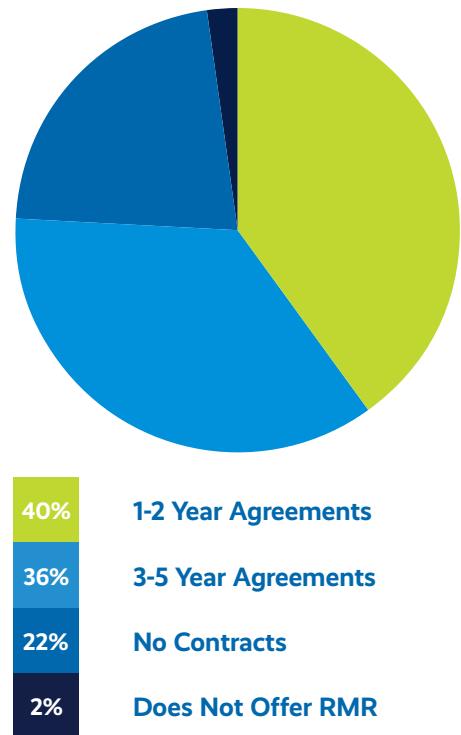
Subscription services do not have to be sold as contracts, but they are much more valuable to your business if your customers are committed to a service agreement. A multiyear subscription agreement guarantees ARR or RMR revenue into the future. While some customers may need the flexibility of a monthly bill, more and more businesses prefer paying annually for subscription services.

Ken Francis, President of cloud video surveillance company Eagle Eye Networks, says one year agreements are the most popular, but more and more end users are looking to save money with longer subscriptions. He added that Eagle Eye

Networks does offer discounted three and five year subscriptions. "If there is added value in a three or five year commitment, it's a win for both resellers and end users," Francis said. "Business leaders want the best and most economical technology for their security needs. If the service is right and the price is right, a multiyear subscription means less negotiations and paperwork to continue that service."

The reality is that more and more businesses are turning to OpEx from CapEx because of predictable billing and budgeting. Business owners are savvy enough to understand that there is value in OpEx services, and substantial economies of scale, even if they are paying more for hardware over the life of a device (when compared to an upfront investment).

## Poll: Subscription Length



Source: Eagle Eye Networks social/digital poll of integrators

# Conclusion

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Matt Barnette, the CEO of PSA Security says that customers like the subscription model. “The old days of lifting out a software package was a very heavy lift with lots of risks. The move to the cloud enables simplified support, regardless of a national or global deployment.”

Barnette added that “Building anything on-premises now doesn’t make the most sense anymore, and the pandemic has accelerated this trend because people weren’t on site. Everything is moving toward subscription: Customers want the automated cybersecurity patches, the latest feature sets rolled out, and expect routine updates and new functionality in the blink of an eye. Integrators need to get on board.”

Businesses that are slow to transition or refuse to make the shift to RMR will find it increasingly difficult to stay competitive in this evolving market. Migrating to a subscription model offers greater customer retention and revenue growth opportunities, and adopting cloud solutions will launch your business forward as a leader in the industry.