Choosing Revenue Streams

What You Will Learn
Introduction
The Model: Choosing Revenue Stream
   Overview of the Model
   Revenue Stream
   Profit per Sale
   Time to Deliver Sale
   Hourly Wage
   Quick Conclusion
Top Mistakes to Avoid
Now What?
If You Learn Anything, It Should Be This
Example: Hair Salon

Introduction
All businesses have one common driving factor and that is to stay liquid. For small businesses it is the do or die for the company; make enough money to last from month to month or shut down the business. In order to achieve this, most businesses develop multiple revenue streams.

Each business may vary in how they classify their separate revenue streams however here are some examples:

- Telephone industry: “pay as you go”, accessories, home phone, internet, cable, and consulting strategy
- Horse farm: selling horses, camps, lessons, and boarding the horses
- Paralegal: criminal pardons, traffic tickets, small claims, and tenant disputes
- Hairdresser: hair products, hair colour, and hair cutting

Logically, any business owner will tell you to spend your time on the activities that make the most money. So how do you figure out which revenue streams are the most lucrative? The next model will guide you on how to make all of your revenue streams comparable so that you can objectively analyze which revenue streams you should focus your attention on.
The Model: Choosing Revenue Streams

<table>
<thead>
<tr>
<th>Revenue Stream</th>
<th>Profit Per Sale</th>
<th>Time to Deliver Sale</th>
<th>Hourly Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

Overview of the Model

This model will allow you to compare your revenue streams on a more consistent basis. You may already be assessing your revenue streams however the key is to compare apples to apples. You should figure out how much money you are making based on an hourly wage, which most people already do to interpret their salaries.

What this model will not measure is money you make now versus later. Just know that if your business does not have money now you may not have a business later. Sometimes you have to go after the revenue streams that pay off today rather than tomorrow.

1. **Revenue Stream**
   A revenue stream is an independent outlet that is created in a business to make money and mitigate risks. The additional revenue streams are synergistic to what the company already has in place, which is a logical starting point for a company to take advantage of its core business. Most businesses have three to five different revenue streams although this may fluctuate as you develop your company.

2. **Profit per Sale**
   Dealing with revenue is tricky. You could charge a customer $100 with a one per cent profit and make only $1. Similarly, you could charge a customer $10 but make a 10 per cent profit, which is also $1. Therefore looking at your profit per sale rather than revenue per sale gives you a better understanding of how much money you’re actually making.

   You may still need to average out your profits but since the model is looking at a few different revenue streams at the same time it will be more accurate than if you were averaging your entire profit projections.

3. **Time to Deliver Sale**
   This is as simple as it sounds. What are the steps necessary to deliver a quality product or service to a customer? You may already have a fixed process that you go through.

   Break down a haircut for example:
   - Five minutes to wash the hair
   - Fifteen minutes to cut the hair
   - Ten minutes to style the hair
   Therefore it typically takes the hairdresser 30 minutes for a full haircut.

   Use a product example such as a salon brand shampoo:
   - Ordering one bottle of shampoo takes one minute (although you would order more than one bottle at a time to be more efficient).
   - Unpacking and stocking 10 shampoo bottles take 10 minutes making that one minute each
   - Selling and ringing up a shampoo bottles takes 8 minutes
   Therefore the time to sell 1 shampoo bottle would be 10 minutes.

   Evaluate your time to deliver the sale in this manner.
Hourly Wage
This is a calculation of how much you charge for a product or service divided by how long it takes to deliver that product or service.

Refer back to the haircut for example:
• If it takes 30 minutes for one haircut the hairdresser can essentially complete two haircuts in one hour
• If each haircut generates $25 in profit then the hairdresser would make $50 an hour

Additionally, you could assess your salary this way. For example:
• You make $50,000 annually
• On average you work 2000 hours per year (eight hours per day multiplied by 250 days a year, which is about five days a week for 50 weeks in a year)
• Your hourly wage would be $25 an hour

Quick Conclusion
Once you have completed the model you can begin comparing different revenue streams. Keep in mind you should consider more factors than money when making a decision. For example, one revenue stream may be more lucrative than another however it may be harder to secure clients or the sales cycle may take longer. In which case, you need to assess whether the particular revenue stream is worth it. This model will be helpful in eliminating revenue streams that are not beneficial. As a result, you will free up your management time and allow yourself to focus on more profitable sections. Don’t just work hard, work smart.

Top Mistakes to Avoid
1. Overextending management time. There is only so much time in the day.
2. Randomly creating new revenue streams. Everything should be tied together.
3. Investing time, marketing funds and infrastructure in revenue stream without first figuring out if it is profitable.
4. Using revenues as an indicator. Remember that revenue does not mean profit.
5. Keeping the number of your revenue streams fixed. You should always be changing and learning. If you aren’t, you can bet that your competition is.
6. Thinking that the best way to grow is to increase the number of revenue streams. Sometimes simplifying and specializing in an area can actually increase your sales.

Now What?
1. Figure out where you are making the most amount of money.
2. Compare this to your strategy. Does this revenue stream fit?
3. Change your 30 second spiel about yourself. Instead of telling everyone all the things you are capable of doing, tailor your communication to your audience. Stress your most profitable revenue streams to the target market.
4. Focus on being the best at the most profitable part of your business. This will be your competitive advantage. In turn your credibility will be increased and your business will establish a stable position in the market.
5. Continue to monitor your process or product and seek out efficiencies. There could be opportunities to automate a portion of your sale that reduces your cost or frees up your time to focus on other or new revenue streams.
6. Remain aware.
If You Learn Anything, It Should Be This...

*Just because you charge a customer the most for one product/service, does not make this your most profitable product/service.*

Example: Hair Salon

<table>
<thead>
<tr>
<th>Revenue Stream</th>
<th>Profit Per Sale</th>
<th>Time to Deliver Sale</th>
<th>Hourly Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hair Cut</td>
<td>$25</td>
<td>30 minutes</td>
<td>$50/hr</td>
</tr>
<tr>
<td>Hair Colour</td>
<td>$55</td>
<td>1 hour</td>
<td>$55/hr</td>
</tr>
<tr>
<td>Permanent Waving and Straightening</td>
<td>$60</td>
<td>1 hour</td>
<td>$60/hr</td>
</tr>
<tr>
<td>Special Event Hair Styling</td>
<td>$50</td>
<td>1 hour</td>
<td>$50/hr</td>
</tr>
<tr>
<td>Salon Products</td>
<td>$25</td>
<td>10 min</td>
<td>$150/hr</td>
</tr>
</tbody>
</table>

According to this example, the owner’s most profitable revenue stream is in selling the salon products. These products are complementary to the salon’s core business service of hair cutting and colouring. However, as this is the most profitable revenue stream, all employees should be trained to concentrate on up selling salon products.