

**Task 1. Work in groups of two-three. Discuss with your partner(s) the following questions:**  
**What is a business model? What examples of successful business models can you provide?**

**Task 2. Read the article.**

# What Is a Business Model? Business Models Explained

by Noah Parsons

Editor's note: This article was originally published in 2017 and updated for 2021.

<https://articles.bplans.com/what-is-a-business-model-business-models-explained/>



Understanding the problem you are solving for your customers is undoubtedly the biggest challenge you'll face when you're starting a business. Customers need to want what you are selling and your product needs to solve a real problem. But, ensuring that your product fits the needs of the market is only one part of starting a successful business. The other key ingredient is figuring out how you're going to make money. This is where your business model comes into play.

## What is a business model?

A business model is the plan your business has for making money. It's an explanation of how you deliver value to your customers at an appropriate cost. This includes descriptions of the products or services you plan to sell, who your target market is, and any required expenses. The business model lets entrepreneurs experiment, test, and model different ways to structure costs and revenue streams. For those just starting out, exploring potential business models can help you determine if your business idea is viable, attract investors and guide your overall management strategy. For established businesses, it serves as the basis for developing financial forecasts, setting milestones, and setting a baseline for reviewing your business plan.

## What are the key components of a business model?

In its simplest form, a business model can be broken down into three parts:

1. **Everything it takes to make something:** design, raw materials, manufacturing, labor, and so on.
2. **Everything it takes to sell that thing:** marketing, distribution, delivering a service, and processing the sale.
3. **How and what the customer pays:** pricing strategy, payment methods, payment timing, and so on.

As you can see, a business model is simply an exploration of what costs and expenses you have and how much you can charge for your product or service. It brings together everything defined in the opportunity and strategy sections of your business plan. This includes things like your target market, your value proposition, sales and marketing activities, etc.

### **How do you know if your business model will be successful?**

A successful business model just needs to collect more money from customers than it costs to make the product. This is your profit—simple as that.

New business models can refine and improve any of the three components mentioned above. Maybe you can lower costs during design and manufacturing. Or, perhaps you can find more effective methods of marketing and sales. Or, maybe you can figure out an innovative way for customers to pay.

Keep in mind, though, that you don't have to come up with a new business model to have an effective strategy. Instead, you could take an existing business model and offer it to different customers. For example, restaurants mostly operate on a standard business model but focus their strategy by targeting different kinds of customers.

### **17 different types of business models**

You don't have to invent an entirely new business model to start a business. In fact, the vast majority of businesses use existing business models and refine them to find a competitive edge. Here's a list of business model examples you can use to start your own business.

#### **1. Advertising Рекламирующий (дает пространство для рекмалы, этим и живет)**

The advertising business model has been around a long time and has become more sophisticated as the world has transitioned from print to online. The fundamentals of the model revolve around creating content that people want to read or watch and then displaying advertising to your readers or viewers.

In an advertising business model, you have to satisfy two customer groups: your readers or viewers, and your advertisers. Your readers may or may not be paying you, but your advertisers certainly are.

An advertising business model is sometimes combined with a crowdsourcing model where you get your content for free from users instead of paying content creators to develop content.

Advertising business model examples  
CBS, The New York Times, YouTube

#### **2. Affiliate партнерская (ссылки)**

The affiliate business model is related to the advertising business model but has some specific differences. Most frequently found online, the affiliate model uses links embedded in content instead of visual advertisements that are easily identifiable.

For example, if you run a book review website, you could embed affiliate links to Amazon within your reviews that allow people to buy the book you are reviewing. Amazon will pay you a small commission for every sale that you refer to them.

Affiliate business model examples  
TheWireCutter.com, TopTenReviews.com

#### **3. Brokerage (Посредник)**

Brokerage businesses connect buyers and sellers and help facilitate a transaction. They charge a fee for each transaction to either the buyer or the seller and sometimes both.

One of the most common brokerage businesses is a real estate agency, but there are many other types of brokerages such as freight brokers and brokers who help construction companies find buyers for dirt that they excavate from new foundations.

Brokerage business model examples

ReMax, RoadRunner Transportation Systems

#### **4. Concierge/customization Кастомизация**

Some businesses take existing products or services and add a custom element to the transaction that makes every sale unique for the given customer.

For example, think of custom travel agents who book trips and experiences for wealthy clients. You can also find customization happening at a larger scale with products like Nike's custom sneakers.

Customization business model examples

NIKEiD, Journey

#### **5. Crowdsourcing Краудсортинг (привлечение к проблеме широкого круга лиц)**

If you can bring together a large number of people to contribute content to your site, then you're crowdsourcing. Crowdsourcing business models are most frequently paired with advertising models to generate revenue, but there are many other iterations of the model. Threadless, for example, lets designers submit t-shirt designs and gives the designers a percentage of sales. Companies that are trying to solve difficult problems often publish their problems openly for anyone to try and solve. Successful solutions get rewards and the company can then grow its business. The key to a successful crowdsourcing business is providing the right rewards to entice the "crowd" while also enabling you to build a viable business.

Crowdsourcing business model examples

Kickstarter, Patreon

#### **6. Disintermediation Устранение посредников**

If you want to make and sell something in stores, you typically work through a series of middlemen to get your product from the factory to the store shelf.

Disintermediation is when you sidestep everyone in the supply chain and sell directly to consumers, allowing you to potentially lower costs to your customers and have a direct relationship with them as well.

Disintermediation business model examples

Casper, Dell, Apple

#### **7. Fractionalization Фракционирование**

Instead of selling an entire product, you can sell just part of that product with a fractionalization business model.

One of the best examples of this business model is timeshares. Where a group of people owns only a portion of a vacation home, enabling them to use it for a certain number of weeks every year.

Fractionalization business model examples

Disney Vacation Club, NetJets

#### **8. Franchise Франшиза**

Franchising is common in the restaurant industry, but you'll also find it in all sorts of service industries from cleaning businesses to staffing agencies.

In a franchise business model, you are selling the recipe for starting and running a successful business to someone else. You're often also selling access to a national brand and support

services that help the new franchise owner get up and running. In effect, you're selling access to a successful business model that you've developed.

Franchise business model examples

Ace Hardware, McDonald's, Allstate

## **9. Freemium Бесплатный минимум**

With a freemium business model, you're giving away part of your product or service for free and charging for premium features or services.

Freemium isn't the same as a free trial where customers only get access to a product or service for a limited period of time. Instead, freemium models allow for unlimited use of basic features for free and only charge customers who want access to more advanced functionality.

Freemium business model examples

MailChimp, Evernote, LinkedIn

## **10. Leasing Лизинг**

Leasing might seem similar to fractionalization, but they are actually very different. In fractionalization, you are selling perpetual access to part of something. Leasing, on the other hand, is like renting. At the end of a lease agreement, a customer needs to return the product that they were renting from you.

Leasing is most commonly used for high-priced products where customers may not be able to afford a full purchase but could instead afford to rent the product for a while.

Leasing business model examples

Cars, DirectCapital

## **11. Low-touch (бизнес-модели с низким уровнем обслуживания компании снижают свои цены, предоставляя меньше услуг)**

With a low-touch business model, companies lower their prices by providing fewer services.

Some of the best examples of this type of business model are budget airlines and furniture sellers like IKEA. In both of these cases, the low-touch business model means that customers need to either purchase additional services or do some things themselves in order to keep costs down.

Low-touch business model examples

IKEA, Ryan Air

## **12. Marketplace**

Marketplaces allow sellers to list items for sale and provide customers with easy tools for connecting to sellers.

The marketplace business model can generate revenue from a variety of sources including fees to the buyer or the seller for a successful transaction, additional services for helping advertise seller's products, and insurance so buyers have peace of mind. The marketplace model has been used for both products and services.

Marketplace business model examples

eBay, Airbnb

## **13. Pay-as-you-go Оплата по мере поступления**

Instead of pre-purchasing a certain amount of something, such as electricity or cell phone minutes, customers get charged for actual usage at the end of a billing period. The pay-as-you-go model is most common in home utilities, but it has been applied to things like printer ink.

Pay-as-you-go business model examples

Water companies, HP Instant Ink

## **14. Razor blade Лезвие бритвы**

The razor blade business model is named after the product that essentially invented the model: sell a durable product below cost to increase volume sales of a high-margin, disposable component of that product.

This is why razor blade companies practically give away the razor handle, assuming that you'll continue to buy a large volume of blades over the long term. The goal is to tie a customer into a system, ensuring that there are many additional, ongoing purchases over time.

Razorblade business model examples

Gillette, Inkjet printers, Xbox, Amazon's Kindle

### 15. Reverse razor blade Обратное лезвие бритвы

Flipping the razor blade model around, you can offer a high-margin product and promote sales of a low-margin companion product.

Similar to the razor blade model, customers are often choosing to join an ecosystem of products. But, unlike the razor blade model, the initial purchase is the big sale where a company makes most of its money. The add-ons are just there to keep customers using the initially expensive product.

Reverse razorblade business model examples

iPhone & iTunes, Peloton

### 16. Reverse auction (Государственный заказ)

A reverse auction business model turns auctions upside down and has sellers present their lowest prices to buyers. Buyers then have the option to choose the lowest price presented to them.

You can see reverse auctions in action when contractors bid to do work on a construction project. You also see reverse auctions anytime you shop for a mortgage or other type of loan.

Reverse auction business model examples

Priceline.com, LendingTree

### 17. Subscription Подписка

Subscription business models are becoming more and more common. In this business model, consumers get charged a subscription fee to get access to a service.

While magazine and newspaper subscriptions have been around for a long time, the model has now spread to software and online services and is even showing up in service industries.

Subscription business model examples

Netflix, Salesforce, Comcast

### Innovate with established business models

This is by no means an exhaustive list of all business models that exist—but, hopefully, it gets you thinking about how you might structure your business.

The key thing to remember is that you don't need to invent a new business model when you're starting your business. Using existing models can help lead you to success because the model has been proven to work. You'll be innovating in smaller ways within that existing business model to grow your business.

A new business model could be extremely lucrative but also brings with it higher risk. You don't know if customers will accept the model or not.

**Task 3. Fill in the gaps with the words from the box. Use nouns in plural where necessary.**

lucrative прибыльный, revenue stream поток доходов, competitive edge конкурентное преимущество, staffing agency кадровое агентство, timeshare middleman
---

посредник по таймшеру, iteration итерация, freight груз, real estate agency  
 агентство недвижимости, value proposition ценностное предложение, viable  
 жизнеспособный, labor труд

1. He gave up a **lucrative** career as a lawyer to look after his kids.
2. This will generate an additional **revenue stream** for the organizers and makes the knowledge available to a broader audience.
3. Holders of these certificates gain a **competitive edge** and are typically rewarded with higher salaries.
4. The cooks for the family were hired through a **staffing agency**.
1. They bought a **timeshare** in Tenerife for €20,000.
5. Knowing that the farmers want to sell quickly, the **middleman** often set ridiculously low prices.
6. Further **iteration** of the diagram are therefore likely before the final versions are produced.
7. Most planes carry both **freight** and passengers.
8. A few days later, the **real estate agency** decides to have a yard sale by selling the items left in the house by the previous owners.
9. A customer **value proposition** is a business or marketing statement that describes why a customer should buy a product or use a service.
10. Where given reasonable and economically **viable** alternatives, smallholders respond.
11. We also make the assumption that there is unemployment and therefore no extra cost for recruiting **labor**.

**Task 4. Match business models to their definitions.**

1	Advertising L Яндекс Музыка	A	This model is based on removal of different elements within the middle of a supply chain.
2	Affiliate N Raid shadow Legends :)	B	There is little human interaction between the buyer and seller from the customer acquisition process to product or service delivery.
3	Brokerage F Московская биржа	C	A company purchases a product and then allows a customer to use it for a periodic free.
4	Customization Q HyperPC	D	A <u>model</u> which enables consumers to make a one-time purchase of a <u>product</u> or service without having to subscribe to a regular payment.
5	Crowdsourcing H Wikipedia	E	A pricing tactic in which a dependent good is sold at a loss (or at cost) and a paired consumable good generates the profits.
6	Disintermediation A Мироторг and their own brand of meat	F	A business connecting buyers with sellers to collect a commission on the resultant transaction
7	Fractionalization K Concept of ownership (I don't know names of brads)	G	In this model the sellers offer the dependent product at a premium price and consumable at a lower and convenient price.

8	Franchise P Mc Donald's	H	A model involving the contribution of the user to the product
9	Freemium O YouTube PREMIUM	I	A strategy used in sourcing between buyers and suppliers in which sellers compete with one another to win the business of the buyer
10	Leasing C	J	A recurring revenue model in which customers pay a weekly, monthly, or yearly fee in exchange for your products or services.
11	Low-touch B КСП	K	This model gives the customers the opportunity to buy the portion of a product or service.
12	Marketplace M Ozon	L	This business must first establish an audience by generating content or facilitating interaction and then earn revenue by selling access to that audience.
13	Pay-as-you-go D Bottled water delivery(for example Водовоз)	M	This model connects buyers and sellers on a proprietary and centralized platform.
14	Razor blade E Sputnik	N	A model in which a company pays others (e.g., bloggers) to advertise their products and services and generate sales.
15	Reverse razor blade G Service centers that refill ink cartridges for printers	O	Users get basic features at no cost and can access richer functionality for a subscription fee.
16	Reverse auction I Концерн Калашников	P	A <u>business model</u> where the owner of a product, service, or method utilizes the <u>distribution</u> services of an affiliated dealer
17	Subscription J КиноПоиск	Q	A <u>model</u> is one in which a company provides personal assistance to businesses, employees, and individuals

### Task 5. Answer the questions below:

- What are the key ingredients of starting a successful business?

Understanding the problem you are solving for your customers

Name key components of a business model.

figuring out how you're going to make money.

- Does an effective strategy imply using a new business model? Why?

It doesn't, because a new business model could be lucrative but also very risky

- Which business models seem the easiest to implement in Russia?

Probably a low-touch model, something like a shawarma booth.

**Task 6. Look at the underlined verb forms in the article and decide what tense each verb form is. Change the context of each sentence to change the verb form.**