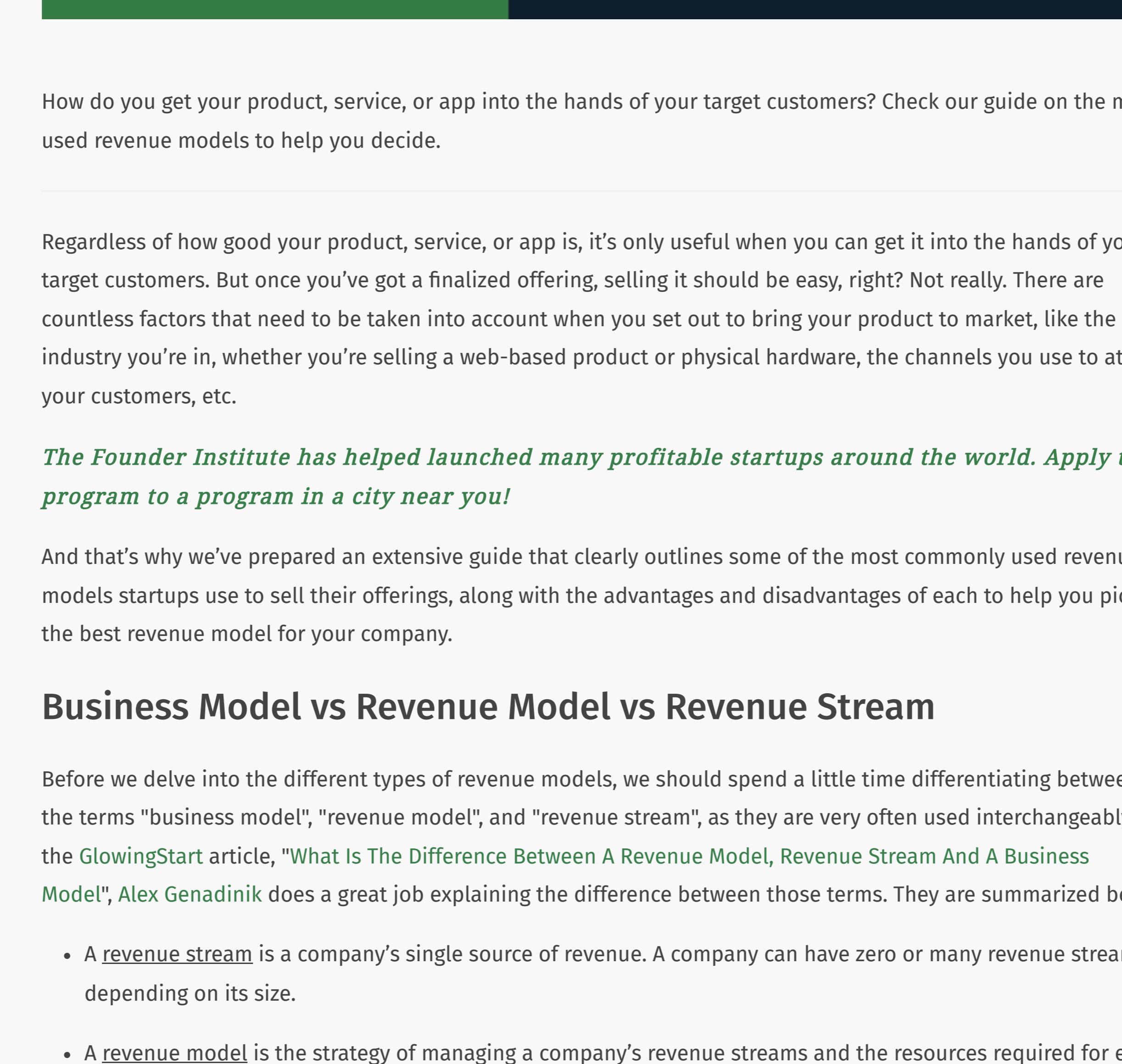


JUN 01, 2018

The 10 Most Popular Startup Revenue Models



How do you get your product, service, or app into the hands of your target customers? Check our guide on the most used revenue models to help you decide.

Regardless of how good your product, service, or app is, it's only useful when you can get it into the hands of your target customers. But once you've got a finalized offering, selling it should be easy, right? Not really. There are countless factors that need to be taken into account when you set out to bring your product to market, like the industry you're in, whether you're selling a web-based product or physical hardware, the channels you use to attract your customers, etc.

The Founder Institute has helped launched many profitable startups around the world. Apply to a program to a program in a city near you!

And that's why we've prepared an extensive guide that clearly outlines some of the most commonly used revenue models startups use to sell their offerings, along with the advantages and disadvantages of each to help you pick the best revenue model for your company.

Business Model vs Revenue Model vs Revenue Stream

Before we delve into the different types of revenue models, we should spend a little time differentiating between the terms "business model", "revenue model", and "revenue stream", as they are very often used interchangeably. In the GlowingStart article, "What Is The Difference Between A Revenue Model, Revenue Stream And A Business Model?", Alex Genadinik does a great job explaining the difference between those terms. They are summarized below:

- A **revenue stream** is a company's single source of revenue. A company can have zero or many revenue streams, depending on its size.
- A **revenue model** is the strategy of managing a company's revenue streams and the resources required for each revenue stream.
- A **business model** is the structure comprised of all aspects of a company, including revenue model and revenue streams, and describes how they all work together.

Types of Revenue Models

There are numerous types of revenue models, so this list in no way attempts to list them all, especially since so many of them go by other names in the startup community. However, below are ten of the most popular and effective revenue models employed by companies, both big and small.

Genadinik's article, "Different Revenue Models", covers some of the more common revenue models that countless recently-launched startups use to generate their first sales. Here are the revenue models he covers below:

1. Ad-Based Revenue Model

Ad-based revenue models entail creating ads for a specific website, service, app, or other product, and placing them on strategic, high-traffic channels. If your company has a website or you have a web-based company, Google's AdSense is one of the most common tools for ads. For most websites, AdSense will earn about \$5-10 per 1,000 page views.

- **Advantages:** Making money from ads is one of the simplest and easiest ways to implement revenue models, which is why so many companies utilize ads as a source of revenue.
- **Disadvantages:** In order to generate sufficient revenue to withhold a business, you will need to attract millions of users. In addition, most people find ads annoying, which can lead to low clickthrough rates, and therefore, lower revenue.

2. Affiliate Revenue Model

Another popular web-based revenue model is the affiliate revenue model, which works by promoting links to relevant products and collecting commission on the sales of those products, and can even work in conjunction with ads or separately.

- **Advantages:** One of the most obvious benefits of employing an affiliate revenue model is that it generally makes more money than ad-based revenue models.
- **Disadvantages:** If you use an affiliate revenue model for your startup, remember that the amount of money you make is limited to the size of your industry, the types of products you sell, and your audience.

3. Transactional Revenue Model

Countless companies, both tech-oriented and otherwise, strive to rely on the transactional revenue model, and for good reason too. This method is one of the most direct ways of generating revenue, as it entails a company providing a service or product and customers paying them for it.

- **Advantages:** Consumers are more attracted to this experience because of its simplicity and the wider set of options.
- **Disadvantages:** Because of the directness of the transactional revenue model, many companies employ it themselves, which means more competition and price deterioration, and therefore, less money to made for everyone who uses this model.

4. Subscription Revenue Model

The subscription revenue model entails offering your customers a product or service that customers can pay for over a longer period of time, usually month to month, or even year to year.

- **Advantages:** If your company is far enough along in its development, this model can generate recurring revenue, and can even benefit from customers who are simply too lazy to cancel their subscription to your company (which is the dirty little secret of a subscription-based model).
- **Disadvantages:** Because this model depends so much on having a large consumer base, it's critical to maintain a higher subscribe rate than an unsubscribe rate.

In the blog post "Comparing Business Models to Sales Models", Dave Parker outlines the various ways that a company can sell their product or service, emphasizing how the market you pick affects the way in which you take your product to market. Here are the methods he describes:

5. Web Sales

This is an offshoot of the transactional revenue model, in which a customer pays directly for a product or service, except that customers must first come to your company via a web search or outbound marketing, and conduct transactions solely over the internet.

- **Advantages:** Web sales work with a wide variety of offerings, including software, hardware, and even subscription services.
- **Disadvantages:** Relationship sales are incompatible with the web sales model, so if your company is related to consulting or big ticket items (high-value items such as houses, appliances, and cars), you should consider employing a model that's more suited to your offering.

6. Direct Sales

There are two types of direct sales: inside sales, in which someone calls in to place an order or sales agents calling prospects; and outside sales, which is a face to face sales transaction.

- **Advantages:** Direct sales models work great with relationship sales cycles, enterprise sales cycles, or complex sales cycles that entail multiple buyers and influencers.
- **Disadvantages:** The direct sales model often requires hiring a sales team of some sort, which means that it isn't optimal for small ticket price items. If your offering is priced below the \$1,000-\$2,000 range, you'll have trouble building a scalable company.

7. Channel Sales (or Indirect Sales)

The channel sales model consists of agents or resellers selling your product for you and either you or the reseller delivering the product. The affiliate revenue model is a good companion model to this one, especially if your offering is a virtual product.

- **Advantages:** The channel sales model is ideal for companies who have a product that's an incremental sale for their channel and can produce incremental profit.
- **Disadvantages:** Don't employ this model if your product requires you to evangelize your marketplace, or if your product competes with that of your partner's, as they will push theirs and not yours.

8. Retail Sales

Retail sales entails setting up a traditional department store or retail store in which you offer physical goods to your customers. Keep in mind that the retail sales model will require shelf space (that you'll have to pay for) at existing stores, and is best suited for products that require logistics to reach your customers.

- **Advantages:** Retail sales is a great way to offer deals and complimentary products to an existing customer base to help boost brand awareness.
- **Disadvantages:** The retail sales route is not ideal for early stage companies, or companies that offer digital products like software or apps.

In the Domain.me article, "Planning The Expansion and Revenue Models for your Startup", Sarah Green lists even more effective revenue models for startups, including two that are based around the idea of giving something to your customers for free to help generate revenue at a later point.

9. Product is Free, But Services Aren't

This model is unique compared to others, in that you have to give your product away for free, yet require customers to pay for installation, customization, training or other additional services.

- **Advantages:** This model is great for building trust with your customer base and boosting brand awareness, as any company that offers anything for free will generate considerable buzz.
- **Disadvantages:** Remember, employing this model means that you are basically running a services business with the product as a marketing cost. Also, a model like this isn't always the best for scaling your company in the long term, so keep your eye on additional revenue models to utilize later on.

10. Freemium Model

The freemium model is one in which a company's basic services are free, yet users must pay for additional premium features, extensions, functions, etc. One of the biggest companies to use this model is LinkedIn, the most popular business/social media platform.

- **Advantages:** Similar to the previous model, the freemium model offers something free to users, which is a great way to give them a taste of your product or service while simultaneously enticing them to pay for something later on.
- **Disadvantages:** This model requires a considerable investment of time and money to reach out to your audience, and even more effort to convert free users into paying customers.

Jasmine Hoffman

TechDay HQ

"Developing a revenue model for your business is perhaps the best step way to get and keep your startup financially healthy. A well thought out and credible revenue model connects the dots for potential investors."

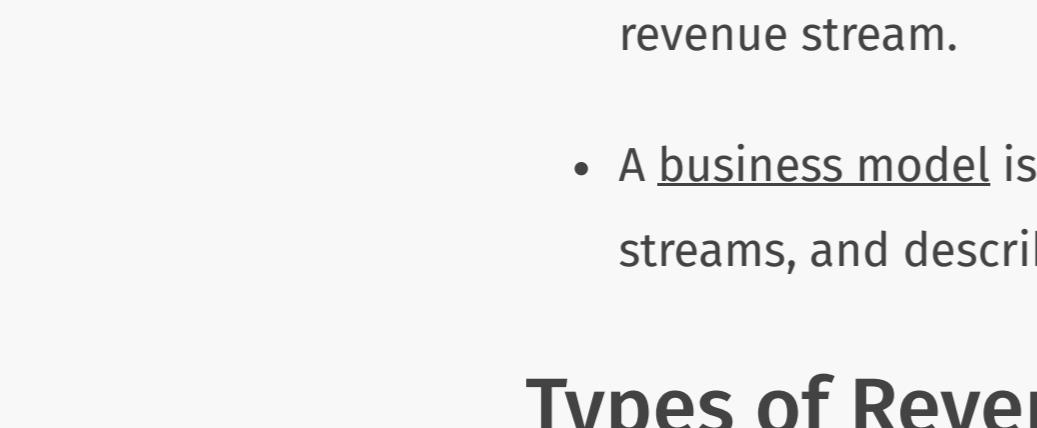
Final Thoughts

Remember to do your research, and take the time to decide which model is most ideal for your startup, as once you settle on a revenue model, especially if you're early stage, it can be hard to pick another. As stated before, this blog post doesn't cover every revenue model used by startups, but by highlighting the most popular ones, you should have enough information to help you pick the revenue model that will boost your startup into the big leagues.

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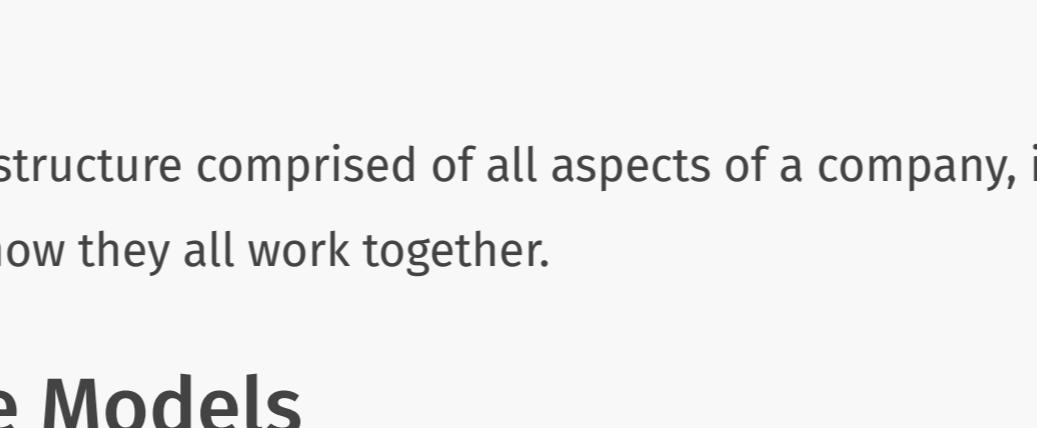
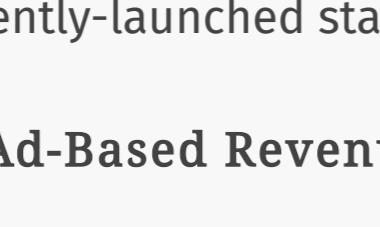
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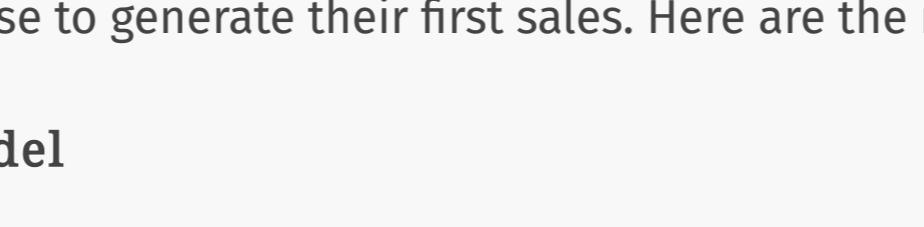
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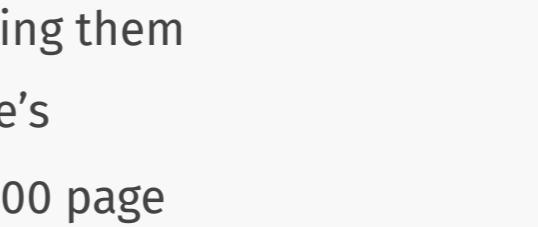
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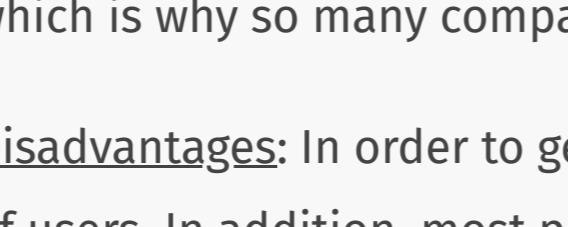
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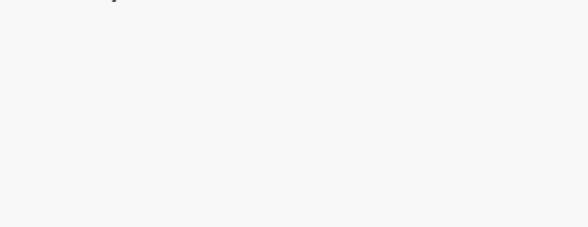
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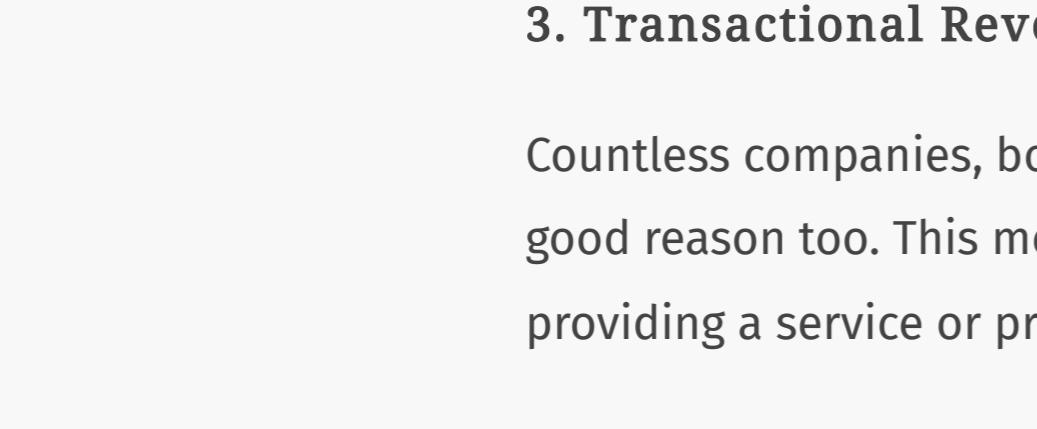
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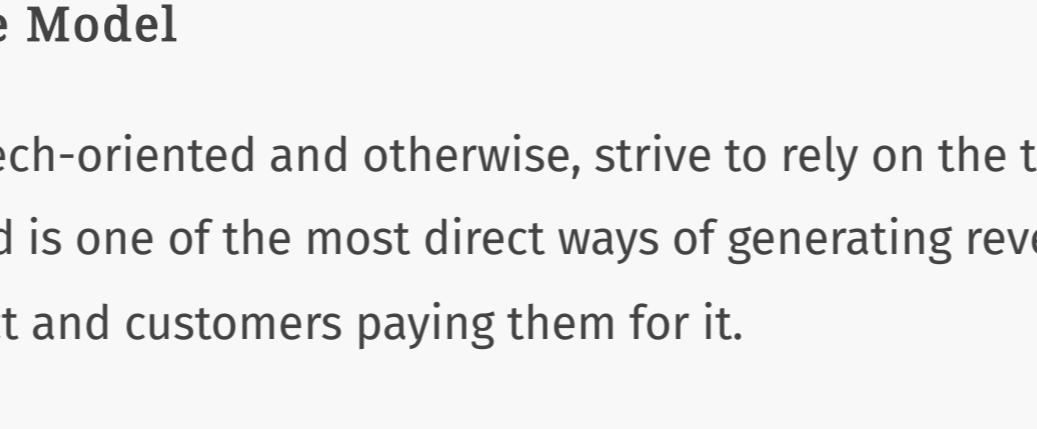
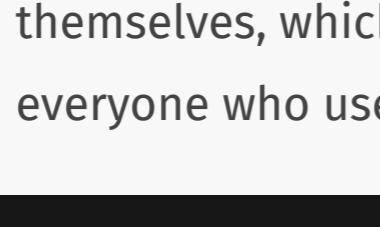
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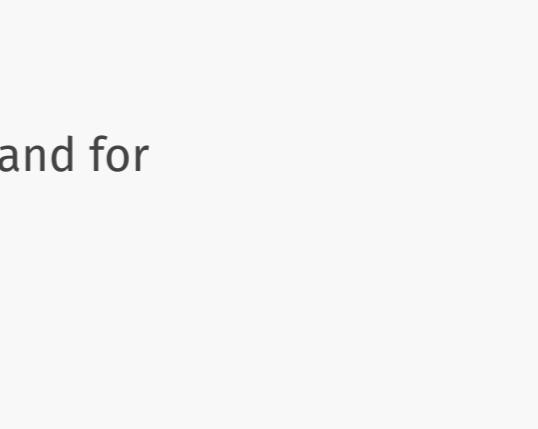
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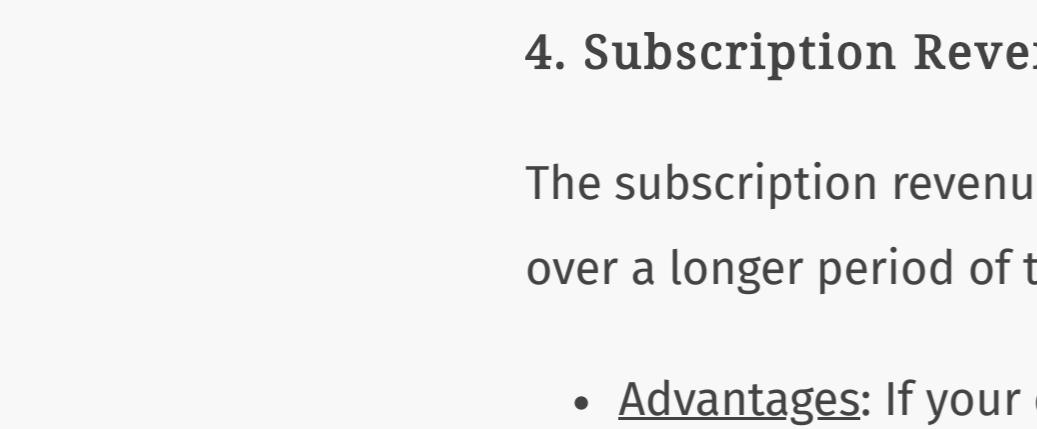
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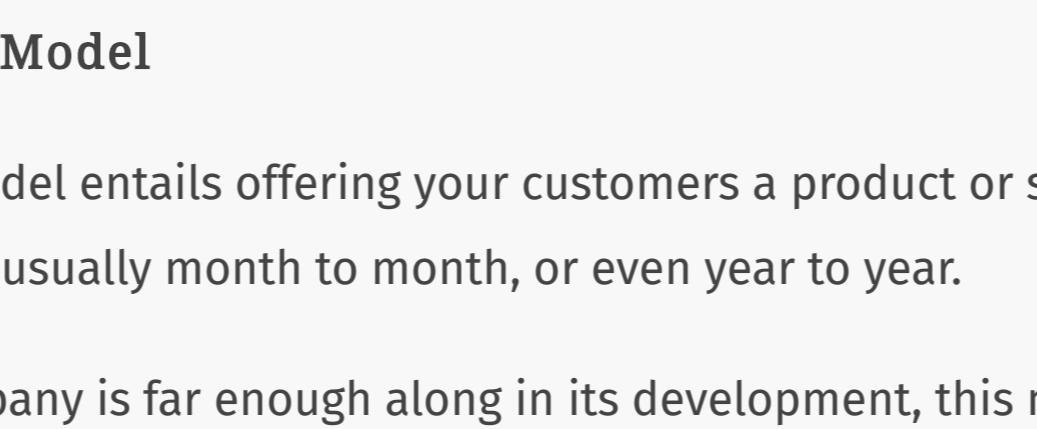
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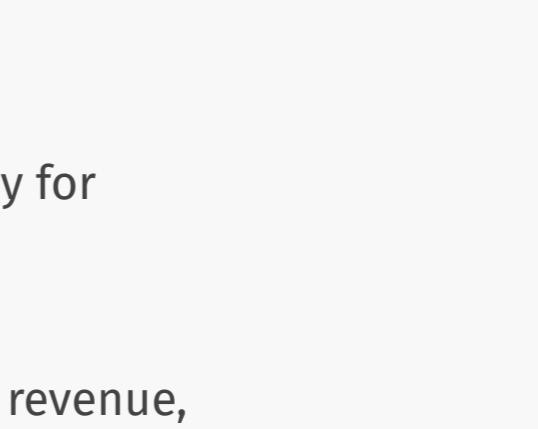
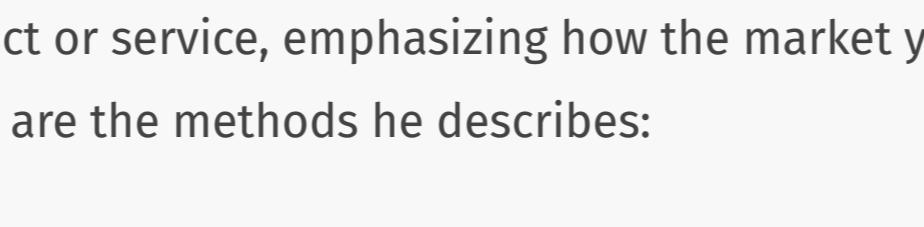
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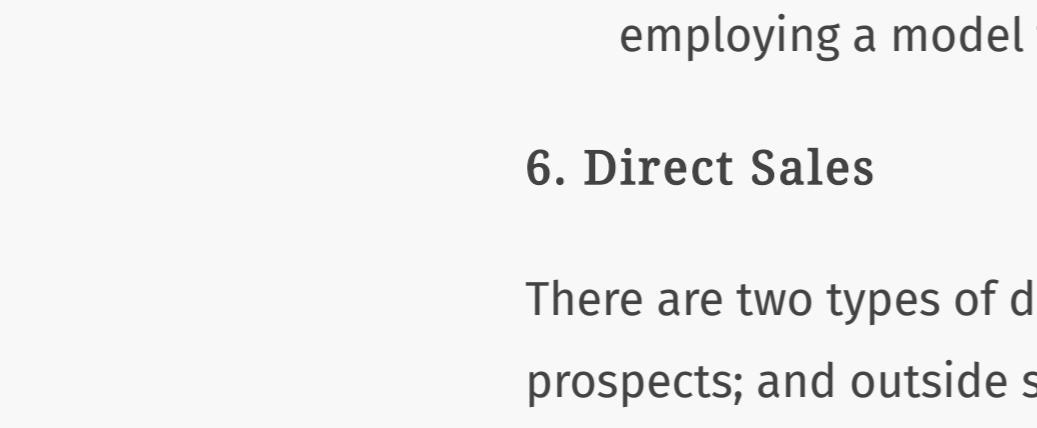
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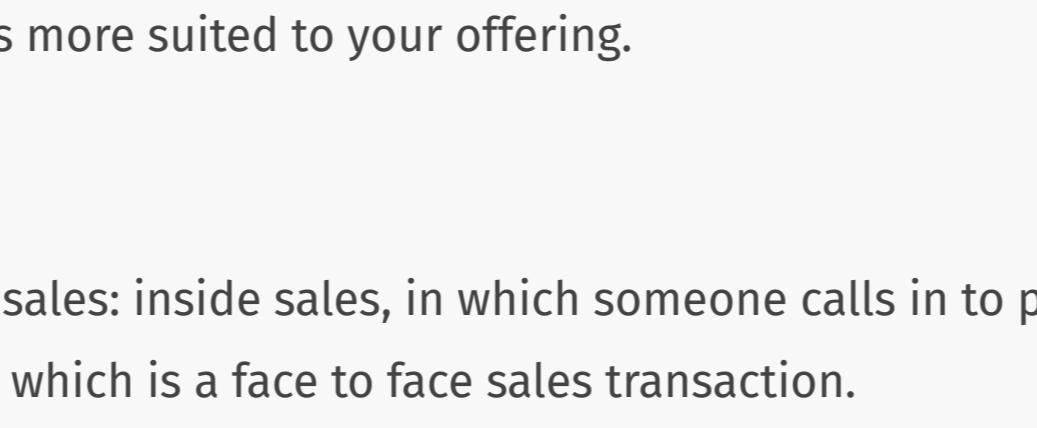
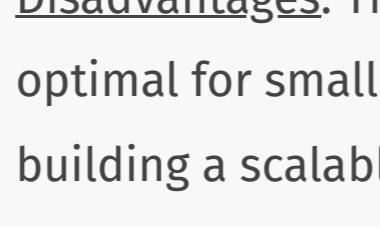
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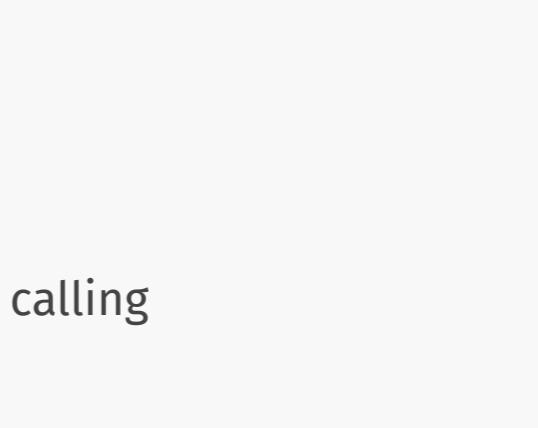
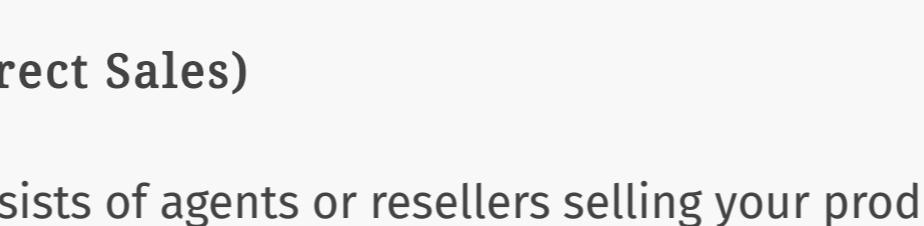
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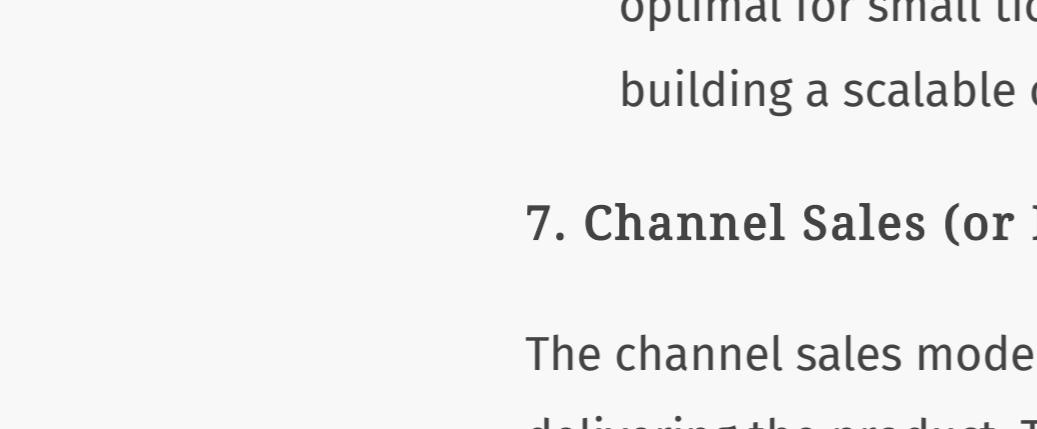
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