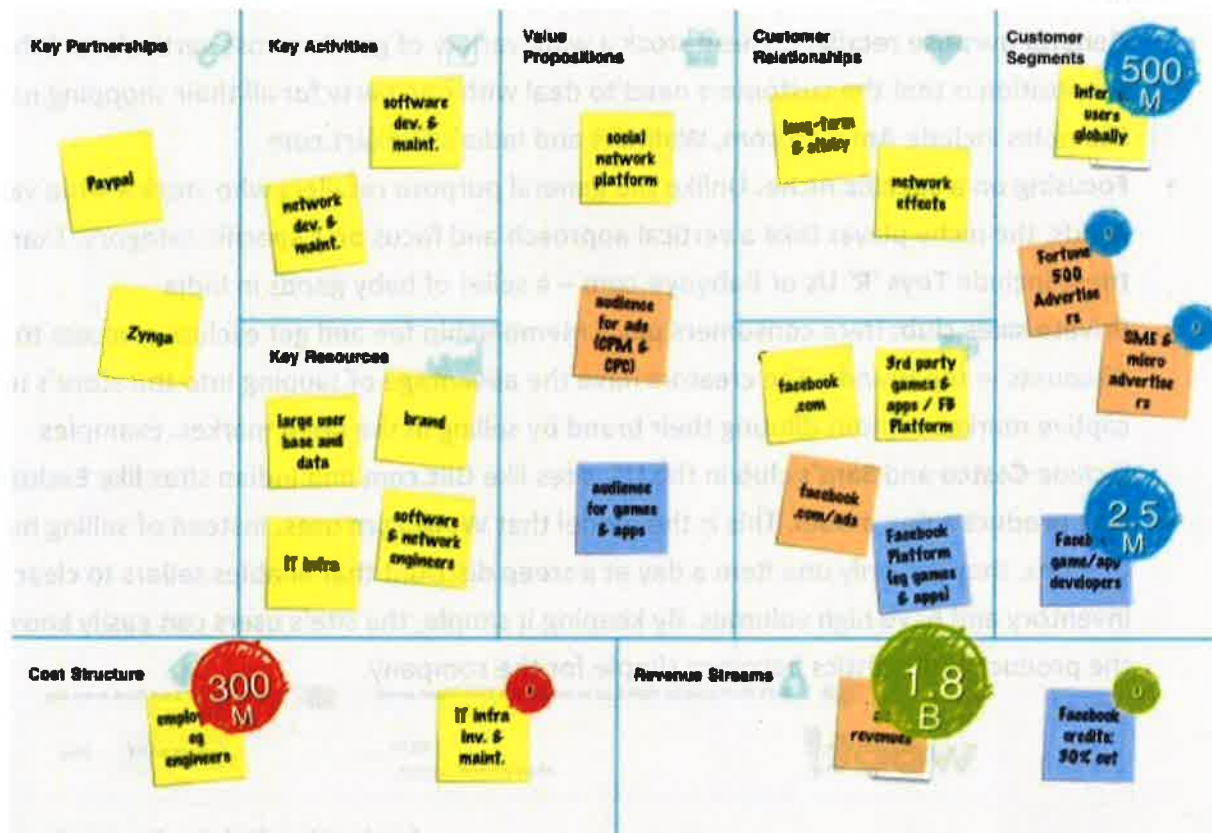


How to Build Revenue: 24 Types of Business Models with Examples



Traditional Business Models

1. Create a physical good, a service or a virtual good – movie, music

This is the most fundamental business model. Create a product or service and sell it – either directly to the customer or to a distributor. The primary challenge here is building the right product and finding the right channel partner. There are three variants of this:

- **Direct Marketing to consumer.** Dell and Apple are examples of this category. They sell their PCs and other electronic goods directly online or through fully owned stores in case of Apple. The advantages include disintermediation that increases margins and help build the brand experience for the consumers (in iStores free support and detailed demo of Apple's products are usually provided)
- **Sell it to distributors and retailers.** Here, the creator sells it to all retailers who want to sell the product. Most manufacturers fall under this category.
- **Exclusive rights to certain distributors.** Here the creators limit the distribution to only one or a few distributors thereby allowing them a monopoly on the creator's product & build bigger margins. Most bands, movie producers, book authors fall under this category.

2. Distributor of goods and services. The goal of distributors is to connect the creator and the consumer. The distributors aggregate goods from various creators and bring economies of scale in

distribution and logistics. Big issues in this model circles around margins and logistics. The barriers to entry are low and keeping margins while competing with dozens of new entrants is a challenge. Variants of this model are:

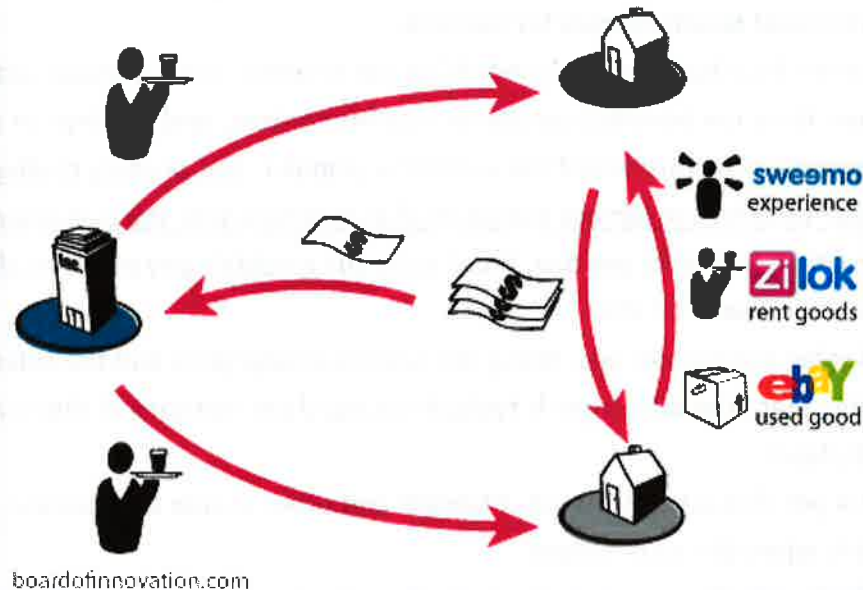
- **General purpose retailers.** These stock a wide variety of goods across verticals and their value proposition is that the customers need to deal with one party for all their shopping needs. Examples include [Amazon.com](https://www.amazon.com), [Walmart](https://www.walmart.com) and India's [Flipkart.com](https://www.flipkart.com)
- **Focusing on a specific niche.** Unlike the general purpose retailers who stock a wide variety of goods, the niche player take a vertical approach and focus on a specific category. Examples of these include [Toys 'R' Us](https://www.toysrus.com) or [Babyoye.com](https://www.babyoye.com) – a seller of baby goods in India
- **Private sales club:** Here consumers pay a membership fee and get exclusive access to discounts in top brands. The creators have the advantage of tapping into the store's upscale captive market without diluting their brand by selling in the open market. Examples include [Costco](https://www.costco.com) and [Sam's club](https://www.samclub.com) in the US, sites like [Gilt.com](https://www.gilt.com) and Indian sites like [Exclusively.in](https://www.exclusively.in)
- **One product a day model.** This is the model that [Woot.com](https://www.woot.com) uses. Instead of selling hundreds of items, they sell only one item a day at a steep discount that enables sellers to clear inventory and have high volumes. By keeping it simple, the site's users can easily know about the product and logistics becomes simple for the company.



Woot.com sight showing only one product at a time.

- **Bricks and Clicks model.** This is applicable for traditional stores who want to take advantage of their distribution network while still tapping the online audience. Stores ranging from [Macy's](https://www.macys.com) to [Subway](https://www.subway.com) to [Walmart](https://www.walmart.com) allow customers to buy on their site and let them pick up the product in-store.
3. **Franchisee model.** This is not a standalone model, but taps the business model of a successful business and lets other businesses to piggy back on that. The businesses that piggy back are expected to pay fixed fee and/or share on the revenues to the creator of the business model. Examples include [Subway](https://www.subway.com), [McDonalds](https://www.mcdonalds.com) and range of other service providers. Biggest challenges here are the increased setup costs and lesser margins in this model, though the risk is low given the bigger volumes that comes from a known brand.

4. **Razor and blades model.** In this model, the seller sells one product for free or very low cost hoping to sell a complementary product at high margins. For example, most **Gillette** razors are sold very cheap while their cartridges are expensive. Same with printer manufactures and **Apple's iTunes & appstore** that bring comparatively low revenues but leads to higher sales on their hardware. To sustain this model the complementary good has to be patent protected or highly tied to their platform preventing others from producing that. Other examples include, very high margins on restaurants selling wine, airlines selling food and cinema halls selling popcorns & soda. Content creators have also tapped this. For example, at **SeekingAlpha.com** financial analysts provide free analysis while hoping to drive traffic to their brokerage or newsletter businesses.



How brokerage model works. The two houses on the right shows customers which brokerage matchmaking. Copyright of BoardofInnovation.com

5. **Brokerage/Marketplace model.** In this model the business matches buyers and sellers in usually auction like model and take a commission on the sales. This is one of the most powerful models that can provide enormous profits to the business and they usually enjoy monopolistic advantage. The primary challenge is in this model revolves around scale & network effects. Without enough parties on both sides of the trade, the model would not work. There are 6 variants of this.
- **Selling physical goods.** Eg. **Ebay**. Here buyers engage in a bidding process and the highest bidder gets access to the goods
 - **Renting physical goods.** Eg. **Airbnb.com** Here buyers get access to the physical property for a limited time during their vacation.
 - **Selling platform specific virtual goods.** Eg. **Apple's app store** and **Google's Android** store sells applications of third parties to their platform users. This can be a big way to keep them tied to their hardware.
 - **Financial goods.** All brokerages, banks and financial institutions fall under this category.
 - **Human services.** Companies like **oDesk.com**, **Elance.com**, **99designs.com**, **Amazon's mechanical turk** bring humans to do a particular job demanded by the buyer.

- **Experience.** Sites like **Sweemo.com** allow people to auction special memories – like taking the buyer to an exclusive concert, behind the scenes in a movie set, etc

6. **Landlord model for renting products or services.** This is also a fundamental model that we see all around us. The business rents a physical location or a product for a specific period for a fee. **Airlines, hotels,** and DVD renters like **Netflix** fall under this category. Though it is well understood for physical goods, it is in a nascent stage for virtual goods like books, music etc. Amazon introduced a way for **kindle** users to borrow & lend content. The evolution of DRM could help create plenty of new businesses on this renting digital goods. The primary challenge here is high capital investment and the need to have a constant pipeline of customers.

7. **Advertisement based models for content**

This is one of the fundamental models for the Internet. Most popular sites rely on this to build their revenues. Here the business creates or sources content, and displays an ad along the content. The advertiser pays the business if the content is popular. The primary challenges here include adblocker tools by consumers and general ad wariness that the customers have gotten to. For most sites less than 10K visits per day, the display ads wouldn't pay much to afford even one employee. There are 3 variants on this

- Display and banner ads. These are seen in newspapers and the sides of content in popular sites. Here the advertiser is typically charged per instance of display (CPM – cost per thousand displays)
- Pay per click ads. This is what **Google** and other search engines use. The advertiser is charged only when the ad is clicked.
- Media ads. These appear in songs played in a radio or TV station like **Spotify.com, Pandora.com** or **Youtube**. Usually the user is forced to listen to the ad, while it is easy to ignore the ad in the previous two variants.

8. **Subscription based model.** In a subscription model the business gets a period fee from the user. Examples include telephone and home rentals. In the recent times, a lot of software companies are exploring this by selling software as a service (SaaS). A great example is **37 signals** – a software company selling productivity and enterprise management tools, as a service with prices ranging from \$10-\$50 a month. The biggest challenge in this model is the subscriber churn – where the customers shift to a competitor's business or move on to a substitute product. To prevent this, businesses try to lock their data (to prevent move) and try to give heavy discounts on long-term plans.

9. **Lead generation and affiliate marketing.** In this model, a business offers a service to the user and as a byproduct generates a lead to another business and gets a commission from them. A great example for this is India's directory service **Justdial**. Here consumers call the service to enquire about packers, hotels, cinema halls etc and the company connects to 3-5 service providers and pockets a fee. The other variant is affiliate marketing, where you sell a lead to another product in your content. Instead of advertising, the end business gives money only when the lead actually leads to a sales. A lot of content sites are moving over to this model as it provides higher revenues

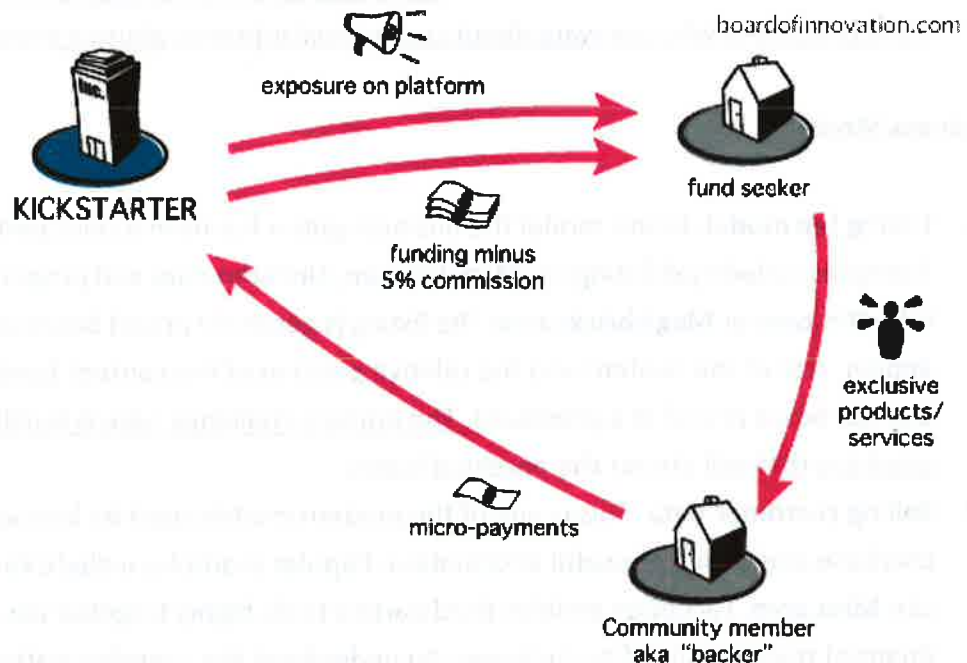
when used with targeted audience. The primary challenge here is about building a large user base who will be using the service and how relevant lead can be generated.

10. **Multilevel marketing.** This is a model that converts part of the consumers into salespeople. Companies like **Amway** and **Tupperware** have been doing this successfully. There could be multiple levels of customers in a distribution hierarchy with consumers who bring in more people into the distribution network rewarded more. The primary challenge here is the inherent resistance from most customers who are wary about commercial interests abusing their personal relationships.

New Business Model

1. **Listing fee model.** In this model the business gets a fee from a third party for uploading its content. Examples include job listings in **Monster.com**, **LinkedIn.com** and property listings in **Redfin.com** or **Magicbricks.com**. The listing is generally priced based on the number of days it will appear, size of the content and the relative position of the content (content at the top or with distinct boxes priced at a premium). The primary challenge here is building the relevant userbase that will attract the potential listers.
2. **Selling customer data.** This is one of the modern models used by businesses that have large userbase and plenty of useful information. Popular examples include **Facebook** and the financial site **Mint.com**. Facebook enables third parties to do highly targeted ads and Mint.com uses the financial transactions of its customers to understand the spending pattern and market the appropriate products to them. New startups like **PatientsLikeMe.com** are also tapping this. The primary challenges include building large userbase, obtaining relevant information and privacy concerns. There are big privacy concerns here and governments are working to regulate this market. As more user content gets online, we will have more business tapping this.
3. **Micropayment for content.** This is a new model pioneered by sites like **Flatrr.com**. In this model, users can support content creators for altruistic reasons and offer to pay a small micro-payment. The users pay small amounts for various articles they have read and the business aggregates these payments and passes it to the creators after deducting their fee. Wikileaks.com for example got funding from many of this readers through this. The primary challenges include motivating users to pay for something that they can get for free and high transaction costs that reduce the effectiveness of micropayments.
4. **Freemium model.** This is a popular model for software and service companies. The basic idea is that the company sells out two services – one for free but with limited features, and another for premium with full set of features. Examples, include games that are given out for a trial period or with limited levels (**Angry birds**) and **Google's business apps** that are free for businesses that have less than 10 users. The free is expected to generate the buzz and build the customer base while converting a part of them into the premium version that actually makes money. The primary challenges revolve around exciting users with the free model while still motivating enough of them to convert to the premium model. In many cases, users are happy enough with the free model that the businesses are forced to deliberately cut down the features of the free model.

5. **Crowdsourcing model.** This is a very evolving model with a lot of potential. In this the business gets a lot of users who could do some work that could be utilized by other business for a fee. Recent examples include [Quirky.com](#) that enables inventors to tap the crowd to refine their idea and [Kickstarter.com](#) a site for startups to raise money from large number of small investors. The biggest challenges involve building the right user base who are willing to put their money or hard work.



Business model of Kickstarter. Copyright of BoardofInnovation.com

6. **Open source customization and maintenance.** This is the model for many software companies like RedHat and MySQL who make products that are open source. RedHat for example sells a flavor of the free operating system Linux that includes customization, maintenance and support. This way the user is not paying for owning the software but for its added features. The biggest challenge might be that not many customers want customization and maintenance if the underlying product is very mature and has plenty of online support.
7. **No-frills model.** This is a model where a business takes an existing product or a service and cuts to the bare minimum by removing all the frills, and selling this core offering at a low cost. Examples, include Tata's Nano car and low cost airlines like Southwest airlines and Airasia. The whole model is built on reducing cost by using a variety of innovative things. The biggest challenge involves low margins and high competition.
8. **Network effect model.** Since most of the modern business models involve building large userbase, this model is crucial as it can help businesses to do that. In this model the business tries to focus mainly on building more users and making money eventually through selling users data or advertisements. Network effects are spiral effects that tend to create a positive feedback loop. For example, when only one person has a phone in a village there is very less motivation for others to get it, but when the number reaches a critical mass say 20%, the value gets multiplied. Almost all social networks rely including Facebook and Twitter on this model. This model cannot sustain by

itself and the company needs to build a revenue model from one of the others to complement this. The biggest challenge here is motivating enough users to join during the initial phase and high value created to keep them there.

9. **Pay with social currency** This is a very new concept pioneered by sites like **PaywithATweet.com**. In this model a content creator gives away a book, music or video for free to a valid user in return for a tweet or Facebook post about the product. The tweet and posts create a virality that could be used by the author to sell extended versions of the content, the same content in other formats like a physical book or his other books and CDs. This could be the future of content selling. The biggest challenge involves motivating the authors who might not want to part with their work for social currency and the absence of any barriers to entry for this.
10. **In-app commerce.** This is another exciting model for mobile application creators and game builders. In this model, the game is given for free or low cost, but additional enhancements in the game can be bought for a price. Most games in Apple app store and android store now tap this. For example, in the game **Dragonvale** – where users breed various types of dragons, users can pay dollars to buy gems that can be used to speed up the breeding or buy exotic type of dragons that can't be easily bred. Some games are going even more by selling other goods (like a toy or T-shirt while you are playing a shooter game) within the game interface, utilizing user's attention. The biggest challenge involves getting enough customers to pay for the enhanced features while still not get distracted during the game. If you push too hard, users will stop playing the game and if you push too little there won't be any sales.
11. **Groupon model.** In this model, the business brings a minimum volume of buyers who are promised with a certain level of discount on a product. The seller gets the volume and buyers the discount, and can be a win-win in many cases. The money to **Groupon** (or its clones) is through a commission in the amount sold. This is a very hot model that was instantly copied by 100s of startups around the world. Other companies hot in this field include **LivingSocial.com**, **Google's Offers** and India's **SnapDeal.com**. The biggest challenges include lack of barriers to entry and enormous customer acquisition costs.



12. **Customer rating & support.** Businesses are always interested in knowing their customer tastes and what they think of them. As customer support spendings have been cut in the past decade, it becomes crucial that businesses have other means to understand their customers. This is where companies like [Yelp.com](#), [GetSatisfaction.com](#) come in and pool in reviews, ratings and other trend information from consumer. Another interesting usage of this model is the Indian startup [Akosha.com](#) that collects & verifies customer complaints for a fee and advocates on their behalf thereby leading to speedier issue resolution. The biggest challenges involve building userbase and motivating them to write reviews. Writing reviews is generally a social act and getting it bootstarted is hard.
13. **Certification & verification.** Usually a role of non-profit organizations like ISO and universities, this is also getting commercial. Certification is basically a verification from a trusted authority about an untrusted player. One prime example include **Verisign** that verifies legal sites that can take user's payments. As job markets gets complex with a plethora of skillsets crowd resume of average job seekers a lot of 3rd party vendors have entered into the skill certification game. Other variants include background checks for potential employers or universities. The biggest challenge here is building the credibility and designing a foolproof process to weed out the bad from the good.
14. **Sponsorship model.** This is model that is prevalent in offline forms more than online ones. It is a type of advertising where a business sponsors a part of the cost of an event, content or merchandise. Examples include businesses sponsoring charity events, wrist bands for a cause etc.