Different Types of Revenue Models

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Abstract

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1 INTRODUCTION

A revenue model gives a business a framework for generating income, and a yardstick by which they can measure their long-term profitability. Understanding the mechanics of a revenue model can help determine a company's success.

A revenue model is a blueprint that shows how a startup business will earn revenue or gross income from its standard business operations, and how it will pay for operating costs and expenses. This model is one of the key performance indicators (KPIs) for a company to measure the profitability of its pricing strategy and product sales.

Revenue model is sometimes used as another term for a business model, which is a structure for generating value for customers. However, these terms are not interchangeable but there is a connection between them. A revenue model is part of a business model, serving to explain how a company's goods or services are made, distributed, and sold for profit.

The purpose of a revenue model is to manage a company's revenue streams, which are its sources of income from target customers in different demographics and locations.

With a revenue model, a business can determine crucial factors that can help it thrive and grow. Companies use the information from a revenue model to determine how much money they will have to focus their sales and marketing on a target audience, develop new goods and services for customers, and ultimately determine their place and future in their particular market. Without a revenue model, companies, and especially startups, can generate costs that can make their business unsustainable.

2 ADVERTISING BASED REVENUE MODEL

When you start a for profit business, a key part of your plan is how to generate revenue. Many companies sell goods, services or a combination of the two. Online businesses and media companies often look to advertisers for most or all of their revenue. This is known as an advertising-based revenue model. Online media sites and publishers commonly use the ad-based revenue model because it is difficult to get users to pay for content that they can find for free in most cases. The basic premise is to present news, information or feature articles that attract users and then sell advertising space to businesses that have a message for your audience. Online service providers with in-demand services such as music or picture editing often have more flexibility in that they can make money from paying customers or attract advertisers.

Offering free content or services, especially when it interests a very targeted market segment, can lead to excellent ad revenue opportunities. Sponsors are often willing to pay more to reach a select audience. Ad revenue also allows you to profit from offering solutions that have limited demand from paying customers. Ad models are often harder to predict, though. Your traffic may remain steady, but advertisers may come and go based on economic and industry factors. You also may miss opportunities to get fees from customers who are willing to pay them.