Revenue models, product pricing and commercializing new technology

Determining your revenue model and deciding how to price your product are a critical part of commercializing new products and technologies. The revenue model and pricing you choose will impact marketing decisions as well as customer service decisions, and ultimately the viability of your overall business model.

For example, if you advertise that your product is the highest quality in its category, you must price your product to align with this claim. Similarly, if your product is extremely costly, you may need to alter the manner in which you receive revenue in order to attract customers who cannot afford a large cash outlay all at once.

Renting or licensing your product means that you'll need a store of cash on hand to pay for business operations until you have sufficient customers, since each one will only pay a small recurring fee and it will take time to accumulate income.

The implications of revenue model and pricing decisions are complex and have a fundamental impact on how your business operates. The following four revenue types, presented from most to least desirable, provide a basis for most revenue models:

1. Recurring revenue

The best revenue models create the conditions for continuous, recurring revenue based on a one-time deliverable. Companies require more time and capital to implement recurring revenue schemes, but the economics are ultimately much more attractive than with models based on transactional revenues.

IBM is an excellent example of a company founded on the recurring revenue model. IBM performs a one-time installation and implementation of their clients' computing hardware, and thereafter binds them to long-term service contracts that include relatively non-labour-intensive software updates, system maintenance and support.

2. Transactional revenue

Transactional revenue models are based on predictable sales of goods. Transactional revenue models are less attractive than recurring revenue because a company has to "do" something anew for every sale (produce and ship goods). Toothpaste and printer toner provide good examples of transactional-revenue products.

3. Project revenue

Successive, one-time projects generate project revenue. Companies reliant on project revenue have limited opportunity to build scale economies, face sporadic income and must expend resources to maintain relationships. They also need to continuously prove themselves to clients and prepare bids for subsequent projects. With a project-based revenue model, companies may have repeating customers, but they have no real means of knowing when the next sale might occur.

4. Services revenue

The least attractive revenue model is services revenue. While the top three business models sell goods, possibly in combination with service, the services revenue model essentially sells time. Time is easy to compete on, easy to negotiate down and cannot be leveraged. By implementing a services-based revenue model, a company's income stream will tend to be highly uneven, and may also remain low compared to other models.

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