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Revenue Streams

Revenue Streams: Definition

The Revenue Streams Building Block represents the cash a company generates from each Customer Segment (costs must be subtracted from revenues to create earnings)

A business model **can involve** two different types of Revenue Streams:

- Transaction revenues resulting from **one-time customer payments**
- Recurring revenues resulting from **ongoing payments** to either **deliver a Value Proposition** to customers or **provide post-purchase** customer support

A company must ask itself

For what value is each Customer Segment truly willing to pay?

Successfully answering that question allows the firm to generate one or more Revenue Streams from each Customer Segment. Each Revenue Stream may have different pricing mechanisms, such as fixed list prices, bargaining, auctioning, market dependent, volume dependent, or yield management.

Key questions

- For what value are our customers really willing to pay?
- For what do they currently pay?
- How are they currently paying? How would they prefer to pay?
- How much does each Revenue Stream contribute to overall revenues?

There are several ways to generate Revenue Streams

Revenue streams generation (1/3)

Element	Description
Asset sale	Amazon.com sells books, music, consumer electronics, and more online. **Fiat sells automobiles, which buyers are free to drive, resell, or even destroy.**
Usage fee	This Revenue Stream is generated by the use of a particular service. The more a service is used, the more the customer pays. **A Telecom operator may charge customers for the number of minutes spent on the phone. A hotel charges customers for the number of nights rooms are used. A package delivery service** charges customers for the delivery of a parcel from one location to another.
Subscription fees	This Revenue Stream is generated by selling continuous access to a service. **A gym sells its members monthly or yearly subscriptions in exchange for access to its exercise facilities. World of Warcraft Online, a Web-based computer game, allows users to play its online game in exchange for a monthly subscription fee.** Nokia’s Comes with Music service gives users access to a music library for a subscription fee.

Revenue streams generation (2/3)

Element	Description
Lending/Renting/Leasing	This Revenue Stream is created by temporarily granting someone the exclusive right to use a particular asset for a fixed period in return for a fee. Zipcar.com provides a good illustration. The company allows customers to rent cars by the hour in North American cities. Zipcar.com's service has led many people to decide to rent rather than purchase automobiles.
Licensing	This Revenue Stream is generated by giving customers **permission to use protected intellectual property in exchange for licensing fees. Licensing allows rights-holders to generate revenues from their property without having to manufacture a product or commercialize a service. Licensing is common in the** media industry.

Revenue streams generation (3/3)

Element	Description
Brokerage fees	This Revenue Stream derives from intermediation services performed on behalf of two or more parties. **Credit card providers, for example, earn revenues by taking a percentage of the value of** each sales transaction executed between credit card merchants and customers.
Advertising	This Revenue Stream results from fees for advertising a particular product, service, or brand. Traditionally, the media industry and event organizers relied heavily on revenues from advertising. In recent years other sectors, **including software and services, have started relying more heavily on advertising revenues.**

Pricing Mechanisms

Each Revenue Stream might have **different pricing mechanisms**. The type of pricing mechanism chosen can make a big difference in terms of revenues generated. There are two main types of pricing mechanism: **fixed and dynamic pricing**.

Fixed Menu Pricing Predefined prices are based on static variables	**Dynamic Pricing** Prices change based on market conditions
List price–Fixed prices for individual products, services, or other Value Propositions	*Negotiation (bargaining)*–Price negotiated between two or more partners depending on negotiation power and/or negotiation skills
Product feature dependent–Price depends on the number or quality of Value Proposition features	*Yield management*–Price depends on inventory and time of purchase (normally used for perishable resources such as hotel rooms or airline seats)
Customer segment dependent–Price depends on the type and characteristic of a Customer Segment	*Real-time-market*–Price is established dynamically based on supply and demand
Volume dependent–Price as a function of the quantity purchased	*Auctions*–Price determined by outcome of competitive bidding