

## REVENUE MODEL ALTERNATIVES

This teaching note describes many of the very different revenue models that you can consider experimenting with to grow. Your revenue model is a core part of framing your business strategy as it describes how your venture intends to *capture value*. Capturing value is the key to getting paid for the value that your business has created and delivered to your customers. There are ample opportunities for start-ups to **“Make their own rules”** when selecting a scalable, sustainable revenue model.

Your revenue model provides a guiding framework for how you will repeatedly generate paying customers in your quest for a sustainably profitable venture. It is also how you will categorize your venture and gain interest from potential supporters.

Ref.	Revenue Model	Characteristic Feature	Examples
1	<b>Add-ons</b>	Promote extras to increase margins	Want Frys with that? Extra Collision Insurance? Upgrades?
2	<b>Advertising</b>	Sell access to the demographics	TV, Magazines, Facebook
3	<b>Affiliate</b>	Referral fees -A performance-based marketing model where you compensate one or more affiliates for each referral generated by affiliate's own marketing efforts.	Amazon Affiliate Program, Cost per Click
4	<b>Affinity Marketing</b>	Partnerships between a company and an organization (the affinity group)	Affinity Credit Cards
5	<b>Association</b>	Charge membership fees for access to other members	Associations
6	<b>Auction</b>	Generating bids within a time frame	EBay, Auction houses
7	<b>Bait &amp; Hook</b>	Cheaply promote the base, to sell 'refills' over time	Cheaply promote the base, to sell 'refills' over time
8	<b>Broker</b>	Charging a fee or commission for arranging transactions between buyers & sellers	Expedia, Real Estate Agents

<b>9</b>	<b>Bundling</b>	Packaging related goods/services together	Gift Hampers, Microsoft Office Suite
<b>10</b>	<b>Club</b>	Generate membership fees to serve members needs	Golf Clubs, single product or interest clubs
<b>11</b>	<b>Commission</b>	Receiving payment as an agent for services rendered, usually a % of the deal	Recruiters, RE Brokers
<b>12</b>	<b>Crowdsourcing</b>	Aggregating crowd contributions to create value	Wikipedia
<b>13</b>	<b>Customer Involvement /Burden Shifting</b>	Have customers complete tasks themselves as part of the service delivery- to keep costs down	Self-checkout in supermarkets, self check-in at airlines, assemble your own furniture (IKEA)
<b>14</b>	<b>Direct Sales</b>	Selling directly away from a fixed retail location, door to door, one-on-one demonstrations, direct internet sales.	Encyclopaedia Britannica
<b>15</b>	<b>Disintermediation</b>	Provide a platform to cut out traditional middlemen and go direct	UBER, Hotels.com, Amazon
<b>16</b>	<b>Fractionalization</b>	Promote fractional ownership in an asset or service	Timeshares, Jetshare
<b>17</b>	<b>Franchise</b>	Licensee Fees & Royalties - to use a firm's successful business model and brand for an agreed term.	McDonalds, Dunkin Donuts
<b>18</b>	<b>Freemium</b>	Upsell the paid version, provide the basic version for free	Pandora
<b>19</b>	<b>Leasing</b>	Rent traditionally high price items for fixed time and conditions	Cars, Photocopiers, Modems
<b>20</b>	<b>Limited Usage Rights</b>	Licensing	Movie distribution, patents
<b>21</b>	<b>Loss Leader</b>	Subsidized/loss making core product to stimulate sales of more profitable offerings	Kindle / iTunes
<b>22</b>	<b>Low Cost Leader</b>	Bury cost-cutting methods within the business model	Ryanair

<b>23</b>	<b>Marketplace</b>	Enabling Buyers & Sellers for transaction fees	Stock Exchange, Amazon, skillshare
<b>24</b>	<b>Microtransactions</b>	Transactions involving a very small sums of money and usually taking place online	App Store, In-game purchases
<b>25</b>	<b>Multi-Level Marketing</b>	Sales force is compensated for sales they generate, but also for the sales of the other salespeople that they recruit known as the participant's "down-line".	Herbalife, Amway, Mary Key
<b>26</b>	<b>Negative Operating Cycle</b>	Don't pay for your inventory or materials until after you've sold the final product associated with them	Dell
<b>27</b>	<b>One Time Access Fee</b>	Initiation fees	Disney, Country Club,
<b>28</b>	<b>Party Planning</b>	Hosting 'social events' at which products will be offered for sale. (Type of direct selling)	Tupperware Parties
<b>29</b>	<b>Pay per Play</b>	Event specific	Ticket
<b>30</b>	<b>Pay to Use</b>	Rental	Hotel/ Car
<b>31</b>	<b>PAYG (Pay-As-You-Go")</b>	Consumption driven – Metered	Taxi , professional services, Electricity
<b>32</b>	<b>Per Transaction</b>	Sold by the unit – COGS	Cup of coffee
<b>33</b>	<b>Platform As A Service</b>	Enabling customers to develop, run and manage their business applications without the complexity of building and maintaining their own infrastructure	Amazon Web Services, Salesforce.com
<b>34</b>	<b>Private Label</b>	Enable customers to rebrand completely and provide customer branded support	Supermarket white label, Hosting services
<b>35</b>	<b>Recurring Revenue</b>	Predictable revenue streams that can be expected to continue in the future	Netflix

<b>36</b>	<b>Reverse Auction</b>	Sellers bid each other down to a price that buyers will accept	Task-Rabbit, Open IPO,
<b>37</b>	<b>Sponsorship</b>	Few Payers, many users	Conferences
<b>38</b>	<b>Standardisation</b>	Offer very limited choices to	Minute Clinic
<b>39</b>	<b>Standards</b>	Platforms that are open to the development of complementary services while preserving the proprietary advantage to ensure lock-in.	IOS vs. Android, Blue Ray, CDMA vs. GSM
<b>40</b>	<b>Subscription - by Term Contract</b>	Contract driven access- focus is on renewal rates	Magazines, memberships, cell phone contracts
<b>41</b>	<b>Subscription - to consume</b>	Pay regularly for regular access, until a customer tells it to stop	Netflix
<b>42</b>	<b>Subscription - to re-up</b>	Optional re-up period at the end of the contract term	Magazine
<b>43</b>	<b>Sunk Cost</b>	Requires the initial purchase of a highcost proprietary platform	Gaming platforms, Bloomberg Terminals
<b>44</b>	<b>Value Add Conversion</b>	"Buy by the ton, sell by the oz"- Apply a manufacturing process to refine raw material.	Paper Mills / coffee beans

So, be creative in recognizing and experimenting with the many different possibilities for creating, delivering and capturing value for your new business venture. Often, the most sustainable and innovative revenue models for your business come from combining more than one model.