• A **revenue model** is the strategy of managing a company’s revenue streams and the resources required for each revenue stream.

• A **revenue stream** is a company’s single source of revenue. A company can have zero or many revenue streams, depending on its size.

• A **business model** is the structure comprised of all aspects of a company, including revenue model and revenue streams, and describes how they all work together.
Revenue Streams connect to your Value Proposition and Customer Segments
what are customers really willing to pay for? how? are you generating transactional or recurring revenues?
How Many Will You Sell?

- What was the Market size and estimate of market share?,
  - Translate into the anticipated number of customers (as in 10% of a million-person market=100,000 customers)
- How many can your channel sell?
- How much will the channel cost?
- How many customer activations?
  - Revenue? Churn/Attrition rate? customers/?
- How much will it cost to acquire a customer?
  - How many units will they buy from each of these efforts?
Other Questions

• What are my customers paying for?
• What capacity do my customers have to pay?
• How will you package your product?
• How will you price the offerings?
• What constitutes cost for the company?
• What are the key financial metrics for your business model?
• What are the risks involved?
Does it add up?

- Is the revenue adequate to cover costs in the short term;
- Are you confident the revenue will grow materially if not dramatically over time; and
- Does the profitability get better as the revenues get bigger?
“Revenue First” Companies

• Time to doublings for monthly revenues
• Key questions:
  • When will I get to $100k/month in revenues?
  • When will I get to $1M/month in revenues?
  • What assumptions about my business am I making when I reach these milestones?
“Users First” Companies

If you say your business is advertising based:

• How do you get to 10M monthly users?
• How do you become one of the top 5 websites visited?
How to pick the best revenue model for your Company?
Advice 1: **Size the value of your solution in the target segment.**
Advice 2: **Confirm that your product or service solves the problem.**
Advice 3: **Make sure your pain point is something people will pay for and that payment will one day (preferably sooner vs. later) be greater than the customer acquisition cost**
Advice 4: Test your channel and support strategy.
Advice 5: **Talk to industry experts and investors.**
Advice 6: Plan and execute a pilot or local rollout. Focus on References generation.
No matter which model you start with remember that is just a....

You may and likely will change your business model. Probably several times. And you will optimize it many more times.
“Direct” revenue models

- **Sales**: Product, app, or service sales
- **Subscriptions**: SAAS, games, monthly subscription
- **Freemium**: use the product for free: upsell/conversion
- **Pay-per-use**: revenue on a “per use” basis
- **Virtual goods**: selling virtual goods
- **Advertising sales**: unique and/or large audience
“Ancillary” revenue models

• **Referral revenue**: pay for referring traffic/customers to other web or mobile sites or products.

• **Affiliate revenue**: finder’s fees/commissions from other sites for directing customers to make purchases at the affiliated site.

• **E-mail list rentals**: rent your customer email lists to advertiser partners.

• **Back-end offers**: add-on sales items from other companies as part of their registration or purchase confirmation processes, or “sell” their existing traffic to a company that strives to monetize it and share the resulting revenue.
Other Models:

- **Licensing**: Fee for use of some IP (software)
- **Intermediation/Commission**: Fee for bringing groups together in a transaction (Marketplace)
- **Advertising**: Fee paid by brands/companies to get in front of potential customers
How do we price the product?

Pricing Models - Physical

- Product-based pricing
- Competitive pricing
- Volume pricing
- Value pricing
- Portfolio pricing
- The “razor/razor blade” model
- Subscription
- Time/Hourly Billing
- Leasing
How do we price the product?

Pricing Models – Web/Mobile/Cloud

- Product-based pricing
- Subscriptions
- Freemium
- Pay-per-use
- Virtual goods
- Advertising sales