

Business Models

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Enterprising
Futures atLSBU





1. Revenue models

Plan and mechanism(s) for earning revenue

2. Business models

What value will we create and how do we deliver and capture it?

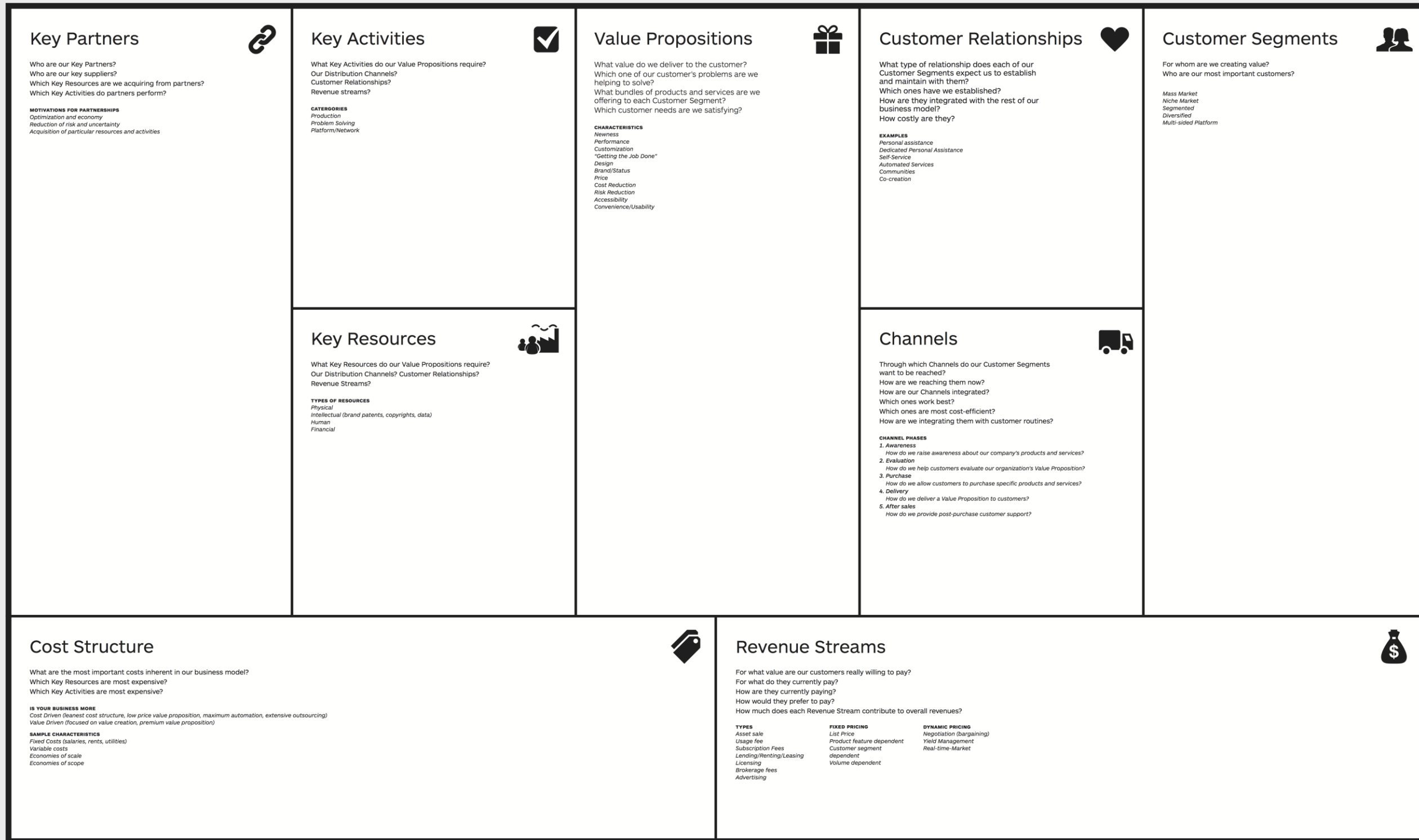
The Business Model Canvas

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Cost Structure



What are the most important costs inherent in our business model?
Which Key Resources are most expensive?
Which Key Activities are most expensive?

IS YOUR BUSINESS MORE
Cost Driven (leanest cost structure, low price value proposition, maximum automation, extensive outsourcing)
Value Driven (focused on value creation, premium value proposition)

SAMPLE CHARACTERISTICS
Fixed Costs (salaries, rents, utilities)
Variable costs
Economies of scale
Economies of scope

Revenue Streams



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?

TYPES	FIXED PRICING	DYNAMIC PRICING
Asset sale	List Price	Negotiation (bargaining)
Usage fee	Product feature dependent	Yield Management
Subscription Fees	Customer segment dependent	Real-time-Market
Lending/Renting/Leasing	Volume dependent	
Licensing		
Brokerage fees		
Advertising		



Revenue models

Plan and mechanism(s) for earning revenue

Some examples of revenue models

- Transaction-based revenue model
- Subscription revenue model
- Pay-per-use revenue model
- Freemium/hybrid revenue model
- Advertisement-based revenue model
- Commission-based revenue models
- Markup revenue model
- Affiliate revenue model
- Interest revenue model
- Donation-based or pay-what-you-want revenue models
- Arbitrage model

Revenue models

Transaction model

Make money each time you complete a transaction

- Examples?
- Pros: It is widely understood, and you control the pricing strategy
- Cons: There is usually a correlation between spending and earning and you it is difficult to build customer relationships

Subscription revenue model

Customer pays a recurring fee for ongoing access

- Examples?
- Pros: Can provide predictable and stable revenue, and can enable deeper customer relationship
- Cons: Getting and keeping customers can be very expensive

Pay-per-use model

Customer pays for *how much* they use.

- Examples?
- Pros: Appeals to cost conscious as well as serves power users
- Cons: Inconsistent revenue, cost of tracking and unexpected bills

Revenue models

Freemium model

Something for free, charges for additions

- Examples?
- Pros: Can lower barriers for customers to engage
- Cons: The cost of providing for free users. Paid users are few and take time to convert.

Advertisement revenue model

You sell people's attention to those who will pay for it

- Examples?
- Pros: Quick and cheap to set up, existing infrastructure
- Cons: Cost of getting traffic, people get annoyed by ads and does it distract them from your main product?

Commission model

You get a cut of the sale

- Examples?
- Pros: Revenue ratio can be more predictable, and the fee can be lucrative.
- Cons: Feast or famine? Higher upfront investment and dependency on supplier.

Revenue models

Mark-up model

You sell something for x% more than you paid for it

- Examples?
- Pros: Very predictable profit margin and simple
- Cons: Not fully capturing value of each product, gross profit is different to net profit and you need to be able to spot good products/markets

Affiliate revenue model

You make a commission based on a sale on someone-else's platform

Interest revenue model

You earn money on money being held – usually from a bank as interest

Donation-based model

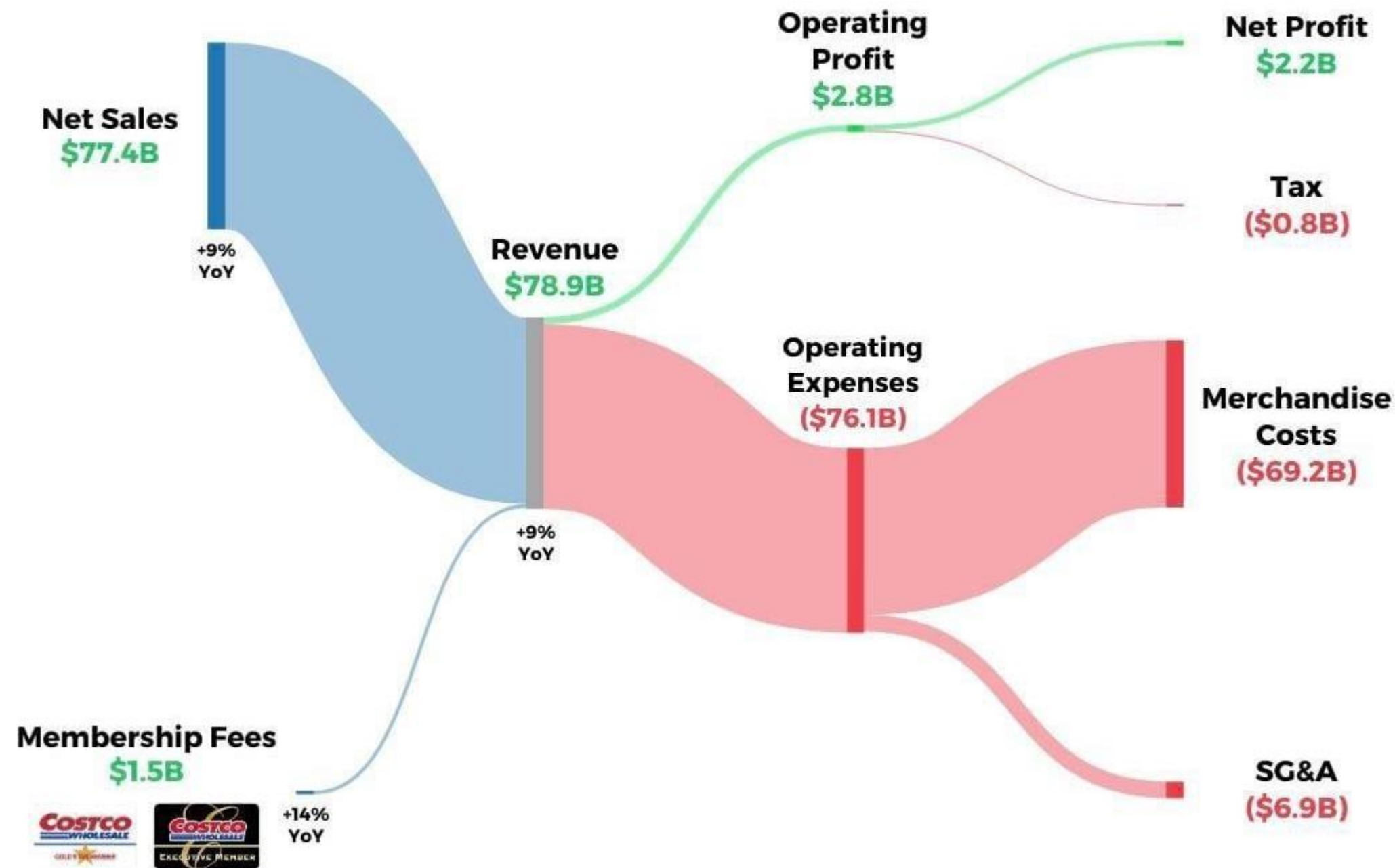
Free, but people can donate to support

Arbitrage model

Buying something in one market at a lower price and selling it in another at a higher price

Most successful companies have a mixed revenue model

HOW **COSTCO** WHOLESALE MAKES MONEY



Source: Costco Q4 FY23 Earnings


More investing charts: www.carbonfinance.io

Task:

What is your current revenue model?

How would you assess the other revenue models against your current revenue model?

Are there any changes, additions or removals of revenue model you think you should make?



Business models

What value will we create and how to we deliver and capture it?

Thought provoker on business models

How are these different?



vs.



How are these different?



vs.



How are these similar?



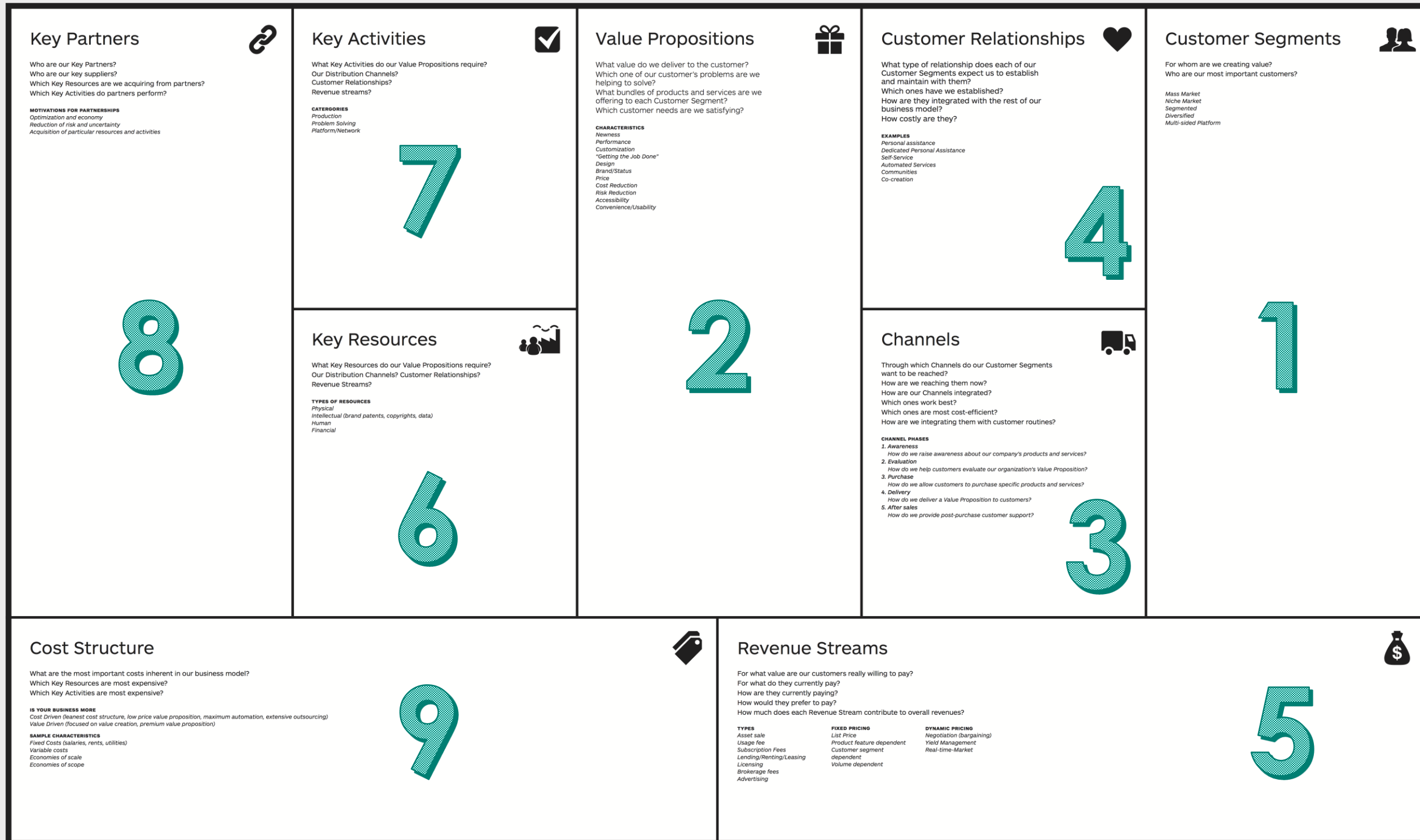
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Value Propositions



What value do we deliver to the customer?
Which one of our customer's problems are we helping to solve?
What bundles of products and services are we offering to each Customer Segment?
Which customer needs are we satisfying?

CHARACTERISTICS

- Newness
- Performance
- Customization
- "Getting the Job Done"
- Design
- Brand/Status
- Price
- Cost Reduction
- Risk Reduction
- Accessibility
- Convenience/Usability



Customer Relationships



What type of relationship does each of our Customer Segments expect us to establish and maintain with them?
Which ones have we established?
How are they integrated with the rest of our business model?
How costly are they?

EXAMPLES

- Personal assistance
- Dedicated Personal Assistance
- Self-Service
- Automated Services
- Communities
- Co-creation



Customer Segments



For whom are we creating value?
Who are our most important customers?

- Mass Market
- Niche Market
- Segmented
- Diversified
- Multi-sided Platform



Channels



Through which Channels do our Customer Segments want to be reached?
How are we reaching them now?
How are our Channels integrated?
Which ones work best?
Which ones are most cost-efficient?
How are we integrating them with customer routines?

CHANNEL PHASES

- Awareness**
How do we raise awareness about our company's products and services?
- Evaluation**
How do we help customers evaluate our organization's Value Proposition?
- Purchase**
How do we allow customers to purchase specific products and services?
- Delivery**
How do we deliver a Value Proposition to customers?
- After sales**
How do we provide post-purchase customer support?



Key Partners



Who are our Key Partners?
Who are our key suppliers?
Which Key Resources are we acquiring from partners?
Which Key Activities do partners perform?

MOTIVATIONS FOR PARTNERSHIPS

Optimization and economy
Reduction of risk and uncertainty
Acquisition of particular resources and activities

8

Key Activities



What Key Activities do our Value Propositions require?
Our Distribution Channels?
Customer Relationships?
Revenue streams?

CATEGORIES

Production
Problem Solving
Platform/Network

7

Value Propositions



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CHARACTERISTICS

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"Getting the Job Done"
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Risk Reduction
Accessibility
Convenience/Usability

2

Key Resources



What Key Resources do our Value Propositions require?
Our Distribution Channels? Customer Relationships?
Revenue Streams?

TYPES OF RESOURCES

Physical
Intellectual (brand patents, copyrights, data)
Human
Financial

6

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Value Propositions



What
What
h

**HIGH
QUALITY
PRODUCTS
AT LOW
PRICE FOR
MEMBERS**

Customer Relationships



Membership
warehouse club

Dedicated Personal Assistance

Personal assistance

Channels



Stores

How are we integrating them with customer features?

Website

4. Delivery

How do we deliver a Value Proposition to customers?

Localised highly
targeted personal
marketing

Customer Segments



For whom are we creating value?
Who are our most important customers?

Mass Market
Niche Market
Segmented
Diversified
Multi-sided Platform

Individuals who want
quality products at a
low margin

Small to Medium
Enterprises (SMEs)

Key Partners



Who are our Key Partners?
Who are our key suppliers?
Which Key Resources are we acquiring from partners?
Which Key Activities do partners perform?

MOTIVATIONS FOR PARTNERSHIPS

Optimization and economy
Reduction of risk and uncertainty
Acquisition of particular resources and activities

Investors

Commission / service partners

Key Activities



Marketing and customer service

Problem Solving

Purchasing of goods

Warehouse management

Key Resources



What Key Resources do our Value Propositions require?
Our Distribution Channels? Customer Relationships?
Revenue Streams?

Members

Brand

Value Propositions



Wh
W

HIGH
QUALITY
PRODUCTS
AT LOW
PRICE FOR
MEMBERS

Cost Structure

Staff salaries

Real estate

Logistics and storage costs



Revenue Streams

Product sales

Membership fees



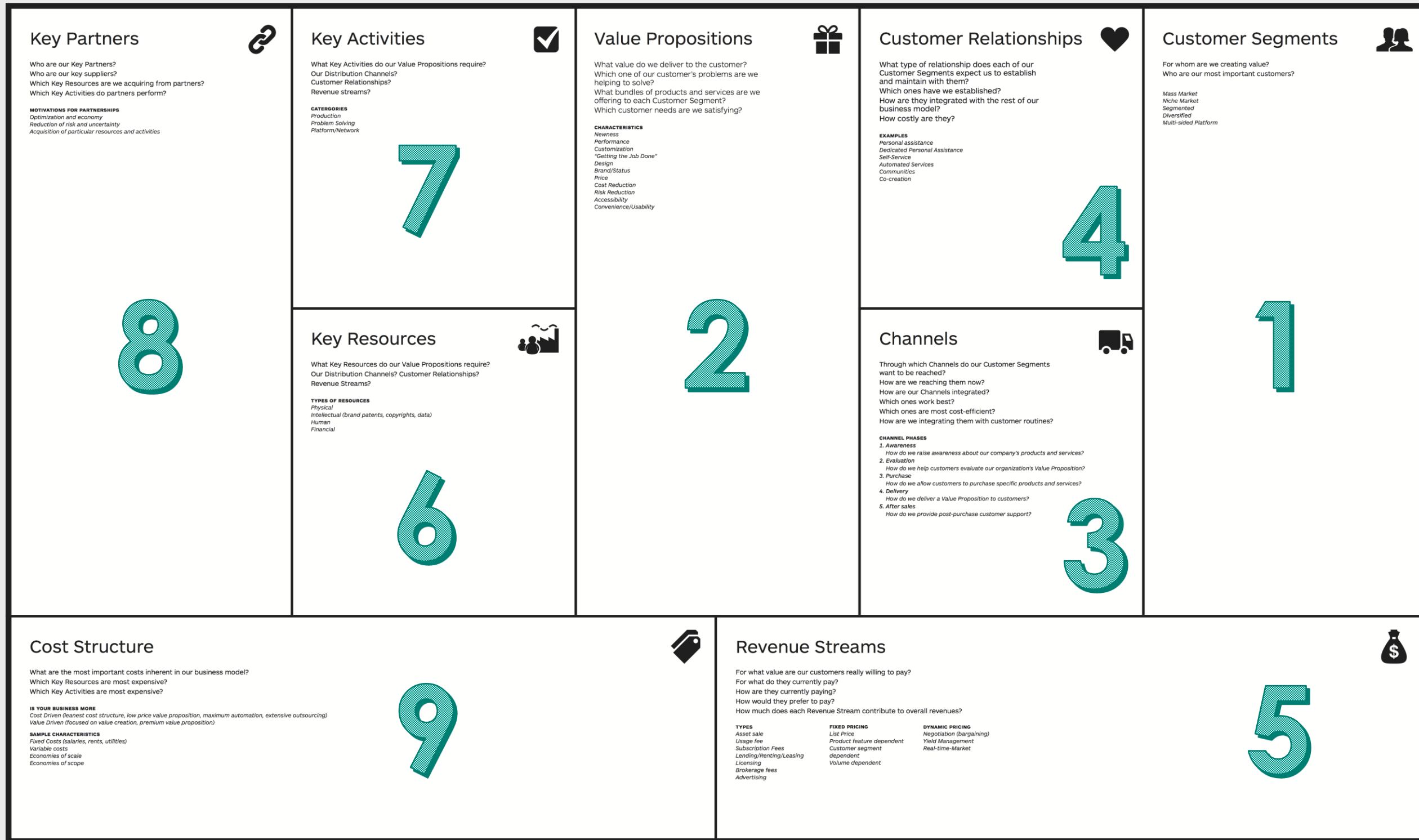
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- Scan the QR code
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