REVENUE MODELS

2nd Edition
updated and expanded

THE BUSINESS MODEL ANALYST

SUPER GUIDE:

REVENUE MODELS

BY DANIEL PEREIRA

THE BUSINESS MODEL ANALYST

The Business Model Analyst is a website dedicated to analyzing business model types, patterns, and innovations using the business model canvas as its primary tool. The site offers a wide variety of free and premium content, including digital products such as PDF tools, presentations, spreadsheets, ebooks & guides, and much more. **Check it out here.**

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INTRODUCTION

Revenue models are a fundamental part of successful business models. Whether you are a brick and mortar retail company or a software as a service business, aiming to generate as much revenue as possible is critically important for your venture.

In very simple words, a revenue model is how a business makes money. It is a conceptual framework that includes every aspect of the revenue earning strategy, such as the value proposition (product/service), the revenue sources, the pricing and payment methods, and the target consumer.

Revenue can be generated from many sources and means. But the revenue model you chose will define how you can sell to your target audience, in order to build a profitable growth-oriented business.

Therefore, it is a core element of your business model.

WHAT IS A REVENUE MODEL?

A revenue model is how a business makes money. It is the framework for generating income for the company. It is the blueprint that indicates what product or service will be created and the ways in which the product or service will be sold in order to generate revenues. A revenue model helps to identify critical factors that can help a company thrive and grow. Its main goal is to manage the revenue stream of a business. Without a well-defined revenue model — i.e., a clear way to make money —, businesses, especially startups, may generate unsustainable costs.

BUSINESS MODEL VS REVENUE MODEL VS REVENUE STREAM

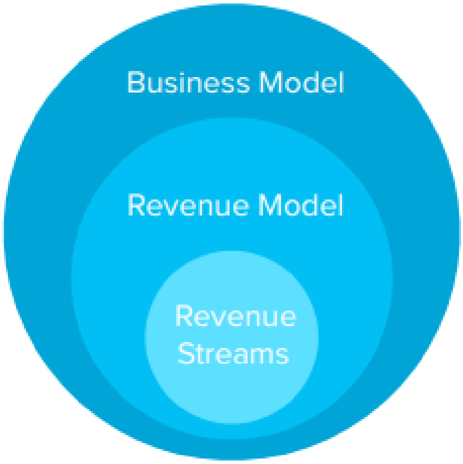
When developing a business, there are some usual misconceptions regarding the differences among the terms business model, revenue model and revenue stream.

In fact, the revenue model is part of a business model and the revenue stream is each single revenue source of the revenue model. So, from “largest to smallest”:

The business model is the structure that describes how the company creates, delivers and captures value, including all baseline aspects of a business. It also comprises the revenue model (and its revenue streams).

The revenue model is restricted to the chosen strategy towards making money. It encompasses the management of each revenue stream, in accordance with the business’s customer segments.

The revenue stream, finally, refers to every single source of revenue a company may have. Depending on the type and size of the organization, it can have zero or several revenue streams.



Wrapping up, the revenue models will help to manage the revenue streams inside the big picture of a business model.

SYMMETRICAL VS. ASYMMETRICAL BUSINESS MODELS

One way to classify business models, according to their revenue models, is by differentiating them into symmetrical and asymmetrical.

To begin with, the biggest distinction between both of them is the fact that, in symmetrical business models, the ones who use/consume the product are the same who pay for it. But in asymmetrical ones, some use the service at no cost, while others pay. But let's dive a little deeper into that:

WHO PAYS THE BILL?

At any kind of business model, there are two important players, the users and the customers. Sometimes, the same party plays the role of both players. For example, when you buy a car, you'll use it yourself.

But, in some cases, different parties will play them. That's very usual in platform business models, for example. In this case:

- Users are the people who use the platform but don't have to pay for using it. On the contrary, they become assets of the business, as they will be the audience of the actual customers. For example Facebook users.

- Customers: the ones (people or businesses) who pay for a service. For example companies that advertise on Facebook, using its segmentation algorithm.

So, understanding who are the users and who are the customers will be the main criteria when separating these two kinds of business models.

ASYMMETRICAL: USERS ≠ CUSTOMERS

The asymmetry here is the fact that customers and users are two different groups of people. It’s the case of Facebook, Google or Snapchat, which sell ads to businesses and let people enjoy their core products for free.

As the popular adage states: "There ain't no such thing as a free lunch". The asymmetrical business models have a hidden revenue generation model.

While the users know virtually nothing about the platform and how it makes money, the platform keeps lots of data about its users.

And this is precisely the greatest asset the platform has to provide to its real customers: audience information.

SYMMETRICAL: USERS = CUSTOMERS

On the other side, the symmetry establishes that users and customers are precisely the same entity. The ones who use are the ones who pay for using it.

It’s the case of practically all the brick-and-mortar businesses, and brands such as Netflix or Zoom. And the revenue generation here is clear: the customers know what they are paying for.

REVENUE SCALE: DOES THE PLATFORM RETAIN ITS MARGINS AS IT SCALES?

Scaling is all about enabling growth in the company while keeping its margins. It requires planning and proper processes.

Some kinds of business are more likely to scale than others, and that is also associated to symmetrical and asymmetrical business models, especially regarding to platform business models:

Symmetrical And Linear: Margins Tighten As The Platform Scales

In a symmetrical and linear revenue model, as the platform scales, the margins tend to tighten up, which reduces the business’s profitability.

Asymmetrical And Non-Linear: Margins Keep Growing As The Platform Scales

On the other side, the asymmetrical-revenue-model platforms are non-linear. That means their margins keep growing along with scaling, thus maintaining the business's profitability.

WHY IS REVENUE MODELING IMPORTANT IN BUSINESS?

Revenue modeling is the process of determining how a company plans to make money. The revenue modeling process defines the product or service to be sold, determines its value and the customers it will serve, and how it will generate income.

Every business exists to make a profit, or at the least to be financially sustainable. Revenue modeling helps to achieve this goal. Revenue modeling helps to identify the different sources of income for the company and gives an overview of the company's current and future potential to earn profits.

It also gives a hint on successful pricing and customer satisfaction. The revenues generated will indicate whether customers are satisfied with the product and the price or not, and whether they are buying from you again or not.

Though there is no such thing as a perfect revenue model, familiarity with common revenue models is vital in identifying the right combination of models for a business. Below, there are some popular revenue models.

TYPES OF REVENUE MODELS

There is no such thing as a perfect revenue model, but the popularity of some of the methods below suggests that many of them are well-tailored for the current state of the market.

Here we'll walk through each type of revenue model and when they may be most beneficial and applicable.

AD-SUPPORTED REVENUE MODEL

The ad-supported revenue model is widespread in both online and offline businesses. It is commonly adopted by media companies and information providers, and can also be associated with other types of revenue models (subscriptionbased, for example) to form different business models.

How it works
This revenue model is about selling advertising spaces and charging advertisers – per size of the ad, impressions or clicks, for instance. The advertisers value the popularity of the medium and pay to feature their product or service to its audience. It is mostly used in B2B settings, since normally businesses pay businesses to place their ads.

Revenue Streams

- CPM (cost per thousand impressions): customer pays every time the ad loads on a webpage or in an app. For example, whenever the ad appears below the browser window, the advertiser will pay. Even if the user never scrolls down, no conversions are involved.

- CPC (cost per click): customer pays whenever the ad is clicked on. They will pay only when the viewer is interested enough to click to check it out.
- CPL (cost per lead): customer pays when a lead form is completed and submitted. It's more usual for purchases that are not made immediately. The goal here is to build a relationship with the consumer.
- CPA or CPS (cost per action or cost per sale): customer pays when the viewer takes a certain action (such as registering for an account). So, the advertiser only pays if something actually happens. It's low risk for the customers, but high risk for the media company.

Advantages

- It's easily monetizable for high-traffic media.
- It's simple to structure.
- It can be associated with other types of revenue models.
- Scaling up depends only on increasing the number of visitors.

Disadvantages

- Users usually find ads annoying.
- Building traffic and engagement is not that simple.
- It's risky – if the customers don't see value, the business can get to zero revenue, quickly.

Examples

- YouTube
- Google
- Facebook
- Instagram
- LinkedIn
- Pinterest
- Twitter
- Media companies

LICENSING REVENUE MODEL

This revenue model works perfectly well for those businesses that have a unique advantage or intellectual property. Because when there is a special product or work (such as a movie or cartoon), other businesses may benefit from licensing the use of your creation.

How it works
Licensing is about renting some goods or services to other businesses. The owner keeps full copyrights on the property used by the buyer. It is very common for media productions, software companies, and for legally protected intellectual property, such as patents and trademarks.

Revenue Streams
In the licensing revenue model, the property's owner grants a license of use at a predetermined recurring cost, that usually runs perpetually, until one of the parties terminates the deal.

This license is limited by time, territory, distribution, volume, etc., and the deals are conducted for either a flat rate (an annual fee, for example) or on a sliding scale depending on the amount of use (some fixed fee or percentage over each sale), the so-called royalties.

Advantages

- It's beneficial for the creators or producers of some unique property.
- The commercialization is the buyer's responsibility.
- It brings the final consumer closer to the licensed brand.
- It has high sales reach.
- It has a competitive advantage over the competition.
- The opening of markets is simpler.

Disadvantages

- It demands great attention to the conditions of the deals and contracts.
- It's difficult to see the long term.
- It's hard to find and build profitable partnerships.

Examples

- Adobe
- Microsoft
- Walt Disney
- Ferrari

- Warner Bros.
- Marvel Entertainment
- Nickelodeon
- Major League Baseball
- NBA

AFFILIATE REVENUE MODEL

This revenue model has become bigger and bigger on the internet. It may be exercised by an individual or legal entity, and it is easily associated with other revenue models, mainly the ad-based ones.

How it works
An affiliate is someone who advertises the product or service of another person or company and earns a commission on sales or leads made. The affiliate can promote a product by including referral links in their website/blog/social media or by offering their customer some specialized recommendations.

Revenue Streams
Sales percentage is the core revenue stream for this type of revenue model. The affiliate, whether an individual or a business, will collect a percentage of everything they sell through their promotions, as a commission for the service.

Advantages

- It makes more money than simply advertising.
- There are several affiliate programs available online.

- There is no inventory required.
- There are no distribution expenses.

Disadvantages

- Attracting traffic and engagement is not simple.
- Building authority takes a long time.
- Producing relevant content is demanding.
- There's low control over the quality of the service provided by the producer.

Examples

- Amazon
- Etsy
- Wayfair
- Fiverr
- Bluehost
- Hostinger

WHITE-LABELING

The white-labeling revenue model is used to provide a specialized service without having to invest in all the infrastructure and the technology for production.

How it works
Basically, the producer develops and/or manufactures the product or service that will be marketed by another company, which will rebrand it to make it look like if it had actually

produced it. It is very common for mass-produced generic products, such as electronics, software, and apps.

Revenue Stream
The white-label deals are made on revenue share transactions. In this revenue stream, the parties involved split both the profits and losses resulting from the operations of the business, according to each one's share in the partnership arranged.

Advantages

- There's quality service at a low investment.
- The content is adapted to the audience.
- It builds the authority of the brand.
- The innovation is faster.
- The entrance is simplified in emerging markets.

Disadvantages

- There's a lack of control both over the production by the marketer, and over the marketing by the producer.
- It may deal with potential liability for bad consumer experience.
- There's quality inconsistency.
- It's not suitable for small brands.

Examples

- TV sets
- Mobile apps

- Social media management software

FREEMIUM REVENUE MODEL

The freemium terminology associates the words free and premium. So, as you may see, in this strategy, the vast majority of users will use the product/service for free and a small portion will pay for the premium version.

How it works
In the freemium revenue model, a basic plan, product or service with few resources is offered completely free, for users to get to know about it. At the same time, another more complete plan or more advanced service with additional features is offered in exchange for a fee – that is the premium option.

Revenue Streams
The strategy here is to attract consumers, create a customer base to further convince part of that base that you have a more interesting value proposition than the free one, and that the advanced features are worth the investment. So, the free plan is the “bait” and the premium prices are the actual revenue streams.

Advantages

- Offering a product or service for free is always a very effective marketing strategy.
- The strategy works very well on the internet, where the acquisition cost is very low.
- Free users may also spread the news, providing wide word of mouth.
- There’s the network effect – the more people use a

particular product or service, the more valuable it becomes.

Disadvantages

- A low percentage acquires the premium version.
- Maintaining the service relevant to the audience is hard.
- It takes longer to become profitable and the cost structure must be lean.
- There's a considerable investment of time and money to reach the audience – and convert them into paying customers.

Examples

- Waze
- Spotify
- Slack
- Skype
- LinkedIn
- Evernote

SUBSCRIPTION-BASED REVENUE MODEL

This revenue model became some popular in tech and online companies, that people usually forget it has been there for a lot longer: it's the revenue model applied by newspapers, gyms and courses.

How it works
A subscription-based revenue model is when a business offers a service or product in exchange for a recurring fee, usually monthly or annually. That is, as long as the customer wants to have access to that product or service, they need to pay.

Revenue Stream
The company's revenue depends on the maintenance of buyers. Thus, it needs to deliver a high-quality product and service in order to keep earning recurring fees. It is deeply based on the relationship with the customer. The longer the relationship, the more value a customer has for the business.

Advantages

- Revenue is recurring, providing sustainable growth.
- Revenue comes from many scattered customers, so there are no great losses when there is a cancellation.
- As the fee is generally cheap, it doesn't become a burden to the subscriber, avoiding them to cancel subscriptions.
- Some subscribers are too lazy to cancel their subscriptions.
- When the customers get satisfied, they become loyal to the brand and can turn out to be its marketers.

Disadvantages

- The maintenance of a large consumer base is fundamental, so the company must understand very well its audience's needs.

- It takes a long time to recover the amount invested in CAC.
- There are great investments in keeping the subscribers while trying to reduce acquisition costs.

Examples

- Netflix
- Trello
- Amazon Prime
- DollarShaveClub
- Hims
- Spotify
- Insurance
- Courses
- Clubs
- Gym and fitness studios

CONSUMPTION-BASED REVENUE MODEL

This is a revenue model as old as the moving truck or the payphone: you use, you pay. Nowadays, it is most common in telecom and cloud-based services industries. Unlike the majority of service-based models, where a fee is charged for a regular service, the consumption-based one charges only when it is actually used.

How it works
The consumption-based revenue model trades flexibility for profit, and it is based on the high margins applied. The business provides access to many features, but the customer only pays for what they use.

Nowadays, it is particularly very popular among SaaS (software as a service) companies. The software is cloudbased, centrally hosted and maintained, and only licensed to customers, for as long as they maintain their subscription.

Revenue Streams

- Pay-per-user: very usual in the software industry, it is about giving a customer unlimited access to a range of features while charging each user for the services they use.
- Tiered pricing: there is one tool that can be used by several customer segments in multiple ways. So, there are different levels of service and features packages to appeal to different users. Once the user fills up a tier, they move to the next one and will be billed according to the number of purchases.
- Pay-per-view: it is special packs or shows offered individually by the cable TV industry. The subscribers don't have access to that regularly, they will only pay when they want to watch it.
- Pay-per-usage/metered: it is when the customer pays according to some specific criteria, such as the amount of time (parking meters, for example) or mileage (taxis, for example).

Advantages

- It’s flexible to charge.
- There are high-profit margins.
- The product offerings are scalable.
- The product-development loops are faster.
- The distribution and billing processes are simple.

Disadvantages

- It competes with subscription models, such as streaming.
- It has a high churn rate.
- The use and revenue are unpredictable.
- It demands a high volume of use to breakeven.

Examples

- Uber
- Zipcar
- Rappi
- PayPal
- Zendesk
- Office365

BROKERAGE (COMMISSION-BASED) REVENUE MODEL

The brokerage revenue model always involves a middleman (that may be a company or a person) who promotes a transaction between the other two parties and, thus, is paid for the service.

How it works
An intermediator establishes the connection between two parties, for example, the producer and the end consumer. Whenever a transaction is fulfilled through this middleman's job, it earns a commission – usually a percentage on the sale.

This revenue model is very common in some business models, such as marketplaces, aggregators and multisided platforms, which offer a space for selling products/services and charge a commission on every item sold.

Affiliates, brokers, auctioneers, some distributors and salespeople also work under this type of revenue model.

Revenue Stream
Brokerage is algo called commission-based revenue model precisely because the revenue stream is the commission collected on each transaction handled. This commission is usually a percentage of the deal. But it can also be a fixed price for each sale, for instance.

Advantages

- It demands little/no investment to start.
- It's easy to run a business – no need to own/produce

the product.

- There's no inventory required.
- There are no distribution expenses.

Disadvantages

- It's hard to scale.
- The revenue stream is uncertain.
- Cannibalization may occur.
- There's poor control over the product/service.

Examples

- eBay
- Airbnb
- Amazon
- TaskRabbit
- Fiverr
- Uber
- Stripe
- Travel agencies
- Real estate agencies
- Stockbrokers

HIDDEN REVENUE MODEL

This revenue model is applied for those business models in which the end users don’t pay for the product/service they consume, such as Facebook and Google. This name comes from the fact that the consumer doesn’t actually “see” the business. Because it is another stakeholder that pays.

How it works

The concept is simple: finding sales opportunities outside of end consumers. It’s the basis for broadcast TV advertisements, simply speaking. So, the users are kept out of the equation, they don’t pay for the service or product, they just consume it for free.

On the other side, they do give valuable data for a third party of the equation: the actual customers, who will pay for reaching the users.

Revenue Stream

The main revenue stream here is the targeted advertisement. As the business collects accurate data about its users, the advertisers can reach their target audience, by investing money in the “right” audience. They are basically the same as the Ad-supported revenue model.

Advantages

- It builds the most valuable asset, the user database, with the users’ own help. It’s easily monetizable for high-traffic media.
- It’s scalable.
- Building a nice reputation with the users is simple.

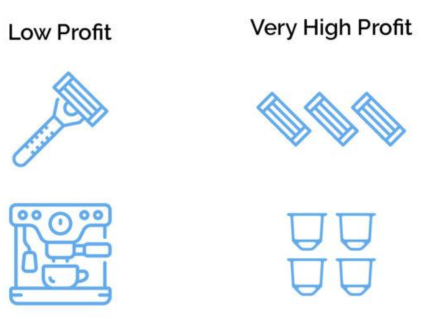
Disadvantages

- Users may find ads annoying.
- Building traffic and engagement are not that easy.
- If users lose interest, the business loses value.

Examples

- Google
- Facebook
- Instagram
- LinkedIn
- Pinterest
- YouTube

RAZOR AND BLADE REVENUE MODEL



This revenue model was invented when King Camp Gillette founded the company named after his last name, in the early 1900s. The goal is to encourage consumption over time, based on a very cheap initial offer. The core product (razor) is just a gimmick for the sale of the consumable (blade), where the money really is.

How it works
Also known as razorblade and bait-and-hook, this revenue model is characterized by selling a product at a very low price, often to the point of not being able to cover its own cost, to profit from the sale of other related items.

Thus, the initial investment in the core product is diluted in consumable and dependent goods, which will guarantee the return on that capital. It's a nice strategy to avoid competition, offering a very cheap outbound product, and guaranteeing consumer loyalty.

Revenue Streams
The consumable products are precisely the revenue streams. Once someone has bought the original product, they will keep on acquiring the corresponding refilling goods, in order to not waste its first purchase.

So, the razors, the printers, the gaming systems, they are all practically free. That's because their consumables – the blades, the cartridges and the games – are the actual source of income.

Advantages

- It keeps the customer's loyalty.
- It provides cross-selling and upselling.
- It avoids competition (when there are patented consumable items).

Disadvantages

- The consumable product must be desirable, offering the best-perceived cost-benefit – or the buyer may migrate to competition.
- Some are highly concerned with the ecological footprint that razor-and-blade companies may produce.
- The consumers may have a bad image of the brand that applies this lock-in and end up denying the brand for it.
- The pricing is complicated: if the consumable products are too expensive, the price may discourage customer loyalty. If it's too low, may not promote breakeven. Patenting and trademarks are highly important to avoid competition.

Examples

- Gillette (P&G)
- HP
- Sony PlayStation
- Microsoft Xbox
- Nespresso

DONATION REVENUE MODEL

This revenue model doesn't focus on generating profit – they basically aim to cover operational costs. Once in a while, some companies may enjoy a small recurring revenue stream from that.

How it works
The companies/brands provide their products or services for free and ask their customers for donations. These companies normally don't have any other revenue stream, and they rely on their users' altruism.

This business model is more common for nonprofits organizations, nonprofit online media and independent news outlets.

Revenue Streams
These businesses are based on donations. Usually, the users are invited to collaborate, by paying some fee, often a small one, in order to keep the business running. To incentivize their users to contribute, the companies sometimes offer exclusive content in exchange for payment.

Advantages

- Benevolence usually strengthens the brand.
- It arouses loyalty in the customers.
- It attracts conscious business partners.

Disadvantages

- Donations are completely unpredictable.
- If the customer doesn't see value, they won't feel like contributing.
- The amount of people that consume and actually donate is very small.

Examples

- Wikipedia

- Patreon
- Kickstarter

ARBITRAGE REVENUE MODEL

This one of the most unpredictable revenue models a business can apply. It’s about buying and selling simultaneously and earning over the variation between both markets. This revenue model exists, actually, due to the inefficiency in the markets – so, it wouldn’t exist if the markets worked properly.

How it works
In simple words, one buys some good or service in one market and, at the same time, sells it in another market, at a higher price. The arbitrage revenue model takes advantage of the temporary price difference in the two markets to make profit. It’s most common in security, currency and commodity businesses.

Revenue Stream
The arbitrage takes advantage of technological mechanisms that monitor fluctuations in similar instruments. This way, any inefficient pricing will be recognized almost immediately – as the opportunity will be lost within some seconds.

Advantages

- It is low-risky.
- It helps maintain the prices in the market more stable.
- It makes the markets more efficient.

Disadvantages

- There may be many transaction costs and taxes involved, that can lead to profit miscalculations.
- There are a few arbitrage opportunities.
- It requires time, capital and technology.
- It's very expensive – thousands of dollars are necessary to start.
- It's unpredictable.

Examples

- Affiliate marketers
- Currency and cryptocurrency
- Securities
- Commodities

DATA SALES REVENUE MODEL

Have you ever heard the phrase "if you can't see how the money is made, you are the product"? This revenue model surely matches this concept.

These years, the world has watched the explosion of datadriven business models. These businesses rely on building data assets in order to sell them to the customer. Selling data can be tricky, but profitable.

How it works
This revenue model can be associated with other ones, such as Ad-supported. On the other hand, in some cases, there is

no interaction between the users and the real customers, as the previous ones do.

In data sales, the service provider can act like a data broker. They collect, sort, filter and analyze the data, focusing on creating customer profiles, and, then, sell this organized data to their customer, usually on a C2C transaction.

Revenue Streams

- Data Users: these businesses use technology to track the usage of a product. They sell this technology that provides micro-profiling, within some demographic, geographic and behavioral standards, in order to foster R&D and marketing strategies.

- Data Supply: data is the product. These businesses simply collect data (usually from content creators) and sell them to other businesses, like a regular asset.

- Delivery Network: this is the case of some Ad-supported revenue models. These businesses sell advertisement, by targeting users according to data collected from their regular use. The more users they have, the more customers they get.

- Data Analysis: these businesses facilitate the work of analyzing the information, thus increasing the efficiency of its use. They provide a kind of consulting service.

- Data Tools: these businesses focus on handling the information. They offer storage media, servers, scanners, analysis and management software, data protection technology, etc.

Advantages

- It creates new opportunities for the market.
- Data is more and more valuable these days.
- The cost structure is lean.

Disadvantages

- Not every data is valuable for other companies.
- It’s difficult to price information.
- Data has an expiration date.
- It’s necessary to gain customer trust.
- There must be an investment in data security.

Examples

- Bloomberg
- Reuters
- Nielsen
- ZoomInfo
- Crunchbase
- Gartner
- Experian
- Facebook
- Twitter
- Google

TRANSACTIONAL REVENUE MODEL

This is maybe the most typical revenue model there is: each transaction is a sale, and the money is made over each and every one of them. The newest startups usually try to avoid this revenue model, because they must thrive every month to survive.

How it works
This revenue model is probably the most direct way of generating revenue: a company produces a product or provides a service, and the customers will pay for it. Whenever you enter a store and purchase anything, you are participating in a transaction.

They must deliver something new at every sale. If it's a physical good, it has to be manufactured and shipped every time. And these companies have to work hard on attracting customers to maintain their business running.

Revenue Stream
It is a basic exchange: the business offers a product or a service and the customer pays for that. It can take place in a brick-and-mortar store, an e-commerce, an industry or with a self-employed professional.

Advantages

- Customers enjoy simplicity and variety.
- It's scalable.

Disadvantages

- There is great competition.

- The businesses usually fight for price.
- The cost structure can be expensive, depending on the offer.
- The revenue is unpredictable.

Examples

- Industries
- Stores
- E-commerce
- Self-employment

RENTAL OR LEASING REVENUE MODEL

For renting or leasing, there is usually a physical asset involved – often real estate – that can be offered as a product. In both cases, the payment is due to the temporary use of this asset.

How it works
This revenue model is about an agreement when one party pays for the temporary use of a service or property of another party. Assets that may be rented or leased include real estate (such as lands and buildings), vehicles, equipment, furniture, among others. In general, both parties sign a contract, that establishes time, price and other details of the deal.

Revenue Stream

- Operational Lease: the contract has a minimum term of

90 days. When the contract expires, there is the possibility of acquiring the asset at the current value in the market. A financial institution performs the intermediation of this operation.

- Financial Lease: the minimum term varies between two and three years, depending on the useful life of the product. At the end of the contract, the lessee can return or buy the asset, or renew the contract. If the asset is bought, the buyer will pay a residual value, which is already predetermined at the beginning of the contract.

- Leaseback: the customer sells their own asset to the financial institution and it rents it back to the customer. This is common among companies that need both working capital and the acquired asset.

- Real Estate Lease: the lessee acquires land, builds a property on it, and then leases it to the customer. A clause can be inserted with the option to purchase the property at the end of the contract.

- Renting: a contract by which one of the parties gives the other the use of an asset for a fixed or indefinite period, upon payment of a certain amount.

Advantages

- Income is recurring.
- Revenue is predictable.
- The property value can grow.

Disadvantages

- The assets may lack liquidity.

- There may be disagreements with tenants.
- Costs of maintenance can be high.
- The asset value may low (e.g. neighborhood declines).

Examples

- Housing
- Facility rentals
- Equipment rentals
- Automobile rentals

BORROW / LENDING

This is probably the most rentable revenue model for banks and financial institutions, and it is based on the interests charged over loans, to both individuals and businesses.

How it works
The customer seeks for a financial institution that is able to lend them an amount of money. The proposal and the financial situations of this customer will be analyzed, and over that, the institution offers a loan, specifying duration and fees involved.

Usually, the longer the agreement, the more profitable it is for the business.

Revenue Stream
Interest is the revenue stream here. It is the income one gets when lending money for a certain period. The interest is compensation for the time they will spend without using the lent amount. The interest rates are set by the creditor, often based on factors such as current inflation or the risk of the

loan.

Advantages

- The interest fees are usually very profitable.
- The revenue is built on its abundant resource: money.
- Usually, there are guarantees to avoid losses.

Disadvantages

- Even with guarantees, there is always the possibility of default.
- Recession and crises may increase default.
- It is very susceptible to economic and political changes.

Examples

- Banks
- Financial institutions
- Online lenders

PRODUCT IS FREE, BUT SERVICES AREN'T

It's a quite unique revenue model: the business gives the product for free, and charges for additional services, such as installation, customization or training. This is the revenue model usually applied by open-source companies.

How it works
In open-source software companies, anybody can see the code and contribute to make it better. In the end of the day, the whole code base belongs to the community, to the thousands of people who contribute to it. So, anyone can use the software, for free.

Nevertheless, there are other customized and optional resources that are charged and those are the revenue streams of the business.

Revenue Streams
The free product is quite limited and poor, regarding features. The revenue streams are the fees charged for other personalized or advanced services, such as domain, storage, customization, monetization, support etc. All of these services have their own price.

Advantages

- It builds trust with the customer.
- It attracts lots of new customers.
- It spreads the brand.

Disadvantages

- It's difficult to scale.
- Cost of the production is cost of marketing.
- Breakeven is risky.
- Pricing services is hard.

Examples

- WordPress
- Redhat
- Cloudera

DIRECT REVENUE MODEL

As the name says, the direct revenue model is about direct sales. Products and services are marketed directly at consumers, without any type of physical commercial establishment to perform the intermediary.

How it works
In the direct revenue model, the supply chain reduces intermediaries (regional distribution center, wholesaler, stores) by selling more directly to consumer, in a non-retailing environment.

The products can go from the producer directly to the end consumer or to a representative, for example. This business model, therefore, relies heavily on salespeople and on a close connection with the customer.

Revenue Streams

- Single-level direct sales: performed one-on-one or door-to-door, via personal presentations, catalogs or online. Income is based on sales commissions and possible bonuses when reaching some goals. Usually, the salesperson is an independent contractor.
- Host or party-plan sales: performed before a group, the rep or distributor brings together potential customers in the same place (online or offline) and

make a presentation of their product or service. Income is based on commissions and on the recruitment of other reps. The objective is to present the products in a fun, relaxing environment. Examples of businesses: Scentsy and Stella & Dot.

- Network or multi-level marketing: it associates the methods used in both single-level and party-plan sales, since the income is earned through commissions on the rep’s sales as well as on the sales made by the partners they recruited into the business.

Advantages

- It gives control on marketing, sales, prices and product quality.
- It provides building meaningful personal relationship with customers.
- Marketing strategies can be rapidly adapted to demand.

Disadvantages

- Scaling can be complicated.
- Staff may be seen as inconvenient.
- Finding and recruiting salespeople must be challenging.

Examples

- Avon
- The Pampered Chef
- Mary Kay

- Amway

INDIRECT REVENUE MODEL

Again, as the name states, this revenue model is the opposite the one before. It is about indirect sales, i.e., when the product or service reaches the end consumer through reselling agents or distributors.

How it works
In indirect revenue model, the supply chain starts in the producers and goes to one or more intermediaries (regional distribution center, wholesaler, stores) before being delivered to consumer, usually in a retailing system.

This is a way of increasing the sales volume quickly, avoiding great upfront investments, and especially useful for businesses that operate in a large geography.

Revenue Streams

- Affiliate: business that sells products or services for a commission. Companies create campaigns for their products/services that affiliates promote. Affiliates are paid only when a sale is made.

- Resellers: resellers interact with the customer in face-toface or digital transactions on behalf of a company, at a brick-and-mortar store or online.

- Independent sales representatives/agents: independent sales reps who are paid on commission on sales made.

- System integrators: common in B2B sales, system integrators are often consultants who also pitch solutions to customers.

Advantages

- It can achieve broad market coverage.
- The supply chain stakeholders share the costs of sales, marketing and support.
- The intermediaries don’t have to invest in production/manufacture.
- The producers don’t need to find, recruit and train salesforce.

Disadvantages

- Focus can be diluted when partners resell too many products.
- The producer may lose control over people representing its solution.
- The intermediary may lose control over product quality.
- Sales margins are reduced by the discount the resellers take.

Examples

- Retailers
- Distributors
- Representatives
- Agents
- Brokers

- Affiliates

HYBRID REVENUE MODELS

Hybrids, whether talking about business models or not, are normally the solution encountered to manage difficult periods of transitions, by combining elements of even competing systems.

How it works
In general, hybrid business models are an evolution over time: a business starts with one product/service that the customers enjoy and evolve by including other matching and additional features, that end up becoming new sources of revenue. This way, the business ends up keeping both the revenue streams. Sometimes, temporarily.

Revenue Streams
The revenue streams of any hybrid will actually be the revenue streams of each one of the revenue models combined in business. For example, a streaming service can combine freemium + subscription + advertisement.

Because it can use the freemium strategy to attract the customers, subscriptions as a recurring revenue and ads as an extra income, to balance for those users who keep the free version and do switch to premium.

Advantages

- It helps businesses manage complicated transitions.
- It supports the transitions between technologies and legislation.
- It may be temporary or definitive.

- It allows new possibilities and sources of revenue.

Disadvantages

- Sometimes it looks messy and clumsy.
- It is hard to abandon the original idea and switch to the new one.
- Customers may not understand what the business actually is.

Examples

- Shopify
- Spotify
- Qihoo
- Veeva
- Stripe

MARKUP MODEL

This is the oldest and most common revenue model in the world. It is about buying some goods for a lower price, and adding profits and charges over it for, then, selling it to others. It is applied by retailers, wholesalers and anyone who plays the middleman, by purchasing for one price and selling for another.

How it works
It is as simple as can be: one purchases a product for a specific price, marks it up some percentage and gets the profit on this margin, the difference between both buying and selling prices.

Revenue Streams
Wholesale (bulk pricing): buys from producers and manufacturers and sells to retailers, distributors or other wholesalers. The business buys in large quantities (bulk), what provides a lower price.

Retail: buys from wholesalers, distributors and reps and sells to end consumers in physical or online stores.

Advantages

- Calculating the markup is very simple.
- Customers are familiarized with this kind of deal.
- It works best for companies that don’t sell their own goods.
- It ensures the costs are covered.
- It fights inflation effects.

Disadvantages

- The markup must be very well estimated.
- Opportunities can be missed due to errors in pricing.
- Many costs are fixed: the higher they get, the lower the margin or the higher the final price, making the sale harder.
- The company has to invest something new into every sale.

Examples

- Stores

- Supermarkets
- Marketplaces
- E-commerce

REVENUE MODEL COMBINATIONS

Markup + Subscription
This is a regular combination for businesses that sell goods to consumers, making profit at each single sale, and want to get some recurring source of revenue, whilst cutting costs.

They start to sell their own goods through their own channels. This way, these companies cancel some middlemen in the supply chain, getting directly to the end customer. It is a manner of cutting expenses and commissions, and getting the loyalty of the customers.

It has been the case of Dollar Shave Club, that started selling razors online and ended up offering subscriptions plans.

Marketplace + % of GMV
The combination of marketplace and earnings over gross merchandise volume can be very profitable on the internet.

The marketplace is a multisided platform that connects two or more participant groups, playing the intermediation role, and making it easier for them to find and relate to each other. And the revenue is generated cutting on a percentage of GMV sold due to the connection promoted in the marketplace. This is the case of enterprises like SimpliShip. The marketplace helps freight forwarders sell ocean and air transportation space companies that need shipping, and generates income by taking 2% of space booked on ocean and 5% on air.

Product + Service (Hardware (IoT) + Software)
It is quite common for companies who sell hardware and software that work fine together. If the customers like the software, then they can buy the hardware which enables the software to work. And, once the customers have acquired the hardware, they are more likely to maintain the software's subscription fee.

One example is Sensa Networks. Their service is to help other businesses manage their wastes. In order to do that, they install hardware in companies' dumpsters. This hardware run a software that informs when the dumpster is full.

Networks sells the hardware for a fixed price and charges another monthly fee for allowing the use of the app.

Subscription + Services
This is a very common hybrid revenue model, especially for the transition from selling services to implement a subscription revenue model.

That's because it is quite usual that a company starts by selling some service and begins to have problems scaling. Often due to the fact that, regularly, selling a service is selling time. And time is a limited asset.

So, the business opts to make a switch and develop a subscription product. Sometimes, after the transition time, it chooses to keep only the subscription model.

However, other times, this same company starts to sell new additional services, again, thus maintaining a combination of the two.

Subscription + % of GMV
This is the case of some software or online platforms, that combine a recurring revenue from subscriptions to an extra

profit on the sales made.

For example, Workaxle provides a software that helps businesses schedule paid meetings. The software company charges a monthly fee for using the product, and, besides, takes 1,5% of the total value of meetings booked through its system.

Workana is another example. It’s an online platform that connects freelancers to clients. Besides charging some monthly fee (there are different plans according to the available features), the platform takes about 20% of each job agreed.

REVENUE ASSOCIATED WITH DIFFERENT BUSINESS MODELS

SAAS BUSINESS MODEL

The Software-as-a-Service (SaaS) business model is a model where a centrally-hosted cloud-based software is licensed to customers. Customers typically access the service via a web app, mobile app, and sometimes a desktop app. When a company leases out its software through a central cloud-based system to users, such a company can be said to be a SaaS business. Popular SaaS businesses include Salesforce, Adobe Creative Cloud, Slack, and GitHub.

The revenue model of the SaaS model is associated with regular, ongoing payments over a predetermined time period, in exchange for the use of the software application. Below, there are revenue models associated with SaaS:

- Ad-based revenue model
- Affiliate revenue model
- Channel sales (or indirect sales) Direct sales
- Web sales
- Transactional revenue model

- Subscription revenue model
- Retail sales
- The product is free, but the services aren't
- Freemium model

ECOMMERCE BUSINESS MODEL

The electronic commerce (eCommerce) business model is a model where companies and individuals buy and sell goods and services over the internet in the digital marketplace. Available products and services are showcased over the internet, and customers can access them via a website or app and make payments over a secured payment gateway that facilitates secured financial transactions. eCommerce comprises four main types that describe the business transaction between customers and businesses. They are Business-to-consumer (B2C), Business-to-business (B2B), Consumer-to-consumer (C2C), and Consumer-to-business (C2B). Popular examples of eCommerce businesses include eBay and Amazon.

Below, there are common eCommerce revenue models that have proven to be highly successful over the decades:

- Sales Revenue Model
- Advertising Revenue Model
- Subscription Revenue Model
- Transaction Fee Revenue Model
- Affiliate Revenue Model

- Insurance Business Model
- Reinsurance
- Underwriting activities
- Investment income

OPEN-SOURCE BUSINESS MODEL

The Open Source business model is a model in which a business makes its source code publicly available while emphasizing its monetization through its paid features, services, support, and marketing. Open Source Software (OSS) is typically developed in a collaborative way, relying on communities of developers and users. Typically, OSS includes a license that determines the way people can use, study, modify, and distribute the software. Popular Open-source business model companies include Redhat, MongoDB, and Elastic.

Revenue models associated with the Open-source Business model include:

- Support
- Hosting
- Restrictive licensing
- Open-core
- Hybrid licensing

CONTENT-BASED BUSINESS MODEL

The content-based business model emphasizes content as a commodity for consumption. Such content could be video, text, print, commentary, analysis, or data. Revenue from content-based business models is linked to the ability of the business to generate traffic on a consistent and periodic basis and convert the traffic to impressions, clicks, and conversions. The ability to generate traffic correlates with the capacity to produce fresh, relevant, consumable content regularly. Popular content-based business model companies include Newspapers, and online platforms like Quora, Medium, and Quartz.

Revenue models associated with the content-based Business model include:

- Sponsorship
- Collecting User Information
- Selling Advertising Space
- Collecting donations
- Subscription-based revenue models
- Selling Content as a product
- Content as the facilitator of the selling process

RETAIL BUSINESSES MODEL

A Retail business model is one in which the company sells its products and services directly to the final consumer. It is a Business-2-Consumer (B2C) model.

A retail business model describes how a retailer creates value for its customers and captures value from the markets. Revenues from retail business models are generated from the sale of products and services to customers.

Retail businesses are often locally-based. Popular retail business model companies include Best Buy, Ikea, and Walmart.

Revenue models associated with the Retail Business model include:

- Contextual advertising
- Native advertising
- Partnership model
- Affiliate/Referral model
- Monthly installment payments
- Exchange offers
- Series of products
- Razor and blade model
- Subscription model
- Recurring revenue
- Daily Deals/ Flash sales
- Marketplaces/peer-to-peer platforms
- Cost-plus retailers
- Premium retailer

- Low-cost retailers

SOME CASE STUDIES OF REVENUE MODELS

THE REVENUE MODEL OF AMAZON

Amazon is an American multinational eCommerce company that focuses on eCommerce, Artificial Intelligence (AI), cloud computing, and digital streaming. It is the world's largest online retailer. The Amazon business model generates revenue through the following means:

- Advertising model: Amazon offers spots for sponsored ads, and they charge on the number of clicks received on your ads;
- Subscription model: Amazon has various subscription services, such as Amazon Music and Amazon Prime Video;
- Sales revenue: This includes product sales made on Amazon’s eCommerce website. Third-party vendors also sell products on Amazon's online marketplace, and Amazon charges them commission and shipping fees;
- Web Service: Amazon Web Service (AWS) offers several cloud-based services including storage, analytics, and AI.

THE REVENUE MODEL OF NETFLIX

Netflix is a streaming service and production company that offers a variety of TV shows, movies, anime, and documentaries through distribution deals as well as its own productions, known as Netflix Originals. The Netflix business model generates revenue through the following means:

- Subscription model: Subscription is its main revenue source. Netflix had over 193 million members from over 190 countries (as of July 2020);
- Partnership model: Netflix has partnerships with filmmakers, animators, movie producers, and writers, to receive their content and broadcast it legally. It also has partnerships with internet service providers.

THE REVENUE MODEL OF UBER

Uber Technologies, Inc. (Uber) is an American on-demand transportation service with operations in approximately 72 countries and 10,500 cities. Its services include ride-hailing, food delivery (Uber Eats), package delivery, couriers, and freight transportation.

Though it does not own any vehicles; the Uber business model generates revenue through the following means:

- Brokerage (Commission-based) Revenue Model: Uber takes around 20% of the fare charged to the customer, and the rest 80% is given to the driver;
- Advertising model: Uber uses its platform to advertise to other businesses and earn payment from them.

THE REVENUE MODEL OF FOODPANDA

Foodpanda is a German online food delivery platform that connects users with local restaurants and food points. Its platform allows users to browse through various food menus and place orders for home delivery or pickup at competitive prices. All of these can be done with a few clicks. Its revenue model comprises:

- Registration fees: Restaurants pay a registration fee to get added to the Foodpanda platform;
- Commission: Foodpanda charges a 20% commission on every order that customers place through the platform;
- Affiliate: Foodpanda suggests banks, credit, debit, and other payment methods to users on the platform. They charge affiliate commissions from the payment platform for this service;
- Advertisement: Other businesses can advertise on the Foodpanda platform and pay advert fees to Foodpanda;
- Delivery Charges: A delivery fee is paid to Foodpanda for every delivery made.

THE REVENUE MODEL OF DISNEY

Disney is a diversified family entertainment and media conglomerate that includes Disney Parks, Experiences and Products; Disney Media and Entertainment Distribution; and four content groups — Studios, General Entertainment, Sports, and International. The Disney business model generates revenue through the following means:

- Sales Revenue: This includes the merchandising of the Disney brand and Disney properties through its many Disney Parks, local and international retailers, e-commerce platform as well as Disney store locations around the world;
- Distribution model: The studio entertainment segment generates revenue through the distribution of films to theaters, homes, and television markets globally; and the distribution of recorded music;
- Subscription: Disney generates revenue through subscriptions to its online and mobile games, and entertainment;
- Fees: Customers pay a fee to use the Disney theme parks, resort hotels, water parks, dining, conference centers, Disney Cruise Lines, and other recreational facilities;
- Advertisement: Disney generates revenue through adverts placed on its media networks like ESPN, ABC Family, Disney Channels, and other Disney television programming.

THE REVENUE MODEL OF BINANCE

Binance is the world's largest online cryptocurrency exchange platform by volume. The Binance business model combines digital technology and finance, which enable users to trade cryptocurrencies and other digital assets on the Binance platform. Its revenue model comprises:

- Fees: Binance charges a fee of 0.1% for each trade a user initiates on its platform;

- Spread: Spread is the difference between the buying and selling price of a product, like a token. Although no fee is charged for the buying and selling of tokens, Binance earns through the spread of each transaction;
- Interest on Loans: Binance allows its users to borrow cryptocurrency loans with an interest on them.

THE REVENUE MODEL OF APPLE

Apple Inc. is a multinational technology company that produces consumer electronics, software, and online services. Some of their products include smartphones, personal computers, tablets, wearables, and accessories. They are popular for the iPhone, the Mac computers and laptops, the iPad, Apple Watch, and Apple TV. The Apple business model generates revenue through both products and services.

Its revenue model comprises:

- Sales revenue: Apple generates enormous income from the sale of its product lines comprising the iPhone, iPad, Mac, wearables, and accessories devices;
- Subscription Services: Users pay subscriptions to access some of Apple products like its Digital Content and Services, and its iCloud services;
- App Store and in-app purchase percentage cuts;
- Brokerage (Commission-based) Revenue: Apple typically charges a 30% commission on purchases made using its In-App Purchase system;

- Licensing Fees: Apple receives licensing payments from various third parties, like Google, which is dependent on Apple for a valuable pipeline of search and other traffic coming from its iOS devices.

REVENUE MODELS KEY PERFORMANCE INDICATORS

When choosing or designing your revenue model, it's essential to have a few key performance indicators in mind.

- **Pricing:** Will you be charging a flat fee or percentage?
- **Conversion Rate:** How many visitors or users can your business convert into customers?
- **ARPU (Average Revenue per User):** What's your expected average revenue?
- **Recurring Revenue Frequency:** Once every six months / once a year?
- **Lifetime value of a customer:** What is your business's total revenue can reasonably expect from a single customer account?
- **Estimated Yearly Revenue:** How much your revenue model will generate yearly?

It's important to have these numbers in mind as it may indicate revenue models that are stronger than others.

COSTS ASSOCIATED WITH REVENUE MODELS

While implementing the revenue model of their choice, businesses often incur some associated costs. Such costs often vary significantly between startup revenue models and established businesses. When deciding the revenue model to use, businesses must factor in the associated costs to ensure profitability.

COST OF REVENUE

The cost of revenue is the total cost incurred to manufacture and deliver goods and services to consumers. Cost of revenue is a more comprehensive metric than the cost of goods sale because it includes specific selling and marketing activities associated with a sale. It covers the cost of goods/services sold, plus additional costs incurred to generate a sale. But it does not include indirect selling and marketing costs, such as the cost of a trade show, marketing brochure, or advertising campaign because these costs are not associated with a specific unit of product/service sold.

For hardware, the cost of revenue comprises testing and manufacture, while for software, it comprises the entire development cycle. Service-oriented and SaaS industries prefer using the cost of revenue metric because it makes the many costs incurred outside of production easier to account for.

PROTOTYPING COSTS

Prototypes are working models of an idea. It is the original model on which something is patterned. It is a fundamental part of the production cycle. Prototyping is often expensive, and even a small revision can incur expensive changes to the production/development process.

When planning for the prototyping phase, it is important to plan for several iterations, as it is unexpected that everything will be gotten right the first time, especially if it is feature-rich or innovative.

EQUIPMENT COSTS

Equipment Costs refer to the total cost of the Equipment, including associated costs such as installation, freight, and taxes. Equipment costs are considerably important in the hardware industry. For the service-oriented and SaaS industry, it is still factored into the bottom line even though they do not have any production line to run. Subscription services, app development tools, firmware, and server rental are generally equipment costs for the service-oriented and SaaS industry.

LABOR COSTS

Labor cost refers to the total sum of all the wages, benefits, insurance, and taxes paid to employees by an employer. Taking good care of labor costs is important for the success of any enterprise.

ADVERTISING & MARKETING COSTS

Advertising and Marketing costs refer to expenses concerned with promoting a business brand, product, or service. They include the cost of ads in radio and television broadcasts, print media, online platforms, and direct mail advertising.

TIPS FOR CHOOSING YOUR REVENUE MODEL

Now that you understand a lot more about all the types of revenue models, it is time to get to know how to choose the best option for your venture. So, here are 7 tips to help you out:

1. Know your market
First of all, you have to know who and where your customers are. What they need, what they are looking for, how much they are willing to pay for the solution you have to offer. After that, you need to know your competition, so it's essential to have a solid knowledge about the benchmarks, especially to define how to price and market your product against the others'.

2. Know your product
This is not a second-place tip, since these tips are not hierarchical, simply counted. As a matter of fact, getting to know your product is just as important as getting to know your market – maybe even more!

Now that you know the value of your product, how do your customers perceive it? How does it compare to the competitors? Remember you must sell your product the most profitable way, but, at the same time, the price and payment must be attractive to the audience.

3. Know your resources
When you started your business, you did it based on some

resources and assets you had available. Take that into consideration when you chose your revenue model – how all of those resources will be best employed.

For example, if you have a great team in digital technology, maybe you can focus your efforts online. If you have an audacious and venturesome partner, you both can test something high-profitable, but risky.

4. Know your potential investors
If your business needs funding, it is essential that you set a revenue model which really converges to the interest of your potential investors and partners, especially if you are looking for long-term partnerships.

5. Know your figures
Of course, if you haven't even chosen your revenue model, you probably don't know all of your numbers, but projections are fundamental – for your investors especially, by the way. So, try to pick some types of revenue models that you find more likely to work out and run some tests and calculations to predict, as accurately as possible, the costs and profits involved.

6. Know your strengths and weaknesses
It is imperative that you know both the advantages and disadvantages of your company and product. Because your strengths must be highlighted and validated, in a way that you may benefit as much as possible from them – and in a way that they may turn into value to your customers. Equally, your weaknesses have to be considered and evaluated, mainly to be mitigated, whenever possible. You must be realistic, there's no benefit in hiding from risk. On the contrary, you need to know the risk, understand it, to be prepared to face it.

7. Know everything can change
As your company grows, as the market and the customers change, the revenue model you have chosen back in the beginning may have to change accordingly.

Maybe this demands a period of transition, with a hybrid revenue model. Maybe it requires an actual long-range establishment of combination. Or maybe it simply makes you switch from one revenue model to another. And those are all okay.

Nothing is perennial, when it comes to business. Just keep your mind open to new opportunities by paying close attention to the market and customers behavior.

HOW TO WRITE A BUSINESS REVENUE MODEL

Developing a revenue model is perhaps the best way to build a financially healthy enterprise. A successful revenue model is gauged by its capacity to generate higher profits in comparison to industry expectations and its existing competition. Building a clearly-defined business revenue model will guide a business' path to generate income on their goods and services. Furthermore, a well-thought revenue model makes a business investor-friendly, attracts new customers, and motivates the sales team.

How can a successful revenue model be developed to ensure business success? Revenue modeling requires in-depth research and critical thinking to be an effective business tool. Use the following steps to develop your own revenue model:

1 - MARKET AND INDUSTRY RESEARCH

Conduct research on key players in your business industry and compile a list of the different revenue models been used. Determine the ones that are most successful and analyze details about the target customers. As you begin to implement some of them that are the best suitable for your business, you must constantly be updating your revenue plan as your model is likely to change even if your general approach remains the same.

2 - ANALYZE TARGET CUSTOMERS

Your business goal is to win new customers and keep old customers happy. There is a need to clearly identify the characteristic of your ideal customer. The target customer is a much more segmented portion of your target market. Components of your target customers might include a specific age instead of a range, a specific income level, and the reasons these customers are most likely to purchase your products.

3 - DEFINE REVENUE CATEGORIES

Determine all the possible types of revenue models you can use that appeal to your industry and target customers. Also, determine how they can complement each other. Then draw an outline for each income source and forecast how much the business is expected to earn from each of them and how cash flow could change over time.

4 - PUT THEM ALL TOGETHER

Summarize all of the business financial goals, revenue sources, target customers, etc. This will serve as an overview of your revenue model's overall functions. This summary will create a connection between all of your revenue sources in order to ensure that they can meet your business needs.

5 - REVENUE MODEL EVOLVES

The general approach of your business towards revenue generation may not change, but you should continually be re-evaluating your revenue model and re-forecasting. Regularly evaluate sales information and the performance of different revenue streams. Based on the re-evaluation results, you should refine your revenue modeling strategy. Such frequent updates ensure that your business keeps up with the market trend.

6 - KNOW AND MITIGATE YOUR CRITICAL VARIABLES

As you continue your business operations, the variables that matter most to your business will continue to change over time. Identify those variables with the most impact on your revenue and assess how they affect your revenue. Isolate individual variables by charting them on a graph. The chart will help you to clearly determine how they individually impact your revenue as the data is manipulated.

Afterward, draw up a mitigation plan to minimize the negative effects of these variables on your revenue and business in general.

HOW TO RECOGNIZE REVENUE ACCURATELY?

Revenue recognition is a generally accepted accounting principle (GAAP) that stipulates how and when revenue is to be recognized. It asserts that revenue must be recognized as it is earned. The revenue recognition principle using accrual-basis accounting recognizes revenue when they are realized and earned, not when a cash payment is received.

Accurately recognizing revenue when earned is important because it has a direct impact on the integrity of a company's financial reports. Standardization of revenue recognition allows easy comparison of financial statements of different companies in the same industry. Revenue is an important measure in the assessment of a company's performance, hence, it must be consistent and credible.

Due to its sensitive financial nature, revenue recognition was standardized with the release of Accounting Standards Codification (ASC) 606 in 2014. It was released by the Financial Accounting Standards Board (FASB) as a part of Generally Accepted Accounting Principles (GAAP) in the U.S. The standards stipulate how companies should recognize revenue, particularly when the nature, certainty, and timing of revenue might be complicated. The revenue recognition standard, ASC 606, provides a uniform framework for recognizing revenue from contracts with customers.

The International Accounting Standards Board (IASB) then followed suit and issued similar guidance as a part of the

International Financial Reporting Standards (IFRS) to determine when revenue can be considered to be earned.

IFRS REPORTING STANDARDS CRITERIA

The IFRS specifies that the following conditions must be satisfied for revenue to be recognized:

1. Risk and rewards have been transferred from the seller to the buyer;
2. The seller has no control over the goods sold;
3. The collection of payment from goods or services is reasonably assured;
4. The amount of revenue can be reasonably measured;
5. The cost of revenue can be reasonably measured.

These conditions fall into three categories that are listed as necessary for a contract to exist. They are Performance, Collectability, and Measurability.

The Performance comprises the first two conditions. Performance is attained when the seller has accomplished most or all of what it is supposed to do to be entitled to payment.

The Collectability is covered by the third condition. It implies that the seller must have a reasonable expectation of being paid.

And the Measurability comprises the last two conditions. It implies that the amount of revenue and cost of revenue should be both measurable.

ACCOUNTING STANDARDS CODIFICATION (ASC) 606

The Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) jointly issued Accounting Standards Codification (ASC) 606 on May 28, 2014. It was an update to provide a uniform framework and standardize the then-existing industry-specific guidelines, which were fragmented.

There is a five-step framework to satisfy the updated revenue recognition principle:

1. **Identify the contract with the customer:** For this to be achieved, all the parties must first assent to the contract and be committed to fulfilling its obligations. The essential parts of any contract are:

- All parties have approved the agreement;
- All parties are committed to fulfilling their obligations;
- Each party's rights are identifiable;
- Payment terms are identified;
- The contract has commercial substance;
- Collectibility is probable.

2. **Identify contractual performance obligations:** An entity must identify all distinct performance obligations. Performance obligation simply means a contractual promise to transfer goods or services to the customer. All distinct goods and services to the

customer must be identified. There are two criteria to be met for a good or service to be distinct:

- The customer can benefit from the actual good or service on its own or with other resources that are readily available;
- The good or service must be separately identifiable from other performance obligations in the contract. This is commonly referred to as being “distinct in the context of the contract”.

3. **Determine the transaction price:** The transaction price refers to the amount in cash and non-cash considerations that an entity is entitled to receive from a customer in exchange for transferring promised goods or services to the customer. This also includes any variable considerations such as price concession, volume discount, and rebates to be estimated upfront but excludes amounts collected on behalf of third parties like sales tax;
4. **Allocate the transaction price:** If there is more than one performance obligation in a contract, each separate performance obligation will have to be allocated a transaction price based on its relative standalone selling price;
5. **Recognize revenue when the performing party satisfies the performance obligation:** The final step is to recognize revenue once the performance obligations in the contract are fulfilled.

CONCLUSION

There are so many variables to be considered when choosing a revenue model, as well as central differences among all the types. However, the truth is there is not an alternative, but defining one.

The choice of a revenue model is one of the foundations for the business's success. The only option is doing the research and all the calculations, analyze everything as carefully as possible and electing the best fit.

REFERENCES

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