Potential Revenue Models to Consider When Developing Your STEM Business Plan

Revenue is the income (i.e. money) that comes into a business or enterprise from its normal income generating activities.

Any enterprise that doesn't generate enough revenues to exceed its costs and expenses will eventually fail. In developing your Business Plan, one of the first things you must do is find an appropriate and realistic revenue model that can generate enough revenue to make your entrepreneurial venture a success.

Traditional revenue models include:

1. **Retail sales** – traditionally, physical goods of all kinds have been sold through all types of retail stores:
   - Includes grocery stores, drug stores, specialty stores, mass-market stores (think Walmart), restaurants, etc.
   - The merchandise/goods sold in retail stores is purchased from suppliers at a markup, meaning that the retailer sells the goods at a higher price than what the supplier sold the product to the retailer for.
   - The markup percentage is figured as a percent of retail selling price & varies by the type of store. Assume a retailer buys a product from a supplier for $50, and sells it to the customer for $100. They make a $50 gross profit on the sale. The markup would be 50%, being the $50 gross profit divided by the sales price.
   - While each store will establish its own prices, a typical markup at a general merchandise store will likely be 50% or more, at a specialty clothing store it may be 100-300% or more, at a grocery store it may be 10-15%, and in restaurants it may be 200-500% or more. (Google to find out what's typical at different types of stores.)
   - While retail markups may seem high, they are needed for retailers to cover the cost of employees, advertising, overhead costs including, rent, maintenance, utilities, taxes, advertising costs, etc.
2. **Pay per use** – is when the customer is metered or charged based on their usage of a product or service. Examples include everything from your electric bill, to the cost of hiring a plumber, to rental cars & parking lots.
3. **Subscription** – The customer pays a set monthly fee for access to a product, service or use of a facility. Examples might include everything from magazines to news sites, to health cubs, to internet access.
4. **Licensing fee** – The user pays a fee for use of a patent, copyright, trademarks, brand name, content, etc. Fees are often based on a percent of sales or product costs, or an amount per item used, or another basis.

New E-Commerce Product and Service revenue models:

With the advent of the Internet and E-Commerce, many opportunities now exist for entrepreneurs to market their products & services directly to consumers, either as a primary means of distribution, or as a means of test marketing their products or services before later rolling them out in a bigger way online, or through traditional retailers.

While, the entrepreneur may choose to develop their own E-Commerce site from scratch, here are some of the many online sites that already exist:

- **Shopify** – As of October 2019, reportedly there were already over 1,000,000 merchants using Shopify.
- **Bonanza** – Relatively new, Bonanza reportedly has over 50,000 sellers selling more than 35 million items.
- **Amazon** – Everyone knows Amazon.
- **eBay** – Online since 1995, there is almost nothing you can't buy sell on eBay.
- **Ruby Lane** – Sell jewelry, homemade goods, art, vintage items and antique merchandise.
- **Etsy** – Sell handmade goods, art, collectibles, antiques and more.
- **Chairish** – Growing online consignment store geared specifically for high-quality furniture & home décor.
- **Facebook Marketplace**, **Craigslist** and **Nextdoor** – Sites focused on selling locally.

Check out the article titled "10 Best Sites to Sell Your Products Online" which discusses the above.

The 10 Most Popular Startup Revenue Models

The following text is excerpted from the June 1, 2018 article titled "The 10 Most Popular Revenue Models" published online by The Founder Institute. https://fi.co/insight/the-10-most-popular-startup-revenue-models

The article references the work and writings of Mr. Alex Genadinik, who is a passionate instructor, entrepreneur, teacher, and best-selling Amazon author. https://www.bitdegree.org/instructor/314331-alex-genadinik

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1. Ad-Based Revenue Model

Ad-based revenue models entail creating ads for a specific website, service, app, or other product, and placing them on strategic, high-traffic channels. If your company has a website or you have a web-based company, Google's AdSense is one of the most common tools to get ads. For most websites, AdSense will earn about $5-10 per 1,000 page views.

Advantages: Making money from ads is one of the simplest and easiest ways to implement revenue models, which is why so many companies utilize ads as a source of revenue.

Disadvantages: In order to generate sufficient revenue to support a business, you will need to attract millions of users. In addition, most people find ads annoying, which can lead to low clickthrough rates, and therefore, lower revenue.

2. Affiliate Revenue Model

Another popular web-based revenue model is the affiliate revenue model, which works by promoting links to relevant products and collecting commission on the sales of those products, and can even work in conjunction with ads or separately.

Advantages: One of the most obvious benefits of employing an affiliate revenue model is that it generally makes more money than ad-based revenue models.

Disadvantages: If you use an affiliate revenue model for your startup, remember that the amount of money you make is limited to the size of your industry, the types of products you sell, and your audience.

3. Transactional Revenue Model

Countless companies, both tech-oriented and otherwise, strive to rely on the transactional revenue model, and for good reason too. This method is one of the most direct ways of generating revenue, as it entails a company providing a service or product and customers paying them for it.

Advantages: Consumers are more attracted to this experience because of its simplicity and the wider set of options.

Disadvantages: Because of the directness of the transactional revenue model, many companies employ it themselves, which means more competition and price deterioration, and therefore, less money is made for everyone who uses this model.

4. Subscription Revenue Model

The subscription revenue model entails offering your customers a product or service that customers can pay for over a longer period of time, usually month to month, or even year to year.

Advantages: If your company is far enough along in its development, this model can generate recurring revenue, and can even benefit from customers who are simply too lazy to cancel their subscription to your company (which is the dirty little secret of a subscription-based model).

Disadvantages: Because this model depends so much on having a large consumer base, it's critical to maintain a higher subscribe rate than an unsubscribe rate.

5. Web Sales

This is an offshoot of the transactional revenue model, in which a customer pays directly for a product or service, except that customers must first come to your company via a web search or outbound marketing, and conduct transactions solely over the internet.

Advantages: Web sales work with a wide variety of offerings, including software, hardware, and even subscription services.

Disadvantages: Relationship sales are incompatible with the web sales model, so if your company is related to consulting or big ticket items (high-value items such as houses, appliances, and cars), you should consider employing a model that's more suited to your offering.

6. Direct Sales

There are two types of direct sales: inside sales, in which someone calls in to place an order or sales agents calling prospects; and outside sales, which is a face to face sales transaction.

Advantages: Direct sales models work great with relationship sales cycles, enterprise sales cycles, or complex sales cycles that entail multiple buyers and influencers.

Disadvantages: The direct sales model often requires hiring a sales team of some sort, which means that it isn't optimal for small ticket price items. If your offering is priced below the $1,000-$2,000 range, you'll have trouble building a scalable company.

7. Channel Sales (or Indirect Sales)

The channel sales model consists of agents or resellers selling your product for you and either you or the reseller delivering the product. The affiliate revenue model is a good companion model to this one, especially if your offering is a virtual product.

Advantages: The channel sales model is ideal for companies who have a product that's an incremental sale for their channel and can produce incremental profit.

Disadvantages: Don't employ this model if your product requires you to evangelize your marketplace, or if your product competes with that of your partner's, as they will push theirs and not yours.

8. Retail Sales

Retail sales entails setting up a traditional department store or retail store in which you offer physical goods to your customers. Keep in mind that the retail sales model will require shelf space (that you'll have to pay for) at existing stores, and is best suited for products that require logistics to reach your customers.

Advantages: Retail sales is a great way to offer deals and complimentary products to an existing customer base to help boost brand awareness.

Disadvantages: The retail sales route is not ideal for early stage companies, or companies that offer digital products like software or apps.

9. Product is Free, But Services Aren't

This model is unique compared to others, in that you have to give your product away for free, yet require customers to pay for installation, customization, training or other additional services.

Advantages: This model is great for building trust with your customer base and boosting brand awareness, as any company that offers anything for free will generate considerable buzz.

Disadvantages: Remember, employing this model means that you are basically running a services business with the product as a marketing cost. Also, a model like this isn't always the best for scaling your company in the long term, so keep your eye on additional revenue models to utilize later on.

10. Freemium Model

The freemium model is one in which a company's basic services are free, yet users must pay for additional premium features, extensions, functions, etc. One of the biggest companies to use this model is Linkedin, the most popular business/social media platform.

Advantages: Similar to the previous model, the freemium model offers something free to users, which is a great way to give them a taste of your product or service while simultaneously enticing them to pay for something later on.

Disadvantages: This model requires a considerable investment of time and money to reach out to your audience, and even more effort to convert free users into paying customers.