E245 Revenue Model
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Test Hypotheses:
- Channel
- (Customer)
- (Problem)

Test Hypotheses: Demand Creation
- Product
- Market Type
- Competitive

Test Hypotheses: Pricing Model / Pricing
- Size of Opportunity/Market
- Validate Business Model
REVENUE STREAMS

what are customers really willing to pay for? how?
are you generating transactional or recurring revenues?
Two types of companies

- Companies that care about revenues
- Companies that don’t
Companies that care about revenues

- Time to doublings for monthly revenues
- Key questions:
  - When will I get to $100k/month in revenues?
  - When will I get to $1M/month in revenues?
  - What assumptions about my business am I making when I reach these milestones?
Companies that don’t care

If you say your business is advertising based:

- How do you get to 10M monthly users
- How do you become one of the top 5 websites visited?
This lecture is for those that care about REVENUES…
Key Questions I

- How many customers, value propositions and revenue models do I have? What are they?
- What are my customers paying for?
- What capacity do my customers have to pay?
- How will you package your product?
- How will you price the offerings?
Key Questions II

- What constitutes cost for the company?
- What are the key financials metrics for your business model?
- What are the risks involved?
- How will my competitors react?
Other words we use in the place of price or revenue model

- Fee
- Commission
- Subscription
- Toll
- Interest
- Rent
- Tax
- Shipping
- Tiotopm
Common categories of revenue models
Asset Sale

- Sale of ownership right to a physical product
Usage Fee

- Usage of service. Fee is proportional to the usage of the service.
Subscription Fee

- Fee for continuous access to a service
Renting

- Fee for temporary access to a good or service
Licensing

- Fee for use of some IP (including software)
Intermediation Fee

- Often found in marketplaces of various types, a fee for bringing together two or more parties involved in a transaction
Advertising

- Fee paid by brands and companies to get in front of potential customers
Additional components of pricing

- Exclusive vs. non-exclusive
- What do you price? What do you give away for free?
- How does cost vary at different production levels?
Common approaches to pricing

Cost based
- Cost + markup
- Typically not a strategic way to price
- Driven by internal economics and not customer insight

Value based
- Based on buyer’s perception of value (e.g. time saved, new efficiency created, etc.)
- Customers don’t necessarily feel that they want to pay this way
Pricing is strategic

- $50k lighthouse program
- Freemium
Competition as an influence

Nature of Market
- Pure competition
- Oligopoly
- Monopoly

How they will react?
- What is their product?
- What are their costs and prices?
- “What pricing will make them feel the worst?”
Customer Archetypes

- Buyer’s name
- Position / title
- Discretionary budget (name of budget and amount)
- How this person is evaluated / promoted / compensated
- What motivates them?
Example Customer Archetype

Brand Marketer / Client: Zack

Role
- Understands product and devises key marketing messages, campaign goals
- Works with planner to construct media plan, approves everything
- Also drives creative campaigns through creative agencies or own Vendors
- Reviews weekly reports from agency contact, vendors
- Helps source vendors; pushes to planner; is end decision maker

What Matters to Zack
- Campaign goes as planned (easy, predictable)
- Campaign is efficiently run (high ROI)

Influence
- Boss: VP Marketing
- Marketing friends at other brands
- Planner (what is hot, new, best)
Next Week Deliverables

- Identify your core customer archetypes
- Submit interview notes, present results in class.
- Identify what it takes to get to $100k/month in revenues within 12 months and $1M/month in revenues within 24 months
- Did anything change about Value Proposition or Customers/Users, Channel, Demand Creation, Revenue Model?