# Revenue Model, Revenue Streams & Pricing Tactics

Common Mistakes Entrepreneurs make:

- A revenue stream is the price I charge customers.
- I set the price based on how much it costs me to make it.
- My price has to be less than my competitors price.

**REVENUE STREAM definition:** The strategy companies uses to generate cash from each customer segment.

**PRICING definition:** The tactics you use to set the price in each of this customer segments.

**WHAT VALUE** are customers willing to pay for?

**HOW DO** customers pay for products today?

**HOW MUCH** customers pay for products today?

## DIRECT & ANCILLARY REVENUE MODELS

- **Asset Sale & Usage fee Revenue Strategies:** Sale of ownership right to a physical product or service. For example, buying cars at Ford, buying products in massive stores as Walmart or Amazon/Verizon/Fedex/Sunrun where you are paying a fee proportional to the use of the service. The more users use the service the more they pay.

- **Subscription Revenue Strategies:** Revenues generated by selling continuous access to a service (i.e.: Netflix, Salesforce, etc.). This produced recurring and predictable revenue streams.

- **Renting Revenue Strategies:** Pay a fee for a temporary access to a good or service (i.e. :Chegg, Borrowlenses, Car Rentals, etc.)

- **Lencing Revenue Strategies:** Revenues generated by giving customers permission to use protected intellectual property in exchange for licensing fees. Pay a fee for use of some Intellectual Property including software (i.e.: Microsoft, EA, etc.). The IP remains in the organization but produces recurrent and scalable revenues.

- **Intermediation Revenue Strategy:** Pay a fee for bringing two or more parties together in a transaction (i.e. Airbnb, Etsy)

- **Advertising Revenue Strategy:** Revenues generated for giving visibility to a particular product, service, brand or other item. Fee paid by brands and companies to get in front of potential customers (i.e.: Google, Facebook, Mint, etc.)

- **Brokerage fee:** Revenues generated from intermediation services performed between two or more parties, I.E. Insurance brokers.

Each revenue stream may have different pricing tactics.

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## PRICING TACTICS

### Fixed Pricing

- Cost of what it takes me to build the product
- Mark-up (what I think my profit should be)

You know something your competitor does not know. You know exactly how customers will value what you offer:

- Value priced (based on customer segments or features)
- Volume priced

### Dynamic Pricing

Based on immediate market conditions.

- Negotiation: discussion or adaptation of the price between two or more parties.

- Yield Management: the price depends on the inventory and time of the purchase. It's usually used for perishable resources (i.e. airline seats or hotels.

- Real-time Market: the price is established dynamically in real.time based on supply and demand (i.e. the stock market)

- Auctions: price determined by outcome of competitive bidding (i.e. Google - Google AdWords)

| Fixed Pricing | Dynamic Pricing |
|---|---|
| Cost + Mark-up | Negotiation |
| Value Priced (based on customer segments or features) | Yield Management (i.e.:Airlines are the perfect examples of flight ticket pricing changes) |
| Volume Priced | Real-time Market .(i.e.: Stock Market) |
| | Auctions (i.e.: E-bay) |

Let's price on **cost** mindset

Let's price on **value** mindset

Cost + Mark-up

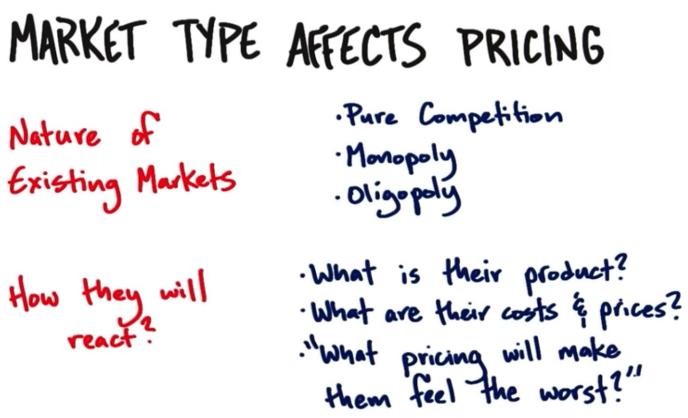
Based on buyer's perception of the value of your value proposition

Typically not a strategic way to price

Convince customers your company is unique and provides value not just the cheapest product

Driven by internal economics & not customer insights

You must have pricing as a strategy not just a reaction.




## Markets & Revenue Streams

**Single-sided market:** Cares about revenues.

If you are a "revenue first" company you should ask yourself:

- Time to "doublings" monthly revenues.
- When I will get to 100K/month?
- When I will get to 1M/month?
- What assumptions about my business I making when I reach these milestones?

**Multi-sided market:** Cares about users first, revenues second.

If you are a "user first" company you should ask yourself:

- How do you get "xx" monthly users?
- How do you become one of the top 5 web-sites visited?
- How much do the payers actually pay?

***"Almost no startup in a new market can affect the diffusion by itself: other things need to happen."***

This crucial quote alludes to the idea that your single startup cannot possibly convert your early-adopter phase into the mainstream phase all by itself.

There are many other external factors that need to align to help grow your startup in the later years. Below is a list of the major factors you should think about:

1. Amount of retaliation your competitors can give you later on as you gain traction
2. Supplier and corporate partnerships
3. Key influencers in society who can help spur main-stream adoption

### PESTEL Factors:

1. Political environment that can affect government policies such as tax, labor, environment, trade, new business ventures
2. Economic factors such as economic growth, interest rates, exchange rates, inflation rate that can affect investment: will the economy expand or recede in year 5 of your startup?
3. Social trends and shifting needs such as culture, health consciousness, consumer confidence, etc.
4. Technology trends that can enable different ways to work and play
5. Environment trends that can affect people's current ability to live
6. Legal factors such as new laws in discrimination, consumer, antitrust, employment and health and safety that can affect how a company operates, its costs, and the demand for its products

## Pricing Elasticity

Pricing elasticity is defined as the customer's rate of response to pay for a product/service at a given price.

If we raise our prices a little bit, but we see a huge decrease in our product being sold, then the pricing is said to be elastic. Our customers are sensitive to the price of our product.

If we raise our prices a little bit, but we do not see a huge decrease in our product being sold, then the pricing is said to be inelastic: our customers are not sensitive to the price of our product.

More information can be found on the following link.

## Key Revenue Model Questions

- What are my customers paying for?
- What capacity do my customers have to pay?
- How will your package your product? How will you decompose your product?
- How will you price the offerings?
- What's the market size and estimate of market share?
- How many can your channel sell?
- How much will the channel cost?
- How many customer activations you will have?
- How much will it cost to acquire a customer?

*Original Source: Content Curated from Steve Blank, Alexander Osterwalder, Cynthia Montgomery and Sequoia Capital.*