

The Business Model

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What's a business model?

A business model is a general outline of the transactions needed for your idea to make a profit. The most basic business model is simply producing a product or service and selling it directly to customers. The company makes a profit if revenues are greater than production and business costs.

Define your business

When developing your business model, clearly define the type of business you are pursuing and your goals for your business venture. Once you have a well-defined business idea and specific goals, you can establish the method by which you are going to make your profit.

First, identify your business type. Is it a product, a service or a business? If it's a business, is it a service business or a product business? Is it a lifestyle business or a high growth business? A lifestyle business prioritizes lifestyle issues such as independence, location, and hours. Growth, expansion, and money back to investors are the main priorities for high growth businesses.

If you have an idea for a product, do you have the means to produce and sell this product or do you plan to license it to another company? Ask yourself if your team is capable of getting the product or service to market. These questions become relevant when you're figuring out how you are going to make money with your venture.

Your business model

Your business model helps you generically define the product or business that you are proposing, your customers and the transaction mechanism/s that will allow you to make money before you begin creating your formal business plan. Your business plan will describe your model in more detail.

Subscription-based and advertisement-based models

Two examples of business models found both on- and off-line are subscription-based and advertisement-based models. Many companies combine two or more business models or create their own unique model.

In a **subscription-based business model**, the provider charges a fee for access to the service. An example of this is Consumer Reports magazine. Consumer Reports relies solely on its subscription sales. It can do this because it carries a well-known brand name, and provides high quality print and online content, for which people are willing to pay.

An exclusively **advertisement-based model** provides free content to attract users, and is financially supported by advertisers. Network TV is the most obvious model. The more successful a company is at attracting eyes, the more advertisers are willing to pay. Another example of an advertising-based business model, [Yahoo!](#), provides free access to useful online resources. Users accept the presence of advertisements throughout the Yahoo! site. (Note: Yahoo! is gradually incorporating more subscription-based services)

And two more business model examples

Most software companies and some specialty product companies create products, then license them to other companies. The Bagel Biter in Northampton, MA creates a bagel-slicing machine, and gets others to sell it in their catalogs and stores.

What happened to the dotcoms?

The most talked about business models in recent memory are based in e-commerce. Dotcoms held the promise of unlimited wealth production with minimal overhead. Many

Differentiating your business: A real life example

Frank Hertz, Co-founder of Newmediary.com, founded in 1999, says his business is surviving, unlike many of its fellow dotcoms. Hertz, Newmediary's Vice President of Operations, told us about his company's business model and what makes it different.

"We build, host, and manage private-label online directories for leading publishers and portals. We sell companies enhanced subscriptions (listings in the directories), and access to sales leads, or RFPs (Request for Proposals) on behalf of those directories, and return a portion of that revenue to the partner.

The partner gets a no-cost revenue stream; we get to sell a product with an established brand name on it, and keep a large portion of that revenue, as opposed to having to build our own brand.

So, this is how we've differentiated ourselves in the market: essentially, by not caring if people (other than partners) know who we are. It's worked up to this point. And all those dotcom companies that raised, in some cases, hundreds of millions, to establish a brand name, are now out of business. So we're happy we embarked on the ego-less business model of what's termed Application Service Provider (ASP)."

About business models

"Business models themselves do not offer solutions; rather, how each business is run determines its success. So the success of e-commerce businesses will hinge largely on the art of management even as it is enabled by science and technology."

From "The Truth about Internet Business Models," by Jeffrey F. Rayport.

"A business model is quite simple: it is a brief statement of how an idea actually becomes a business that

businesses today offer a way for consumers to access their product or service online, but the surge of exclusively online businesses has faded. Today, sites such as Pets.com and eToys.com are defunct. What happened?

Paul A. Greenberg writes, "Many of the young dot-commers rejected traditional business models in favor of rampant spending, over-extension of debt and high-risk ventures backed by adventurous investors."⁽¹⁾ Colin Duguid and Caroline Tresman add, "A solid business is not maintained just by its shop front or by its product, but by basic business skills through its management and staff. If the management has little or no skills but 'a great idea,' how long would it last and could they see what would otherwise be simple business problems?"⁽²⁾

To survive, plan your venture and evaluate your team's financial capabilities as well as your business management experience. Also, analyze the market to determine if your model can make a profit. Lastly make sure that you are aware of your competitors and your possible risks (more on these issues in the [Opportunity](#) section).

⁽¹⁾ Greenberg, Paul A., "Patience is an E-commerce Virtue."

⁽²⁾ Duguid, Colin and Caroline Tresman, "Is the Dot.com Doomed?"

makes money. It tells who pays, how much and how often. The same product or service may be brought to market with several business models."

From "Anatomy of a Business Model" by [Steven Robbins and VentureCoach, Inc.](#)

"In the most basic sense, a business model is the method of doing business by which a company can sustain itself -- that is, generate revenue. The business model spells-out how a company makes money by specifying where it is positioned in the value chain."

From "[Business Models on the Web](#)" by [Michael Rappa](#).