

## 7.5: Business Models

A business model is a general outline of the transactions needed for your idea to make a profit. The most basic business model involves 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.

### 7.5.1 Business models are goal-driven

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 venture 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. A high-growth business gives priority to growth, expansion, and money back to investors.

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. If not, who will help you, and how will you make money using their help?

### 7.5.2 Some model models

Your business model generically defines the product or business you are proposing, your customers, and the transaction mechanism(s) that will allow you to make money. This is an important step before you begin creating your formal business plan. Your business plan will describe your model in more detail.

Subscription-based and advertisement-based models are examples of business models found both on- and off-line. 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 television is the most obvious model. The more successful a show 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.)

A licensing model is used by most software companies and some specialty product companies to create products, then license them to other companies. The Bagel Biter in Northampton, MA manufactures a bagel-slicing machine, and gets others to sell it in their catalogs and stores. This model works for companies that have a narrow product line and can sell a limited number of units.

### 7.5.3 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. Most businesses today offer a way for consumers to access their product or service online, but the surge of exclusively online businesses has faded. Many sites that thrived in the late 90s are now 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."<sup>1</sup> 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?"

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 section 2, "The Market").

#### 7.5.4 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 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..”

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