

How Business Models Shape Entrepreneurial Success



ABSTRACT

A business model is a company's strategy for building revenue and making a strong profit. It includes key information that investors need to ensure they're investing in a financially stable and profitable organization. Business models typically detail a company's products or services, its target market and how it plans to increase revenue.

INTRODUCTION

An organization needs an established business model to prove to investors that a company has a clear strategy for making money and sustaining its profits. After building and using a comprehensive business model, they continue updating it as the company develops and the industry evolves. Learning about the different types of business models can help you decide which one might help your organization earn more profits.

I. What Is A Business Model With Types And Examples

A business model is the first thing that comes to mind when you become an entrepreneur. It is a framework that ascertains how the entity will make money. It is needed by start-ups as well as established businesses when they enter a new market or change their organisational setup. It involves identifying the basic purpose of the venture and how it plans to accomplish it. The components of a successful business model include determining the products to be sold, the target market, how to reach the customers and the cost of marketing.

The commercial world is filled with a variety of businesses with specific business models required for maintaining optimum sales. Also, several business owners change their business model when they expand or pivot due to changing customer behaviour. Thus, entrepreneurs must understand the different types of business models to build a plan for creating value for their entity. Here is a list of the most common models with examples for a deeper understanding of the concept.

Different Types of Business Models with Examples

Aspiring entrepreneurs who are starting-up or have purchased one of the existing businesses for sale Perth can choose from any of the widely accepted business models to become successful. They may differ in the concept but focus on what the business intends to do and how it will do it.

1. Manufacturer Business Model



A manufacturer model entails producing parts, components or complete products. Depending on product type, they sell them to other manufacturers, retailers and customers.

Example: Any business involved in the production of goods like steel, textile, medicines, and furniture, such as Caltex, BHP, Fonterra Co-op Group, Amcor, etc.

2. Distribution Business Model

Distribution companies are responsible for taking the finished goods to the sellers. They act as middlemen who purchase wholesale products and sell them to retailers for a profit.

Example: Pro Prep and Fulfillment and Chalmers Industries

3. Retailer Business Model

A retailer model is one where the business sells finished goods directly to the consumers. It is also called the B2C model and involves buying products at a lower price in bulk and selling them for a higher margin. It is a highly competitive market segment and requires effective management to stay profitable.

Example: Businesses that cater to the daily needs of consumers follow this model, such as online stores, supermarkets, and grocery stores, like Kmart, Aldi, Kogan, etc.

4. Fee-for-Service Business Model

Businesses that charge a fee for their service follow this model. They increase their profits by acquiring more clients and charging a higher rate for the specialised service.

Example: Accounting services, lawyer's fees, real estate agents, etc.

5. Subscription Business Model

Businesses that make consumers buy a long-term subscription plan to make ongoing payments follow the subscription model. Usually, software providers and digital marketing service providers use this approach.

Example: Netflix and Uber

6. Marketplace Business Model

Digital marketplaces like Amazon work on this model. They provide sellers with a popular platform to sell their products and get paid a part of the profits. Many aspiring entrepreneurs either use this model or purchase a business for sale in Perth to become their own bosses. When individuals use this model to generate income, it is known as the C2C model.

Example: eBay, Gumtree and Woolworths

7. Franchise Business Model



Franchising allows the franchisee to sell and market the products of the franchisor and use his trademarks. The owners of individual franchise units in the network emulate the policies and processes of the owner to generate income. In exchange for this, the franchisor receives an initial payment and ongoing royalties.

Example: Several home-grown chains use this model, such as 7-Eleven, Roll'd, PoolWerx, Just Cuts, etc.

8. Bundling Business Model

The bundling business model requires selling a bundle of products together to buyers at a lower price. It helps increase sales and retains customers because of the discounted rates. Thus, it is often used as a tactic to increase sales without spending on customer acquisition. However, maintaining profits is challenging because of lower pricing.

Example: Telstra provides bundle offers for mobile and data plans

9. Freemium Business Model

The Freemium business model allows customers to access some features of the product for free and asks for payment for using advanced features. Most software companies use this model to sell their products.

Example: Australian Financial Review provides some news articles for free online, while accessing most of the content on the site requires payment.

10. Pay-As-You-Go Business Model

This model involves charging customers based on the usage of the product instead of asking for a fixed price. They may charge a small amount to offer the service and then calculate the monthly bill based on the usage of the service. Utility service providers follow this approach to generate income.

Example: Energy Australia bills customers based on the pay-as-you-go model.

11. Razor Blade Business Model

The razor blade model is derived from the sale of razor blades. In this approach, the seller offers the product at a lower price because they know that its accessories will bring ongoing income and an excellent return on investment. It is similar to razor blade companies providing the razor at an affordable cost because the buyers will need to replace the blades frequently, which boosts revenue.

Example: Epson printers that require an expensive cartridge refill after a few months of use.

12. Reverse Razor Blade Business Model

As the name suggests, it is the opposite of the razor blade model. Using this concept, a company sells its product at a high margin and then offers accessories at a lower price. It helps in making upfront profits.

Example: Apple sells iPhone at a premium and its accessories at a lower cost.

13. Advertising/Affiliate Business Model



The advertising business model works on the premise of offering advertising space to others for a price. It is the business model used by print media, such as newspapers and magazines. They earn their profits from the businesses advertising through their medium rather than the sale of their publications.

The affiliate business model also works along the same lines wherein social media influencers promote a brand and earn a commission for sales achieved through their recommendations.

Example: Newspapers like the Sydney Morning Herald, the Age, and social media influencers like Lauren Curtis and Wengie.

Several brands use more than one business model or keep changing their strategy to earn better revenue. They must assess which model will fit their offerings to get the best output before adopting it. The examples mentioned above showcase the best utilisation of these business models.

II. The Advantages of a Business Model

Every business, whether a new player or a seasoned veteran, needs at least one solid business model to survive and grow. A business model is a plan for earning a profit — the money left over from sales revenue after paying all expenses. Business models, also referred to as profit models, can help to ensure that your company always operates in the black, and investors are impressed with innovative and reliable business models.

Competitive Advantage

A significant advantage of a solid business model is that it can give you a competitive edge over other companies in your industry. Implementing a unique business model can give your company a unique reputation in the marketplace, creating buzz among consumers and encouraging first-time purchases.

Consider the first pizza shop to offer online ordering for customers. This was an alteration of an existing business model that facilitated a new means of placing an order and making a payment while directly increasing employee productivity by cutting down phone time. Whoever first introduced this business model likely experienced a significant boost in orders and reduction in expenses.

Plan For Growth

A company can survive simply by breaking even each month, but it must then rely on debt financing for expansion. A solid business model that consistently brings profit into the organization can help to build a cash reserve that can be used for investment in new real property, equipment or research and development efforts.

Financial Sustainability

The largest advantage of a robust and proven business model is the contribution it makes to organizational sustainability and the ability to weather economic storms or shifting market conditions. A staggering number of businesses close their doors each year solely due to poor financial management. A business model forces an entrepreneur to keep abreast of exactly how much profit is being made each month.

Lenders And Investors

Lenders and investors are well acquainted with small business failure rates. No matter how novel or market-oriented your products and services are, lenders and investors want to know that you have a plan for profitability. Being able to elaborate on and answer questions about your business model and profit expectations can give you a large advantage over competitors when seeking new financing.

III. 11 Successful Business Models To Help Make a Profit

In this article, we explore what a business model is and successful business models to consider.

What is a business model?

Types of successful business models

Here are several successful business models you might explore:

1. Subscription-based model

A subscription-based model is one where companies offer ongoing services or products to encourage customer loyalty and recurring payments. Their customers

typically sign up for ongoing use of the product, so they make weekly, monthly or yearly payments, rather than a one-time purchase. If customers like this service or product enough, they continue to purchase it each period, which saves employees time, effort and resources in convincing customers to buy the product again.

This can be a successful business model if you establish trust with customers and provide them with a valuable product or service that motivates them to renew their payments each period. Once you have a strong customer base, you can regularly bring in substantial revenue that stakeholders want to invest in.

2. Freemium model

A freemium business model is where companies offer free products or services to see if they might purchase them. This gives customers an idea of how the product and if they want to continue using it. The free version of this product typically contains limited features. Customers gain access to more features if they upgrade to a paid plan.

This model lets customers try out a product to see if it benefits their personal or professional lives without undergoing any financial risks. If the free version of the product is user-friendly and valuable to customers, it can convince them that upgrading to a paid version is worth it.

3. On-demand model

An on-demand model is one where customers can access products as needed. As technology evolves, more consumers can receive information or content as quickly as possible.

When customers use an on-demand model, they can quickly sign up for a product or service using simple forms and inputting their information. From there, they can efficiently download their software or receive a product and start using it immediately. This improves the convenience and reliability of a brand.

4. Product or service model

A product or service model is a broad model where companies design their offerings and marketing efforts to appeal to customers, often offering customizations. It involves creating the product or service of the company's choice and promoting it using the desired marketing channel. You can sell and market each of your products in different ways.

For example, you can sell some of your products as one-off purchases and others can use ongoing subscriptions. This model has a fairly loose structure compared to

others and doesn't require strict guidelines or plans that employees must closely follow.

5. Reseller model

A reseller model is when a company doesn't physically own the products or services they sell and instead represents the brand through promotional offers catered toward their target audience. Business owners may partner with other companies to sell and market their products to a different audience through their websites.

This company may showcase the product or service on their outlets and feature the selling price for products. This company then receives profits from selling this product and may have to split its earnings with the business that creates or owns the products, depending on the initial agreement between the two parties.

6. Broker model

Companies with a broker model typically provide a platform that connects product owners and sellers to customers. It offers one streamlined location for customers to browse products or services from different businesses and make safe purchases through the platform. A company using this model typically monitors the interactions between buyers and sellers and ensures the security of each transaction.

Organizations using this model typically earn their income by applying small fees to these transactions.

To ensure customers continue using this platform, the company must make sure it's user-friendly, easy to navigate and functions properly at all times.

7. Ad-based model

An ad-based model is one where a company creates a free product or service for customers to use regularly. If a company reaches a wide audience and offers a reliable product or service, this business model can provide strong revenue. The profits the organization generates rely solely on revenue received from advertising other companies' products and services.

This can be a successful business model when businesses prove that they bring in a strong following by showing the views, clicks and engagements gained from customers visiting the website. If a website has high viewership, companies have a strong chance of customers seeing their advertisements if they feature them on this site, which can attract more potential customers to their business.

8. Agency-based model

Agencies and other companies that offer valuable services to customers use an agency-based model to attract potential customers using quality content and free resources. This allows a brand to establish itself as a thought-leader in the industry and builds meaningful relationships with customers. Potential customers see this company as a reliable source of information, which causes them to trust the products or services it sells.

Marketing to customers using this model takes time and effort, as you must continuously provide resources and content that adds value to their lives. It can often be worthwhile as it leads to strong customer loyalty and ongoing use of the product or service, resulting in higher and continuous revenue and profits.

9. Social business model

A social business model is when companies focus on personalizing their services to each customer. They often feel confident knowing that the organization they purchase from has dedicated employees who are passionate about the work they contribute.

To stand out from the competition, organizations may use a social business model to personalize their services and interact with customers through social media channels, email and other marketing efforts.

Companies may share details about their employees or accomplishments met in the workplace. A company may also communicate its values and opinions openly with customers through social media and other outlets. This can attract more customers to a business, especially if they share similar values with the organization.

Employees can also act as brand ambassadors to promote the product and explain why they believe it's valuable and beneficial in their daily lives.

10. Customer-centric model

A customer-centric model is when companies focus closely on dedicating a majority of their time, effort and resources to providing valuable and memorable services to customers.

Customer-centric businesses work to stand out from competitors by offering immediate support to customers when needed and by providing resources customers can easily access when the support team isn't available. Team members also receive constant encouragement from managers to put the customer first and to provide a one-of-a-kind customer experience that other companies don't typically offer.

11. Data-driven model

Usually adopted by technology companies, a data-driven business model acknowledges that data is an important key to better understanding customer behaviors and ways to enhance the company's performance.

With this business model, employees constantly collect, monitor and interpret key data sets to make important business decisions. It also drives employees to test new strategies or products to determine how successful they are and improvements to make after evaluating the data and results.

IV. The 7 Elements of a Strong Business Model

Envisioning the many moving parts of a functioning business is the first step to success.

1. Identify your specific audience.

Targeting a wide audience won't allow your business to hone in on customers who truly need and want your product or service. Instead, when creating your business model, narrow your audience down to two or three detailed buyer personas. Outline each persona's demographics, common challenges and the solutions your company will offer. As an example, Home Depot might appeal to everyone or carry a product the average person needs, but the company's primary target market is homeowners and builders.

2. Establish business processes.

Before your business can go live, you need to have an understanding of the activities required to make your business model work. Determine key business activities by first identifying the core aspect of your business's offering. Are you responsible for providing a service, shipping a product or offering consulting? In the case of Ticketbis, an online ticket exchange marketplace, key business processes include marketing and product delivery management.

3. Record key business resources.

What does your company need to carry out daily processes, find new customers and reach business goals? Document essential business resources to ensure your business model is adequately prepared to sustain the needs of your business. Common resource examples may include a website, capital, warehouses, intellectual property and customer lists.

4. Develop a strong value proposition.

How will your company stand out among the competition? Do you provide an innovative service, revolutionary product or a new twist on an old favorite? Establishing exactly what your business offers and why it's better than competitors is the beginning of a strong value proposition. Once you've got a few value propositions defined, link each one to a service or product delivery system to determine how you will remain valuable to customers over time.

5. Determine key business partners.

No business can function properly (let alone reach established goals) without key partners that contribute to the business's ability to serve customers. When creating a business model, select key partners, like suppliers, strategic alliances or advertising partners. Using the previous example of Home Depot, key business partners may be lumber suppliers, parts wholesalers and logistics companies.

6. Create a demand generation strategy.

Unless you're taking a radical approach to launching your company, you'll need a strategy that builds interest in your business, generates leads and is designed to close sales. How will customers find you? More importantly, what should they do once they become aware of your brand? Developing a demand generation strategy creates a blueprint of the customer's journey while documenting the key motivators for taking action.

7. Leave room for innovation.

When launching a company and developing a business model, your business plan is based on many assumptions. After all, until you begin to welcome paying customers, you don't truly know if your business model will meet their ongoing needs. For this reason, it's important to leave room for future innovations. Don't make a critical mistake by thinking your initial plan is a static document. Instead, review it often and implement changes as needed.

Keeping these seven tips in mind will lead to the creation of a solid business plan capable of fueling your startup's success.

V. How To Write A Business Plan (2023 Guide)



Every business starts with a vision, which is distilled and communicated through a business plan. In addition to your high-level hopes and dreams, a strong business plan outlines short-term and long-term goals, budget and whatever else you might need to get started. In this guide, we'll walk you through how to write a business plan that you can stick to and help guide your operations as you get started.

Brainstorm an Executive Summary

Drafting the Summary

An executive summary is an extremely important first step in your business. You have to be able to put the basic facts of your business in an elevator pitch-style sentence to grab investors' attention and keep their interest. This should communicate your business's name, what the products or services you're selling are and what marketplace you're entering.

Ask for Help

When drafting the executive summary, you should have a few different options. Enlist a few thought partners to review your executive summary possibilities to determine which one is best.

Create a Company Description

After you have the executive summary in place, you can work on the company description, which contains more specific information. In the description, you'll need to include your business's registered name, your business address and any key employees involved in the business.

The business description should also include the structure of your business, such as sole proprietorship, limited liability company (LLC), partnership or corporation. This is the time to specify how much of an ownership stake everyone has in the company. Finally, include a section that outlines the history of the company and how it has evolved over time.

Brainstorm Your Business Goals

Wherever you are on the business journey, you return to your goals and assess where you are in meeting your in-progress targets and setting new goals to work toward.

Numbers-based Goals

Goals can cover a variety of sections of your business. Financial and profit goals are a given for when you're establishing your business, but there are other goals to take into account as well with regard to brand awareness and growth. For example, you might want to hit a certain number of followers across social channels or raise your engagement rates.

Another goal could be to attract new investors or find grants if you're a nonprofit business. If you're looking to grow, you'll want to set revenue targets to make that happen as well.

Intangible Goals

Goals unrelated to traceable numbers are important as well. These can include seeing your business's advertisement reach the general public or receiving a terrific client review. These goals are important for the direction you take your business and the direction you want it to go in the future.

Describe Your Services or Products

The business plan should have a section that explains the services or products that you're offering. This is the part where you can also describe how they fit in the current market or are providing something necessary or entirely new. If you have any patents or trademarks, this is where you can include those too.

If you have any visual aids, they should be included here as well. This would also be a good place to include pricing strategy and explain your materials.

Conduct Market Research

This is the part of the business plan where you can explain your expertise and different approach in greater depth. Show how what you're offering is vital to the market and fills an important gap.

You can also situate your business in your industry and compare it to other ones and how you have a competitive advantage in the marketplace.

Create Financial Plans

Other than financial goals, you want to have a budget and set your planned weekly, monthly and annual spending. There are several different costs to consider, such as operational costs.

Business Operations Costs

Rent for your business is the first big cost to factor into your budget. If your business is remote, the cost that replaces rent will be the software that maintains your virtual operations.

Marketing and sales costs should be next on your list. Devoting money to making sure people know about your business is as important as making sure it functions.

Other Costs

Although you can't anticipate disasters, there are likely to be unanticipated costs that come up at some point in your business's existence. It's important to factor these possible costs into your financial plans so you're not caught totally unaware.

Business plans are important for businesses of all sizes so that you can define where your business is and where you want it to go. Growing your business requires a vision, and giving yourself a roadmap in the form of a business plan will set you up for success.

VI. 4 Mistakes That Can Kill Your Business Model

It's hard to build a new business and failure along the way is inevitable. However, you want the failures you experience to be small, inexpensive and manageable, not lethal. Here are four major mistakes to be on the look out for to avoid failing indefinitely.

1) Solving an Irrelevant Customer Job

Your business model will fail if it is built around a value proposition that solves a customer job that customers don't care about, or that customers don't care about enough. In the start-up world this is called a failure to achieve product-market fit. No business model can survive long term without product-market fit, no matter how great it looked in the business plan. Trivial, right? So why does it happen over and over again?

This type of mistake is often driven by an overly strong focus on products, services, technologies and features. What you want to focus on first, before thinking about features, is figuring out which jobs customers are trying to get done, which pains bother them most, and which gains they are trying to achieve.

Once you understand what matters most to customers, make sure your products and services *sufficiently* alleviate pains or create *substantial* gains. Otherwise you'll fail even if you target the *right* jobs, pains, and gains.



2) A Flawed Business Model

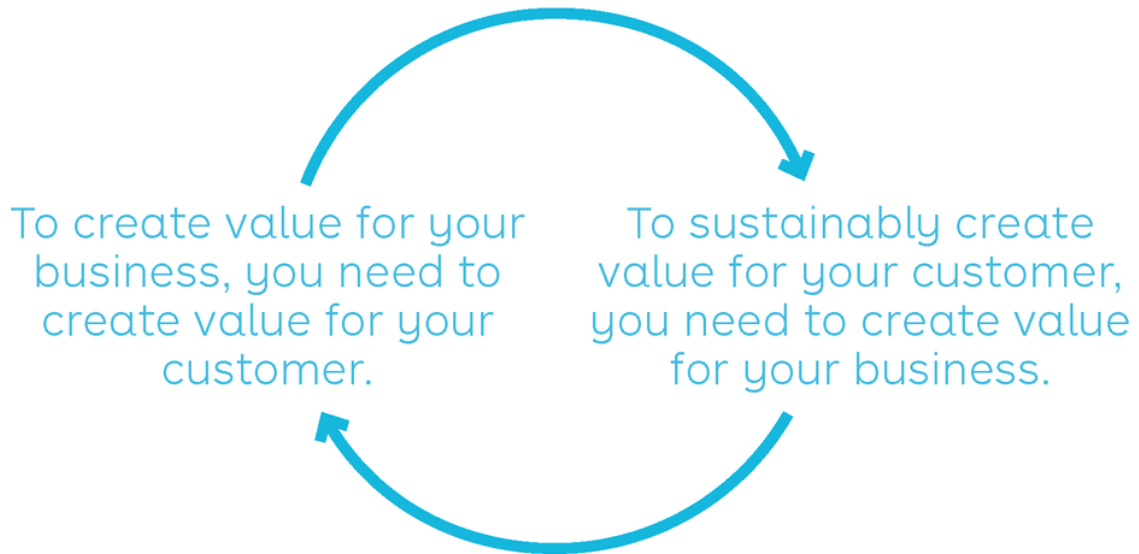
Solving relevant customer jobs and finding product-market fit is just one of many important factors that make up a business. Great technologies, products and services must also have the right business models to support and sustain them. You will fail even with value propositions that customers want or technologies that customers crave if your business model is flawed (e.g. few people know that Kodak, which filed for bankruptcy in 2012, helped invent the digital camera that crushed its business model).

The most obvious flaw is when a business model's value propositions generate more costs than revenues from customers. The business will inevitably disappear, even with the most successful value propositions. But it still happens all the time! You might pick the wrong revenue model or pricing structure or underestimate the costs you incur from the activities, resources, and partnerships required to create and deliver your value proposition.

Further, your business model is flawed if you fail to establish the proper channels to reach and deliver value to your customers. Does it matter how brilliant your value proposition is if your potential customers don't know about it or can't find it?

Your business model might also be flawed if you fail to establish customer relationships that allow you to successfully retain and grow your customer base sustainably (e.g. think Zynga or King and Candy Crush). Finally, your business model will fail if you focus on the wrong activities or lack access to the right key partners and resources to reliably create, deliver, and capture value long term.

To be successful, design a business model that works not only for your customers but also for your company.



From our upcoming book *Value Proposition Design*

3) Neglecting External Threats in the Business Model Environment

You can still fail even if you are solving relevant customer jobs and have a sound business model design. This third source of failure stems from external threats.

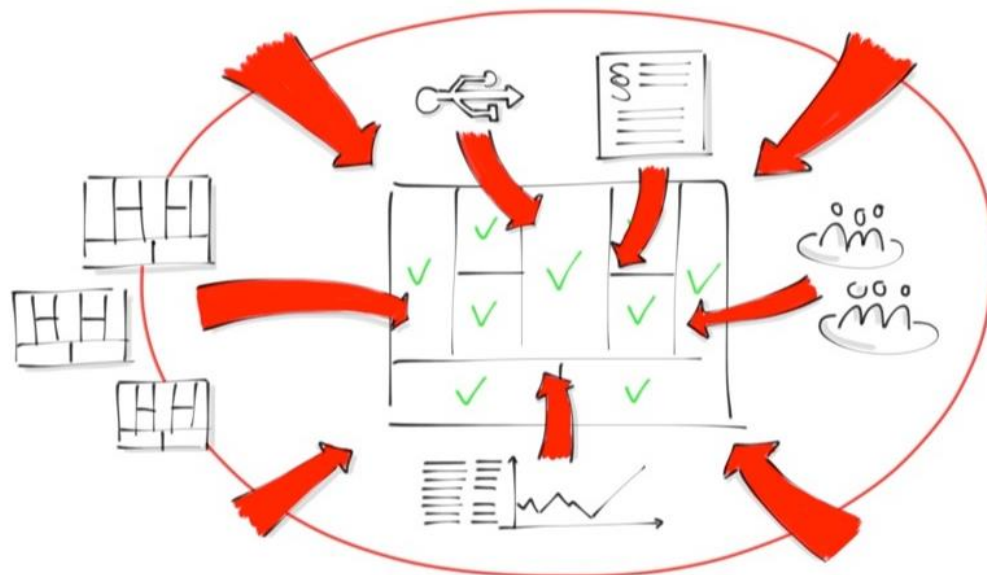
The most obvious threats are your potential competitors. You may never even acquire customers if your competition's business model locks in customers and prevents them from switching to you (e.g. think competing against Apple products).

Also, your customer's jobs, pains, and desired gains can change and evolve over time, especially as new and improved competitive offerings and substitutes become available.

Changes in the macro environment as well as shifting technological, regulatory, societal, cultural, and socioeconomic trends can have big impacts on the viability of your business model, both in the near and distant future.

The most successful companies constantly scan their business model environment to stay abreast of impending threats to their business models.

BUSINESS MODEL ENVIRONMENT



4) Poor Execution

With the previous fundamentals in place, your business model can still fail if you execute poorly. If your company's resources (physical, human, and capital) are not properly aligned around the most critical elements of the business model, it's liable to fail.

Additionally, most companies measure and monitor a lot of things, but rarely do they use the business model as a starting point to define the critical success factors to follow. By regularly measuring and monitoring the key success factors of your business model, you can ensure proper alignment of resources around the model. Good companies execute flawlessly but the best companies seek to improve and refine their business models relentlessly while proactively looking for ways to reinvent them entirely (e.g. Amazon and Hilti).

CONCLUSION

Creating a business model isn't simply about completing your business plan or determining which products to pursue. It's about mapping out how you will create ongoing value for your customers.

Where will your business idea start, how should it progress, and when will you know you've been successful? How will you create value for customers? Follow these simple steps to securing a strong business model.

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