



# BUSINESS MODELS GUIDE

(ten fundamental business models)

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# INTRODUCTION

A business model describes how a business generates revenue. A good business model:

- provides a unique value to customers
- provides value to suppliers, employees and other stakeholders
- generates profit for the business owner.

You don't need a new business model to start a business. Some of the most successful

business models have been in use for hundreds of years. Many companies combine a few business models to meet the needs of various customer groups and create multiple revenue streams.

In this guide we introduce ten fundamental business models you can use as an inspiration when developing a business model for your company.



# 1. TRADITIONAL BUSINESS MODEL

Most people are familiar with the traditional business model where you use materials and machines (or equipment, tools, etc.) to make a product or provide a service, and your profit is the difference between the selling price and the production costs. Or, in case of retail stores, you purchase products from wholesalers or manufacturers and resell them at a higher price to make a profit.

**Examples:** restaurants, hairdresser's, retail shops, etc.



# 2. BROKERAGE BUSINESS MODEL



In this business model, you connect buyers and sellers and facilitate the transactions between them, for a fee. The fee is paid by either the buyer or the seller, or both. You can build a sustainable business using this model as long as you can offer value to both sides. That can be in the form of time savings, risk reduction, money savings, access to a large number of customers or candidates, etc.

**Examples:** travel agency, letting agency, recruitment agency, cleaning agency

## 3. MARKETPLACE BUSINESS MODEL

A marketplace brings together buyers and sellers of specific products or services and generates revenue by charging its members a small fee or taking a percentage of sales.

It's different from the brokerage model in a way that it allows direct communication between the buyers and the sellers. The platform's role is rather passive and mainly consists of facilitating

payments and resolving issues between the parties. In terms of value it creates, the sellers get access to a large number of customers, while the buyers can compare different offerings in one place and purchase from a trusted platform rather than many individual sellers.

**Examples:** Amazon, eBay, Etsy, Booking.com, Udemy, Airbnb

## 4. SUBSCRIPTION BUSINESS MODEL



It's been around since the 17th century, but in the past, it was mainly used by newspaper and magazine publishers. In this business model, customers are charged a monthly or annual subscription fee for access to a service. Today, the subscription model is used by companies in many industries due to its simplicity and relative revenue certainty. It's particularly popular with software and SaaS companies. Customers like it for convenience, time savings, money savings, access to products and services they otherwise wouldn't be able to afford, etc.

**Examples:** Adobe Photoshop, Netflix, Amazon Prime, Dollar Shave Club, fitness clubs

## 5. RAZOR AND BLADE BUSINESS MODEL

In this business model, you sell a durable product at a low price, or give it for free or on lease, to encourage purchases of a high-margin, disposable component of that product. The goal is to tie customers into the product's ecosystem and ensure reliable, recurring revenue in the future from the sales of the disposable high-margin component.

**Examples:** Gillette, Amazon Kindle, Nespresso machines, Pez candy, inkjet printers



## 6. ADVERTISING BUSINESS MODEL



The advertising business model has been in use for a very a long time but it's become more diverse as the readers and viewers have transitioned from print and TV to online media. In this business model, you create content that people want to read or watch to attract them to your platform. Once you've built a large user base you offer to other businesses to advertise their products and services to your users for a fee. The content can be created by your company, freelancers, users themselves, etc.

**Examples:** Facebook, YouTube, Instagram, Quora, Raddit, newspapers, magazines

## 7. AFFILIATE BUSINESS MODEL

The affiliate business model is similar to the advertising model but instead of displaying ads to your visitors, you embed affiliate links in the website content (blog articles, product reviews, free guides, etc.) and receive a small commission each time someone makes a purchase through your links. To get affiliate links, you need to sign up for affiliate

programmes, which are offered by many companies around the world. To succeed with this business model, you need to offer quality content on your website that will attract a large number of visitors and choose affiliate programmes that are relevant to your audience.

**Examples:** comparison websites, blogs

## 8. FREEMIUM BUSINESS MODEL

In this business model, you offer a basic version for free but charge for the advanced features, or to have your watermark or ads removed. The purpose of the free version is to encourage customers to create an account and spread the word about the product. Once they become users, you can invite them to upgrade to the paid version. The freemium business model is often used by SaaS companies and mobile apps, and combined with the subscription or advertising model. It shouldn't be confused with free trials because the trials are time limited and allow access to all features.

**Examples:** Canva, MailChimp, Wolfram Alpha



## 9. LEASING BUSINESS MODEL

Leasing is commonly used for high-priced products customers either can't afford to buy or don't want to buy because they only need them for a short period of time or a few times per year.

In this business model, customers get to use the product under a lease agreement, which specifies how long they can use it for, the cost (deposit and monthly or annually fee), when the product must be returned or if they become the

product owners at the end of the lease agreement. There are two main types of leases: operational lease (similar to renting, customers must return the product at the end of the lease) and financial lease (similar to a loan, customers become the owners of the product at the end of the lease).

**Examples:** cars, medical devices, industrial equipment

## 10. DROPSHIPPING BUSINESS MODEL



In this business model, you find a manufacturer or wholesaler of specific products you want to sell in your online store (ecommerce website, Amazon store, etc.) and who's willing to ship them directly to your customers. When a customer buys a product from your store, you pass the order on to the manufacturer or wholesaler who delivers the product directly to your customer, and you earn the difference between the selling price and the manufacturer's or wholesaler's price. It's a very affordable way to open a store because you don't have to invest in inventory or hire staff to fulfil the orders.

**Example:** online stores



# CONCLUSION

This isn't an exhaustive list of business models. However, the business models described in this guide are all commonly used and proven to work. As said at the beginning of this guide, you don't need to invent a new business model to

start a business. Instead, focus on finding a way to provide a unique value to your customers and other stakeholders that will differentiate your business from the competition and generate the desired profits.

We hope this guide helps you develop a profitable business model for your business. In case you need further assistance, visit the [business model services](#) page on our website or contact us at [strategy@mcboffin.com](mailto:strategy@mcboffin.com).

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