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What's Your Business Model?

If you watch the hit American TV show *Shark Tank*, you've seen some of your fellow solopreneurs pitching their products and businesses to a panel of "sharks" or potential investors. One question the sharks pose time and again is, "What's your business model?"

Business models have been defined different ways, but at the most basic level, what those sharks are *really* asking is, "How do you plan to make a profit?"

The two key words in that question are "plan" and "profit". We know profit happens in a business when revenue exceeds costs. And we certainly understand what it means to plan.

Essentially, when we choose a business model, we're thinking through the various factors that affect our business's ability to make a profit, and we're planning a strategy for being profitable.

In the process of choosing a business model, we may ask ourselves questions like:

- Who's my target customer?
- How will I reach, win, and keep customers?
- What sets my product/service apart?
- How will I generate revenue?
- What will my costs be?
- How big is my profit margin?

Some business models are well-established, even thousands of years old. Take for example the simplest business model there is: creating a product and selling it directly to customers. When you imagine that baker in ancient Rome selling loaves from a basket in the marketplace, you're thinking of that direct-to-customer business model.

Some business models have emerged fairly recently and didn't exist before the Internet, like the so-called "freemium" model. I experience the freemium business model every time I use a particular online service to create a .PDF document. The ability to create those documents is always free, but you're limited to creating one .PDF every 60 minutes. However, the company offers an upgraded service allowing for unlimited document conversions, and *that* costs money. (FYI: it's said that about 8% of users upgrade when using "freemium" services.)

Many successful businesses operate on a hybrid of two or more business models.

Here are a few more examples of business models:

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Nickel-and-Dime: Offer the lowest possible price on your most cost-sensitive item, but charge for every little extra.

Flat Fee: The customer pays one flat fee that includes everything.

Premium: Sell high-end products that appeal to brand-conscious customers.

Online Auction: The obvious example is eBay. Use an auction-type selling process rather than a set sales price.

Franchise: Sell the right to use the business model in exchange for a percentage of revenues.

Multilevel Marketing: Sellers use their personal networks (friends, family, club members, etc.) as an extended sales force. A good example: Avon.

Other business models may involve selling wholesale to retailers, selling through distributors, or licensing products to other companies, among other possibilities.

In your particular industry, you may see the same few business models used again and again. However, there is something to be said for thinking outside the box. Some businesses have been wildly successful at taking a business model that works well in one industry and applying it to a completely different industry.

For example, Avon and similar companies have used a multilevel marketing business model to successfully sell cosmetics, fragrances and personal care items for decades. However, in recent years, this model has been used to sell water and air filters, financial services, legal services, even electricity and natural gas.

It's a worthwhile exercise to explore potential business models and how they might be applied to your business, because it can reveal weak links as well as novel solutions. In fact, there exists a standard outline for writing a business model plan. (A business model plan is a separate thing from a business plan, although many business plans may incorporate a business model plan.) You can get a free template for a business model plan [here](http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CB4QFjAAahUKEwiI8aCuu9vGAhWGpR4KHQ_MA8w&url=http%3A%2F%2Fbusinessmodelinstitute.com%2FBusinessModelPlanSample.pdf&ei=aXGIVciYH4bLeo-Yj-AM&usg=AFQjCNEQrv9OUDYvw0-DMNx60T91KA_wFw&sig2=W5VZfvIysDtqh7o8ByQWuQ).

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