

# Business Models

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There are many ways to run a business. As you think about how to make money on your idea, consider these different business model options. Even if you've never heard of the names, you're probably familiar with many of these models. Not every model will work for every idea. Think hard, build on ideas, and be creative!



**Manufacturer:** The company builds a product and sells it to customers. Revenue (money earned) comes from the customer. Expenses include materials, labor (e.g. building the product and making sales), and advertising. The companies that build your iPod, your favorite skateboard, and your family car use the manufacturer model.

**Distributor:** The company buys a product from someone else and sells it to customers. Revenue comes from the customer. Expenses include cost to buy the product from the manufacturer, advertising, and labor (e.g. making sales). Grocery stores use the distributor model. A representative from a candy company will sell candy to several grocery stores, who will then sell that candy to you.



**Aggregator:** The company organizes a service offered by many different people and companies under one brand. For example, Uber uses the aggregator model because it organizes taxi services under the Uber name. Drivers make money by getting access to the Uber name, and Uber makes a percentage of the ride cost. The drivers must sign a contract agreeing to follow Uber's terms.

**Retailer:** The company buys products from a distributor and sells them to the consumer. Expenses include the cost to buy the products, advertising, managing the online or physical marketplace, and labor. Revenue includes the money earned from selling the items. When you buy a new video game from a gaming store, you are using the retail model.



**Bricks-and-Clicks:** The company sells products online and in physical locations. For example, many clothing companies use the bricks-and-clicks model. You might order from the store online or go shop there in person. Revenues include the money customers pay for the product. Expenses include costs to maintain the online and physical stores, costs to advertise and labor to make and sell the product.

**Freemium:** The company offers a basic service for free, but charges extra for additional features. For example, you might stream music for free, but you have to listen to advertisements. Music without ads is considered “premium” and costs extra. Revenue comes from money paid by advertisers and from premium users. Expenses include the cost of maintaining the service platform, labor, paying manufacturers for the product.



**Subscription:** The company gets customers to pay a regular fee for access to their service or product. For example, Netflix uses a subscription model. Revenue comes from the money customers pay to subscribe. Expenses include maintaining the service platform (e.g. websites, servers, etc.) or the cost to produce or purchase the product included in the subscription (e.g. movies), advertising, and labor.