



# 26 Sources of Income

## - Make money from good ideas

As entrepreneurs it is not enough just to get lots of ideas. We also have to be able to make money from them and find the business model that is right for us. So what different possibilities do we have to make money from a good idea?

There is a big difference between having a good idea and having a good business idea. The difference is whether or not you have found a good business or revenue model for where the money is going to come from and how to make money on the idea.

The term “business model” is not used every day and it is often used in many different ways. The most simple way to understand a business model is to look at the way a company writes invoices. The lines of the invoices tell us what the customers are actually paying for - and therefore what the company actually makes its money from. The company might sell products at unit price and/or sell services that are invoiced according to the hours spent. Maybe the invoice will show that the customer has a subscription or that there are fixed prices on certain services.

But what kinds of business models or revenue models are right for making money in your business?

### At least 26 types of revenue models

Choosing a revenue model is not about finding just one model; it is more a case of finding several. The best models are often a combination of several different ways to invoice the customers.

For most entrepreneurs, it is natural to use at least five different models at the same time, and for some it can be

advantageous to use 10 or even up to 20 revenue models at the same time.

The framework “Sources of income” on the next page shows 26 examples of revenue models, and there are probably even more.

### Revenue models for T-shirt sales

To illustrate how one business can use completely different revenue models to make money on the same product we can look at a specific industry – e.g. the T-shirt industry. In this industry, you can choose widely different business models,

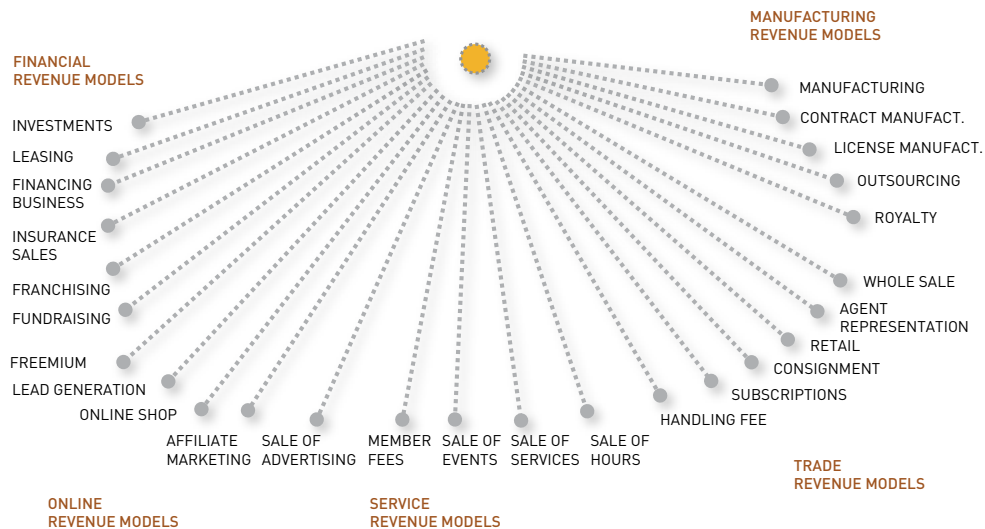
“The best business models are a combination of several different ways to invoice the customers.”

depending on whether you want to gain revenue from manufacturing, from doing trade, offering services, doing online activities or from financial services.

### Income from manufacturing

As a manufacturing company in the T-shirt business, you can e.g. choose the revenue model manufacturing and thereby produce, distribute and market T-shirts yourself. Or you can choose to do contract manufacturing and manufacture T-shirts for someone else who would like to sell

**26 sources of income: Choosing the right combination of revenue models**



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T-shirts. That way you would only start manufacturing after receiving an order.

You can also choose to manufacture the designs of others as a license manufacturer and pay for the rights. Or you can completely avoid manufacture by outsourcing it to a country with low production costs or by just selling your own T-shirt design to a manufacturer and receiving a royalty payment per unit produced or sold.

**Income from trading**

If you run a commercial business, there are also several different ways of making money on T-shirts.

One way is to become a wholesale business and buy T-shirts from different manufacturers and deliver them to the dealers. Another way is to become an agent, which gives you the right to sell a trademark, and a third way is to start your own retail store in your town.

An alternative revenue model for a commercial business is to sell T-shirts on a subscription basis, so that a customer would get a new T-shirt each quarter (this business model actually exists for socks). Or maybe you could have a sub-supplier print the graphics on T-shirts and pass on the price for this with a margin.

**Income from services**

As a service company you could also make money in the T-shirt business. You could do this by selling hours or services as a consultant within the areas of T-shirt design, purchasing or manufacturing.

It would also be an option to develop a franchise concept - "The T-shirt Shop" - and help the franchisees run their businesses. You could also sell events and have annual fashion shows where you give away the prize "T-shirt of the Year." Here, you might earn extra money by selling membership fees to participants who are interested in joining the trade organization. There is hardly a foundation for a specific T-shirt trade organization, but the business model can, of course, be used in the fashion and textile business as well as in many other lines of business.

**Income from online activities**

Whether you are manufacturing, doing trading or offering services, you can also gain revenue from online activities.

One way is to sell advertising space on your website and charge the advertiser according to the size of the ad.

Another way is to do lead generation. That means that you would generate leads to another company via your own marketing activities and get paid per customer or visitors forwarded.

Finally, one of the most obvious online activities is to make your own webshop to sell your products and services. The benefit is that your customers can browse your products and order from home at any time of the day - and you get the payment upfront.

**Income from financial services**

Even as a financial business, you would, in principle, be able to make money in the T-shirt business even though it is not too common. You might imagine a rental service that rents

CATEGORY	REVENUE MODEL	DESCRIPTION
<b>MANUFACTURING REVENUE MODELS</b>	<b>Manufacturing</b>	You develop, produce, and deliver a product and invoice the customer the production price with add-ons for related expenses and profit margin.
	<b>Contract manufacturing</b>	You produce custom ordered products and invoice the customer an individually calculated price per order.
	<b>Licensed production</b>	You produce and deliver a product that others have designed and invoice the customer a price that will also cover the figure you pay to the designer or owner.
	<b>Outsourcing</b>	You design a product, but outsource all of the production to another factory and invoice customers the production price with add-ons for related expenses and profit margin.
	<b>Royalty</b>	You design a product, but let others be in charge of production, delivery and sales, and invoice the supplier a royalty based on the number of items sold or produced .
<b>TRADE REVENUE MODELS</b>	<b>Wholesale</b>	You buy products from different manufacturers and re-sell them in smaller amounts to supplies that you then invoice a price that covers expenses of, for example, warehouse and logistics.
	<b>Agent representation</b>	You make agent agreement about a product and sell it. The supplier delivers and invoices the product and you invoice the customer an agreed amount based on sales commission.
	<b>Retail</b>	You start a store and sell goods, which you sell with a profit covering the store rental, personnel, and advertising expenses.
	<b>Consignment</b>	You sell your products on commission with a vendor and do not invoice him until your products have been sold.
	<b>Subscriptions</b>	You make deals about periodical or repeated deliveries of a product and invoice the customer a set amount each month, quarter or year.
	<b>Handling Fee</b>	You coordinate an order to the customer and then invoice the supplier with a profit margin that will cover handling.
<b>SERVICE REVENUE MODELS</b>	<b>Sale of hours</b>	You acquire a professional knowledge or a trade related skill set and invoice the customers for the time spent on the assignments relating to them.
	<b>Sale of services</b>	You deliver a service at a set price for the total service, or a price that is determined by resource use, which is included in the order.
	<b>Sale of events</b>	You plan and execute an event and invoice customers a fee per person.
	<b>License/Member fees</b>	You establish an organization or a network and invoice a membership fee for a period of time.
<b>ONLINE REVENUE MODELS</b>	<b>Sale of advertising</b>	You sell visible advertising space in relation to your business and invoice the customer a per impression price (per estimated exposure) or a price according to advertising size.
	<b>Affiliate marketing</b>	Another business' marketing brings visitors or customers to you. You reward them for each customer, and you make money from the increased number of customers.
	<b>Online shop</b>	You have a webshop with products that people buy online. The customers pay with credit card or another online payment service and pay for the products upfront.
	<b>Lead generation</b>	You generate leads to another business who pay you for every lead.
	<b>Freemium</b>	You offer a product or a service free of charge while charging a premium for advanced features, functionality or related products and services.
<b>FINANCIAL REVENUE MODELS</b>	<b>Fundraising</b>	You develop a project that is eligible for funding from public or private institutions and invoice them an agreed sum, which should cover all project costs.
	<b>Franchising</b>	You develop a store or service concept and invoice a franchise fee and perhaps a royalty as a percentage of the revenue generated in the business.
	<b>Insurance Sales</b>	You sell insurance in collaboration with an insurance company, which comes with the product or service you are selling and you invoice the customer an insurance premium.
	<b>Financing business</b>	Your customers pay for your product or services through a time based payment plan, which includes interest on the principal amount.
	<b>Rental and leasing</b>	You invest in some equipment that you rent out and invoice the customer at a set price per month.
	<b>Investments</b>	You invest in products or stocks and sell them after a certain period of time at a higher price, which covers the risk or exposure related to the initial investment.

out expensive designer T-shirts (such a thing exists for sunglasses, bags and wedding gowns), and you might sell expensive T-shirts on a hire-purchase agreement and make money from the credit/interest business, just like the dealers of flat screen televisions. There would also be financial business in insurance sales when selling a product - like airlines and computer stores. Then you would be able to insure your T-shirt against impossible stains. And finally, you might want to invest in T-shirt companies and sell them later at a profit.

As this hypothetical example concerning the T-shirt business has shown, there are plenty of different business and revenue models to choose from when you are in the T-shirts business and the same thing applies to every other line of business.

### **Emotional barriers**

As entrepreneurs, we can experience emotional barriers that hold us back from using several or new business models. Maybe you feel that you can only run your company the way you have always done it, and that no other business models are useful. It is completely natural to feel this way, especially if you are in a particularly traditional line of business, in which your creativity is put to the test when trying to work innovatively with the business model.

Another emotional barrier might be that you feel that all these business models are there just to make more money

from customers, which can backfire. However, the benefit of combining several business models is not just that you get more sources of income, but you are also able to offer the customers a better product, i.e. by selling a product and also providing an hour-based service afterwards. Or conversely - that you are selling the hours you spend working but at the same time have a physical product for the customer to buy without you having to be present.

The best business models will always be the ones that match your business idea, the products you sell, your customers and your desired market position. If you find those models, you have found the best sources of income based on your good ideas.

### **Suggestions for the next step**

- Determine which business or revenue models could benefit your company.
- Consider whether you might improve your business concept by considering untraditional revenue models for your type of business.
- Update your price lists and offers with the new products and services you are going to sell.

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