BUSINESS MODELS

A ***Business Model*** is a conceptual structure that supports the viability of a product or company and includes the purpose and goals of the company and how it intends to achieve them. All the business processes and policies that a company adopts and follows are part of the business model.

*a business model is supposed to answer who your customer is, what value you can create/add for the customer and how you can do that at reasonable costs.*

Thus a business model is a description of the rationale(a set of reasons or a logical basis for a course of action or a particular belief) of how a company creates, delivers and captures value for itself as well as the customer.

Option 1: Direct-To-Consumer (DTC)

Option 2: Selling as a Private Label Supplier

Option 3: Selling Wholesale to a Retailer

Option 4: Selling on an Ecommerce “Marketplace”

Different Types of Business Models

There are different types of business models meant for different businesses. Some of the basic types of business models are:

Manufacturer

A manufacturer makes finished products from raw materials. It may sell directly to the customers or sell it to a middleman i.e another business that sells it finally to the customer.  Ex: Ford, 3M, General Electric.

Distributor

A distributor buys products from manufacturers and resells them to the retailers or the public. Ex: Auto Dealerships.

Aggregator

[Aggregator business model](https://www.feedough.com/aggregator-business-model/)is a recently developed model where the company various service providers of a niche and sell their services under its own brand. The money is earned as commissions. Ex. [Uber](https://www.feedough.com/uber-business-model/%22%20%5Ct%20%22_blank), [Airbnb](https://www.feedough.com/airbnb-business-model/%22%20%5Ct%20%22_blank), [Oyo](https://www.feedough.com/business-model-oyo-rooms/%22%20%5Ct%20%22_blank).

Retailer

A retailer sells directly to the public after purchasing the products from a distributor or wholesaler. Ex: [Amazon](https://www.feedough.com/amazon-business-model/%22%20%5Ct%20%22_blank), Tesco.

Franchise

A [franchise](https://www.feedough.com/what-does-franchise-mean-types-of-franchising/) can be a manufacturer, distributor or retailer. Instead of creating a new product, the franchisee uses the parent business’s model and brand while paying royalties to it. Ex: McDonald’s, Pizza Hut.

Bricks-and-clicks

A company that has both online and offline presence allows customers to pick up products from the physical stores while they can place the order online. This model gives flexibility to the business since it is present online for customers who live in areas where they do not have brick-and-mortar stores. Ex: Almost all apparel companies nowadays.

Nickel-and-dime

In this model, the basic product provided to the customers is very cost-sensitive and hence priced as low as possible. For every other service that comes with it, a certain amount is charged. Ex: All low-cost air carriers.

Freemium

This is one of the most common business models on the Internet. Companies offer [basic services to the customers for free while charging a certain premium for extra add-ons](https://www.feedough.com/freemium-business-model/%22%20%5Ct%20%22_blank). So there will be multiple plans with various benefits for different customers. Generally, the basic service comes with certain restrictions or limitations, such as in-app advertisements, storage restrictions etc., which the premium plans shall not have. For example, the basic version of Dropbox comes with 2 GB storage. If you want to increase that limit, you can move to the Pro plan and pay a premium of $9.99 a month for it. Some online image editors allow you to edit only a certain number of images in the free basic plan while an unlimited number of images in the paid plan. [Youtube’s](https://www.feedough.com/youtubes-business-model-how-does-youtube-make-money/%22%20%5Ct%20%22_blank) free plan comes with ads while the premium (Red) plan has no ad interruption plus it has other benefits too. This model is one of the most adopted models for online companies because it is not only a great marketing tool but also a cost-effective way to scale up and attract new users.

Subscription

If customer acquisition costs are high, this business model might be the most suitable option. This model lets you keep customers over a long-term contract and get recurring revenues from them through repeat purchases. Ex: [Netflix](https://www.feedough.com/how-does-netflix-make-money/%22%20%5Ct%20%22_blank), [Dollar Shave Club](https://www.feedough.com/dollar-shave-club-business-model-case-study/%22%20%5Ct%20%22_blank).

High Touch

The High Touch model is one which requires lots of human interaction. The relationship between the salesperson and the customer has a huge impact on the overall revenues of the company. The companies with this business model operate on trust and credibility. Ex: Hair salons, consulting firms.

Low Touch

The opposite of the High Touch model, the Low Touch model requires minimal human assistance or intervention in selling a product or service. Since as a company, you do not have to maintain a huge sales force, your costs decrease, though such companies also focus on improving technology to further reduce human intervention while making the customer experience better at the same time. Ex: Ikea, SurveyMonkey.