Revenue Streams: Crash Course Entrepreneurship #13

Crash Course: Business - Entrepreneurship
https://youtube.com/watch?v=Vhz9fGYkYLg
https://nerdfighteria.info/v/Vhz9fGYkYLg

You know what business people really like to talk about?

Money. Profit, revenue, income, assets, cash flow -- all these words mean money, but they all have specific uses.

In business, money is important to us and we want to describe it as accurately as possible. That can make it confusing for new entrepreneurs to talk about the money flowing into their business, and it seems like we need a translator for all the jargon! But, really, making money comes down to understanding a few basic terms and setting up some sales structures that let customers make purchases in a way that works for them.

I'm Anna Akana, and this is Crash Course Business: Entrepreneurship. [Theme Music Plays] Money can be an awkward subject, I get it. But to make a living, have an impact, and be taken seriously at decision-making tables, we entrepreneurs need to know the ins-and-outs of our business, including the money stuff. And we believe that one step to making the world more equal is making money less of a mystery.

So let's get rolling. If we consult our "Finance to English" Dictionary, we can see that revenue is the amount of money a customer hands to us when they buy a product or service. To calculate it, revenue is the number of things sold times the price of each item.

But that's not the whole story, right? Making a product or offering a service costs money upfront, so we can't ignore expenses or operating costs. That's money spent on operations to generate revenue, like for employees, supplies, or equipment.

So profit is the money we make if our revenue is greater than our expenses. To calculate it, profit is just revenue minus expenses. If you reported a million dollars in revenue last month, but spent $999,999 making your product, you only made one dollar in profit.

Revenue, expenses, and profit are the three basic concepts we need to decide how well our business is doing financially. When it comes to other financial business-speak, Investopedia or Accounting Coach are great resources. Lots of words might sound fancy, but the concepts are usually pretty simple.

Now that we speak the language, we can ask an important question: how do we actually generate revenue? Gotta make that money! Last episode we learned how to be persuasive and hone our sales pitch, but we also care about how customer sales can be structured, known as our revenue streams.

Basically, revenue streams are decided by what we're selling and how we want to sell it. Like how small water streams feed into big rivers, our revenue streams make up our whole revenue. If you have a physical product, a product sale or asset sale is a natural revenue stream.

There's a transfer of ownership rights, so the customer gets a physical product and you get money. As long as there have been civilizations trading, there's been some form of the product sale. For example, a hardware store sells hardware.

A bookstore sells books. Target sells… well… SO many things the dollar section is a dangerous place, my friends. But maybe complete ownership isn't the goal at all.

In some cases, you could charge a usage fee, where customers pay based on how much they use a thing you own. Utility companies charge based on how much you leave the lights on. Buying a whole power grid would be impossible!

And your cell phone carrier charges based on how much data you've used -- you're not buying satellites. Next, there's renting or leasing, which is slightly different. You charge a fee to grant someone the exclusive rights to use a thing you own for a fixed time period.

Here it doesn't matter how much they use it, but how long. You get a recurring revenue stream, and the renter doesn't have to pay for the full cost and responsibility of ownership. Anyone who's moved can appreciate renting a moving truck for a few hours to haul your boxes of stuff.

Seriously, where does it all come from?? It's also possible to rent places to live, or a lot of other specialty equipment, like tractors or industrial mixers. And licensing is like renting but for ideas -- basically, it's giving customers permission to use protected intellectual property in exchange for a fee.

Licensing is especially common in the tech and media industries. Patent-holders can grant other people the right to use their technology for a fee, or creators can copyright their IP and sell licenses for other people to use it. For example, Marmoset music supports emerging artists by licensing their music to large corporate brands for storytelling, like in campaigns for the Academy Awards.

A popular revenue stream in the brave new world of TV and music streaming is charging a subscription fee to sell continuous access to a service. If you're a student, you can pay one convenient fee each month to get unlimited Hulu access and ad-free music with Spotify. It's like they don't even want you to study!

But there are offline subscriptions too, from meal-kit services like HelloFresh to boxes of new clothes from Stitch Fix and Trunk Club, or even gym memberships. Then, there are revenue streams if you're a middleman, like if customers are looking for someone to act as a go-between during a negotiation or a transaction. You can charge them a brokerage fee for brokering, or arranging, the deal.

Real estate agents earn their money this way, by getting a commission each time they successfully match a buyer and seller. And finally, you might move away from generating revenue directly from customers with advertising -- promoting products, services, or brands from other companies for a fee. Many "freemium" services, like mobile apps or YouTube, earn money this way -- by showing ads to their free users.

Even the mighty Google generates revenue with advertising, by letting websites pay to appear in the first two or three results slots in a search. So there are a lot of options for revenue streams, and you don't have to pick just one. Let's explore this through an example in the Thought Bubble.

GoldieBlox is taking the toy industry by storm, and they're especially targeting gendered marketing stereotypes for engineering toys. They sell physical toy sets with a storybook paired with a construction kit, have two mobile apps with activities focused on creating, and make original videos aimed at empowering young women. Their most obvious revenue stream is their product sales.

Customers can buy their six toy sets both in toy stores and online, and these sales generate revenue. The popularity of their toy sets was enough validation to show there's a customer demand, so GoldieBlox expanded beyond toys to books. They've published and sold four chapter books in bookstores and on Amazon.

GoldieBlox also looked for other businesses in the girl empowerment community to partner with, and they created special kits for the Girl Scouts of America. These were additional product sales that generated revenue, but instead of selling to individual

customers, they sold to other businesses. And through their YouTube channel, where they release DIY videos to encourage young “makers”, GoldieBlox earns advertising revenue.

Advertisers pay YouTube for ad space, and YouTube pays creators depending on a handful of factors, like how many views their videos get and how long people are watching. But GoldieBlox is still looking for new ways to inspire young women and add more revenue streams. According to press releases, an animated show is in the works, which will likely generate more revenue from an existing network like Disney or Netflix.

Or if they decide to go all-in and create their own content platform, maybe they’d have a subscription fee. So GoldieBlox is growing, but they started by focusing on just one natural revenue stream. Thanks, Thought Bubble!

While you ultimately want to diversify, you don’t have to do it all at once! GoldieBlox matched revenue streams to their key activities and partners, which makes sense because successful businesses stay focused on their value propositions. If you’re still having trouble deciding on revenue streams, look around to see what your competitors are doing.

If what they’ve chosen seems successful and you like it, feel free to give those money-making things a try. And revenue streams change a lot, or a business might use multiple versions of the same stream, so don’t feel like you’re stuck forever. Like, if I wanted to be, oh I don’t know... a YouTuber, writing and filming YouTube videos would be some of my key activities, and YouTube would be one of my key partners.

So advertising would be one of my revenue streams, whether on the platform or by finding sponsors. But lots of successful YouTubers have expanded beyond YouTube, so maybe I decide to write a book, or start my own line of merch. These would add a couple product sale revenue streams.

Once I’ve built up an audience, I might form some relationships with other businesses (like with Crash Course!). Or I might pivot to other kinds of entertainment, like headlining concerts or starring in movies. All of these give new revenue streams I can add to my overall revenue.

No matter the revenue stream, a big part of making money is setting prices that customers can afford and let us keep our business running successfully. Start by looking at costs and the competition. How much do we need to charge to make at least a small profit?

What is our competition charging, and can we estimate their costs and calculate about how much profit they’re making? Is that how much money we need or want to be bringing in? Like we said before, it’s common to under-price your products in the beginning, but that’s not a sound strategy in the long run.

You still don’t want to charge $100 for that pizza when everyone else prices it at $10! As you become established, you can try out different pricing strategies. The international consulting firm McKinsey stresses four of these: A margin expander changes prices according to a competitive edge or offers different things at different prices for different people.

This works well in markets with a lot of competition, because it helps you stand out. Next, a pricing disruptor completely throws out the previous model they (or their competition) has established to differentiate themselves or address a customer complaint. Maybe your ride-share charges by the minute instead of by the mile, factor in risk, or share profits with customers like REI’s dividend distribution.

Third, a revenue driver uses prices to acquire new customers or bundles additional products at good deals to get more out of existing customers. “Freemium” models where you let customers try your product for free for a limited time have become super popular. And finally, a pricing pioneer is bold. It’s radical.

It’s a pricing disruptor and a revenue driver all in one. These entrepreneurs completely change up their pricing model, but they also introduce new products or services to get more value for them and the customer. No matter what, re-evaluating prices means listening to feedback from your customers about what they like and need… while also paying attention to the competition and your costs.

The bottom line is: don’t be intimidated by the vocab, and pick revenue streams that are natural for your business and what your customers want. Next time, we’ll talk about costs and how to make sure you’re planning for expenses and making logical choices so you don’t get hit with surprise bills. Thanks for watching Crash Course Business, which is sponsored by Google.

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