

Changing your business model

Your current business model is the way your business earns money. A change in your business model can bring substantially more income – sometimes for less work and lower overhead costs.

Technologies and markets change at an ever-increasing rate, opening new growth opportunities that may just require a shift in your thinking.

First, identify your current model

Think about the current way your business makes money. Some examples include:

- A software company's business model is to sell software programs through computer shops.
- A lawyer sells expertise by charging an hourly rate.
- A publisher sells books through bookstores.

Consider new models to adopt

A change in your business can be relatively minor or could mean a radical change in direction. Let's elaborate on the above examples:

- The software company could start offering Software as a Service (SaaS) on the cloud for a monthly fee.
- The lawyer could offer a monthly subscription service for legal advice instead of charging by the hour.
- The publisher could move away from printed books to e-books sold through Amazon, Kindle, and other online platforms.

These examples all involve changes to an existing business model to produce more revenue and grow.

What you need to look for

Look for a new business model to complement your existing business and see where it takes you. Some business models are outlined below.

Sell unused capacity

Separating each activity in your business into a profit area can show you which activities are profitable, and which are marginal. The payoff can be new insights into your activities that help you focus on necessary changes or innovations.

For example, if you manufacture nuts and bolts, you may identify some unused capacity. How can you change your business model to grow? You could:

- Start contract manufacturing for other businesses. This could fill your capacity, increase profitability, and offer leverage to get better buying prices since your volumes have now increased.
- Produce your goods under different brands (for instance, a premium brand and a 'house brand') and let other distributors sell them to the market.

- Hire out part of your facilities to others. For instance, a bakery rented its premises and ovens to a start-up cookie business during its 'slack' period of 6 pm to 2 am.

Try to identify any unused space or capacity in your business that could generate income.

Go to the market

Instead of waiting for customers to come to you, can you take your business to them? For example:

- A new business model for a coffee shop was to buy a mobile coffee cart to use at meetings and events. They're now in the mobile event business.
- A bakery started charging a small fee to download unique recipes from their website. They're now in the online licensing business.

Can you identify a way to take your business to the market?

Offer prepaid services

If you provide services, can you introduce fixed-rate service agreements rather than charging fees by the hour?

The fixed-rate business model aims for predictable cash flow in advance. Customers paying by direct debit (you pull payments from their bank accounts automatically through your bank) eliminate invoicing costs and debt collection issues. Some examples include:

- A maintenance business offering a set monthly fee to service a machine regardless of the activity level. The firm gains a reliable revenue stream and is betting that if the machine is maintained well, they won't exceed the monthly fee.
- An IT business is offering a 24-hour help desk service for a set monthly fee, regardless of whether the service is used or not. The IT service is now in the insurance business.

It's also possible to oversubscribe your services. For instance:

- Gyms sometimes oversubscribe their memberships. If all their members turned up at the same time, these gyms wouldn't be able to cope, but the owners know this is highly unlikely.

Try to identify possibilities for charging fixed monthly service levels.

Make the move online

Can you earn additional revenue by taking your whole business online rather than just treating a website as another distribution channel? For example:

- A retailer decided to give up her high-rent storefront altogether and focused on website selling. She used to hold a large inventory and wait for customers to purchase items, but her new business model doesn't require inventory – a huge cost saving. She passes orders onto a wholesaler who takes care of shipping. In effect, she's now a virtual retailer – no inventory, no location.

- A training company built its reputation on running physical workshops for large corporations. The company has now moved all their training online, charging participants a license fee to access the training lessons. This enabled the company to lower its costs and reach a worldwide market.

Can you move more of your business online?

The power of giving away free samples

The Internet has greatly expanded this model because its reach is so wide. Businesses now give away significant samples intending that a small percentage of customers will buy additional products. For example:

- Software companies offer free 'light version' apps or programs in the hope that a small but significant percentage of customers will go on to pay for an upgrade. It's a simple numbers game.
- Google gives away many of its products such as Google Search, Maps, Translate and News to attract people to its pay-per-use services. More visitors also enable Google to generate massive advertising revenues.

Think about how you can apply this model to your business. Your 'give away' could be some valuable information offered online through various websites which attract interest and leads to sales opportunities.