

5 online revenue models

Although the web is used as an extension to every business under the sun, there are only five basic revenue models that work online. By placing your business within one (or more) of these models, you can learn a lot from other companies with whom you didn't think you had much in common.

1. generating leads

How it works: Web sites can be used to **bring in new business**. By explaining exactly who you are and what you do, you can build interest in your organization that leads directly to the leads you want—whether that means new members, customers, or clients.

Who it works for: Almost everyone can successfully use the web this way. Companies can find new buyers for their products. Non-profits can find new members. Hotels and restaurants can find new customers. Charities can find new volunteers. Service professionals, from accountants to wedding photographers, can find new clients.

How much it's worth: N/A

Why it fails: You can only generate leads if people come to your site, and they'll only come if they can find it. Sites should be listed in search engines and directories, as well as with any sites pertinent to your field or location. You should also let existing customers know you have a web site: Put your URL in your ads, in your store window, and on your business card. Anything you can do to get the word out.

2. product sales

How it works: Commerce sites make money in a fairly traditional manner: **They sell things**. And people buy them. Products may range from airline tickets to pedigree poodles, and from couches for consumers to computers for corporate accounts.

Who it works for: Any company that sells products directly to its customers through catalogs or retail stores. Amazon, of course, is the celebrated leader in this category. But there are many other success stories, from travel site Expedia to specialty store RedEnvelope to tiny crafts shops around the world.

However, this model hasn't worked as well for companies that sell through a middleman. Levis, for example, launched one of the earliest online stores, but they no longer sell on their site. They now focus on generating leads for the stores that sell their products.

How much it's worth: Online consumer spending totalled \$73.2 billion in 2002. This estimate includes travel sales. Retail spending alone totalled an est. \$43 billion. (Source: Research firm comScore.)

Why it fails: As with any commerce-based business, web sites sink or swim based on the number of customers they attract and how much money they spend—balanced by the cost of running the business.

Web retailers often face ultra-competitive pricing. Online businesses also fail when customers can't figure out how to use their site.

3. advertising

How it works: Advertising-based sites earn money by **exposing their visitors to ads**. The ads may take the form of animated banners, interactive presentations, or simple links. The amount a site earns is dependent on both the number of ads it runs and how much advertisers are willing to pay per ad.

Who it works for: Sites with a large audience that can be subdivided into specialized groups. For example, news sites or portals that can target ads against particular types of content and search engines that can target ads against particular searches. (So a search for "Honda hybrid car" yields banners or links for car dealers online.)

As in other media, smaller, more specialized sites can also do well if they have an audience that advertisers value.

How much it's worth: Advertisers on American sites spent an estimated \$6.38 billion in 2002. (Source: Research firm eMarketer.)

Why it fails: If a site can't attract a large enough audience, can't attract an audience that interests advertisers, can't target ads meaningfully, or can't get users to click on ads, they'll have trouble attracting advertisers. On the other hand, if they run too many ads on each page or try too many annoying experimental ads at once, users may turn away.

4. subscriptions & fees

How it works: Subscription or fee-based sites charge users money to gain **access to specialized content or services**. The type of service dictates the method of payment (either a flat subscription or fee-per-use). The perceived value of the service dictates how much the site can charge.

Who it works for: This category just began to take off in 2002 with successful sites ranging from content sites like Salon to video-rental service NetFlix to ESPN's Fantasy Football game. Also, many software companies are moving in this direction: Rather than selling packaged software to be installed individually on users' machines, they're increasingly offering subscription-based online access to applications, ranging from site search (Atomz) to corporate fulfillment software (Ariba).

How much it's worth: American consumers spent \$1.3 billion on online content in 2002. (Estimate doesn't include games, software, gambling, or pornography). (Source: Online Publishers Association.)

Why it fails: If users don't see enough value in the service, they simply won't pay. But there's also a psychology to the sale: Most fee-based sites offer users a taste of their content or service before requiring payment. Sites that ask for too much too quickly often find themselves rebuffed.

5. matchmaking

How it works: Matchmaking sites are all about **making connections**. They bring together buyers and sellers of all kinds—in jobs, real estate, relationships—and profit from each successful match.

Who it works for: The runaway success in this category is the auction site eBay. There are many others, however, in other sectors: personals sites, which match people looking for relationships; jobs sites, which match companies with potential employees; and real estate sites have all proven successful for a number of sites.

How much it's worth: N/A

Why it fails: The number-one reason matchmaking ventures fail is lack of critical mass. You have to attract enough buyers and sellers to create a viable marketplace. If your site doesn't grow big enough quickly enough, it won't gain the momentum it needs to take off.