21st Century Business Models for an ace Startup

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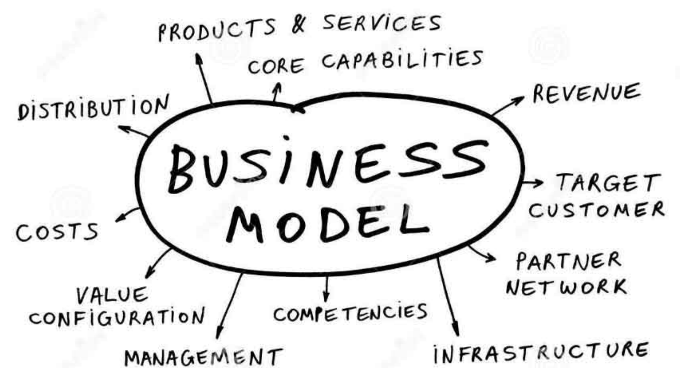
Airbnb is the biggest accommodation provider worldwide without owning a single room, Uber is the biggest cab company without owning a single cab and Alibaba is the biggest retailer with no stock at all. This makes me wonder how their Balance Sheets would look like?

I am pretty sure of all of us at-least once in our lives till now would have cursed our daily 9-5 jobs and had have built all rosy ideas of setting up our own startup venture and also why not, they seem to be the quickest way to mint money thus setting us free from the clutches of having to meet unlimited human wants with the limited salary that our jobs have got to offer but of course it goes without saying that all of this does come at the cost of excellent innovation, brilliant execution and at the core a sound, profitable business model because this is what actually determines where does all that money we've all been fantasizing comes from and how does it sneakily leave from our pockets.

In this article I'll be throwing light on the most streamlined 21st century business models that you can implement if you're planning to start your business afresh along with the secret sauce of the startup kings in the industry which enabled them to rule the empire and lastly, some amazing book



recommendations to actually bring your idea to the world.

So let me first briefly hint to what a business model exactly is,

A business model is the **plan** your business has for making money. It's an explanation of how you deliver value to your customers at an appropriate cost. This includes descriptions of the products or services you plan to sell, who your target market is, and any required expenses. It lets a startup experiment, test, and model different ways to structure costs and revenue streams.

Having said that an extremely useful tool you can leverage when choosing your business model is the ***Business Model Canvas.*** The concept was first developed in the book ***"Business Model Generation",*** by Alexander Osterwalder and Yves Pigneur.

BUSINESS MODEL CANVAS: STARTUP NAME

YOUR LOGO HERE

KEY PARTNERS	KEY ACTIVITIES	VALUE PROPOSITIONS	CUSTOMER RELATIONSHIP	CUSTOMER SEGMENTS
Write here	Write here	Write here	Write here	Write here
	KEY RESOURCES	YOUR LOGO HERE	CHANNELS	
	Write here		Write here	

COST STRUCTURE	REVENUE SOURCES
Write here	Write here

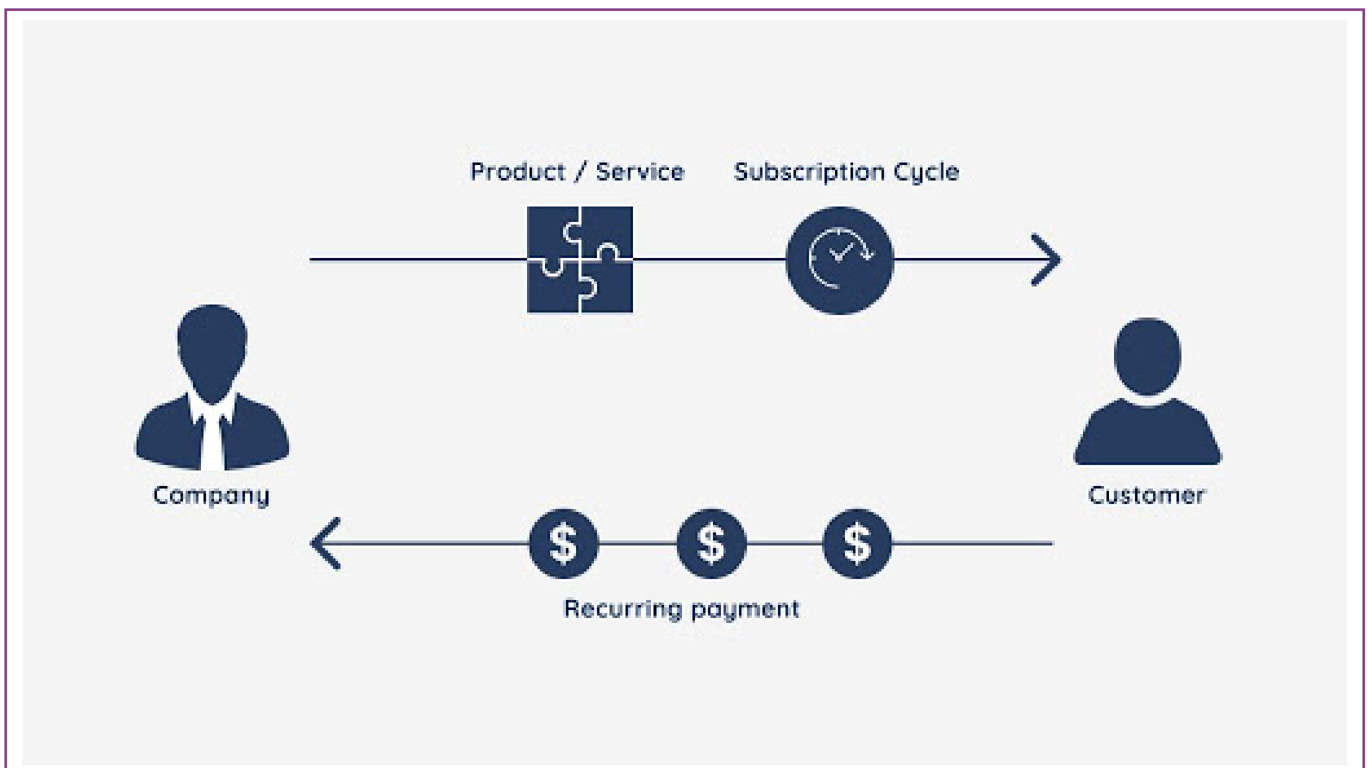
Together these elements provide a pretty coherent view of a business' key drivers–

1. ***Customer Segments***: Who are the customers? What do they think? See? Feel? Do?
2. ***Value Propositions***: What's compelling about the proposition? Why do customers buy, use?
3. ***Channels***: How are these propositions promoted, sold and delivered? Why? Is it working?
4. ***Customer Relationships***: How do you interact with the customer through their 'journey'?
5. ***Revenue Streams***: How does the business earn revenue from the value propositions?
6. ***Key Activities***: What uniquely strategic things does the business do to deliver its proposition?
7. ***Key Resources***: What unique strategic assets must the business have to compete?
8. ***Key Partnerships***: What can the company not do so it can focus on its Key Activities?
9. ***Cost Structure***: What are the business' major cost drivers? How are they linked to revenue?

Now that you are aware of what a business model is, let's quickly hop onto the different business models the tomorrow has to offer:

Subscription based business model

The subscription-based business model is not a new concept but in the last couple of decades, many tech companies have pivoted from selling or licensing products via a single transaction to offering their products for repeated monthly or annual payments. In the 2000s, technology took leaps forward and that the move from 2G to 3G allowed many software companies to pivot from the single license model to cloud-based products. This advance, in conjunction with the financial crisis in the latter half of the 2000s, was instrumental in changing customer priorities. Instead of wanting more products and services, people began to want fewer but better options. **"People in general don't want to own things anymore, they want to have access."** Subscription-based businesses fit well with this demand because they can deliver a lot of functionality for a small repeated fee rather than one large, potentially intimidating sum. Instead of selling a product or a service as a one-off, servitisation companies operate on a subscription or ongoing service model by selling a product or service in return for a recurring fee, thus building long-term relationships with customers. These businesses rely less on one-time sales that don't always inspire brand loyalty, as people can often change brands to find good deals. Instead, subscription companies focus on finding their super users; people they can create and grow the 'forever' transaction with which lets them create a more predictable cash flow, a direct customer feedback loop, and greater customer loyalty. For example, if you have a piece of content, you can monetize it for as long as it's relevant! Put simply, would you rather earn $10 once and have to keep trying to convince new people to buy from you? Or get $10 every month from a trusted group of people for years? So, while your $8.99 monthly fee for Netflix might feel small, those of us who have been subscribed for 5+ years have each added over $500 to Netflix's coffers.



It's no wonder more and more companies are shifting to a subscription business model and considering that the average repeat customer spends 67% more than a new customer, it's a bandwagon you should jump on as well. That brings me to the 6 ways a subscription business model can help improvise your business:

1. *Accurately predict your revenue*, which is incredibly advantageous for a company's valuation since it enhances the sellability of the company, thus increasing the attractiveness to potential VCs leading to valuations up to 8 times that of similar businesses with little recurring revenue.
2. *Increase the lifetime value of your clients* since you can safely presume that they will pay you every month so as long as your product gives them value.
3. *Build strong bonds* with customers through your community.
4. *Increase customer retention.*
5. Improve your user insight.
6. *Subscriptions decrease Customer acquisition costs.*

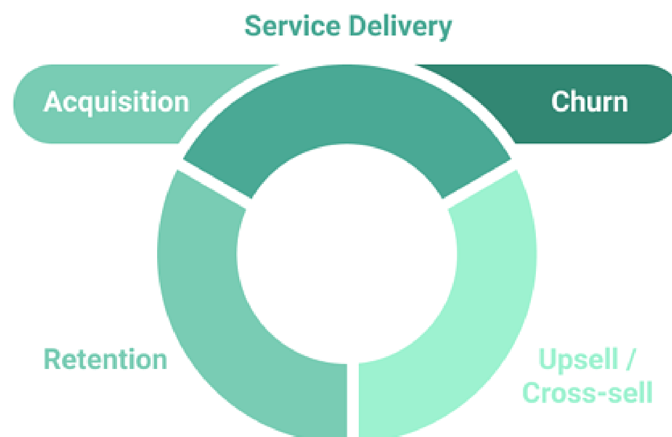
Based on the number of subscribers you have, you can calculate your **Monthly Recurring Revenue (MRR),** which is the amount of predictable revenue you can get per month from subscribers.

To calculate your MRR you just need to multiply the number of active subscribers you have with the price of the subscription.

MRR = Number of Active Subscribers * Price of Subscription

From the moment a new customer subscribes, every subscription company begins the same five-step revenue cycle:

1. Acquire customers.
2. Deliver consistent, high-quality service.
3. Look for opportunities to upsell or cross-sell.
4. Work to retain users and reduce churn.
5. Rinse and repeat.



What makes subscription revenue so powerful is how **growth compounds** over time because when new customers are added revenue accumulates with each new subscriber and it will compound with what you earned last month because the previous subscribers are paying again so as long as companies acquire new subscribers faster than they lose them, revenue grows exponentially.

An extremely useful tool to help you with the calculations is ***Uscreen*** which automatically calculates your MRR taking into account different subscription plans.

Subscription-based models are perfectly suited for two types of businesses:

1. Businesses that offer ***access*** to a product, like video streaming content, written content, or software. It'll give your clients access to your exclusive products so long as they pay you a recurring subscription fee.

2. Businesses that offer a ***repeat*** service and deal with physical products. Subscription products tend to be split into two categories: convenience and curation. Any product that frequently needs replenishing is a good candidate for convenience subscriptions. Curated subscription boxes are generally based on a theme or target market. These subscription services deliver a curated selection of products on a monthly or quarterly basis.

Here are some popular subscription businesses models:

SaaS

Software as a service is a software licensing and delivery minimal upfront cost.

If you have used a web-based email service such as Outlook, Hotmail or Yahoo! Mail, then you have already used a form of SaaS. With these services, you log into your account over the Internet, often from a web browser. The email software is located on the service provider's network and your messages are stored there as well. You can access your email and stored messages from a web browser on any computer or Internet-connected device.

The previous examples are free services for personal use. For organisational use, you can rent productivity apps, such as email, collaboration and calendaring; and sophisticated business applications such as customer relationship management (CRM), enterprise resource planning (ERP) and document management. You pay for the use of these apps by subscription or according to the level of use.

Now assume have received the much-needed funding for your startup, it's time to take the product to newer markets, signup more customers, hire for key positions, and scale operations. The money you just landed will provide some immediate boost, but money alone won't be enough to make it as big as you have dreamt of, you need solid backing from your investors, who can help you with new introductions, promotion, and advice on various aspects of running a successful business. For this, you need to engage them, build trust, and strengthen relationships.

One of the often neglected but critically important pieces of investor relations is committing to send out regular investor updates. Investors love to be in the know. They want to know about the progress you are making. They want to know what's happening with their investment. This is where tracking and reporting on right metrics comes in play. You'll need data at your fingertips that can help you make strategic, informed decisions. Decisions that evolve your growth strategy, lead to customer acquisition, and drive revenue growth.

This makes it crucial that you track and measure startup key performance indicators, or KPIs. KPI is short for Key Performance Indicator, and it's a term for the metrics that are the most critical to track for a company's performance against its targets, objectives, or industry peers. KPIs can be financial, including net profit (or the bottom line, gross profit margin), revenues minus certain expenses, or the current ratio (liquidity and cash availability) or they can be customer-focused KPIs which generally center on per-customer efficiency, customer satisfaction, and customer retention or process-focused KPIs which aim to measure and monitor operational performance across the organization. The challenge with KPI's is that there are dozens of metrics that can be measured. you might think that you should be tracking all the available KPIs but that won't be a good idea since monitoring them all is neither productive nor efficient. Furthermore, without an excellent program to combine and visualize your KPIs, it will be an impossible task to keep track of all your data.

Let's get into a few KPIs that every SaaS entrepreneur and every team should be monitoring and analyzing to perform better

Churn Rate

$$\frac{\text{Users who left}}{\text{Users at start of month}} \times 100 \text{ to get \%}$$

For a SaaS distributor and any other companies that work with subscribers, customer churn rate is essential, since it shows the percentage of your customers or subscribers you lost. Too many SaaS businesses choose to overlook this number in favor of more detailed or derivative metrics and that's a huge mistake. The most important thing for every SaaS company is to keep existing customers while also getting new ones. If your typical customer does not stick around long enough for you to earn back what you spend to acquire them (CAC), then you're in trouble. The logic here is pretty straightforward: if you want to create revenue growth, then it is equally important to maintain your existing customers and to acquire new ones.

Monthly Recurring Revenue (MRR)

$$\text{MRR} = \text{SUM}\ (\text{Paying customers monthly fee})$$

MRR allows you to not worry about counting the number of hours you spend

working for a client, once you have acquired the customer. Growing SaaS companies tend to lose sight of their secured monthly revenue flow, and instead focusing on bookings and revenue numbers. Building your SaaS company after your MRR growth is an excellent way to get things started. For SaaS companies, MRR helps to keep the focus on the present and allows them to track how the business is growing. Tracking MRR can also help companies from being obsessing over long-term contractually booked sales instead of the short ones.

Customer Acquisition Cost (CAC)

$$\frac{\text{Sales \& Marketing Cost}}{\text{Number of new costumers}}$$

CAC measures the cash that a business spends to gain new customers and indicates how long it will take a company to get the initial investment used on the customers back, also known as the CSC Payback Time. This includes the amount you spend on sales, marketing, and other associated costs. Thus, this metric can help SaaS companies assess whether they can afford to increase marketing spending and boost sales, or whether they should be cutting back. To calculate CAC, you have to divide all the costs spent on acquiring customers (marketing expenses, personal salary, etc.) by the number of customers acquired in the period the money was spent. Ultimately, CAC speaks to a company's economic viability and efficiency.

Customer Lifetime Value (CLV)

$$\left(\text{Total yearly revenue} / \text{Total yearly orders}\right) \times \left(\text{Total yearly orders} / \text{Unique costumers}\right)$$

At no time should a SaaS company's CAC be higher than its average customer lifetime value (CLV). If so, the business is in real trouble. Essentially, this means that the company is selling a product for less than what it costs to make it. Calculating CLV can be difficult. CLV is a more advanced way to look at a SaaS company's economics, and it depends on other KPI before you can calculate it. To calculate CLV, you need to calculate the average purchase value, and then multiply that number by the average purchase frequency rate to determine customer value. Then, once you calculate your average customer lifespan, you can multiply that by customer value to determine customer lifetime value. Yeah, it's complicated. However, remember, if your CLV is higher than CAC, then you're good to go and should keep up the excellent work. A good rule of thumb is that your CLV should be 4x more extensive than your CAC. SaaS companies should follow a model, in which the cash they bring in from customers is favorable to the money they spend on acquire and manage them.

Subscription Box

Subscription boxes have become a very popular type of business model. Every month, customers receive a box filled with various products that are sometimes related to each other and sometimes not. Some companies let the customer choose what's in the box, while with others, customers get the element of surprise while experiencing new products they may not have sought out on their own. This is a great way for a brand to familiarize its customer base with all of its products. Example Butcher Box is a subscription box service that sends customers boxes of meat each month. Each box includes different cuts of meat as well as a few recipes for you to cook them with. This is a great way for carnivores and BBQ enthusiasts alike to try out different types of meat they may not have tasted or cooked before.

Health and Wellness Subscription Model

Tired of going to the gym for your daily workout? With a health and wellness subscription, you can get access to classes, trainers, and workout equipment all for a monthly fee.

Food Service Subscription Model

If you're looking to mix up your dining routine, then you may want to consider a food service subscription. These companies not only deliver food to your doorstep, but they also provide you with recipes to cook with. That way, you're getting both the ingredients and direction needed to make a home-cooked meal — even if you don't have any cooking experience.

Let's discuss the pricing models adopted by companies using subscription based business model:

Flat-Rate

Flat-rate, also known as fixed pricing, offers users a single price for all features of the offering. Customers are charged the same amount each billing cycle. Simply put, Flat-rate is a single product and a fixed set of features at a fixed price per month. Companies with a product that has limited features and a single buyer persona can opt for such pricing. Flat-rate does not work well for companies in which resource costs might vary significantly from user to user, which is why flat-rate pricing does not generally work well for B2B (software-as-a-service) SaaS companies.

Tiered

Packages with various features and product combinations are available at various price points. This allows sellers to segment the prices of their products and services based on specified target markets. Tiers are generally designated as basic, standard and premium. Companies that may have many product features and a diverse customer base with varying needs, budgets and usage norms. Tiered pricing is very popular amongst SaaS companies, in particular.

Usage-Based

The usage-based model, also referred to as a consumption model and pay-as-you-go, deviates from the previously-discussed models, as its pricing becomes much more variable. It directly relates the cost of a product to its level of consumption, typically involving a base rate with an additional usage rate. Think of your cell phone plan and what happens if you blow past your monthly data allowance. Your bill will quickly make clear that you aren't being charged a fixed, base rate — there's a usage component. The usage-based subscription pricing model is considered the most flexible for customers, and it tends to be the most complicated for businesses. This strategy is best suitable for products or services of which customers' usage is likely to vary widely.

Per-Added-Module

In this model, you'll price the product based on the functionality offered to your customers. There is a "base product" and the option to add modules for more functionality — at a higher cost. This strategy is best suitable for companies with modular functionality that is easily added to their core product — and a customer base that values the ability to choose the functionality it needs.

Per-User

A per-user or per-seat pricing model charges customer companies for every user of your product. Pricing scales evenly along with the number of users,the more users, the more you'll charge. A common variant of this model is per-active-user, in which you'll only charge for the number of folks at the customer company who are actually using the tool. This can ease the concerns of a customer who's evaluating your product for a large number of employees.

This strategy is best suitable for companies with frequently-used or heavily-relied-upon products, particularly those that facilitate teamwork or collaboration. For example, if team members at a customer company rely on accessing your product independently, as with a virtual collaboration platform, then they each need their own account and cannot share login information. Per-user pricing inhibits your growth if only a few folks within each customer company use your product or if it's easy for individuals to share logins and avoid buying access for more users.

Over the last few decades, industries everywhere have begun to adopt subscription business models. Netflix subscriptions have replaced DVD collections, and Spotify has taken the place of CD shelves. Meanwhile, companies like Blue Apron, Dollar Shave Club, and Stitch Fix deliver everything from dinner to dresses straight to customers' doors on a **"set and forget"** recurring schedule. There are several factors driving this growth, including advances in the tech infrastructure that supports it. Perhaps more importantly, the subscription model aligns incentives on both sides of the equation, offering stability for businesses and affordability and convenience for consumers. Increasingly, subscription models have grown to include companies where the **"product" being offered isn't a product at all — it's a service, and the value being provided isn't ownership, but access.** For example, car subscription companies are letting drivers rent cars for occasional trips rather than owning one, while fitness brands are turning customers' basements and living rooms into membership gyms.

Given the benefits, it isn't surprising that many industries, even traditional ones, are exploring subscriptions as a significant revenue stream. The subscription economy is growing, and the opportunities it presents aren't just limited to SaaS products and subscription boxes. As the logic of the subscription economy continues to expand into new industries, it's likely we'll see even more unexpected verticals adopting service subscription models in the years to come. Some likely candidates include Skincare & nutrition, Fashion & apparel, Elder care

With a low churn rate, predictable income stream and decreased customer acquisition cost, it's time to see how subscriptions can change your business, for the better.

Freemium Model

This combination of "free" and "premium" has become a widely used approach amongst startups over the last decade. Broken down, users get basic features at no cost and can access richer functionality for a subscription fee. If you've networked on LinkedIn or shared files through Dropbox, you've experienced the model firsthand.

One of the greatest advantages to a freemium strategy is that it helps early stage startups scale by attracting a user base without costly ad campaigns. Freemium models tend to be more successful than 30-day free trials and other offers alike because customers have become wary of cumbersome cancellation processes and find indefinite free access more compelling. The goal of the freemium model is to lower customer acquisition costs (CAC). By providing a free version of your product, you eliminate any barriers to entry.

The freemium business model works by having a small number of customers

subsidize a product for the entire user base. This model almost exclusively applies to easy-to-use products with large markets, network effects, and self-service. B2C and SMB-B2B companies are more likely to develop products that meet those characteristics.B2B companies (especially upmarket and enterprise) struggle with freemium because they operate in highly competitive and narrow markets and require some initial upfront investment.

Because of the nature of the model, most freemium providers end up with a lot of “trial” customers (on Spotify for example, more than half of their users are on a free plan), so the challenge is converting trial users into paying customers.

To make this acquisition model work for you, you need to focus on your “freemium-to-premium-customer” conversion rate and to be sustainable in the long term, freemium services need to be at low cost to run and have potential to scale up with larger customer base.

So,

What should be free?

Recall that one of the chief purposes of freemium is to attract new users. If you’re not succeeding with that goal, it probably means that your free offerings are not compelling enough and you need to provide more or better features free. If you’re generating lots of traffic but few people are paying to upgrade, you may have the opposite problem: Your free offerings are too rich, and it’s time to cut back. Start-ups should expect to do similar tweaking to find the optimal balance between traffic and paying customers. The balancing act can be tricky: Users may revolt when asked to pay for things they are accustomed to getting free.

How many product options in your freemium business model?

While a lot has been written on different forums about the ideal number of options for humans to make an ideal decision under various scenarios, when it comes to product pricing options for your SaaS or subscription based products and if the product works on a freemium model then free counts as one offering, so ideally give options of just two more paid versions for the customer to choose from while building your initial financial model. For a B2C model, keep the proportion of free users close to 95% for the first two years while making business projections and the rest 5% can be broken down in whatever proportion you deem fit in the two paid versions. Base price model could be ~3% and premium could be 2% or less.

What should be your target conversion rate?

Imagine that you’re the CEO of a freemium start-up and you’re handed a report showing your conversion rate (the percentage of free users who have upgraded to a premium plan) for the most recent quarter. What figure do you hope to see?

A rate of 1% is probably too low, especially if you rely on subscription revenue alone. It signals either that too much of what you’re providing is free—giving users little reason to upgrade—or that consumers don’t understand or value your premium features.

But, a very high conversion rate isn’t necessarily good. Remember that one of the benefits of a freemium model is the ability to generate traffic. Suppose that 50% of the users of your free product upgrade to premium. You might think that your model is working well; but perhaps your free product is not very compelling, which will limit your potential acquisitions. All other things being equal, you would do better to convert 5% of 2 million monthly visitors, for example, than to convert 50% of 100,000 visitors. The best long-term strategy is generally to aim for a moderate conversion rate ranging from 2% to 5% coupled with a high volume of traffic. If

you're targeting a small market, you should aim for a higher rate.

But having all of that said please keep in mind, paid users need to generate enough revenue to support the cost of acquiring and serving all of your users - paid and free.

With a premium or fully paid pricing model, business will become profitable if the costs of acquiring and serving a new customer are lower than the revenue they generate over their lifetime.In contrast, with a freemium model (where user base is split between free and paid-for packages), business will become profitable only if the revenue generated by your paid users is more than the costs of acquiring and serving both your paid and free users.

How to Convert a Free User to A Paying User?

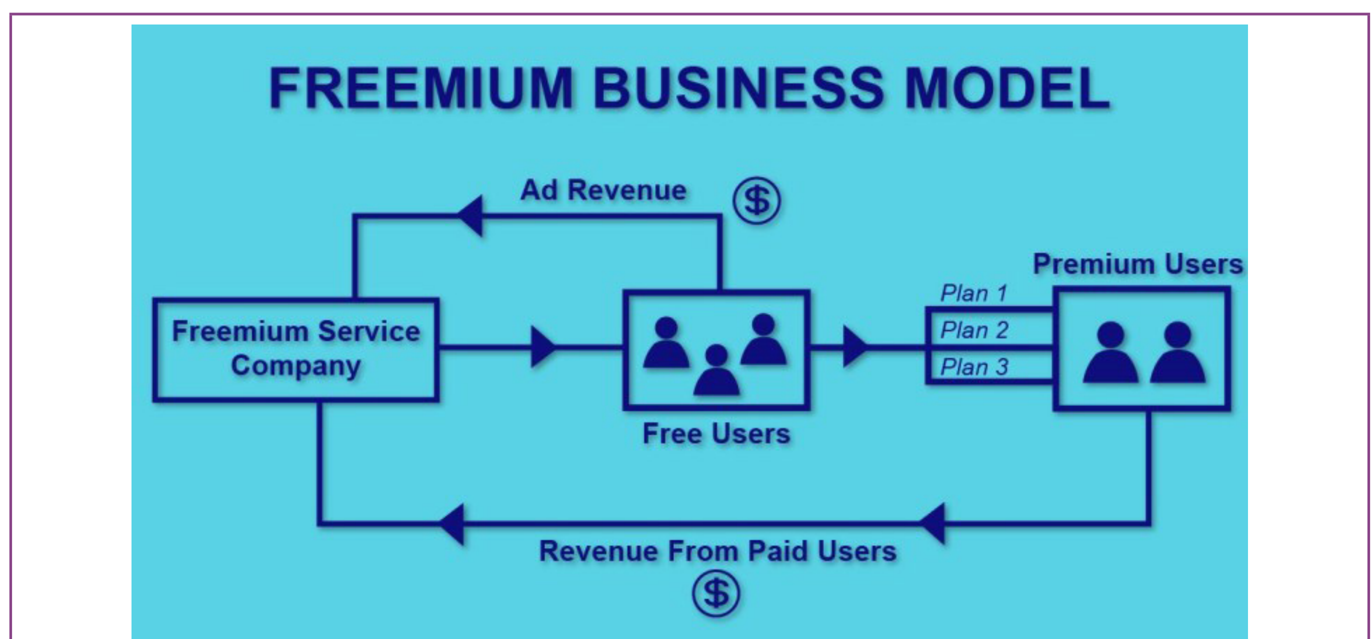
You need to know the right strategies for nudging free users toward premium products.

To start, make it abundantly clear how users can benefit from premium by spotlighting key features with in-app prompts, notifications or emails. If customers don't know what they miss out on by only using the free product, then they will never convert.

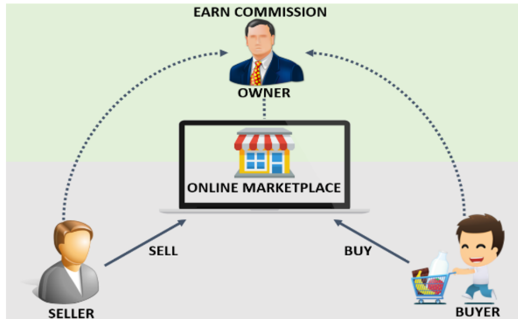
Next, carefully select the right limitations to put on your free product, you can also assess where your customers find the most value in your product and advance from there. Remember these limitations should cause just enough frustration among users that they want to pay for upgrades, but not enough that they abandon your services altogether since you want them to experience the value of your product and understand the potential they could discover with premium.

Conversion rates for freemium should usually fall between 2% to 5%. This, coupled with lots of traffic, is the balance you want.

In today's digital era, when the marginal costs of many products are dropping, businesses will increasingly turn to the freemium model. Across industries ranging from media (where companies are forced to rely less on advertising revenue and more on subscriber revenue) to education (where players may eventually seek to monetize mostly free online courses), the model is destined to grow more attractive to cover all industries pretty soon.



Marketplace Model



The marketplace model allows you only act as the online marketplace that takes care of the transactions between buyers and sellers. From a business perspective, traditional business ventures can be capital-intensive because there is an inherent cost of building up a stock of inventory that you will inevitably offer for sale which will take away a significant amount of the frustration and expenses that typically come with running such a business including also a number of ancillary costs, like inventory forecasting tools, inventory management, shipping, logistics warehousing, etc. but, marketplaces circumvent all this quite well by putting the burden of product offerings on the various sellers who are participating on the platform. Since you don't manufacture a product, you won't need to worry about selling it.

Marketplace	Inventory-led
Pros	
Highly scalable	Speedier delivery
Wide product portfolio & large number of sellers	Better quality control - seller & product, both
Investor friendly model	Best customer experience and trust
Cons	
Difficult to conduct quality check	Difficult to scale
Shipping costs are higher	High fixed costs
Difficult to build customer's trust and loyalty	Restricted cash flow

Marketplaces will facilitate a transaction, taking a small slice of the pie from each transaction but you can't simply do this opening a current account, you may have to open a Nodal account for holding money of vendors and customers. It ensures that money does not legally belong to the intermediary, and is only held on behalf of others. Businesses that facilitate delivery of services immediately i.e. businesses that operate on "On demand model" eg Uber, need not comply with these guidelines. Keep in mind, there are specific conditions that apply to such accounts by RBI.

Various ways by which a startup opting for the marketplace model can monetize include transaction commission, membership fees, listing fees, registration fee, advertising fee, etc.

Learning how to sell your products profitably is one of the exciting parts of being a business owner. This requires knowing where your target customers spend time and putting together a plan to reach them. Often, this can be achieved by understanding different types of marketplaces. Each marketplace uses a marketplace business model, which is the framework showing why a business exists and how it accomplishes its goals.

If you've decided online marketplace business models are your thing, you then need to decide on the right marketplace to sell in. There are three basic types of online marketplace business models:

- Consumer to consumer (C2C)

- E-Commerce and retail sites (B2B and B2C)
- Wholesale marketplaces (B2B)

An offline marketplace business model is the marketing, sales, and operational framework used for running an offline business. Your business model may include fixed and variable costs, labor costs, expected revenue, marketing channels, unique selling proposition (USP), and other critical business information. Any offline marketplace business model should include attracting as many relevant, in-person buyers as possible. While every business is different, shipping is bound to be required at times, it's important to have this part of your business running smoothly.

Cost cutting is the core tenet of this operating model, which cross-functionally applies to product and service-focused marketplaces alike. The team behind Skype, created a whole philosophy around this principle, which they coined "innovating in zeroes." This simply means finding ways to reduce onerous costs to get competitive advantages and make your business more viable. Skype did this in two ways: The first was to use a user's existing internet connection to place the calls, which significantly lowered server costs. Another was to eliminate customer service completely, as he found users were often just as angry or unsatisfied after speaking with customer service. So why not get rid of it altogether? Within the context of marketplaces, Airbnb has innovated in zeros. They have no hotel maintenance costs, and they pay nothing to clean one of their listed apartments.

But with that as a luxury, marketplace does come with many challenges as well. For starters, depending on the complexity of the marketplace, they can require a great deal of capital to build in order to support a wide range of functionality. Consider, for example, a marketplace that operates globally: It would need to be able to translate all content and product data into a user's native language. It would need to support multiple currency conversions, and it would need a constant awareness of regulatory considerations, depending on the market the user resides in. Moreover, if the platform allows users to upload product data, it would need a central mechanism to standardize all this data that would be coming from a wide range of different sources, in different formats, etc. Quality assurance would become a real challenge. But the challenges aren't just technological, the concept of "network effects" is more than likely come up. It describes the phenomenon of scale achieved when enough people have joined a network to make it beneficial for others to also join. Achieving this singular moment is every marketplace's end game. But establishing this can be devilishly difficult, especially in two-sided marketplaces — with, say, buyers and sellers — because acquiring enough users in tandem to create some semblance of equilibrium is beyond tricky. If the dynamics become lopsided — more sellers than buyers, or vice versa — it can cause attrition, which is the complete opposite of network effects.

One of the many decisions that sellers have to make while signing up on an online marketplace is, should they choose – marketplace fulfilment services or fulfill an order themselves.

Let's weigh in the pros and cons and find out which of the two is better for an online seller.

What is marketplace fulfilment?

It's a service provided by ecommerce players to their sellers. Those who sign up for this service, get assistance in storing inventory, packaging, shipping and delivering orders. This is done in exchange of a set of fees such as courier charges depending on the product category and size.

Snapdeal Plus (SD+), Fulfilment by Amazon (FBA), Flipkart Advantage and Fulfilment

by Shopclues are fulfilment services by ecommerce leaders Snapdeal, Amazon, Flipkart and Shopclues, respectively.

What is Self-fulfilment?

It's when a seller decides to take care of order fulfilment on his or her own. This means taking entire responsibility of holding inventory and picking up a reliable logistics partner for packing orders, shipping and timely delivery.

Marketplace fulfillment	
Pros	**Cons**
Customers trust products that has fulfilled by marketplace sign	Restrictions on the maximum weight and size of a parcel
Visibility on marttetplaces is very high	Sometimes sellers end up paying more than the actual value of the package as courier charges are calculated based on the actual weight or volumetric weight, whichever is higher.
Less logistics cost (see table below)	Few sellers have raised dispute over late/ no pickup, which leads to late delivery
Less hassle	Lack of control

Self-fulfillment	
Pros	**Cons**
More control over how product is stored and packaged	Visibility on marketplaces is very low
Cost effect ve if your scale of business is small or you are just starting out	You need to have a warehouse and cost of overstocking is high
You can outsource to startups who can provide tailor-made and reasonable logistic solutions	Some courier partners do not offer reverse pickup service (e.g. India Post)
	It is difficult to find a trust-worthy and cost-efficient courier partner

For an online seller it would be relevant to go for marketplace fulfilment out of the two options since not only the logistics cost gets reduced but also delivery is faster without the grueling responsibility ensuring fast shipment which in turn helps sellers to earn high ratings.

In all fairness, the advantages of marketplace fulfilment overshadow the cons and also pros of self-fulfilment. An ecommerce portal is a crowded place and if a 'Flipkart Advantage' or 'SD+' tag gets you listed on top and noticed then everything else pales in comparison. Not to forget the added advantage of COD, reverse pickup, and customer support. A seller can opt for self-fulfilment if it's a small business, established brand or niche products such as rare imported items, memorabilia and collectibles. Processing orders is a time-consuming activity and if

not done well, it will affect your ratings and future sales. If the accountability can be passed on to the ecommerce site, then a seller should seriously consider it. After all, ecommerce companies wouldn't like to dilute its brand value by delivering shoddy service.

Whether your view of marketplaces is positive or negative overall, the ability to construct an environment and observe how two parties interact with one another is fascinating on both a technological and behavioral level. As leading marketplaces mature, there is a growing sentiment calling for the central operators to take a more active approach in order to improve the overall user experience. This may take the form of implementing additional measures to reduce fraud, partnering with a logistics operator to standardize shipping operations or making future membership more selective. As the sheer number of niche marketplaces continues to increase, it will be interesting to observe their ability to compete with larger, more generalist platforms like Amazon or Alibaba, whether they use a hands-on or a hands-off operating approach and which other industries they can continue to disrupt through centralization.

If your business makes use of this model, you will need to provide customers with a reason to use your marketplace. To be successful, you likely shouldn't create a marketplace that's similar to Amazon. You could instead focus on a market that would be receptive to a smaller marketplace. For instance, a startup might want to create an art marketplace where customers can request artwork for logos, branding, and book covers. The artists on the other end could then fulfill these requests. The key is to reach out to a customer base that will be receptive to your idea.

Providing a service is out, and becoming the marketplace is in for various emerging sectors specially the e-commerce sector.

B2B2C Business Model

A B2B2C which translates a business to business to consumer model is a particular kind of business model startups usually adopt where, rather than accessing the consumer market directly, does that via another business, partners with them and sells to their consumers which helps to reduce their customer acquisition cost. Yet the final consumers will recognize the brand or the service provided by the B2B2C. The company offering the service might gain direct access to consumers over time. The logic behind such business model is that If a business can't have direct access to consumers, it will gain it via a second business. That second business will allow the first business to gain access to its consumers, have its brand recognized, and over time expands the overall consumer base.

One of the deals that made Google the tech giant it is today was the deal with AOL. Google was already a consumer product. However, it needed to pass first through a set of bottlenecks to gain access to consumers. In addition, the more data Google gained over time, the more it got better. And the more consumers knew about it; the more Google would be less reliant on distribution channels like AOL. This is not to say that Google took advantage of AOL, quite the opposite, Google offered to AOL a minimum guaranteed of revenues, and it bought a stake into the company. So, indeed, a B2B2C business model relies on a closely tied relationship which makes the intermediary business (which connects to end consumers) position quite good.

Why not go directly to consumers?

One of the first questions that come to mind in designing this kind of business model might be about why not going directly after the consumers?

In reality, going after the consumers is the dream of many, but a few make it. The

consumer market seems to be biased more than any other toward the winner-take-all effect. Starting from a B2B, an enterprise business allows at least three advantages:

- risk reduction
- a more predictable growth path
- easier financing as more investors can liquidate their position via an exit i.e

a strategy where the venture capitalist or investor liquidates its funds in a previously invested startup, and it usually measures the ROI for the investor.

One drawback here of course is the lack of scalability wherein a B2B2C business model comes into picture.

How does a B2B2C relationship look like?

A partnership between B1 and B2 as I argue has three main features:

It is not a white label: It is not selling under the brand of the other business but using their platform or presence to market your own products in your own brand. If it was a white label, final consumers would not recognize the product and brand over time

It has direct access to consumers' data: The more data SaaS have about the people using it the better those tools will get for each new user. If the business entering the consumer market via another business didn't have access to their data, it wouldn't be possible to benefit from network effects and scale up over time.

It gains brand recognition: Not only the B2B2C business will have access to consumer's data, but its brand will be pretty visible to them. Thinking back to the Google deal with AOL where it got powered by Google searches, more and more people could recognize Google over time, at the point that it became a verb.

In the coming times I am expecting the B2B2C model take up the wholesale, retail and the e-comm space very soon.

D2C Business Model

The direct-to-consumer(D2C) model allows the marketers to sell products directly to the consumer Instead of using wholesalers or retailers in the middle. D2C retail model market, ship, and sell their products directly to the consumer. In the direct consumer model, customers get the products directly from the brands that manufacture them. The D2C model is gaining popularity in countries such as the US, China, Japan, and India. Initially, D2C brands distribute their products via their own channels like e-commerce platforms, retail stores, or social media. Physical outlets by D2C brands are purposely designed to enhance brand awareness and customer engagement, encouraging more online sales.

Difference Between D2C And B2C

In the D2C business model, brands or manufacturers sell directly to the consumer or clients without keeping a third party in between. But in the B2C (Business to Consumer) model, a company sources a product from a manufacturer and then sells it to the customer.

Benefits Of D2C Model

- By eliminating the gatekeepers, brands can reduce distribution costs and can increase their profit in this way.
- Before D2C, brands used to market their products through traditional channels like Tv, Radio, and Print ads. But, after the arrival of the eCommerce model, now brands can use various mediums like advertisements, SEO, affiliate marketing, social media marketing, etc.

- D2C brands allow marketers to understand customer behavior, identify patterns, trends, and know the requirements of the customers so that they can deliver customized products and offerings.
- The most valuable asset direct-to-consumer brands have is the ability to obtain immediate feedback.

So, I'm pretty sure by having got to know these models by now, you'd want to dive deep into finding that one business model that would perfectly suit your startup and so here are a few amazing books that I would recommend having helped a lot of startups navigate from just having an idea, to actually bringing it to practice:

Blitzscaling by Chris Yeh and Reid Hoffman

Reinvent your business model by Mark Johnson

Platform Scale by Sangeet Paul Choudary.

Eagerly waiting to be your loyal customer.