

Féidearthachtaí as Cuimse
Infinite Possibilities

Revenue Streams, Costs & Testing Your Idea

Lecture 10



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Revenue Streams

- Ways to generate cash in return for delivering a product/service.
- A business may have one or multiple revenue streams.
- The means for capturing revenue:
 1. Once-off payments at the point of sale.
 2. Recurrent payments for repeat services or after-sales support.

Types of Revenue Streams

- Asset Sale – Selling ownership rights to a physical product
- Usage Fees – Service fees based on consumption level
- Subscription Fees – Regular payments for ongoing access to a service
- Leasing/Renting – Temporary access rights to an asset for a fee
- Licensing – Permission to use protected intellectual property
- Brokerage Fees – Commissions for facilitating transactions
- Advertising – Fees for displaying third-party promotions

Revenue Streams - Examples

- Subscription Model.
 - Online coaching or mentoring services for clients with recurring monthly fees.
- Brokerage Model.
 - Platforms connecting disabled artisans with buyers, earning commissions per sale.
- Hybrid Model.
 - Technology or assistive device sales combined with ongoing digital support services.
- Advertising Revenue.
 - Running disability advocacy blogs, YouTube channels, or podcasts monetised through ads.
- Licensing.
 - Licensing adaptive product designs, apps, or innovations to larger companies.
- Leasing/Renting.
 - Renting out accessible vehicles, equipment, or adaptive spaces for short-term use.

Pricing Strategies

Strategy	Key Point	Best Use Case
Cost-Based	Cost + markup	Manufacturing, retail
Value-Based	Based on customer value	Luxury, consulting
Competition-Based	Match competitors	Commodities, local services
Penetration	Low start, increase later	New market entry, streaming
Skimming	High launch price, lower later	Tech gadgets, innovations
Freemium	Free basic, pay for premium	Apps, SaaS
Psychological	9.99 feels cheaper	Retail, e-commerce
Bundle	Products/services packaged	Fast food, telecom
Pay-What-You-Want	Customer decides price	Non-profits, art
Dynamic	Price changes with demand	Airlines, ride-sharing

Comparing Pricing Strategies

Strategy	Definition	Pros	Cons	Best Use Cases
Cost-Based Pricing	Price = Cost + Markup	Simple to calculate; ensures cost coverage	Ignores customer demand & competitor pricing	Manufacturing, retail with stable costs
Value-Based Pricing	Based on perceived customer value	Higher profit margins; customer-focused	Hard to measure perceived value	Luxury goods, healthcare, consulting
Competition-Based Pricing	Price aligned with competitors	Easy market fit; avoids overpricing	Risk of price wars; low differentiation	Commodities, gyms, local services
Penetration Pricing	Low entry price → increase later	Attracts many customers fast; builds loyalty	Short-term losses; hard to raise prices later	Streaming services, apps, new market entry
Skimming Pricing	High initial price → lowered later	Maximizes revenue from early adopters	Can alienate price-sensitive customers	Tech gadgets, new innovations
Freemium Pricing	Free basic version + paid premium	Large user base; scalable revenue	Low conversion to paid; ongoing support costs	Apps, SaaS, digital platforms
Psychological Pricing	Influence perception with pricing tricks	Increases sales; easy to apply	Manipulative perception; limited effect	Retail, e-commerce, fast-moving goods
Bundle Pricing	Multiple products/services sold together	Increases sales volume; cross-sells	Lower perceived value of individual items	Fast food, telecom, software packages
Pay-What-You-Want	Customer chooses price (or donation)	Builds goodwill; flexible pricing	Revenue uncertainty; risk of underpayment	Non-profits, art, social enterprises
Dynamic Pricing	Price changes with demand & conditions	Maximizes revenue; flexible	Can frustrate customers; complex tech needed	Airlines, hotels, ride-sharing

Class Exercise – Revenue Model Design

- Brief 1 – FitLife App.
 - Mobile fitness application with workout plans, diet tracking, and virtual coaching.
 - Target market: 25–40-year-old professionals in urban areas.
 - Challenge: Retain users beyond the first 3 months.
 - Question: How can you combine revenue models to ensure recurring income?
- Groups must:
 - Choose at least two revenue models for this business.
 - Explain why these models fit the business and target customers.
 - Identify one pricing strategy (fixed or dynamic) and justify it.

Video Resource – Revenue Streams

<https://youtu.be/pnKqFIEQxMc?si=VCjQwIZ2QtBelzhF>

What are Costs?

- Fixed Costs.
 - Remain constant regardless of production volume.
 - Examples: rent, salaries, insurance, loan payments.
 - Can create economies of scale as production increases.
- Variable Costs.
 - Change directly with production volume.
 - Examples: materials, piece-rate labour, commissions, shipping.
 - Allow flexibility during slow periods.
- Key Insight.
 - Understanding the fixed vs. variable nature of your costs helps with breakeven analysis, pricing decisions, and scaling strategies.

List of Potential Costs

- Property / Rent.
- Renovations.
- Fixtures and fittings.
- Transport.
- Machines and equipment.
- Stock / Supplies.
- Salaries/wages.
- Selling and promotion.
- Loan repayments.
- Taxes.
- VAT.
- Legal costs (e.g. incorporation).
- Subscriptions.
- Depreciation.
- Fuel.
- Travel.
- Telephone.
- Postage.
- Subscription.
- Stationery.
- Computer supplies / IT.
- Office Expenses.
- Accountancy fees.
- Bad debts.
- Heat, light, power, etc.
- Insurance.
- Cleaning.
- Staff training.

Managing Costs

- Reduce Material Costs.
 - Find better suppliers or negotiate volume discounts.
 - Redesign products to use less expensive materials.
 - Minimize waste in production processes.
- Reduce Labour Costs.
 - Improve efficiency through training and tools.
 - Automate repetitive tasks where possible.
 - Balance employee workloads effectively.
- Reduce Overhead.
 - Build cost awareness into company culture.
 - Regularly review and renegotiate contracts.
 - Consider shared workspaces or remote work.

Class Exercise – Managing Costs

- Background: Sofia's coffee cart operates 6 days a week in a busy park.
- Top Costs:
 - Coffee beans & pastries (materials) – 30% of revenue.
 - Staff wages – 25% of revenue.
 - Equipment lease – €400/month.
- Cost Challenge: Supplier prices for coffee beans have increased by 15%, and Sofia's profit margin is shrinking.
- Student Task: Suggest three strategies to reduce materials cost by 15% while maintaining coffee quality.

Class Exercise – Sample Answer

- Class Exercise – Managing Costs.
 - Scenario: Sofia’s Coffee Cart (coffee beans price up 15%).
- Three Strategies to Reduce Material Costs by 15% while Maintaining Quality.
 - Negotiate volume discounts or explore direct sourcing from local roasters to cut supplier margins.
 - Introduce a limited seasonal menu to reduce product variety and waste.
 - Track sales data to optimise ordering and reduce overstock/spoilage of pastries and beans.

Video Resource – Costs

<https://youtu.be/aS8egVdASKk?si=3LxqT-4PfgeQD2Gm>

Market Research Process

- Identify the problem or objective.
- Develop your research strategy.
- Gather data and information.
- Analyse data and information.
- Present findings.
- Act on your findings.

Benefits of Market Research for Start-ups

- It can help you validate your business idea.
- It can help you hone your value proposition.
- It can help you understand your target market.
- It can help you create a marketing strategy.
- It can help you make informed decisions.

Market Research Methods (1)

Primary Research has two forms:

- Quantitative Research: the collection of numerical data often resulting in statistical analysis.
- Qualitative Research: provides reasoning for consumer actions, opinions, wants and needs.

Market Research Methods (2)

- Quantitative Research.
 - Survey.
 - Questionnaires.
 - Phone/one-to-one interviews.
- Qualitative Research.
 - Focus groups.
 - In-depth interviews.
 - Observations

Market Research Methods (3)

Secondary Research:

- Public sources.
- Commercial sources.
- Educational institutions.

Great Business Idea Evaluation Form

1. Does this idea meet a real need or desire?
2. What's new or different about the idea?
3. Who are your customers likely to be?
4. What do you offer your customers that no one else does?
5. How much are they willing to pay?
6. Who are your competitors?

Great Business Idea Evaluation Form Continued

7. What's the best thing about the idea?
8. What's the biggest weakness?
9. What will be the biggest challenge you face turning the idea into a reality?
10. How long will it take getting a company up and running?
11. Is this idea scalable, meaning can you provide more to demand and if so, how?
12. Is this something you really want to do?

Methods for Sim Venture Validate

- Build a homepage.
- Do desk research (secondary research).
- Collect surveys.
- Conduct interviews.
- Make a prototype.
- Make sales.

Exercise to Test your Business Idea

1. Identify six key guesses or critical assumptions you are making about your business.
 - For example: *My customer will pay X amount for my product.*
2. Jot down an appropriate way to test each of these six assumptions.
 - For example: *Customer interview to establish what price for product is considered too high, too low, getting high or is a bargain (see Van Westendorp Price Sensitivity Meter).*

