Finance

Team Name: ___________________________________

Revenue Model

A revenue model is a framework for generating revenues. It primarily identifies what product or service will be created in order to generate revenues and the ways in which the product or service will be sold.

Some common revenue models are listed in the table below.

Revenue Model	Description
Production models	The business that creates the product or service sells it to customers who value and thus pay for it. Production, sale, purchase. Ex. Larry's Lemonade is sold directly to customers or to a business.
Subscription model	The business provides a product or service to a customer who in return pays a pre-determined fee at contracted periods of time to the business. The customer will be required to pay the fee until the contract with the business is terminated or expires, even if he is not utilising the product or service but is still adhering to the contract. Example - Rogers cellphone contracts use a subscription model, the customer pays a monthly fee to use the Rogers mobile service.
Licensing model	In this model, the business that owns a particular content retains copyright while selling licenses to third parties. Media companies obtain their revenues in this manner, as do patent holders of particular technologies. Example - Disney licenses their ideas such as Mickey Mouse, to other companies that create Mickey Mouse toys and collect a small portion of the revenue on the sale of each toy.
Advertising model	This model is often used by media businesses which use their platforms where content is provided to the customer as an advertising space. Internet businesses which often provide services will also have advertising spaces on their platforms. Mobile applications in particular use this specific revenue model to generate revenues. Example - Twitter and Facebook sell advertising space on their website that targets users of the site to generate revenue.

Identify what model works for the sale of your product or service.

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Variable Costs

All products or services require materials for its production and there are costs associated with those materials that need to be accounted for. Determine what your product materials might be and how many will be included. Multiply the materials by the number of units, by the cost per unit to determine the total unit cost.

Materials	Units	Cost per Unit	Unit x Cost

Fixed Costs

For the production of a product or service there are fixed costs associated. Fixed costs are unchanging costs, such as rent, employee salaries, administrative costs, product development costs, website maintenance, promotional costs, etc.

Other Costs (Items)	Costs

Revenue Projection

Forecasting business revenue and expenses during the start-up stage is really more art than science. Forecast revenues using both a conservative case and an aggressive case. Determining both provides a potential investor the ability to see your best case and worse case projections.

Budget

After determining the fixed costs and variable costs you, can determine what your budget will be. This budget should reflect your costs and profits for one year of operation. From the collection of your costs and projected profits (or loss) a budget can be developed. To ensure that numbers are accurate, use Microsoft Excel to follow your costs and total them for each element of your budget.

Note: *When displaying your finances to your judge it's important to show only your big numbers, rather than the entire detailed budget. These numbers will be your Total Costs, Projected Profits (or Loss), and Total Budget.*

Budget

Budget (Total Costs) = Total Variable Costs + Total Fixed Costs

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Cost Per Unit

Cost per Unit = Budget/Number of Units

Revenue

Total Revenue = Unit Price x Number of Units

Profit

Profit = Total Revenue - Total Costs

Profit Margin

Profit Margin= Selling Price - Unit Cost

Work Space:

Example Finance Plan for Larry's Lemonade

Revenue Model: Larry's Lemonade uses a production revenue model, selling directly to customers and also to small local grocery stores.

All units calculated are for operation for 1 year.

Variable Costs:

Materials	Units	Cost per Unit	Unit x Cost
Lemons	1200	$0.20	$240
Cherries	600	$0.10	$60
Cups	1200	$0.15	$180
Straws	1200	$0.05	$60
		Total Variable Costs	**$540**

Fixed Costs:

Other Costs (Items)	Costs
Lemonade Stand Costs	$550
Employee Costs	$700
Transportation Costs	$500
Website + Maintenance Costs	$350
Promotional and Advertising Costs	$750
Total Fixed Costs	**$2850**

Revenue Projections:

Products Sold	Selling Price	Number of Units Sold	Revenues
Larry Classic Lemonade	$3.00	600	$1800
Cherry Lemonade	$3.50	600	$2100
		Total Revenue	**$3900**

Product	Selling Price	Total Unit Cost	Profit Margin
Larry's Classic Lemonade	$3.00	$0.40	**$2.40**
Cherry Lemonade	$3.50	$0.50	**$3.00**

Budget:

Variable Costs	$540
Fixed Costs	$2850
Total Costs	**$3390**
Projected Revenues	$3900
Profit (or loss)	**$510**

Summary: Based on the revenue projections above, Larry's Lemonade is expected to generate $510 in the first year of operation.