

BACK TO BUSINESS IOWA PODCAST

A partnership of Iowa State University Extension and Outreach and America's SBDC Iowa

SEASON 1 | EPISODE 7: Revenue Stream Analysis

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Description: *Evaluating new revenue streams is the focus of this episode. Businesses should always be evaluating these streams for the best return on investment as they continue to expand their goods and services portfolio. Victor Oyervides from Iowa State University Extension and Outreach and Brett Middendorf with the Iowa Small Business Development Center join host Steve Adams for this discussion.*



Transcript:

[music]

Steve Adams, host 00:10

Hello, and welcome to the Back to Business Iowa podcast from Iowa State University Extension and Outreach. This podcast is a collaboration between Iowa State University Extension and Outreach and the programs including Community and Economic Development, Farm, Food and Enterprise Development, and the Iowa Small Business Development Centers. These podcasts cover relevant topics for businesses and individuals related to education, research and technical assistance during and post COVID-19.

Steve Adams, host 00:56

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Steve Adams, host 01:38

Today our guests are once again Victor Oyervides, field specialist two, from Ames, and Brett Middendorf, SBDC Ames state office. Thanks again for both of you coming back for another round of this and being here with us today. So we're going to cover again some things having to do with the Business Model Canvas, that's specifically in this podcast. We'll be continuing that discussion in and along the lines for businesses who are looking at new revenue streams, and alternative funding sources during this period of social distancing.

Steve Adams, host 02:18

Victor in our first segment, we discussed the changing customer segments, and how there could be opportunities out there for businesses. As far as today's podcast goes, I thought it would be great to discuss the first of how new customer segments could lead into new revenue streams. Could you provide just a little bit of background on that process?

Victor Oyervides 02:42

Yes, Steve. Revenue streams is very important because it is the outcome of your customer segment and your value proposition. And it's very important for small business owners to really know how they're gonna earn money from customer segments. In other words, how does their business model capture value in return for creating and delivering customer value? This is a very important aspect, because you always will want your revenue stream to be larger than your cost structure.

Steve Adams, host 03:22

Well, that makes sense. And as I recall, in one of the trainings, they talked about revenue streams really being the arteries that fed the blood of the heart, so to speak, on that being the whole business model itself. So could you walk through though just a little bit more how our listeners could use these new techniques as they look at ways to develop additional revenue streams?

Victor Oyervides 03:48

Yes, yes, there are five key questions. First of all, for what value are our customers really willing to pay, and second is, for what do they currently pay? And how are they currently paying? And I think now with the COVID-19, and onward, the fourth question is very important: how would they prefer to pay? And how much does each revenue stream contribute to overall revenues?

Steve Adams, host 04:19

Well, I also remember that really revenue streams come down to two types. That's either a transactional revenue stream or a recurring revenue stream. Could you maybe address the differences or similarities between transactional and recurring revenue streams?

Victor Oyervides 04:37

Yes, transactional revenue streams are those that are static, that they're fixed in advance, and transitional are more dynamic. They're fixed on the spot.

Steve Adams, host 04:55

Okay, does that have anything to do with pricing then, Victor?

Victor Oyervides 05:00

Yes, yes, this is part of the pricing mechanism. Either you have a static pricing or dynamic pricing. An example's in the car industry, the static is the list price, which features, and the segments and everything that depends on the car industry. And dynamic pricing, well, really you're talking about negotiation, yield management, real time market and auction. And right now in this COVID-19 situation, pretty sure a lot of our listeners have heard about auction system, especially with buying the PPE equipment for health care, and how federal government and state governments are trying to negotiate prices and even betting against each other.

Steve Adams, host 05:58

Well in this economic environment. I'm wondering, are there any specific examples that we should consider, Victor?

Victor Oyervides 06:06

I think it's very important to consider how you want to build your types of revenues. The important part is that we distinguish revenue streams between asset sales, rental fees, usage fees, licensing fees, advertising fees, subscription fees, brokerage fees. And right now we're living in a time where you can vary your sales and the type of way that you're going to be having revenue streams.

Steve Adams, host 06:40

Brett, I know you've been researching businesses that have pivoted recently with their customer segments and their revenue streams, but could you maybe give us a few examples of what seems to be working?

Brett Middendorf 06:53

Sure. I mean, I think first this is just a really great time if you're not already online to consider getting online. And we'll be having a future podcast or webinar that goes into detail about some of the options for small businesses that are less expensive and you know, are really effective. I've been through a couple already, and they're great. So I'd really like to push online selling as a new revenue stream and also a sort of a pivot for some companies to who haven't tried to do that before. So I want to really, really emphasize that as a good place to start.

Brett Middendorf 07:25

But another ...when I did some work, you know, what I was looking at, what companies were doing was really reconsidering what it is they're capable of doing and producing and seeing if that matches the needs of the era, or of the moment, so to speak. So considering what the government is really out there buying right now. So we know PPE is a huge thing that they're buying, you know, obviously ventilators, you probably can't produce those but PPE it might be something that you could really retool some of your existing machinery to produce. Or you may have access or whatever. So that's really a good idea. Another area that you could open your revenue, a new revenue stream for your business in this trying time.

Brett Middendorf 08:07

A lot of companies also are not issuing cash refunds for things. Like say you're a small hotel or bed and breakfast, right now they're giving, a lot of companies are giving gift cards and asking their customers if they would accept a gift card in lieu of a cash refund. And that's a way again to kind of keep your money in the bank, but also provide value to your customers. And then also obviously selling gift cards for future events that once things get back to normal and you're able to produce your services at their full value, another opportunity for you.

Brett Middendorf 08:41

And then it's just getting creative, I think. You know, places that are warehouses or places that may have extra space to rent, or extra offices to rent. This is a good time to try to look at that and see if you can find a market or find an individual or two who are looking to do something with that space. So again, it's it's not that easy to pick out, but you really need to look first at what you're capable of delivering, and seeing if that matches up with a need that's out there in the market right now.

Steve Adams, host 09:07

Yeah, it's interesting you should bring up the cash situation. I had always heard that keeping a certain amount of liquidity in your business was important. And the rule of thumb I always heard was, enough to cover all expenses for up to six months. Now, I'm not saying that there are a lot of small businesses out there that have six months' worth of cash reserves, but again, maintaining and being able to access that liquidity is important, I would guess, right, Brett?

Brett Middendorf 09:36

Oh, absolutely. You know, I've grown up in a small business my entire life. And my dad, who's been the one running that thing the whole time has always said, you know, businesses fail for cashflow reasons. So you've got to keep cashflow healthy in any business that's operating right now. And I know that's tough for a lot of companies who aren't able to even operate. So we're trying to give you some ideas of ways you could do it differently and hopefully stick it out and make it through this period.

Steve Adams, host 10:04

Well, that's interesting as well, because I think the statistic is one in three small businesses fail, not because they have a bad business model, but because they run out of cash.

Brett Middendorf 10:16

I think that's right. I think that's absolutely right.

Steve Adams, host 10:21

All right. Victor, based on your discussion, will these will these resources that we've developed be available for clients to review?

Victor Oyervides 10:30

Yes, they will, they will be available on the business development team, Enterprise Development Team FFED website. Also, we will be having a handout sheet that will be useful in order to discuss the difference of customer segments and the revenue streams and the different topics and areas that you have to study when you are figuring out a new revenue stream

Steve Adams, host 11:04

Yes, and I think we have talked about going more in depth obviously in a webinar that will discuss the Business Model Canvas overall and talk about the key areas inside, and how all of these things are related to one another as we go forward. And that webinar, I think will be coming out fairly shortly there. So they probably want to be on the lookout for that as well. So, Victor, if any of our listeners wanted to contact you for any reason, what would be the best way for them to do that and how might they get assistance through this business development team?

Victor Oyervides 11:46

Okay, the best way would be through email and my email is oyervide@iastate.edu. Otherwise they can seek us out at the website, either FFED enterprise development or CED with the local economies team.

Steve Adams, host 12:18

Okay, just to circle back just a little bit, and again when go into more detail about this, but when when businesses are looking at a pricing structure, would be looking at things like fixed list pricing, discount pricing, market dependent pricing, or volume dependent pricing. So we'll go into those in more detail as we go into the webinar section of this, but anything you want to say about those those pricing structures, Victor?

Victor Oyervides 12:48

Well, more than the pricing structures, I'd like to add on two areas that are very important when we're building our business model, it's very important about customer relationships and the channels. In customer relationships, you're going to try to figure out, how do you get customers? How do you keep customers? And how do you earn more from the customers that you already have? And those are themes that you have to really think about when you're thinking about customer segments, and the revenue stream that you can be having.

Victor Oyervides 13:31

And the second area that's very important is the channels. How are you going to be relating with your customers, is it direct or indirect channels? And I think with this COVID-19 situation, the majority of the businesses right now, or if not all of them, have gone from direct to indirect. And it's very key to seek out the tools and the channels and how you're gonna communicate and connect with your customers.

Steve Adams, host 14:05

Yeah, I would think that probably the most significant change has been in the channels, and how do you reach back out to those customer segments? It's an entirely different look of a business model now, just because of COVID-19. So those channels have probably had the most dramatic change, I would think. Isn't that correct, Victor?

Victor Oyervides 14:26

Yes, yes. I think they've gone 180 degrees from brick and mortar to online. And it's very important to build your business model and seek out customer segments, but also, how are you going to relate with them? And right now, the important is getting online. And if you don't have a website, you create a website and if you don't have e-commerce, start up e-commerce,

Steve Adams, host 14:58

Brett, if we needed to get a hold of you, what would be the best way of doing that? And maybe give us an idea of where your home page is and what resources might be available?

Brett Middendorf 15:08

Sure. Definitely I would recommend you go to the Iowa SBDC page. We've got a lot of like Coronavirus-specific resources there. It's really, really drawn out and pointed out. It's really excellent. That website is www.iowaSBDC.org.

Steve Adams, host 15:29

Great, great, Brett, thanks so much. And as I mentioned in a previous podcast, I have been up there and I'm just kind of overwhelmed with the amount of resources available, especially because of COVID-19. So a really good place to look if you're feeling a little lost. There's an awful lot of direction coming from the SBDC, which I think is absolutely terrific. So well, Victor as usual, you get the last and final comment, anything you want to add to the discussion at this point?

Victor Oyervides 16:01

I just want to say that at Iowa State University and the SBDC, we understand the situation small business owners are going through. And we are here to serve lowans.

Steve Adams, host 16:15

Very good, Victor, thank you, and that was well said. Again, you're both returning victims to this podcast, and I want to thank you for being able to come back and go through these discussions with us, so we appreciate the time. And really, really, I want to say from the bottom of my heart, all the hard work you're throwing in here to assist businesses during this very difficult time.

Steve Adams, host 16:39

So I would like to add if you have any questions at all about this Back to Business podcast, please feel free to contact me directly, Steve Adams, at stadams@iastate.edu. And thanks again for listening. This podcast is a collaboration between Iowa State Extension and Outreach and the Small Business Development Centers of Iowa. We are always serving lowans, hashtag StrongIowa. Our justice statement states, this institution is an equal opportunity provider, and for the full non-discrimination statement or accommodations inquiries, please go to www.extension.iastate.edu/diversity/ext. Thanks again everybody. See you next time.

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