

# Internet Business Models

The Internet has given rise to new kinds of business models while at the same time reinventing tried-and-true models. There are Internet business models that result in passive income and those that work through active income (exchanging hours for dollars).

Today I'd like to point out five of what I believe to be the most popular and successful Internet business models:

## 1. Social Media Model

Of course Facebook, with over 800 million users, is the most successful. But there's also LinkedIn, Twitter, Google Plus, Pinterest, and many more. But how do these companies generate revenue?

This social media business model works by offering a free online service (in this case the service is social networking) and then selling targeted ads to the users. The users do not pay anything to use the service. As Facebook's home page reads, "It's free and it always will be."

The reason advertising is effective on social networks is because companies can buy ads on a pay-per-click basis (similar to Google's PPC ads). And these ads can be laser focused to a very specific target market.

Last year Facebook generated \$4.27 billion and \$3.8 billion was from advertising (\$470 million was made from "Facebook Credits", a virtual-currency program that lets users buy items in games.)

## 2. Affiliate Model

The affiliate business model is another very successful Internet business model in use today.

Here's how it works:

A business sets up an "affiliate program" where it offers a financial incentive to affiliates for each visitor or customer brought about by the affiliate's own marketing efforts. Typically the affiliate is given a unique "affiliate link" which is tracked by the business.



Every time a sale is made as a result of this process the affiliate receives a percentage of the sale. This Internet business model is well-suited for trusted sites that have large followings. A good example is Pat Flynn from Smart Passive Income.

Thousands of people consider Pat to be a trusted authority on how to make passive income online. In January 2012 Pat earned \$38,038 from his affiliate marketing efforts. To view his detailed monthly income report [click here](#).

Here are some other examples of affiliate marketing sites: [Illuminated Mind](#), [ShoeMoney](#), [DIY Themes](#).

### 3. Subscription Model

Websites that use the subscription business model require users to pay a fee (typically monthly or yearly) to access a service or product. With over 24 million subscribers, Netflix is one the most successful companies that use the subscription business model. In 2011 Netflix generated \$876 million.

Another way companies profit from a subscription business model is by combining free content with "premium" (i.e., member-only) content. LinkedIn uses this very strategy on its site. Most of LinkedIn's 150 million users are basic (aka free) members but the social media company did make \$28.4 million in Q3 2011 (total revenue for Q3 2011 was \$139 million) from paid memberships.

### 4. Merchant Model

The Amazon...oh excuse me, I mean the merchant business model is one of the most profitable Internet business models. The merchant model is a business model that goes back thousands of years. But the Internet has provided a tremendous opportunity for merchants to grow at an almost unbelievable rate.

In the merchant model a merchant simply sells products directly to buyers. It could be clothes, CDs, or cars but the concept is the same. Again this business model is not new but savvy business owners have figured out how to leverage the buying power of customers on the Internet.

Let's compare two merchant business models real quick: Wal-Mart and Amazon. Last year at 48 years old, Wal-Mart's revenue was \$416 billion. Amazon at only 16 years old already had a revenue of \$32 billion. It took Wal-Mart 15 years to reach annual sales of \$1 billion; Amazon did it in only 5.



## 5. Advertising Model

Again we have another old school business model that's been applied to the Internet. The advertising business model is an extension of the traditional media broadcast model. But now the "media" company is a website (i.e. Google, Yahoo!). And just like in radio or TV the "media" company provides viewers, or users, with free content and services.

The more people the media company has watching them (or using their service) the more money they can charge for targeted advertising. Google has the market on the Internet advertising model. In 2010 their annual revenue was \$29.3 billion (compared to about \$100 million in 2001).

This Internet business model relies on heavy traffic to the website. A company using this model must provide a valuable service that millions of people use on a regular basis (i.e. Google search, Gmail) in order to command high prices from ad space.

## Internet Business Models in the Future

While there are other Internet business models out there these five are the most popular. And as you can see some of these Internet business models overlap. For example Facebook fits the definition of a social model and an advertising model.

What business models will we see 10 years from now? Will the tried-and-true prevail or will new models emerge as savvy business owners discover new ways to do business online? Only time will tell.

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