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## CHANGING IN REVENUE MODELS IN VUCA ENVIRONMENT

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### ABSTRACT

The purpose of this report is to present the changes that are being undertaken in the revenue models by companies in response to the conditions formed by VUCA environment. Depending on product variety, used distribution channels, pricing policy, and the speed of conversion of resources and costs into income (receipt), different revenue models are determined. Key concepts which are referred here directly to the revenue models are segmentation strategy, revenue sources, and revenue streams. The report presents the impact that a VUCA environment during the period of successive COVID waves had on the companies' revenue models and their ability to generate profitable income. It also examines the actions companies undertook to exploit the opportunities and minimize threats in the short-term period and to face challenges in the medium and long term. The empirical results presented in the report are based on two studies carried out by SRC "Innovations and Competitiveness" (U2B) at UNWE in the period March 2020-March 2021.

**Key words:** revenue models, segmentation strategy, revenue sources, revenue streams

### INTRODUCTION

The revenues from regular operations are a variable that forms the foundation for achieving the desired values of the core financial indicators of the company. Their sustainable growth is determined by market demand as a whole, its structure, the demand for the company's products, and the available organizational capacity and potential for development. For this reason, changing the revenue model is a key area of management attention.

The focus of this article is the change in the revenue model in the context of a VUCA environment. In this regard, the components of the revenue model are derived and the importance of their active management (planning) is highlighted based on classical

concepts of strategic management. The VUCA environment presents companies with new and unexpected challenges. An example of this is the environment caused by the COVID wave during the period from March 2020 to May 2022. Companies had to find short-term solutions and responses to challenges in the medium and long term that affect their revenue model. The actions they took at that time are reflected in their current activities. (1-7)

The article aims to present some of the results of an empirical study, which indicate that in a VUCA environment, companies adopt an active approach to revenue management and reconsider their revenue model. The hypothesis, validated through the analysis of the data collected from the conducted research, is that under the condition of significant changes in the external environment, firms take various actions related to the revenue model. These actions are associated with changes in revenue sources, and revenue streams, and improving revenue efficiency.

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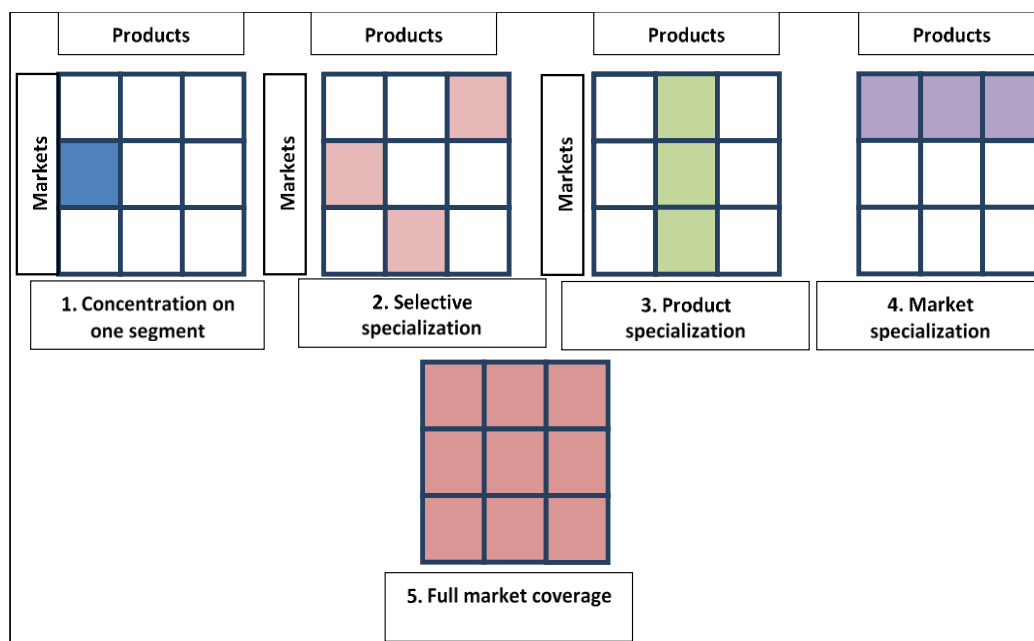
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**LITERATURE REVIEW**

*1. Revenue model and revenue sources based on the product-market profile*

In a narrow sense, the revenue model is an essential integral part of the financial model of the company's business model as a resultant and factor value (8). In a broad sense, the revenue model is supported by the other business model components and is considered a manageable variable (9-13). Revenue sources are the

company's product/services and the target market whose needs they satisfy. They are determined by the first two components of the business model (products and markets). Revenue sources are the result of the choice of business field, segmentation and targeting (14-16). The following five basic variants of segmentation strategy and targeting are possible, which determine the companies' product-market profile (**Figure 1**).



**Figure 1.** Five basic variants of segmentation strategy and targeting (product-market profile)  
Source: (17, pp.260-270)

The product market profile contains the market and product sources of revenues of the company (17): 1) concentration on one market segment - one market and one product source; 2) selective specialization - two or more market and product sources; 3) product specialization - different market sources and homogeneous product sources; 4) market specialization - one market source and many products; 5) full market coverage - many product and market sources. The five basic variants of the product-market profile determine the possible sources of revenues on the basis of products and markets. The variety of sources is the lowest in the first option and the largest at the full market coverage.

Revenue streams are inflows that come from one or different sources. Sources become revenue streams if a company manages to position its offer(s) successfully, creates value through its internal processes, and creates demand and sales with its customer perspective (sales and marketing processes) (15,18). As a

result of the chosen business field the segmentation strategy and the pricing policy (and pricing as its main component), different types of revenue streams are possible: sale of the physical product; usage fee; subscription fee; lending/renting/leasing; brokerage fees; advertising; volume and unit selling (19-22). During the COVIDization of economy, there are three possible options for the development of companies' revenue streams: to maintain, decline or change depending on the direction and strength of the influence of environmental factors. Depending on the degree and strength of influence, companies can continue operating without changing their revenue sources, try maintaining their revenue streams, stop their decline or increase them. The companies can also change the product market profile so as to add new revenue sources and related products. The change or preservation of revenue sources and revenue stream leads to the preservation or change of the revenue model (the river of revenue) (17, 23, 24). The following strategic

concepts are the basis of decision-making for revenue sources and revenue streams during the COVIDization of the economy.

## 2. Main strategic concepts related to revenue management

Reviewing the substantive aspect of revenues as a manageable variable is based on a number of classical concepts in strategic management and the lasting importance of the marketing concept, whose role in the COVIDized VUCA environment is growing (25, 26). Understanding of these concepts is crucial to determine adequate to the conditions of COVIDization of economic strategies. According to the marketing philosophy, the company's revenue sources generally are target markets (segments) and products (goods and services) offered in these markets (15-17). Other concepts that can be used for this purpose are: concepts of choosing a strategic business field, a strategic business unit, and product-market strategies identifying the opportunities for revenue development (23). Crucial to the formation of the necessary revenue streams is forming a sustainable competitive advantage (competitive business strategies), differentiation and positioning and a value-adding chain (15, 27). To determine the revenue sources and to form revenue streams during COVIDization, a combination of both Industry-Organization (I/O) and Organization-Industry (O/I) approaches are used (28). Their iterative and interactive application is a mandatory imperative in the VUCA environment further altered by the COVIDization of the economy. This environment determines the need to search for opportunities outside the traditional understanding of the industry (sectors, business field). The ultimate option is forming a blue ocean strategy, creating new market space, sources, and revenue streams. In this regard, the importance of the entrepreneurial model of behavior and innovative thinking is manifested, looking for opportunities to address the consequences of COVIDization by using the concepts of business model, strategic map, and balanced scorecard.

## 3. Four main options (recommendations) related to the revenue model in VUCA environment

- *First option - maintaining a competitive approach and product-market scope.* In market penetration strategy, revenue sources are preserved without changing the competitive

approach, existing internal processes in the value chain, capabilities, or structures (organizational rejuvenation). The main emphasis is on customer perspectives, respectively on marketing and sales activities (29).

- *Second option - changing the revenue sources and maintaining a competitive approach is associated with sustained regeneration.* These are the strategies of product and market development. By undertaking them, we shall proceed to look for new revenue sources, introducing new products and services or entering new markets. The aim is to "exploit" the applied competitive strategy in order to increase revenue streams from new revenue sources (30).

- *Third option - changing the revenue sources and changing the competitive approach without changing the business sphere (strategic renewal).* There is a fundamental competitive repositioning, but the company remains in the existing business sphere. This type of change is undertaken to achieve fuller compliance with the company's activities and the products it offers when the environment requires such changes. This type of change affects the entire activity of the company and is a strategic repositioning: it covers the boundaries of the business, product characteristics, and business processes. The value chain changes completely (31).

- *Fourth option - Changing the revenue sources by redefining the business sphere (domain redefinition).* A complete change of revenue sources and revenue streams is undertaken by redefining the business sphere. This change is associated with the development of new products and services for new markets and can be accomplished by leaving the existing business or by maintaining and diversifying revenue sources. In this way, the boundaries of the current business areas are redefined and new ones are possibly created. Successful business redefinition leads to diversification, technological and market advantage, related to adding value for consumers and cost structure. The concept of developing blue ocean strategies and destructive innovations is possible.

## METHODOLOGY

The report utilizes results from a quantitative study conducted by the Scientific and Research Center for Innovations and Competitiveness (U2B) at the University of National and World

Economy. The study aimed to examine the impact of the ongoing COVIDization of the economy on businesses and the measures undertaken by companies. The main research method used to achieve the study's objective is a survey. The study was directed toward managers and owners of companies and was conducted in two stages. The first stage took place in March-April 2020 during the initial wave of COVID-19, and the second stage occurred during the onset of the third wave. Through these stages, short-term and strategic actions were identified, which correspond to the four basic variants of revenue planning. The scope of the two studies included a randomly selected sample of 175 and 243 companies respectively, spanning various sectors of the economy.

Both stages of the study examined issues aimed at establishing what short-term measures were taken and what strategic changes were envisaged in the future in response to the impact of the COVIDization of economy. An integral part of that study were issues concerning the revenues of various companies. In the first stage of the study, issues related to determining the value of revenues (expressed as an interval) that companies had achieved in 2019 were examined as well as the relevant goals in 2020; the immediate impact of the first COVID-19 wave on activities in general and on revenues in particular was examined; the expectations of the companies in that environment which was unfamiliar for all managers and owners were studied; their ad hoc short-term actions and strategic intentions were identified. The second

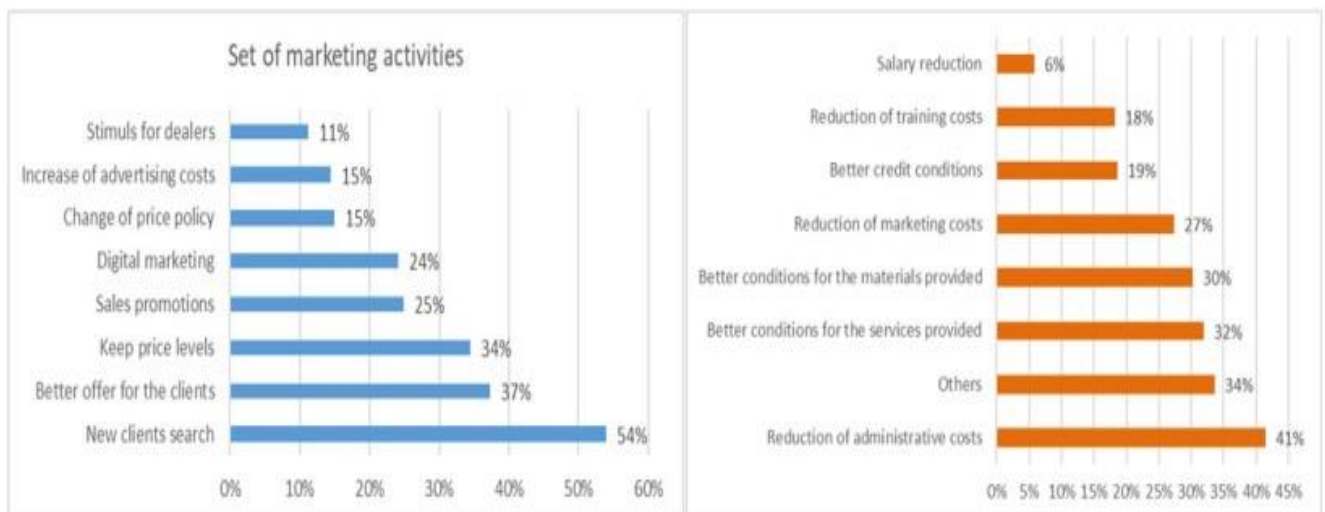
stage of the study examined the post-factum results achieved by companies including the increase, retention and decline of revenues in 2020 (after the first and second COVID-19 waves) compared to 2019. The actions taken by the companies were identified and reported; the ones that had had the greatest impact on overcoming the effect on the revenue model were identified; the strategic actions already taken by the companies during the third wave had been established.

**RESULTS**

During the study, specific short-term actions were identified, and undertaken to overcome the negative effects on revenues caused by the two COVID waves that have so far exhibited distinct manifestations of the VUCA environment factors. Strategic intentions and actions by the companies were also identified. Short-term actions aimed at overcoming the negative effects of the two COVID-19 waves and the companies' strategic intentions and actions were identified in the study.

*1) Short-term actions related to the revenue model*

The companies' actions aimed at cost-effective revenue management during the first wave evolved and improved during the next two waves. The full lockdown during the first wave necessitated the placing of an emphasis on expenditure. Those measures continued during 2020 and helped companies achieve higher profitability despite the decline and the negative development of revenues (**Figure 2**, right graph).



**Figure 2.** Short-term actions related to revenues

During the third wave, a study was conducted to identify post-factum market actions, which had the strongest positive impact on revenue development in 2020 compared to 2019. They were very important because it was not possible to drastically change the sources of revenues in the short term (Figure 2, right graph).

- *Actions related to the sources of revenues:* the short-term action to which companies attached the greatest importance in active revenue management was the search for new customers (54%). That meant that companies were looking for options to compensate for the decline in revenues from existing market sources and reduced levels of revenue flow by looking for new ones. Next was the revision of offers to existing customers (37%).

- *Actions related to accelerating the revenue stream:* 34% of companies kept the level of prices as the main variable in the generation of revenues, and 15% changed their price policy. Sales promotions and digital marketing were the next most important actions undertaken by companies.

2) *Strategic intentions and actions for changing* Strategic intentions and actions were identified in both studies. The scope of the study included questions concerning the long-term perspective of business development. They followed the results concerning the strategic intentions related to companies' revenues as a result of the influence of the COVIDization of the economy. The presented data evidenced that companies predominantly concentrated on existing businesses and existing products (**Figure 3**).



**Figure 3.** Long-term actions related to revenues

- *Change in market revenue sources* - to the greatest extent, companies proceeded to offer existing products in new markets (46%). That made the market development strategy the most preferred one. Through it, the product source was preserved while new markets were developed.

- *Change in product revenue sources* - product development (new products for existing markets) was undertaken by 42% of companies which meant that companies focussed on increasing revenue by forming new product sources and maintaining the market.

- *Preservation of product and market sources of revenue* - the preservation of market and product sources was present in companies that applied a strategy of market penetration. They represent 40% of the surveyed companies.

- *Change in product and market sources* - The intention for a diversification strategy was manifested by 27% of the surveyed companies. In those cases, there was a change in both market and product sources. 12% of companies launching a new business can be added to this group.

- *Improve revenue profitability* - the optimization, the adoption of digitalization, and reorganization was a piece of evidence that in addition to increasing their revenues companies aimed at increasing their profitability in the long run. Digital marketing and sales as new sources and revenue streams accounted for a major share of company digitalization.

## CONCLUSIONS

The role of classical strategic concepts is evident in active revenue management. Thus,

through the strategic map and the balanced scorecard, a balance is achieved between short-term actions and the strategic measures undertaken for a profitable revenue model within the VUCA environment.

The conducted descriptive analysis of the empirical study's results confirmed the understanding that, under the conditions formed by the VUCA environment resulting from the COVIDization of the economy, actions were taken to either reduce or enhance the firm's revenue model. In the short term, the actions were oriented towards minimizing their decline, restoring revenue levels, or maximizing the effect when the impact was favorable.

Managing revenues in the context of the three cyclic COVID waves that had occurred at the time of the study directed firms' attention towards making product-market decisions that affect the revenue model. This is evidence that, knowingly or unknowingly, firms change their revenue model within the VUCA environment. They undertake active actions related to changing revenue sources, revenue streams, and improving their efficiency.

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