SARDAR PATEL COLLEGE OF ADMINSTRATION & MANAGEMENT

BCA – III

US03SBCA23 (E- commerce)

UNIT – 2

- **Introduction**
- **Eight key ingredients of a business model**
- **Major B2C and B2B business Models**
- **Introduction to M-commerce**

Introduction -:

A business model is method of doing business by which a company can generate revenue to sustain itself. The model is also spells out where company is positioned in the value chain. (*Value chain* is the series of activities that organization can perform to achieve its goals.) E.g. marketing profit, production process. Business model is a set of planned activities design to result in profit in the market place.

Key Ingredients of a Business Model:

TABLE 2.1 KEY INGREDIENTS OF A BUSINESS MODEL

COMPONENTS	KEY QUESTIONS
Value proposition	Why should the customer buy from you?
Revenue model	How will you earn money?
Market opportunity	What marketspace do you intend to serve, and what is its size?
Competitive environment	Who else occupies your intended marketspace?
Competitive advantage	What special advantages does your firm bring to the marketspace?
Market strategy	How do you plan to promote your products or services to attract your target audience?
Organizational development	What types of organizational structures within the firm are necessary to carry out the business plan?
Management team	What kinds of experiences and background are important for the company's leaders to have?

1) Value Proposition -:

defines how a company's product or service fulfills the needs of customers. To develop and analyze a firms value proposition you need to understand:

- Why will customers choose to do business with your firm instead of another?
- What will your firm provide that others do not or cannot?

- From the customer point of view successful value propositions includes:

a. Personalization/customization

b. Reduction of product search costs

c. Reduction of price discover costs

d. Facilitation of transactions by managing product delivery

Examples:

Fresh Direct, primarily offering customers the freshest perishable food in New York, direct from the growers and manufacturers, at the lowest prices, delivered to their homes at night. Although supermarkets can offer fresh food also, customers need to spend an hour or two shopping at those stores every week. Convenience and saved time are very important elements in FershDirect's value proposition to customers.

Before Amazon existed, most customers personally traveled to book retailers to place and order. In some cases, the desired book might not be available and the customer would have to wait several days or weeks, and then return to the bookstore to pick it up. Amazon makes it possible for book lovers to shop for virtually any book in print from the comfort of their home or office, 24 hours a day, and to know immediately whether a book is in stock. Amazon's primary value propositions are unparalleled selection and convenience.

2) Revenue Model -:

Describes how the firm will earn revenue, generate profits, and produce a superior return on invested capital. Terms financial model and revenue model often are used interchangeably. The function of business model is both to generate profit and return on invested capital.

Major types:

i. Advertising revenue model

ii. Subscription revenue model

iii. Transaction fee revenue model

iv. Sales revenue model

v. Affiliate revenue model

i) Advertising Revenue Model--:

Web site that offers content, services and/or products also provides a forum (meeting & debate) for advertisements and receives fees from advertisers. It derives a significant amount of revenue from the online advertisement.

Example: Yahoo.com

ii) Subscription Revenue Model--:

Web site that offers users content or services charges a subscription fee for access to some or all of its offerings .

Examples:

- Consumer Reports Online
- Yahoo! Platinum
- Yahoo! Premium subscription services are
- Y! Music unlimited, Y! Hot jobs, Y! by phone
- Y! Games, Y! Classified etc .

iii) Transaction Fee Revenue Model:

Company receives a fee for enabling or executing a transaction by using the websites.

Examples:

- eBay.com -: provide online market & receives transaction fee from seller.
- E-Trade.com -: online stockbroker

- Receives transaction fee from each time when it execute stock transaction.

iv) Sales Revenue Model--:

Company derives revenue by selling goods, information, or services to customers.

Examples:

- Amazon.com
- LLBean.com
- Gap.com

v) Affiliate Revenue Model--:

Sites that steer business to an “affiliate” receive a reference fee or percentage of the revenue from any resulting sales.

Example:

- MyPoints.com
- It makes money by connecting companies with a customers by offering special deal with its members

3) Competitive Environment:

It refers to the other companies selling similar products and operating in the same market space.

It Influenced by:

- How many competitors are active
- how large their operations are
- what market share for each competitor is

how profitable these firms are

- how they price their products

Types:

- Direct competitors – companies that sell products or services that are very similar and sell into the same market segment.

- Example: Priceline.com and Travelocity.com
- Indirect competitors – companies that may be in different industries but that still compete indirectly because their products can substitute for one another.
- Example: CNN.com and ESPN.com

4) Competitive Advantage--:

Achieved when firm can produce a superior product and/or bring product to market at a lower price than most, or all, of competitors. Firms achieve competitive advantage when they are able to obtain differential access to the factors of production that are denied to competitors.

Asymmetry –: when one participant in a market has more resources, financial backing, knowledge, information than others participants.

Types of competitive advantage include:

First mover advantage – results from a firm being first into a marketplace with product & services. It can made loyal and unique interface with customers.

Unfair competitive advantage – occurs when one firm develops an advantage based on a factor that other firms cannot purchase
E.g. a brand name can not be purchase, & when such happen it is unfair.

Companies leverage(advantage) ---: their competitive assets when they use their competitive advantages to achieve more advantage in surrounding markets.
E.g. Amazon moves into online grocery business.

Complimentary resources-: resources and assets not directly involved in the production but required for success of business.
E.g. marketing management, financial asset

Perfect markets-: a market in which there are no competitive advantages or asymmetries because all firms have equal access of all factors of production.

Major B2C Business Models:

In which online businesses search and reach to customers. To describe b2c model use different areas of b2c

1) **Portal -:**

Offers powerful search tools plus an integrated package of content and services all in one place. Initially portal work as “Getaways”. Portal generate revenue advertisement fee from ad placement, charging for premium services.

Typically utilizes a combine’s subscription / advertising revenues/transaction fee model**.** E.g. Portal such as yahoo, MSN, Window live etc. It Offers user a powerful search tools and provide services Such as news, e-mails, instant massaging, calendars, shopping, music downloads etc in one place.
The top 5 portal/search engine sites are Google, Yahoo,MSN, AOL,Ask.com .These sites gather 92% of the search engine traffic.

There is some variation of portal such as:

i. **horizontal portals-***:*
because they define their market space to include all users of the Internet. It offering integrated package such as content-search, news, e-mail, chat, and music downloads, video, calendars, etc.

E.g. Yahoo, MSN, AOL.

ii. **Vertical portals (vortal)-***:*
Offers services and products to specialized market space. It focuses particular subject matter.

E.G. Google, ask.com

2) **E-tailer-:** Online version of traditional retailer store.
It comes on all size from giant Amazon to local store that have website.

There are 4 Types of E_tailer they are as follows.

i. **Virtual Merchant-:** Online version of retail store, where customers can shop at any hour of the day or night without leaving their home or office. E.g. Amazon

ii. **Clicks and Bricks-:** Online distribution channel for company that also has physical stores. Means company has physical building as well as its own website. E.g. Wal-Mart.com, Sears.com, JCPanney

iii. **Catalog Merchant-:** Online version of direct mail catalog.

E.g. LLBean.com

Manufacturer direct-: manufacturer uses online sale channel to the customers. E.g. Dell.com, sony.com, Mettle.com

2) Content Provider:

Information and entertainment companies provide digital content over the Web. Such as digital news, music, photos, video, Art work etc. it is second largest source of B2C e-commerce revenue model. Typically utilizes subscription, pay for download, or advertising revenue model. But all online content provider not charges for their information e.g. sportline.com, CNN.com, all news papers sites etc. Some content providers, do not have own content , but syndicate (aggregate) and then distribute content produced by others. *Syndication* is a major variation of the standard content provider model. **Intellectual property** express by this model. **Intellectual property** refers to all forms of Human expression that can be put into a tangible medium such as text, CDs, photos, video, clips, pictures etc .

3) Service Provider --:

It offers services online Service providers use variety of revenue models. Some charge fees, for monthly subscription, while others generate revenue from other resources. Such as through advertising and by collecting personal information, that is useful in direct marketing. Google has led the way in developing online applications such as Google maps, Google docs and spreadsheets and gmail. Thinkfree and Buzz word are the online alternative to the Microsoft word provided as a service. More personnel service such as online medical bill management, financial and pension planning, travels recommenders sites are showing growth.

Obviously, some services cannot be provided online. For example, dentistry, medical services, plumbing and car repair cannot be completed via internet.

The online service provider may offer computer services such as information storage, provide legal services such as at MyCFO.com or grocery shopping site such as FreshDirect. The travel brokers are providing vacation planning services, not just transaction with airlines and hotels.

The basic value proposition of service provider is that they offers consumers valuable, convenient, time saving and low cost alternative to traditional service provider.

B2B Business Models :

B2B e-Commerce mean business sell to the other businesses. It is more then 10 times the size of B2C eCommerce. Most of the dollar revenues in e-commerce involved B2B.

The major B2B model divides into

1) Net market place

- E-distributor.
- E-procurement.
- Exchanges.
- Industrial Consortium.

2) Private industrial network.

- Single firm
- Industry – wide

1) E-distributor-:

Company that supplies products and services directly to individual businesses are e-distributor. Single firm's online version of retail and wholesale store supplies maintenance, repair, operation of goods, etc. E-distributor owned by one company seeking to serve many customers.

- With the e-distributors, more products and services a company makes available on its site. One stop shopping is always preferable to having to visit no of sites for searching particular part or product.

Examples:

- Grainger. COM
- GE Electric Aircraft Engines (geae.com)
- Partstore.com
- Grainger. COM
- GE Electric Aircraft Engines (geae.com)
- Partstore.com

Grainger.COM is largest distributor of maintenance, repair, and operation (MRO) supplies. Grainger.COM has physical distribution centers in metropolitan area. These products are motors, fluid, HVAC.

2) B2B Service Provider -:

B2B service provider is sell business services to other firms.B2B service provider is one type – offer purchasing firms complicated set of sourcing and supply chain management tools that permit firms to reduce supply chain management costs.

Application service providers a subset of B2B service providers. ASP is company that sells the access to internet based software application to other companies. In the software world, firms such as Ariba are called **application service providers (ASPs)**.

B2B Service Provider is able to offer firms much lower costs of software by achieving ***scale economies*.**

scale economies are efficiency that arise from increasing the size of a business. Scale economies arise when large, fixed-cost production systems (such as factories or software systems). In the case of software, the marginal cost of a digital copy of a software program is nearly zero, and finding additional buyers for an expensive software program is exceptionally profitable. This is much more efficient than having every firm build its own supply chain.

Examples:

- Ariba
- Commerce One
- Perfect commerce.

3)Matchmaker -:

B2B **matchmaker** is the firm that matches commercial provider and commercial supplier. "Matchmaking is the process of searching the space of possible matches between demand and supplies".

Without a matchmaking system the in marketplace buyer requirements and supplier proposals can't be connected. Matchmaking process is by which the parties who want to exchange goods can be interconnected with each other. Buyers can find the suppliers who can supply their demand, and can choose the most promising ones. The suppliers can find the buyers who request their goods. Matchmakers are vital part of every E-marketplace because they can find the match between proposals and requirements. Matchmakers gain competitive advantages against their traditional way trading competitors.

The matchmaker has two functions.

- **First function is** to match buyer requirement constraints to the seller's capabilities and proposal constrains.
- **The second function is** to find the most profitable trade for buyers and sellers from the possible solution

In case **of many-to many relationships** three eligible matching situations:

- One buyer demand matches one seller supply.
- Several buyers demand matches one seller supply.

- One buyer demand matches several seller supplies.

Introduction to M-commerce (mobile commerce)

M-commerce is the buying and selling of goods and services through wireless technology i.e., handheld devices such as cellular telephones and personal digital assistants (PDAs). Japan is seen as a global leader in m-commerce. Thus content delivery over wireless devices becomes faster, more secure, and scalable. Some believe that m-commerce will pass wireless e-commerce as the method of choice for digital commerce transactions. This may well be true for the Asia-Pacific where there are more mobile phone users than there are Internet users.

Industries affected by m-commerce include:

- **Financial services:** including mobile banking (when customers use their handheld devices to access their accounts and pay their bills), as well as brokerage services (in which stock quotes can be displayed and trading conducted from the same handheld device);
- **Telecommunications:** in which service changes, bill payment and account reviews can all be conducted from the same handheld device;
- **Service/retail:** as consumers are given the ability to place and pay for orders on-the-fly; and
- **Information services:** include the delivery of entertainment, financial news, sports figures and traffic updates to a single mobile device.

M-commerce extend business application using wireless technology. The major advantage of m-commerce is that it provides internet access to any one, anytime, anywhere using wireless device. The key technologies of cell phone based on

- 3G(third generation wireless)
- Wi-Fi(wireless local area network)
- Bluetooth short length radio frequency device)

Examples

- eBay Anywhere, Pay Pal mobile,AOL Moviefone,
- APPLE iPHONE (internet in your pocket.)

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