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Module – 08
E-commerce: Digital Markets, Digital Goods Unique e-commerce business models
Lecture – 38
Unique E – Commerce Business Models

Hello! So, in the previous lecture, we had discussed about business models in B2B e-commerce. In this particular lecture, we will now move on to unique e-commerce business models which it is very difficult to classify these business models into any of these individual domains.

We cannot say that you know, it is a B2B business model or a B2C business model or a C2C business model, per say, but these business models are very-very unique pertaining specifically to the e-commerce domain and they play a role in any of these; they could play a role in any of these businesses. So, a portion of these unique business models could be B2C, portion could be catering to B2B and so on. So, let us move ahead and you know experience these business models.

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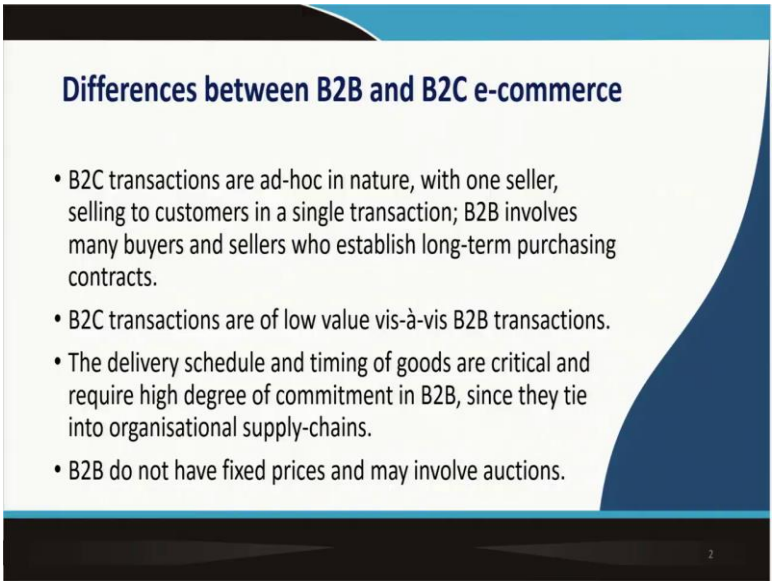

But, before we proceed, just wanted to draw your attention to the essential differences between B2B and B2C e-commerce that we have discussed so far. B2C transactions are

ad-hoc in nature, with one seller selling to customers in a single transaction, and you have observed this already. On the contrary, on the other hand B2B involves many buyers and sellers in general who establish long term purchasing contracts in general, you have just seen this.

B2C transactions are of low value vis a vis B2B transactions this also we have discussed this in the previous you know session. The delivery schedule and timings of goods are critical and require high degree of commitment in B2B since they tie to into organizational supply chains. Because if the time schedule were not adhered to it would have been very difficult to maintain the supply chain of B2B companies.

Compared to B2C e-commerce where you know the supply and the delivery is important, but it is important with respect to particular customers. They do not affect the supply chain of an organization on a whole as a on a whole. Finally, B2B do not have fixed prices and may involve auctions in general B2C e-commerce does not involve auctions, but B2B and C2C these business models may involve auctions.

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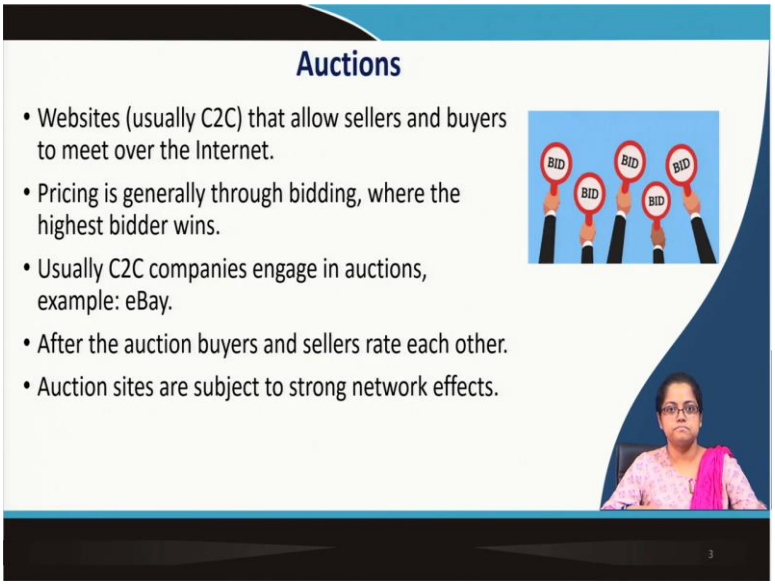

So, moving on we come to since we have we were just talking about auctions. So, what are auctions? Auctions are an important element or an important unique e-commerce business model play a very important role in certain e-commerce business models.

So, websites usually C2C that allow sellers and buyers to meet over the internet. So, auction websites are those in general C2C companies and some B2B engage in auctions. So, they allow sellers and buyers to meet over the internet. Pricing is generally through bidding where highest bidder wins which is very obvious. So, the seller the buyers would bid for multiple you know would bid through the platform and the highest bidder in general wins.

Usually C2C companies engage in auctions. We have discussed this a very popular example of a C2C company that engaged in auction is eBay. After the auction buyers and sellers rate each other. This happens in any e-commerce business today. So, buyers and sellers would rate each other and in the case of auctions buyers and sellers do rate each other based on which you know sellers get rated.

And, based on the rating of the sellers there are certain sellers and buyers you know based on the ratings of the buyers there are certain sellers who become really popular because they get a higher rating. And, as a result of getting higher rating you know whenever they try to sell any product, they would get a higher bid compared to other sellers. So, therefore, ratings play a very important role in auctions.

And, finally, auction sites are subject to strong network effects. So, we had discussed about network effect in one of the in the 1st lecture on e-commerce wherein we said that network effect is a very-very typical characteristic of any e-commerce business model. So, again we would like to highlight that point that aspect with respect to auctions.

So, there are certain auction sites which attract large number of buyers and sellers because they are very popular and they have strong network effect which actually pulls away or you know it weans away a large number of buyers and sellers from other auction sites.

So, if I were to give you an example Yahoo had a very popular auction site, but once eBay came into existence eBay site became so popular that it weaned away a large number of customers from Yahoo's auction site which eventually had to shut down. So, auctions are a very unique business model.

There are certain B2C companies also which engage in auction. For example, there is a company called Priceline which is an online travel agent which also in which you know

customers in general bid for their price the price that they would will that they are willing to pay for a particular flight or for a particular hotel. So, auctions play a very important role in different e-commerce business models.

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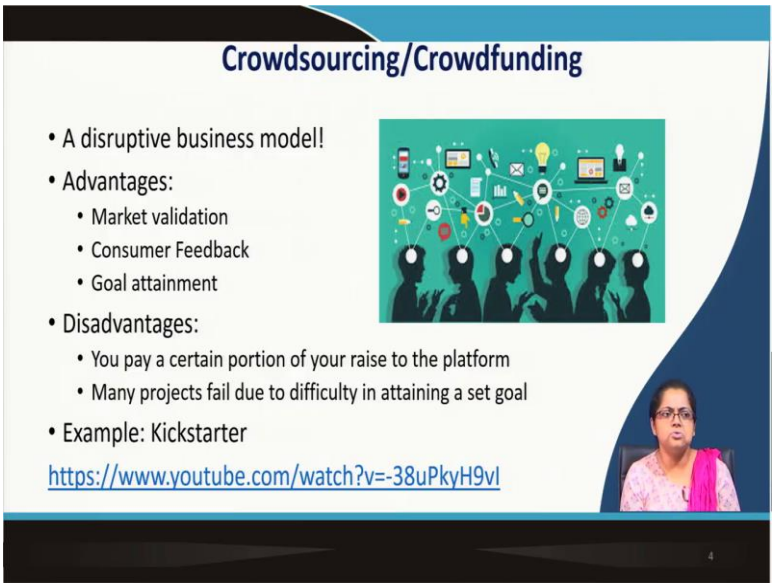

Moving on crowd sourcing, the second e-commerce unique e-commerce business model that we wanted to discuss pertains to crowd sourcing. So, it is a disruptive business model because, prior to the arrival of crowd sourcing organizations in general you know could not use the power of the crowd or the wisdom of the crowd for coming up with new ideas.

Or for coming solving a particular business problem or for you know pooling in funds or pooling in you know finances to fund a particular project or to fund a student who would want to go for higher education or to fund an operation of a particular of a patient. So, crowd sourcing is an exceptional fantastic disruptive business model. So, once it came it disrupted the existing traditional business models. Now, what are the advantages and disadvantages of crowd sourcing?

Crowd sourcing brings in market validation and consumer through consumer feedback right because if you are trying to come up with a new idea, you are; obviously, sourcing in ideas from the crowd and new idea or new product comes up right. So, here through the crowd you already have the market validation for the new product right and you

know if there are certain ideas and you want a consumer feedback you can easily obtain them from the crowd.

And, there is goal attainment why? Because especially in the context of a crowd funding you would want to fund a project or you would want to fund an operation or you would want to fund a particular you know higher education of some student. So, there is a goal attainment in terms of finance you know there is a financial goal attainment. So, these are some of the advantages of crowd sourcing.

There are certain disadvantages, but of course, the advantages do outweigh the most of the disadvantages in the context of B2B to crowd sourcing right. So, the primary disadvantages you pay a certain portion of your raise to the platform.

So, if the if crowd sourcing is provided by a particular platform, you do pay a certain portion of your raise which would not have happened if you were not to use the crowd sourcing platform. However, in that case it would be very difficult for you to attain the goal also.

Now, many projects fail due to difficulty in attaining a set goal. So, since there is a threshold or a goal that you have to meet only after which the project can go live or you know only after which the patient can get operated. So, many projects do fail because especially you know when you are trying to fund a new project they fail because even after pooling in resources the pooled in resources are have not reach the threshold level. So, in those cases the projects do not go through.

Very popular examples of platforms that rely on crowd sourcing or crowd funding are Kickstarter. Kickstarter is a company which funds you know projects for a large number of entrepreneurs by pooling in funds from the crowd.

Similarly, there is another platform called Quirky. So, Quirky is a very interesting platform which pools in ideas from the crowd and comes up with very unique Quirky products. You should actually go to this website and check out the Quirky products here alright.

So, there are multiple others which are meant for crowd you know crowd funding certain scholarships or funding certain operations or certain health related you know crowd

funding right. So, let us see a very interesting video which will talk about the different categories of crowd sourcing.

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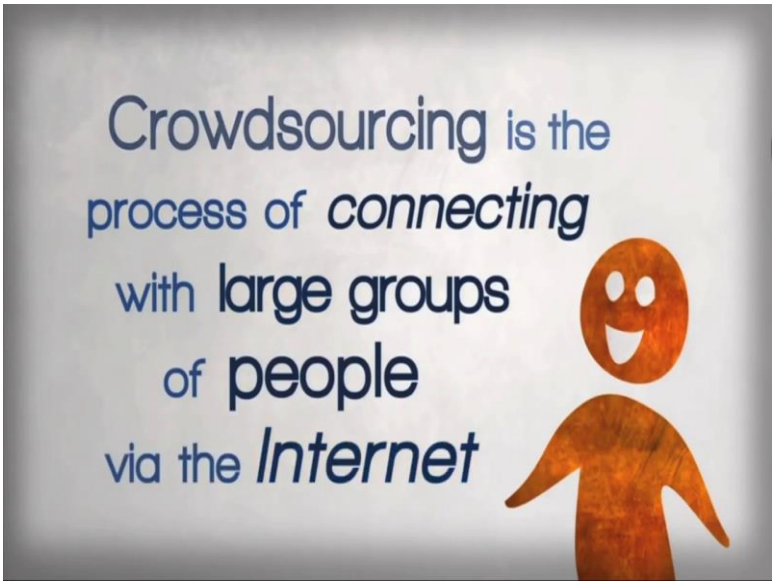

Crowdsourcing is a term that people have been using a lot likely. Do you know what it means? Crowd sourcing is the process of connecting with large groups of people via the internet.

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Who are tapped for their knowledge, expertise, time or resources?

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This idea reaching out to the crowd is not new.

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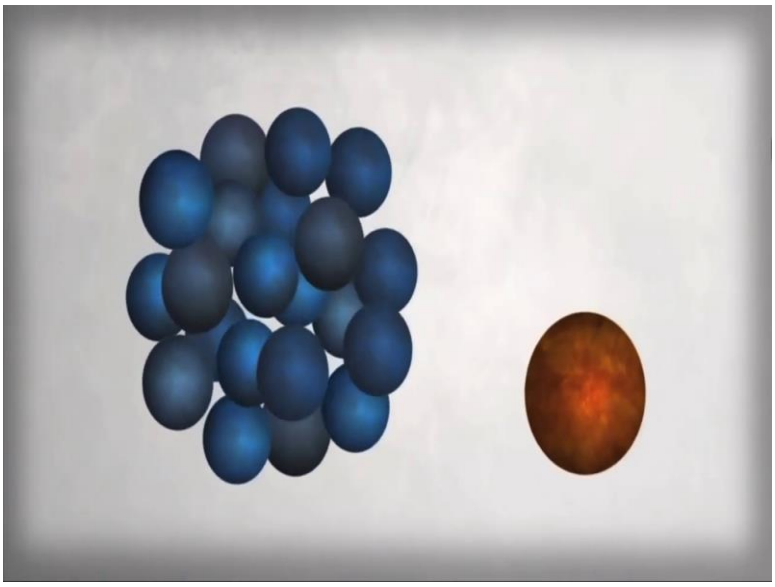

Even before crowd sourcing in the internet we often collaborated with groups of people.

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Some people helped because they were seeking a reward for their efforts.

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So, sometimes they just wanted to help.

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Let us go back to 1714.

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Sailing the seven seas was necessary, but really dangerous to navigate.

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So, the British government held a contest asking people for a solution.

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John Harrison answered the call, he invented the marine chronometer and was awarded a large cash prize.

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Sailors used the marine chronometer to determine a ships longitude with the help from the stars.

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Let us move forward a bit to 1858.

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A group of scholars created the first Oxford English dictionary.

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It was a huge project and they needed help.

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So, they asked for lots of volunteers to write about different topics according to their expertise and then they put it all together.

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The point is relying on the crowd is not really a newfangled idea, but it was not until we all got connected. The crowd sourcing came about because with the internet you can reach lots of people very quickly.

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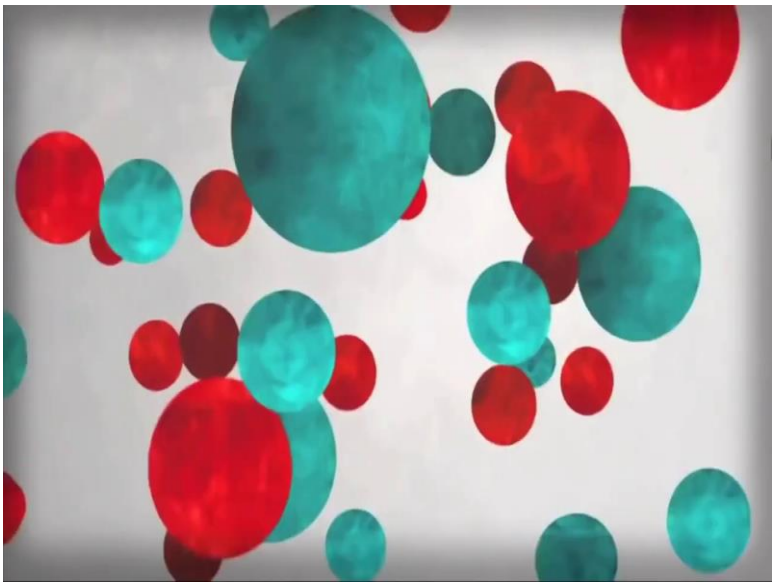

And, you can direct and organize their work.

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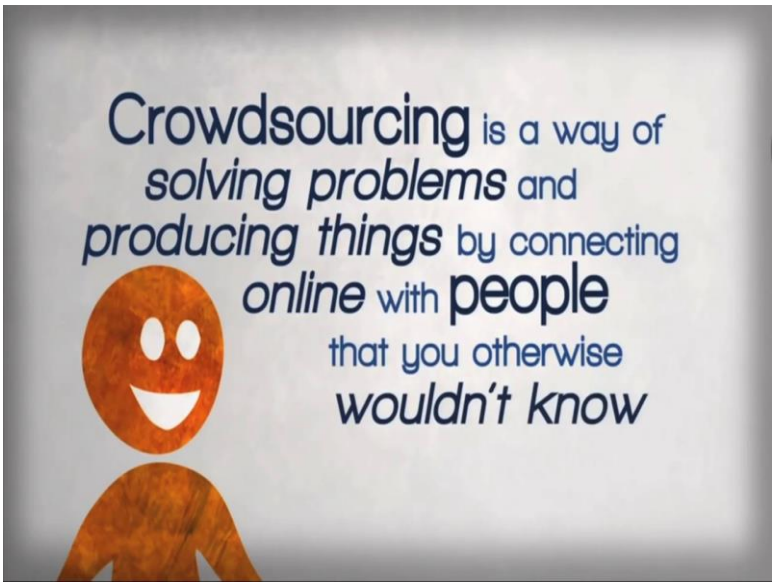

Think of it like this crowd sourcing is a way of solving problems and producing things by connecting online with people that you otherwise would not know.

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Anyone can use crowd sourcing companies, governments, groups and individuals.

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They can use it to grow their organizations.

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Or support their causes.

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There are four different ways crowd sourcing works.

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The 1st enables you to access a large online labor force. You can identify and select workers.

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Or you can just post your work. Let the workers find you.

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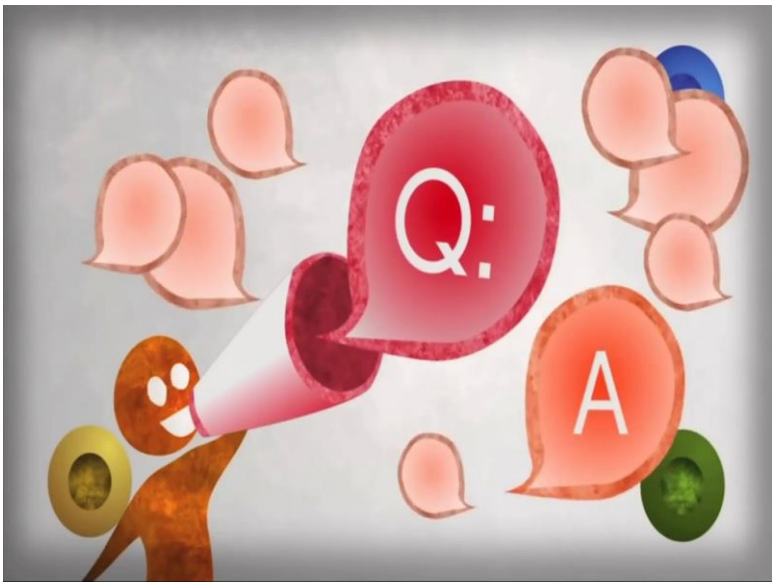

The 2nd allows you to ask the crowd to help you find the solution to a problem.

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A 3rd is so when knowledge exists, but you need help finding and organizing it.

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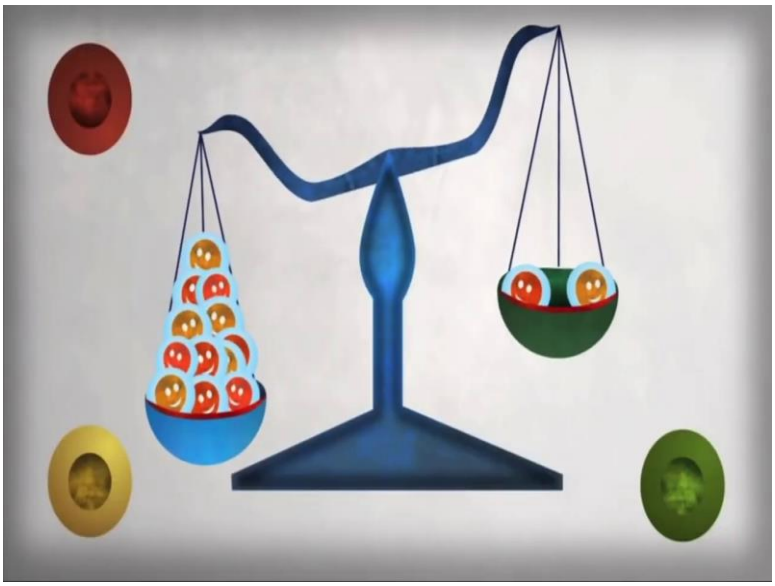

The 4th is when you need ideas from the crowd and their opinion and feedback.

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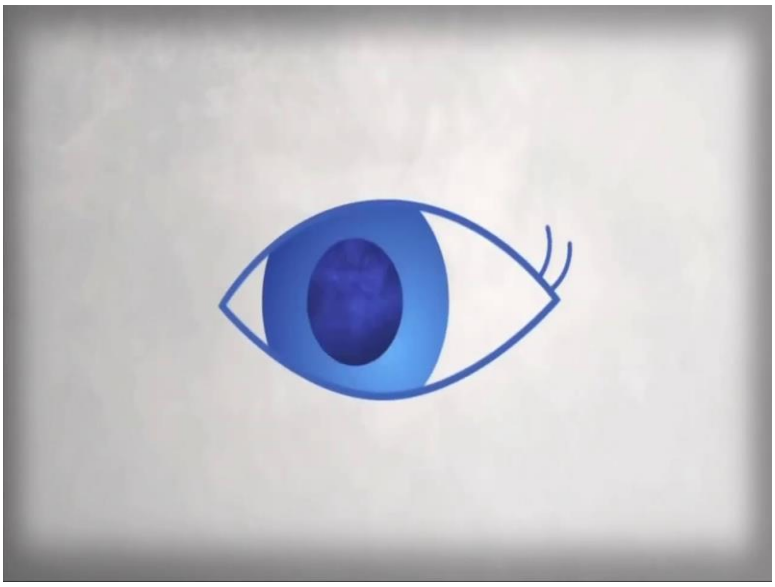

So, as you can see there are different ways crowd sourcing works and there are different things you can do with crowd sourcing.

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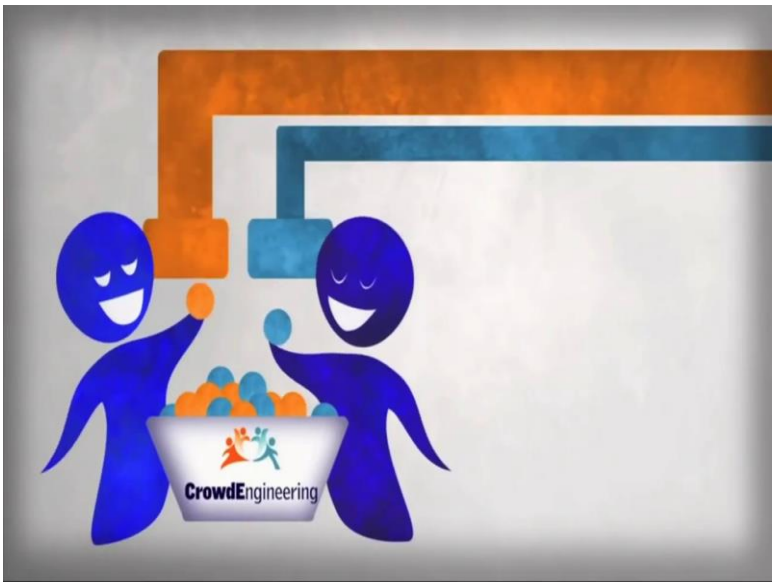

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When you use the crowd to help collect and organize information we call this accessing distributed knowledge.

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Crowd funding: where you can raise capital from many individuals who believe in your venture or cause, each making small donations that add up to a lot.

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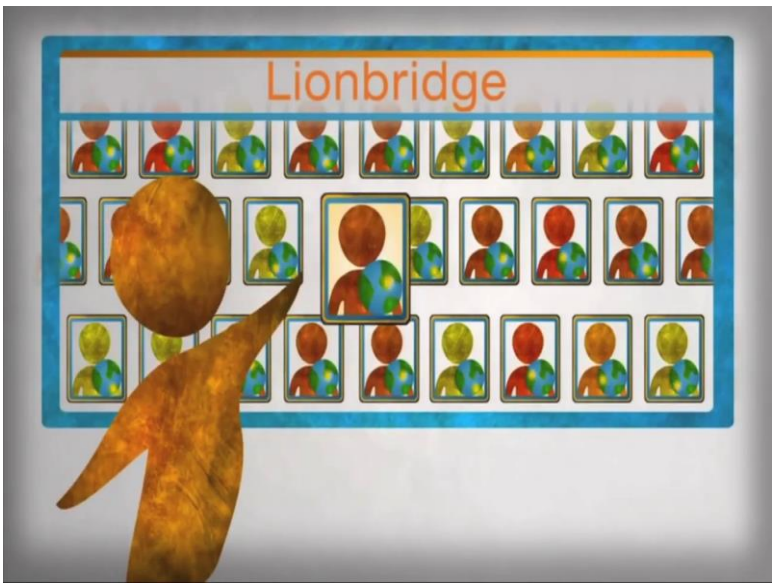

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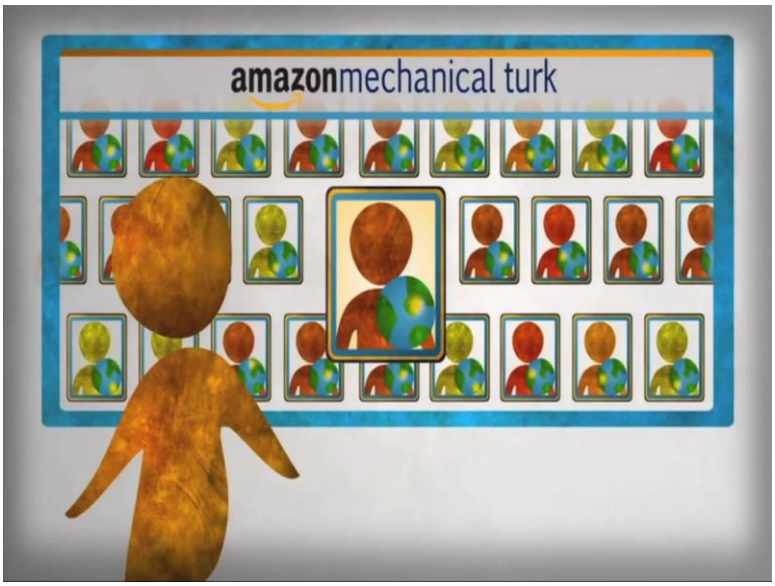

When you use crowd sourcing to connect with an on-demand scalable workforce to perform a broad range of tasks we call this accessing cloud labor.

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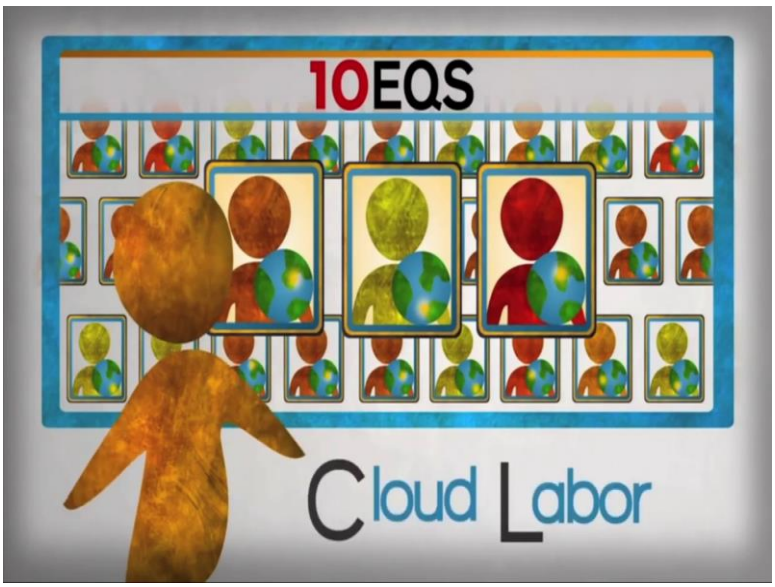

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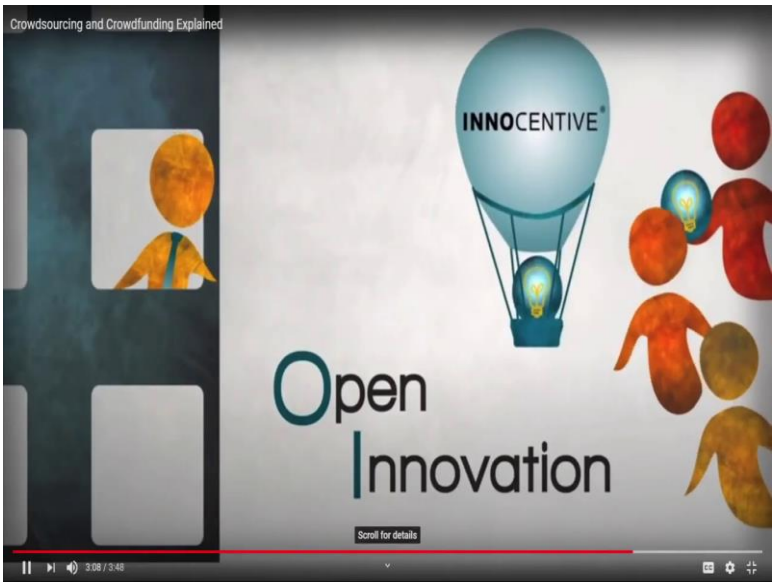

Open innovation is where you use crowd sourcing to reach diverse and creative people for new idea generation and problem solving.

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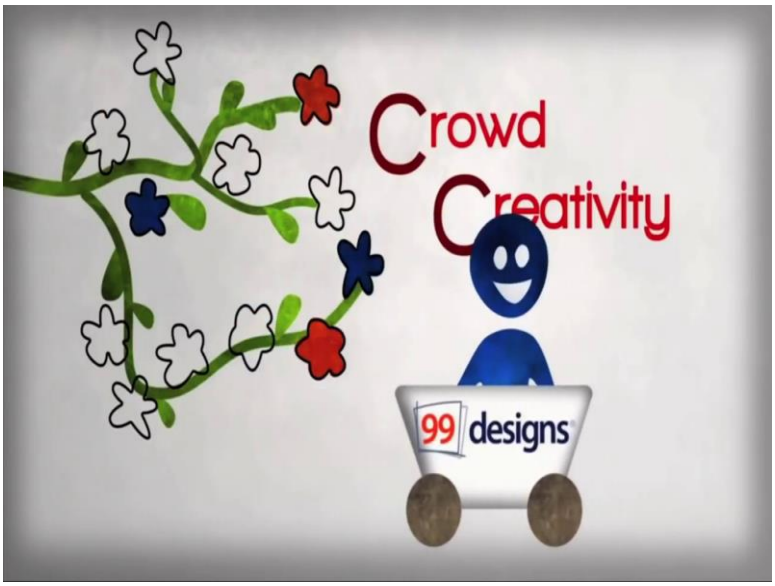

Crowd sourcing can be used to access the world's creative communities to design and develop original art, media or content. We call this crowd creativity.

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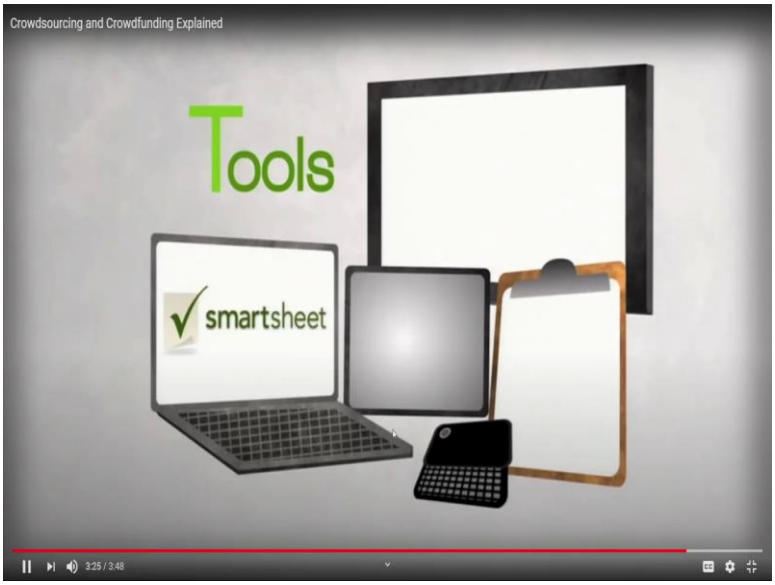

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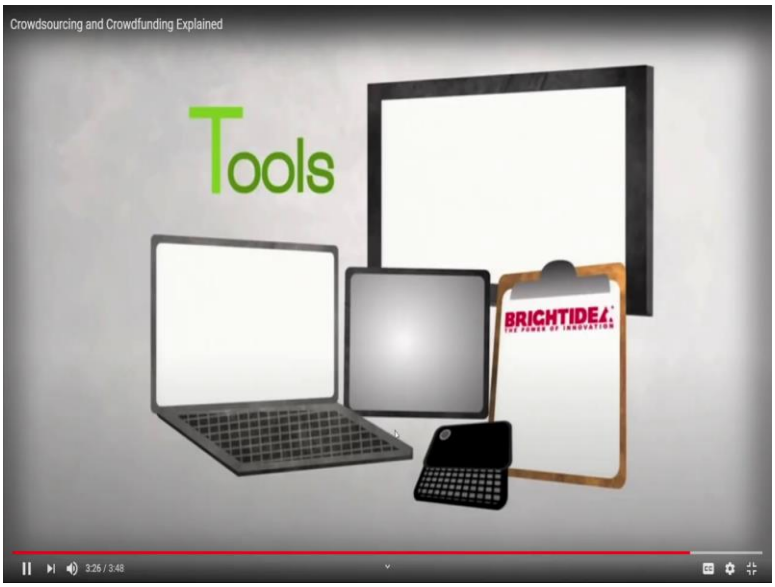

There are many tools available that can be used in crowd sourcing that support collaboration and communication among distributed groups of people. You want to know more, right? I thought so.

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So, I hope you have understood each of these you know this particular business model and each of the four different types or different categories of crowd sourcing.

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So, moving on to the next business model, this is a very interesting one and it is called online shopping mall or store builder. So, this particular platform offers the products of all registered sellers in one place. Web store builder allow sellers to have their own custom online store.

Now, for example, you are a company you know you are an entrepreneur or a startup and you want to start your own e-commerce venture, but you do not have the in house resources in terms of technological skills or in terms of you know finances to build your own e-commerce platform.

So, you can avail the services of online shopping malls or store builders which will give you custom templates and will very easily help you build your own store. So, once you have your own store you can also choose certain themes and you can design your own store. So, people can actually come and visit your store.

All listings here are fixed priced and buyers can add products from several sellers into their shopping cart and buy them in one single order. In general usually logistics and distribution are provided by the mall provider. Very popular examples are eCrater, Shopgo, Rakuten in Japan, Shopify in India. So, these are some of the very popular online shopping mall or store builders.

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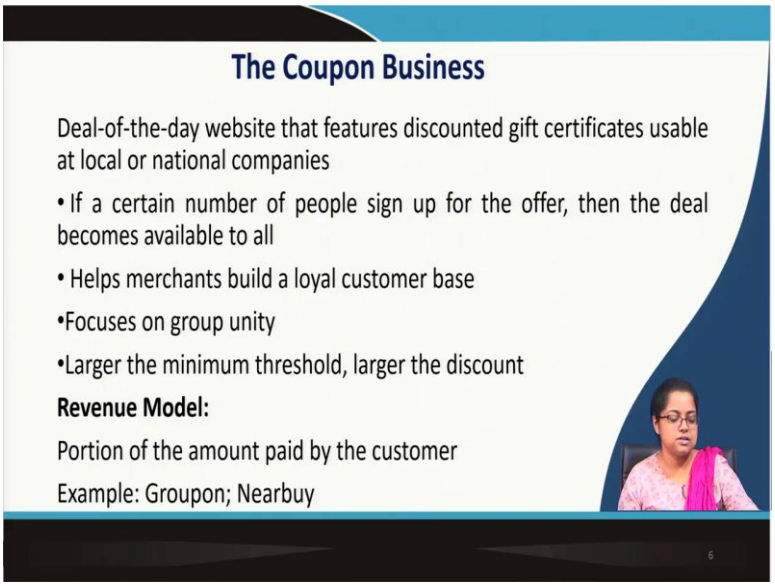

Now, moving on let us move ahead and talk about the coupon business. So, coupon refers to a deal of the day websites that feature discounted gift certificates usable at local or national companies. If a certain number of people sign up for the offer then the deal becomes available to all.

So, in general the coupon business you know in the; you get a deal every day and there is a certain threshold. So, once that the number of in terms of number of people who have to sign up for the offer so, once that many number of people sign up for the offer the deal becomes available to all, otherwise the deal is not available to anybody.

Now, the coupon business actually helps merchants build a loyal customer base. So, they expect the merchants you know want to be a part of these deal of the day websites because they expect that through this they will be able to build a loyal customer base in future. It focuses on group unity because if more number of people come up and sign up for the offer and the threshold is met, the deal would actually go through otherwise the deal would not.

And, larger the minimum threshold, larger the discount. So, this is obvious because if the minimum threshold is large the company would be making more profit and the profit would actually go back to the merchant who could give larger discount.

The revenue model in general it is portion of the amount paid by the customer. So, the that portion could vary it could be you know say 15 percent to as much as high as 70 percent of the amount paid by the customer; because eventually the goal of the merchant is to have a loyal customer base. So, the merchant would actually be willing to take in certain losses also. These would be temporary in nature, so that in future they can have a very loyal customer base.

Popular examples of e-commerce ventures that thrive on the coupon business are Groupon which is a global company. It is very popular across the world; Nearbuy is a is you know a deal of the day website in India. So, these are certain you know examples of coupon companies. In between many companies many countries actually had large number of coupon companies, but some of them dwindled over a period of time.

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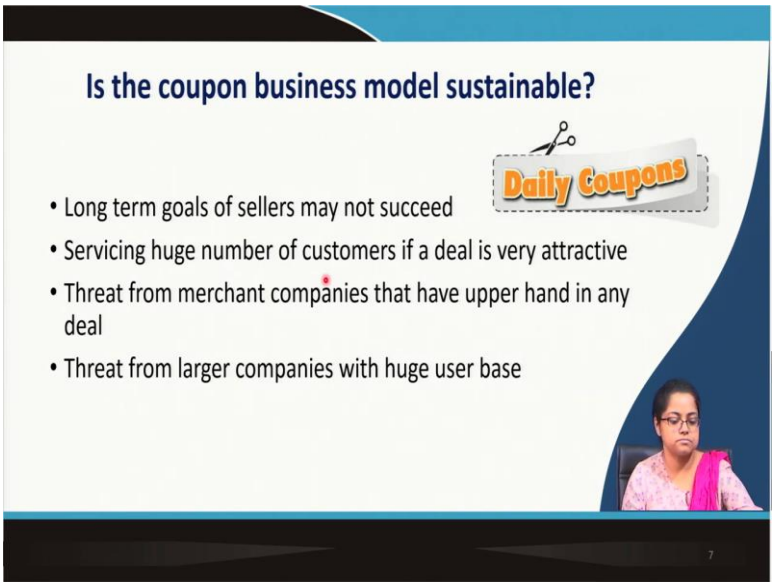

So, let us take some time and talk about the sustainability of the coupon model. So, is the coupon business sustainable in the long run? Now, long term goals of sellers may not succeed. Why? Because in general when merchants become a part of the coupon business, their goal is as we had discussed in the previous slide. They want to have a loyal customer base in future.

But, the problem with this is that you know when customers have a better deal at another company at a third company, they would switch from the first merchant to the third merchant or the second merchant.

So, the long term goals that you know today if I am; if I am a merchant and if today I am attracting a large number of customers to my website because I have given away my service at a very heavy discount. There is no guarantee that tomorrow if I do not give away a service at that huge discount I would have that loyal customer base that I had generated from my previous deal that would come and buy today.

So, if that customer base now gets a better deal at a different website they would automatically switch. So, long term goals of sellers do not in general succeed in case of the coupon business. Unless you know a merchant keeps on giving heavy discounts over a long period of time and generates that very strong pool of customers that loyal pool of customers and have has strong network effect. So, only in very unusual rare circumstances do merchants generate a loyal customer base through couponing model.

Now, so, we have we are in general talking about the lower threshold, but companies should also have a higher threshold otherwise what would happen is if a deal is a very lucrative say for example, there is a spa offer or there is a restaurant you know dinner reservation at restaurant which is obtained which is given away at a very lucrative price a huge number of customers might actually sign up for the deal.

And, if a huge number of customers that which is beyond the serving capacity of the merchant sign up for the deal servicing those customers might be very difficult for the merchant. So, the merchant actually wanted to have a loyal customer base, but that the entire plan might backfire.

What might happen is instead of having a loyal customer base because of the poor quality of service the merchant might actually turn off a large number of customers. So, large number of customers would be put off and would not return to this merchant ever in future because of the poor quality of service that they obtained during the deal.

And, now the third problem with the couponing business model is there could be threat from merchant companies that have upper hand in any deal. So, for example, very very popular very old merchants who are you know veterans in a particular field they have a huge amount of resources, a huge amount of cash in hand.

So, compared to newbies or new veterans who are just starting up and giving deals, these old merchants or these long term merchants do have an upper hand because they are

veterans in this field, they know the field in and out and they can give heavy discounts compared to the newer merchants.

At the same time these merchant companies they are the best in their business. They know their own business in and out say. So, they also have an upper hand over the couponing platform. So, because couponing platforms are experts in only couponing they do not have the expertise in any particular domain, but the merchant company has its own expertise in its has its expertise in its own domain. So, it obviously, might have an upper hand compared to the coupon so, couponing company.

So, it can give on it is own you know outside the couponing business it can give a heavy discount and by doing so without being a without giving away certain commission to the couponing platform, the company can obtain a heavy the customer can obtain a heavy discount from the merchant. So, they can both the customer and the merchant can bypass the couponing business in case the merchant is really strong.

And, there could also be a threat from larger companies with a huge user base. So, there are a lot of companies such as Google, Amazon which already have a huge user base. So, if they decide to come up with their own couponing you know business model they would since they already have a huge loyal user base they could be a huge threat to the new entrance in the couponing business.

So, these four of these could be you know threats to the couponing business model and because of this reason many a times couponing business models become unsustainable in the long run. That is why we have seen so many couponing you know business models that are thriving on couponing have actually disappeared over a period of time.

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Next we will talk about another interesting business model which is called the online staffing platform or a freelance marketplace. So, in general we have; may all of us would have heard of horizontal marketplaces; right; such as, Amazon but this is specifically a marketplace pertaining to freelancers or staffing; online staffing.

So, this is an online marketplace in which independent professionals and their clients can establish and fulfill work arrangements. So, this is a marketplace where clients and freelancers can meet and transact in terms of you know the client can give a certain freelancing job to the freelancer; freelancer can actually fulfill that job and the platform gets a transaction fee or a commission of the deal between the freelancer and the client.

So, what is the value proposition for the clients? Clients allow businesses to post jobs, search for freelance professionals and solicit proposals. They also evaluate contracts and communicate. The freelancers can search jobs and they can post a profile displaying their past jobs and feedback, portfolio and specific skill and their educational background information.

So, once there is a deal between the client and the freelancer the job would get done and a certain portion of that money would commission fee would go to the platform. So, popular examples of these freelance marketplaces are Elance or oDesk.

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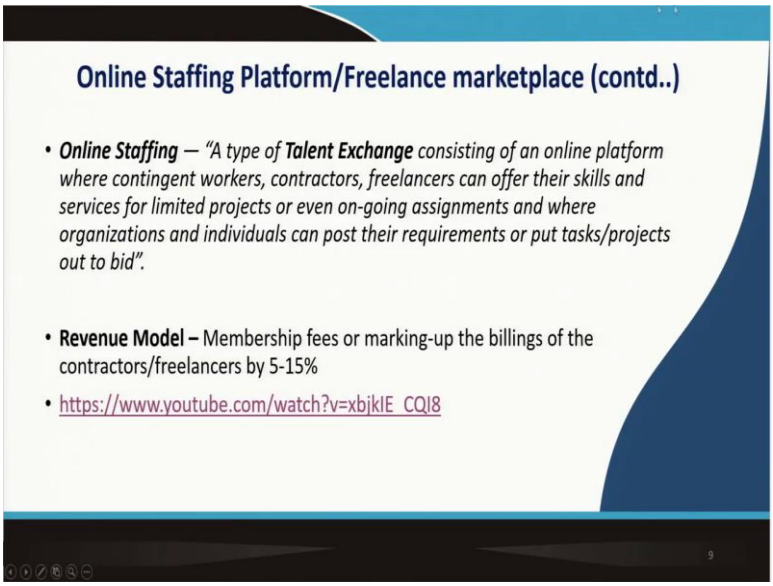

So, here we what is online staffing? It is a type of talent exchange which consists of an online platform where contingent workers, contractors, freelancers can offer their skills and services for limited projects or even on-going assignments where organizations and individuals can post their requirements or put tasks or projects out to bid.

So, what this means is we had already discussed this in the previous like you know just previously we had spoken about this. So, freelancers can take up very short term contingent small projects for a short term period of time and they can fulfill these projects for the control for the clients.

So, the revenue model as we had discussed is a membership fee by the freelancers or it could also be a membership fee by the clients and marking up the billings of contractors or freelancers by 5 to 15 percent.

So, if the bill between the freelancer and the client is X you know it would be built up by 15 percent 5 to 15 percent, so that amount of money can go as a commission fee to the platform. So, this is a very unique business model pertaining to the freelancers and this is a marketplace. So, let us quickly see a video that reflects this.

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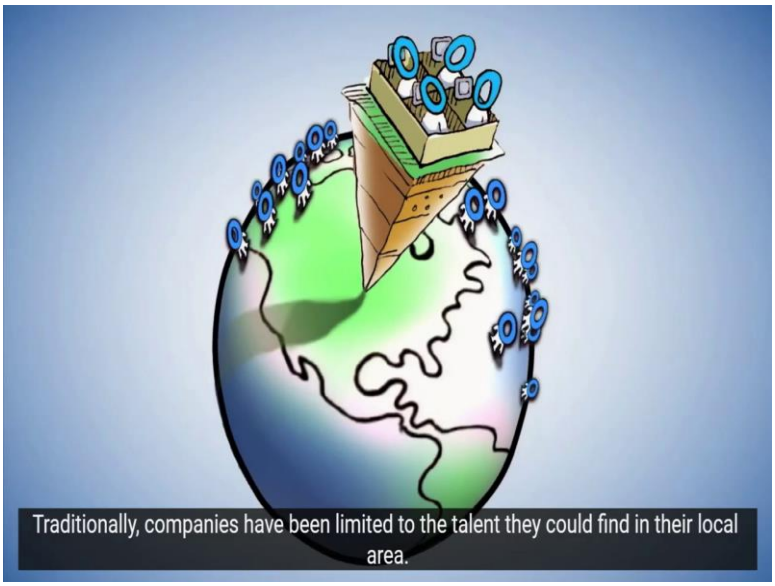

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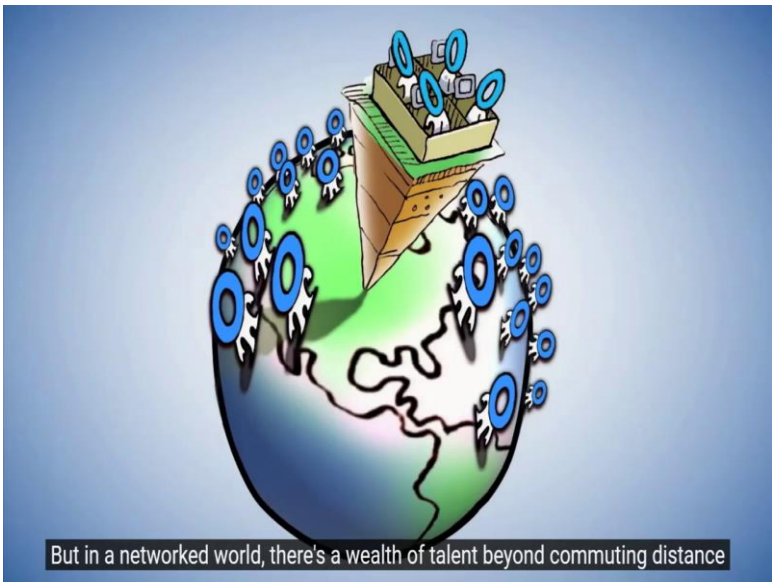

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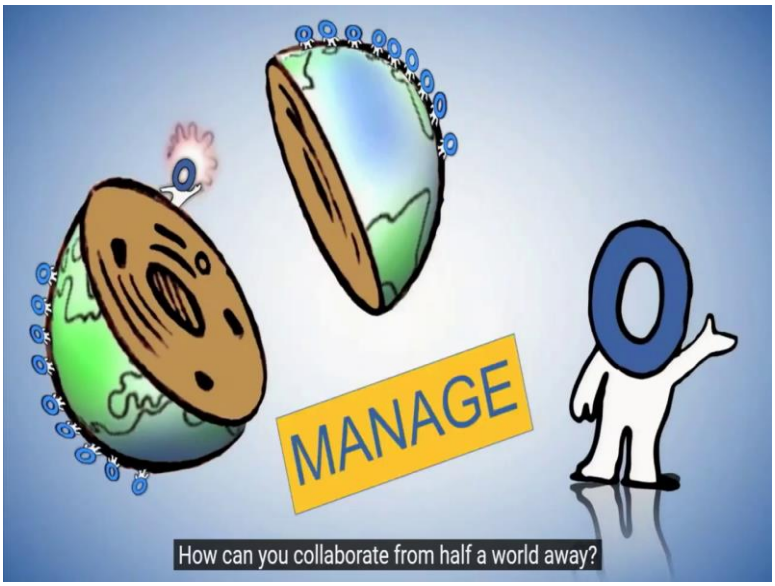

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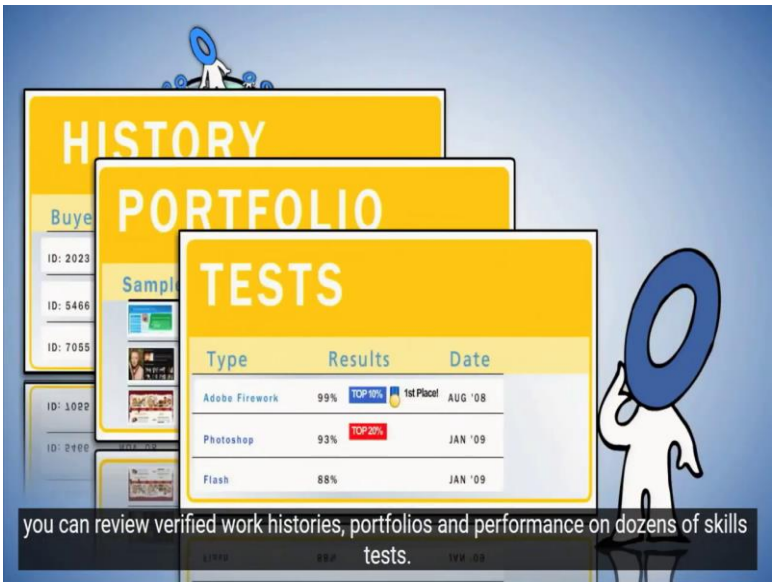

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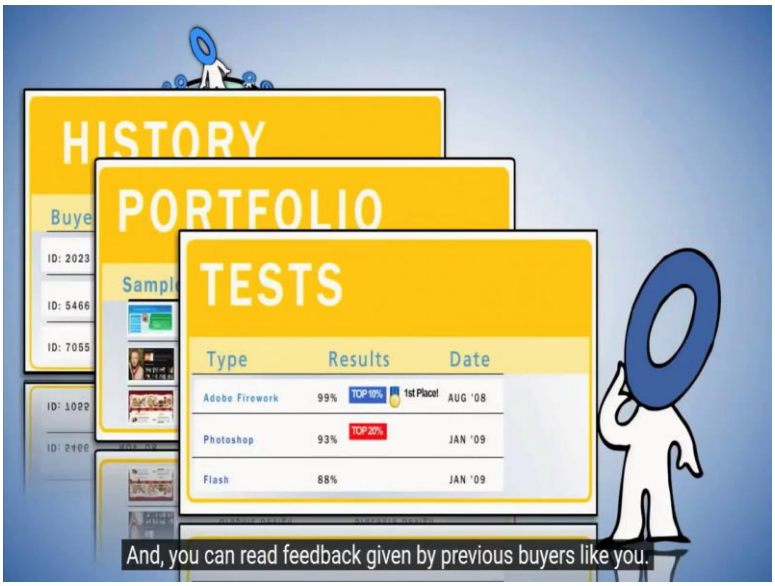

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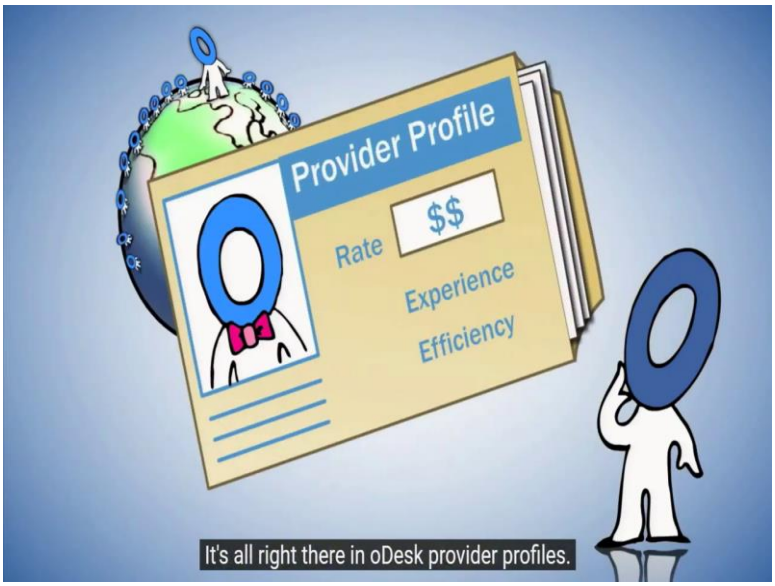

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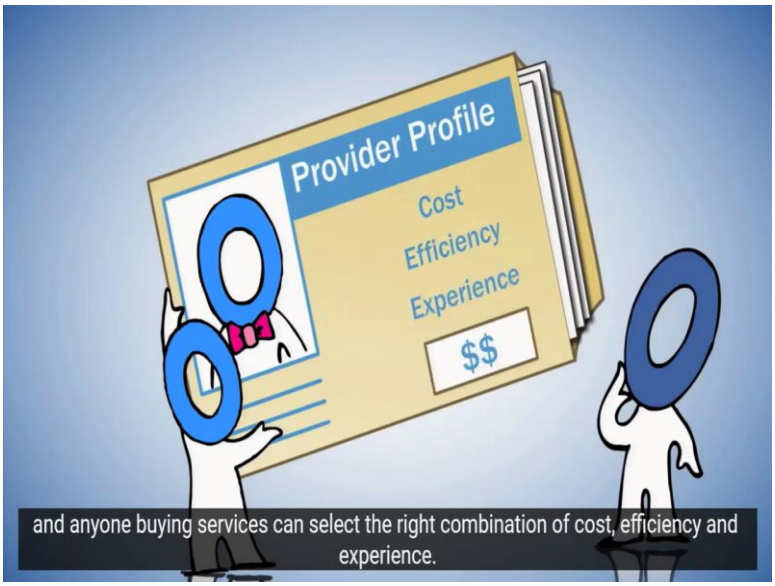

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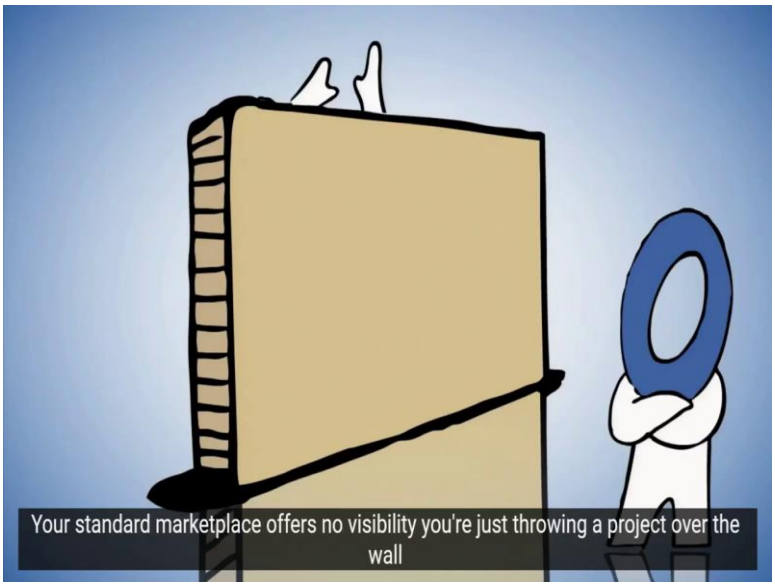

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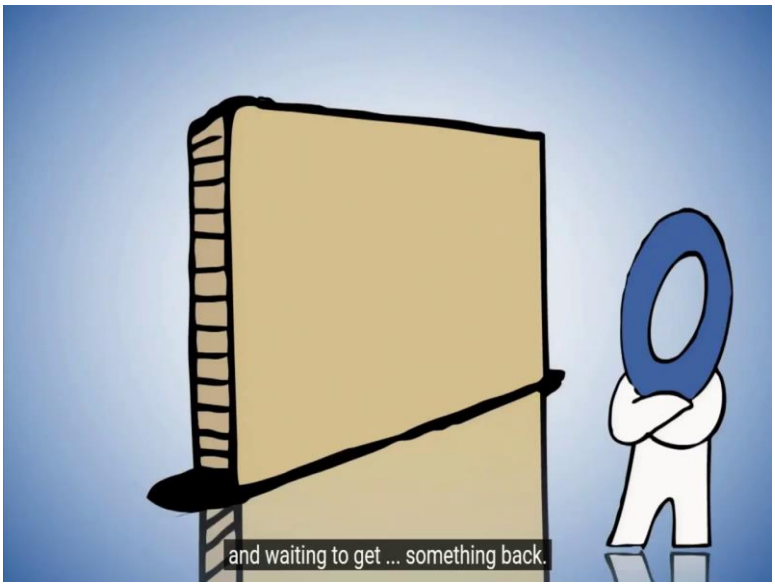

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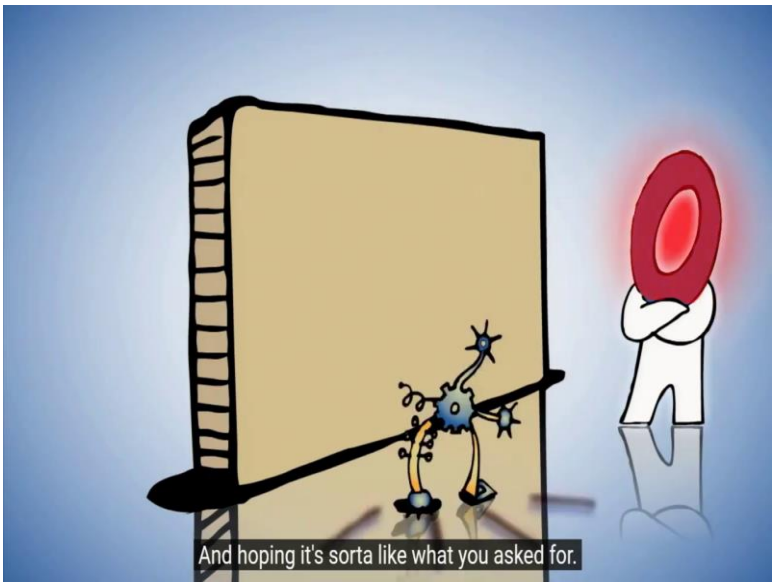

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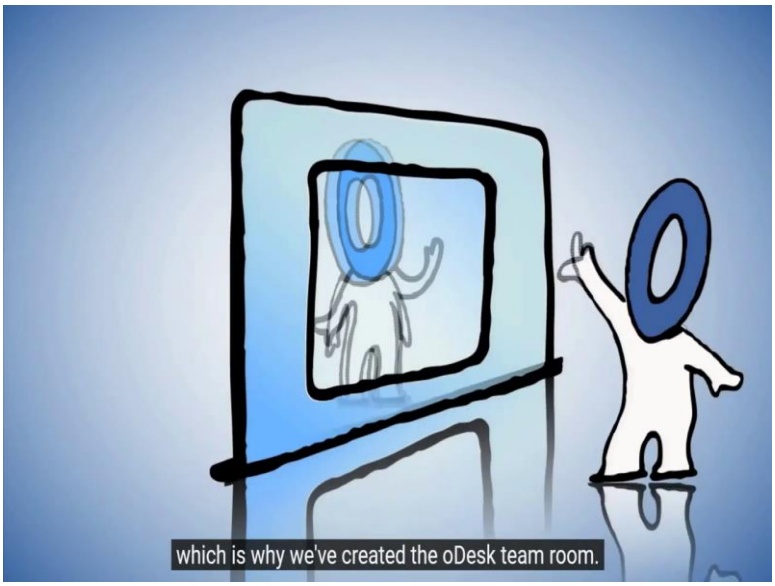

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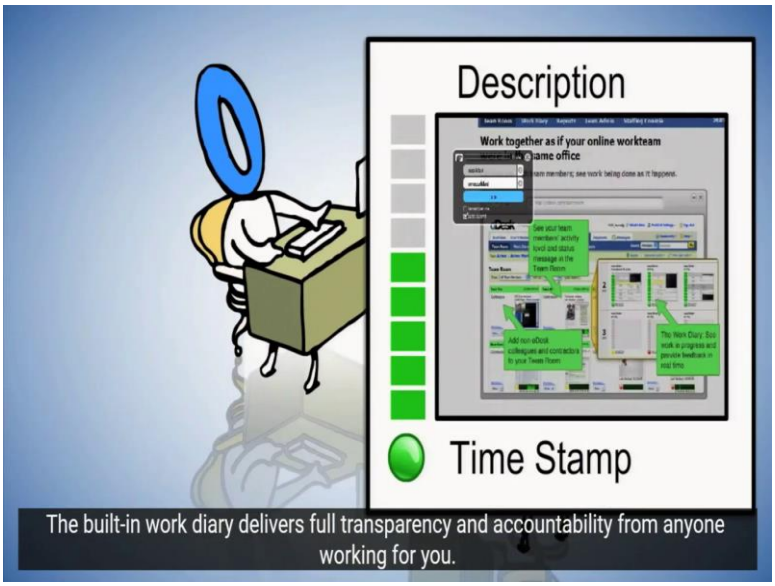

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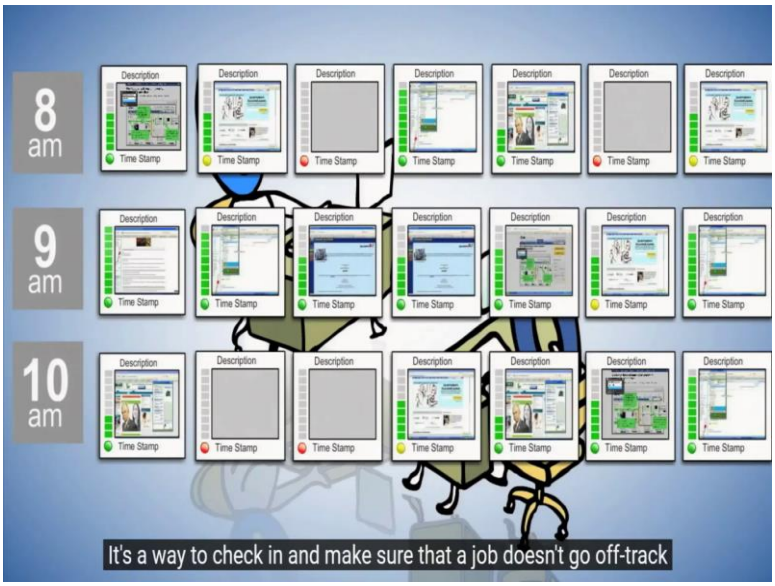

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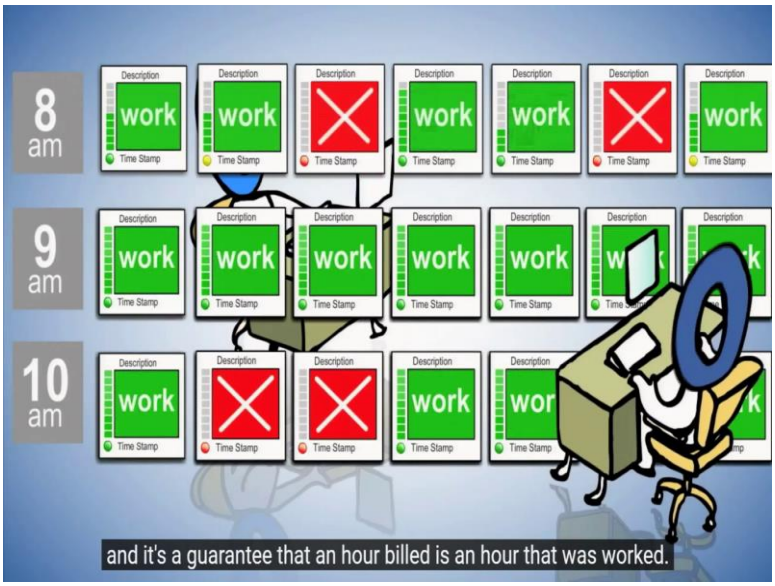

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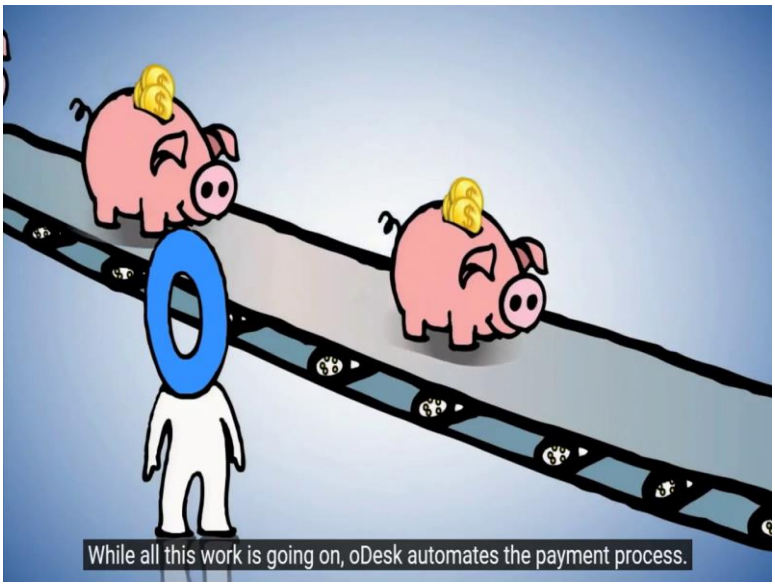

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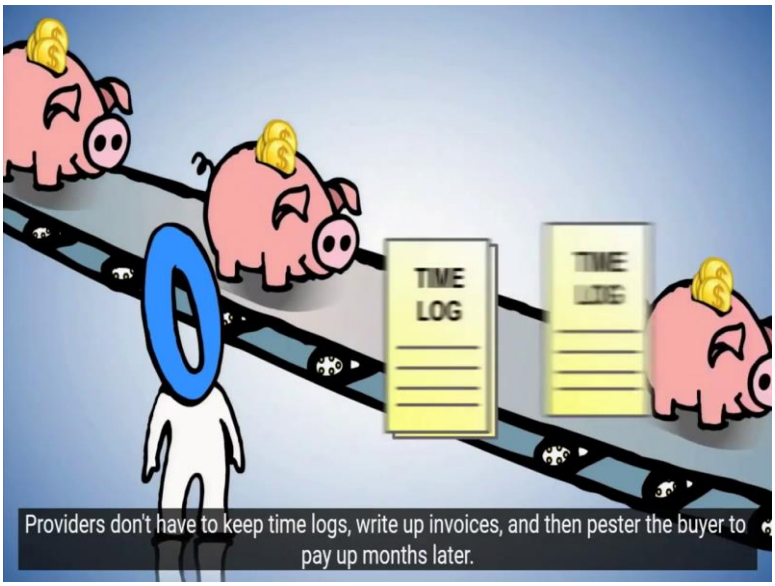

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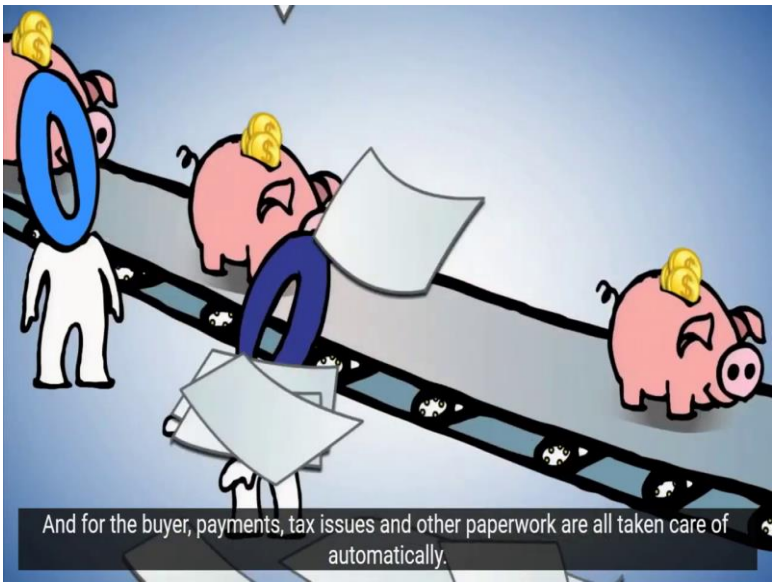

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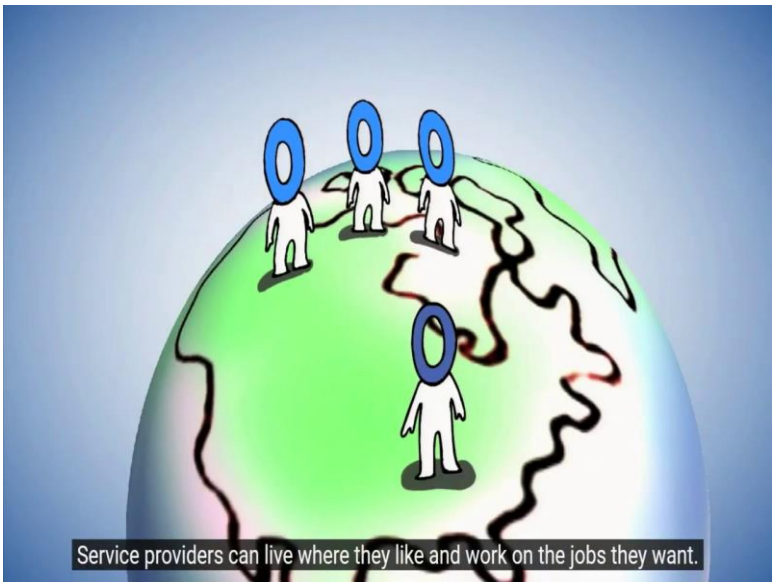

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You have seen how this particular business model facilitates freelancers and clients who are residing in different parts of the world to communicate, to meet, communicate and then get certain small bits of jobs done. So, with this we have discussed quite a few unique business models in e-commerce in this particular session.

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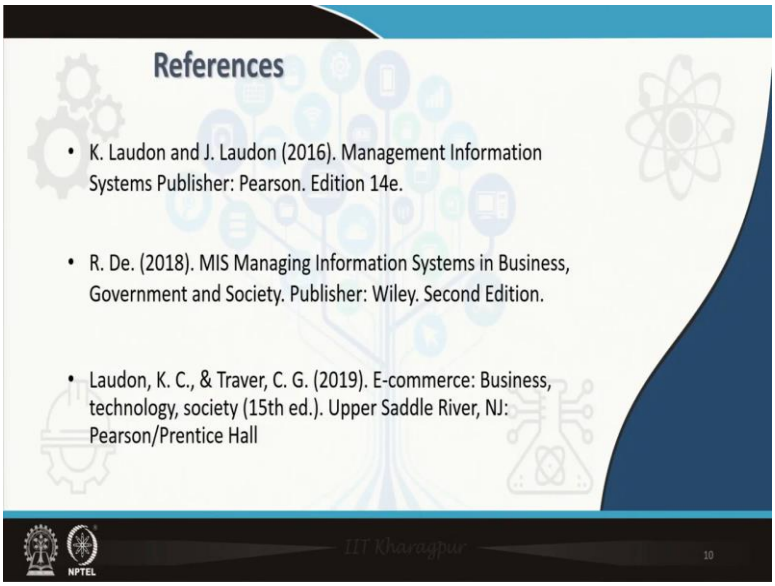

So, we will move on to the next session wherein we will talk about, you know, we had discussed in the previous session that two very interesting aspects of e-commerce – social commerce and mobile commerce. So, we will be focusing predominantly on those two aspects in the next session.

Thank you!