



# Developing goods in Digital Markets

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# What are the unique features of e-commerce, digital markets and digital goods?

- + Today, purchasing goods and services online by using smartphones, tablets and desktop computers has become ubiquitous.
- + 2.25 billion people will purchase something online. That is over 55% of the global Internet population.
- + E-commerce is composed of three major segments: retail goods, travel and services, online content.
- + Online retail sales has generate over \$3.9 trillion in 2020 (17% of total retail sales)
- + **During Covid-19 traditional sales dropped by almost 6%, whilst worldwide e-commerce retail sales grew by over 16% in 2020**

# E-commerce

- + E-commerce refers to the use of the Internet and the web to transact business.
- + E-commerce is about digitally enabled commercial transactions between and among organisations and individuals.
- + For the most part it refers to transactions that occur over the Internet and the web.
- + Commercial transactions involving the exchange of value (money) across organisational or individual boundaries in return for products and services.
- + It began in 1995 when one of the first internet portals Netscape.com accepted the first ads from businesses and popularised the idea the web could be used for advertising and sales.
- + A market bubble in stocks in e-commerce from the rapid growth in e-commerce services burst in 2001. However a large number of the most well known today Amazon, eBay, Expedia have had soaring revenues, fine tuned business models and rising stock prices since.

# Traditional vs. Impact of the Social, Mobile and Local

- + A huge change in e-commerce has been the development of social, mobile and local e-commerce.
- + Online marketing consisted of largely building a corporate website, buying display ads on portals sites like Yahoo, purchasing search related ads on Google and sending emails.
- + Display Ads: Was and is the workhorse of web advertising
- + Video Ads: Increasingly video advertisements are increasingly been seen as more effective
- + **Traditional Ads on the web were designed similar to TV advertisements: Brand messages were flashed before millions of users who were not expected to respond immediately, ask questions or make observations. The primary measure of success was how many eyeballs (unique visitors) a website produced and how many impressions a marketing campaign generated. This idea was influence by television in terms of audience size and ad views**

# Move to conversational commerce

- + With the launch of the smart phone (iPhone) and the likes of Facebook the local became much more important.
- + Social-mobile-local e-commerce is dual and related concepts of **conversations** and **engagement**
- + It involves firms engaging in multiple online conversations with their customers, potential customers and even critics.
- + Your brand is talked about on the web and social media (conversation) and to market your firm and build and restore your brand requires you to locate, identify, and participate in these conversations.
- + In the past firms tightly controlled their brand messaging and lead customers down a channel of cues that ended in a purchase.

The Facebook logo, consisting of the word "facebook" in a blue, lowercase, sans-serif font.

# Smartphone

- + Online advertising makes up 55% of all advertising worldwide.
- + Mobile marketing now constitutes over 70% of online marketing and remainder is browser based desktop ads, search ads, video ads, email and games.
- + Social, mobile and local e-commerce are connected
- + As mobiles becomes more powerful, they are more useful for accessing Facebook and other social sites.**
- + As mobile devices become more widely adopted, customers can use them to find local merchants and merchants can use them to alert customers to their neighbourhood of special offers.**

# Why is E-Commerce Different – Remember Technology vs Business Significance

- + Ubiquity – Traditional commerce is a physical place (retail store) you visit to purchase a product or service. E-commerce is available everywhere all the time. You can buy from your desktop, at home, from your car.
- + Internet/web technology is available everywhere by desktop by mobile. Mobile extends services to local areas and merchants
- + The new e-commerce marketplaces extend beyond the traditional boundaries of businesses removing them from temporal and geographic boundaries. Shopping can take place anytime, anywhere.

# Why is E-Commerce Different – Remember Technology vs Business Significance

- +Global Reach – E-commerce allows for transactions to cross cultural and national boundaries far more conveniently and cost effectively than traditional commerce.
- +Remember a potential market size for your product or service is equal to the size of the worlds online population (roughly 4 billion).



## Why is E-Commerce Different – Remember Technology vs Business Significance

**+Universal Standards** – Technology and the standards of the Internet mean the technical standards for conducting e-commerce are universal standards. All nations share them and enables any computer to link with any other computer regardless of the technology platform they are using. **Compare that to traditional commerce think of television and radio each nation differs the same for mobile phone communication some on 3G, others on 4G others on 5G**

# Why is E-Commerce Different – Remember Technology vs Business Significance

- +Richness – Information richness the complexity and content. Traditional retailers have great richness able to provide personal, face to face service. The web makes it possible to deliver rich messages with text audio and video simultaneously to large numbers of people.

# Explore some of these factors that make e-commerce different?

+Interactivity

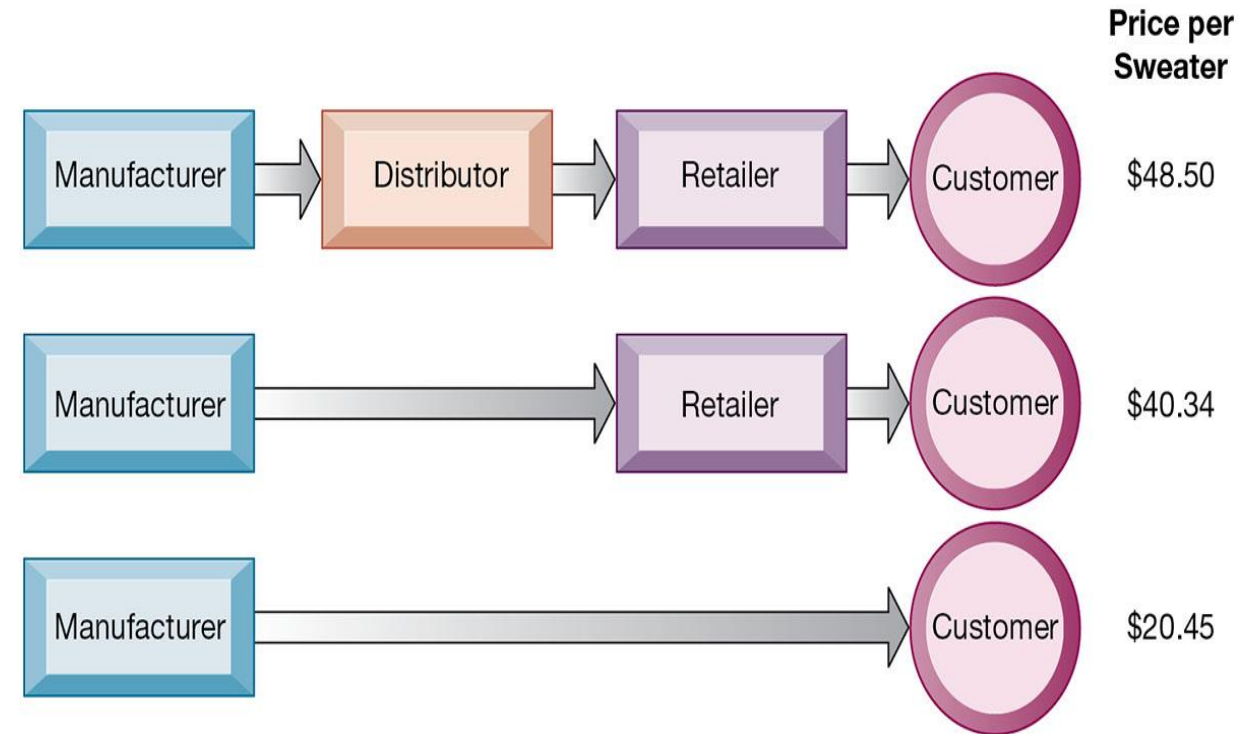
+Information Density

+Personalisation and Customization

+User Generated Content

**+I will provide my own insights into those next week but explore some of those issues yourselves.**

- + The Internet has created a digital marketplace where people can exchange vast quantities of information.
- + Automobile retail websites – When they first appeared on the web there was significant information asymmetry between dealers and customers (not equal). Only dealers knew the manufacturers price and made it difficult for customers to shop around. Now people can shop around on the web reducing this asymmetry.
- + Digital markets provides opportunities to sell directly to customers bypassing distributors and retailers.





# Types of E-commerce

- + Business to Customer (B2C) electronic commerce involves retailing products and services to individual shoppers. Amazon, Apple Music
- + Business to Business electronic commerce involves sales of goods and services among businesses. Elemicas website for buying and selling chemicals and energy is an example of B2B
- + Customer to Customer electronic commerce involves customers selling directly to customers. For example eBay

# E-commerce Business Models

- + Changes in the economics of information have created the conditions for new business models while destroying older business models.
- + The following business models use the Internet to add value to existing products and services or to provide the foundation for new products and services

## E-commerce Business Models: Portals

+Portals are gateways to the web and are often defined as those sites that users set as their home page. Some definitions include search engines like Google. Others like Yahoo, Facebook, MSN offer search tools as well as an integrated package of content and services like, news, email, instant messaging. The portal business model provides a destination site where users start there search or linger for news, entertainment.

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## E-commerce Business Models: E-tailers

+ Online retail stores often called e-tailers come in all sizes like Amazon to tiny local stores that have websites. Similar to brick and mortar storefront except customers only need to connect to the internet to check their inventory and place and order. Online retail will generate 3.9 trillion in 2020. Some e-tailers like Tesco or Zara are subsidiaries of existing physical stores and carry same products others are virtual only and have no physical stores.

# E-commerce Business Models: Content Providers

+E-commerce has become a global content channel. Content is key. Content is described to include all forms of intellectual property. Intellectual property is tangible or intangible products of the mind for which a creator claims property rights. Content providers distribute information content, video, music, photos, text, artworks over the web.

# E-commerce Business Models: Content Providers

+Providers don't have to be the creators of the content sometimes they are like Disney but are more likely distributors of content produced and created by others e.g Apple.

# E-commerce Business Models: Transaction Brokers

- + Saves users money and time by processing online sale transactions and generates a fee each time. Booking.com
- + Sites that process transactions for customers normally handled in person, by phone or by mail are transaction brokers.
- + Examples of these industries Finance and Travel. Example Fidelity in the Finance Sector



# E-commerce Business Models: Market creator

- + Builds a digital environment in which buyers and sellers can meet, display products, search for products and establish prices.
- + The value proposition is they provide a platform where sellers can display their wares and purchasers can buy directly eBay
- + Provides a digital environment where buyers and sellers meet, search for and display products, and establishes prices for those products; it can provide online auctions and reverse auctions.  
eBay, Uber

# E-commerce Business Models: Community Providers

+Provides an online meeting place where people with similar interests can communicate and find useful information. Facebook, Twitter (Social Networks)

# E-commerce Business Models: Service Providers

- + Provides applications such as photo sharing, video sharing, and user-generated content as services. Provides other services such as online data storage and backup. Google Docs, Dropbox

# E-commerce Revenue Models

- + A firm's revenue model describes how the firm will earn revenue, generate profits and produce a superior return on investment.
- + Most companies rely on one or some combination of the following



# Sales Revenue Model

- +Companies derive revenue by selling goods, information, or services to customers. Companies such as Amazon, HM.com, ZARA.com all have sales revenue models. Content providers make money by charging for downloads or streaming an entire music files (iTunes).
- +Companies derive revenue by selling goods, information, or services to customers. Zara, HM.com

# Subscription Business Model

- + In subscription Business Model a website offers content or services charges a subscription fee for access to some or all of its offerings on an ongoing basis. Content providers often use this model. Netflix is one of the most successful subscriber sites
- + A website offering content or services charges a subscription fee for access to some or all of its offerings on an ongoing basis. Netflix

# Free/Freemium Revenue Model

✚ In free model firms offer basic services or content for free and charge a premium for advanced or special features. Google offers free applications but charges a fee for premium services. One problem is converting people from being freeloaders into paying customers. Free can be a powerful model for losing money. None of the freemium music streaming sites have earned a profit to date. Nevertheless they are finding that free service with ad revenues is more profitable.

# Transaction fee revenue

- + A company receives a fee for enabling or executing a transaction. For example, eBay provides an online auction marketplace and receives a small transaction fee from a seller who is successful in selling something. The transaction model enjoys wide acceptance in part because the true cost of using the platform is not immediately apparent to the user.
- + Online financial services, payment systems relay on transaction fees model. **Have a look at Venmo?**

# Affiliate Revenue Model

- + Websites send visitors to other websites in return for a referral fee or a percentage of the revenue from any resulting sales.
- + Sites that steer customers to an affiliate business receive a referral fee or percentage of the revenue from any resulting sales. MyPoints, Amazon. Amazon uses affiliates that steer business to the Amazon website by placing the Amazon logo on there website or blog

# Advertising

- + A website generates revenue by attracting large audience of visitors who can then be exposed to advertising. It's the most widely used revenue model in e-commerce. Content on the web everything from news to videos etc is free because advertisers pay the production and distribution costs in return for exposing viewers to ads.
- + Generates revenue by attracting a large audience of visitors who can then be exposed to advertisements. It's the most widely used revenue model in e-commerce. Google, Facebook



## This weeks post class activity

- + Compare and contrast the different e-commerce business and revenue models?
- + Which revenue model do you feel is appropriate for which business model?