

CHAPTER THREE

Selling on the Web

Instructor: Wuman Luo

luowuman@ipm.edu.mo Office: A323



Introduction

- ❑ Given the **demand for** photo and video storage, **offering storage service** would seem like an **ideal online business**
 - **Decreasing cost** of storage space and high-bandwidth Internet connections.
 - Many businesses do offer **free or low-cost services**
 - Digital storage and Internet connections are **commodities**, so it would be difficult for any of them to **compete** as the **lowest-cost** provider.
 - Competition will be on **features** offered, not cost.

Introduction (cont'd.)

- ❑ In 2015, Google launched **Google Photos**
 - Designed to provide the **most wanted features**
 - Google's developers **combined** technical capabilities **with** research on how customers interact with technology
 - By combining their technology with customer information, development team could enable the service to **organize photos automatically**

Revenue Models for Online Business

- Web business **revenue-generating models**
 - Web catalog
 - Digital content
 - Advertising-supported
 - Advertising-subscription mixed
 - Fee-based
- Same model can work for **both** sale types
 - Business-to-consumer (B2C)
 - Business-to-business (B2B)

Web Catalog Revenue Models



- Adapted from **mail-order (catalog) model**
 - Seller establishes brand image
 - Printed information mailed to prospective buyers
 - Orders placed by mail or phone
 - A great success for more than a century over a wide variety of consumer items

Web Catalog Revenue Models

- **Web catalog Revenue Model**
 - Expands the traditional mail-order model to the online world by replacing or supplementing print catalogs with information on the Web sites
 - Orders placed through Web site
 - Creates additional sales outlet for existing companies

Discount Retailers: Getting a Great Deal Online

- In the first wave of e-commerce, some **new** discounters began as retail operations online, e.g., Buy.com which is now Rakuten
 - Borrowed low-cost strategy used by traditional discount retailers (e.g., Costco, Kmart, and Walmart)
- In the second wave, **traditional retailers** now also adopted the Web catalog revenue model for their online sales efforts
 - All have found online sales to be important to overall revenues and profits

Using Multiple Marketing Channels

- **Marketing channel**
 - Each different **pathway** to customer is called a **marketing channel**
 - E.g., **one channel** (retail stores) to reach urban customers and **another channel** (mail order catalog) to reach rural customers
- Allows **more customers** to be reached at a **lower cost**
- Marketing channel **examples**
 - Physical stores
 - Web sites
 - Mailed catalogs or newspaper insert

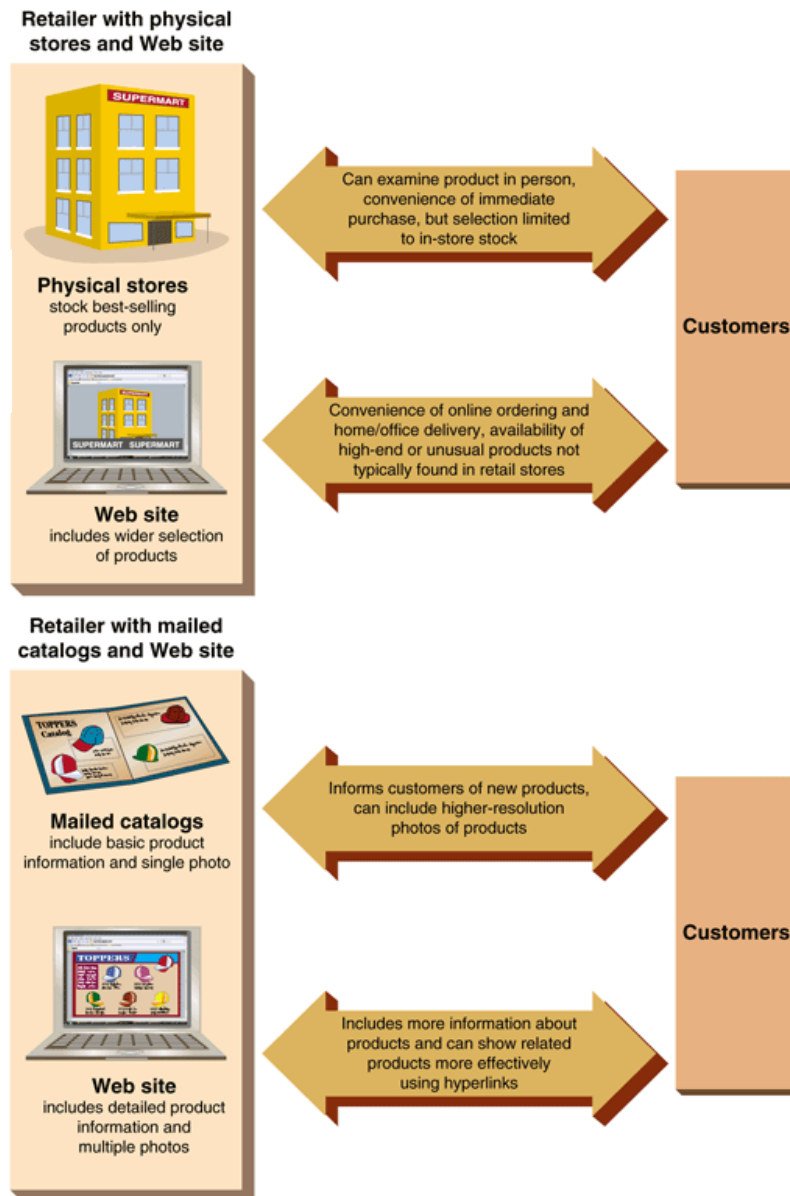


FIGURE 3-1 Combining marketing channels: Two retailer examples

Adding the Personal Touch

- Many **apparel sellers** have **adapted** catalog sales model **to** the Web
- These **web stores** display clothing photos
 - **Categorized by** style and described with prices, sizes, colors, and tailoring details
 - **Want customers** to examine clothing online and place orders through Web site
 - **Lands' End online Web shopping assistance**
 - Lands' End Live (1999)
- Some sites offer **text and video chat**

Adding the Personal Touch (cont'd.)

- Many **online clothing retailers** offer **personal shopper** and **virtual model** features
- **Personal shopper** is an **intelligent agent program** that **learns** the customer's preferences and **makes** suggestions
- **Virtual model**
 - **Graphic image** built from **customer measurements** and **descriptions** that allows customers to **try clothes**
 - **Increased sales** and **decreased returns** for companies that use virtual fitting rooms

Adding the Personal Touch (cont'd.)

- **Problem** with varying computer monitor color settings
 - **Solutions:** Send fabric swatch on request and/or offer generous return policies
 - **Zappos** (now owned by Amazon)
 - Recognizing that shoe styles and fit are difficult to evaluate online
 - Offer fast delivery and free returns

Fee-for-Content Revenue Models

- Firms **owning written information** or **information rights**
 - Embrace the Web as a **highly efficient distribution** mechanism
- Use the **digital content revenue model** **sell rights** to access information content they own
- **Legal, academic, business and technical content**
 - **LexisNexis**: offers **variety** of information services for **lawyers** and **law enforcement officials**
 - **Academic and professional organizations** sell subscriptions to their journal online

Fee-for-Content Revenue Models (cont'd)



- **Electronic books** are available from several providers in various formats
 - For dedicated devices, e.g., Amazon's Kindle products
 - Sold as digital content by online stores, e.g., Apple's iTunes
 - Be displayed on smartphone and tablet device apps
 - On computers using the appropriate book reader software

Fee-for-Content Revenue Models (cont'd)

- Sales **grew rapidly** starting in 2011 (Amazon announced selling more e-books than paper books)
- **Now declined** to about 23% of total book sales **in the U.S.** (will be stabilize at about 25% percent)
- But **popularity growing** in **other countries**
- Physical and electronic books will **coexist for years to come**

Online Music



- Recording industry **slow** to embrace
- **Largest online music stores:** Amazon MP3, Apple's iTunes, Google Play, selling **songs/albums** at various prices
- **Subscription services** to **stream music** (for a monthly fee)
 - E.g., Pandora Internet Radio, Spotify, Rhapsody

Online Music

- Early **complications**
 - No **single** store offers **all** music
 - Individual stores promote their **own** music file formats
 - Some artists/recording companies partner with specific store or boycott online sales altogether
 - **Digital Rights Management (DRM)** software
 - **Limited** the **number of copies** that could be made by each audio file
 - Intended to **curtail music piracy**

Online Music (cont'd.)



- Amazon MP3 store
 - First to offer DRM-free MP3 format
- Music industry
 - Reports increased sales in 2013 for the first time in 14 years

Online Video

- **Sold or rented** and either **downloaded** or **streamed**
- **Past limitations** were
 - **Large file size**: long downloading time and uneven streaming feeds
 - **Cannibalizing other sales** of the video
 - **Technological barriers**: prevented downloaded videos from being played on **a variety of** devices

Online Video (cont'd.)



- **Overcoming** the issues
 - New technologies improving delivery
 - Companies incorporating online distribution into revenue strategy
 - Video delivery technologies becoming transparent
- Many pay and free providers including Netflix, Amazon, Hulu, HBO, Showtime and YouTube

Advertising-Supported Revenue Models

- Is the one **used by** broadcast network television in U.S.
 - Provides **free** programming **along with advertising** messages
 - Supports network operations sufficiently
- Online advertising (as the sole revenue source) **challenges**
 - Difficulty **measuring and charging** for **site visitor views**
 - **Stickiness**: the **ability** to **keep** visitors at the site and **attracting** repeat visitors (more advertising at a sticky website)
 - Obtaining **large advertiser** interest
 - Hard to collect **demographic information**
 - **Characteristics sets** used to **group** visitors, e.g., address, age, gender, income level, hobbies, religion, type of job held

Advertising-Supported Revenue Models (Cont'd.)

- **Solution:** obtain large advertiser interest by:
 - Using a specialized information Web site
 - Draw a specialized audience that certain advertisers want to reach
 - No demographic information needed
 - Advertisers pay high rates to support the operation of the site
- Some are successful using the general interest strategy
 - **Web portal (portal)** is a site used as a launching point to enter the Web
 - Almost always includes a Web directory or search engine and often includes other features, e.g., shopping directories, free e-mail, chat rooms, messaging tools, calendar tools, etc.

Advertising-Supported Revenue Models (cont'd.)

- **Web directory** is a list of hyperlinks to Web pages
- General interest strategy
 - Examples: Yahoo!, Google, Bing
 - Presents **search term triggered** advertising on each (**separate**) result page
- Specific knowledge domain
 - Examples: C-NET and Kayak
 - Targeted advertising

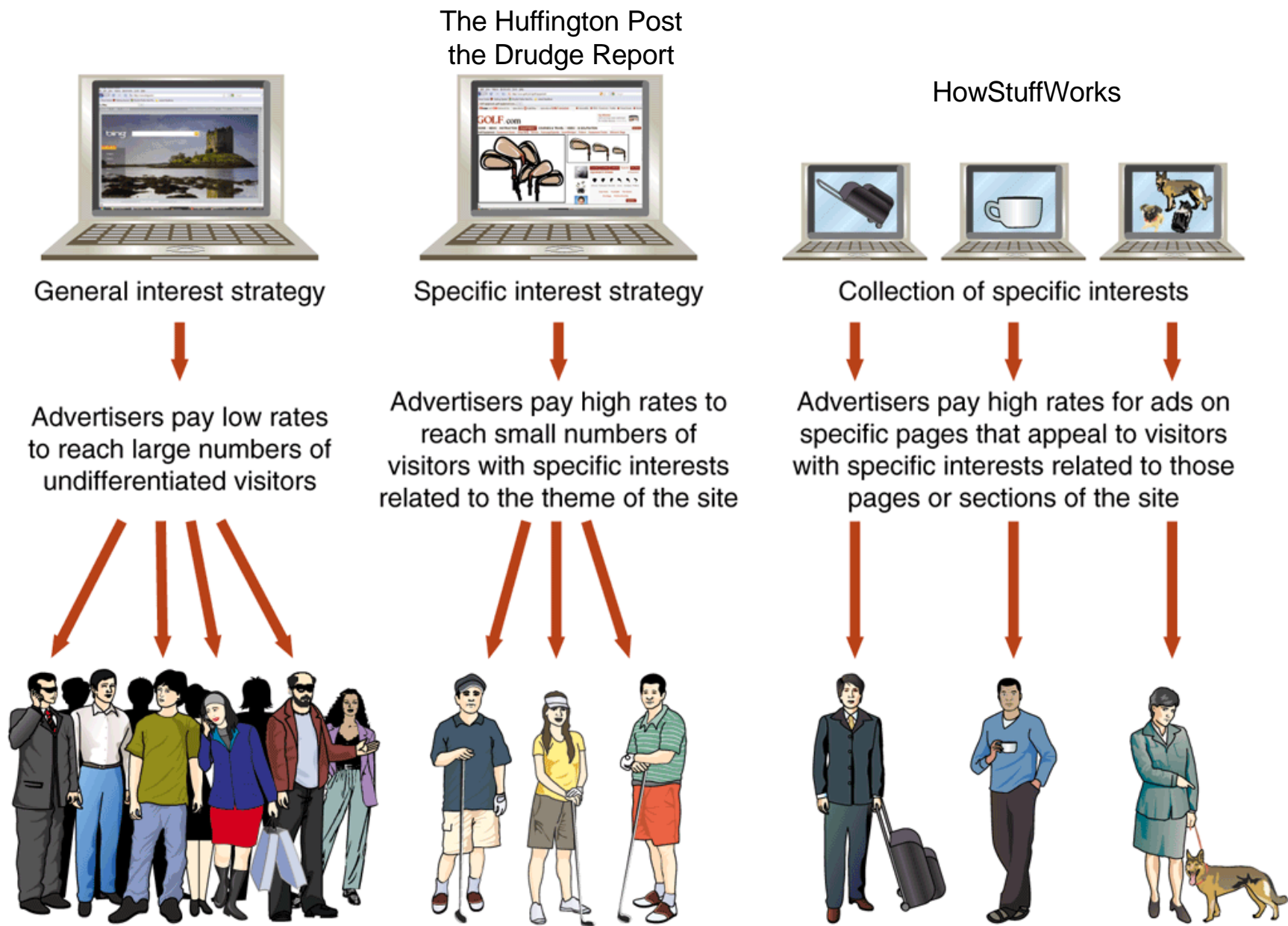


FIGURE 3-2 Three strategies for an advertising-supported revenue model

Advertising-Supported Newspapers

- Newspapers or magazines publish **online version** of print content
 - Sell advertising to **cover** Web site costs
 - **Newspaper's Web** presence
 - Provides **greater exposure and advertising audience**
 - Can **divert** sales from the print edition
- **Mixed-revenue model**
 - **Some content** free, other content for purchase
 - **Paywall** is the point at which fees begin

Advertising-Supported Online Classified Ad Sites

- Targeted classified advertising sites can command **higher rates** than general advertising
- Growth of **classified advertising Web sites** such as Craigslist has been **very bad** for **newspapers**
- **Web employment sites** have been the **most successful** targeted classified advertising category
 - Examples: CareerBuilder.com, and Monster.com
- Used vehicle sites such as AutoTrader.com
 - Similar sites **take paid advertising** from **individuals and companies** to sell cars, motorcycles and boats

Advertising-Subscription Mixed Revenue Models

- Subscribers **pay fee** and **accept limited advertising**
 - **Varying** levels of success
 - Examples: Wall Street Journal and New York Times
- **ESPN** leverages **brand name** from cable TV
 - Sells **advertising**; offers free information and also collects **subscription** revenue for its Insider service
- **Consumers Union** (ConsumerReports.org)
 - **Subscription-supported site** with no advertising
 - Provides **some free information** to attract subscribers and fulfill mission

Advertising-Supported	Advertising-Subscription Mixed Supported	
Most or All Content Free to All Visitors	Substantial Content Free to All Visitors	Most Content Available Only to Subscribers
<i>The Boston Globe</i> <i>Cleveland Plain Dealer</i> <i>Financial Times</i> <i>Newsweek</i> <i>InStyle</i> <i>PC Magazine</i> <i>San Francisco Chronicle</i> <i>Smithsonian</i> <i>Time</i>	<i>BusinessWeek</i> <i>Chronicle of Higher Education</i> <i>Forbes</i> <i>Inc. Magazine</i> <i>The Los Angeles Times</i> <i>The New York Times</i> <i>The Washington Post</i>	<i>The Economist</i> <i>Foreign Affairs</i> <i>Harvard Business Review</i> <i>National Geographic</i> <i>Nature</i> <i>Scientific American</i> <i>Sports Illustrated</i> <i>Technology Review</i> <i>The Times</i> <i>The Wall Street Journal</i>

FIGURE 3-3 Revenue models used by online editions of newspapers and magazines

Fee-for-Transaction Revenue Models

- **Service fee** charged based on **transaction number or size**
- **Web site** offers visitor transaction information and services **formerly** provided by **a human agent**
- **Disintermediation** occurs when an intermediary (human agent) is removed from the value chain
- **Reintermediation** is the introduction of a new intermediary (fee-for-transaction Web site) into a value chain

Stock Brokerage Firms: Two Rounds of Disintermediation

- Original full-line brokers charged relatively high commissions (for each trade executed) and provided free advice
- 1970s: Deregulation resulted in discount brokers
 - Fast trades, low commissions, no advice
- 1990s: New online brokerage firms took business from discount brokers
 - Firms such as Etrade offered advice and fast, low cost trade execution
- Brokerage firms that survived the 2008 financial crisis and remain today do most of their business online

Insurance Brokers

- **Quotesmith** began business in 1984 as a **policy-quoting service** for independent insurance brokers
 - Begin offering **Internet** policy price quotes directly to public (1996) and **disintermediated** independent insurance agents
- The **General (General Automobile Insurance Services) Web site** provides options for those who have trouble getting insured
 - **Successful** in this niche of the market
- Most major companies offer information and policies for sale on their websites

Event Tickets

- **Web** allows **event promoters** to sell tickets from one **virtual location** to customers **worldwide**
 - Established **agencies** like Ticketmaster **earn a fee** on **every** ticket sold
- Web created **secondary ticket market** (StubHub)
 - **Brokers** connecting ticket owners with buyers
 - **Earn fees** on tickets resold for others, buy ticket blocks
 - **Easy-to-find** central marketplace, facilitating buyer-seller negotiations

Online Banking and Financial Services

- **No** physical product, so **easy** to offer on Web
 - **Slow** to take off due to concerns about **security**
 - Trust has **increased** and 84% of U.S. households use online banking services
- Banks **benefit** from online serving as it **costs** the bank **less** to provide services online
- **Features** offered online
 - Bill presentment service
 - Account aggregation tools

Travel

- **Traditional travel agency** earned commissions for **facilitating a transaction**, e.g., airplane ticket, hotel reservation, auto rental, etc.
- **Online travel sites** generate revenue in **various** ways
 - Collect (sometimes reduced) **commissions** that are paid
 - Run advertising on Web in a **combined advertising-fee revenue model**
 - Traditional travel agents **squeezed out**
- Surviving **smaller** travel agency strategies
 - **Specialize in cruises** with very successful websites
 - **Reintermediation strategy** focuses on specific groups of travelers

Automobile Sales

- Firms such as **Edmunds.com** provide information service to car buyers
 - Offer customers the **ability** to select a specific car at a **price** the firm determines, and finds local dealer willing to sell at the **determined** price, or for a **small premium** over dealer's nominal cost
- Buyer purchases car **without** negotiating with salesperson
 - Firms are **disintermediating** individual **salespeople** and reducing transaction costs
 - Web site: new **intermediary (reintermediation)**
 - Some Web sites run advertising in a **mixed fee-for-transaction and advertising-supported** revenue models (like travel agencies)

Real Estate and Mortgage Loans

- Brokerage firms and individual real estate brokers use **Web sites** to solicit business
 - Most real estate brokers have **strong online presence** including information on properties
 - **Very few** online transactions but plays an **important role** joining buyers with sellers
- 2008 financial crisis dramatically reduced number of mortgage brokers in business
 - Several continue to do business online
- Industry is **resistant** to **disintermediation** caused by online technologies
- The **changes** caused by online elements have been **minor**

Fee-for-Service Revenue Models

- Increasing **variety** of fee-based Web services
 - **Fee** based on the **value** of the service
 - **Range from** games and entertainment to financial advice and professional services of accountants, lawyers, etc.
- **Growing number** of online game sites that relied on advertising in the past now have **premium games**
 - Sold and downloaded or subscription fee
 - “**Hook and pay**” strategy offers limited game for free and small fee for additional game play
 - **Fastest growing segment** is development of games to be played as apps on mobile devices

Fee-for-Service Revenue Models – Professional Services

- State laws **prohibit** some practices on the Web
- Patients or clients may **set appointments online** and some professionals do online consultations
 - Patient/client **privacy** concerns
- **Law on the Web** site offers **legal consultations** to United Kingdom residents
- **CPA Directory** and **lawyer directories** available online in U.S.
- Many Websites provide **general health information** and some now offer **online mental** health services
 - Some conditions **easier** to treat online, e.g., anxiety and depression

Free for Many, Fee for a Few

- **Economics** of manufacturing and selling
 - Physical and digital products are **different**
 - Unit cost **high percentage** of physical products
 - Large up-front cost yet unit cost **very small** for digital products
- Leads to a different **revenue model**
 - Offer basic product to **many** for **free**
 - Charge a **fee** to a **small number** for differentiated products
 - Examples: Yahoo e-mail accounts
 - Inverse logic applied to physical products: free samples to entice sales (cookie samples)

Changing Strategies: Revenue Models in Transition

- Companies must **change revenue** model to meet needs of new and changing Web users
- Some companies **created e-commerce** Web sites
 - Needed many years to grow large enough to become profitable (CNN and ESPN)
- Some companies **changed model** or **went out of business**
- **Case studies** of strategies that evolved from experience and adaptations to change

Subscription to Advertising-Supported Model

- **Slate magazine** (founded by Microsoft) started as an upscale news and current events **site**
- Success expectations were **high**
 - Experienced writers and editors
- Begin charging an **annual subscription fee** after a limited free introductory period
 - Subscription fees did not cover operating costs
 - Now **an advertising-supported site** and part of the Bing portal
 - Likely value to Microsoft is **increase** to **the portal's stickiness**

Advertising-Supported to Advertising-Subscription Mixed Model

- Online magazine **Salon.com**
 - Acclaimed for innovative content
- Initially operated as an **advertising-supported site**
- Now offers optional **subscription version**
 - Motivated by the inability to raise the additional money from investors
 - The premium version of the site now called **Salon Core**
 - Free of advertising
 - Additional content such as downloadable music, e-books, and audio books

Advertising-Supported to Subscription Model

- **Northern Light** search engine includes a database
 - Results include **Web site links** and **abstracts** of its owned content
- Initial revenue source **advertising-supported model** plus a **fee-based information access service**
 - Advertising revenue was insufficient to cover service
- Converted to new **subscription-supported revenue model** with subscriptions to large corporate clients
 - Main products today include Business News, Discovery, SinglePoint and MI Analyst Text Analytics

Multiple Changes to Revenue Models

- **Encyclopedia Britannica** initial Web offerings (1994)
 - Britannica Internet Guide was free
 - Encyclopedia Britannica Online has a **subscription** fee or was offered as part of the CD package
 - Subscription fees were low
- Converted to free **advertiser-supported site** (1999)
 - Advertising revenues insufficient to generate profit
- The **main value** to sell is its reputation and the expertise of its editors, contributors, and advisors
- Returned to **mixed model** in 2001
 - Subscriptions are the major revenue source with additional revenue from online product store sales

Multiple Changes to Revenue Models (Cont'd.)

- **New York Times Web site** started as the mid 1990's as purely **advertising supported**
 - **Subscription fee** for premium crosswords, chess column and archived articles
- **2005:** Additional content required **subscription**
 - Required **subscription** for most desirable content, Op Ed and news columns
 - Brought in about **227,000 subscribers**, **\$10 million** in revenue
- **2007:** Return to **advertising-supported** free access
 - The traffic to the site doubled
 - The recession of 2008 caused the advertising revenue to drop

Multiple Changes to Revenue Models (Cont'd.)

- **2011: Complex mixed revenue model**
- **2012:** Announced apparent success of new model
 - Introduce of **paywall**: 450,000 subscribers gained
 - **Reduced** the number of **free articles** allowed to nonsubscribers to 10 per month
 - Hope mixed revenue model will provide **acceptable balance** between print and online to keep the newspaper operating

Channel Conflict and Cannibalization

- Concerns that Web sales activities will **take away sales from** existing outlets and networks
- In 2000 **Levi stopped** selling products online because of channel conflict and cannibalization
 - **Cannibalization:** because the Web site's sales **consume** sales that would be made in the company's other sales channels
 - Have **started** online sales again due to **agreement** that Web sales are insignificant
 - Provides **Store Locator Links** for those who prefer to shop in person
 - Retailers opened online stores themselves: **less threat**

Channel Conflict and Cannibalization (cont'd.)

- **Reason:** the company has established sales channels that would **compete with** direct sales on the company's own Web site
- **Eddie Bauer** was selling through **catalogs** and **retail stores** when it started selling on the Web
 - Online purchases returnable at retail stores
 - Required manager compensation and bonus plans adjustments to support Web site
 - Retail managers credited for each Web site return (additional allowance)
 - Catalog managers credited for existing customers who purchased through Web site
- Overall sales increased through the coordinated efforts
 - **Channel cooperation** made it successful

Strategic Alliances

- Two or more companies **join forces** to undertake an activity over long time period
 - Relationship **Levi's** created with retail partners
- **Amazon.com** has formed several strategic alliances
 - **Target** to sell clothing
 - **CDnow** to sell music CDs
 - Many **smaller companies** to offer their products for sale on the Amazon Web site

Luxury Goods Strategies

- Products can be **difficult** to sell online
 - Customers want to see product **in person** or touch
 - Brands hesitated selling online **for fear of** alienating upscale physical stores that sold products
- Some sites **limit** online offerings
 - **Chanel** only offers fragrance and skincare only (no clothing line)
 - **Calvin Klein** only sells ready-to-wear on Web site (no couture line)
- **Jewelry** sales have grown rapidly in recent years
 - Blue Nile, Ice.com, and Costco are **successful** due to availability of **independent appraisal certificates** and “**No questions asked**” **return policies**

Overstock Sales Strategies

- Selling **overstock** items as **clearance specials** on Web sites have allowed retailers like **Lands' End** to **close** some of its physical outlet stores
- Many retail Web sites include **link** to **separate sections** for overstock or clearance items
- Online store **reaches more people** than a physical store with frequent updates possible
- Websites such as **Overstock.com** are devoted entirely to the sale of **overstocked items** purchased from other retailers

Summary



- ❑ What a revenue model is and how companies use various revenue models online
- ❑ Which characteristics identify specific revenue models
- ❑ How some companies experiment with alternative revenue models to achieve success
- ❑ About revenue strategy choices that companies face when selling online