UNIT-2
E-commerce Business Model

⊛ Introduction:

A business model is a set of planned activities designed to result in a profit in a marketplace. The business model spells out how a company makes money by specifying where it is positioned in the value chain. An e-commerce business model aims to use and hold the unique qualities of the Internet, the Web, and the mobile platform.

⊛. Elements of a business model:

Whether it is traditional commerce or e-commerce, a successful business model must address following key elements:

1) Value proposition: It defines how a company's product or service fulfills the needs of customers. From the customer point of view, successful e-commerce value propositions include personalization and customization of product offerings, reduction of production search costs, and facilitation of transactions by managing product delivery. Example: buying a book in traditional commerce vs. Amazon.

2) Revenue Model: A firm's revenue model describes how the firm will earn revenue, generate profits, and produce a superior return on invested capital. Profits alone are not sufficient to make a company "successful", also a firm must produce returns greater than alternative investments to be successful.

3) Market Opportunity: The term market opportunity refers to the company's intended marketspace and the overall potential financial opportunities available to the firm in that market space. It is defined by the revenue potential in each of the smaller market where we hope to compete.

4> **Competitive Environment:** A firm's competitive environment refers to the other companies selling similar products and operating in the same marketspace. Firms typically have both direct and indirect competitors. Direct competitors are companies that sell products and services that are very similar and into the same market segment. Indirect competitors are companies that may be in different industries but still compete indirectly because their products can substitute for one another.

5> **Competitive advantage:** Competitive advantage is achieved by a firm when it can produce a superior product and/or bring the product to market at a lower price than most, or all, of its competitors.

6> **Market strategy:** Any business concept fails if it is not properly marketed to the potential customers. Everything we do to promote our company's products and services to potential customers is known as marketing.

7> **Organizational development:** It is the plan that describes how the company will organize the work that needs to be accomplished. Typically work is divided into functional departments such as, production, shipping, marketing, customer support, and finance.

8> **Management team:** A strong management team gives a model instant credibility to outside investors, immediate market-specific knowledge, and experience in implementing business plans. A strong management team may not be able to recover a weak business model, but the team should be able to change the model and redefine the business as it becomes necessary.

⊛. Types of Revenue Models:

1) Advertising model: In this model, a company that offers content, services, and/or products also provides a forum for advertisements and receives fees from advertisers. Google, for instance, derives a significant amount of revenue from display and video advertising.

2) Subscription model: In this model, a company that offers content or services charges a subscription fee for access to some or all of its offerings. Netflix is an example which takes subscription fee for streaming videos.

3) Transaction fee model: In this model, a company receives a fee for enabling or executing a transaction. For example, eBay provides an auction marketspace and receives a small transaction fee from seller if the seller is successful in selling the item.

4) Sales model: In this model, a company sells goods, information, or services. Amazon is it's example.

5) Affiliate model: In this model, companies to an "affiliate" receive a referral fee or percentage of the revenue from any resulting sales.

⊛. B2C Business Models:

1) E-tailer: E-tailer are the online retail store. They come in all sizes, from giant Amazon to tiny local stores that have Web sites. Every Internet and smartphone user is a potential customer. Customers can place an order and pay electronically. It is product-based, with customers paying for the purchase of particular item.

2) Community Provider: Community providers create an online environment where people with similar interests can buy and sell goods; share interests, photos, videos; communicate

with like-minded people etc. Facebook, LinkedIn, Twitter etc. Social networks all offer users community-building tools and services.

3> **Content Provider:** Content providers distribute information content, such as digital video, music, photos, text and artwork. Content providers can make money via a variety of different revenue models, including advertising, subscription fees, and sales of digital goods. For instance, in the case of Apple Music, a monthly subscription fee provides users with access to millions of music tracks.

4> **Portal:** Portals offer users powerful search tools as well as an integrated package of content and services, such as news, e-mail, instant messanging, shopping, video streaming and more, all in one place. Yahoo, MSN are its examples. Portals generate revenue from advertising.

5> **Transaction Broker:** Companies that process transactions for consumers normally handled in person, by phone, or by mail are transaction brokers. Transaction brokers make money each time a transaction occurs. Example: Online stock brokers, Air ticket booking.

6> **Market Creator:** Market creators build a digital environment in which buyers and sellers can meet, display and search for products and services, and establish prices. Market creators make money by either charging a percentage of every transaction made, or charging merchants for access to the market. Example: eBay.

7> **Service Provider:** Service provides offer services online instead of products. They generate revenue by charging fee, or monthly subscriptions, through advertising etc. For example: online medical bill management, travel recommendation etc.

B2B Business Models:

1) **Network Market Places:** Network market places are the online market places where different business vendors can gather and do transaction.

a) **E-distributor:** Companies that supply products and services directly to individual businesses are distributors. E-distributors are owned by one company seeking to serve many customers. With e-distributors, the more products and services a company makes available on its site, the more attractive that site is to potential customers.

b) **E-Procurement:** Procurement is the process of finding and agreeing to terms, and acquiring goods or services. It helps ~~in buying~~ to decide market value of the product or service being purchased by a company. Right price, timely delivery, right quality, right quantity, etc. are major components of procurement.

c) **Exchange market:** An exchange market is an independent digital marketplace where hundreds of suppliers meet a smaller number of very large commercial purchasers. They focus on the exchange of direct inputs to production and short-term contracts or spot purchasing.

d) **Industry consortium:** These are industry-owned vertical marketplaces that serve specific industries, such as the automobile, aerospace, chemical etc.

2) **Private Industrial Networks:** A private industrial network is a digital network designed to coordinate the flow of communications among firms engaged in business together. The network is owned by a single large purchasing firm. It constitute about 75% of all B2B expenditures.

For instance, Walmart operates one of the largest private industrial networks in the world for its suppliers, who on a daily basis use Walmart's network to monitor the sales of their goods, the status of shipments, and the actual inventory level of their goods.

⊛. Electronic Data Interchange (EDI):

EDI is a communications standard for sharing business documents and settlement information among business partners or companies. It is a set of standards for structuring information that is to be electronically exchanged between and within business, organizations, government entities and other groups, without human intervention. EDI was developed to reduce the cost, delays, and errors present in the manual exchanges of documents such as purchase orders, shipping documents, price lists, payments, and customer data.

Companies use EDI systems for exchanging business information automatically by computer systems as transactions without paper and hence minimizes the human intervention. EDI is generally used for B2B transactions. Common EDI documents include:

→ Purchase order
→ Invoice
→ Shipping request
→ Acknowledgement.

⊛. EDI Layered Architecture:

EDI layered architecture includes 4 layers:

1) Application Layer: The first layer of EDI is application layer which defines the business applications that are used by EDI. This layer of EDI translates business application into request for quotes, purchase orders, acknowledgement and invoices. For every company, this layer is specific.

2) Standard Layer: This layer of EDI architecture defines the structures of the business form and some content which are related with the application layer. It is interlinked with application layer.

3) Transport layer: EDI transport layer is a non-electronic way of sending the business form from one company to another. This non-electronic way may be registered mail, postal services or private career, telecommunications, fax etc. Nowdays the transportation method is more complex with compared to e-mail.

4) Physical Layer: The physical layer of EDI is also called the infrastructure layer. This layer defines the component communication path for EDI data transaction. This layer includes various media such as Dial up lines, Internet, Private networks etc.

⊛ E-commerce and Industry Value Chain:

Value chain is an interconnected set of value-adding activities for a product from it's raw inputs to final products and services. By reducing the cost of information, e-commerce offers each of the key players (Suppliers, Manufactors, Distributors, Transporters, Retailers, Customers) in an industry value chain new opportunity to maximize their positions by lowering costs and/or raising prices.

→ Manufacturers can reduce the costs they pay for goods by developing Internet-based B2B exchanges with their suppliers.

→ Distributors can develop highly efficient inventory management systems to reduce their costs.

→ Customers in turn can search for the best quality, fastest delivery, and lowest prices.

⊛. Firm Value Chains:

The set of activities a firm engages in to create final products from raw inputs is called as firm value chain. The concept of value chain can be used to analyze a single firm's operational efficiency as well. Each step in the process of production adds value to the final product.

Every firm can be characterized by a set of value-adding primary and secondry activities performed by a variety of actors in the firm. A simple firm value chain performs five primary value-adding steps, they are:

→ Inbound logistics
→ Operations
→ Outbound logistics
→ Sales and marketing
→ After sales service.

⊛. Firm Value Webs:

A value web is a networked business ecosystem that uses e-commerce technology to coordinate the value chains of business partners within an industry, or at the first level, to coordinate the value chains of a group of firms. E-commerce creates new opportunities for firms to cooperate and create a value web. Firms use the Internet to develop close relationships with their logistics partners. For example, Amazon relies on UPS tracking systems to provide its customers with online package tracking, and it relies on the U.S. Postal Service systems to insert packages directly into the mail stream.