

# E-Commerce 2018: Business. Technology. Society

Fourteenth Edition



## Chapter 2

E-Commerce Business  
Models and Concepts

# Learning Objectives

**2.1** Identify the key components of e-commerce business models.

**2.2** Describe the major B2C business models.

**2.3** Describe the major B2B business models.

**2.4** Understand key business concepts and strategies applicable to e-commerce.

# Tweet Tweet: Will Twitter Ever Find a Business Model That Works?

- Class Discussion
  - What characteristics or benchmarks can be used to assess the business value of a company such as Twitter?
  - Have you used Twitter to communicate with friends or family? What are your thoughts on this service?
  - What are Twitter's most important assets?
  - Which of the various methods described for monetizing Twitter's assets do you feel might be most successful?

# E-Commerce Business Models

- Business model
  - Set of planned activities designed to result in a profit in a marketplace
- Business plan
  - Describes a firm's business model
- E-commerce business model
  - Uses/leverages unique qualities of Internet and Web

# Eight Key Elements of a Business Model

1. Value proposition
2. Revenue model
3. Market opportunity
4. Competitive environment
5. Competitive advantage
6. Market strategy
7. Organizational development
8. Management team

# 1. Value Proposition

- “Why should the customer buy from you?”
- Successful e-commerce value propositions:
  - Personalization/customization
  - Reduction of product search, price discovery costs
  - Facilitation of transactions by managing product delivery

## 2. Revenue Model

- “How will you earn money?”
- Major types of revenue models:
  - Advertising revenue model
  - Subscription revenue model
    - Freemium strategy
  - Transaction fee revenue model
  - Sales revenue model
  - Affiliate revenue model

# Insight on Society: Foursquare: Check Your Privacy at the Door

- Class discussion:
  - What revenue model does Foursquare use? What other revenue models might be appropriate?
  - Are privacy concerns the only shortcoming of location-based mobile services?
  - Should business firms be allowed to text or call mobile devices with advertising messages based on location?



### 3. Market Opportunity

- “What marketspace do you intend to serve and what is its size?”
  - Marketspace: Area of actual or potential commercial value in which company intends to operate
  - Realistic market opportunity: Defined by revenue potential in each market niche in which company hopes to compete
- Market opportunity typically divided into smaller niches

## 4. Competitive Environment

- “Who else occupies your intended marketspace?”
  - Other companies selling similar products in the same marketspace
  - Includes both direct and indirect competitors
- Influenced by:
  - Number and size of active competitors
  - Each competitor’s market share
  - Competitors’ profitability
  - Competitors’ pricing

# 5. Competitive Advantage

- “What special advantages does your firm bring to the marketplace?”
  - Is your product superior to or cheaper to produce than your competitors’?
- Important concepts:
  - Asymmetries
  - First-mover advantage, complementary resources
  - Unfair competitive advantage
  - Leverage
  - Perfect markets

## 6. Market Strategy

- “How do you plan to promote your products or services to attract your target audience?”
  - Details how a company intends to enter market and attract customers
  - Best business concepts will fail if not properly marketed to potential customers

# 7. Organizational Development

- “What types of organizational structures within the firm are necessary to carry out the business plan?”
- Describes how firm will organize work
  - Typically, divided into functional departments
  - As company grows, hiring moves from generalists to specialists

## 8. Management Team

- “What kind of backgrounds should the company’s leaders have?”
- A strong management team:
  - Can make the business model work
  - Can give credibility to outside investors
  - Has market-specific knowledge
  - Has experience in implementing business plans

# Raising Capital

- Seed capital
- Elevator pitch
- Traditional sources
  - Incubators, angel investors
  - Commercial banks, venture capital firms
  - Strategic partners
- Crowdfunding
  - JOBS Act

# Insight on Business: Crowdfunding Takes off

- Class Discussion
  - What types of projects and companies might be able to most successfully use crowdfunding?
  - Are there any negative aspects to crowdfunding?
  - What obstacles are presented in the use of crowdfunding as a method to fund startups?



# Categorizing E-Commerce Business Models

- No one correct way
- Text categorizes according to:
  - E-commerce sector (e.g., B2B)
  - E-commerce technology (e.g., m-commerce)
- Similar models appear in different sectors
- Companies may use multiple business models (e.g., eBay)
- E-commerce enablers

# B2C Business Models

- E-tailer
- Community provider (social network)
- Content provider
- Portal
- Transaction broker
- Market creator
- Service provider

# B2C Models: E-Tailer

- Online version of traditional retailer
- Revenue model: Sales
- Variations:
  - Virtual merchant
  - Bricks-and-clicks
  - Catalog merchant
  - Manufacturer-direct
- Low barriers to entry

# B2C Models: Community Provider

- Provide online environment (social network) where people with similar interests can transact, share content, and communicate
  - Examples: Facebook, LinkedIn, Twitter, Pinterest
- Revenue models:
  - Typically hybrid, combining advertising, subscriptions, sales, transaction fees, and so on

# B2C Models: Content Provider

- Digital content on the Web:
  - News, music, video, text, artwork
- Revenue models:
  - Use variety of models, including advertising, subscription; sales of digital goods
  - Key to success is typically owning the content
- Variations:
  - Syndication
  - Aggregators

# Insight on Technology: Will the Connected Car Become the next Hot Entertainment Vehicle?

- Class Discussion
  - What value does the Internet of Things (IoT) have for businesses?
  - What impact does the IoT have on the content industry?
  - What impact does the IoT have on vehicles?
  - Are there any disadvantages to “connected” cars?

# B2C Business Models: Portal

- Search plus an integrated package of content and services
- Revenue models:
  - Advertising, referral fees, transaction fees, subscriptions for premium services
- Variations:
  - Horizontal/general
  - Vertical/specialized (vortal)
  - Search

# B2C Models: Transaction Broker

- Process online transactions for consumers
  - Primary value proposition—saving time and money
- Revenue model:
  - Transaction fees
- Industries using this model:
  - Financial services
  - Travel services
  - Job placement services



# B2C Models: Market Creator

- Create digital environment where buyers and sellers can meet and transact
  - Examples: Priceline, eBay
  - Revenue model: Transaction fees, fees to merchants for access
- On-demand service companies (sharing economy): platforms that allow people to sell services
  - Examples: Uber, Airbnb

# B2C Models: Service Provider

- Online services
  - Example: Google—Google Maps, Gmail, and so on
- Value proposition
  - Valuable, convenient, time-saving, low-cost alternatives to traditional service providers
- Revenue models:
  - Sales of services, subscription fees, advertising, sales of marketing data

# B2B Business Models

- Net marketplaces
  - E-distributor
  - E-procurement
  - Exchange
  - Industry consortium
- Private industrial network

# B2B Models: E-Distributor

- Version of retail and wholesale store, MRO goods, and indirect goods
- Owned by one company seeking to serve many customers
- Revenue model: Sales of goods
- Example: Grainger

# B2B Models: E-Procurement

- Creates digital markets where participants transact for indirect goods
  - B2B service providers, SaaS and PaaS providers
  - Scale economies
- Revenue model:
  - Service fees, supply-chain management, fulfillment services
- Example: Ariba

# B2B Models: Exchanges

- Independently owned vertical digital marketplace for direct inputs
- Revenue model: Transaction, commission fees
- Create powerful competition between suppliers
- Tend to force suppliers into powerful price competition; number of exchanges has dropped dramatically

# B2B Models: Industry Consortia

- Industry-owned vertical digital marketplace open to select suppliers
- More successful than exchanges
  - Sponsored by powerful industry players
  - Strengthen traditional purchasing behavior
- Revenue model: Transaction, commission fees
- Example: SupplyOn

# Private Industrial Networks

- Digital network used to coordinate among firms engaged in business together
- Typically evolve out of large company's internal enterprise system
  - Key, trusted, long-term suppliers invited to network
- Example: Walmart's network for suppliers



# How E-Commerce Changes Business

- E-commerce changes industry structure by changing:
  - Rivalry among existing competitors
  - Barriers to entry
  - Threat of new substitute products
  - Strength of suppliers
  - Bargaining power of buyers
- Industry structural analysis