**Business Models for e-commerce**

E-commerce Notes

[Chapter2: Business Models for e-commerce](#8) [.........................................1](#8)

[2.0 Introduction:](#8) [..................................................................................................1](#8)

[2.01 Business-to-Business (B2B)](#8) [......................................................................1](#8)

[2.02 Business-to-Consumer (B2C)............................................................................1](#8)

[2.03 Business-to-Government (B2G)](#8) [..............................................................1](#8)

[2.1 Developing a Business Model..................................................................1](#8)

[2.20 Developing the e-commerce Business Model](#9) [...................................2](#9)

[2.21 Examples of e-commerce business models](#9) [................................2](#9)

[2.22 Types of E-Commerce where the models can be used](#10) [.........................3](#10)

[2.30 THE BENEFITS OF ELECTRONIC COMMERCE](#11) [.......................................4](#11)

[2.31 Benefits to Organizations.............................................................................4](#11)

[2.32 Benefits to consumers.........................................................................4](#11)

[2.33 Benefits to society..........................................................................................5](#12)

[2.34 The Limitations of EC............................................................................................5](#12)

[Exercise..................................................................................................................................5](#12)

**2.0 Introduction:**

A business model describes architecture for product, service and information flows, including a description of the various business actors and their roles.

In addition, it also describes the potential benefits for the various actors and the source of revenue. The section of a business model that describes how financial value is generated is called a ***revenue model***. Business models are used to generate the following modes of e-commerce:

a) Business-to-Business (B2B)

b) Business-to-Consumer (B2C)

c) Business-to-Government (B2G)

**2.01 Business-to-Business (B2B)**

• Refers to business transactions involving two or more businesses.

• Both businesses must provide a means for exchanging business documents.

• It is particularly common among large organizations

• Some of its aspects of B2B include:

o Electronic funds transfer

o Electronic payment fulfillment

o Electronic tracking of transactions

**2.02 Business-to-Consumer (B2C)**

• Involves a seller (business) and consumers

• The business is the information source while the customer is the information seeker.

**2.03 Business-to-Government (B2G)**

• Involves government agencies/ departments and a business

• Could be operated like B2C or B2B

**2.1 Developing a Business Model**

A business model represents the activities of a business including:

i). Activity models which describe what a business does

ii). Process models which describe how a business accomplishes what it does

iii). Data models which represent information structure of a business.

**2.20 Developing the e-commerce Business Model**

E-commerce strategies are best when driven by business strategy. They must be technically feasible & financially viable.

Developing the e-commerce Business Model requires one to dissect the buying/selling process into elements & then, think about whether you can apply internet technology. It also requires one to analyze how the other party’s needs are changing from a business perspective, and thinking whether you can address them.

**2.21 Examples of e-commerce business models**

**a).** **E-shop (virtual Storefront):**

This refers to web marketing of a company or a shop with the main goal being to sell goods and services. Other goals include promoting the company and cost reduction of business processes.

Revenue is realized from reduced costs, increased sales, affiliates, and advertising whereas the main challenge is to develop strategies to increase demand.

**Problems:**

1. Current access speeds and hardware/software configurations make online shopping frustrating

2. Online shopping is not as immediate as real-world experiences.

3. Security and privacy are major issues.

4. Consumer behavior issues are relatively unknown e.g. marketing, getting repeat customers, using promotions and incentives effectively

**b).** **Market aggregators**

**i).** **E-mall:**

This is a collection of e-shops, under a common umbrella and may have the following characteristics:

i). A common payment method (one shopping cart)

ii). A single entry point to individual e-shops

iii). Industry (or horizontal) marketplace. ‘Stores’ belong to an identified market segment

iv). The main challenge for stores is to distinguish themselves

**ii).** **Virtual communities:**

The value of virtual communities comes from members’ loyalty (customers or partners) and repeat visits. They add their information to a basic environment provided by the virtual community company**.** The membership fees and advertising are two main sources of revenue

A virtual community can also be an important add-on to other marketing operations. It can be used to build customer loyalty and receive customer feedback.

**c).** **Market integrator**

This is a company that brings buyers and sellers in a specific market sector together. It has the following characteristics:

1. The company provide the setting for business

2. The company is a disinterested third party

3. It generates revenue from transaction fees

4. Some charge sellers a listing fee as well

5. It can sell premium services (security, logistics)

6. Problem is achieving and sustaining critical mass

**d).** **E-Procurement**

Refers to electronic tendering & procurement of goods/services

Benefits include:

i). For buyer: wider choice of suppliers, better quality, improved delivery and reduced cost of

procurement

ii). For supplier: more tendering opportunities, lower cost of submission, potential

collaborative tendering (i.e. for parts of tender)

**e).** **The auction model**

This is a site which provides the “virtual space” for an ongoing auction. People register with the site to participate. All types of digital and non-digital products are being sold. The site makes money by taking a commission on all sales. The main challenge is the development of trust which is essential to the success of this business model

**f).** **Information Services**

This model involves adding value to data e.g. information searches, customer profiling, investment advice, business opportunity brokerage, business intelligence services). Members may pay on subscription, or per use.

Other information services include certification authorities (e.g. eTrust, Verisign) which offer services of authentication, verification

**2.22 Types of E-Commerce where the models can be used**

 Electronic Data Exchange

 Brochureware

 Help Desk and Support

 Electronic Transactions

 Consumer Purchases

 Advertising

 Application Service Providers (ASPs)

**a.** **Electronic Data Exchange**

This occurs in Business-to-Business E-commerce. It involves the use of messages based on standards such as:

 ANSI X.12

 UN EDIFACT

It uses Industry Based Schemas. The transport Mechanisms applied includes private network/brokers or direct via internet

One of the areas of interest in its application is procurement

**b.** **Brochureware**

This type of E-Commerce involves sites whose main aim is to provide product service information. It includes:

i). Electronic Catalogues

ii). Indexes and Search Engines

iii). Distribution Methods such as CD-ROMs, Dial-Up Networking and Internet Web Sites.

iv). Distribution Formats such as HTML and PDF Documents.

**c.** **Help Desk and Support**

It covers the following areas:

a) Product or Service Documentation provided via CD-ROMs, Downloadable PDFs and On-

Line Web Sites

b) Knowledgebase and FAQs

c) Message Boards and News Groups

d) Problem Submission

**d.** **Electronic Transactions**

It includes fields such as:

a) Electronic Funds Transfers (EFT) done by financial institutions via private networks

b) Bill Payments

c) Credit card payments which involve consumers, merchants, processors and financial institutions.

**e.** **Consumer Purchases**

It includes:

a). Direct Delivery Services of Hard and/or Soft Goods

b). Intellectual property which mainly involves downloadable files and subscriptions.

**f.** **Advertising**

Covers areas such as:

a. Web Banner Ads

b. SPAM

c. Trial Offers and Coupons

d. Trial Use Intellectual Property

**g.** **ASPs-Application service providers**

Covers businesses such as web hosting services

**2.30 THE BENEFITS OF ELECTRONIC COMMERCE**

**2.31 Benefits to Organizations**

1. Expands the marketplace to national and international markets
2. Decreases the cost of creating, processing, distributing, storing and retrieving paper-based information
3. Allows reduced inventories and overhead by facilitating pull-type supply chain management
4. The pull-type processing allows for customization of products and services which provides competitive advantage to its implementers
5. Reduces the time between the outlay of capital and the receipt of products and services
6. Supports business processes reengineering (BPR) efforts

7. Lowers telecommunications cost - the Internet is much cheaper than value added networks

(VANs)

**2.32 Benefits to consumers**

1. Enables consumers to shop or do other transactions 24 hours a day, all year round from almost any location

2. Provides consumers with more choices

3. Provides consumers with less expensive products and services by allowing them to shop in many places and conduct quick comparisons

4. Allows quick delivery of products and services (in some cases) especially with digitized products

5. Consumers can receive relevant and detailed information in seconds, rather than in days or weeks

6. Makes it possible to participate in virtual auctions

7. Allows consumers to interact with other consumers in electronic communities and exchange ideas as well as compare experiences

8. Facilitates competition, which results in substantial discounts

**2.33 Benefits to society**

1. Enables more individuals to work at home, and to do less traveling for shopping, resulting in less traffic on the roads, and lower air pollution

2. Allows some merchandise to be sold at lower prices, benefiting less affluent people

3. Enables people in Third World countries (e.g. Kenya) and rural areas to enjoy products and services which otherwise are not available to them

4. Facilitates delivery of public services at a reduced cost, increases effectiveness, and/or improves quality

**2.34 The Limitations of EC**

The limitations of E-commerce are mainly technical and include:

1. Lack of universally accepted standards for quality, security, and reliability

2. The telecommunications bandwidth is insufficient

3. Software development tools are still evolving

4. Difficulties in integrating the Internet and EC software with some existing (especially legacy) applications and databases.

5. Special Web servers in addition to the network servers are needed (added cost).

6. Internet accessibility is still expensive and/or inconvenient