



Chapter 2a

E-commerce Business Models and Concepts



Learning Objectives

- Identify the key components of e-commerce business models
- Describe the major B2C business models
- Describe the major B2B business models
- Recognize business models in other emerging areas of e-commerce
- Understand key business concepts and strategies applicable to e-commerce

Online Groceries: Up from the Embers

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Online Groceries: Up from the Embers

- Failure of Webvan.com raised serious questions about online groceries as viable business model
- However, by 2003, some online grocers are experiencing 40% annual growth rates
- Traditional firms experiencing success:
 - Safeway Stores
 - Royal Ahold (Stop & Shop; Peapod.com)
 - Tesco
- FreshDirect: Focuses on fresh (perishable), high-quality items at 25% below NYC grocer prices. Value proposition – convenience and time savings, and also high quality at lower prices



E-commerce Business Models— Introduction

- Business model – set of planned activities designed to result in a profit in a marketplace
- Business plan – document that describes a firm's business model
- E-commerce business model – aims to use and leverage the unique qualities of Internet and Web

Key Ingredients of a Business Model

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TABLE 2.1 KEY INGREDIENTS OF A BUSINESS MODEL	
COMPONENTS	KEY QUESTIONS
Value proposition	Why should the customer buy from you?
Revenue model	How will you earn money?
Market opportunity	What marketplace do you intend to serve, and what is its size?
Competitive environment	Who else occupies your intended marketplace?
Competitive advantage	What special advantages does your firm bring to the marketplace?
Market strategy	How do you plan to promote your products or services to attract your target audience?
Organizational development	What types of organizational structures within the firm are necessary to carry out the business plan?
Management team	What kinds of experiences and background are important for the company's leaders to have?

Value Proposition

- Defines how a company's product or service fulfills the needs of customers
- Questions to ask:
 - Why will customers choose to do business with your firm instead of another?
 - What will your firm provide that others do not or cannot?
- Examples of successful value propositions include:
 - Personalization/customization
 - Reduction of product search costs
 - Reduction of price discover costs
 - Facilitation of transactions by managing product delivery



Revenue Model

- Describes how the firm will earn revenue, generate profits, and produce a superior return on invested capital
- Terms financial model and revenue model often used interchangeably
- Major types:
 - Advertising revenue model
 - Subscription revenue model
 - Transaction fee revenue model
 - Sales revenue model
 - Affiliate revenue model



Advertising Revenue Model

- Web site that offers content, services and/or products also provides a forum for advertisements and receives fees from advertisers
- Example: Yahoo.com

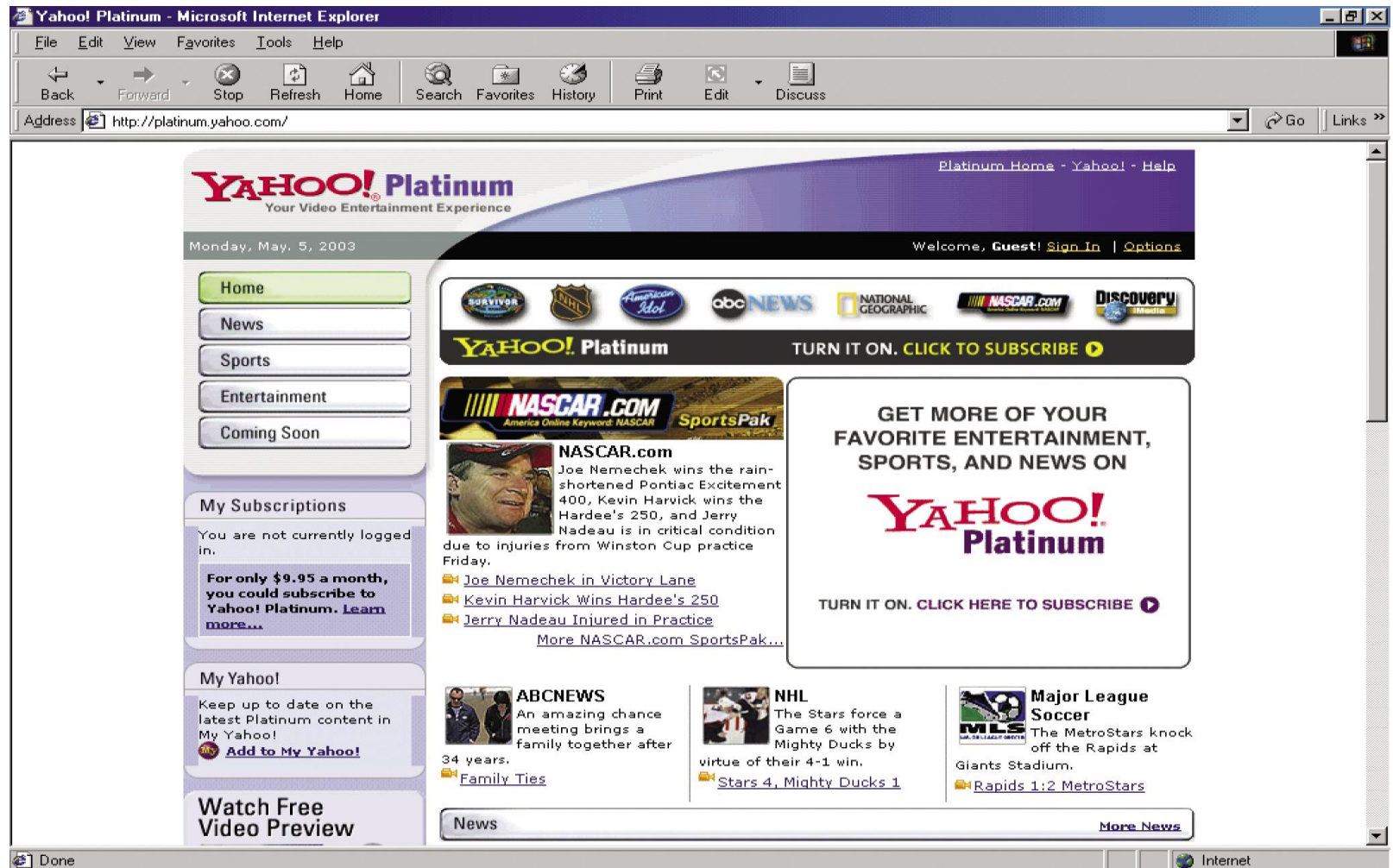


Subscription Revenue Model

- Web site that offers users content or services charges a subscription fee for access to some or all of its offerings
- Examples:
 - Consumer Reports Online
 - Yahoo! Platinum

Yahoo Uses a Subscription Business Model for Yahoo Platinum

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Transaction Fee Revenue Model

- Company that receives a fee for enabling or executing a transaction
- Examples:
 - eBay.com
 - E-Trade.com



Sales Revenue Model

- Company derives revenue by selling goods, information, or services to customers
- Examples:
 - Amazon.com
 - LLBean.com
 - Gap.com

Amazon Uses a Sales Revenue Model

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The screenshot shows the Amazon.com homepage as it appeared in the late 1990s, viewed through a Netscape browser. The browser's address bar shows the URL: <http://www.amazon.com/exec/obidos/subst/home/home.html/002-5063951-9277640>. The page features a top navigation bar with links for 'VIEW CART', 'WISH LIST', 'YOUR ACCOUNT', and 'HELP'. Below this is a category bar with links for 'WELCOME', 'KEN'S STORE', 'BOOKS', 'APPAREL & ACCESSORIES', 'ELECTRONICS', 'TOYS & GAMES', 'MAGAZINE SUBSCRIPTIONS', 'TOOLS & HARDWARE', and 'SEE MORE STORES'. A 'Ken's Gold Box' is also visible. The main content area includes a search bar, a personalized greeting for 'Ken Laudon' with a recommendation for 'Harry Potter and the Chamber of Secrets', a promotion for the Amazon.com Visa Card offering a \$30 discount, and a 'NEW FOR YOU' section. On the left, there are sections for 'WEB SEARCH' (powered by Google) and 'BROWSE' (with links to 'Apparel & Accessories', 'Office Products', 'Books, Music, DVD', 'Books', 'DVD', and 'Magazine'). At the bottom, there is a quiz titled 'Answer the following question correctly and we'll put a nickel in your Amazon account' with a true/false question about Amazon's magazine subscriptions.

Amazon.com--Earth's Biggest Selection - Netscape

File Edit View Go Communicator Help

Back Forward Reload Home Search Netscape Print Security Stop

Bookmarks Location: <http://www.amazon.com/exec/obidos/subst/home/home.html/002-5063951-9277640> What's Related

Amazon Exclusive!! Order a Segway now! It's only at Amazon

amazon.com

VIEW CART | WISH LIST | YOUR ACCOUNT | HELP

WELCOME KEN'S STORE BOOKS APPAREL & ACCESSORIES ELECTRONICS TOYS & GAMES MAGAZINE SUBSCRIPTIONS TOOLS & HARDWARE SEE MORE STORES

INTERNATIONAL TOP SELLERS TARGET TODAY'S DEALS SELL YOUR STUFF

Buying for your business, organization, or school? You need a [corporate account](#).

SEARCH

All Products

GO!

FREE Super Saver Shipping on orders over \$25! Restrictions apply

WEB SEARCH

GO!

Powered by Google

BROWSE

Featured Stores

- Apparel & Accessories
- Office Products

Books, Music, DVD

- Books
- DVD
- Magazine

Hello, Ken Laudon. We have [recommendations](#) for you. (If you're not Ken Laudon, [click here](#).)

Get the Amazon.com Visa® Card!

Apply today and Save \$30 on your first purchase

Find out how

Save 40% on [Harry Potter and the Chamber of Secrets](#), now available on DVD.

Answer the following question correctly and we'll put a nickel in your Amazon account

True or False: Amazon.com Magazine Subscriptions offers over 20 times the number of magazines found at the newsstand. Hint: The typical newsstand has fewer than 2,500 magazines.

☐ False

☐ True

There's Still Time Choose Mother's Day Guaranteed Shipping to get it there by May 11.

NEW FOR YOU

Ken, check out what's New for You: (If you're not Ken Laudon, [click here](#).)

Your Message Center

You have 5 new messages.

Your Shopping Cart

You have 3 items in your Shopping Cart.

Your New Releases

By Author

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Affiliate Revenue Model

- Sites that steer business to an “affiliate” receive a referral fee or percentage of the revenue from any resulting sales
- Example:
 - MyPoints.com

Five Primary Revenue Models

Table 2.2, Page 66

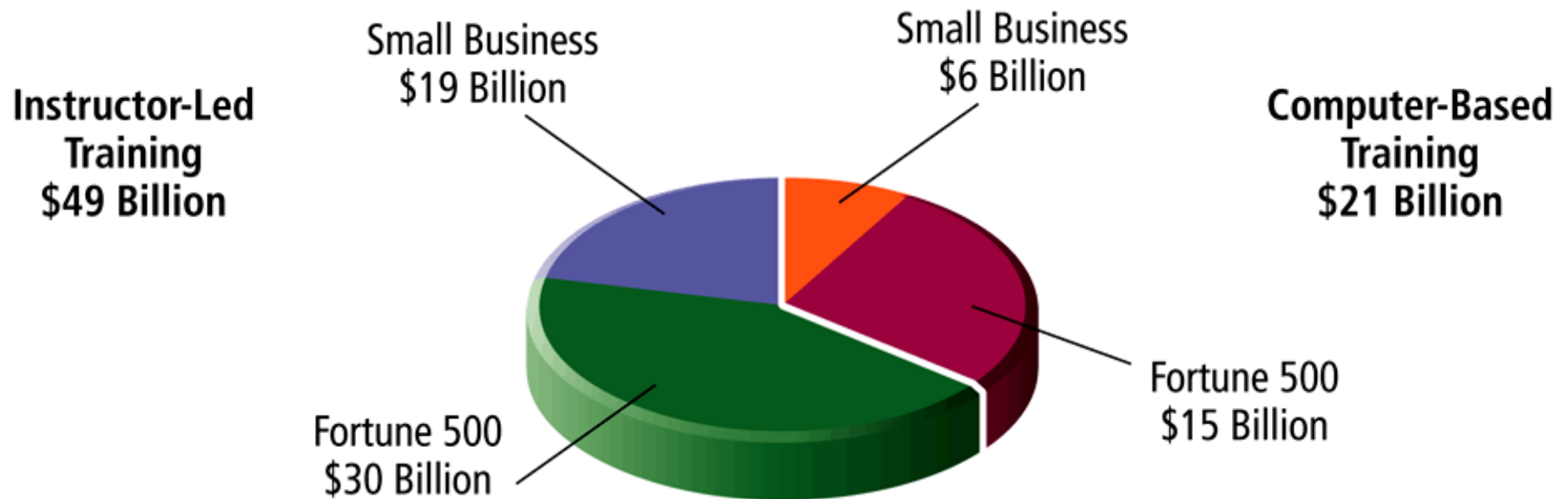
TABLE 2.2 FIVE PRIMARY REVENUE MODELS		
REVENUE MODEL	EXAMPLES	REVENUE SOURCE
Advertising	Yahoo.com	Fees from advertisers in exchange for advertisements
Subscription	WSJ.com, Consumerreports.org Sportsline.com	Fees from subscribers in exchange for access to content or services
Transaction Fee	eBay.com, E-Trade.com	Fees (commissions) for enabling or executing a transaction
Sales	Amazon.com, LLBean.com, Gap.com, Sears.com, JCPenny.com	Sales of goods, information, or services
Affiliate	MyPoints.com	Fees for business referrals

Market Opportunity

- Refers to a company's intended marketspace and the overall potential financial opportunities available to the firm in that marketspace
- Marketspace – the area of actual or potential commercial value in which a company intends to operate
- Realistic market opportunity is defined by revenue potential in each of market niches in which company hopes to compete

Marketspace and Market Opportunity in the Software Training Market

Figure 2.1, Page 67



Competitive Environment

- Refers to the other companies selling similar products and operating in the same marketplace
- Influenced by:
 - how many competitors are active
 - how large their operations are
 - what market share for each competitor is
 - how profitable these firms are
 - how they price their products



Competitive Environment (cont'd)

- Direct competitors – companies that sell products or services that are very similar and into the same market segment
 - Example: Priceline.com and Travelocity.com
- Indirect competitors – companies that may be in different industries but that still compete indirectly because their products can substitute for one another
 - Example: CNN.com and ESPN.com

Competitive Advantage

- Achieved when firm can produce a superior product and/or bring product to market at a lower price than most, or all, of competitors
- Firms achieve competitive advantage when they are able to obtain differential access to the factors of production that are denied to competitors
- Asymmetry – when one participant in a market has more resources than others

Competitive Advantage (cont'd)

- Types of competitive advantage include:
 - First mover advantage – results from a firm being first into a marketplace
 - Unfair competitive advantage – occurs when one firm develops an advantage based on a factor that other firms cannot purchase
- Companies leverage their competitive assets when they use their competitive advantages to achieve more advantage in surrounding markets



Market Strategy

- A plan that details how a company intends to enter a new market and attract customers
- Best business concepts will fail if not properly marketed to potential customers



Organizational Development

- Describes how the company will organize the work that needs to be accomplished
- Work is typically divided into functional departments
- Move from generalists to specialists as the company grows



Management Team

- Employees of the company responsible for making the business model work
- Strong management team gives instant credibility to outside investors
- A strong management team may not be able to salvage a weak business model, but should be able to change the model and redefine the business as it becomes necessary

Categorizing E-commerce Business Models: Some Difficulties

- No one correct way
- We categorize business models according to e-commerce sector (B2C, B2B, C2C)
- Type of e-commerce technology used can also affect classification of a business model
- Some companies use multiple business models

B2C Business Models

Table 2.3,
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TABLE 2.3		B2C BUSINESS MODELS		
BUSINESS MODEL	VARIATIONS	EXAMPLES	DESCRIPTION	REVENUE MODEL
Portal	Horizontal/General	Yahoo.com AOL.com MSN.com	Offers an integrated package of content services and content-search, news, e-mail, chat, music downloads, video streaming, calendars, etc. Seeks to be a user's home base.	Advertising, subscription fees, transaction fees
	Vertical/Specialized (Vortal)	Sailnet.com	Offers services and products to specialized marketplace	Same
E-tailer	Virtual Merchant	Amazon.com	Online version of retail store, where customers can shop at any hour of the day or night without leaving their home or office.	Sales of goods
	Clicks and Bricks	Wal-Mart.com Sears.com	Online distribution channel for a company that also has physical stores	Same
	Catalog Merchant	LandsEnd.com LLBean.com	Online version of direct mail catalog	Same
	Manufacturer direct	Dell.com Compaq.com		Sales of goods
Content Provider		WSJ.com, Sportsline.com CNN.com, Rhapsody.com ESPN.com	Information and entertainment providers like newspapers, sports sites, and other online sources that offer customers up-to-date news and special interest how-to guidance and tips and/or information sales.	Advertising, subscription fees, affiliate referral fees
Transaction Broker		E-Trade.com Expedia.com Monster.com Travelocity.com Hotels.com Orbitz.com	Processors of online sales transactions, such as stock brokers and travel agents, that increase customers' productivity by helping them get things done faster and more cheaply.	Transaction fees
Market Creator	Auctions	Ebay.com Priceline.com Amazon.com	Web-based businesses that use Internet technology to create markets that bring buyers and sellers together	Transaction fees
Service Provider		Mybconsulting.com Lawinfo.com xDrive myCFO.com	Companies that make money by selling users a service, rather than a product.	Sales of services
Community Provider		About.com iVillage.com NetNoir.com Oxygen.com Epinions.com	Sites where individuals with particular interests, hobbies, and common experiences can come together and compare notes.	Advertising, subscription, affiliate referral fees



B2C Business Models: Portal

- Offers powerful search tools plus an integrated package of content and services
- typically utilizes a combines subscription/advertising revenues/transaction fee model
- May be general or specialized (vortal)



B2C Business Models: E-tailer

- **Online version of traditional retailer**
- **Types include:**
 - **Virtual merchants (online retail store only)**
 - **Clicks and bricks (online distribution channel for a company that also has physical stores)**
 - **Catalog merchants (online version of direct mail catalog)**
 - **Manufacturer-direct (manufacturer selling directly over the Web)**



B2C Business Models: Content Provider

- Information and entertainment companies that provide digital content over the Web
- Second largest source of B2C e-commerce revenue in 2002
- Typically utilizes an subscription, pay for download, or advertising revenue model
- Syndication a variation of standard content provider model



B2C Business Models: Transaction Broker

- Processes online transactions for consumers
- Primary value proposition – saving of time and money
- Typical revenue model – transaction fee
- Industries using this model:
 - Financial services
 - Travel services
 - Job placement services



B2C Business Model: Market Creator

- Uses Internet technology to create markets that bring buyers and sellers together
- Examples:
 - Priceline.com
 - eBay.com
- Typically uses a transaction fee revenue model



B2C Business Model: Service Provider

- Offers services online
- Value proposition – valuable, convenient, time-saving, low-cost alternatives to traditional service providers
- Revenue models – subscription fees or one-time payment

B2C Business Models: Community Provider

- Sites that create a digital online environment where people with similar interests can transact, communicate, and and receive interest-related information.
- Typically rely on a hybrid revenue model
- Examples:
 - Epinions.com
 - Oxygen.com
 - About.com

Chapter 2 lecture continued on file
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