

# 7 Understanding E-Business

## (Lecture 11)



**Discovering the  
Internet,  
5<sup>th</sup> Edition**

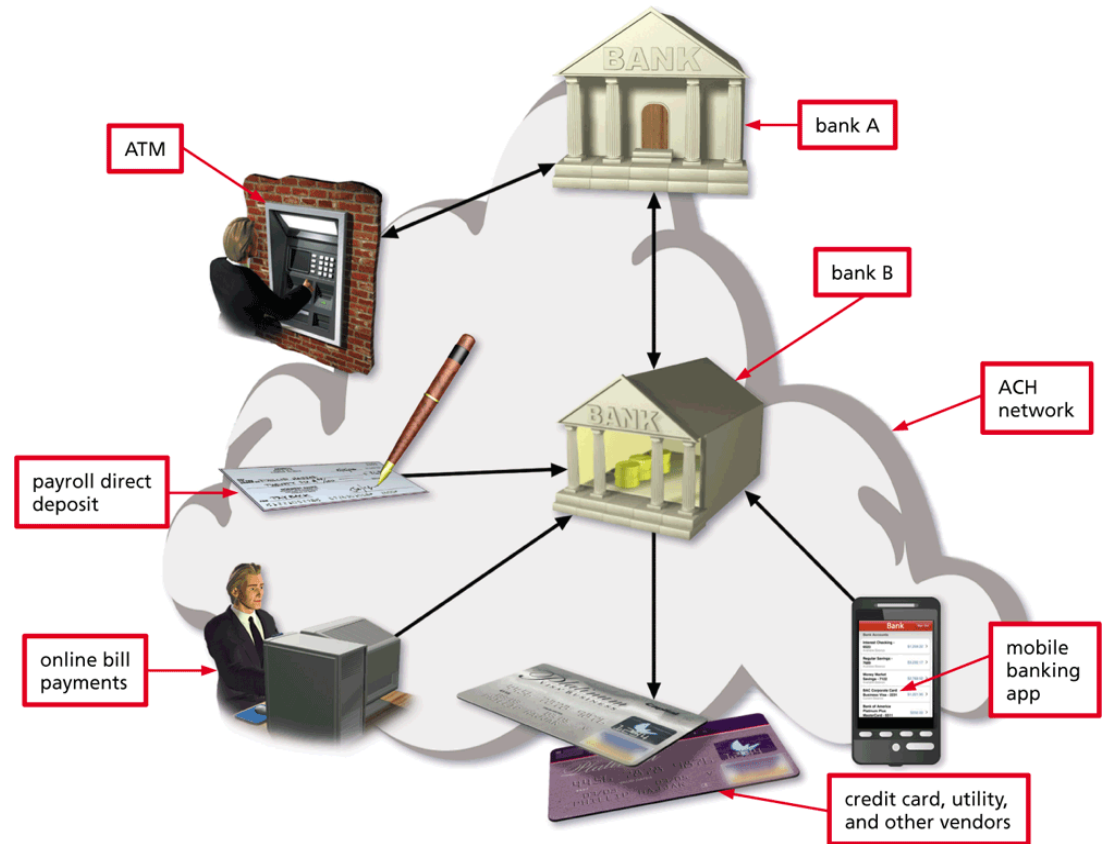
# Objectives

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- Describe the origins of electronic business transactions, including the electronic funds transfer (EFT) system, the electronic data interchange (EDI) standard, and value-added networks (VANs)
- Discuss unique e-business factors and identify e-businesses that use them
- Define common e-business models and explain how each model generates revenue

# E-Business Origins

- Electronic business activities originated in the 1960s and 1970s



# E-Business Origins

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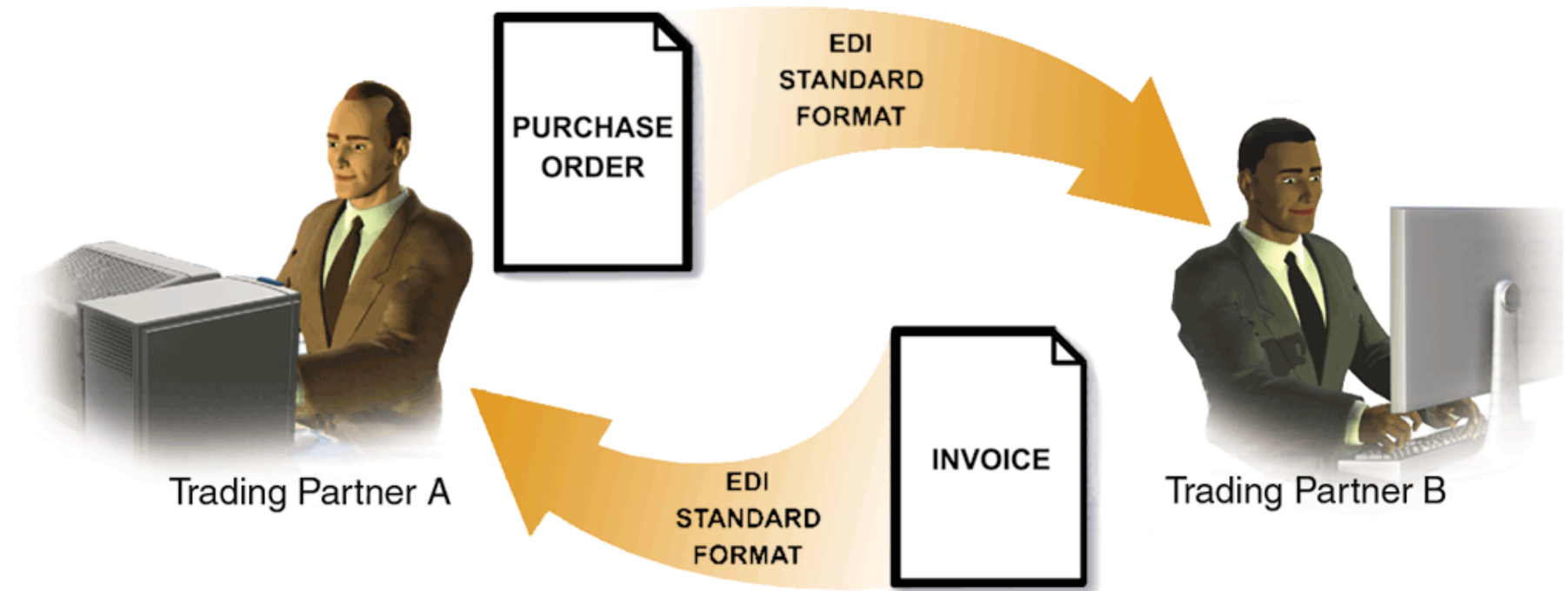
## ➤ **Electronic Funds Transfer (EFT)**

- Allows the electronic exchange of money between banks – without the exchange of paper currency – via the **Automated Clearing House (ACH)** network

## ➤ **Electronic Data Interchange (EDI)**

- Standard that specifies the layout or format a company uses to exchange electronic business data with its suppliers and customers
- Participants in EDI are called **trading partners**
- Before the Internet, used **value-added networks (VANs)**

# E-Business Origins



# Unique E-Business Factors

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- E-business advantages include worldwide sales opportunities, reduced transaction and purchasing costs, and access to small, niche markets
- Other unique e-business factors include
  - Geography, time, and space on the online marketplace
  - The network effect
  - Redefining markets
  - Personalization and customization

# Unique E-Business Factors

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## ➤ Geography, Time, and Space

- Geography, time, and space are limiting factors for brick-and-mortar businesses
  - Geography – Physical location must be near potential customers
  - Time – Operating hours may be limited to peak shopping hours
  - Space – Inventory is limited to storage and shelf space

# Unique E-Business Factors

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- Geography, Time, and Space (cont'd)
  - Online marketspace is not confined by geography, time, and space
    - Geography – Physical location is not a factor; an online store is available anywhere in the world that Internet access is available
    - Time – Online stores operate 24 x 7
    - Space – Product selection and shelf space is virtually limitless

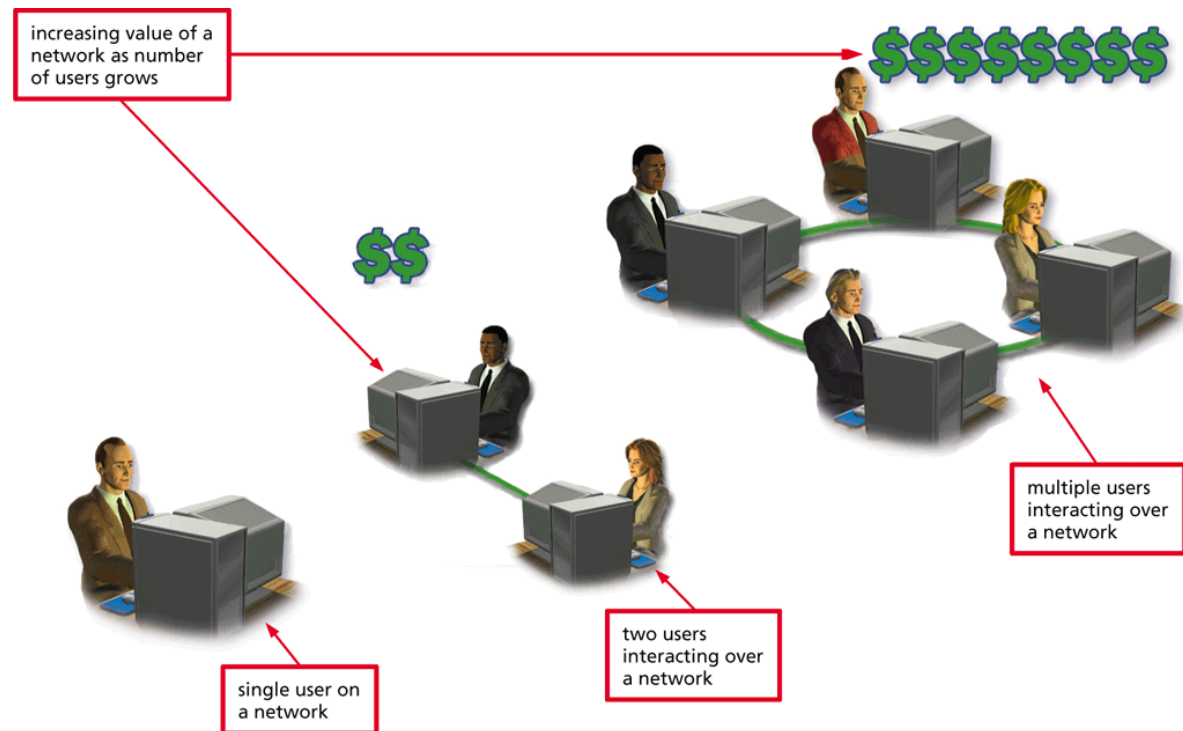


# Unique E-Business Factors

## ➤ The Network Effect

- The **network effect** refers to the increasing value of a network as it grows

- Network becomes more valuable to its users as more and more users connect to it



# Unique E-Business Factors

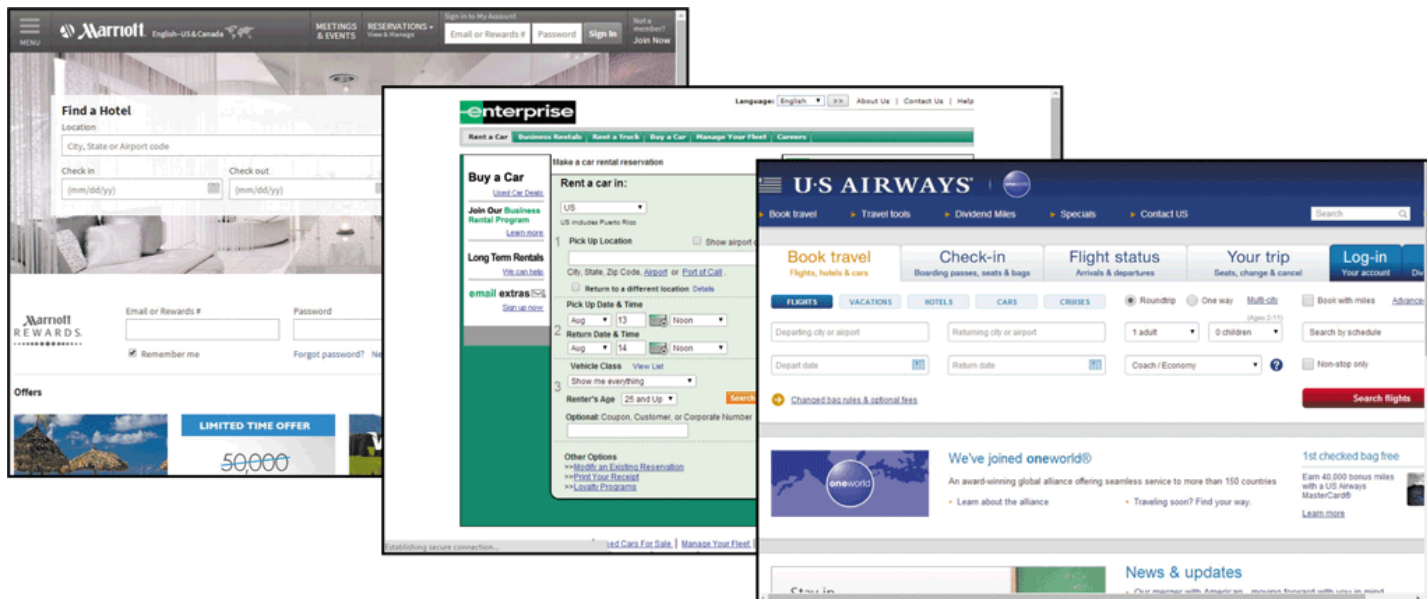
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## ➤ Redefining Markets

- Market redefinition usually takes place in one of two ways
  - By removing traditional marketplace intermediaries (disintermediation)
  - By creating new ways to add value to business transactions, often by introducing new types of intermediaries (reintermediation)

# Unique E-Business Factors

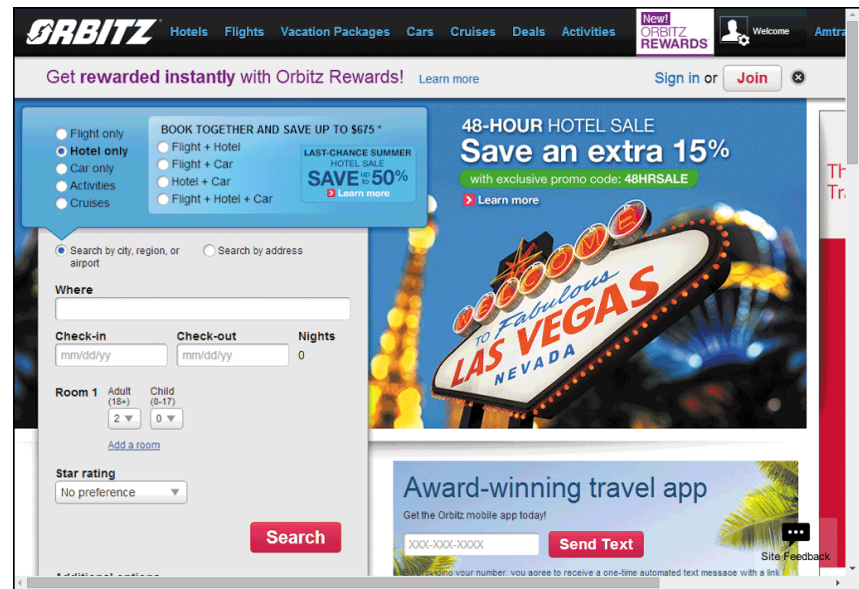
- Redefining Markets (continued)
  - **Disintermediation** occurs when a market removes its traditional intermediaries
    - Computer industry (Dell)
    - Travel industry



# Unique E-Business Factors

## ➤ Redefining Markets (continued)

- **Reintermediation** occurs when an e-business introduces a new type of **intermediary** into the marketplace
  - Dell, Hewlett-Packard, and other online versions of stores
  - Orbitz and Hotels.com in the travel industry



# Unique E-Business Factors

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## ➤ Personalization and Customization

- **Personalization** is an automatic process that tailors webpage content to fit the profile of a specific target audience, or that automatically tailors webpage content for an individual visitor based on his or her actions at a site
- **Customization** is a manual process that allows a viewer to manage webpage content by selecting viewing preferences or by creating and updating a personal profile

# E-Business Models

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- Exactly how a commercial website generates revenue might not be obvious
  - **Business model** is the way a company operates to generate revenue, create profits (the excess of revenue over expenses), and continue as a viable business entity
  - Individual e-businesses optimize factors such as geography, time, space, the network effect, personalization, and customization within the framework of their e-business model

# E-Business Models

## E-Business Models

Targeted Customer	E-Business Model	Description	Example
Consumers	Business-to-Consumer (B2C)	An e-business sells products or services directly to consumers.	Lands' End Amazon.com
Consumers	Consumer-to-Consumer (C2C)	A consumer sells products or services directly to another consumer.	eBay etsy
Businesses	Consumer-to-Business (C2B)	A consumer names a price for a product or service that competing businesses accept or decline.	Priceline.com
Businesses	Business-to-Business (B2B)	An e-business sells products or services to other businesses; brings multiple buyers and sellers together in a central online marketplace; sells e-business technologies; or transacts business activities over the Internet with trading partners.	Physician Sales & Service Storage Guardian
Government agencies and other businesses	Business-to-Government (B2G)	An e-business provides information about government agencies currently accepting bids for products and services; brings sellers and government agency buyers together in an online marketplace; or sells bidding and procurement technologies.	Fedmarket Onvia

# E-Business Models

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- E-businesses often operate using a mix of e-business models and revenue-generation methods
  - Offering subscription-based content
  - Selling advertising space
  - Earning referral fees by providing links to other e-businesses
  - Selling proprietary e-business technologies
  - Providing a channel for business partners
  - Participating in an affiliate marketing program



# E-Business Models

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## ➤ Business-to-Consumer (B2C)

- **E-retail** business model that generates revenues by
  - Selling products and services directly to consumers
  - Selling website advertising space
  - Charging subscription or member fees for premium content
- Most traditional brick-and-mortar retailers and catalog merchants now are brick-and-click e-retailers

# E-Business Models

- Business-to-Consumer (B2C) (continued)
  - **Pure-play e-retailers** operate only online
  - **Niche market** is a small segment within a larger market and enables some pure-play e-retailers to succeed by avoiding competition with larger e-businesses
  - Advertising Revenues – some B2C e-businesses offer free content (apps, information, links games, etc.) and generate revenue by selling advertising at their sites
    - Go directly to advertised website by clicking a **click-through**
    - **Per-click** revenue method
    - **Cost per impression (CPI) method**

CPI counts the number of times a page that includes an ad is loaded in the browser; reimbursement for CPI is often for a certain number of impressions, such as per thousand

# E-Business Models

## ➤ Business-to-Consumer (B2C) (continued)

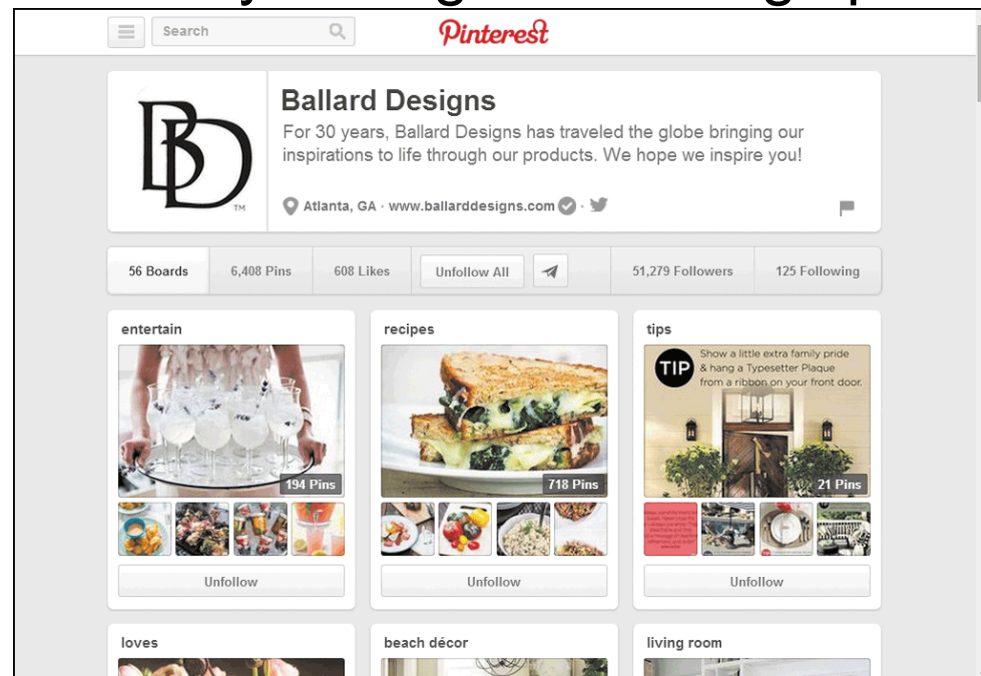
- Subscription Fees – Another way for B2C e-business to generate revenue involving fees for premium content or an app



# E-Business Models

## ➤ Business-to-Consumer (B2C) (continued)

- Businesses use social media to promote individual businesses and specific industries, to sell products and services, or to generate revenue by selling advertising space
- Businesses use social media to show pictures and links to products



# E-Business Models

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## ➤ Consumer-to-Business (C2B)

- Allows a buyer to name his or her own price for specific goods or services which are then presented to multiple sellers (**reverse auction**)
  - When a seller accepts a buyer's offer, the buyer's credit card is immediately charged
  - Revenues are generated via booking fees and commissions on accepted offers

# E-Business Models

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## ➤ Consumer-to-Consumer (C2C)

- Brings individual buyers and sellers together in an online marketplace (**forward auctions**)
- Generates revenues via transaction fees, sales commissions, subscription fees, and personal ad fees
- Some allow members to exchange items of equal value
  - Generate revenue via small subscription or membership fee, advertising, or charging for extra services

# E-Business Models



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# E-Business Models

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- Business-to-Business (B2B)
  - Transactions account for largest share of total e-business revenue
  - B2B e-business models generate revenues in a number of ways
    - Business directory listing fees
    - Website advertising
    - Subscription or membership fees
    - Referral fees
    - Transaction fees



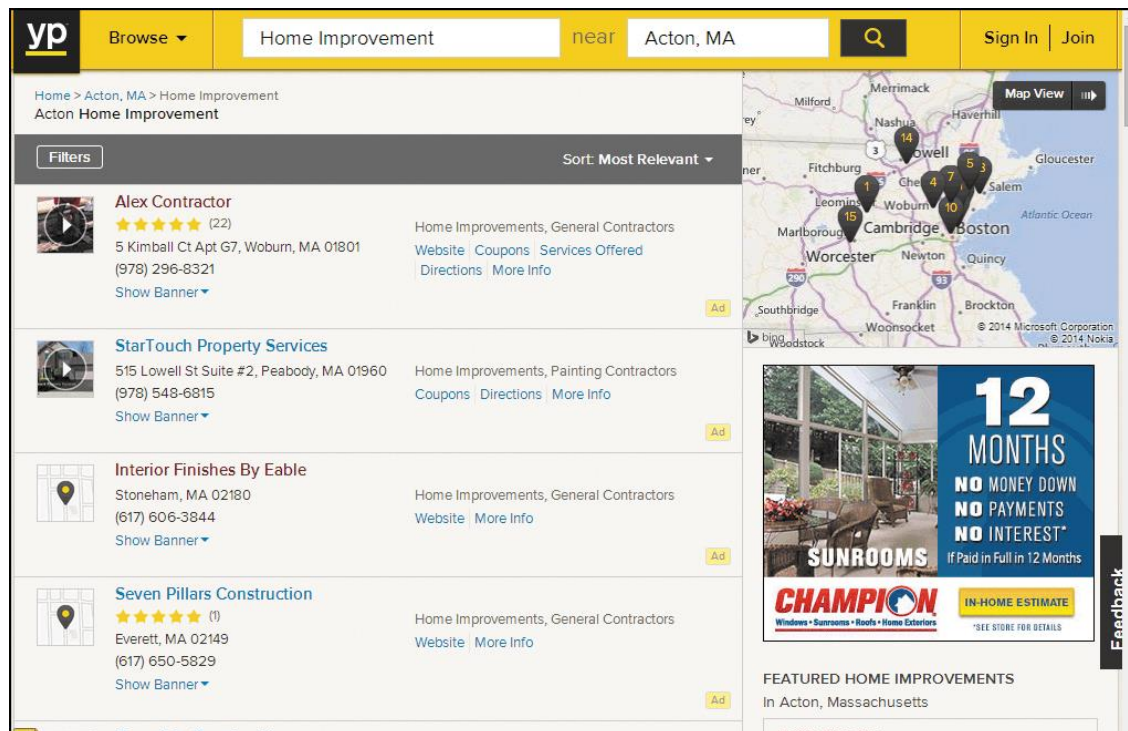
# E-Business Models

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- Business-to-Business (B2B) (continued)
  - B2B e-business models generate revenues in a number of ways
    - Sales commissions
    - Website hosting fees
    - File storage fees
    - Software licensing and rental fees
    - Affiliate marketing programs

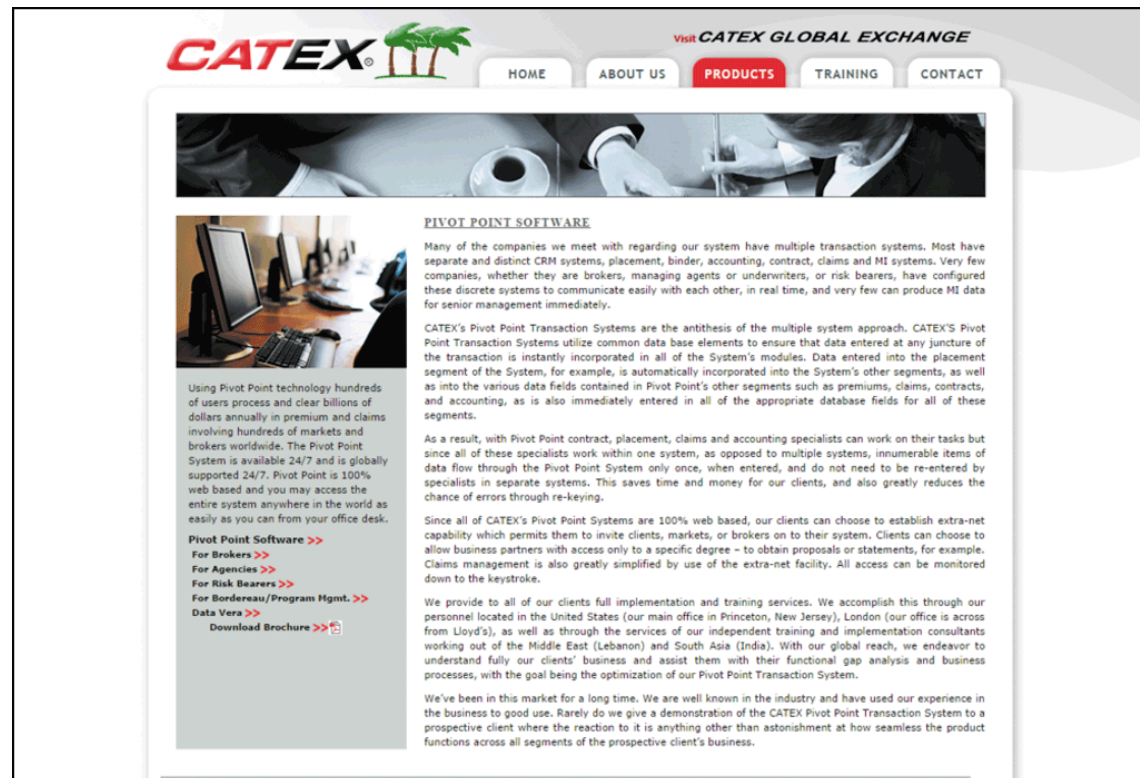
# E-Business Models

- Business-to-Business (B2B) (continued)
  - Some B2B e-businesses aggregate business information and generate revenue from directory listing fees and advertising



# E-Business Models

- Business-to-Business (B2B) (continued)
  - B2B Exchanges -- create online marketspaces in which businesses can buy and sell with each other following predetermined exchange rules.



# E-Business Models

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- Business-to-Business (B2B) (continued)
  - Affiliate Marketing Programs
    - **Affiliate marketing program** is a referral marketing program designed to drive visitor traffic to a website
      - Affiliate marketing program participant, sometimes called associate, adds a link to the e-business website from own website
      - Associate earns a commission or referral fee when viewer clicks-through to the sponsoring e-business' website; sometimes earns more if the visitor makes a purchase
        - » Amazon Associates program

# E-Business Models

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- Business-to-Business (B2B) (continued)
  - Technology Providers
    - Portion of total B2B e-business is conducted between e-businesses and their technology providers
      - ISPs (Internet service providers) and NSPs (network service providers) provide the Internet communications infrastructure (AOL, Verizon, Comcast, AT&T)
      - Other technology providers develop and sell the networking hardware and software that enables online business activities (Oracle, Microsoft, IBM, HP, SAP, and Cisco Systems)
      - E-businesses that sell their proprietary technologies to other e-businesses

# E-Business Models

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- Business-to-Business (B2B) (continued)
  - Technology Providers
    - **Web hosting** companies provide web and database server storage and server administration services
      - **Shared hosting** – multiple e-businesses share a single web server owned by the hosting company
      - **Dedicated hosting** – exclusive use of an entire server(s)
      - **Colocation** – e-business have their own servers, yet contract with web hosting to store their servers at the host's facility
      - **Managed hosting** – web hosting company builds, customizes, manages, and supports dedicated e-business servers for clients, who pay a flat monthly fee

# E-Business Models

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- Business-to-Business (B2B) (continued)
  - Technology Providers
    - **Online storage service** uses remote server or the cloud to store data
    - **Application service provider (ASP)** develops and maintains its own business application software
  - Employee collaboration software allows employees to share documents, calendars, contacts, and other information
  - **Content delivery network (CDN)** is a dedicated network of servers located in different geographical areas of the country that store, or cache, webpage content from high-traffic websites for a fee

# E-Business Models

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## ➤ Business-to-Business (B2B) (continued)

### – Supply Chain Management

- A **supply chain** consists of all the entities involved in creating and distributing products to end users
- Many transactions are conducted over an **extranet**, which is a private network that uses Internet technologies to connect a business with its suppliers and business partners
  - Less expensive option than value-added networks (VANs)



# E-Business Models

- Business-to-Government (B2G)
  - Online businesses that market and sell directly to government agencies
  - Creates a marketplace, similar to B2B exchange, that provides businesses with information on bidding opportunities for government agency contracts
  - Sells technologies to manage the bidding and procurement process

