



## Unit 2

# E-commerce Business Models and Concepts



# Objective

**After this completion of chapter, you will be able to:**

- Identify the key components of e-commerce business models.
- Describe the major B2C business models.
- Describe the major B2B business models.
- Understand key business concepts and strategies applicable to e-commerce.



# Online Groceries: Up from the Embers

## Class Discussion

- Why are more traditional grocery chains succeeding today?
- Why would online customers pay the same prices as in the stores plus pay delivery charges? What's the benefit to the customer?
- What are the important success factors for Bigbasket?
- Do you think Bigbasket would work in your town?



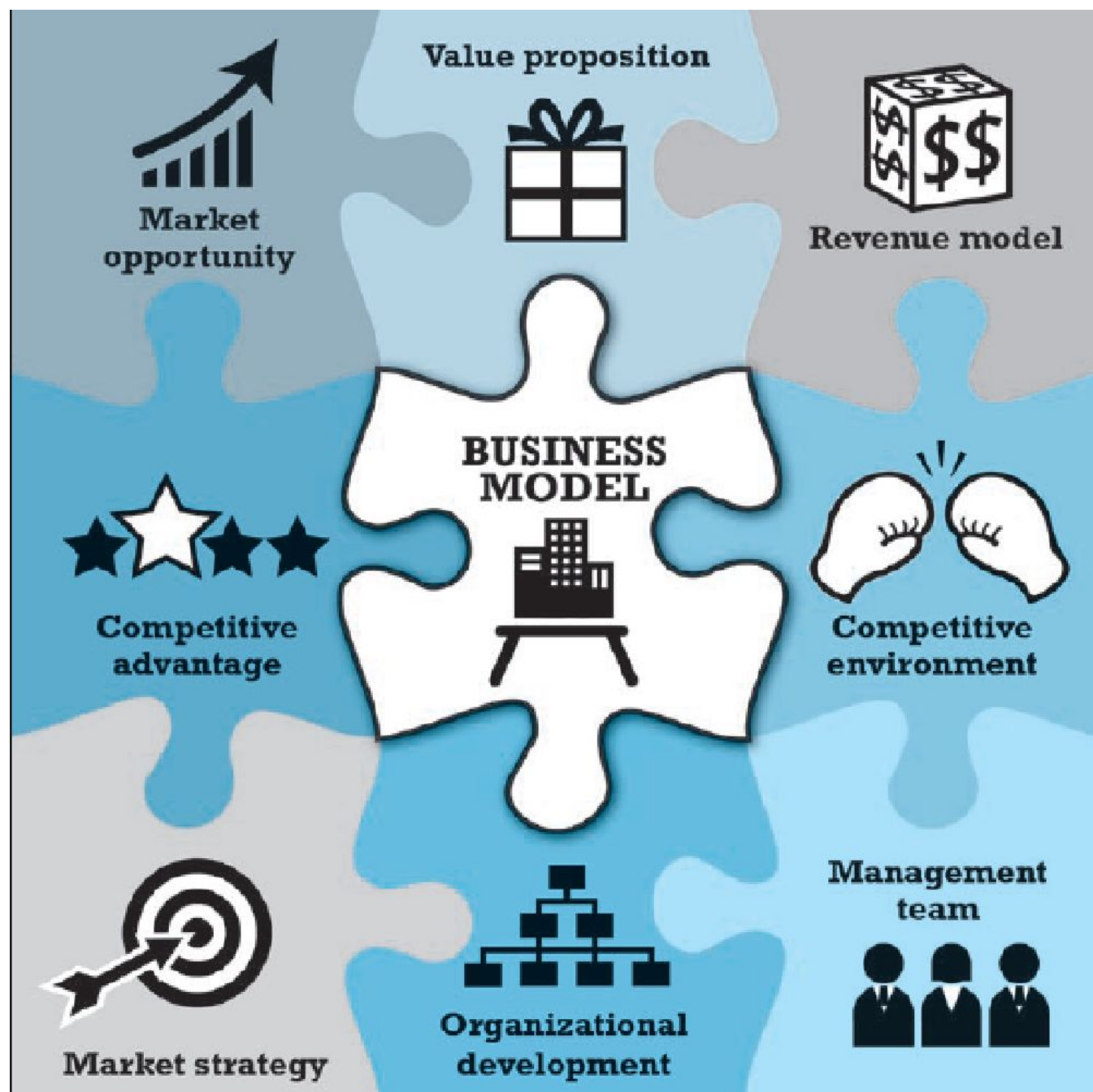
# E-commerce Business Models: Definitions

- **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

# E-commerce Business Model

- A successful business model in any arena **must address the eight elements of business model.**
- These elements are
  1. value proposition,
  2. revenue model,
  3. market opportunity,
  4. competitive environment,
  5. competitive advantage,
  6. market strategy,
  7. organizational development, and
  8. management team

# E-commerce Business Model



# 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:
  - Personalization/customization
  - Reduction of product search costs
  - Reduction of price discover costs
  - Facilitation of transactions by managing product delivery



# Value Proposition

- A company's value proposition is at the very heart of its business model.
- A **value proposition** defines how a company's product or service fulfills the needs of customers.
- From the consumer point of view, successful e-commerce value propositions includes,
  - ❑ Personalization and customization of product offerings,
  - ❑ Reduction of product search costs,
  - ❑ Reduction of price discovery costs, and
  - ❑ Facilitation of transactions by managing product delivery.



# Value Proposition : Amazon :case study

- Before Amazon existed, most customers personally traveled to book retailers to place an order.
- In some cases, the desired book might not be available, and the customer would have to wait several days or weeks, and then return to the bookstore to pick it up.
- Amazon makes it possible for book lovers to shop for virtually any book in print from the comfort of their home or office, 24 hours a day, and to know immediately whether a book is in stock.
- Amazon's Kindle takes this one step further by making e-books instantly available with no shipping wait.
- Amazon's primary value propositions are unparalleled selection and convenience.

# Revenue Model

- A firm's **revenue model** describes how the firm will earn revenue, generate profits, and produce a superior return on invested capital.
- The terms *revenue model* and *financial model* is used interchangeably.
- The function of business organizations is both to generate profits and to produce returns on invested capital that exceed alternative investments.
- Profits alone are not sufficient to make a company “successful”
- There are many different e-commerce revenue models that have been developed, most companies rely on one, or some combination, of the following major revenue models:
  - The advertising model,
  - The subscription model,
  - The transaction fee model,
  - The sales model, and
  - The affiliate model.




# Revenue Model: The advertising revenue model

- In the **advertising revenue model**, a company that offers content, services, and/ or products also provides a forum for advertisements and receives fees from advertisers.
- Companies that are able to attract the greatest viewership or that have a highly specialized, differentiated viewership and are able to retain user attention (“stickiness”) are able to charge higher advertising rates.
- Yahoo, google, Facebook, etc., for instance, derives a significant amount of revenue from display and video advertising.

# Revenue Model: The subscription revenue model

- In the **subscription revenue model**, a company that offers content or services charges a subscription fee for access to some or all of its offerings.
- Experience with the subscription revenue model indicates that to successfully overcome the disinclination of users to pay for content, the content offered must be perceived as a high-value-added, premium offering that is not readily available elsewhere nor easily replicated.
- Example: magazines, matrimonial, online media.
- US services: Ancestry.com and Genealogy.com (genealogy research), Microsoft's Xboxlive.com (video games), Rhapsody.com (music), and Hulu.com.



# Revenue Model: The transaction fee revenue model

- In the **transaction fee revenue model**, a company receives a fee for enabling or executing a transaction.
- For example, **eBay** provides an **auction marketplace** and receives a small **transaction fee** from a **seller** if the **seller** is **successful in selling the item**.
- **E-Trade**, or a **stock broker**, a **financial services provider**, receives **transaction fees** each time it executes a **stock transaction** on behalf of a customer



# Revenue Model: The **sales revenue** model

- In the **sales revenue** model, companies derive **revenue** by **selling goods, content, or services** to customers.
- Companies such as Amazon (which sells books, music, and other products), LLBean.com, and Gap.com all have sales revenue models.



# Revenue Model: The **affiliate revenue** model

- In the **affiliate revenue model**, companies that steer business to an “affiliate” receive a referral fee or percentage of the revenue from any resulting sales.
- For example, **payback** makes money by connecting companies with potential customers by offering special deals to its members.
- When they take advantage of an offer and make a purchase, members earn “points” they can redeem for freebies, and **payback** receives a fee.



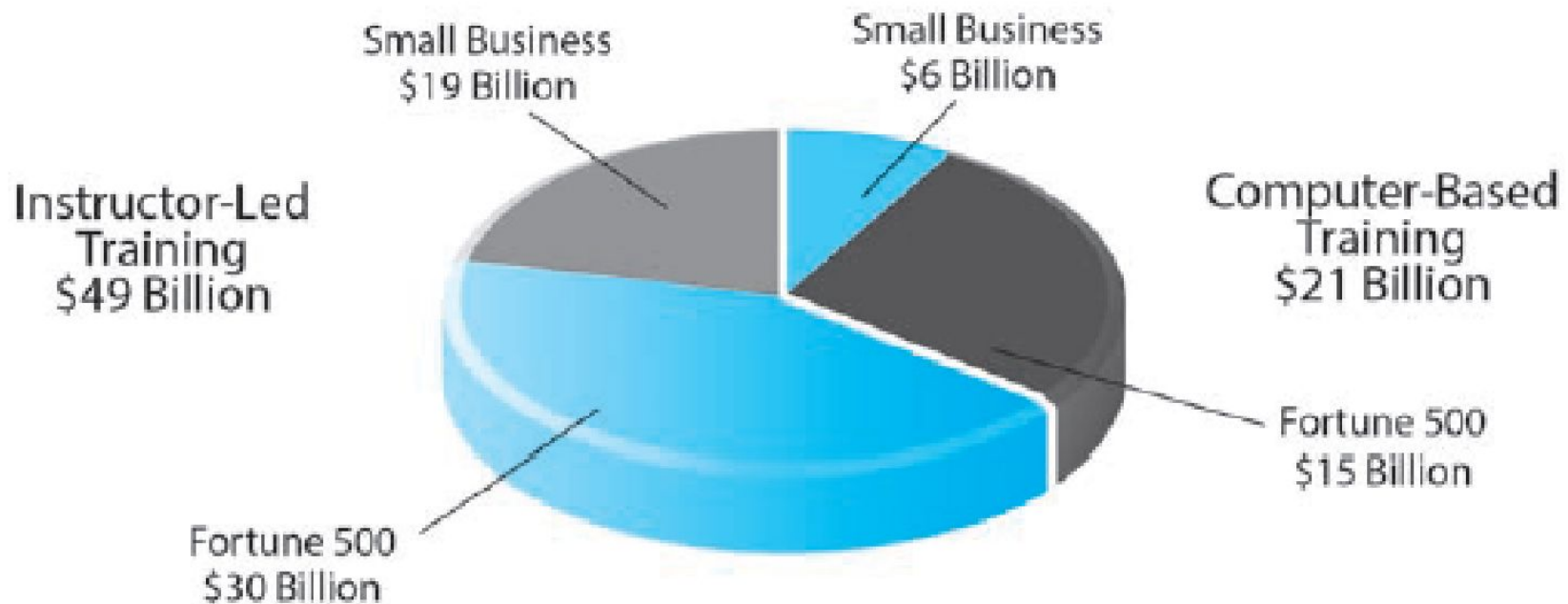
# Revenue Models

REVENUE MODEL	EXAMPLES	REVENUE SOURCE
Advertising	Yahoo	Fees from advertisers in exchange for advertisements
Subscription	WSJ.com Consumerreports.org	Fees from subscribers in exchange for access to content or services
Transaction Fee	eBay E*Trade	Fees (commissions) for enabling or executing a transaction
Sales	Amazon L.L.Bean Gap iTunes	Sales of goods, information, or services
Affiliate	MyPoints	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.

- For instance, let's assume you are analyzing a software training company that creates online software-learning systems for sale to businesses.
- The overall size of the software training market for all market segments is approximately \$70 billion.



# Competitive Environment

- Includes both direct competitors 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.
- Examples:
  - Amazon vs flipkart vs snapdeal (Direct marketing)
  - Airtel vs jio vs Idea vs Aircel (Direct marketing)
  - Highway Bus vs Railways vs flight services (In Direct marketing)


# 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 is the market share for each competitor
  - how profitable these firms are
  - how they price their products

# Competitive Advantage

- Achieved when a 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
- 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
  - Asymmetry – exists whenever one participant in a market has more resources than other participants.



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- Complementary resources – resources and assets not directly involved in the production of the product but required for success, such as marketing, financial assets and reputation.
  - Perfect Market – A market in which there are no competitive advantages or asymmetries because all firms have equal access to all the factors of production.
  - Leverage – When a company uses its 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.
- **Market strategy** is the plan you put together that details exactly how you intend to enter a new market and attract new customers.
- For instance, Twitter, YouTube, and Pinterest have a social network marketing strategy that encourages users to post their content on the sites for free, build personal profile pages, contact their friends, and build a community.
- In these cases, the customer becomes part of the marketing staff.



# 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.

# Organizational Development

- The work is divided into functional departments, such as production, shipping, marketing, customer support, and finance.
- Jobs within these functional areas are defined, and then recruitment begins for specific job titles and responsibilities.
- Typically, in the beginning, generalists who can perform multiple tasks are hired.
- As the company grows, recruiting becomes more specialized.

# 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 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 salvage a weak business model, but should be able to change the model and redefine the business as it becomes necessary.

# Management Team

- To be able to identify good managers for a business start-up, first consider the kinds of experiences that would be helpful to a manager joining your company.
- What kind of technical background is desirable?
- What kind of supervisory experience is necessary?
- How many years in a particular function should be required?
- What job functions should be fulfilled first: marketing, production, finance, or operations?
- Especially in situations where financing will be needed to get a company off the ground, do prospective senior managers have experience and contacts for raising financing from outside investors?

# Key Ingredients of a Business Model

<b>TABLE 2.1      KEY INGREDIENTS OF A BUSINESS MODEL</b>	
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?





# **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

- Portal
- E-tailer
- Content Provider
- Transaction Broker
- Market Creator
- Service Provider
- Community Provider



## 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 retail stores, often called e-tailers, come in all sizes, from giant Amazon to tiny local stores that have Web sites.
- E-tailers are similar to the typical bricks-and-mortar storefront, except that customers only have to connect to the Internet or use their smartphone to place an order
- Online version of traditional retailer
- Types include:
  - Virtual merchants
  - Bricks-and-clicks
  - Catalog merchants
  - Manufacturer-direct



## B2C Business Models: Content Provider

- **Content providers** distribute information content, such as digital video, music, photos, text, and artwork.
- Information and entertainment companies that provide digital content over the Web
- Typically utilizes a 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 include:
  - Financial services
  - Travel services
  - Job placement services



## B2C Business Models: 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 Models: 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 receive interest-related information.
- Typically rely on a hybrid revenue model
- Examples:
  - iVillage.com
  - Friendster.com
  - About.com



BUSINESS MODEL	VARIATIONS	EXAMPLES	DESCRIPTION	REVENUE MODEL
E-tailer	Virtual Merchant	Amazon iTunes Bluefly	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
	Bricks-and-Clicks	Walmart.com Sears.com	Online distribution channel for a company that also has physical stores	Sales of goods
	Catalog Merchant	LLBean.com LillianVernon.com	Online version of direct mail catalog	Sales of goods
	Manufacturer-Direct	Dell.com Mattel.com SonyStyle.com	Manufacturer uses online channel to sell direct to customer	Sales of goods
Community Provider		Facebook LinkedIn Twitter Pinterest	Sites where individuals with particular interests, hobbies, common experiences, or social networks can come together and "meet" online	Advertising, subscription, affiliate referral fees

Content Provider		WSJ.com CBSSports.com CNN.com ESPN.com Rhapsody.com	Information and entertainment providers such as 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
Portal	Horizontal/ General	Yahoo AOL MSN Facebook	Offers an integrated package of content, content-search, and social network services: 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	Offers services and products to specialized marketplace	Advertising, subscription fees, transaction fees
	Search	Google Bing Ask.com	Focuses primarily on offering search services	Advertising, affiliate referral



Transaction  
Broker

E\*Trade  
Expedia  
Monster  
Travelocity  
Hotels.com  
Orbitz

Processors of online sales transactions, such as stockbrokers and travel agents, that increase customers' productivity by helping them get things done faster and more cheaply

Transaction fees

Market Creator

eBay  
Etsy  
Amazon  
Priceline

Businesses that use Internet technology to create markets that bring buyers and sellers together

Transaction fees

Service Provider

VisaNow.com  
Carbonite  
RocketLawyer

Companies that make money by selling users a service, rather than a product

Sales of services