

1. Business Models, Revenue Models and Business processes

Business Models

A business model is the strategy that a company uses to generate revenue from its product or service offering. Also, a business model is the structure comprised of all aspects of a company, including revenue model and revenue streams, and describes how they all work together

- **Direct Sales** - Under a direct sales business model, sales of products or services generate revenue through a network of salespeople who sell directly to customers. Typically, no fixed retail location exists under a direct sales business model. Instead, individual salespeople are connected with a large parent company and given the tools to become individual entrepreneurs. Companies such as Avon, Arbonne and Herbalife are examples of the direct sales business model.
- **Franchise Model** - Under a franchise business model, business owners purchase another organization's business strategy. Instead of creating a new product and the distribution chain to deliver that product to consumers, the franchisee purchases an ownership stake in a business model that has already been successfully developed. The company offering its proprietary product or service, its business processes and its brand is known as the franchisor, and it benefits from a reduction in capital output used to build new locations. Popular companies that depend on the franchise business model for growth include McDonald's, Subway and Starbucks.
- **Freemium Model** - For companies that offer personal or business services via the Internet, the freemium business model is common. Under a freemium model, business give away a service at no cost to the consumer as a way to establish the foundation for future transactions. The freemium model tends to work well for Internet-based businesses with little customer acquisition costs but high lifetime value. Spotify and Skype both operate under a freemium business model.
- **Subscription Model** - Businesses that operate in an industry where customer acquisition costs are high may operate under a subscription or recurring revenue business model. The objective of a subscription business model is to retain customers under a long-term contract and secure recurring revenue from repeat purchase of a product or service.

Revenue Model

A description of how a business will earn income, produce profits and generate a higher than average return on investment. In business, a revenue model is generally used for mid and long-term projections of a company's profit potential and operation. Also, it is a specific collection of business processes used to: Identify customers, Market to those customers, and Generate sales to those customers

- **Ad-Based Revenue Model** - Ad-based revenue models entail creating ads for a specific website, service, app, or other product, and placing them on strategic, high-traffic channels. If your company has a website or you have a web-based company, Google's AdSense is one of the most common tools get ads.
- **Affiliate Revenue Model** - Another popular web-based revenue model is the affiliate revenue model, which works by promoting links to relevant products and collecting commission on the sales of those products, and can even work in conjunction with ads or separately.
- **Transactional Revenue Model** - Countless companies, both tech-oriented and otherwise, strive to rely on the transactional revenue model, and for good reason too. This method is one of the most direct ways of generating revenue, as it entails a company providing a service or product and customers paying them for it.
- **Subscription Revenue Model** - The subscription revenue model entails offering your customers a product or service that customers can pay for over a longer period of time, usually month to month, or even year to year.
- **Web Sales** - This is an offshoot of the transactional revenue model, in which a customer pays directly for a product or service, except that customers must first come to your company via a web search or outbound marketing, and conduct transactions solely over the internet.
- **Direct Sales** - There are two types of direct sales: inside sales, in which someone calls in to place an order or sales agents calling prospects; and outside sales, which is a face to face sales transaction.

- **Channel Sales (or Indirect Sales)** - The channel sales model consists of agents or resellers selling your product for you and either you or the reseller delivering the product. The affiliate revenue model is a good companion model to this one, especially if your offering is a virtual product.
- **Retail Sales** - Retail sales entails setting up a traditional department store or retail store in which you offer physical goods to your customers. Keep in mind that the retail sales model will require shelf space (that you'll have to pay for) at existing stores, and is best suited for products that require logistics to reach your customers.
- **Product is Free, But Services Aren't** - This model is unique compared to others, in that you have to give your product away for free, yet require customers to pay for installation, customization, training or other additional services.
- **Freemium Model** - The freemium model is one in which a company's basic services are free, yet users must pay for additional premium features, extensions, functions, etc. One of the biggest companies to use this model is LinkedIn, the most popular business/social media platform.

Business Process

A business process is a series of steps performed by a group of stakeholders to achieve a concrete goal. These steps are often repeated many times, sometimes by multiple users and ideally in a standardized and optimized way. A business process can be manual or automated. If manual, the process is achieved without the aid of an automation or assisting technology. If automated, a technology aid has been put into place which assists users in implementing the process in a more accurate, standardized or optimized manner.

Types:

- **Manufacturing** – an product assembly process, a quality assurance process, a corrective/preventive maintenance process.
- **Finance** – an invoicing process, a billing process, a risk management process
- **Health** – a medical assessment, a drug approval
- **Banking** – customer on-boarding, credit check
- **Travel** – trip booking, agent billing
- **Defense** – a situation room process, emergency management process
- **HR** – a starters process, a leavers process, vacation request
- **Public Sector** – application for a government service
- **Compliance** – a safety audit, a legal check

Examples of business processes include:

- Invoicing, Shipping products, Receiving orders, Updating personnel data, Determining marketing and other budgets

2. Economic Forces and Electronic Commerce

Economic forces refer to the nature and direction of the economy in which business operates. Economic factors have a tremendous impact on business firms. Electronic commerce is the application of new technologies to conduct business more effectively.

- **Transaction costs:** The total of all costs that a buyer and seller incur as they gather information and negotiate a purchase-sale transaction.
- **Markets and hierarchies:** Coase reasoned that when transaction costs were high, businesspeople would form organizations to replace market-negotiated transactions. These organizations would be hierarchical and would include strong supervision and worker monitoring elements. The practice of an existing firm replacing one or more of its supplier markets with its own hierarchical structure for creating the supplied product is called vertical integration.
- **Using Electronic Commerce to Reduce Transaction Costs:** Businesses and individuals can use electronic commerce to reduce transaction costs by improving the flow of information and increasing the coordination of actions.
- **Network economic structures:** Companies coordinate their strategies, resources, and skill sets by forming long-term, stable relationships with other companies and individuals based on shared purposes. These relationships are often called strategic alliances or strategic partnerships, and when they occur between or among companies operating on the Internet, these relationships are also called virtual companies.

- **Network effects:** Law of diminishing returns states that most activities yield less value as the amount of consumption increases. In networks, an interesting exception to the law of diminishing returns occurs. As more people or organizations participate in a network, the value of the network to each participant increases.
- **Using electronic commerce to create network effects:** Internet email accounts are far more valuable than single-organization e-mail accounts because of the network effect.

3. Identifying E-commerce opportunities

- **Direct sales** - Many businesses use e-commerce for the direct selling of goods or services online. For some businesses such as those selling software or music, the sale and delivery of goods can be made online. For most the supply of goods will continue to require a physical delivery. If you plan to sell online, you may need to rethink many of your business activities. You will fundamentally change the way in which you interact with your customers - for example, if customers place orders online instead of talking to a salesperson. You will also need to work out how every aspect of a transaction is handled - including order confirmation, invoicing and payment, and deliveries and returns.
- **Pre-sales** - You can use your website for pre-sales activities - exploiting the widespread use of the internet to generate sales leads. At its most basic this can mean having an online version of your promotional materials on your site. Other options include email campaigns, search marketing or online advertising to attract visitors to your website.
- **Post-sales support** - You can also use the internet to automate aspects of your customer support to reduce the number of routine customer service calls. This can be achieved by using your site to answer the most frequently asked questions, or by putting technical information online.
- **Ensuring success** - However you decide to use e-commerce, it is important to define your expectations from the outset. What level of sales are you hoping to make? How many sales leads are you looking to generate? What percentage reduction in customer telephone calls are you expecting to achieve? Ensure that targets are put in place so that you can measure the success, or otherwise, of your e-commerce activities.

4. International Nature of Electronic Commerce

Because the Internet connects computers all over the world, any business that engages in electronic commerce instantly becomes an international business. When companies use the Web to improve a business process, they are automatically operating in a global environment. The key issues that any company faces when it conducts international commerce include trust and culture, language, and infrastructure.

A. Trust Issues on the Web: It is important for all businesses to establish trusting relationships with their customers. Companies with established reputations in the physical world often create trust by ensuring that customers know who they are. These businesses can rely on their established brand names to create trust on the Web. New companies that want to establish online businesses face a more difficult challenge because a kind of anonymity exists for companies trying to establish a Web presence.

B. Language Issues: Most companies realize that the only way to do business effectively in other cultures is to adapt to those cultures. "Think Globally, Act Locally" The first step that a Web business usually takes to reach potential customers in other countries, and thus in other cultures, is to provide local language or regional dialect.

C. Culture Issues: An important element of business trust is anticipating how the other party to a transaction will act in specific circumstances. That is one reason why companies with established brands can build online businesses more quickly and easily than a new company without a reputation. The brand conveys some expectations about how the company will behave. Companies must be aware of the differences in language and customs that make up the culture of any region in which they intend to do business.

D. Culture and Government: Some parts of the world have cultural environments that are extremely inhospitable to the type of online discussion that occurs on the internet. The cultural conditions, in some cases, lead to government controls that can limit electronic commerce development. The internet is a very open form of communication. This type of unfettered communication is not desired or considered acceptable in some cultures.

E. Infrastructure Issues: Internet infrastructure includes the computers and software connected to the internet and communications networks over which the message packets travel. In many countries other than the United States, the telecommunications industry is either government owned or heavily regulated by the government. More than half of all businesses on the Web turn away international orders because they do not have the processes in place to handle the orders.