



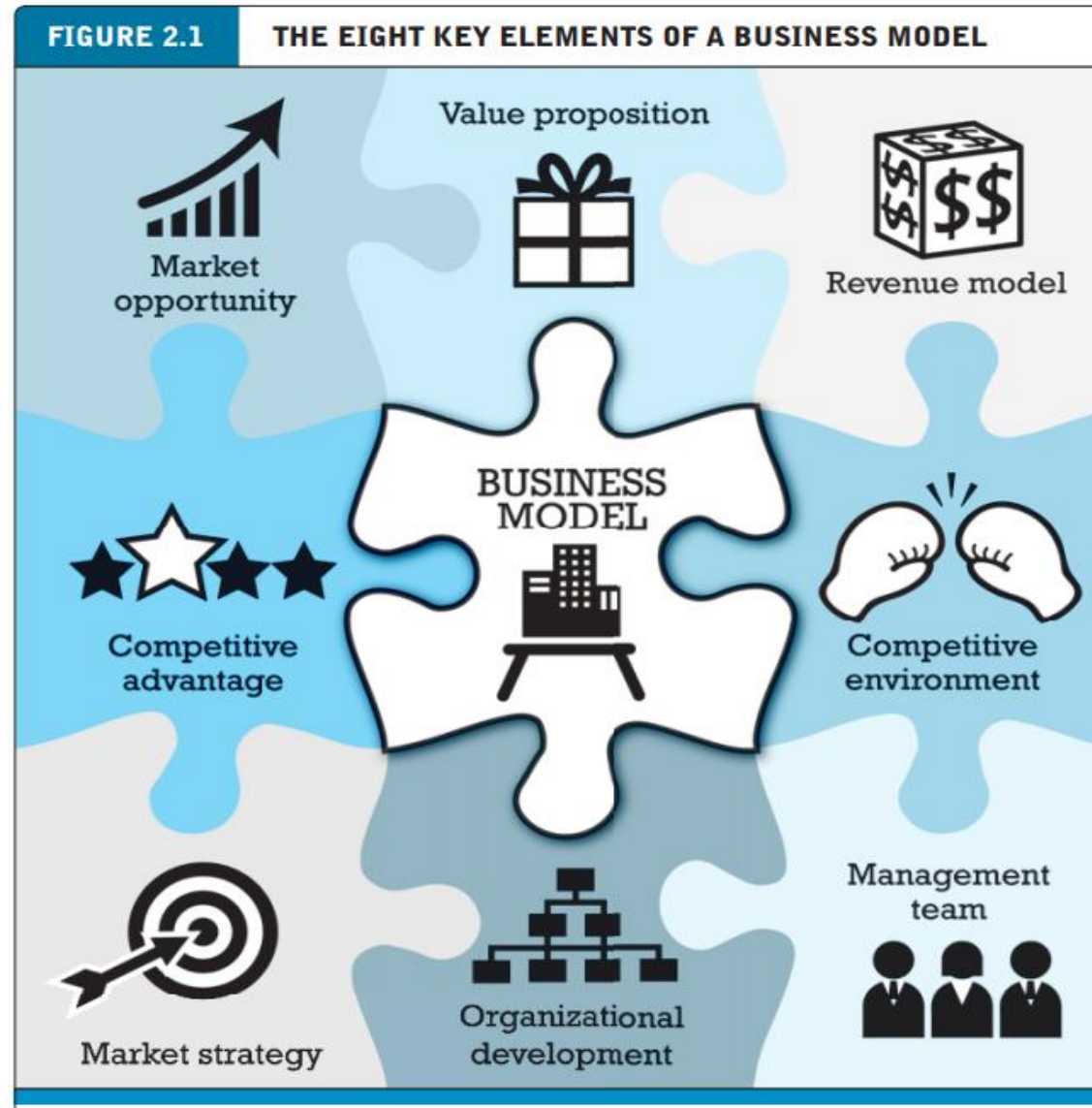
Ecommerce Business Models

Introduction

A business model is a set of planned activities (sometimes referred to as business processes) designed to result in a profit in a marketplace.

A business plan is a document that describes a firm's business model.

An e-commerce business model aims to use and leverage the unique qualities of the Internet, the Web, and the mobile platform.



Eight Elements of a Business Model

A value proposition defines how a company's product or service fulfills the needs of customers (Kambil, Ginsberg, and Bloch, 1998). T

Revenue Model describes how the firm will earn revenue, generate profits, and produce a superior return on invested capital.

Major Revenue Model

Advertising Revenue Model- a company that offers content, services, and/or products also provides a forum for advertisements and receives fees from advertisers.

ex: Yahoo/Google/Youtube/Facebook with advertisements

Subscription Revenue Model - a company that offers content or services charges a subscription fee for access to some or all of its offerings.

Ex: eHarmony (dating services), Ancestry (genealogy research), Microsoft's Xbox Live (video games), Pandora, Spotify, and Apple Music (music), Scribd and Amazon's Kindle Unlimited program (e-books), and Netflix and Hulu (television and movies)

Major Revenue Model

TABLE 2.1

EXAMPLES OF SUBSCRIPTION SERVICES

NAME	DESCRIPTION
eHarmony (dating)	<ul style="list-style-type: none">• Free: Create profile and view profiles of matches• Basic (see photos, send and receive messages): \$180 for 6 months; \$239 for 1 year• Total Connect (Basic plus additional services): \$204 for 6 months; \$287 for 1 year• Premier (Basic/Total Connect plus additional services): \$503/year
Ancestry (genealogical research)	<ul style="list-style-type: none">• All U.S. records: \$24.99/month or \$99 for 6 months• All U.S. and international records: \$39.99/monthly or \$149 for 6 months
Scribd (e-books)	<ul style="list-style-type: none">• Unlimited access to books and audiobooks for \$8.99/month (over 1 million e-books, and audio books from which to choose)
Spotify (music)	<ul style="list-style-type: none">• Many different permutations, depending on device (mobile, tablet, or desktop) and plan chosen (Free, Unlimited, or Premium)

Transaction Fee Revenue Model - a company receives a fee for enabling or executing a transaction.

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, a financial services provider, receives transaction fees each time it executes a stock transaction on behalf of a customer.

Sales Revenue Model - companies derive revenue by selling goods, content, or services to customers

Affiliate Revenue Model - companies that steer business to an “affiliate” receive a referral fee or percentage of the revenue from any resulting sales.

example: **MyPoints** makes money by connecting companies with potential customers by offering special deals to its members

TABLE 2.2

FIVE PRIMARY REVENUE MODELS

REVENUE MODEL	EXAMPLES	REVENUE SOURCE
Advertising	Yahoo Facebook	Fees from advertisers in exchange for advertisements
Subscription	eHarmony Consumer Reports Online Netflix	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 Birchbox iTunes	Sales of goods, information, or services
Affiliate	MyPoints	Fees for business referrals

Market Opportunity refers to the company's intended marketspace (i.e., an area of actual or potential commercial value) and the overall potential financial opportunities available to the firm in that marketspace

Competitive Environment refers to the other companies selling similar products and operating in the same marketplace

Competitive Advantage when they can produce a superior product and/ or bring the product to market at a lower price than most, or all, of their competitors (Porter, 1985)

Asymmetry exists whenever one participant in a market has more resources—financial backing, knowledge, information, and/or power—than other participants

First Mover Advantage is a competitive market advantage for a firm that results from being the first into a marketplace with a serviceable product or service

Complementary Resources - resources and assets not directly involved in the production of the product but required for success, such as marketing, management, financial assets, and reputation.

Unfair Competitive Advantage - occurs when one firm develops an advantage based on a factor that other firms cannot purchase

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 - the plan you put together that details exactly how you intend to enter a new market and attract new customers

Organizational Development - plan that describes how the company will organize the work that needs to be accomplished

Management Team - employees of the company responsible for making the business model work

TABLE 2.3

KEY ELEMENTS 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?

Crowdfunding - involves using the Internet to enable individuals to collectively contribute money to support a project

TABLE 2.5

E-COMMERCE ENABLERS

INFRASTRUCTURE	PLAYERS
Hardware: Web Servers	HP • Dell • Lenovo
Software: Web Server Software	Microsoft • IBM/Red Hat • Oracle
Cloud Providers	Amazon Web Services • Microsoft Azure • IBM Cloud • Google Cloud Platform
Hosting Services	Liquid Web • WebIntellects • 1&1 Ionos • HostGator • Hostway
Domain Name Registration	GoDaddy • Network Solutions • Dotster
Content Delivery Networks	Akamai • Limelight Networks • Amazon CloudFront
Site Design	Weebly • Wix • Squarespace • Jimdo
Small/Medium Enterprise E-commerce Platforms	Shopify • BigCommerce • YoKart
Enterprise E-commerce Platforms	Magento (Adobe) • IBM • Oracle • Salesforce • SAP • Intershop
M-commerce Hardware Platforms	Apple • Samsung • LG
M-commerce Software Platforms	Mobify • PredictSpring • Usablenet • GPShopper (Synchrony Financial)
Streaming, Rich Media, Online Video	Adobe • Apple • Webcollage
Security and Encryption	VeriSign • Check Point • GeoTrust • Entrust Datacard • Thawte
Payment Systems	PayPal • Authorize.net • Square • Cybersource

Web Performance Management	Neustar • SmartBear • Dynatrace • Solarwinds
Comparison Engine Feeds/Marketplace Management	ChannelAdvisor • CommerceHub • Tinuiti
Customer Relationship Management	Oracle • SAP • Salesforce • Microsoft Dynamics 365
Order Management	Blue Yonder • Jagged Peak • Monsoon
Fulfillment	Blue Yonder • Jagged Peak • CommerceHub
Social Marketing	Buffer • HootSuite • SocialFlow
Search Engine Marketing	iProspect • ChannelAdvisor • Merkle
E-mail Marketing	Constant Contact • Cheetah Digital • Bronto Software • MailChimp
Affiliate Marketing	CJ Affiliate • Rakuten LinkShare
Customer Reviews and Forums	Bazaarvoice • PowerReviews • BizRate
Live Chat/Click-to-Call	LivePerson • Bold360 • Oracle
Web Analytics	Google Analytics • Adobe Analytics • IBM Digital Analytics • Webtrends

B2C Business Model

e-tailer- online retail store

community provider - creates an online environment where people with similar interests can transact (buy and sell goods); share interests, photos, and videos; communicate with like minded people; and receive interest-related information

Content Provider - distributes information content, such as digital news, music, photos, video, and artwork

Portal - offers users powerful search tools as well as an integrated package of content and services all in one place

service provider - offers services online

Transaction Broker - processes transactions for consumers that are normally handled in person, by phone, or by mail

Market Creator - builds a digital environment where buyers and sellers can meet, display products, search for products, and establish a price for products

TABLE 2.6

B2C BUSINESS MODELS

BUSINESS MODEL	VARIATIONS	EXAMPLES	DESCRIPTION	REVENUE MODELS
E-tailer	Virtual Merchant	Amazon Wayfair 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 Target	Online distribution channel for a company that also has physical stores	Sales of goods
	Catalog Merchant	L.L.Bean LillianVernon	Online version of direct mail catalog	Sales of goods
	Manufacturer-Direct	Dell Mattel Nike	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		Wall Street Journal Netflix Apple Music	Offers customers newspapers, magazines, books, film, television, music, games, and other forms of online content	Advertising, subscription fees, sales of digital goods

Portal	Horizontal/ General	Yahoo AOL MSN Facebook	Offers an integrated package of 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	Focuses on a particular subject matter or market segment	Advertising, subscription fees, transaction fees
	Search	Google Bing	Focuses primarily on offering search services	Advertising, affiliate referral
Transaction Broker		E*Trade Expedia Monster Travelocity Orbitz	Processors of online 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 Uber Airbnb	Businesses that use Internet technology to create markets that bring buyers and sellers together	Transaction fees
Service Provider		Envoy Wave RocketLawyer	Companies that make money by selling users a service, rather than a product	Sales of services

B2B Business Model

E-Distributor - a company that supplies products and services directly to individual businesses

E-Procurement - firm creates and sells access to digital markets

-B2B service provider sells business services to other firms

-scale economies efficiencies that arise from increasing the size of a business

Exchange - an independent digital marketplace where suppliers and commercial purchasers can conduct transactions

Industry Consortia - industry-owned vertical marketplaces that serve specific industries

Private Industrial Network - digital network designed to coordinate the flow of communications among firms engaged in business together

TABLE 2.7 B2B BUSINESS MODELS			
BUSINESS MODEL	EXAMPLES	DESCRIPTION	REVENUE MODEL
<i>(1) NET MARKETPLACE</i>			
E-distributor	Grainger Amazon Business	Single-firm online version of retail and wholesale store; supply maintenance, repair, operation goods; indirect inputs	Sales of goods
E-procurement	Ariba Supplier Network Proactis	Single firm creating digital markets where sellers and buyers transact for indirect inputs	Fees for market-making services, supply chain management, and fulfillment services
Exchange	Go2Paper	Independently owned vertical digital marketplace for direct inputs	Fees and commissions on transactions
Industry Consortium	The Seam SupplyOn	Industry-owned vertical digital market open to select suppliers	Fees and commissions on transactions

(2) PRIVATE INDUSTRIAL NETWORK

Walmart Procter & Gamble	Company-owned network that coordinates supply chains with a limited set of partners	Cost absorbed by network owner and recovered through production and distribution efficiencies
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FIGURE 2.4

E-COMMERCE AND INDUSTRY VALUE CHAINS

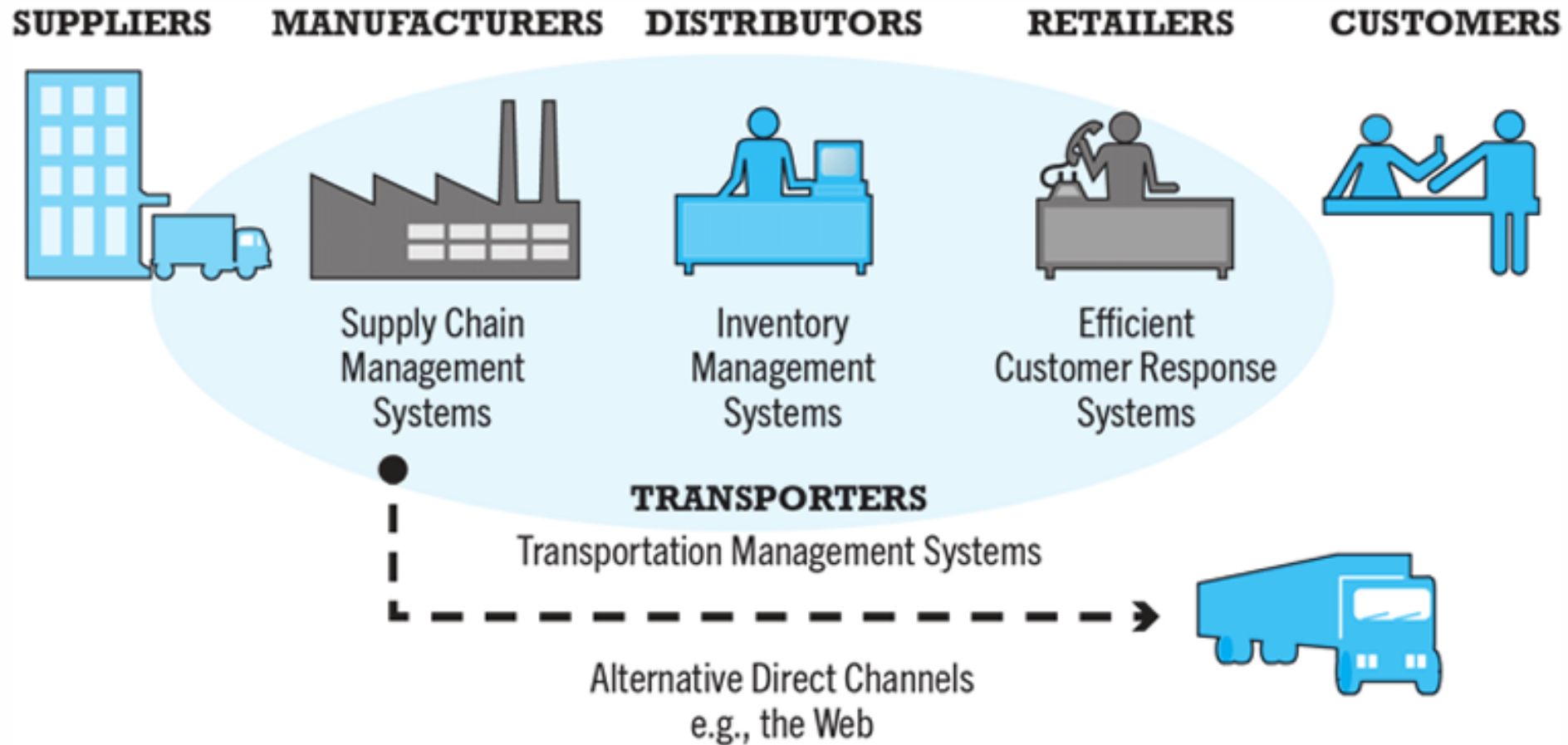


FIGURE 2.5

E-COMMERCE AND FIRM VALUE CHAINS

Administration
Human Resources
Information Systems
Procurement
Finance/Accounting

SECONDARY ACTIVITIES



PRIMARY ACTIVITIES



Inbound
Logistics



Operations



Outbound
Logistics



Sales and
Marketing



After Sales
Service

TABLE 2.9 BUSINESS STRATEGIES		
STRATEGY	DESCRIPTION	EXAMPLE
Differentiation	Making products and services unique and different in order to distinguish them from those of competitors	Warby Parker (vintage-inspired prescription eyeglasses)
Cost competition	Offering products and services at a lower cost than competitors	Walmart
Scope	Competing in all markets around the globe, rather than merely in local, regional, or national markets	Apple iDevices
Focus/market niche	Competing within a narrow market or product segment	Bonobos (men's clothing)
Customer intimacy	Developing strong ties with customers	Amazon; Netflix

Activity

1. Examine the experience of shopping online versus shopping in a traditional environment. Imagine that you have decided to purchase a digital camera (or any other item of your choosing). First, shop for the camera in a traditional manner. Describe how you would do so (for example, how you would gather the necessary information you would need to choose a particular item, what stores you would visit, how long it would take, prices, etc.). Next, shop for the item on the Web or via a mobile app. Compare and contrast your experiences. What were the advantages and disadvantages of each? Which did you prefer and why?