

E-BUSINESS FUNDEMENTALS

Sheet 2



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# What is a business model? How does it differ from a business plan?

A business model is a set of planned activities (business processes) that are designed to result in a profit in the marketplace. A business plan on the other hand, is a document that outlines the details of a business model.

# What are the eight key components of an effective business model?

The eight key components of an effective business model are: value proposition revenue model market opportunity for the firm (the marketspace and how big it is) competitive environment for the firm (who the competitors are in the marketspace) competitive advantage the firm brings to the marketspace (the unique qualities that set the firm apart from others in the marketspace) market strategy the firm will use to promote its products and services organizational development of the firm that will enable it to carry out its business plan capabilities of the management team to guide the firm in its endeavours.

# Describe the five primary revenue models used by e-commerce firms.

The advertising revenue model the subscription revenue model the transaction fee revenue model

the sale revenue model the affiliate revenue model

the advertising model derives its profit by displaying paid advertisements on a Web site. The goal is to convince advertisers that the site has the ability to attract a sizeable viewership, or a viewership that meets a marketing niche sought by the advertiser. Firms that use the subscription model offer users access to some or all of their content or services for a subscription fee. Firms that use the transaction fee model derive profit from enabling or executing transactions. For instance, transaction fees are paid to eBay when a seller is successful in auctioning off a product and E\*TRADE receives a transaction fee when it executes a stock transaction for a customer. In the sales revenue model, companies draw profit directly from the sale of goods, information, or services to consumers. In the affiliate model, sites receive referral fees or a percentage of the revenue from any sales that result from steering business to the affiliate.

# Why is it difficult to categorize e-commerce business models?

It is difficult to categorize e-commerce business models because the number of models is limited only by the human imagination, and new business models are being invented daily. Even within the broad-based generic types, there are overlaps, and fundamentally similar business models may appear in more than one. The type of e-commerce technology used can also affect the classification of a business model. Also, some companies may employ multiple business models. For example,

eBay is essentially a C2C marketplace, but also functions as a B2C market maker, and in addition, has an m-commerce business model.

# Besides the examples given in the chapter, what are some other examples of vertical and horizontal portals in existence today?

Some other examples of vertical portals (vortals) include ESPN.com (sports), I Village (women’s issues), NFL.com (sports), Blackvoices.com (African-Americans), WebMD (physicians, nurses, teachers, medical office managers, and consumers), Aflcio.org (labour issues), Gamers.com (games), Away.com (travel), and T-online (Pan- European portal). Some other examples of horizontal or general portals include Earthlink.net, Lycos, Orange.co.uk, and Sympatico.msn.ca (Canadian). Note that many of these can also be considered community sites as well.

# What are the major differences between virtual storefronts such as Drugstore.com and bricks-and-clicks operations such as Walmart.com?

What are the advantages and disadvantages of each? The major difference between virtual storefronts and bricks-and-clicks operations is that virtual storefronts do not have any ties to a physical location. The major advantages of the virtual storefronts are that they have low barriers to entry into the Web e-tail market and that they do not bear the costs associated with building and maintaining physical stores. The disadvantages are that they must build a brand name from scratch, quickly, and become profitable with no prior brand name or experience, which can be very difficult. The major advantages of the bricks-and clicks operations are that they have an already established brand name, an established customer base, an established sales force, and the resources to operate on the very thin margins associated with the retail industry. It is also much less expensive for them to acquire new customers than it is for the virtual storefronts. The major disadvantages of the bricks-and-clicks firms are that they face new competition in an extremely competitive environment from new firms who may have more expertise at building credible Web sites, and who can focus exclusively on building rapid response order systems.

# What are some business models seen in the C2C and P2P e-commerce areas?

The most common business model seen in C2C commerce is a market creator, which helps consumers or businesses to connect with other consumers. P2P businesses are generally content providers that link users so that they can share files and computer resources without having to go through a common server.